



**CALGRO M3**  
Group

**2017**

*Integrated Annual Report*

*Building legacies. Changing lives*

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## Additional information

The following full reports can be viewed on the Calgro M3 website at [www.calgrom3.com](http://www.calgrom3.com):

Sustainability  
Report 2017

King III  
compliance

GRI Index

Photography by Grant Duncan-Smith



## About this report


### Scope, Boundary and Assurance

The Calgro M3 Integrated Annual Report for the 12 months ended 28 February 2017 provides an overview of the financial, social, environmental and governance performance of Calgro M3 Holdings and its subsidiaries.


The Integrated Annual Reporting format and application of globally recognised governance and sustainability reporting frameworks aim to offer stakeholders a clear view of how Calgro M3's strategy, governance, performance and prospects – in the context of its external environment – create value over the short, medium and long term.


Calgro M3 has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of


the information contained in this report, including all information that may be defined as "forward-looking statements".

Information presented covers all operating entities of the Group, including all subsidiaries, associated companies and joint ventures, unless otherwise indicated. Please refer to  page 113 for details on the segmental structure and operating entities. All information is presented on the same basis as the Group's 2016 Integrated Annual Report, the measurement methods applied and time frames used. The information provided covers all material matters relating to business strategy, risks and areas of critical importance to our stakeholders.

#### The 2017 report comprises

A review of the Group and its financial, social, environmental and governance performance  pages 4 to 81.

A full Sustainability Report is available on the website  at [www.calgrom3.com](http://www.calgrom3.com).

Annual financial statements of the Calgro M3 Group and Calgro M3 Holdings Limited  pages 83 to 161.

The financial statements are prepared and presented in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act 71 of 2008 (as amended) in South Africa.

#### The report is guided by

- The King Code of Governance Principles for South Africa ("King III").
- Global Reporting Initiative ("GRI") G4 Sustainability Reporting Guidelines including, where possible, the Construction and Real Estate Sector Supplement. The content of this report is self-declared at GRI 4. The scope of GRI on sustainability issues and performance is specific to Calgro M3 only and does not refer to any subcontractor, joint venture, associate or partnership unless specifically stated. The GRI Index can be found on  the website at [www.calgrom3.com](http://www.calgrom3.com).
- The Group is a signatory to the UN Global Compact Principles ("UNGC") which requires companies and their subsidiaries to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.
- The Companies Act 71 of 2008 (as amended).
- JSE Listings Requirements.

#### Navigation toolkit



Website  
reference



Notes  
reference



Page  
reference

*We aim to provide all stakeholders with a balanced, clear and transparent understanding of our business and how we create sustainable value. Stakeholders are invited to actively participate by sending questions, comments, concerns and queries to: [info@calgrom3.com](mailto:info@calgrom3.com)*

## About this report *(continued)*


### Materiality

Only material information is presented in this report.

Materiality has been determined by taking both quantitative and qualitative aspects into account. The determination of materiality necessarily requires prudent judgement to be exercised.

- For financial information, materiality is based on whether the item is of such significance that it could affect financial decisions made by providers of capital to the Group (current and potential). Both the amount and nature of an item is considered.
- For non-financial information and the identification of capitals and stakeholders, materiality is based on whether an item, resource or stakeholder is of such significance that it can prevent the Group from achieving its return on equity target (30%) on average per year compounded over the medium and long term.
- Calgro M3's external communication philosophy is based on achieving full alignment between internal and external financial reporting in respect of both content and format. The only exception is the exclusion of detailed information that might prejudice Calgro M3's competitive position in the market.

### Independent Assurance

PricewaterhouseCoopers ("PwC") has been engaged to provide independent assurance on the Group Consolidated Financial Statements. J-P van Staden is the individual registered auditor who undertook the audit. PwC's audit opinion on the annual consolidated financial statements can be found on  page 94.

### Forward-looking Statements

Forward-looking statements may be identified by words such as "believe", "anticipate", "expect", "plan", "estimate", "intend", "project", "target", "predict" and "hope". By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future, involve known and unknown risks, uncertainties and other facts or factors that may cause the actual results, performance or achievements of the Group or its sector to be

materially different from any results, performance or achievement expressed or implied by such forward-looking statements.

Forward-looking statements are not guarantees of future performance and are based on assumptions regarding the Group's present and future business strategies and the environments in which it operates now and in the future. No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements. Calgro M3 does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party thereon.

### Board Responsibility Statement

The integrity of the integrated annual report was overseen by the Board of Directors in conjunction with the Audit and Risk Committee. This was achieved by setting up appropriate teams, structures and processes to undertake the Integrated Annual Reporting process and then performing a thorough review of the resulting document.

The Board of Directors acknowledges its responsibility in ensuring the integrity of the Integrated Annual Report and has evaluated its preparation and presentation accordingly. In the opinion of the Board, this Integrated Annual Report has been prepared to address the material matters pertaining to the long-term sustainability of the Group and fairly presents the integrated performance of the Calgro M3 Group and the impacts thereof.



**Pumla Radebe**  
Chairperson



**Wikus Lategan**  
Incoming CEO

12 May 2017



Queries regarding this Integrated Annual Report or its content should be addressed to:  
**Wikus Lategan (Incoming CEO) or**  
**Waldi Joubert (FD)**  
Tel: 011 300 7502



## Fleurhof

Fleurhof is the first Calgro M3 development to offer both private and public schools. More than **5 700** units have been completed with **2 300** units currently under construction.



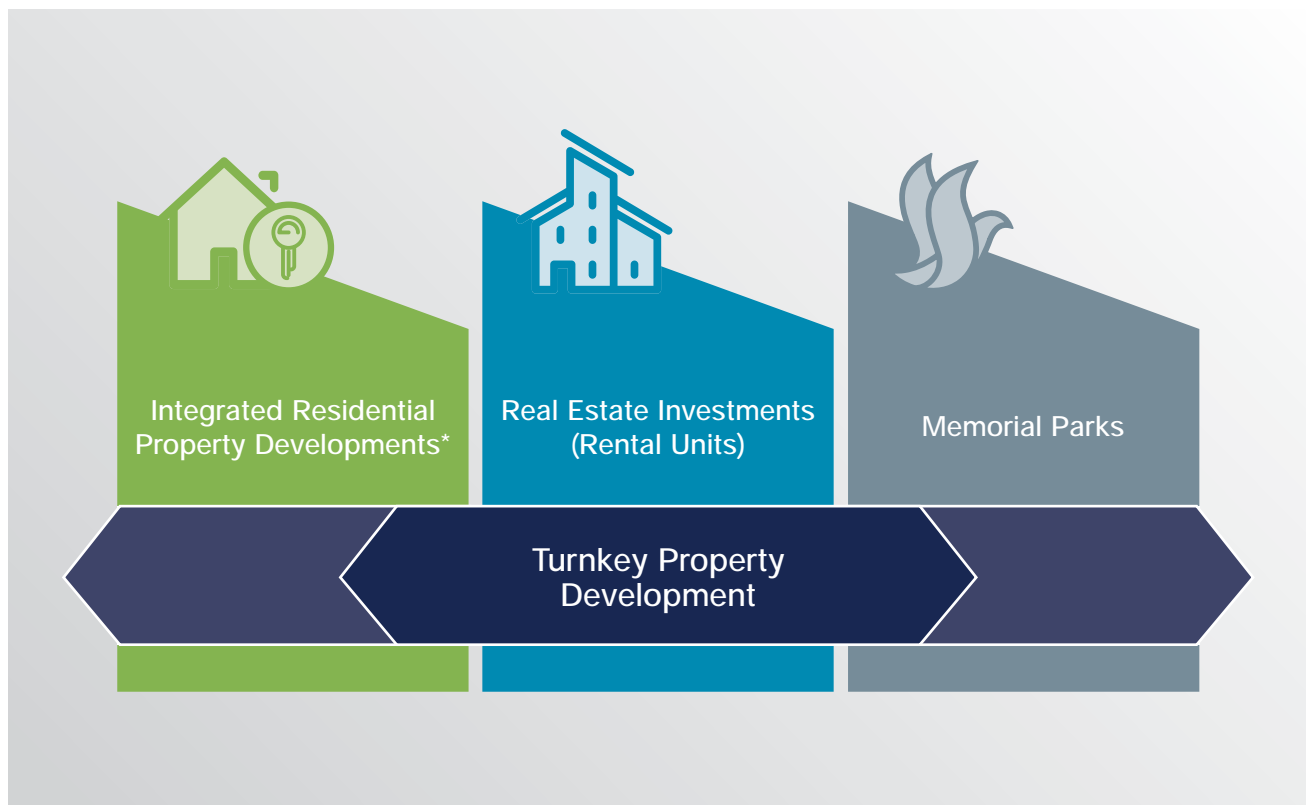
# Operational overview

## What we do

*Calgro M3 is a market leader in the integrated development segment of the residential and rental market and the development of Memorial Parks.*

Calgro M3 continues to play a leading role in the delivery of homes and rental investments in line with Government's targets, set to eradicate informal settlements and provide housing to South African citizens. A turnkey approach is adopted which includes being land owner, developer and contractor supported by internal professional services and project management capacity. (Refer to our Business Model on [page 22](#).)

Through a cost-effective turnkey solution Calgro M3 specialises in large-scale integrated mixed-use projects, the supply of rental investments and the development of Memorial Parks. With this approach, the Group's dependence on external parties is reduced, as is the number of role-players in the value chain. This enables the Group to enter the market with a well-priced product without compromising quality. The approach gives the Group flexibility to control the pace of development by adapting to changing market drivers.



\* Currently and historically the majority of revenue came from Integrated Residential Property Developments as the Memorial Parks and Real Estate Investments businesses were still being established and grown.

The Group's strategy is long term and the focus is on remaining flexible and agile. The ability to adapt to the demands and challenges of the market place in which the Group operates, including evolving social, economic, political and environmental imperatives, provides the agility to realise the strategy. This means that when certain areas of the market is stronger than others at certain times, Calgro M3 can switch between these markets to deliver on their requirements. In the current market place the focus is more on the low to middle income private sector.

For Calgro M3, establishing sustainable business practices begins by recognising the broader responsibilities as an organisation in society. The Group strives to enhance its product offering, setting new standards for sustainable integrated developments, to the benefit of all stakeholders, including the communities in which it operates.

## Integrated residential property development



The Group's integrated property development model is based on the principle of seamlessly bridging the gap between the fully subsidised market segment, social housing, rental, GAP and the affordable market segments by providing housing, schooling and communal facilities for all levels of income earners within one integrated community.

### Highlights

- U Open market sales to the private sector increased by 31.5% year-on-year, creating more flexibility between the private and public sector
- U Strong property development pipeline of 64 247 opportunities (R27 billion)
- U First private school at Fleurhof complete
- U Completion of construction of the Summerset project
- U Took transfer of all land parcels for Kwa Nobuhle
- U Streamlined internal processes and capacity to ensure that growth can be supported
- U In process of completing services on Belhar
- U Started construction of rental units that will pave the way for growth and an annuity income base
- U 8 000 serviced opportunities available making the Balance Sheet more liquid

### Challenges

- U Slowdown in public sector spend
- U Ensure internal capacity to continue supporting growth
- U Stringent cash flow management resulting from increased exposure to private sector
- U Challenging South African labour market
- U Changing development processes, for instance new town planning regulations

### Outlook

- U Focus on marketing initiatives to drive private sector sales
- U Escalating housing shortage
- U Roll out of rental investment and secured sales
- U Strategic development at Bridge City (KwaZulu-Natal) and Kwa Nobuhle (Eastern Cape) provides new provincial exposure
- U Growth in pipeline accompanied by focus on roll-out
- U Proven ability to remain flexible in exposure between public and private sector
- U Securing additional properties in current operating areas to capitalise on bulk infrastructure already in place

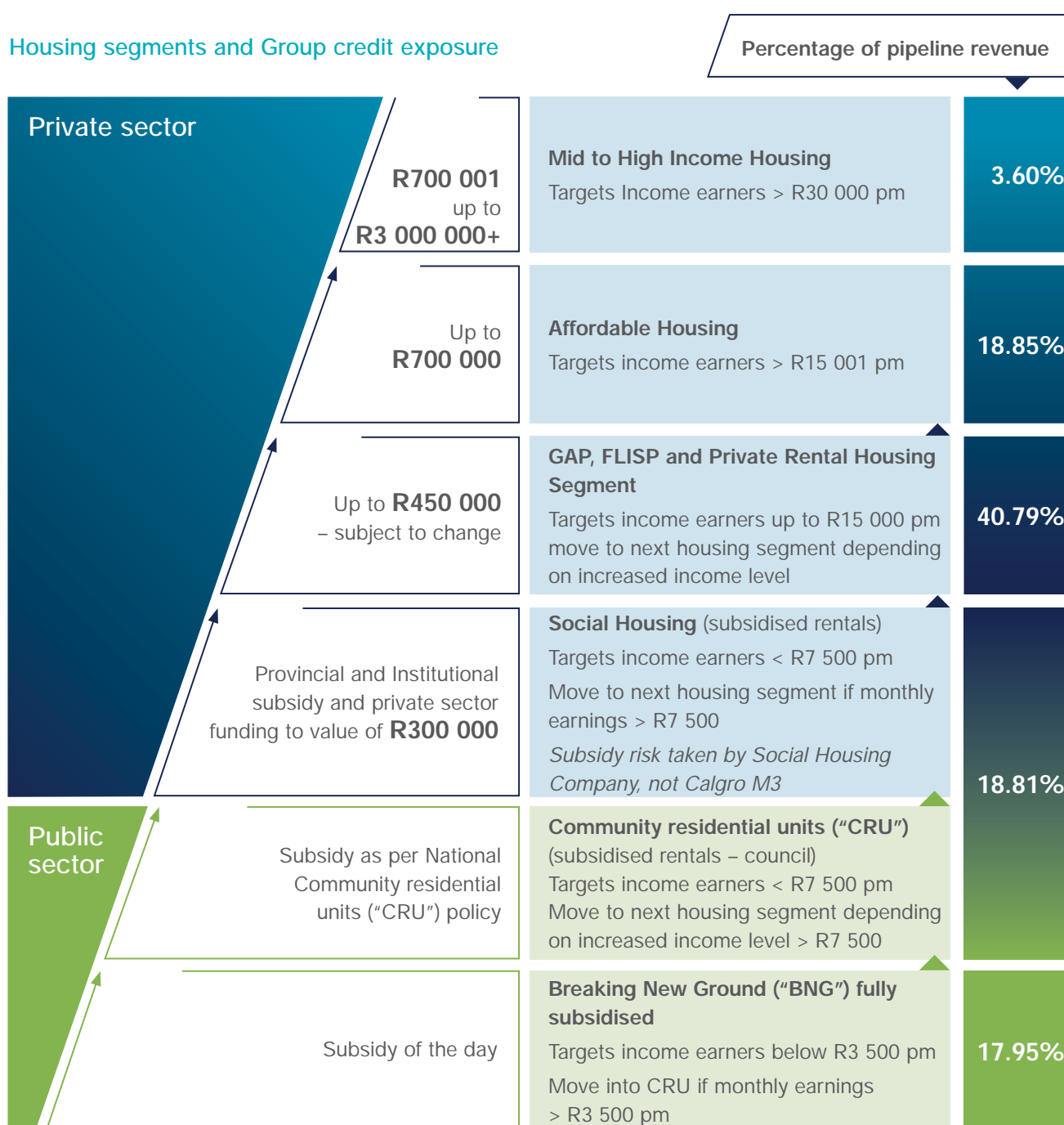
## Integrated residential property development *(continued)*

The integrated development model offers homeowners a platform to improve their lifestyle or living conditions in line with their financial capability, whilst remaining in the same community. This enhances social upliftment within these communities by retaining role models in the community, thereby leading to more sustainable integrated suburbs.

Renewed commitments have been made by Government to ensure that developments include all social classes to promote social cohesion. The Group is in the fortunate position of being

responsive and flexible as well as able to switch between the provision of housing solutions within these integrated developments based on specific demand, thereby reducing development risk when affordability declines in any one of the market segments. Integrated developments offer consumers a wide range of ownership and rental opportunities. The housing types cater for various income levels, targeting income earners from below R3 500 up to R30 000+ per month (combined income). People of different income segments within the same developments create sustainable communities.

### Housing segments and Group credit exposure



## Housing types

<b>Mid to High Income Housing</b>	Full and sectional title residential units aimed at home owners in the bonded market, outside the Financial Services Charter ("FSC").*
<b>Affordable Housing</b>	Full and sectional title residential units aimed at home owners in the bonded market regulated by the FSC.
<b>GAP Housing</b>	Grassroots Affordable Peoples' ("GAP") Homes cater for people excluded from the subsidised programme but with incomes too low to qualify for traditional affordable homes.
<b>FLISP Housing</b>	Finance Linked Individual Subsidy Programme ("FLISP"). The product was introduced when the affordability level to qualify for subsidised housing was removed, allowing people previously disqualified based on income, to qualify for a partly subsidised home.
<b>Social Housing</b>	Social Housing is a rental or co-operative housing option of subsidised rentals owned by section 21 social housing institutes.
<b>CRU Housing</b>	The Community Residential Unit ("CRU") programme comprises subsidised rental units owned by the public sector.
<b>Breaking New Ground ("BNG") fully subsidised</b>	Providing fully subsidised units to qualifying South Africans (updated version of Reconstruction and Development Programme ("RDP") housing).

\* In October 2014, a Social Contract was entered into with banks and insurance companies under the leadership of the Minister of Human Settlements, Lindiwe Sisulu. This followed from the Financial Services Charter and the Comprehensive Plan for the Development of Sustainable Human Settlements adopted by all stakeholders in 2005, to extend housing finance on a sustainable basis to low-income borrowers.

*Calgro M3, a JSE and Bond Exchange listed residential property developer, is well known for successful implementation of fully integrated, turnkey residential developments throughout South Africa.*

## Overview of the year

2017 has been a challenging year, exacerbated by political uncertainty in the run-up to the elections and with Government funding under pressure. Despite this, the demand for housing in South Africa remains massive with demand rising with each new wave of market entrants. Although demand for affordable and GAP housing remains high, low economic growth rates do impact the industry and Calgro M3 has countered this with the establishment of a Real Estate Investment Trust (see further details on [page 8](#)), thus providing communities with additional options for accommodation in the rental space.

Across the year, headway was made in starting the development process of commercial sites as well as building affordable private schools that will assist in the social cohesion between the various income groups within our integrated developments.

A marketing campaign, aimed at educating the market through the Captain Calgro mascot, was successfully launched. Together with enhancements to the marketing and sales department, sales increased substantially. After sales service was boosted through a call centre and 24-hour service centre for reporting snags and issues. Further supported by in-house bond origination, where quality clients are passed onto the banks, applications are prioritised and in return conversion rates have increased.

The dire need for housing ensures that for Calgro M3 demand is high. Proactive marketing and sales initiatives are proving to be beneficial, resulting in increased sales. Revenue from these sales will reflect over the next 12 to 18 months as the construction of these units are completed. With 8 000 serviced opportunities, ready to be rolled out, management is confident that this segment of the business is on a solid footing, and that Calgro M3 is set for growth even if public sector spend remains under pressure.

## Rental investments



*Together with partners, SA Corporate Real Estate, Calgro M3 has established a Real Estate Investment Trust ("REIT") to address the lack of sufficient affordable rental opportunities in metropolitan areas.*

The rationale for the joint venture is to harness the credentials of each respective partner and focus on the development and expansion of high quality residential portfolios that offer sustainable growth opportunities and capital appreciation in the medium to long term – all the while remaining mindful of building legacies, changing lives. It also allows the Group to capitalise on the infrastructure it has created.

### Key Performance Indicators

- U A viable number of available, quality rental investments
- U Environmentally and technologically advanced units
- U Creating homes, not houses, leading to genuine lifestyle enhancements
- U Diversification across markets and geographic locations

### Highlights

- U 3 852 units to be developed for the portfolio's first phase
- U Unique unit offering in "village" design concept
- U Construction has begun on the first units with first occupation expected by mid-2017
- U Designs are fresh and new within well located areas
- U Units environmentally and technologically advanced providing a competitive edge in the market
- U Second phase pipeline already identified

### Challenges

- U Lack of available properties in well located metropolitan areas
- U Remaining current and providing a product that is different and superior to the rest of the market

### Outlook

- U Estimated 1.5 million shortage of rental units in South Africa
- U Assessing additional units across other developments
- U Committed to growing the real estate investment to a R10 billion to R15 billion portfolio in five to six years

The real estate investment structure will be operated through the Afhco Calgro M3 consortium, a joint initiative established by SA Corporate Real Estate and Calgro M3. The structure is depicted below:



### Why Afhco and SA Corporate Real Estate

- U Managing affordable rental housing since 1998
- U Trusted and established brand of quality, affordable, rental accommodation
- U Only manages property owned within the Group and so a vested interest is established
- U Track record of 98.6% occupancy rate and arrears at 0.7%
- U Shares the Calgro M3 value of making a difference
- U Innovative approach

It has not been a full year since the announcement of the establishment of the REIT, and the relationship with SA Corporate is proving to be a viable working partnership. Sales agreements are in place for the first 3 852 rental units across five Calgro M3 projects. Construction has begun on four projects with the remaining one to commence in the first half of the 2017 calendar year.

To compete successfully in this market, Afhco Calgro M3 rental units offer a unique product that is technologically advanced, including alarms and WiFi enabled, and contains green attributes such as gas reticulation for heating and cooking and rainwater

harvesting, window shutters as well as an EDGE ("Excellence in Design for Greater Efficiencies") green rating that will be undertaken to confirm these technological advances.

The rental units on offer are further differentiated by superior build and finishes. The Calgro M3 turnkey model, able to trap margin, ensures that pricing remains competitive whilst ensuring superior finishes. The rental units are placed in prime locations within the larger property developments and benefit from communal facilities.

Calgro M3 remains committed to the real estate investment phases as set out in the diagram below:



## Memorial Parks



The concept of Memorial Parks originated from the need to find alternative uses for large portions of Calgro M3-owned land, not suitable for residential purposes or other commercial use within its integrated housing developments. Calgro M3 Memorial Parks is an alternative to traditional cemeteries, adds value to existing developments, introduces an alternative burial option that is dignified and secure and allows for annuity income for the Group.

### Key Performance Indicators

- U Consumer mind-set change to a more inclusive costing model from traditional cemeteries
- U Number of memorial parks and burial sites secured
- U Number of burial sites sold
- U National footprint

### Highlights

- U Notable increase in sales to 418 burial sites (2016: 93) (111 in first half and 307 in second half of 2017)
- U Sales call centre and dedicated sales department established and implemented in early 2017
- U Purchase and integration of Fourways Memorial Park
- U Profitable for full year
- U Building industry relationships
- U Receiving positive market feedback on product

### Challenges

- U Consumer mind-set change to a more inclusive costing model from traditional cemeteries
- U Demonstration to market that Calgro M3 Memorial Parks are an alternative to traditional cemeteries and are long-term market participants
- U Securing Funeral Director buy-in
- U Market education
- U Ensuing greater brand awareness and aspiration
- U SMME development of local suppliers
- U Policy sales

### Outlook

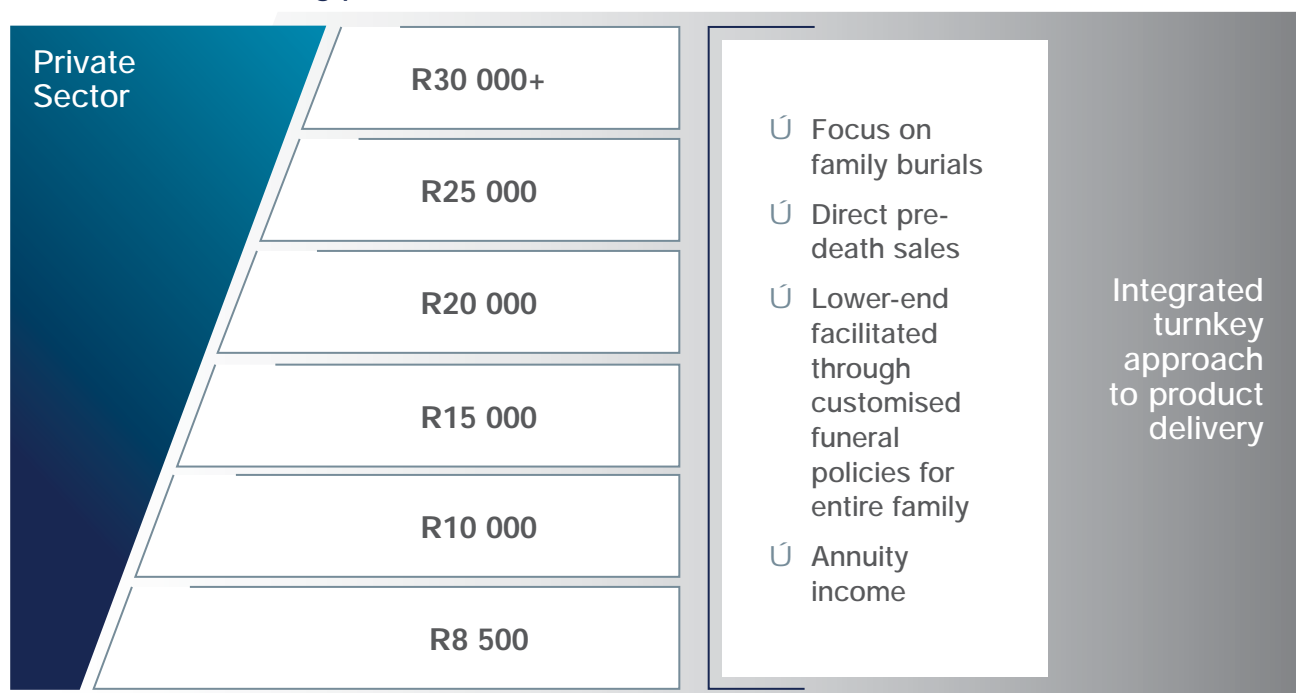
- U Overcrowding of traditional cemeteries provides opportunities
- U Efficient call centre and sales team being put in place
- U Increased marketing effort supported by a strategic marketing campaign to drive sales
- U Increase policy sales so that annuity income starts contributing to profit on a meaningful basis
- U Marketing campaigns in strategic locations

Calgro M3 ventured into the development of memorial parks two years ago with a flagship development in Nasrec, Soweto as a pilot project. Fourways Memorial Park was acquired in 2016 to enhance our skillset even further. The model originated from derelict land in and around integrated developments that could affect the value of the housing units Calgro M3 constructed. The creation of privately managed memorial parks on this land is beneficial to the surrounding communities to be used as a park for recreational purposes as well.

The first phase of the Nasrec Memorial Park consists of approximately 22 000 burial sites and features a fully functional

administration and sales office, 24-hour state-of-the-art security with roaming security guards, manicured gardens, completely off the grid solar powered electricity system with backup generators, a non-denominational chapel which can seat 200 people as well as tranquil dams and streams that are full of bird life. Fourways Memorial Park became part of the Calgro M3 Memorial Parks on 1 November 2016. Fourways Memorial Park is a successful, operational private memorial park that is located within the Craighavon (Fourways) residential community and the acquisition is proving to be an excellent investment.

## Memorial Parks selling prices



Calgro M3 has a marketing partnership agreement in place with Constantia Life in respect of the sale of burial sites and burial policies, which provides the owner of the policy with a right to a Calgro M3 Memorial Park grave upon death. Constantia Life has six decades of experience and remains a market leader in the funeral insurance industry. This marketing partnership, together with Calgro M3's own sales and marketing initiatives, has resulted in a visible improvement in burial sales.

2017 represents the first full year that Memorial Parks is included in the numbers and the segment contributed 0.3% to Group revenue (2016: 0.1%).

The development of Nasrec, followed by the acquisition of Fourways Memorial Park, has enhanced Calgro M3's expertise on memorial parks. The additional marketing and sales

initiatives in place are delivering good sales results and management remains on the lookout for additional memorial park acquisition and development opportunities.

A mind-set change, albeit slow, is being made and the growth of the sales and marketing department is assisting with the acceleration of the progress already made. Feedback from customers on the products and services is positive and this assists with the development of new marketing and educational material. Given this, the sales and marketing function is focused on word of mouth, fully fledged marketing campaigns, trained call centre and sales agents, bulk marketing agreements with funeral houses, building relationships with Funeral Directors and on-site marketing – all underpinned by a drive to ensure that service delivery is professional and of the highest standard.

## Project pipeline



### Residential pipeline

#### Project

**Total number of units in project**

**Total number of units still to be completed and/or in progress**

Gauteng		
Fleurhof – Johannesburg	10 882	5 149
Jabulani CBD – Parcels A, B, C and D – Soweto	1 432	632
Jabulani CBD – Parcel K – Soweto	1 410	1 410
Jabulani Hostels Phase 2 – Soweto	620	620
Witpoortjie – Johannesburg	3 117	3 071
South Hills – Johannesburg	6 237	5 793
Tanganani Ext 14 – Johannesburg	8 822	8 822
Leratong – Mogale City	12 000	12 000
La Vie Nouvelle – Johannesburg	392	340
Summerset Place – Midrand	467	36
Balance of Mid-to-high	330	330
Eastern Cape		
Kwa Nobuhle – Port Elizabeth	12 964	12 964
Western Cape		
Scottsdene – Cape Town	2 897	1 219
Belhar – Cape Town	3 302	2 673
Free State		
Brandwag – Bloemfontein	1 051	51
Vista Park Ext 3 – Bloemfontein	5 320	5 320
KwaZulu-Natal		
Bridge City – Durban	356	356
Namibia		
Otjomuise – Windhoek	3 725	3 461
<b>Residential total</b>	<b>75 324</b>	<b>64 247</b>



### Memorial Park pipeline

#### Project

**Total number of opportunities**

**Total number of opportunities available still to be completed or sold**

Gauteng		
Nasrec	43 000	42 653
Fourways	13 303	13 303
<b>Memorial Park total</b>	<b>56 303</b>	<b>55 956</b>
<b>Grand total</b>		

#### Unit typology – Units still to come/in progress

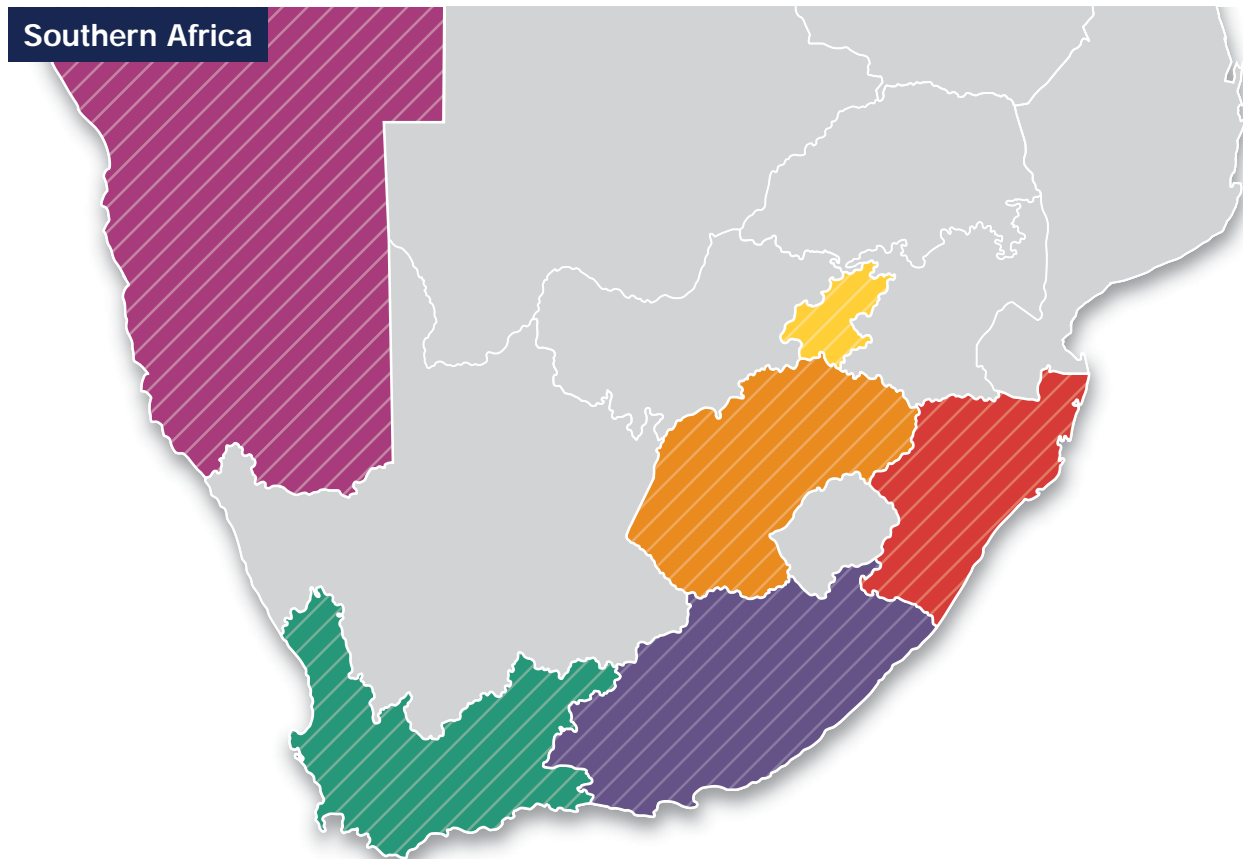
BNG Housing	CRU and Social Housing	GAP, FLISP, Rental and Student Housing	Affordable Housing	Mid-to-high	Revenue to completion Rm
432	432	4 144	141	–	2 627
–	–	632	–	–	214
–	1 410	–	–	–	588
620	–	–	–	–	211
938	384	695	1 054	–	1 519
1 411	425	2 493	1 464	–	2 679
2 596	3 159	2 492	575	–	3 503
4 000	2 600	3 200	2 200	–	4 622
–	–	–	–	340	467
–	–	–	–	36	21
–	–	–	–	330	300
4 266	1 951	4 955	1 792	–	5 343
–	–	1 166	53	–	377
350	–	2 251	72	–	1 211
–	51	–	–	–	9
1 596	1 500	1 045	1 179	–	1 905
–	–	356	–	–	133
–	–	2 037	1 424	–	835
<b>16 209</b>	<b>11 912</b>	<b>25 466</b>	<b>9 954</b>	<b>706</b>	<b>26 564</b>

#### Typology – Total number of opportunities available

Graves	Ash niches	Wall of remembrance plaques	Revenue to completion Rm
32 653	5 000	5 000	793
13 103	–	200	404
<b>45 756</b>	<b>5 000</b>	<b>5 200</b>	<b>1 196</b>
			<b>27 760</b>

## Project locations

*This map depicts the locations of Calgro M3 projects together with the number of units still to be completed.*



Gauteng	
Residential development	Units
Fleurhof	5 149
Jabulani CBD – Parcel A, B, C & D	632
Jabulani CBD – Parcel K	1 410
Jabulani Hostels	620
Witpoortjie	3 071
South Hills	5 793
Tanganani Ext 14	8 822
Leratong	12 000
La Vie Nouvelle	340
Summerset Place	36
Balance (mid-high income)	330
Memorial Parks	
Nasrec and Fourways	55 956 burial opportunities

Eastern Cape	
Residential development	Units
Kwa Nobuhle	12 964

Western Cape	
Residential development	Units
Scottsdene	1 219
Belhar	2 673

Free State	
Residential development	Units
Brandwag	51
Vista Park	5 320









KwaZulu-Natal	
Residential development	Units
Bridge City	356

Namibia	
Residential development	Units
Otjomuise	3 461



## Update on major residential projects

Calgro M3 is involved in several residential projects, all in various stages of development. The information in the table covers the status of the developments.

								
General background	<ul style="list-style-type: none"> <li>5 149 residential opportunities remaining</li> <li>Schools (private and public) and crèches</li> <li>Various shopping centres including a regional shopping centre of 46 000 m<sup>2</sup></li> <li>Filling stations</li> <li>Transportation nodes</li> </ul>	<ul style="list-style-type: none"> <li>2 040 residential opportunities remaining</li> <li>Located in Soweto adjacent to the highly successful Jabulani Mall</li> <li>A performing arts theatre and hospital are part of Jabulani precinct</li> </ul>	<ul style="list-style-type: none"> <li>620 residential opportunities</li> <li>Phase 2 of the redevelopment project</li> </ul>	<ul style="list-style-type: none"> <li>3 071 residential opportunities remaining</li> </ul>	<ul style="list-style-type: none"> <li>5 793 residential opportunities remaining</li> <li>Crèches</li> <li>Various convenience shopping centres</li> <li>A filling station</li> </ul>	<ul style="list-style-type: none"> <li>8 822 residential opportunities remaining</li> <li>Joint venture project with Esor Ltd in Diepsloot</li> <li>Schools and crèches</li> <li>Various convenience shopping centres</li> <li>Filling station</li> </ul>	<ul style="list-style-type: none"> <li>12 000 residential opportunities remaining</li> <li>Joint venture between Calgro M3, the McCormick Property Group and Susuka</li> <li>Schools, crèches</li> </ul>	<ul style="list-style-type: none"> <li>Retirement and Lifestyle Estate in Broadacres</li> <li>253 Sectional Title Ownership units, freestanding simplex remaining</li> <li>87 bed assisted living facility and frail care units</li> <li>Energy efficiency measures such as gas reticulation for cooking and water heating implemented</li> <li>Rainwater harvesting implemented</li> <li>Fibre optic network</li> <li>Full wetland rehabilitation</li> <li>Top security</li> </ul>
Current status of development	<ul style="list-style-type: none"> <li>Bulk, link and internal infrastructure currently being installed for future development</li> <li>First private school complete</li> <li>More than 5 700 units have been completed to date with a further 2 300 units currently under construction</li> </ul>	<ul style="list-style-type: none"> <li>Dissolution of the Joint Venture between shareholders</li> <li>Parcel A, K and remainder of C transferred to new Calgro M3 controlled entity</li> <li>Construction on 632 units to start in 2017 where infrastructure is complete</li> <li>Infrastructure installation in progress for Parcel K (1 410 units) with top structure construction to commence in second half of 2017</li> </ul>	<ul style="list-style-type: none"> <li>Civil and electrical infrastructure completed</li> <li>295 top structure units under construction</li> <li>325 top structure units to commence in second half of 2017</li> </ul>	<ul style="list-style-type: none"> <li>Phase 1 and 2: Construction of bulk, link and internal infrastructure complete</li> <li>Construction of top structures is under way</li> <li>Marketing focus to support and enhance sales</li> </ul>	<ul style="list-style-type: none"> <li>Construction of bulk, link and internal civil, electrical and gas infrastructure for eastern side of development in progress</li> <li>Construction of the first 204 BNG and 204 CRU units, 740 sectional titles and 209 free standing houses underway</li> </ul>	<ul style="list-style-type: none"> <li>Construction of two pedestrian bridges complete</li> <li>Infrastructure installation to commence once professional team appointments with Gauteng Province is resolved</li> <li>Record of Decision ("ROD") challenges resolved</li> </ul>	<ul style="list-style-type: none"> <li>Electricity negotiations well under way</li> <li>Construction to commence once contracts with Mogale City is finalised</li> <li>Professional team appointments</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure and related approvals completed</li> <li>Phase 1 transferred, including temporary nursing station</li> <li>Frail Care and Admin building under construction</li> <li>New marketing agreement with Pam Golding to head up sales on the development</li> </ul>

### Notes:

1. Unless otherwise stated, all Calgro M3 integrated projects contain either all or two of the following categories of housing as defined: BNG units (fully subsidised), CRU (Community Residential Units), Social Housing, Rental Housing, GAP/FLISP Housing or Affordable Housing.

## Update on major residential projects *(continued)*

	 <p><b>Summerset Place</b></p>	 <p><b>Kwa Nobuhle</b></p>	 <p><b>Scottsdene</b></p>	 <p><b>Belhar</b></p>	 <p><b>Brandwag</b></p>	 <p><b>Vista Park</b></p>	 <p><b>Bridge City</b></p>	 <p><b>Otjomuise</b></p>
<b>General background</b>	<ul style="list-style-type: none"> <li>Affordable Lifestyle Estate in Midrand</li> <li>246 Sectional Title Ownership units, freestanding simplex units in total</li> <li>36 walk-up units remaining</li> <li>Energy efficiency measures such as gas reticulation for cooking and water heating</li> <li>Rainwater harvesting implemented</li> <li>Clubhouse, swimming pool and other amenities</li> </ul>	<ul style="list-style-type: none"> <li>12 964 residential opportunities remaining</li> <li>Schools and crèches</li> <li>Various convenience shopping centres</li> <li>Filling stations</li> </ul>	<ul style="list-style-type: none"> <li>1 219 residential opportunities remaining</li> <li>Public Private Partnership with City of Cape Town ("CoCT")</li> <li>Crèche</li> <li>Major upgrades to area services, sport and church facilities</li> </ul>	<ul style="list-style-type: none"> <li>2 673 residential opportunities remaining</li> <li>Upgrade of larger Belhar sewer network</li> <li>Student housing</li> <li>Rental housing</li> <li>Upgrading of train station and surrounding public transport infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>51 residential opportunities remaining</li> </ul>	<ul style="list-style-type: none"> <li>5 320 residential opportunities remaining</li> <li>Public Private Partnership with Mangaung Local Municipality</li> <li>Schools and crèches</li> <li>Various convenience shopping centres</li> <li>A filling station</li> <li>Hospital</li> </ul>	<ul style="list-style-type: none"> <li>356 residential opportunities remaining</li> <li>Entry in KwaZulu-Natal</li> <li>Single client</li> </ul>	<ul style="list-style-type: none"> <li>3 461 residential opportunities remaining</li> <li>Public Private Partnership with Namibian Housing Enterprise</li> </ul>
<b>Current status of development</b>	<ul style="list-style-type: none"> <li>All town planning and infrastructure installed and in place</li> <li>Construction of 136 units completed by February 2017. All freestanding units to be completed by April 2017</li> <li>Construction of 36 walk-up units to be completed by December 2017</li> </ul>	<ul style="list-style-type: none"> <li>Took transfer of the land in 2016</li> <li>Town planning approvals were previously granted but had to be re-submitted under the new regulations</li> <li>Infrastructure installation will commence during the first half of 2017</li> </ul>	<ul style="list-style-type: none"> <li>All town planning and related approvals in place for the entire project</li> <li>Infrastructure completed</li> <li>902 units under construction</li> <li>Balance of units to commence in 2017</li> </ul>	<ul style="list-style-type: none"> <li>All town planning work completed</li> <li>627 Social Housing Units under construction, nearing completion</li> <li>Phase 2 bulk and link internal civil and electrical infrastructure being installed</li> <li>Construction commenced on 998 units in early 2017 with more units planned for later in the year</li> </ul>	<ul style="list-style-type: none"> <li>All town planning, infrastructure and related approvals in place for the entire project</li> <li>Phase 1 and 2 complete</li> <li>Phase 3 nearing completion in first half of 2017</li> </ul>	<ul style="list-style-type: none"> <li>Tender process for infrastructure installations completed</li> <li>Legal and regulatory approvals under way for bulk and link infrastructure installation funded with Urban Settlements Development Grant ("USDG") funding</li> </ul>	<ul style="list-style-type: none"> <li>Contractual approvals in progress</li> <li>Construction to start in the second half of 2017</li> </ul>	<ul style="list-style-type: none"> <li>All on site infrastructure completed in Phases 1A and 1B</li> <li>Construction of Phase 1A under way and progressing well</li> </ul>

## 2017 at a glance

### Financial overview

➔ Revenue increased 29.12% to R1.6 billion (2016: R1.2 billion)	➔ Net debt to equity 41.82% (2016: 59.30%)
➔ Gross profit percentage constant at 21.49%	➔ Cash on hand increased by 200,69% to R240,8 million (2016: R80.1 million)
➔ NAV per share up 23.78% to 798.35 cents (2016: 645.00 cents)	➔ HEPS declined 4.23% to 133.08 cps (2016: 138.96 cps)

### Non-financial highlights

*Diversification of income streams with the announcement of the Real Estate Investment, the roll out of the Memorial Park business and the purchase of Fourways Memorial Park.*

➔ Management, staff and shareholder interest aligned through long-term incentive scheme
➔ Successful roll-out (converting) of pipeline ensured 13 projects have commenced with activity on the site
➔ 24/7 call centre to assist clients with snags/issues

### Socially responsible highlights

#### Corporate Social Investment ("CSI") spend

2016	2017
R6.1 million	R7.2 million

(See further details on  page 62)

#### Training spend amounted to



2016	2017
R4.4 million	R1.8 million

(See further details on  page 64)

Continued focus on Energy Conserving Homes – homes which include some or all the following: LED lighting, solar-powered, gas geysers and appliances, fully insulated ceilings, aerated shower heads, rain water harvesting and/or recycling systems.

All first phase units for the Real Estate Investment Trust are intended to be EDGE rated.

*Zero fatalities across  
all construction sites*

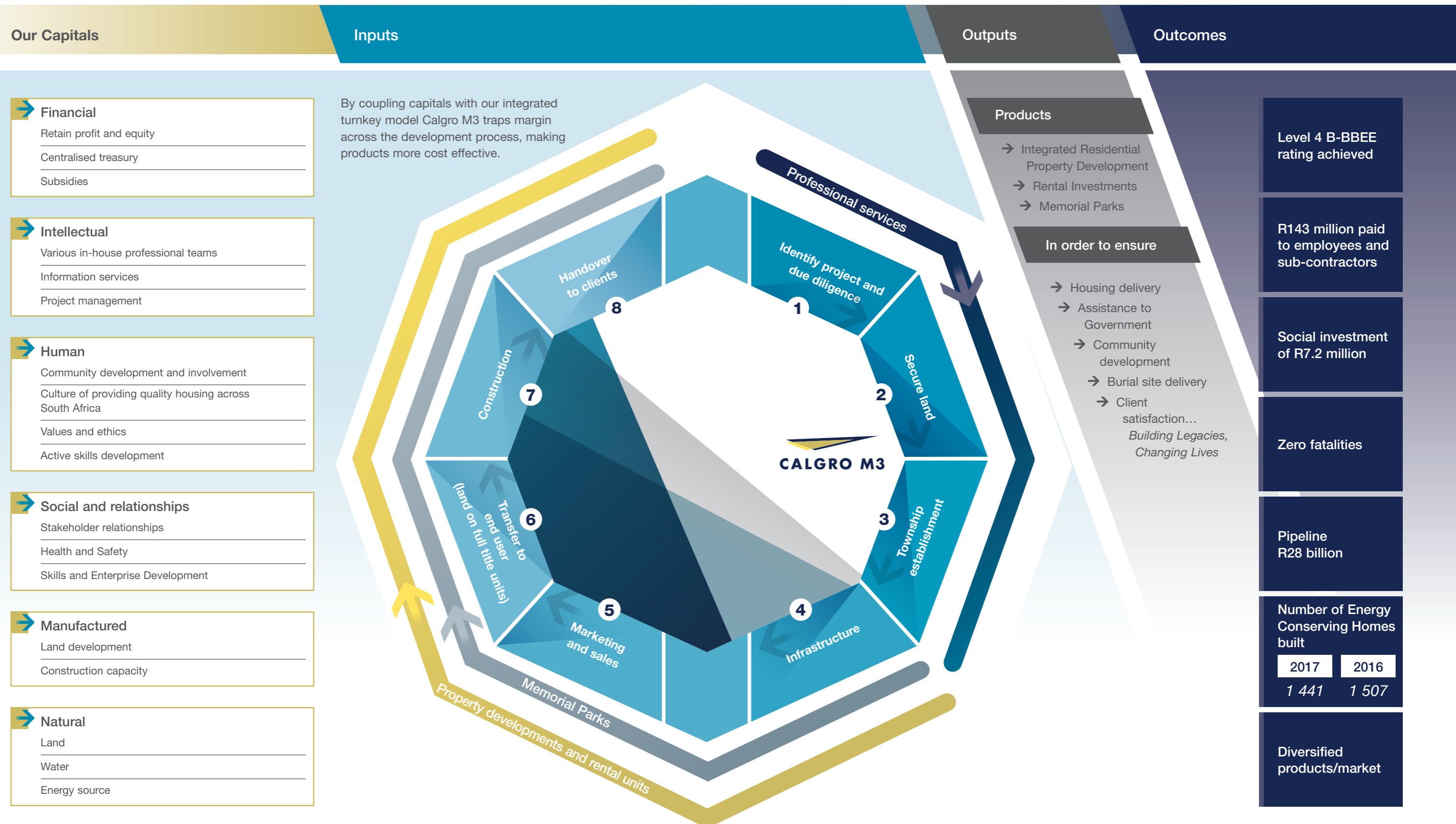
(See further details on  page 45 of the Sustainability Report which can be found on the  website at [www.calgrom3.com](http://www.calgrom3.com))

## Five-year financial review

	2017	2016	2015	2014	2013
<b>Group income statement</b>					
Revenue	1 554 679 657	1 204 063 379	932 204 729	784 942 989	798 394 052
<b>Gross profit</b>	<b>334 162 888</b>	251 546 652	174 871 192	112 989 404	147 958 530
Gross profit %	21.49%	20.89%	18.76%	14.39%	18.53%
<b>Operating profit</b>	<b>228 964 661</b>	160 166 678	83 801 167	52 850 634	89 373 753
Share of profit of joint ventures and associates – net of tax	6 269 280	67 233 693	86 826 674	86 826 674	29 405 992
<b>Profit before tax</b>	<b>233 309 325</b>	239 274 839	168 149 043	115 214 661	117 240 277
<b>Basic earnings per share</b>	<b>133.06</b>	152.77	114.65	83.16	71.84
<b>Headline earnings per share</b>	<b>133.08</b>	138.96	109.69	83.16	71.84
<b>Net asset value per share</b>	<b>798.35</b>	645.00	455.30	340.72	257.56
<b>Tangible net asset value per share</b>	<b>673.73</b>	519.87	423.06	314.77	231.75
<b>Group balance sheet</b>					
Inventories	595 989 480	453 093 324	498 089 210	385 826 228	264 579 692
Construction contracts	1 383 647 602	910 736 977	198 211 436	179 486 749	139 250 724
Net cash position	240 765 157	80 070 805	130 565 085	62 892 583	198 342 958
Retained income	846 079 473	676 923 496	482 747 300	337 031 142	231 335 823
Borrowings	571 645 578	538 463 465	492 131 943	470 929 440	299 889 542
Trade and other payables	847 661 692	342 786 896	221 637 558	156 056 986	153 155 913
<b>Group cash flows</b>					
Cash generated from/(utilised in) operations	292 068 464	101 798 886	148 294 416	(252 754 959)	49 486 223
Tax paid	(7 444 473)	(16 878 792)	(20 380 552)	(5 183 498)	(16 553 902)
<b>Net cash from/(utilised in) operating activities</b>	<b>238 183 518</b>	35 511 467	79 176 947	(291 953 186)	12 585 354
<b>Net cash (invested in)/from investing activities</b>	<b>(116 890 703)</b>	(140 533 629)	(25 576 428)	(16 090 602)	8 268 506
<b>Net cash from financing activities</b>	<b>39 401 537</b>	54 527 882	14 071 983	172 593 413	73 798 134
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>160 694 352</b>	(50 494 281)	67 672 502	(135 450 375)	94 651 994
<b>Cash and cash equivalents at the beginning of the year</b>	<b>80 070 805</b>	130 565 085	62 892 583	198 342 958	103 690 964
<b>Cash and cash equivalents and bank overdraft</b>	<b>240 765 157</b>	80 070 804	130 565 085	62 892 583	198 342 958
<b>Financial ratios</b>					
Return on average shareholders' funds*	25.53	32.52%	33.73%	31.30%	32.41%
Return on net assets	16.63	23.57%	25.17%	39.14%	44.45%
Return on net tangible assets	19.71	29.24%	27.08%	26.42%	31.00%
Current ratio	1.79	2.00	1.45	1.43	1.44
Market capitalisation at year-end – ordinary shares	2 242 626 208	2 313 220 000	1 689 159 000	874 448 000	653 294 000


\* Calculated by dividing the earnings before finance cost and tax by average equity.

## Business model supported by turnkey approach and our capitals



## Business model supported by turnkey approach and our capitals (continued)

Our turnkey approach affords Calgro M3 the opportunity to manage each aspect of an Integrated Development, Rental Investment and Memorial Park and in this way, trap margin within the business, while ensuring a high-quality end product at an affordable price to the customer. This is the Company's motto and supports the attainment of decent operating margin, which this year settled at 14.73% (2016: 13.30%).

Calgro M3 operated as a residential property developer since 1995. This integrated model spans across all forms of housing as depicted on  pages 6 to 7 of this Integrated Annual Report. During 2015 the Group ventured into the development of Memorial Parks and in 2016 entered the residential rental market. All three segments are based on end-to-end solutions.





*End-to-end solutions, specialist business units and dedicated management focusing on high growth, niche markets, ensures a deep pool of expertise.*

The Calgro M3 business model entails three key elements:



All the above functions are implemented in an endeavour to provide a practical and cost-effective turnkey solution for the implementation of sustainable housing solutions. Through the delivery of quality affordable products, Calgro M3 remains a preferred development partner for the private and public sector, maximising value creation for shareholders. A hands-on flexible business approach provides the framework for the Group's strategy, facilitating a swift response to market demand and providing the Group with the ability to cater for the changing needs of clients and development partners.

The Group focuses not only on infrastructure, construction of houses and the physical environment – it helps build communities by providing people with the tools to prosper. For

insight see Our Economic Sustainability ( page 18), Our Communities ( page 40), and Human Capital Management ( page 43) contained in the Sustainability Report which can be found on the website at  [www.calgrom3.com](http://www.calgrom3.com).

Through its integrated developments Calgro M3 creates an environment that supports the wellbeing and development of sustainable communities. The needs, interests and concerns of stakeholders are vital to the planning and execution of its developments. The Group provides multiple forums for stakeholder engagement (see Understanding our Stakeholders in the Sustainability Report on our website at  [www.calgrom3.com](http://www.calgrom3.com) ( page 4 to 16) to facilitate ongoing two-way communication.

## Why we are in business

Calgro M3 was incorporated in 1995, listed on the Alt-X of the JSE Securities Exchange in 2007 and converted to the Main Board in 2012. Throughout its history, it has conducted itself as a responsible corporate citizen, adhering to all applicable rules and regulations.

Calgro M3 operates mainly within a sector of the market where there is a huge shortage of housing for the general population of South Africa as well as a major shortage of dignified burial places. The Constitution provides for the right to shelter for all. In 1994 the Government embarked on an endeavour to eradicate the housing backlog based on a housing code, aimed at providing housing to previously disadvantaged South Africans. According to Statistics South

Africa ("StatsSA"), the total population is in the region of 54 million people. At 3.375 people per household (Community Survey performed by StatsSA), the total residential properties required in South Africa is calculated to be around 16 million. The deeds registry puts the total residential sector at 5.9 million registered properties. This puts the housing shortfall in the region of 10 million properties.

The underlying passion of the Company, whilst maintaining a profitable, sustainable business, is to make a difference in the lives of people by providing them with a complete lifestyle change when they purchase or receive a Calgro M3 developed home. This is supported by a dynamic team who complement each other and which have in-depth market knowledge.



*Calgro M3 operates mainly within a sector of the market where there is a huge shortage of housing for the general population of South Africa as well as a major shortage of dignified burial places.*

## Our operating environment

*The Group operates in an environment supported by both the public and private sectors, with the market being driven by the critical need for housing.*

The operations of Calgro M3 are involved in satisfying a dire need for housing, rental unit and burial sites in South Africa. Our strategy is based on a massive supply gap where the private sector can support the public sector.


### Residential property development and rental investments

Calgro M3's market is driven by the need for housing and rental opportunities, of which there is a dire shortage in South Africa. Eighty20 research estimates the market size for households earning between R3 500 (upper limit to qualify for Government fully subsidised house) and R15 000 (income required for a mortgage bond in the affordable housing market) per month to be 6.4 million households in 2016 (which amounts to 40% of the population). The deeds registry puts the total registered residential properties valued at less than R600 000 at 3.6 million of which 1.8 million represent fully subsidised properties.

This sets the **rental** and **bonded** market shortfall at 4.6 million properties (6.4 million less 1.8 million (registered properties less than R600 000 excluding fully subsidised properties) and if the 60% metro/capital based calculation is applied, the shortfall is 2.76 million properties.

Research performed by the Centre for Affordable Housing Finance in South Africa and published in its "Africa Housing Finance Yearbook 2016", various Statistics SA reports as well as ABSA home loan research together with additional in-house research and analysis of information estimates the above numbers to be slightly more conservative and is calculated as follows:

#### Calculation facts:

- Total housing shortfall estimated at 10 million properties (see calculation on  pages 25 to 26;
- 8% of the population is considered elderly;
- Elderly who live below the lower bound poverty line is estimated at 76.2% and assumed as not having formal accommodation;
- Unemployment rate 26.6%;
- Around 60% of the total formal residential property market is found in the eight metro municipalities; and
- There are approximately 2.19 million households living in informal settlements, which amounts to 13% of the population.

	Million (rounded)
Total housing shortfall	10
Less: Elderly below lower bound poverty line (8% x 76.2%)	(0.6)
	9.4
Less: Unemployed (26.6%)	(2.5)
	6.9
Calgro M3 focus area (Capital/Metro bound) (60%)	4.14
Fully subsidised	2.19
Bonded and rental market	1.95

In 2016, only 39 671 units were registered in the Deeds Office outside of the subsidised housing market (which includes the higher end of the market). According to the Banking Association reports, 10 074 mortgages were granted in South Africa, directed at the affordable housing market in the same period.

The above illustrates the dire need for affordable housing in South Africa's residential property market. The residential property market is the largest component of the South African property market, comprising the majority of property assets within the country, and an important component of household wealth. The massive need for suitable housing, in a secure environment, with appropriate infrastructure and accessibility to places of work, is the market in which Calgro M3 has two decades of experience.

*Demand and market statistics make the Calgro M3 model a sustainable one.*

### Government commitment to growth driven by demand

It is Calgro M3's experience that Government through the Department of Human Settlements, will continue to spend to rectify housing shortages. In the 2017 National Budget R114.8 billion is allocated to be spent on housing in the next two years to 2020. Government has pointed out that as in the case of housing, water and sanitation, and public transport, among others, Government is unable to satisfy the needs of the people on its own and this is where the private sector can support the public sector. Calgro M3 remains supportive of Public Private Partnerships and collaboration with Government. The Group is not dependent on Government spend entirely and is exposed to affordable housing in the private sector, where demand is as high, and

Calgro M3 can provide a range of high quality housing at affordable prices.

In terms of government's Medium Term Strategic Framework, the Minister of Human Settlements has committed the delivery of 1.5 million new housing opportunities in the five years to 2019. Comprising:

- 750 000 households in upgraded informal settlements;
- 563 000 fully subsidised housing units;
- 70 000 FLISP supported housing units for the gap market;
- 40 000 affordable housing units;
- 27 000 social housing units;
- 10 000 community residential units; and
- 35 000 affordable rental units.

*The information quoted in this section are extracts from public documents and not the opinion of Calgro M3.*

### The 2017/18 National Budget in numbers

- Department of Human Settlements has allocated R114.8 billion across the next three years to be spent on subsidised public housing;
- Housing Development Finance Programme allocated R29.8 billion for the current fiscal year which will increase to R36.6 billion by 2019/20 and which will be used to improve access to housing finance, through collaborations with the private sector and other related entities;
- Expected to facilitate the delivery of 368 530 fully subsidised units, disburse 66 554 finance-linked individual subsidies ("FLISP") and upgrade 623 635 houses in informal settlements by 2019; and
- Human Settlements Development Grant to increase from R18.3 billion in 2016/17 to R22.3 billion by 2019/20.

*This is a factual report and not the opinion of Calgro M3. Data quoted above is as per the Budget Speech delivered on 22 February 2017 by the Minister of Finance.*

**The General Household Survey 2015 ("GHS 2015") and the Community Survey 2016 ("CS 2016"), published by Statistics South Africa in June and July 2016 respectively, provide some insight into housing conditions in the country in 2015/16:**

- The average household size was 3.3 persons in early 2016 (CS 2016);
- 79.2% of a total of 16.92 million households were living in formal housing (CS 2016). Formal housing refers to structures built as per approved architectural plans, ie houses on separate stands, flats, apartments, townhouses and rooms and flats in backyards;
- 13% of households were living in informal housing (CS 2016). Informal housing refers to makeshift structures not erected according to approved architectural plans, eg shacks in informal settlements and backyards;
- 78.5% of households in eight of the country's biggest metropolitan areas were living in formal housing (GHS 2015);
- 19.2% of households in the major metropolitan areas were living in informal housing (GHS 2015);
- 54.7% of households fully owned their properties, ie paid off in full (CS 2016);
- 11% of households partially owned their properties, ie financed by and not yet fully paid off to financial institutions (CS 2016);
- 18.4% of households were renting the properties they were staying in (CS 2016);
- 23.1% of households were living in Reconstruction and Development Programme ("RDP") or state-subsidised housing (CS 2016); and
- 85.5% of households were connected to the electricity supply network (GHS 2015).

*The information quoted in this section are extracts from public documents and not the opinion of Calgro M3.*

## Our operating environment *(continued)*

### Levy contributions form part of CPI basket

64.80% of the population live in urban areas, according to the Africa Housing Finance Yearbook 2016. A lifestyle reality, driven by this urbanisation trend, is that more and more South Africans are living in apartment blocks or townhouses. This form of ownership results in the requirement to pay levies, and for the first time levies for sectional title schemes are included into the Consumer Price Index ("CPI") basket.

### First-time buyers remain in good shape with a rising middle class in place

A study, based on Standard Bank's mortgage applications data over the past ten years, shows that the average income for first-time home buyers grew 92%, from R15 000 a month in the first quarter of 2006 to R29 000 a month in the first quarter of 2016. More and more first-time buyers can increase instalments from an average of R3 510 a month in the first quarter of 2006 to R6 345 in the first quarter of 2016. Calgro M3 is able to corroborate this data as the Group is experiencing the same trends.

These statistics are largely supported by a rising middle class which according to Standard Bank's Consumer Income Trends, shows that 18% of the population (or close to 10 million people) are classified as middle class, earning between R49 001 and R783 000 a year.

Since 2008 the average value of bonds granted has increased from R524 600 to R894 400, indicating a higher earning borrower, as per the Africa Housing Finance Yearbook 2016. Calgro M3 however still believes that the "real" need is lower with our average selling prices to this market being R443 903 (including VAT).

In South Africa, the middle class account for about 18% of the population, but however accounts for two-thirds of income generated. This is significant and if, as according to research done by Standard Bank, the 5.9 million of South Africa's middle class increases to 11.2 million by 2022, the need for affordable housing will increase ever more.

60% of the market in which Calgro M3 operates, lies within the eight large metros across South Africa. This supports Calgro M3's strategy of focus on these metros and details of this can be seen in our Geographic Footprint on [page 14](#) of this Integrated Annual Report, Calgro M3's strategy is further supported by the rapid urban growth.

### Interest rate cycle

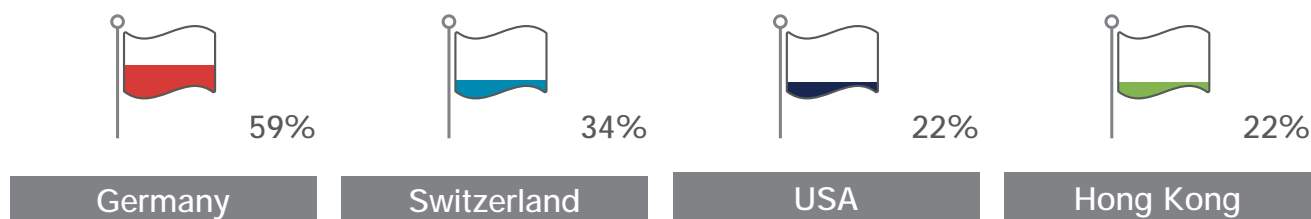
It is Calgro M3's experience across two decades of existence that the interest rate cycle has a limited effect on lower end market sales. What typically happens, is that a client who previously qualified for a 56 m<sup>2</sup> house, may now qualify for a slightly smaller 52 to 55 m<sup>2</sup> house, based on affordability, in an environment where interest rates are increasing. What should be pointed out is that with each interest rate adjustment the new home owner takes time to process the adjustment. Housing in South Africa is a necessity and not a luxury in this segment of the market, and although time is taken to consider the impact of the change in the interest rate, a decision to buy is ultimately based on a dire need of quality, affordable, secure housing together with tenure of ownership. An evolving set of social, economic, political and environmental imperatives affecting the interest rate requires the Group's skilful response.

### Deed registrations

In the Africa Housing Finance Yearbook 2016, deeds registry data shows that 21 673 government-sponsored housing units were formally registered in 2014 and 22 865 in 2015.



### Rental units

Global exposure to residential markets through the REIT market is 17.1%, compared to less than 2% in South Africa. The trend to rent rather than buy is globally much stronger than in South Africa. The percentage residential exposure in the REIT market in some other economies are outlined below:

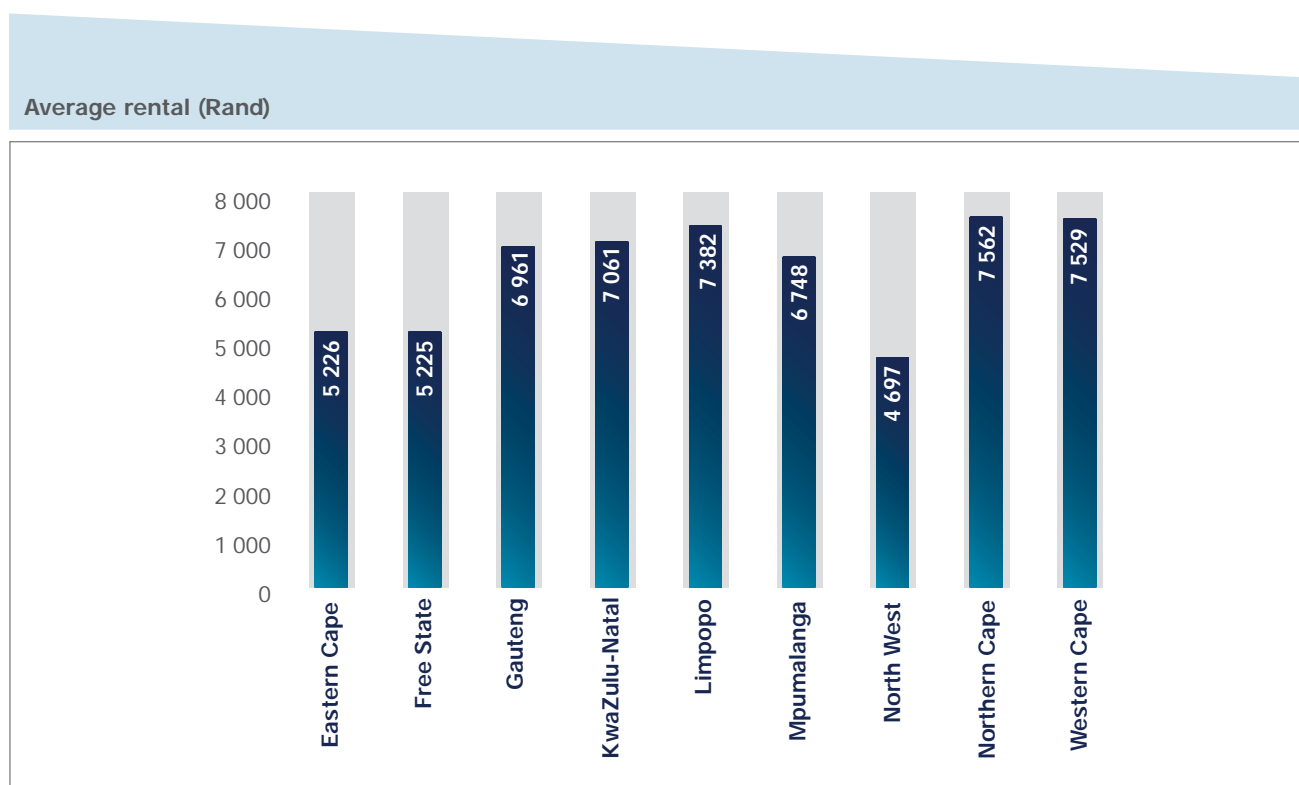


In line with all these statistics and on [page 26](#), the demand for rental units is just as relevant to Calgro M3.

*A weaker economy and rising interest rate environment tends to boost demand for rental property.*

	South Africa: Housing shortage
Bonded and Rental opportunities estimate (refer to  page 26 housing shortfall)	1.95 million
Subsidised opportunities (refer to  page 26 housing shortfall)	2.19 million

The Q3 2016 PayProp Rental Index indicates that the current national average rental has grown by 6.5% year-on-year to R6.738. With the Calgro M3 real estate investment an average rental in current terms of R4 200 is targeted.



No housing or rental market is sustainable without tenants to supply it. The Q3 2016 PayProp Rental Index shows that landlords are receiving a gross yield of 7.1% and a net yield of 5.2%, the latter up from 4.9% in Q3 of 2015.

## Our operating environment *(continued)*



### The Customer

This section should be read as background information on the health of consumers and is relevant to both Integrated Residential Property Developments and Rental Investments.

The South African Reserve Bank's leading business cycle indicator, which serves as an indication of the direction of economic activity over the next six to nine months, remained on a downward trend into 2017, although various other data suggests an uptick for 2017. Investec's forecast is for the South African economy to grow by just more than 1% for the first half of the year, followed by a better outlook of close on 1.6% for the second half of the financial year.

In the first nine months of 2016 the headline consumer price inflation rate averaged 6.2% year on year. Inflation is currently mainly driven by the key factors of food prices, fuel prices and the rand exchange rate, which might however be slightly over valued at this stage.

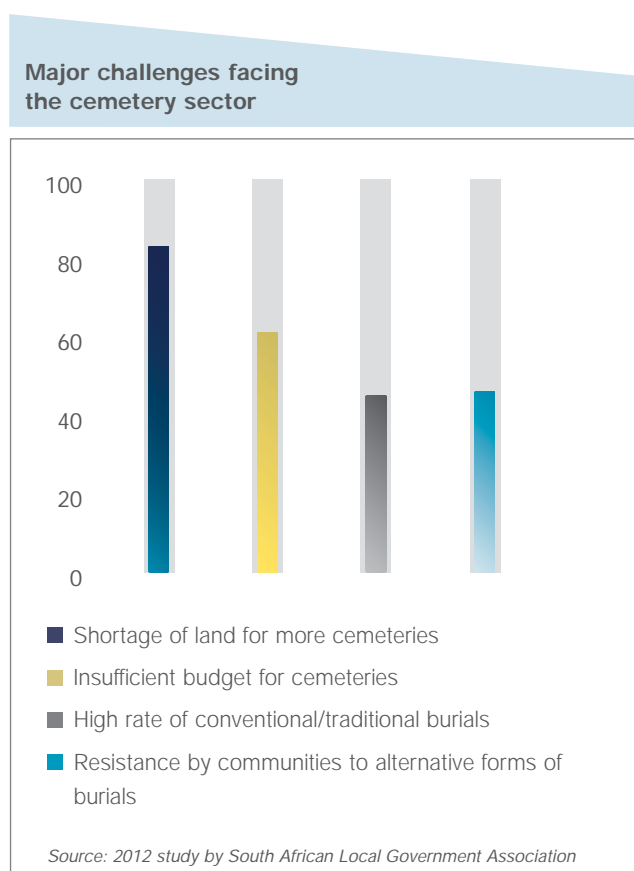
Interest rates were increased by a cumulative 75 basis points in the first quarter of 2016 and remained unchanged into the beginning of 2017.

Growth in real household disposable income, ie after-tax, inflation-adjusted income, remained low at an annualised estimated rate of 0.7% during 2016. The continued low growth in real disposable income was the combined effect of inflationary pressures and the unemployment rate, which between the last quarter of 2015 and the first quarter of 2016, experienced a loss of 355 000 jobs.

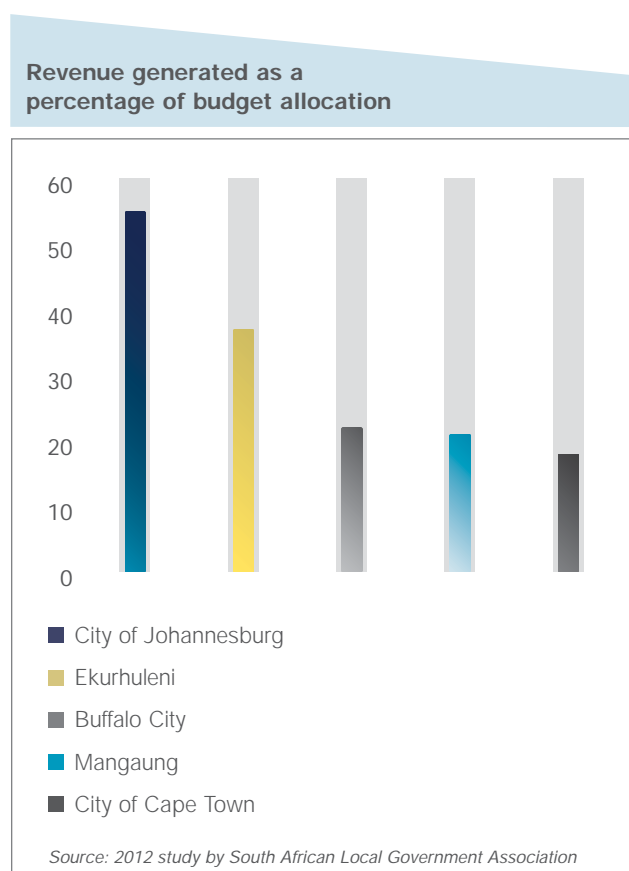
## Memorial Parks

*Opportunities exist in the establishment of Memorial Parks across South Africa, due to the lack of facilities to provide adequately for demand.*

### Major challenges



### Capacity for private participation



The challenges of a shortage of land and informal and illegal cemeteries have been exacerbated by insufficient budget for Government cemeteries, the high rate of conventional and traditional burials as compared to other methods of interment and resistance by communities to adopt alternatives to burials, such as cremation or recycling of burial sites, among others. City Parks in Johannesburg is encouraging residents to consider other options of committal. Of Johannesburg's 35 cemeteries, 27 are full. This leads us to the conclusion that other alternatives and options should be investigated.

Cemetery services are heavily subsidised by municipalities as revenue generated from this sector is significantly low compared to the total budget allocated. Only the City of Johannesburg ("CoJ"), with reference to its 2011/12 financial year as shown in the graph above generated revenue of above 50% of the total budget. Budgetary constraints undoubtedly impact the ability of the municipalities to purchase land for extending existing or building new cemeteries, as well as maintenance of both operating and fully capacitating cemeteries. This exacerbates challenges of informal and illegal burials among other land shortage related problems.

The above circumstances support the private sector such as Calgro M3 to participate in this market to make a noticeable difference in the burial space, while still making commercial sense of the transaction.

## Calgro M3 investment case

*Calgro M3 has been listed on the JSE Securities Exchange since 2007 in the Construction and Materials sector. Since its listing the Group has remained clear on its objectives and has continuously delivered shareholder value. Calgro M3 specialises in Residential Housing Developments, Memorial Parks and Real Estate Investments with sustainability at the core of our business.*

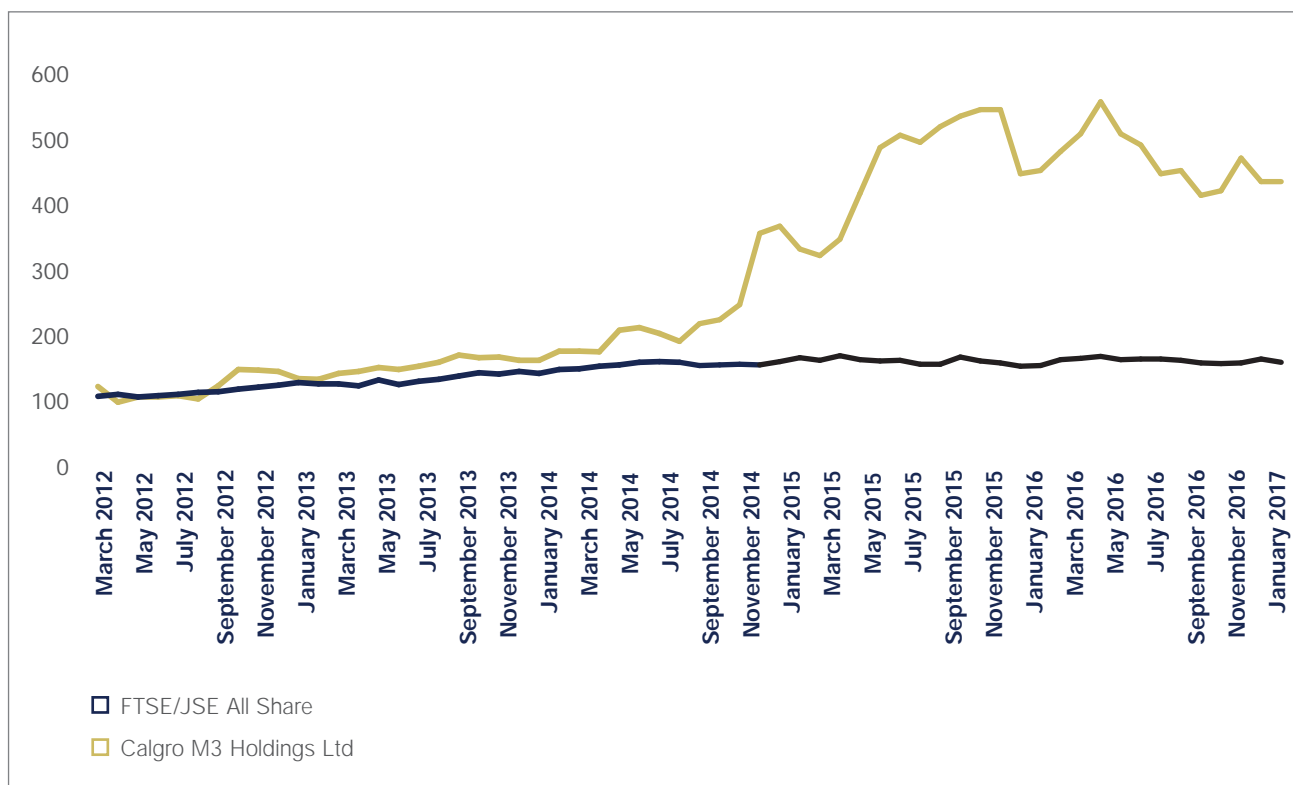
### Our investment case is based on the following:

- ➔ Six-year track record of consistent growth
- ➔ Return on equity target in excess of 30% average per year, compounded over the medium to long term
- ➔ Current pipeline of work amounts to R28 billion
- ➔ Calgro M3 is responsible in terms of its approach to developments ensuring water conservation and harvesting, a concerted effort to move towards Energy Conserving Homes, planting a tree for every house completed and greening as much of the development as possible to enhance the environment and contributing to a change in lifestyle
- ➔ Solid knowledge of development needs in line with Government's objectives of providing housing to all South Africans within a secure environment which is accessible to places of work as well as the opportunity to create wealth
- ➔ A massive demand exists in South Africa for quality affordable and well-built housing
- ➔ Vigilant about sustainability and corporate governance
- ➔ Flexibility and agility to be able to service various markets

### The Calgro M3 investment proposition

- |   |  |  |  |
|---|--|--|--|
|  Making a meaningful and sustainable difference in the lives of South African people |  Different and unique product offering    |  Strong financial position                                      |  22-year track record made up of quality outputs and stable growth        |
|  Turnkey integrated residential and rental developments as well as memorial parks    |  Committed to sustainable business growth |  Focused on meeting financial, social and environmental targets |  Ability to swiftly adapt to changing market demands creating flexibility |

## Share price performance



Although the FTSE/JSE All share has provided returns for the past five years, Calgro M3 has outperformed the All Share by 180% across the time.



## Witpoortjie

Witpoortjie has a total of **3 071** residential opportunities available of which the second selling phase, Witpoortjie Ext 64 is currently selling and in construction, with **95** luxurious free standing homes available.

# 2

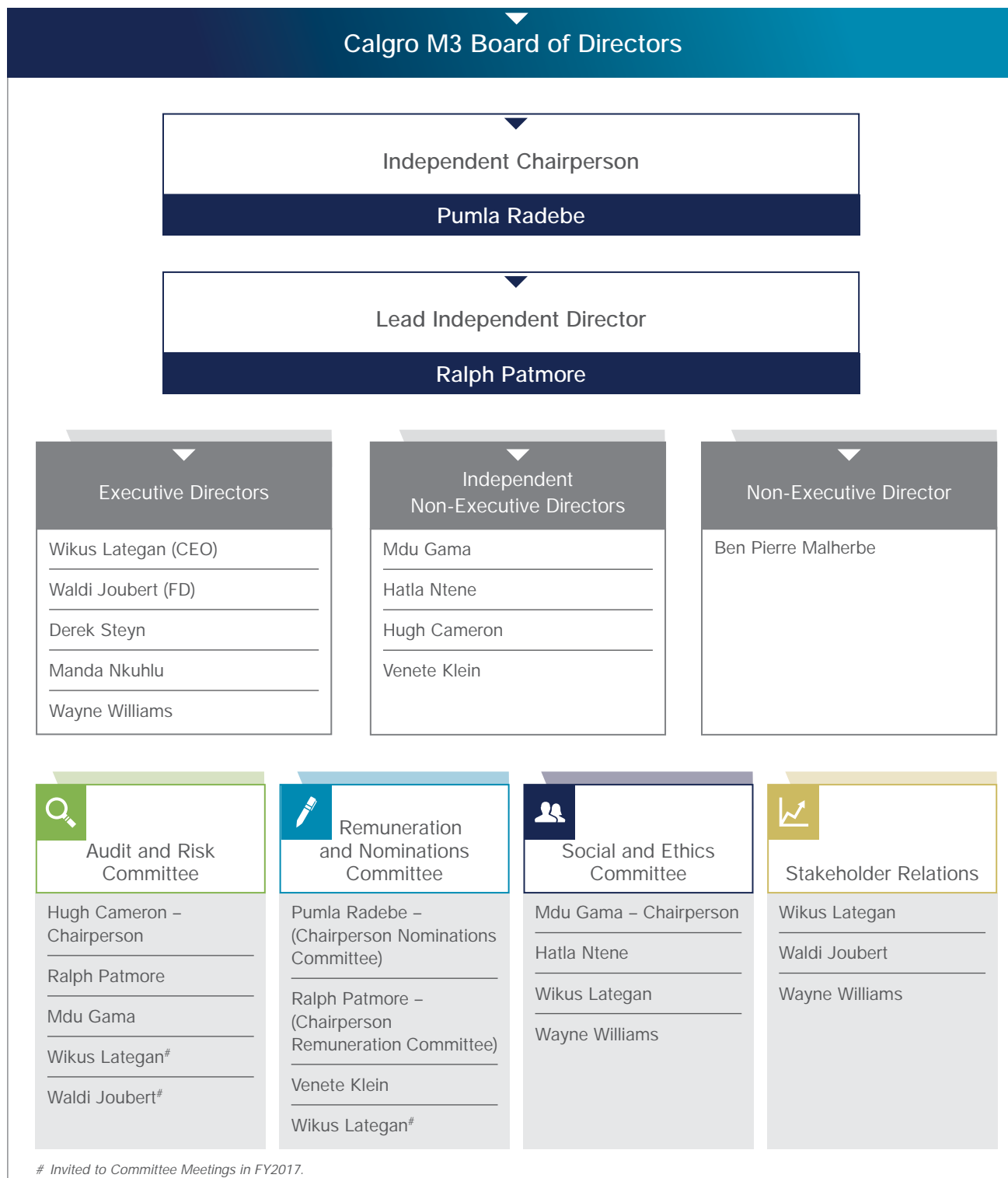


# Leadership and Feedback

## Board of Directors

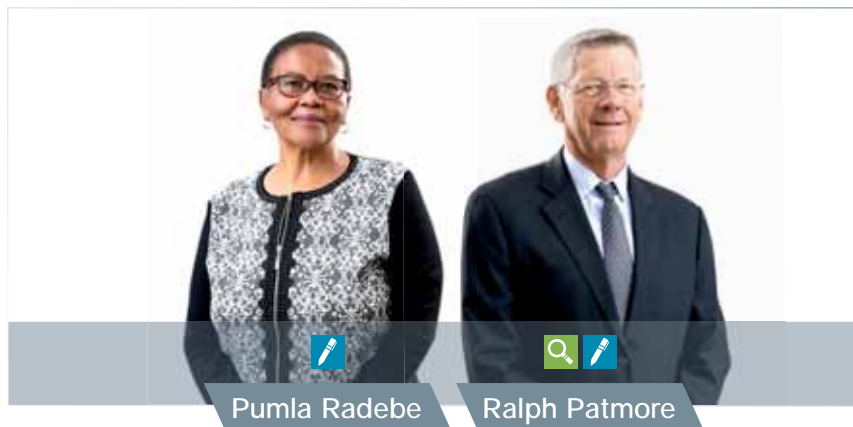
It was announced in October 2016 that Ben Pierre Malherbe will step down as CEO and that this position will be filled by Wikus Lategan. Ben Pierre takes on the role of non-executive director, ensuring that his experience is retained within the Group. Transformation is important to Calgro M3 and the Group welcomes to the Board Manda Nkuhlu as an Executive Director, whose experience in the sector is strong.

These changes are effective from 1 March 2017. Given these changes, the structure below reflects this.



## Board of Directors *(continued)*

### Chairperson and Lead Independent Director



Pumla Radebe

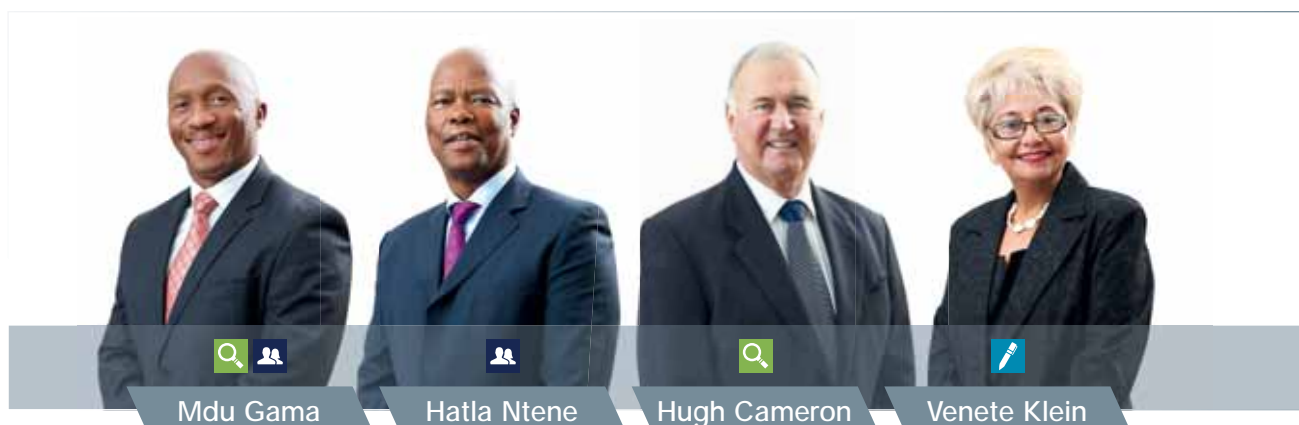
Ralph Patmore

### Non-Executive Director



Ben Pierre Malherbe

### Independent Non-Executive Directors



Mdu Gama

Hatla Ntene

Hugh Cameron

Venete Klein

### Executive Management



Wikus Lategan

Waldi Joubert

Derek Steyn

Manda Nkuhlu

Wayne Williams



Audit and Risk  
Committee



Remuneration and  
Nomination



Social and Ethics  
Committee



Stakeholder  
Relations

## Chairperson

### **Pumla Fundiswa Radebe (61) CD(SA), BA (Social Sciences)**

Mrs Radebe is a Chartered Director and a member of the Institute of Directors Southern Africa. She is a Non-Executive Director of the Institute of Directors and the Chairperson of its Social and Ethics Committee, a member of the Remuneration Committee and Nominations Committee. She is also a Non-Executive Director of Jasco Electronics Holdings Limited and a Chairperson of its Social and Ethics Committee and a member of its Audit/Risk Committee. She is the Chairperson of Khuselo Investments and the Managing Executive of Bungane Development Consultants.

#### **Skills set**

Specialises in social analysis, project planning and management and with more than 20 years' experience at local and regional Government level. It is experience such as this which is highly regarded within the Group, given its operational exposure to Government.

## Lead Independent Director

### **Ralph Bruce Patmore (63) BCom, MBL (SBL)**

Ralph brings a valuable 10 years' experience in building materials distribution as former CEO of Iliad, as well as a wealth of industrial manufacturing experience, as a former director of Everite and Group Five. Ralph currently serves as a non-executive director on the boards of ARB Holdings Limited, Mustek Limited, Sentula Mining Limited and Accentuate Limited.

#### **Skills set**

With his vast industry experience, including, but not limited to being a former director of Everite, Group Five, Unihold, Iliad and Malbak, comes a valuable approach to specific industry thinking and expertise.

## Independent Non-Executive Directors

### **Dr Mduduzi Edward (Mdu) Gama (47) PhD (Finance)**

Mdu holds a PhD (Finance) degree and various management qualifications from South African, US and UK universities. Mdu is currently CEO of Resultant Finance (Proprietary) Ltd and is a non-executive director of Mustek Limited. He is a founder, director and a significant shareholder of various other companies.

#### **Skills set**

A doctorate in finance combined with an entrepreneurial flair blends exceptionally well with Calgro M3.

### **Hatla Ntene (62) BSc (QS), Dip. Con. Econ, Dip. Civ. Eng, PRQS, PMAQS, Pr.CPM**

Hatla obtained his Bachelor of Science (Quantity Surveying) University of Dublin, Diploma in Construction Economics (Bolton Street College of Technology) Republic of Ireland and Diploma in Civil Engineering, Lerotholi Polytechnic.

Hatla is currently Executive Chairman of Mvua Property Partners and Pulaprop. He is a Non-Executive Director of a listed Retail Property Fund Company.

Hatla was previously a Partner in Farrow Laing Ntene, one of the largest Quantity Surveyor firm in South Africa. Hatla was also the Property Executive Manager of Propnet (Property Division of Transnet) for three years.

#### **Skills set**

Finding a person with 30 years of experience in the property industry is rare and the insight which Hatla provides to the Board is highly regarded. Potential pitfalls are pointed out early to avoid wastage of time and money.

### **Hugh Colin Cameron (65) CA(SA)**

Hugh was appointed as an independent Non-Executive Director with effect from 8 May 2015 and is the Chairman of the Group's Audit and Risk Committee. Hugh is a retired partner of PricewaterhouseCoopers where he was appointed as the firm's mining leader, responsible for Europe, the Middle East and Africa in 1999. In 2002 he became PwC's global mining leader. He has also gained extensive experience in other industries, notably property, construction, insurance and investments and industrial products. He was a member of PwC's governing Board for 12 years until retirement in 2010 and has served as a member of the advisory panel of the International Accounting Standards Board. Hugh is currently an independent non-executive director of Impala Platinum Holdings and a trustee of the Sishen Iron Ore Community Development Trust.

#### **Skills set**

To have the expertise of a retired PricewaterhouseCoopers partner on the Board is invaluable. When mixed with specific industry experience as well as the experience of serving on the advisory panel of the International Accounting Standards Board ensure that the highest standards of guidance are imparted to Calgro M3 by Hugh. He is able to assist with complex problem solving.

## Board of Directors *(continued)*

### Venete Jarlene Klein (58) *CD(SA)*

Venete was appointed as an Independent Non-Executive Director with effect from 1 January 2016. Venete has more than 30 years' experience as a senior executive in the financial services industry. Amongst her directorships were appointments as executive director of Absa Retail and Business Bank, Ecobank Transnational, and appointments as non-executive director of Post Bank SA, AllPay Consolidated Investment Holdings, Absa Trust, Absa Brokers, National Business Initiative, The Banking Association of South Africa, Ombudsman for Banking Services, Old Mutual Wealth, ACSIS Wealth Managers and The South African Bureau of Standards. Venete is currently one of the Governors of Chartered Directors South Africa, the Chairperson of the Institute of Directors of South Africa, a Non-Executive Director on the boards of the South African Reserve Bank, Eskom, DB Schenker and PG Group Holdings and a Trustee of the SANDF Education Trust. She serves on several Audit and Risk, Social and Ethics and Remuneration Committees of the boards of directors that she serves.

#### Skills set

30 years of unsurpassed experience goes a long way and the value of this experience is very difficult to measure. Venete guides the Group in her knowledge of corporate governance and business principles ensuring that the correct methodology and implementation is used on each occasion.

### Non-Executive Director (Outgoing CEO)

#### Ben Pierre Malherbe (51) *BSc (QS), MBA*

Ben Pierre began his career as a quantity surveyor. After spending seven years as project manager in the affordable housing market segment, he and his brother joined forces with the Steyn brothers in 2001 to form Calgro M3, specialising in residential development. He was appointed Calgro M3's COO when the Group was listed in 2007 and took over the function of acting CEO in January 2009 and was appointed as CEO with effect from 11 December 2009. On 28 February 2017, after eight years, he stepped down as CEO but is retained as a Non-Executive Director with major equity ownership.

#### Skills set

Ben Pierre joins the Board from serving as the Calgro M3 CEO for eight years. With two decades of experience in integrated developments and with a strong relationship with our most important stakeholder, Government, Ben Pierre's wealth of experience is retained within the Group.

## Executive Management

### Willem Jakobus (Wikus) Lategan (36) *CA(SA)*

Wikus joined Calgro M3 in 2008 as Financial Director and was subsequently appointed as Group Managing Director with effect 1 June 2015, responsible for the overall operational activities of the Group. Wikus served as a member of the SAICA National Members on the Business Executive and is also Chairperson of the SAICA Northern Region and Business Council. He has vast experience in business restructuring and management and became CEO effective March 2017.

### Frederik Johannes (Derek) Steyn (54) *BSc (QS)*

Derek worked as a quantity surveyor for five years at Eskom, after which he became a project manager at Safrich, an established property development company specialising in the affordable housing market sector. Calgro was started in 1995 by Derek and his brothers, Deon and Douw. Derek is responsible for all new projects and business opportunities for the Group. He is a specialist in residential developments, land acquisitions as well as project funding.

### Willem Adolph (Waldi) Joubert (31) *CA(SA)*

Waldi was appointed as Financial Director with effect from 1 June 2015. He is a qualified chartered accountant, having completed his articles with PricewaterhouseCoopers, where he gained vast experience in a variety of industries including manufacturing, construction, insurance and fast moving consumer goods. Waldi joined the Group in January 2012 as Group Financial Manager.

### Manda Njongonkulu Nkuhlu (36) *BSc (Honours), MBA*

Manda has more than 14 years' experience in the property industry having held several senior management positions. At the Social Housing Regulatory Authority, he was the investment manager, where he was responsible for running the public entity's investment and project implementation operations. He has been with Calgro M3 in the capacity of a project manager, serving on Exco since September 2014, before taking on a larger role as an Executive Director with Board representation from March 2017. Manda is responsible for the New Business and the Projects Portfolio.

### Wayne Williams (48) *BProc*

Wayne joined Calgro M3 in 2012 and was appointed as Executive Director with effect from 1 June 2015. He is a qualified attorney who was in private practice for 20 years. He has extensive experience in commercial transactions and commercial and company law.

## Chairperson and outgoing CEO report



Pumla Radebe



Ben Pierre Malherbe

*As Calgro M3 we acknowledge our responsibility as private sector to assist Government in the delivery of the housing backlog in partnership to ensure **Building Legacies and Changing Lives**.*

This joint report discusses the high level strategic positioning of the Company in the context of the South African operating environment.

### Introduction

This year Calgro M3 celebrates a decade as a publicly listed company and 22 years in existence. It pleases us to report that in that time very little has changed in the fundamental strategy of the Company to deliver affordable homes to the people of South Africa.

The year under review has been a challenging year for the Group. In particular, low economic growth, reduced Government spend and a reduction in disposable income impacted the Group's performance. Calgro M3 has countered these negative impacts through its ability to change the mix of integrated development options with a focus on rental, GAP and affordable housing aimed at the private sector. This initiative was bolstered by a marketing drive ensuring that products and services delivered to the end customer were of a high standard. The marketing drive also covered the Memorial Parks segment, and we are exceptionally pleased with the sales increase in this segment. Please see additional information on 📄 pages 10 to 13.

The performance of Calgro M3 is discussed in detail in the Incoming CEO and FD's Report on 📄 page 42 of this Integrated Annual Report. Briefly, however, the overall Calgro M3 set of results was adversely affected by delayed Government spend. Calgro M3 has mitigated this through increased sales across other segments of the Group namely private sector sales and Memorial Parks. The majority of income from private sector sales will only flow in future financial periods.

Calgro M3 operates in a market where the need for housing outweighs current supply. It continues to be the Group's resilient value proposition, based on our turnkey approach and Calgro M3's positioning through diverse investments in the integrated housing market, that continues to secure the long-term pipeline that ensures Calgro M3's success.

### Challenges facing the South African housing market

On 📄 page 26 of this Integrated Annual Report, the Group has provided information to put into context the environment in which Calgro M3 operates. It shows the total South African shortage of 10 million houses. Our constitution makes provision for the right to shelter for all. In the case of our business strategy, Calgro M3 strives to assist Government in ensuring there are sufficient houses for people to either buy or, for those who do not qualify, to rent. As Calgro M3 we acknowledge our responsibility as private sector to assist in tackling the housing backlog in partnership to ensure *Building Legacies and Changing Lives*.

Coupled with the housing shortage is a shortage of skills which speaks to the current high unemployment rate in South Africa. To this end Calgro M3 has committed to the development of skills development through a subcontractor incubator programme and we have a target in place across the Group to employ 50% of our on-site workforce from local communities. Our full Sustainability Report 2017, posted on the website contains more information on this.

## Chairperson and outgoing CEO report *(continued)*

### Infrastructure spend

One of the stimuli for the creation of housing, both for sale and for rental opportunities, is the need for the creation of infrastructure. This includes water and electricity connections, sewerage and access roads. It is the delay of this infrastructure spend by the public sector for the past few years, that has hampered housing delivery. With the Group currently constructing more than 5 400 units in integrated developments for the private sector component of the market Calgro M3 can sustain its construction momentum while this much-needed infrastructure is being installed.

The issuing of title deeds falling behind over the last few years is being addressed as a priority by Government; however, amendments to the Sectional Title Act which came into effect in late 2016 might further complicate processes. Title deeds are an important form of tenure and assets to support wealth creation. Calgro M3 is confident that Government will address the need for policies to provide for the construction of multi-storey fully subsidised units.

Calgro M3 has adopted two specific strategies to diversify its exposure, being the establishment of the Real Estate Investment ("REIT") and increased exposure to private sector. Its ability to focus on different tenure options and move its focus towards private sector, all the while assisting in housing delivery and creating ratepayers for the Metros, is of great value in uncertain times. A careful balance between public and private sector exposure is thus maintained by the Group.

### Demand expanding beyond integrated developments

The need for the private sector to assist with the installation of infrastructure also came to the fore during this period. With rising urbanisation and the resulting densification, concepts

such as multi-storey, fully subsidised units are here to stay, although minor amendments in legislation may be required. Calgro M3 is aware of these developments and remains in discussion with the necessary authorities, to ensure that the Group is well placed to participate in these developments.

### Ensuring sustainable growth

Through stakeholder engagement and strategic marketing, Calgro M3 will ensure the Group remains relevant and sustainable. The current market demand, which guides the Group's marketing strategy, amounts to more than two million units. Calgro M3, through its relationships with the private and public sectors, has exposure to various market segments that are continuously monitored and adjusted to cater for changing demand and availability of funding. The Group is pleased with the level of sales achieved, giving this focus on marketing and the in-depth knowledge the leadership team has, to guide the processes.

Calgro M3's product range caters to a cross section of the population, from those people who cannot afford a house, but who qualify for a fully subsidised home, to the various income bands from there, through to subsidised rentals and open market rentals and finally to the upper-end bonded market. Given this involvement, Calgro M3, over the past two decades of operation, has learnt to understand the cycles of housing delivery and can adjust its focus and exposure to the sector and housing products it offers.

Public sector cycles are considered with an emphasis on Government's need to deliver subsidised housing to meet electoral pledges (which results in higher exposure to fully subsidised units); and its drive for delivery of bonded properties to increase the tax base.

## Governance

From a governance standpoint, Calgro M3 prides itself in being a good corporate citizen, through the adherence to all necessary regulatory principles and other corporate governance guidelines. Each year progress is made on strengthening the Board and this year is no different. Out of the six non-executive directors, five are independent and a lead independent director is in place. The Group has committee structures made up of: Audit and Risk, Remuneration and Nominations and Social and Ethics. A Stakeholder Relations grouping is in place as Stakeholder Relations is an extremely important function to Calgro M3.


## Leadership and Board of Directors

We are confident in the ability, knowledge and competence of the newly appointed executive management team.

Manda Nkuhlu joined the Board as an Executive Director. Having been with the Company since 2014, Manda brings extensive knowledge and experience in dealing with the public sector in the residential property development sector. These enhancements to the management structure are implemented as part of the succession trajectory to support the sustainability of Calgro M3.

These changes were effected 1 March 2017.

## Corporate Social Investment and Skills Development

Calgro M3 has a consciousness of caring for the communities in which we operate and as such we have spent a total of R7.2 million on corporate social investment. You can find more detail on our projects on  pages 62 to 63 of this Integrated Annual Report as well as in our Sustainability Report 2017, on the website.

Human Capital Development and Skills Transfer are just as important as these activities have a lasting effect and impact. During the year, the Group spent approximately R1.8 million on skills development. Over three quarters of this amount was spent on black employees. The Group's Formalised Enterprise Development Programme mentors small black-owned enterprises, helping them improve their performance across various spheres of business. Goods and services worth over R166 million were produced from businesses that are more than 50% black-owned.

## Appreciation

November 2017 will mark our 10th listing anniversary. We would like to thank the co-founders, exco members, senior management and every employee that contributed towards building Calgro M3 into the company it is today. Special thanks are extended to all our stakeholders and partners for the support during the last decade. From the time we initiated the process to the listing of the Group in 2007, there have been highs and lows, and your unwavering support is appreciated.

To our fellow Board members, thank you for your guidance and support. It is also an opportune time to remember John Gibbon, a past Board member, who sadly passed on in 2016. His guidance and advice will always be remembered and missed.



**Pumla Radebe**  
Chairperson

12 May 2017



**Ben Pierre Malherbe**  
Outgoing CEO

## Incoming CEO and Financial Director's Report



Wikus Lategan



Waldi Joubert

*During the year, management positioned the Company for increased exposure to the private sector, as well as annuity income with the establishment of a rental investment portfolio.*

This is my first report as incoming CEO, and together with Waldi, we wish to thank Ben Pierre Malherbe for the guidance, experience and knowledge he transferred to us during his tenure. His continued involvement as a Non-Executive Director will ensure his valuable knowledge and experience is retained within the Group.

### Introduction

The Group has strategically repositioned itself in anticipation of tough economic conditions by diversifying into other sectors within the Integrated Residential Development business, as well as Memorial Parks and the Real Estate Investment Trust ("REIT"). This was done to ensure that risk is optimally mitigated and managed in these uncertain times, setting a solid foundation for future growth. While navigating the current business landscape, as well as diversifying risk across sectors and businesses, the Group has remained focused on maintaining the underlying theme of property development that is synonymous with Calgro M3.

The Integrated Residential Development business experienced a challenging year, which resulted in lower than expected growth. Private sectors exposure was increased to enhance flexibility.

Adjusting its strategy to mitigate exposure to certain areas, is not unfamiliar to Calgro M3, which listed on the JSE in 2007 as a mid to high end cluster developer. During 2008, a decision was taken to enter the Integrated Residential Development space to diversify risk within the business. This shift within the business resulted in an increased focus on the affordable and lower end of the residential market with exposure to both public and private sector. In 2015, the Company entered into

the Memorial Parks business, which is primarily driven by cultural, rather than economic behaviour. In late 2016, it joined forces with strategic partner, SA Corporate Real Estate to build, what we believe is set to become one of the biggest, residential REIT's in South Africa in the coming five to six years with a planned asset base of R15 billion. This will yield annuity income to the Group in future which will stabilise "lumpy" cash flows generally associated with property development.

During the year, the focus of the Integrated Residential Development business, the anchor to the Group, was realigned with increased exposure to the private sector. Due to the housing shortfall in South Africa, as well as the rising middle class, demand for housing from the private sector expanded significantly. The Group has seen an increase of 31.5% in sales to the private sector compared to last year. With the addition of a residential portfolio, the Group is well diversified in the event of stringent economic and interest rate cycles.

We are still firmly committed to achieving our goal of an equal profit contribution from our three businesses, being Integrated Residential Developments (which includes Professional Services), Real Estate Investments and the Memorial Parks, over the medium to long term. Given the political and economic landscape in South Africa, the short-term goal will be to build each of these businesses responsibly, while remaining cautious of potential pitfalls.

### Investment in projects

As reported in the interim period, the emphasis this year was placed on ensuring the effective roll-out of the current project pipeline, rather than growing it. While we might not have added a lot of projects to the pipeline in the current year, we have



invested time in exploring new ground-breaking projects that will pave the way for future growth.

The Group does, however, remain cautious with respect to tying up too much capital in these long-term projects. Management has investigated various structures to acquire properties and projects without large upfront capital investment usually associated with a traditional outright purchase. These structures have been successfully employed in the current and prior years and have allowed management to reduce overall cash flow risk. These structures often include fixed deferred payments, which result in increased overall liabilities, but smooths the capital required over a longer period. An alternate structure which has been successfully incorporated, is one where the land availability consideration payable to the seller is calculated as a fixed percentage of revenue on a per-opportunity basis. This structure reduces capital requirements, gearing and overall risk of the project, while allowing the seller to share in the upside of any inflationary increases.

### Venture into Real Estate Investment Trust ("REIT")

On 16 August 2016, Calgro M3 in a joint announcement with SA Corporate Real Estate announced the formation of a REIT to service the residential rental market in South Africa. This partnership has the potential of growing into the largest residential REIT over the next five to six years which translates into a portfolio of between R10 billion to R15 billion. This venture allows Calgro M3 to assist Government in eradicating the housing backlog without having to take on additional public sector exposure. In the first phase of this new initiative, Afhco Calgro M3 (held 51% by SA Corporate and 49% by

Calgro M3) will acquire new units developed by Calgro M3 in Johannesburg and Cape Town for a total consideration of R1.6 billion. This business will in future supply the Group with consistent annuity income which reduces the overall cash flow risk due to the Developments business' traditional "lumpy" cash flows.

As the units relating to Phase 1 are still under construction, the REIT did not contribute to the Group's results for the current financial year. The commencement of construction has resulted in deposits being received by the Group, as well as the associated construction costs being incurred by the property development business.

### Calgro Information System ("CIS")

To support the Group's drive for greater efficiency, the Group is proud to announce that it is in the process of developing an in-house IT application, known as "Calgro Information System" ("CIS"), that will be developed and implemented over the next 18 to 24 months. This application will not only enhance the accuracy of data management, but also integrate project management, cost control and communication functions. This integration will increase productivity within the Group, without hampering the hands-on management style. CIS will be accompanied with additional capital and development cost as the project is rolled out.

### Integrated residential property developments

The Group currently have in excess of 7 000 units under construction. To manage risk and exposure, infrastructure installation during the 2017 financial year was contained to

## Incoming CEO and Financial Director's Report *(continued)*

5 239 opportunities. This results in the total number of available, serviced opportunities being in excess of 8 000. The Group will continue to prioritise the installation of new infrastructure in the 2018 financial year to ensure sustained growth in the future.

We are delighted to report that the Group was again fatality free, while growing both our employee and sub-contractor base.

This year the Witpoortjie project won the Gauteng Govan Mbeki award for the "Best Affordable Project". We are encouraged that our newer projects are being positively recognised along with our flagship project, Fleurhof. With 13 of our residential projects in the ground, ten of these projects contributed towards the Group's revenue. While Fleurhof made the single biggest contribution, our newer projects are starting to make a meaningful contribution to our financial results.

During the current year, the first two phases of the Witpoortjie and La Vie Nouvelle projects' infrastructure services were completed, along with the concurrent top structure construction and infrastructure installations in various phases on the South Hills, Fleurhof, Summerset, Jabulani Hostels, Jabulani CBD, Scottsdale, Belhar, Otjomuise (in Namibia) and Brandwag projects. Although the implementation of the Vista Park and Leratong projects are delayed, we are expecting to commence with the bulk infrastructure installation on both the Tanganani and Kwa Nobuhle projects before the 2018 financial year-end.

Government remains committed to the roll out of catalytic and mega housing projects with Calgro M3 being well positioned to benefit in this regard. The Group managed to create critical scale in the construction of units to the private sector through the development of the phase 1 units for the REIT. The larger construction volumes have enabled the Group to benefit from cost savings through volume discounts and enhanced negotiating power. It is not the intention for all private sector sales to be sold to the REIT. A minimum of 50% of the Group's private sector sales will remain focused on the open market.

The "Captain Calgro" marketing campaign is aimed at educating the market on the advantages of home ownership, as well as the pitfalls and associated financial implications. This, together with other marketing efforts, has resulted in an increase of more than 30% in open market sales. The positive effect of the campaign has already been evidenced by clients becoming more aware of their credit record and how to manage it, resulting in a general increase in the quality of sales being presented to the banks. We are, however, cautious that irrespective of this increased quality, the credit rating downgrade of the banks will impact the affordability of our clients.

### Professional Services

The Professional Services segment continued to add value to the turnkey business model. The turnkey model has been the backbone of the Calgro Group and was one of the key factors in establishing the REIT. The Group uses this model to create income generating assets at a more attractive yield, by reducing costs throughout the development phase. This segment primarily services the internal integrated residential property development business.

### Memorial Parks

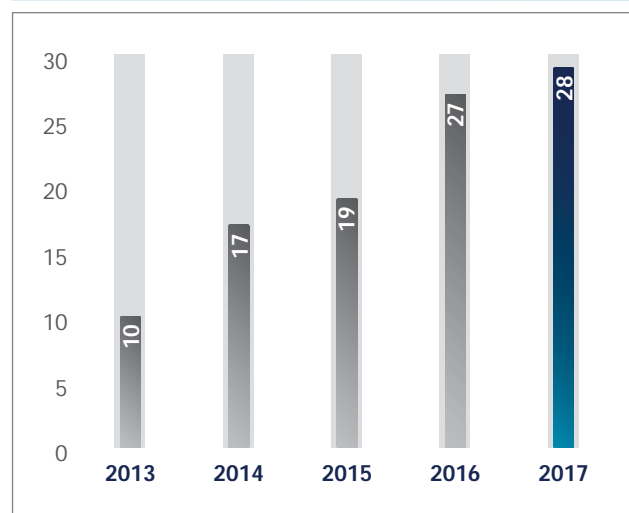
Memorial Parks continued to grow, making a profit for the 2017 financial year, with grave sales steadily increasing on a weekly basis. Management is positive that this business will begin making a more substantial contribution to profits in future financial years. A call centre concentrating primarily on sales is close to being established, and is expected to be operational by June 2017.

The acquisition of Fourways Memorial Park during the year enhanced our operating knowledge of the sector, assisting with unlocking and fast-tracking growth in this segment. The Group is planning to add two to three new memorial parks in the near future.

### Pipeline

Calgro M3 pipeline remains strong at R28 billion, with sufficient opportunities to ensure sustainability of the Group into the future.

Calgro M3 pipeline (R billion)



## Financial overview

R'000 (unless specified)	Percentage	2017	2016
Revenue	29.12	1 554 680	1 204 063
Group combined revenue including JVs	(13.23)	1 989 921	2 293 208
Operating profit	42.95	228 965	160 167
Gross profit (%)		21.49	20.89
Basic earnings per share (cents)	(12.90)	133.06	152.77
Fully diluted headline earnings per share (cents)	(5.72)	129.02	136.85
Return on equity (%)		18.36%	27.77%

## Statement of comprehensive income

The shift in focus towards the private sector has resulted in a temporary delay in combined revenue and profit as the Group does not start construction on any open market units unless they are sold. Although open market sales have increased by 31.5% year-on-year, the construction of most of these units only started on a staggered basis, from August 2016. The full impact of the increased sales numbers does therefore not reflect in the current revenue line; however, it is expected that the majority of this revenue will be reflected over the next six to twelve months.

A portion of the 29.12% increase in revenue to R1.6 billion is due to Fleurhof Ext 2 (Pty) Ltd being accounted for as a subsidiary of the Group and no longer as a joint venture. The effect of the consolidation is an increase in revenue, cost of sales and gross profit of the Group, as well as a decrease in share of profits from joint ventures and associates. The tax rate of the Group is impacted by this consolidation as the share of profits from joint ventures and associates is accounted for net of tax.

Combined revenue (revenue from subsidiaries, joint ventures and associates) provides a better indication of the operational growth, as the Group manages all operational matters for these entities. Combined revenue decreased by 13.23% during the year, evidencing the slowdown in operations, especially infrastructure expenditure that generally represents a large portion of revenue.

49% of the profit on the units constructed for the REIT (representing Calgro M3's shareholding in the REIT), is eliminated on consolidation and is regarded as an unrealised profit in the current year. This profit will only realise when the units are tenanted and revalued within the REIT. Although this did not have a material impact on revenue and profit in the current year, this is expected to become more material as the construction of the phase 1 units progresses.

### Growth in combined revenue and market capitalisation (R'000)



## Incoming CEO and Financial Director's Report *(continued)*

Revenue during the current year was further impacted by labour, contractor and community unrest at the Fleurhof, Jabulani and South Hills projects due to negotiations for increased labour rates outside the normal cycle as well as the increased use of local SMMEs. This delayed construction for a period of up to four months at some of the sites.

The gross margin has increased to 21.49% in the current year, and is still within the targeted band of 20% to 25%. The decrease in gross margin from the interim results is due to a combination of the transactions below and not because of increased infrastructure installation activity as would normally be the case:

- Increase in resources within the construction team, to enable the Group to roll out the expected volume of units over the medium-term has resulted in an increase in expenses;
- Reduced margins, compared to standard group margins, relating to the Jabulani CBD project as a result of the dissolution agreement of Aquarella Investments 265 (Pty) Ltd (a joint venture). Additional details on this transaction are outlined below; and
- Somerset bulk deal was agreed at a very low margin, coupled with a tight construction timeline. The decision to develop these 246 units at a reduced margin was based on a larger strategic decision for the Group. This transaction:
  - unlocked a strategic entry into KwaZulu-Natal (Bridge City project); and

- enabled the Group to liquidate part of its cluster land portfolio and utilise the funds to develop and fast track larger-scale integrated developments that will produce an increased yield.

Administrative expenses increased by 12.38% from the prior year to R118.1 million (2016: R105.1 million). This is mainly attributable to increased marketing and advertising expenditure. The increase in marketing costs is supported by an increased focus on open market sales and includes activities such as:

- Rebranding and marketing campaigns;
- Captain Calgro educational campaign;
- 24/7 call centre for marketing and after sales support;
- Increased Memorial Parks marketing and open days; and
- Establishment of an in-house marketing department to complement the existing sales department.

Finance income declined in the current year mainly due to the consolidation of Fleurhof into the Group. Total finance costs for the year increased by 9.62% to R65.2 million (2016: R59.4 million) in line with increases in borrowings and interest rates.

Basic earnings per share ("EPS") decreased by 12.90% to 133.06 cents per share (2016: 152.77 cps). Similarly, headline earnings per share ("HEPS") decreased by 4.23% to 133.08 cents per share (2016: 138.96 cps).

### Balance sheet position and the Group's liquidity

R'000 (unless specified)	Percentage %	2017	2016
Net asset value per share (cents)	23.78	798.35	645.00
Working capital invested in projects (inventories, construction contracts, work in progress and trade and other receivables)	35.92	2 259 725	1 662 506
Borrowings	6.16	571 646	538 463
Net debt to equity ratio (%)		41.82	59.30
Current ratio		1.79	2.00
Cash on hand	200.69	240 765	80 071

## Fourways Memorial Park acquisition

During the 2017 financial year, the Group acquired 100% of Fourways Memorial Park, for an undiscounted consideration of R22 million, payable over three years. Fair value of the identifiable assets acquired amounted to R19.7 million and resulted in an increase in investment property, inventory, property, plant and equipment and deferred revenue related to future maintenance activities. Goodwill amounting to R694 804 was recognised because of market expertise and relationships within the private memorial park sector which was acquired and will benefit the Group. Fourways Memorial Park has 13 103 burial sites remaining with an expected average sales price of R30 000 per grave.

## Aquarella Investments 265 (Pty) Ltd ("Aquarella")

Towards the end of the financial year, the Group entered into a dissolution agreement with the joint shareholders of Aquarella for no cash consideration. Assets and liabilities within the entity were allocated to the individual shareholders in order for each shareholder to achieve a suitable return on their investment. The Group obtained Jabulani Parcel C (to be developed for the REIT), Parcel A (to be developed for International Housing Solutions) and Parcel K (the contract with Gauteng Province is in the process of being finalised as an extension of the current successful Jabulani Hostels project) as well as a corresponding liability for the purchase of the properties. The liability will be settled through the construction of units.

## Inventories

During the year, the Group acquired:

- The Kwa Nobuhle property for a total undiscounted purchase price of R74 million;
- Jabulani Parcel K land as part of the Aquarella unbundling transaction for R115.8 million; and
- Fourways Memorial Parks for R22 million.

Both the Kwa Nobuhle and Fourways Memorial Parks acquisitions were purchased on deferred payment arrangements and have resulted in a corresponding increase in trade and other payables.

The development of the main frail care building as well as the construction of several individual units at La Vie Nouvelle resulted in an additional R21.9 million being invested at year-end. Pam Golding has been appointed to take over marketing and sales of the development with effect from 1 April 2017.

The inventory associated with the Summerset project has been transferred to construction work in progress due to the bulk deal finalised in the current year.

## Construction contracts

The R472.9 million increase in the carrying value of construction contracts to R1.3 billion at year-end is due to several key transactions throughout the financial year which include:

- Sectional title units at Fleurhof with a total sales consideration of R68 million (excluding VAT), which were complete at year-end but due to regulatory delays the registration was delayed to April and May 2017;
- Construction of the Summerset development amounting to R141.9 million was practically complete at year-end but only to be handed over in May 2017;
- Acquisition of Jabulani Parcel A and C as part of the Aquarella dissolution agreement;
- R130 million of construction on Fleurhof infrastructure and subsidised top structures that was only received after year-end;
- All units constructed for the REIT are undertaken on a turnkey basis.

## Cash flow, Cash and Cash Equivalents and Borrowings

With 13 active projects in the Group, cash flow management is vital. Hands-on cash flow management has resulted in cash and cash equivalents increasing significantly by 200.69% from the previous year. Net cash generated from operating activities increased to R238.2 million from R35.5 million in 2016. Net cash flow for the year increased to healthy levels, despite the Group making the final payment of R93 million for the purchase of Fleurhof Ext 2 (Pty) Ltd in the current year. The increased private sector construction adds pressure to the Group's working capital requirements, as in most cases the associated cash flow is only received by the Group once a completed unit is handed over to the client. With several cash positive projects, the Group was able to fund the purchase of Fleurhof Ext 2 (Pty) Ltd, as well as continue the construction of the open market units without increasing its borrowing requirements substantially.

The Group manages its finances through a central treasury function which is financed through debt instruments. The Group issued R239.8 million new instruments during the year and repaid instruments to the value of R206.9 million. The terms of the instruments currently in issue range from three months to five years. Calgro M3 has assessed many other financing alternatives and is satisfied that these debt instruments prove to be the most cost-effective solution for working capital requirements.

## Incoming CEO and Financial Director's Report *(continued)*

As property developers, we usually also disclose on "adjusted cash flows from operations" which considers certain "capital" items. The "capital" items referred to include any long-term investment in projects that will support growth in the future. Examples of these items would include land purchased as well as bulk or link infrastructure installed.

Total long-term investment in projects for the year amounted to R61.5 million, which decreased substantially from the R155 million invested in the prior year. This is primarily due to cash flow pressures from the Fleurhof acquisition, execution of the pipeline and increased private sector construction. The adjusted cash generated from operations is R353.6 million which consists of R292.1 million from the traditional calculation, plus capital investment added back of R61.5 million.

### Capital management

Cash generated from operations	R292.1 million
Total investment	R61.5 million
Adjusted cash generated from operations	R353.6 million

### Total investment

Witpoortjie	R4.3 million
La Vie Nouvelle	R21.9 million
Memorial Parks	R35.3 million

### Trade and other payables

Trade and other payables increased substantially by 147.29% to R847.7 million (2016: R342.8 million). This increase is associated to deposits received, totalling R287.5 million for the construction of the Summerset project and rental units for the REIT which will realise upon completion of these units. These will not result in future cash outflows.

The purchase of land in Kwa Nobuhle and Jabulani Parcel A, C and K, as well as Fourways Memorial Park on a deferred basis accounts for approximately R204 million of the increase from the prior year. The land purchases are repayable over the next four to five years.

### Dividends

Management believes that cash should be retained to fund growth within the Group, with a specific goal of assisting Government in the eradication of the housing backlog. Cash retention is important to ensure investment into future projects as well as reduced reliance on debt finance. The Board has

therefore resolved not to declare a dividend for this reporting period.

### Sustainability

A detailed Sustainability Report can be found on the Calgro M3 website [www.calgrom3.com](http://www.calgrom3.com). We would like to specifically make mention of our investment in Corporate Social Initiatives and Human Capital Development where we have a large educational and skills development focus (see the sustainability summary on [pages 62 to 65](#)). Our philosophy with respect to skills development and education is to equip our youth with the knowledge tools to ensure success in their lives. We are passionate about our investment being longlasting and effective for future generations. During the current year, we boosted our investment in social and enterprise development.

### Transformation and employment equity

Transformation and employment equity are areas of ongoing focus for Calgro M3, both from an industry and an internal



Group perspective. While it remains a challenging environment, due to the scarcity of skills available, notable progress was made throughout the year in terms of employment equity as reported on in the Sustainability Report. It has been immensely satisfying to see our people improve and grow; and our progress in this regard bodes well for the future.

Continued transformation will remain a priority and management has set high goals for the Group. Transformation is a standing point on both the Executive and Management Committee agendas.

### How we view our future

Given that this report was written as South Africa experiences a sovereign downgrade, it has made Calgro M3 strategically reassess the way the Group can assist those in need to buy homes. We believe that banks may possibly institute the call for upfront deposits. Even at levels as low as 10%, the typical Calgro M3 customer will not be able to fund such upfront payment. The Group is investigating various options in this regard to assist our customers in securing these deposits.

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

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

Calgro M3 believes that interest rates relating to new facilities will increase before the South African Reserve Bank officially increases interest rates because of the credit downgrade on the banks. We believe we are approaching a period where interest rates will come under pressure more than once and the effect will be felt by consumers applying for new finance as the banks' cost of capital increases with their respective downgrades.

The same applies to finance at a Group level. It will come down to the availability of capital and to a lesser extent the price. The Group will continue to look at local and international markets to secure additional long-term instruments, as well as renewing expiring facilities.

With construction and infrastructure currently being installed for nearly 7 000 homes, the Group is not only assisting with the eradication of the housing backlog, but also assisting with job creation. Various training and skills development programmes will be launched in the next six to twelve months that will support the upliftment of our people and will drive sustainability in the medium to long term.

## Incoming CEO and Financial Director's Report *(continued)*

What is, however, certain is that our business already looks different to six weeks ago and will continue to adapt according to risk. We believe the biggest risk mitigating strategy for our business is our team's hands-on approach and ability to quickly adapt. We believe our continued success will be determined by this, as well as our ability to make decisions under pressure and take calculated risks.

### Capacity and Talent in the Management Team

Managing the capacity of our management team is a key element to ensuring consistent delivery. This has been an area of focus in the last quarter and will continue to be so in the year ahead. We will also focus on aligning the capacity, skills and experience of our staff and workforce over the next 12 months to ensure we are well prepared for any challenges. Appointments are primarily focused on previously disadvantaged individuals, in line with the Group's transformation strategy.

### Appreciation

There is no doubt that the past year was a challenging one. The tenacity, commitment and hard work of our staff and senior management is appreciated even more in times such as

this. What we are exceptionally proud of, is that we continue to build a business from the heart, doing the right thing, and assisting Government in ensuring there are houses for the people of our country. Awards received during the year are dedicated to our staff, for the hard work and commitment shown over the years.

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



**Wikus Lategan**

*Incoming CEO*

12 May 2017



**Waldi Joubert**

*Financial Director*



### South Hills

South Hills is one of Calgro M3's latest developments situated towards the South of the Johannesburg CBD. All units in the development will have access to the gas reticulation network.

# 3

## Material Issues

## Material issues

Calgro M3 defines material issues as those with the potential to significantly affect the ability of the Group to deliver on our stated strategy, create value and ensure sustainability over the short, medium and long term.

In the identification of material issues, Calgro M3 considered the following:

Shareholders' expectations and concerns

Group's key strategies, policies and values

Relevant legal and regulatory requirements

Material Issue	Impact	Response	Cross reference on pages in full Sustainability Report
Skills shortages	<ul style="list-style-type: none"> <li>Skills shortages negatively impact effective, efficient operations</li> <li>Achievement of Black Economic Empowerment and transformation objectives</li> </ul>	<ul style="list-style-type: none"> <li>Skills development, subcontractor incubator programme</li> <li>Internal mentoring at management and executive levels</li> <li>We create relationships with professional companies capable of supporting our expansion and able to grow alongside the Group</li> <li>Human capital management policies ensure succession and availability of resources to facilitate Group growth</li> <li>Our target across the Group is to employ 50% of our on-site workforce from local communities with associated training</li> <li>Commitment to B-BBEE is demonstrated through the establishment of a B-BBEE Implementation Committee and engagement with external consultants</li> </ul>	28 to 31, 43 to 52
Energy	<ul style="list-style-type: none"> <li>Energy prices continue to rise, impacting development costs</li> <li>Higher energy prices impact affordability for residential clients</li> <li>Availability of power impacts productivity and lifestyle</li> </ul>	<ul style="list-style-type: none"> <li>Saving energy and reducing carbon footprint</li> <li>Use of alternative energy solutions supports the future sustainability of developments</li> <li>Design and construction of "green" buildings where design and build is based on energy efficiency and the structure is sound, and material waste and toxicity is reduced</li> <li>Real Estate Investment units EDGE compliant</li> <li>Challenge is the cost of going green vs price of home</li> </ul>	1, 15, 33

Industry and sector challenges



Macro-economic environment




Environmental impact

Material Issue	Impact	Response	Cross reference on pages in full Sustainability Report
Government awareness	<ul style="list-style-type: none"> <li>Acceptance of integrated housing model</li> </ul>	<ul style="list-style-type: none"> <li>Through relationship building, delivering on our partnerships with the public sector and proving the effectiveness of integrated development, we build awareness and acceptance</li> </ul>	4, 7, 8, 15
Community acceptance	<ul style="list-style-type: none"> <li>Strikes and activism can impact project delivery and profitability</li> <li>Community acceptance</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder engagement</li> <li>Ethical conduct</li> <li>Corporate social investment to strengthen ties with the community</li> <li>Community development</li> <li>Local skills and enterprise development programmes</li> <li>Actively encouraging community involvement</li> </ul>	4, 7, 15, 21 to 27, 43 to 52
Health and safety	<ul style="list-style-type: none"> <li>Ensuring a safe and healthy work environment</li> </ul>	<ul style="list-style-type: none"> <li>Enforce safety and health practices</li> <li>2017 was another fatality-free year</li> <li>Ensuring a safe work environment</li> <li>HIV/AIDS programme implemented to support non-discrimination</li> </ul>	8, 30, 36, 41, 45, 52
Changing social structures of the past	<ul style="list-style-type: none"> <li>Allowing communities from different social and economic backgrounds to live in harmony with one another in a pleasant environment</li> </ul>	<ul style="list-style-type: none"> <li>Social acceptance of the Calgro M3 integrated development is crucial to ensure:               <ul style="list-style-type: none"> <li>Race and class integration</li> <li>Build role model within the society</li> <li>Creation of aspiration homes and spaces in which communities can live, socialise and relax</li> </ul> </li> </ul>	43 to 52
Water	<ul style="list-style-type: none"> <li>Construction is a heavy user of water in a country where it is scarce. Costs can impact affordability and sustainability of developments</li> </ul>	<ul style="list-style-type: none"> <li>We are committed to implementing effective water conservation, harvesting and management systems wherever possible within developments</li> </ul>	1, 32, 33 to 35

## Management of risk

Calgro M3 classifies risks that could have a material impact on the Group into the categories of: Operations, Financial, Reputation and Strategic. The risks listed below are the top five risks identified and are grouped according to importance within the Group and include mitigation strategies.

Risk	Risk Category	Level of risk	Mitigation Strategies	Company Specific Actions
Macro environment and impact on projects	Operational, financial		<ul style="list-style-type: none"> <li>Regular consideration of current economic factors, demographics, legal, political and social conditions, technological changes and social conditions.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration of economic factors when pursuing new projects or extending current projects;</li> <li>Consideration of the financial means of communities to participate in projects and the social conditions relevant to these communities;</li> <li>Consideration of technological changes on a regular basis;</li> <li>Consideration of changes in legislation on a regular basis;</li> <li>Ensuring compliance with current and changing legislation; and</li> <li>Maintain relationships and a good open channel of communication with debt providers/stakeholders.</li> </ul>
B-BBEE Compliance	Strategic		<ul style="list-style-type: none"> <li>Focus on management appointments in line with demographic composition of South Africa</li> <li>Ownership and shareholding transformation actively investigated</li> <li>Active consideration in all material transactions to ensure maximum B-BBEE compliance on a Group and project level</li> </ul>	<ul style="list-style-type: none"> <li>Appointment of qualifying personnel on all levels in line with South Africa's demographic composition;</li> <li>Internal B-BBEE Committee established to implement and monitor initiatives to ensure compliance on all levels;</li> <li>B-BBEE targets are a standard meeting agenda item for Exco meetings;</li> <li>Engagement with B-BBEE consultant firm to provide guidance in all areas;</li> <li>Enhanced skills and enterprise development programmes from individuals to large contractors; and</li> <li>Establishment of B-BBEE trust to provide financial assistance to black beneficiaries for education in Calgro M3 developments.</li> </ul>

Risk	Risk Category	Level of risk	Mitigation Strategies	Company Specific Actions
Public vs Private sector exposure	Strategic, financial and reputational		<ul style="list-style-type: none"> <li>Manage exposure on a monthly basis</li> <li>Specific hands-on management by senior staff members</li> </ul>	<ul style="list-style-type: none"> <li>Regular monthly review of all exposures;</li> <li>Monitoring of cash flow; and</li> <li>Maintaining a neutral position with regards to political parties.</li> </ul>
Cash Flow/ Liquidity	Financial		<ul style="list-style-type: none"> <li>No dividend declared</li> <li>Opportunity cash retained on balance sheet</li> <li>Bond Exchange facility closely monitored to ensure covenants adhered to</li> <li>Centralised treasury function</li> <li>Optimal capital funding structure actively monitored</li> </ul>	<ul style="list-style-type: none"> <li>Single point strict cash flow control;</li> <li>Strict budgets and expense approvals;</li> <li>Capital expenditure planning by Exco and supported by Manco;</li> <li>Strategic decision to prioritise the implementation of existing projects rather than securing new projects to assist with capital requirements; and</li> <li>Project cash flows monitored monthly to identify and plan cash flow requirements.</li> </ul>
Retention of staff	Operational		<ul style="list-style-type: none"> <li>Market related or slightly above market related remuneration is paid to retain key personnel</li> </ul>	<ul style="list-style-type: none"> <li>Short term performance based incentive scheme implemented for senior/key personnel; and</li> <li>Executive and Employee Share Incentive Scheme.</li> </ul>

## History and accolades



The Company was formed *22 years ago* in 1995, when Calgro was established by Derek, Deon and Douw Steyn. From there the story develops...



Lists on *AltX Board* of the JSE

Group breaks ground on the *Fleurhof* integrated development



Group breaks ground on the *Brandwag* social housing project in Bloemfontein, the first project outside Gauteng  
*Opens office* in Western Cape

First agreement reached for *Kwa Nobuhle* project in Eastern Cape

*Completion* of the first phase of Jabulani hostel development

*Environmental approval* to proceed with South Hills development

*Jukskei View sold out*

*Installed infrastructure* on La Vie Nouvelle Retirement and Lifestyle Estate

Commenced *installation* of infrastructure on the Witpoortjie project aimed at the affordable housing market

Commenced *construction* on the newly acquired Sagewood project after completing the installation of infrastructure



2013/2014

Merit award from the Chartered Secretaries South Africa and the JSE Limited for "The Benchmark for Integrated Reporting"



*Awarded* the Otjomuise project in Namibia, signalling the Group's cautious expansion outside South Africa

*Awarded* second phase of the Jabulani Hostels project

*Commenced construction* on Witpoortjie project

*Broke ground* on South Hills development

Entered into *Joint Venture* with Esor to develop the Tanganani Ext 14 project

Enter into *development agreement* to develop the Vista Park project



2014

**Govan Mbeki Awards**

*Jabulani CBD project awarded:*

- Best Social Housing Project

*Fleurhof project awarded:*

- Informal Settlement Upgrade Project of the Year
- Best FLISP housing project of the year in Gauteng
- Best Housing Project of the Year
- Best National Housing Project



*Fleurhof acquisition*

*Commissioned and completed* Sagewood project

Calgro M3 enters Real Estate Investment market in *partnership* with SA Corporate Real Estate



Steyn brothers *join forces* with the Malherbe brothers to take on a residential development in Gauteng – *Calgro M3 Developments is born*

Embarks on *first integrated residential project* – Pennyville Ext 1

Pennyville Integrated Residential Project *completed*  
*Secured* Jabulani CBD project  
*Awarded* Jabulani hostels redevelopment first phase

Lists on *JSE Main Board*  
Secures *second project* in Western Cape – Belhar

2013

Fleurhof project awarded project of the year by the South African Housing Foundation



Venture into Memorial Parks to effectively utilise land not suitable for property developments and to *secure an annuity income stream*

2015

**Govan Mbeki Awards**

*Fleurhof project awarded:*

- Best FLISP Project of the Year
- Best Social Housing Project of the Year
- Best Integrated Project of the Year
- Best Integrated Project of the Year

Named SA's best performing stock over five years by Bloombergs

November 2017 marks a decade of Calgro M3 as a listed company



2016

Named Company of the Year by Financial Mail

Top performing company at the Sunday Times Top 100 annual awards

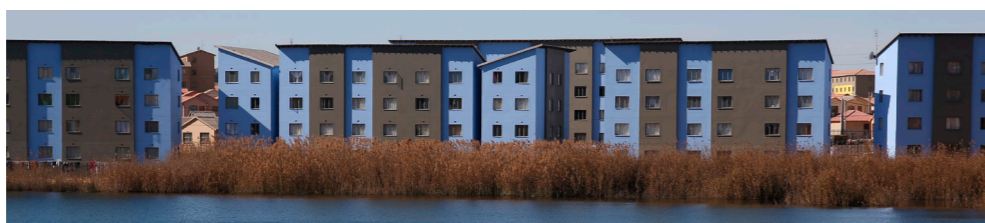
Witpoortjie project awarded (Govan Mbeki Awards): Best FLISP Project of the Year



**CALGRO M3**  
Developments



JSE



## Values, vision and mission



### Strategic implementation

We are committed to high quality outcomes across all phases of our projects – from concept to implementation. We strive to continuously raise the bar, applying what we learn on every project to improve the next and build a culture of achievement.



### Presence and quality

Calgro M3 is a market leader in integrated development, providing innovative solutions in all aspects of property development and associated professional services.

Calgro M3 ventured into the Memorial Parks industry.

Our leading brands are entrenched.



### Our environment

We are aware of our impact on the environment and strive to minimise our impact in every development. We invest in eco-friendly energy and water solutions, rehabilitate disturbed land and support long-term environmental stewardship.



### Relationships/Partnerships

We strive to be engaged and responsive, strengthening our business networks and our relationships with stakeholders.



### People

We strive to create a working environment that is non-discriminatory, safe and healthy, respectful of human dignity and fully supportive of human rights. We embrace transformation and diversity. We respect the rights and needs, and actively support the interests of the communities on whom our developments may have a direct or indirect impact.



### Securing shareholder wealth through profitable growth

We are committed to stable growth and creating value for our business and our stakeholders. Management has built solid foundations by successfully implementing growth strategies in various market segments.

We continue to expand into new markets.

# Vision

*Building legacies and changing lives by delivering quality products throughout selected markets within the property sector and service of the highest standards.*

# Mission

Calgro M3 is committed to:



*Delivery of quality products and service of the highest standards*



*Realising sustainable returns for our shareholders*



*Advocating Broad-Based Black Economic Empowerment*



*Creating sustainable employment opportunities*

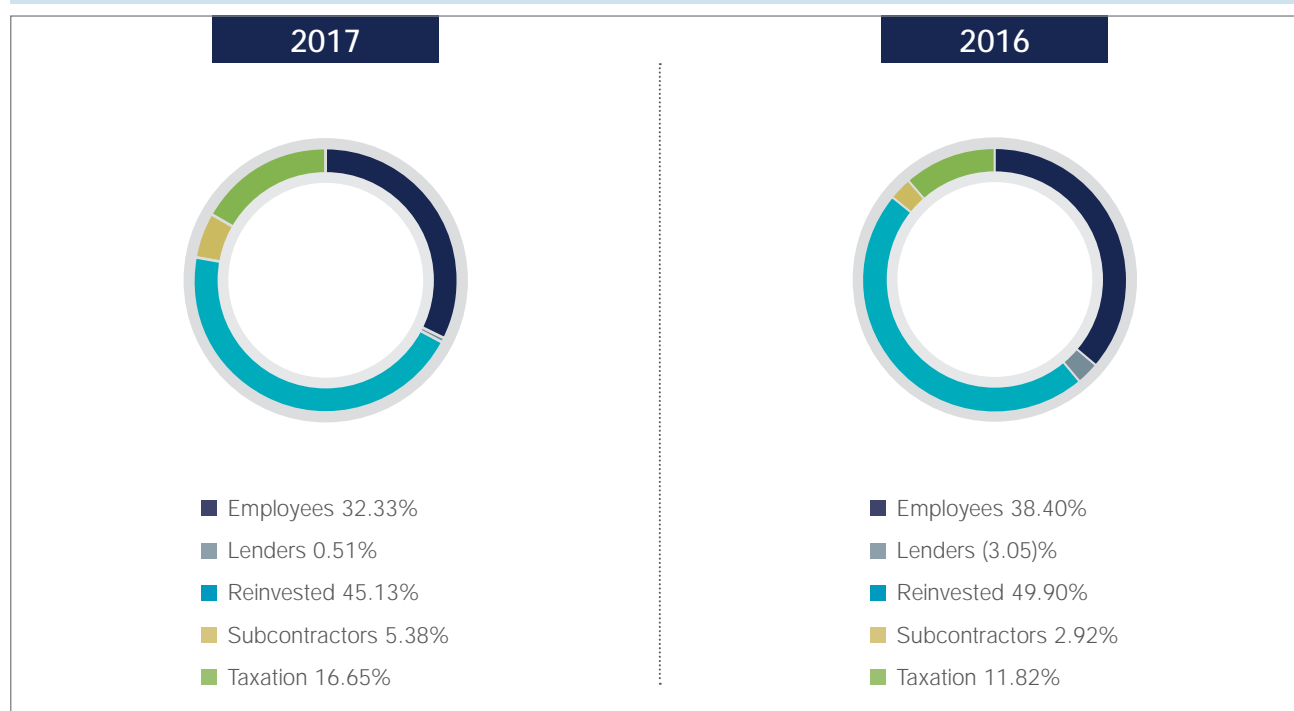


*Developing mutually beneficial relationships with all stakeholders*

## Group value added statement

	2017	2016	2015	2014	2013
Revenue	1 554 679 657	1 204 063 379	932 204 729	784 942 989	798 394 052
Less: Cost of materials, facilities and services	(1 198 172 735)	(900 892 036)	(754 318 891)	(605 938 240)	(572 554 493)
<b>Value added</b>	<b>356 506 922</b>	<b>303 171 343</b>	<b>177 885 838</b>	<b>179 004 749</b>	<b>225 839 559</b>
Other income	16 599 999	19 465 682	8 520 994	1 792 524	1 264 531
Share of profit on joint ventures	6 269 280	67 233 693	86 826 674	66 161 456	29 405 992
<b>Total wealth created</b>	<b>379 376 201</b>	<b>389 870 718</b>	<b>273 233 506</b>	<b>246 958 729</b>	<b>256 510 082</b>
Distributed to					
Employees – salaries, wages and other benefits	122 654 097	149 699 004	90 283 593	63 984 709	75 946 240
Subcontractors – labour only	20 408 293	11 400 118	10 660 461	61 597 783	59 103 170
Government – company taxation	63 176 484	46 090 117	22 519 972	9 519 342	25 936 739
Net finance (income)/costs	1 924 616	(11 874 468)	2 478 797	3 797 429	1 539 468
Maintain and expand the Group					
– Profits retained	170 132 841	193 184 722	145 629 072	105 695 319	91 303 538
– Depreciation, amortisation and impairment	1 079 869	1 371 225	1 661 611	2 364 147	2 680 927
<b>Total wealth distributed</b>	<b>379 376 200</b>	<b>389 870 718</b>	<b>273 233 506</b>	<b>246 958 729</b>	<b>256 510 082</b>

### Distribution of wealth





## Scottsdene

Scottsdene (a **2 897** unit development) is a Public Private Partnership with the City of Cape Town, situated in Kraaifontein. **902** units are currently under construction with a further **317** remaining to completion of the project.

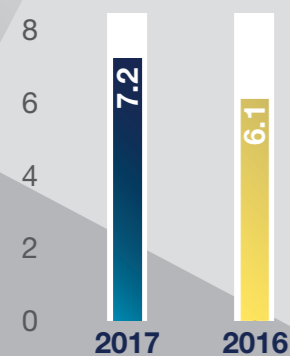
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# Sustainability and Governance

## Abridged sustainability report

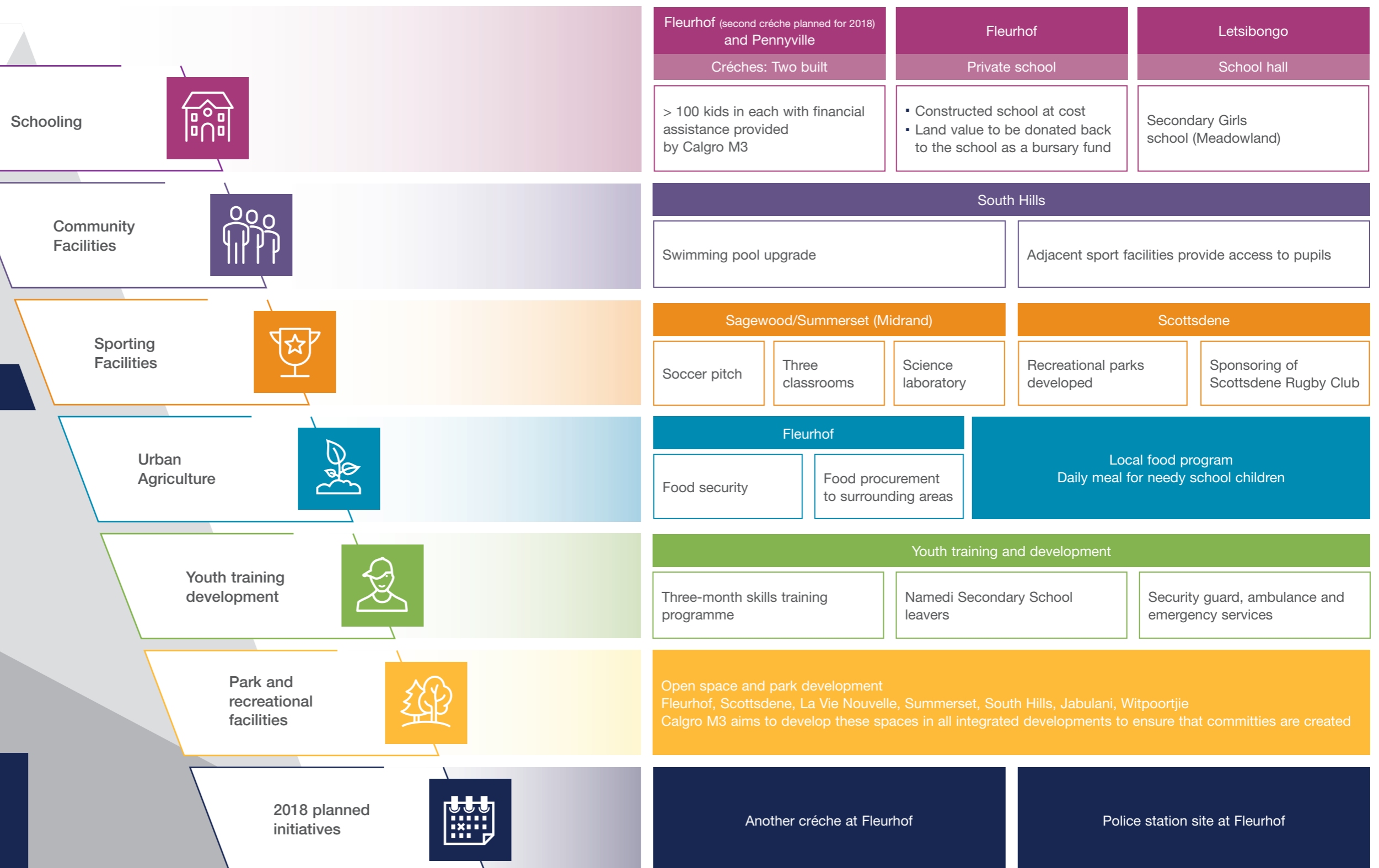


### CSI



### CSI spend

2017	2016
R7,2 million	R6,1 million



Home and stand donation in Witpoortjie to a mother and her son who requires daily dialysis as a result of a kidney illness. In conjunction with Hot 91.9 (fm) and other donors.

## Abridged sustainability report *(continued)*

### Mentorship Programmes and Learnerships

#### CIMA programme in second year

##### Successes:



*Quality Training Partnership Certificate*



*First mentee qualified as Chartered Management Accountant*

#### Internship Programme

##### Successes:



*Urban and Regional Planning*



*Introduced in 2015*



*Currently two students*

#### Skills Development



*Environmental Management*



*Health and Safety Training*



*Construction Vehicle/Mobile Plan Operator*



*Management mentorship programme commenced*

#### South Hills

- 200 learners
- 50 SMMEs
- CETA Accredited training

#### Jabulani

- Bricklaying apprenticeships
- Construction training

#### Consumer training and financial awareness

Captain Calgro – education mascot conveying information and responsibility of owning a home and being a responsible home owner

## Environment



### Preservation and restoration of heritage sites

#### Energy

Reduced electricity requirement from 3,5 kVA to  $\pm$  1,5 kVA – saving of > 50% on electricity consumption

Adoption of green building principles

Heat pumps	Induction geysers	Solar geysers	Gas
<ul style="list-style-type: none"> <li>2 666 units equipped</li> <li>40% to 50% saving</li> </ul>	<ul style="list-style-type: none"> <li>244 units equipped</li> <li>25% to 35 electrical consumption/unit</li> </ul>	<ul style="list-style-type: none"> <li>130 units equipped</li> <li>346 units to be equipped in 2018</li> </ul>	<ul style="list-style-type: none"> <li>Eight developments make use of internal gas reticulation serviced from centrally positioned gas banks</li> </ul>

#### Green spaces

On average, Calgro provides 380% > green spaces than legally required

#### Water

Rain water harvesting at La Vie Nouvelle, Summerset and all 3 852 units constructed for rental investment

Wetland rehabilitation and all 3 852 units investment conservation

Biodiversity

**24 hour Ethics hotline** No material matters reported

## Human Capital Development

89% of additional staff employed are from previously disadvantaged groups

75% of internal skills development spent on black employees

71% of total Group spend is dedicated to black business to support Enterprise Development

18-month Mentorship Programmes in place to selected SMMEs from Local Labour Desks

R166 million spent on procuring from businesses that are >50% black-owned

R267 million spent with small and medium sized businesses

## Corporate governance report

### Corporate Governance

*The Company remains committed to sound corporate governance, sustainability principles and compliance with the JSE Listings Requirements and the King III Report on Corporate Governance ("King III").*

The Board of Directors ("the Board") believes that sound corporate governance structures and processes are crucial to delivering responsible and sustained growth of the Company for the benefit of all stakeholders. The Company has implemented controls to provide reasonable assurance of its compliance with these requirements, insofar as they are applicable. Transparency,

accountability and openness in reporting and disclosure of information, both operational and financial, are vital to the practice of good corporate governance. Achieving these objectives demonstrates the Group's commitment to good corporate governance and that it conducts its business within acceptable ethical standards.

### Corporate Governance Structure

The Group is committed to transparency in its communication and reporting and manages the business along the lines of best practice principles.



### Statement of Compliance

#### JSE Limited and King III Corporate Governance

The Board has acquainted itself with the extent to which the Company complies with the JSE Listings Requirements and King III. Any instances of partial or non-compliance with the application of the 75 Corporate Governance Principles as recommended in the King III Report are disclosed in the Gap Analysis on [page 81](#).

Shareholders are referred to the Calgro M3 [website](#) [www.calgrom3.com](http://www.calgrom3.com) for a detailed analysis of the application of the 75 Corporate Governance Principles as recommended in the King III Report.

In addition to the above Corporate Governance reporting, the Integrated Annual Report also contains comprehensive reporting which is in line with the Global Reporting Initiatives ("GRI") (refer to the Company [website](#) [www.calgrom3.com](http://www.calgrom3.com)).

The Board is satisfied that there have been no material instances of non-compliance with King III or the JSE Listings Requirements during the year.

### Board of Directors

As detailed in its charter, the Board's objective is to provide responsible business leadership to the Group, acting with leadership and integrity in the execution of its duties with due regard to the interest of all stakeholders. The Board is the

highest governing body and ultimate guardian of Corporate Governance.

### Responsibilities of the Board

Key responsibilities of the Board include:

- Approve corporate strategy, including business plans and budgets and bring independent, informed and effective judgement and leadership on material decisions of the Group;
- Monitor management's implementation of the approved strategies;
- Oversight of the Group's systems of internal control, governance, risk management and information technology;
- Approve major acquisitions, disposals and corporate actions;
- Guide Group values, including being a responsible corporate citizen and principles of ethical business practice;
- Ensure the mandate of transformation is upheld by the Group;
- Appointment of the Chairman and Chief Executive Officer, nomination of Directors and review of Directors' and Senior Management's remuneration, appointments and succession plan;
- Approval of the authorities assigned to the Board, its committees and management;
- Ensure disputes are resolved as effectively, efficiently and expeditiously as possible; and
- Monitoring the relationship between management and stakeholders of the Company.

The quorum for Board meetings is 60% of the Directors.

The Board is supplied with all relevant information and has unrestricted access to the management of the Group and all Group information, which enables the Directors to adequately discharge their responsibilities. Full and effective control over all operations of the Company is retained by the Board at all times.

All Directors and Board Committees have full access to the Company Secretary and may, if deemed necessary and in appropriate circumstances, take independent professional advice at the Company's expense.

Directors' declarations of interests are tabled annually and additional or amended declarations of interests are circulated at every Board meeting.

Through recently concluded appraisals, the Board and its committees were found to have operated and functioned effectively during the period.

### Board Composition

The Board operates as a unitary Board comprising five Executive Directors, one Non-Executive Director and six Independent Non-Executive Directors. The Board Chairperson is an Independent Non-Executive Director. The Board also has a Lead

Independent Non-Executive Director to support independence on Board decisions as well as offers support and guidance to executive directors.

In accordance with the King III recommendations, the roles of Chairperson and CEO are separate, with a clear division of roles and responsibilities defined in the Board Charter.

The Board reviews its composition and determines the optimal number and type of Directors necessary to fulfil the role of the Board of Directors effectively and efficiently, on an annual basis.

Board members with the necessary experience and expertise are asked to join the Board and in this way their skills set is used appropriately.

### Independent Non-Executive Directors

All Independent Non-Executive Directors have been reassessed for independence.

### Appointment and Re-election of Directors

Directors, both Executive and Non-Executive, are appointed for their skill and experience. In accordance with the Calgro M3 Memorandum of Incorporation, one third of Non-Executive Directors are subject to rotational retirement every year and re-elected by shareholders at the annual general meeting.

On the recommendation of the Nomination Committee, the Board as a whole is responsible for approving directors for appointment. New Directors are appointed in terms of a formal and transparent procedure. Prospective appointees are nominated by the Nomination Committee with the nomination being approved by the Board and the appointment being made by shareholders at the annual general meeting.

### Induction of New Directors

Individual competence of Board members is imperative as they are the decision-makers of the Group and are ultimately responsible for its success.

The governance of Calgro M3 requires that Directors have a sound understanding of the business and knowledge of the markets in which the Group operates, and must exercise due care and skill in their fiduciary duties. The selection of Directors is based on their experience, business skills, the diversity of their business backgrounds and their academic qualifications. Race and gender also play an important role in the appointment of Directors to ensure that the composition of the Board is in line with the demographics of South Africa.

An informal orientation programme for new Directors is in place to ensure they acquire the requisite level of competence and knowledge of the Group's structure, operations and policies to enable them to fulfil their fiduciary duties and responsibilities.

## Corporate governance report *(continued)*

### Register of attendance for Board meetings in the period under review

Board members' attendance register

Board meetings	24 February 2016	10 May 2016	26 July 2016	13 October 2016	13 February 2017
Pumla Radebe	P	P	P	P	P
Ralph Patmore	P	P	P	P	P
Mdu Gama	P	P	P	P	P
Hatla Ntene	P	P	P	P	P
Hugh Cameron	P	P	P	P	P
Ben Pierre Malherbe	P	P	P	P	P
Wikus Lategan	P	P	P	P	P
Venete Klein	P	P	P	P	P
Waldi Joubert	P	P	P	P	P
Wayne Williams	P	P	P	P	P
Derek Steyn	P	P	P	P	P
Tumi April	n/a	n/a	*	*	*
<b>Sponsor</b>					
Grindrod Bank	P	P	P	P	P

Audit and Risk Committee	23 February 2016	5 May 2016	11 October 2016	9 February 2017
Hugh Cameron	P	P	P	P
Ralph Patmore	P	P	P	P
Mdu Gama	P	P	P	P
<b>By invitation</b>				
Ben Pierre Malherbe	O	P	P	P
Wikus Lategan	P	P	P	P
Waldi Joubert	P	P	P	P
Tumi April	n/a	n/a	*	*
<b>Sponsor</b>				
Grindrod Bank	P	P	P	P
<b>Auditor</b>				
PwC	P	P	P	P
<b>Internal audit</b>				
Sizwe Ntsaluba	P	P	P	P

Remuneration Committee	26 April 2016	20 July 2016
Pumla Radebe	P	P
Ralph Patmore	P	P
Mdu Gama	O	n/a
Venete Klein	n/a	P
<b>Attends sections of meeting by invitation</b>		
Ben Pierre Malherbe	P	P
Wikus Lategan	P	P

\* Attendance as Company Secretary.

P Attended.

O Apology.

Social and Ethics Committee	23 February 2016	20 July 2016	11 October 2016	1 February 2017
Mdu Gama	P	P	P	P
Ben Pierre Malherbe	P	P	P	P
Hatla Ntene	P	O	P	P
Wikus Lategan	P	P	P	P
Wayne Williams	P	P	P	P
Tumi April	n/a	n/a	*	*
<b>By invitation</b>				
Veriksha Baijoo	P	P	P	P
Zelna van der Walt	P	P	P	O

\* Attendance as Company Secretary.

P Attended.

O Apology.

## Independence

In accordance with the Companies Act No. 71 of 2008 ("the Act") and the guidelines of King III, the independence of Non-Executive Directors is evaluated by the Remuneration and Nomination Committee and reviewed by the Board on an annual basis. Similar principles and processes are in place to ensure that no single director may exercise unfettered decision-making powers.

Where the CEO is responsible for the implementation of strategic direction and daily operation of the Company, the Board provides guidance and leadership, and oversees its efficient operation. The CEO is assisted in his responsibilities by an Executive Committee ("Exco").

## Assessment of the Board

The Board of Directors analyses and evaluates its effectiveness in line with the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance.

The analysis and evaluation of the effectiveness of the Board of Directors was conducted in the form of a questionnaire that is based on the principles and practice recommendations contained in the King III Report. The questionnaire was completed by the Directors and the results of the evaluation were reported at the meeting of the Board of Directors.

On the basis of results gained in performing the analysis and evaluation, the Board of Directors concluded that the Board is appropriately and effectively fulfilling its role and responsibilities.

High ratings were given for the manner in which the Board established high ethical standards to which members of the Board are committed and ensuring that management is held to those standards. Actions and decisions of the Board take into

consideration short and long-term impacts of the Group's business on all its stakeholders. High ratings were further given for the manner in which the Board ensures that proper attention is paid to compliance with laws and regulations, as well as other rules, standards and codes adopted by the Group and the fact that opportunities are given to all members of the Board to raise issues.

The results of the analysis and evaluation also highlighted issues that will have to be addressed in order to ensure that the Board of Directors is more effective.

## The Executive Committee ("Exco")

Exco is responsible for the day to day running of the Group and is comprised of the Executive Directors. The CEO is the head of Exco which is, in turn, accountable to the Board for the actions and decisions taken by Exco.

Exco's initiatives and progress are reported to the Board via Board packs made available in advance of the Board meetings or whenever deemed appropriate or necessary. Exco meets regularly at set intervals, but also holds ad hoc meetings as required.

## Board Committees

The Board has delegated, through formal terms of reference, specific matters to several committees whose members and chairman are appointed by the Board.

There is full disclosure of matters handled by the committees to the Board. The committees play an important role in enhancing high standards of governance and achieving increased effectiveness within the Group. The Board has a Remuneration and Nomination Committee, an Audit and Risk Committee and a Social and Ethics Committee.

## Corporate governance report *(continued)*

### Remuneration and Nomination Committee

The main purpose of the Remuneration Committee is to ensure the adoption of remuneration policies within the Group which aim at attracting and retaining top talent and the aligning of such policies with the Group's strategy to drive performance in the long and short term.

The Remuneration Committee is chaired by Ralph Patmore. This Committee also fulfils the role of Nomination Committee (chaired by Pumla Radebe), having the responsibility to evaluate the Directors and examine the skills and characteristics required of these people. The Nomination Committee is also required to identify suitably qualified candidates for the position of Director, when the need arises as well as ensure that appropriate succession planning is performed. The Nomination Committee considers gender diversity of Directors when determining the composition of the board as well as any new appointments. The committee considers compliance with the gender diversity requirements in its terms of reference with each new appointment and termination and is in the process of developing a separate Group policy to further enhance this process. Any matter of the Nomination Committee is chaired by the Chairman of the Board. Although the Chairman of the Board is not the Chairman of the Remuneration Committee, the Chairman of the Board is an active member. It is the duty of this Committee to align its interests with those of the shareholders and consider the interests of the material broader grouping of stakeholders. The integration of the duties of a Nomination Committee with that of the Remuneration Committee has proved to be successful.

The Committee's terms of reference include the following responsibilities:

Assisting the Board from a Remuneration Committee perspective with:

- Approval of the Group's adopted remuneration policy;
- Ensuring that the remuneration strategy is market related and competitive;
- Ensuring that remuneration for executives, including their short- and long-term incentives, is based on performance and as such, that performance is measured and rewarded;
- Determining specific remuneration packages for senior executives of the Group;
- Considering the relationship between senior executive remuneration and that of other senior Group employees;
- Considering and recommending Non-Executive Directors' fees for their services on the Board and its committees;

- Ensuring that disclosure of Directors' remuneration is accurate, complete and transparent and in line with shareholder expectations;
- Approving the structure of short-term incentive schemes, including determining the targets and participation thresholds thereof; and
- Approving the structure of long-term share incentive schemes, including the determination of allocation criteria and performance conditions.

Assisting the Board from a Nomination Committee perspective with:

- Ensuring the Board has an appropriate composition to execute its duties effectively;
- Ensuring Directors are appointed through a formal process;
- Facilitating induction and ongoing Director training and development; and
- Overseeing the development of formal succession plans for the Board, CEO and Senior Management.

The Committee meets twice a year. The CEO attends the meetings by invitation but does not participate in discussions on his own remuneration. The Committee Chairman reports back to the Board on the activities of the Committee at subsequent Board meetings and the minutes of the Committee meetings are circulated to all Directors. During the year, the Committee approved senior appointments, retirement of members, reviewed succession plans and the performance and service agreements of the Exco members. The Committee also assesses the independence of each of the Independent Non-Executive Directors on an annual basis.

### Service Contracts

Executive Directors are appointed on the Group's standard terms and conditions of employment.


### The Audit and Risk Committee

The Committee is chaired by Hugh Cameron, an Independent Non-Executive Director. In accordance with statutory requirements, other members of this Committee are all Independent Non-Executive members. In addition to Committee members, the CEO, FD, internal auditors, external auditors and sponsor attend meetings by invitation.

Overall objectives of this Committee are to ensure:

- Adequate systems of accounting records, effective financial reporting and internal control systems are in place and fully functional;
- Oversight for the Integrated Annual Report, financial results and monitoring of sustainability reporting;

- Recommendations to the Board and shareholders on the appointment of external auditors;
- Review of findings and recommendations of internal and external auditors;
- Evaluation expertise and experience of the Financial Director and the overall finance function;
- Monitoring any non-audit services rendered by external auditors;
- That significant business, financial and other risks are identified and mitigated against;
- The review of the total risk management and procedure, including the effectiveness of systems and processes;
- Satisfactory standards of governance, reporting and compliance in conformance to King III guidelines, the Companies Act and the JSE Listings Requirements; and
- Group assets are safeguarded.

The full Audit and Risk Committee report is included on  pages 85 to 88 of the Annual Financial Statements.

### The Social and Ethics Committee

The responsibilities of the Committee are set out in a written terms of reference, which are reviewed periodically and include monitoring the Company's activities considering relevant legislation, regulatory requirements, best practice and codes. The members of this Committee are appointed by the Board. Mdu Gama serves as Chairperson and is an Independent Non-Executive Director. A quorum for this Committee is two members of which one needs to be the Chairperson or another Independent Non-Executive Director attending the meeting on his behalf.

The Social and Ethics Committee's key responsibilities are:

- Align the Group's Social and Ethics strategy with its overall business strategy;
- Recommend to the Board the strategies and policies to ensure the Group's Social and Ethics targets are achieved;
- Monitor the implementation and efficiency of Employment Equity;



## Corporate governance report *(continued)*

- Monitor activities relevant to social and economic development, good corporate citizenship, environment, health and safety and consumer relationships;
- Review policies and statements on ethical standards and on whistle-blowing; and
- Monitor B-BBEE progress within the Group to ensure compliance in all areas.

### Company Secretary

The Board is satisfied that the Company Secretary is appropriately qualified, competent and experienced for her position in a listed company. The Company Secretary plays a pivotal role in the continuing effectiveness of the Board, ensuring that all Directors have full and timely access to information that helps them to perform their duties and obligations, and enables the Board to function effectively.

The Company Secretary's key duties regarding the Directors include, but are not limited to, the following:

- Collating and distributing relevant information, such as Board meeting agenda items, board/committee meeting papers, corporate announcements, SENS and any other developments affecting the Group from a regulatory perspective;
- Monitoring the legal and regulatory environment and communicating new legislation and any changes to existing legislation and governance to the Board;
- Providing guidance to the Directors on their individual and collective powers and duties;
- Assisting the Chairperson and CEO with the induction of new Directors together with the Company's sponsor, in this case Grindrod Bank Limited. This includes a briefing of their fiduciary and statutory duties and responsibilities, including those arising from the JSE Listings Requirements;
- The Company Secretary is responsible for the functions specified in section 88 of the Companies Act, 2008 (as amended). All official meetings of shareholders (AGM), Directors and Board Committees are properly recorded as per the requirements of the Act.

The Company Secretary is not a director of any of the Group operations, nor is she related to or connected with any of the Directors which could result in a conflict of interest and accordingly it is concluded that an arm's length relationship with the Board and its Directors is maintained. The Company Secretary reports to the Chairperson and has a direct channel of communication to the Chief Executive Officer and to the Financial Director. The removal of the Company Secretary would be a matter for the Board as a whole.

Based on a formal assessment, which included review of the group company secretary's qualifications, experience and demonstration of competence in execution of the abovementioned functions, the board is of the opinion that Itumeleng April, the group company secretary, possesses the requisite competence, qualifications and experience and has confirmed that she is suitably qualified, competent and experienced to hold the position of group company secretary. She is a qualified attorney with ten years' experience in commercial and company law, and five years' company secretarial experience. The academic and professional qualifications of the group company secretary were externally verified prior to her appointment.


### Shareholder Engagement

Transparent communication and engagement with stakeholders is vital to ensure that the principles on stakeholder management expressed in the King III Code is adopted. The Group regularly communicates its strategy, performance and vision to shareholders through presentations delivered during results roadshows. Management regularly meets with investors and shareholders in one-on-one meetings on request. The CEO and FD with the assistance of an external investor relations consultant are tasked to be the spokespersons in the above instances.

It is the policy of the Group to pursue regular dialogue with institutional investors, engaging constructively within the frameworks provided by statutory and regulatory environments regarding the dissemination of information. This helps ensure a fair and accurate representation and valuation of the Company and its performance. Grindrod Bank Limited acts as the Company's sponsor in compliance with the JSE Listings Requirements.

The Company's Annual General Meeting provides an important platform for engagement with shareholders and offers them the opportunity to participate in discussions relating to the Group.

### Sustainability

The Group's sustainability information (contained in the Full Sustainability Report on the Company's  website [www.calgrom3.com](http://www.calgrom3.com)) details Calgro M3's overall strategy and approach for themes such as transformation and B-BBEE, employment equity, skills transfer, training and development, succession planning, occupational health and safety, environmental matters, policies regarding HIV and Aids and other human rights issues.

## Access to Information

Policies and procedures have been implemented to ensure the Board has access to the relevant information as well as engagement with senior management at all reasonable times. Directors are expected to treat all Company information as strictly confidential and to comply with the provisions of the statutes applicable to the use of Company information.

## Dealings in Securities

No director, officer or employee may deal either directly or indirectly in the Company's shares based on unpublished price-sensitive information. In addition, no director, officer or employee in possession of price-sensitive information may trade in the Company's shares during closed periods. Closed periods are from the end of the interim and annual reporting periods to the announcement of financial and operating results for the respective periods, and while the Company is under a cautionary announcement.

Before dealing in Calgro M3 shares, all Directors and the Directors of subsidiary companies are required to obtain written clearance from the CEO or the Chairperson. Similarly, the CEO requires prior clearance from the Chairperson or Financial Director. The same rules and restraints apply where securities are held by immediate family members of Directors or senior staff.

The Company Secretary keeps record of all consents and dealings in Calgro M3 shares by Directors.

## Conflict of Interest

The disclosure to the Board of all and any conflicts of interest or potential conflicts of interest which Directors may have in relation to the business of the Company is required. Directors are further required to recuse themselves from discussions or decisions on those matters where conflicts or potential conflicts of interest may exist. The Board may, if deemed appropriate, request a Director to recuse himself/herself from the meeting for the duration of the matter under discussion should there be a conflict or potential conflict of interest.

## IT Governance Report

Information Technology ("IT") at Calgro M3 is a strategic tool that facilitates the successful implementation of the Group's strategy and sustainable business performance. The IT charter is based on the principles of IT governance as described in

King III, and guides the Board in discharging its IT responsibilities. The Board is responsible for IT governance and is ultimately responsible for ensuring information and IT strategies are aligned with business strategies. The Audit and Risk Committee assists the Board in carrying out these responsibilities. An IT governance framework and reporting system provides the Board with assurance that the IT strategy, procedures and controls within the business reduce IT risk, including information security, to an acceptable level. EOH Holdings Limited, as external advisors, assist with ensuring that measures are put in place to ensure the security of IT.

The Board is satisfied that, based on reports received from this committee, an appropriate IT governance framework exists and is effectively monitored and functioning.

## Legal Matters and Litigation

To the best of the Board's knowledge there is no material pending or threatening legal action that may have a material effect on the Group's financial and non-financial position.

## Code of Ethics

The Group's Code of Ethics outlines the conduct that is required from all Directors and Employees. The Code requires of everyone in the Group to be committed to fair dealing, honesty and integrity. The Code of Ethics has been actively endorsed by management and forms part of the induction process of all employees. It assists with:

- Distinguish between acceptable and unacceptable practices;
- Provides a comprehensive set of ethical corporate standards;
- Encourages ethical behaviour by the Board, management and the employees across the Group;
- Guides ethical decision making; and
- Assist in the resolution of conflicts.

## Whistle Blowing

The Group has established an anonymous reporting function (Tip-offs Anonymous line) that enables employees to report any fraudulent, corrupt or unethical practices.

Contact details are as follows:

**Toll-free:** 0800 204 837

**Email:** calgrom3@tip-offs.com


**Website:** www.tip-offs.com

During the period under review there were no material matters reported on the whistle blowing hotline.

# Risk Management

## Introduction

Effective risk management processes and procedures are vital for the Group to achieve its strategic and operational goals, particularly in the current environment of change and uncertainty. The Board recognises that risk is intrinsic to the Group's operations. There is however a balance to be struck between managing risk and exploiting opportunities.

Refer to  pages 54 to 55 for a register for the five key risks identified by the Group.

## Risk management process

The Board assesses the Group's operational and strategic business risks with a view to eliminating, minimising or mitigating such risks and their effects on the Group's strategies and operations. Exco is responsible for managing risk through the day-to-day roll-out of effective risk management processes.

The Board defines acceptable risk tolerance levels and has tasked the Audit and Risk Committee to continually identify key risks and ensure acceptable risk tolerances through the executive risk control processes across business-specific risk areas. This sets the matrix for regular and extraordinary reporting, if required, by management to the Audit and Risk Committee and the subsequent reporting to the Board.


The Audit and Risk Committee oversees risk management in the Group and relies on the internal and external auditors as well as systems of internal control, to obtain comfort that risks are reduced to tolerable levels. Furthermore, the Audit and Risk Committee oversees cooperation between the internal and external auditors, and serves as a link between the Board and these functions.

The systems of internal control are designed to provide reasonable but not absolute assurance as to the integrity and reliability of the Annual Financial Statements, to safeguard and maintain accountability of the Group's assets and to identify and minimise fraud, potential liability, loss and material misstatement while complying with applicable statutory laws and regulations. There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. The system is therefore designed to effectively manage rather than eliminate risk.

The Board receives feedback on the effectiveness of internal controls to mitigate risk via the following:

- Quarterly operational risk management reporting from Exco;
- Assurance provided by the various Board Committees on certain or specific risks and actions taken to mitigate them;
- Audit and Risk Committee feedback from internal and external auditors; and
- Management feedback on the reliability and efficiency on the systems of internal control.

The Board believes the systems of internal control have continued to improve during the period and are sufficient to minimise the risk of material loss and to provide accurate and reliable reporting. The Board is satisfied that systems of control have provided reasonable but not absolute assurance and nothing has come to their attention during the year to indicate a material breakdown in the systems of internal control.

Further details on financial risk management, including the Group's exposure to interest rate risk, credit risk and liquidity risk, are contained in  note 3 to the annual financial statements.

## Remuneration Report

*The Group's remuneration strategy is aimed at remunerating Directors, executives and employees fairly and responsibly.*

This report covers the approach adopted by Calgro M3, in conjunction with guidance from the Remuneration Committee on the principles, strategy and implementation of remuneration across the Group. In totality remuneration is made up of:



### Remuneration Strategy

The Remuneration Strategy takes cognisance of local and industry specific remuneration best practices to ensure that the Group attracts and retains the appropriate skills and talent. The Remuneration Committee considers a holistic compensation model when approaching the remuneration of all Executive Directors, prescribed officers and fees paid to all Non-Executive and Independent Non-Executive Directors.

### Remuneration Policy

The main aim of the remuneration policy implemented by the Group is to attract, develop, motivate and retain talent to enable the growth strategy of the business. It is the Group's policy to remunerate all performing employees between the 25th and 90th percentiles when short and long-term incentives are included, thereby ensuring that these employees are properly benchmarked within their respective disciplines to ensure retention and growth of employees.

The remuneration policy is in place to support and assist with the execution of the strategy and to reward staff members for the performance delivered on, in line with values and objectives set. Discretionary performance bonuses are awarded annually to permanent staff members based on the performance of the Group as well as individual performance. The average bonus for the 2017 FY was equivalent to 1.37 times monthly salary. At the same time, poor performance is managed until a suitable standard is attained through mentorship. Should performance not increase to reasonable levels, the employee leaves the employ of Calgro M3.

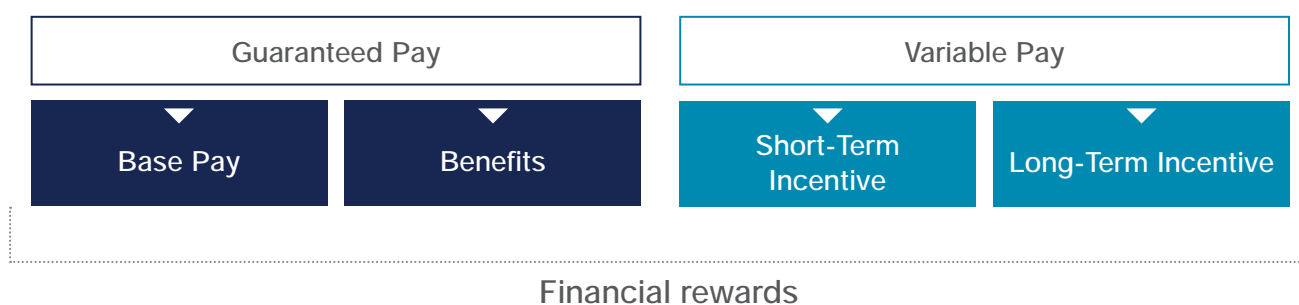
Executive and prescribed officer remuneration comprises a combination of guaranteed remuneration (total cost to company ("CTC")), variable remuneration (short-term incentives ("STI") and long-term incentives ("LTI")). The weighting depends on the level of seniority in the organisation. Annual reviews of guaranteed remuneration are benchmarked against remuneration surveys and comparisons of remuneration for similar executive jobs within the sector and industry.

## Remuneration Report *(continued)*

### Executive and prescribed officer remuneration



#### Remuneration Structure



#### Guaranteed Remuneration

Guaranteed remuneration is determined between the 25th and 50th percentile within the job family market depending on individual performance and experience levels.

#### Short-term incentive ("STI") – Old (2017FY)

The STI is a performance bonus that is designed to incentivise management to drive business performance and increase shareholder value.

The STI scheme is based on three elements:

**(1) Return on average equity ("ROE")**

A minimum ROE of 25% is set as a hurdle rate before any STI becomes payable

**(2) Growth in the Group's Headline Earnings ("HE")**

Once the hurdle rate of 25% ROE is obtained, the STI pool is calculated as a percentage of HE (after the STI is deducted) based on the sliding scale (to the right).

< 20%	3%
= equal	6%
> 20%	7%
> 40%	8%
> 60%	9%
> 80%	10%
> 100%	12%

of previous financial year HE

**(3) Performance management**

The calculated STI pool is allocated to executives based on the individual performance as determined by the Remuneration Committee with the assistance of the CEO where applicable.

## Short-term incentive ("STI") – New (2018 FY onwards)

The STI bonus pool is calculated as follows:

= equal	of previous financial year HE after bonus accrual	6%
> 20%		7%
> 40%		8%
> 60%		9%
> 80%		10%
> 100%		12%

Once the STI bonus pool is calculated based on the methodology above, the allocation is done as follows:

### 50% – Return on Equity ("ROE") target

Equity calculated as: Opening Capital available to be deployed.

A minimum ROE target is set for each of the Group's businesses as follows:

#### (1) Property Development Business – 25% ROE (HEPS/Equity)

#### (2) Memorial Parks – A sliding scale building up to 25% ROE (HEPS/Equity)

- (i) 2018 Financial Year: 10%
- (ii) 2019 Financial Year: 15%
- (iii) 2020 Financial Year: 20%
- (iv) 2021 Financial Year: 25%

#### (3) Real Estate Investment – 10.5% ROE (HEPS/Equity)

Should the ROE target be reached for each of the three businesses, then the full 50% allocation of the STI pool will be granted. Should any of the individual businesses targets not be reached, then a proportionate allocation will be done based on equity deployed to each of the businesses.

### 15% – Risk mitigation and sustainability

All risks above a level 12 scoring (based on impact and probability (1-5)) on the Group's risk register to be managed in order to decrease. A decrease in the overall risk profile of the Group of 4% will be set as sub-minimum annually.

### 20% – Empowerment targets

Based on specific targets determined by the Board from time to time.

### 15% – Board discretion

## Remuneration Report *(continued)*

### Long-term incentive ("LTI")

The purpose of the LTI scheme is to align management and shareholder interests, and to attract and retain key personnel over the long term. The LTI is an equity settled scheme that was approved by the Board in 2015.

The Scheme afforded management the option to buy shares at R4.08 per share, but which are only transferred to them in tranches of 50% after five years and six years from 1 March 2015 for Exco members and in tranches of 50% after four years and five years from 1 March 2015 for other senior management. Should any participant leave the Group before the restriction period has expired, the Group will buy the shares back at R4.08 with the individual forfeiting the upside of the capital growth.

Details surrounding the LTI for the executive management and senior management team is detailed in the Directors' Report on [page 90](#). Details relating to the Group's Equity Scheme can be found in [note 33](#) ([page 148](#)) to the annual financial statements.

### Directors' Remuneration and Contracts Executive Directors

The schedules containing the breakdown of the annual remuneration for Executive Directors for the years ended February 2016 and February 2017 appears in [note 36](#) of the financial statements.

Details pertaining to Directors' Remuneration are contained in the table below and can be referenced in the Integrated Annual Report to [note 36](#).

Director	Annual Retainer Fee 2017/2018	Meeting chaired	Audit and Risk Committee Meeting Attendance	Meeting attendance of other Board Committees Fee July 2017 to June 2018
PF Radebe	R235 000	R38 500		R20 000
VJ Klein	R157 500	R27 500		R20 000
H Ntene	R157 500	R27 500		R20 000
RB Patmore	R188 000	R27 500	R22 500	R20 000
ME Gama	R157 500	R27 500	R22 500	R20 000
HC Cameron	R157 500	R33 000		R20 000
BP Malherbe	R157 500	R27 500		R20 000

### Restraint of Trade

All executive directors and senior management have a restraint of trade on their appointment that for a period of two years from termination, they are not allowed to provide employment services for any competitor that specialises in mixed-use/integrated developments or is in direct competition with any of the business ventures undertaken by the Group.

### Group Executive Reviews

Salary and total remuneration package benchmarking is conducted yearly in Calgro M3 with regard to Executive Directors and staff. The Remuneration Committee advises the Board on the remuneration for executives as well as annual staff salary increases.

### Non-Executive Directors' Fees

Non-Executive Directors are remunerated for their membership to the Board and the various Board Committees. As recommended in the Notice of the Annual General Meeting, shareholders are requested to ratify the Non-Executive Directors' fees for the year at the Calgro M3 Annual General Meeting.

To comply with the requirements of King III, the Board has instituted rulings that Non-Executive Directors' fees are split between an annual retainer and an attendance component.

## Remuneration Outcomes

Given the financial performance for 2017, bonus payments to executives and senior management across the Group were zero. The minimum hurdle of 25% ROE was not achieved and as such, no bonuses have been accrued or paid.

## Independent External Advice

The Calgro M3 Remuneration Committee makes use of external advice on matters pertaining to remuneration and benchmarking.

## Directors' Interest in Shares and Remuneration

At the date of this report the Directors held the following direct and indirect interests in the Company:

	Direct 2017	Direct 2016	Indirect 2017	Indirect 2016
<b>Ordinary Shares</b>				
BP Malherbe	1 050 069	1 050 069	12 500 000	14 500 000
WJ Lategan	5 238 496	4 450 000	–	–
WJ Lategan*	2 294 214	2 294 214	–	–
FJ Steyn	–	–	8 944 461	10 194 461
WA Joubert	16 000	16 000	–	–
WA Joubert*	952 562	952 562	–	–
W Williams	102 219	83 219	86 666	70 000
W Williams*	1 084 815	1 084 815	–	–
MN Nkuhlu	3 296	100	–	–
MN Nkuhlu*	2 046 421	2 046 421	–	–

\* Shares issued as part of the Calgro M3 Executive Share Scheme have service conditions and trading restrictions associated to them and are disclosed as treasury shares until such time when the trading restrictions are lifted. Refer to note 33 for further details on the Calgro M3 Executive Share Scheme. Refer to note 36 for details of the directors' emoluments.

## Employee Costs

	2017	2016
Salary and wages	74 651 121	79 399 641
Executive share scheme expense	28 875 454	26 682 077
Directors' share based payment expense	17 931 385	15 193 967
Employees' share based payment expense	10 944 069	11 488 110
Share Appreciation Rights Expense	667 036	(11 585 341)
Share Appreciation Rights Settlement Expense	4 760 667	24 740 812
Directors' emoluments	13 699 819	30 461 812
Executive Directors*	11 794 265	28 798 021
Non-executive Directors	1 905 554	1 663 791
<b>Salary and wages</b>	<b>122 654 097</b>	<b>149 699 001</b>
Less: Amounts allocated to qualifying assets (construction contracts)	(46 652 147)	(76 827 464)
<b>Total employee costs and share appreciation rights settlement</b>	<b>76 001 950</b>	<b>72 871 537</b>

\* The executive directors emoluments includes only the guaranteed remuneration, cash settled long term incentive and the short term incentive.

## Remuneration Report *(continued)*

### Executive Directors

The remuneration noted below is for services rendered in connection with the carrying on of affairs of the business within the same group of companies, joint ventures and associates.

	Remuneration and other benefits			
	Guaranteed remuneration	Equity-settled long-term incentive*	Short-term incentive	Total
<b>2017</b>				
BP Malherbe	3 176 699	18 796 235	–	21 972 934
WJ Lategan	2 664 968	–	–	2 664 968
FJ Steyn	2 482 573	–	–	2 482 573
WA Joubert	1 665 131	–	–	1 665 131
W Williams	1 804 894	–	–	1 804 894
<b>Total Executive Directors</b>	<b>11 794 265</b>	<b>18 796 235</b>	<b>–</b>	<b>30 590 500</b>

	Remuneration and other benefits			
	Guaranteed remuneration	Cash-settled long-term incentive	Short-term incentive	Total
<b>2016</b>				
BP Malherbe	2 898 215	–	2 060 307	4 958 522
WJ Lategan	2 510 715	–	2 060 307	4 571 022
FJ Steyn	2 368 217	7 440 633	1 648 245	11 457 095
DN Steyn	543 304	1 860 158	412 061	2 815 523
WA Joubert	1 212 329	–	1 236 184	2 448 514
W Williams	1 311 161	–	1 236 184	2 547 345
<b>Total Executive Directors</b>	<b>10 843 941</b>	<b>9 300 791</b>	<b>8 653 288</b>	<b>28 798 021</b>

\* Equity settled long term incentives relates to the release of the trading restrictions on the shares granted to the director. This amount was expensed in the current and the prior years in terms of the service period associated to the grant. Refer to note 33.


### Independent Non-Executive Directors

The remuneration noted below is for services rendered as a Director of the Group.

	2017	2016
PF Radebe	384 500	312 000
H Ntene	254 333	184 500
RB Patmore	348 167	325 000
JB Gibbon	35 554	240 667
ME Gama	346 833	340 167
HC Cameron	300 334	220 957
VJ Klein	235 833	40 500
<b>Total Non-Executive Directors</b>	<b>1 905 554</b>	<b>1 663 791</b>
<b>Summary</b>		
<b>Executive Directors</b>	<b>30 590 500</b>	<b>28 798 021</b>
<b>Non-Executive Directors</b>	<b>1 905 554</b>	<b>1 663 791</b>
<b>Total Directors</b>	<b>32 496 054</b>	<b>30 461 812</b>

## King III Gap Analysis Summary

Category	Non-compliance sorted by significance	Report comment(s)
Sustainability reporting and assurance	Sustainability reporting within the integrated report is not independently assured by any internal or external assurance provider, nor are there specific internal controls established over sustainability areas.	The Audit Committee, the Board, internal audit and management believe that the verification of the elements of the sustainability report is not material enough to warrant external assurance providers. The Audit Committee performs annual assessments on whether material elements warrant external assurance and whether specific internal controls should be implemented and advises the Board accordingly.
Risk	The Group does not disclose in the integrated report details of where the limits of risk appetite (willingness to tolerate risk) exceed, or deviate materially from, the limits of the Company's risk tolerance (ability to tolerate risks). The Group does not have formal risk tolerance levels in place.	Risk tolerance and appetite assessments are performed on an impact and probability basis. A formal policy is currently being developed for implementation in the second half of 2017.
Performance assessment	Formal performance evaluations are not performed annually to identify training and development needs for directors and to motivate appointment of directors.	Informal evaluation procedures are currently in place. Formalising the evaluation process will be considered by the Board.

Please refer to the Calgro M3  website ([www.calgrom3.com](http://www.calgrom3.com)) for the full King III analysis performed. The Group is in the process of performing a GAP analysis between King III and King IV, which will be updated on the website once the process is completed.

## Memorial Parks

Calgro M3 Memorial Parks is now the proud owner of the established Fourways Memorial Park and has **55 956** opportunities available across the Group.

# 5



# Group Consolidated Financial Statements

## Directors' Responsibilities and Approval

The Directors are required in terms of the Companies Act 71 of 2008 (as amended) to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate financial statements fairly present the state of affairs of the Group and Company as at the end of the reporting period and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors were engaged in expressing an independent opinion on the financial statements.

The consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.


The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and Company and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and Company and all employees are required to maintain the highest ethical standards in ensuring the Group and Company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group and Company is on identifying, assessing, managing and monitoring all known forms of risk across the Group and Company. While operating risk cannot be fully eliminated, the Group and Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Group and Company's Audit and Risk Committee plays an integral role in risk management as well as overseeing the Group and Company's integrated reporting.


The Code of Corporate Practices and Conduct has been integrated into the Group and Company's strategies and operations.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated and separate financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Directors have reviewed the Group and Company's cash flow forecast for the year to 28 February 2018 and, in light of this review and the current financial position, they are satisfied that the Group and Company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group and Company's annual financial statements. The consolidated and separate financial statements have been examined by the Group and Company's external auditors and their report is presented on  pages 94 to 99.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board and committees of the Board. The Board of Directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The consolidated and separate financial statements set out on  pages 100 to 172, which have been prepared on the going concern basis, were approved by the Board of Directors on 12 May 2017 and were signed on its behalf by:



**WA Joubert**



**WJ Lategan**

## Certification of the Company Secretary

I, I April, hereby confirm, in my capacity as Company Secretary of Calgro M3 Holdings Limited that for the year ended 28 February 2017, the Company has filed all required returns and notices in terms of the Companies Act 71 of 2008 (as amended) and that all such returns and notices are to the best of my knowledge and belief true, correct and up to date.



**Itumeleng April**

*Company Secretary*

12 May 2017

## Report of the Audit and Risk Committee

The Calgro M3 Group Audit and Risk Committee (“the Committee”) presents its report in terms of section 94(7)(f) of the Companies Act, No 71 of 2008, as amended (“Companies Act”), and as recommended by King III, for the financial year ended 28 February 2017. The Committee is an independent statutory committee appointed by the shareholders. Further duties are delegated to the Committee by the Board of Directors of the Group. The main purpose of the Committee is to assist the Board in monitoring the integrity of financial statements and overseeing the Integrated Report. It is also responsible for the monitoring of the effectiveness of the Group’s internal financial controls and oversees the internal and external audit functions.

The Committee’s terms of reference are formalised in a charter approved by the Board. In addition to performing this function for Calgro M3 Holdings Limited, the Audit and Risk Committee also accepted and performed the role for all the Group’s subsidiaries and joint ventures (excluding Afhco Calgro M3 Consortium (Pty) Ltd).

In addition, the Committee reviewed the annual work plan. The intent was to ensure completeness in respect of executing the Committee’s responsibilities within a given period of time. However, the process of review does not exclude pertinent issues that are being tabled by the Committee and/or management during the course of a particular reporting period nor those matters that are being addressed by the business on an ongoing basis.

The Board determined that the Committee members have appropriate and adequate skills and experience to contribute meaningfully to deliberations and to fulfil their responsibilities. In addition, the Committee Chairman has the requisite experience in accounting and financial management (a qualified chartered accountant). The Committee presently comprises HC Cameron (Chairman), RB Patmore and ME Gama who are all independent.

### Functions of the Audit and Risk Committee

#### Audit functions

The Committee’s role and responsibilities include its statutory duties as per the Companies Act and the responsibilities assigned to it by the Board.

The Committee is satisfied that it has complied with its legal, regulatory and other responsibilities.

From an audit oversight perspective, the Committee is primarily responsible for:

- considering and monitoring the independence of the external auditors and the appropriate rotation of the lead audit partner and to make recommendations to the Board and shareholders on the appointment and dismissal of the external auditor;
- overseeing the effectiveness of the Group’s internal control systems, ensuring that they are designed in response to identified key business and control risks, and have been effective throughout the year;
- reviewing the scope and effectiveness of the external audit functions;
- ensuring that adequate books and records have been maintained;
- monitoring proposed changes in accounting policies;
- considering the accounting and taxation implications of major transactions;
- reviewing and reporting on compliance with IFRS, King III and the JSE Listings Requirements;
- reviewing of management’s evaluation of the Group’s going concern assertion remains appropriate;
- reviewing the interim and annual financial statements to ensure that they give fair presentation, consistent with information known to the Committee, before submission to the Board;
- considering the appropriateness of the expertise and experience of the Financial Director on an annual basis;
- determine the fees to be paid to the auditor and the auditor’s terms of engagement;
- ensure that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors;
- determine the nature and extent of any non-audit services which the auditor may provide to the Group or Company;
- pre-approve any proposed agreement with the auditor for the provision of non-audit services to the Group or Company;
- prepare a report to be included in the annual financial statements for the year;
- receive and deal appropriately with any concerns or complaints relating to the accounting practices and internal audit of the Company, the content or auditing of the financial statements or any other related matter;

## Report of the Audit and Risk Committee *(continued)*

- make submissions to the Board on any matter concerning the Group or Company's accounting policies, financial controls, records and reporting; and
- to perform other functions as determined by the Board, including development and implementation of policy and a plan for a systematic and disciplined approach to evaluate and improve effectiveness of risk management control and governance.

The Committee has resolved to undertake a self-assessment on an annual basis.

### Risk functions

The Board of Directors has assigned oversight of the Group's risk management function to the Committee. The Committee fulfils an oversight function regarding risks in the areas of operations, finance, reporting, fraud, information technology and ethics.

Based on the ongoing oversight of the Committee, it can be concluded that nothing came to the attention of the Committee and the Board that would suggest that the prevailing system of risk management is not, in all material aspects, effective.

Risks are continually being identified and mitigated in terms of a process that involves allocating responsibility, developing action plans and monitoring compliance with these action plans.

During the year under review the Committee discharged all of its duties in respect of risk management.

From a risk perspective, the Committee is primarily responsible for:

- ensuring that appropriate systems are in place to identify and monitor risks affecting the Group;
- evaluating the adequacy of the effectiveness of the risk management process;
- ensuring an updated risk register is kept;
- reviewing and assessing issues such as compliance with legislation and corporate governance matters, the impact that significant litigation could have on the Group, the adequacy of the insurance cover as well as the effectiveness of controls over areas of risks; and
- providing Board level oversight of the management of processes to ensure that operations remain viable and sustainable.

### Members of the Audit and Risk Committee and attendance at meetings

The Committee consists of the independent non-executive Directors listed below and meets at least three times per annum. All members are independent as prescribed in section 94 of the Companies Act. During the year under review, three meetings were held.

The Chief Executive Officer and Financial Director are permanent invitees. The Company Secretary is the statutory secretary of the Committee.

The Group's internal and external auditors, in their capacity as assurance providers, also attended all Committee meetings.

Only the official members of the Committee are allowed to exercise their respective voting rights in decision-making exercises as prescribed in the charter.

Name of Committee member	Qualifications	Period served on Committee
HC Cameron	CA(SA)	2 years
RB Patmore	BCom, MBL (SBL)	6 years
ME Gama	PhD (Finance)	5 years

### Internal audit

The Committee is responsible for ensuring that the Group's internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its responsibilities effectively. The Committee oversees cooperation between the internal and external auditors and serves as a link between the Board of Directors and these functions.

SizweNtsalubaGobodo continued as internal auditors during the year.

The internal audit function reports to the Committee and is responsible for reviewing and providing assurance on the adequacy of the internal control environments across all of the significant areas of the Group's operations. SizweNtsalubaGobodo is responsible for reporting the progress and findings of internal audits as conducted in terms of the Group's approved audit plan, to the Committee.

### Internal financial controls

The Committee had oversight over a process by which internal audit performed an assessment of the effectiveness of the Group's system of internal financial controls.

This assessment conducted by internal audit and the annual external audit together with management's close monitoring of controls formed the basis for the Committee's assessment of internal financial controls.

Nothing came to the attention of the Committee and the Board, based on the assessments performed by internal audit, external audit and management, that would suggest that the prevailing system of internal financial controls are not, in all material aspects, effective.

### Integrated reporting

In fulfilling its oversight responsibilities, the Committee has reviewed the sustainability information that forms part of the Group's Integrated Report and has assessed its consistency with operational and other information known to the Committee members, as well as its consistency with the Group's annual financial statements.

The Committee is satisfied that the above is consistent with the Group's financial results, and as such has recommended that this be approved by the Board.

### Going concern

The Committee has reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the Group. The Board's statement regarding the going concern status of the Group, as supported by the Committee, is included in the Directors' Report on pages 89 to 93.

### Attendance

The external and internal auditors, in their capacity as auditors to the Group, attended and reported at all meetings of the Audit and Risk Committee. The Group risk management function which is performed by Executive Directors, was also represented. Relevant senior managers attended meetings by invitation.

### Audit and Risk Committee attendance register

Member Name	5 May 2016	11 October 2016	9 February 2017
RB Patmore	✓	✓	✓
ME Gama	✓	✓	✓
HC Cameron	✓	✓	✓
WJ Lategan	#	#	#
BP Malherbe	#	#	#
WA Joubert	#	#	#
PwC	#	#	#
SizweNtsalubaGobodo	#	#	#
I April	n/a	#	#
Sponsors (Grindrod)	#	#	#

✓ Indicates attendance.

# Indicates attendance by invitation.

× Indicates non-attendance.

## Report of the Audit and Risk Committee *(continued)*

### Independence of the external auditor

The Committee has satisfied itself that the external auditor, PricewaterhouseCoopers Inc ("PwC"), conducted its duties independently and that no limitations were imposed by management on PwC whilst performing their duties during the year. The Committee, in consultation with the Group's executive management, agreed to the terms of the PwC engagement letter, audit plan and budgeted audit fees in respect of the 2017 financial year.

The Committee has further established a procedure for the approval of any non-audit services and the pre-approval of any proposed contract with the auditors in this regard.

The Committee nominates PwC for re-election at the annual general meeting ("AGM") of Calgro M3 Holdings, and Mrs Chantal Marais Roux as the designated partner to perform the functions of external auditor until the 2018 AGM. The Committee has satisfied itself that both PwC and Mrs Marais Roux are accredited with the JSE Limited as required.

### Expertise and experience of Financial Director and the finance function

As required by the JSE Listings Requirement 3.84(h), as well as recommended practice outlined in King III, the Committee has satisfied itself that the Financial Director has appropriate expertise and experience.

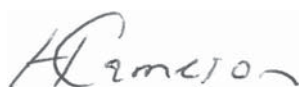
In addition, the Committee also considered and has satisfied itself that the appropriateness, composition, experience and skills set of the finance function met the Group's requirements.

### Financial statements

The Committee reviewed the financial statements and the accounting policies and practices of the Group and is satisfied that they comply with International Financial Reporting Standards. The Committee recommended the financial statements to the Board for approval. The Board concurred with this assessment.

### Comments on key audit matters, addressed by PwC in its external auditor's report

The external auditors have reported on two key audit matters in respect of their 2017 audit, being: Construction contract revenue recognition; and Goodwill impairment assessment. Both of these key audit matters related to material financial statement line items and require judgement and estimates to be applied by management. The Committee assessed the methodology, assumptions and judgements applied by management in dealing with each of the key audit matters. Furthermore the Committee discussed the key audit matters with the external auditors to understand their related audit processes and views. Following our assessment, we were comfortable with the conclusions reached by management and the external auditors.



**HC Cameron**

*Chairman: Audit and Risk Committee*

12 May 2017

# Directors' Report

## 1. Nature of business

Calgro M3 Group is a mixed-use housing developer, established in 1995 in South Africa. The business model focuses on the full range of related disciplines including acquisition of land, town planning, architecture, project management of civil infrastructure, services installation, marketing and construction of homes as well as development of Memorial Parks. The Group operates in terms of its unique turnkey business model and has three operating segments within this model, namely Property Development, Professional Services and Memorial Parks.

The Group's business strategy supports Government's proactive drive, which is expressed in the "Breaking New Ground" initiative aimed at ensuring the formation of sustainable settlements. This is achieved through the integration of various income groups, as well as the provision of socioamenities such as schools and hospitals, within a fully integrated community.

Based on the forecasts prepared by management, the operating cycle for inventory, construction contracts and work in progress is considered to be longer than 12 months. Accordingly, the associated liabilities are classified as current as they are expected to be settled within the same operating cycle as inventory, construction contracts and work in progress.


### Registered office:

Calgro M3 Building  
Ballywoods Office Park  
33 Ballyclare Drive  
Bryanston  
2196

### Postal address:

Private Bag X33  
Craighall  
2024

## 2. Financial position

The consolidated and separate financial statements on  pages 100 to 172, set out fully the financial position, results of operations and cash flows of the Group and Company for the year ended 28 February 2017 and do not in our opinion require any further comment.

Segmental reporting is set out in  note 5 of the financial statements.

## 3. Events after reporting period

Please refer to  note 39 in the consolidated financial statements.

## 4. Type of company

Calgro M3 Holdings Limited is registered as a public company in terms of the Companies Act No 71 of 2008.

## 5. Subsidiary and associate entities

On 1 November 2016 the Group acquired 100% of the Fourways Private Memorial Park business through the purchase of all assets and liabilities from Fourways Private Memorial Park CC, an unlisted South African private memorial parks property development close corporation. The purchase price of R22 million is payable over three years from the acquisition date in fixed instalments. During the current year, R4.5 million of the purchase price has been settled. The total deemed consideration for the acquisition was R20 470 447. Goodwill of R694 804 arose and was recognised through the transaction.

Refer to  note 30 for further details of the business combination.

On 29 August 2016, Calgro M3, in a joint announcement with SA Corporate Real Estate Ltd, announced the formation of a Real Estate Investment Trust ("REIT") to service the rental market in South Africa.

## Directors' Report *(continued)*

Afhco Calgro M3 Consortium (Pty) Ltd was registered with Calgro M3 Real Estate (Pty) Ltd (a wholly owned subsidiary of Calgro M3 Holdings Ltd) owning 49%. The investment in Afhco Calgro M3 Consortium (Pty) Ltd will be accounted for as an associate as Afhco Holdings (Pty) Ltd (a wholly owned subsidiary of SA Corporate Real Estate Ltd) has control over the entity.

Refer to [note 9](#) for further details of the investments held in associates and joint ventures.

All direct and indirect subsidiary companies are South African-based and are engaged in the three core business segments of the Group.

Particulars of the joint ventures and associates ([note 9](#)) and the principal subsidiaries ([note 42](#)) are set out in the financial statements.

### 6. Directors' interest in shares

At the date of this report these Directors held the following direct and indirect interests in the Company:

	Direct 2017	Direct 2016	Indirect 2017	Indirect 2016
<b>Ordinary shares</b>				
BP Malherbe	1 050 069	1 050 069	12 500 000	14 500 000
WJ Lategan	5 238 496	4 450 000	–	–
WJ Lategan*	2 294 214	2 294 214	–	–
FJ Steyn	–	–	8 944 461	9 294 461
WA Joubert	16 000	16 000	–	–
WA Joubert*	952 562	952 562	–	–
W Williams	102 219	83 219	86 666	70 000
W Williams*	1 084 815	1 084 815	–	–
MN Nkuhlu	3 296	100	–	–
MN Nkuhlu*	2 046 421	2 046 421	–	–

\* Shares issued as part of the Calgro M3 Executive Share Scheme have service conditions and trading restrictions associated to them and are disclosed as treasury shares until such time when the trading restrictions are lifted. Refer to [note 33](#) for further details on the Calgro M3 Executive Share Scheme.

### 7. Equity-settled share incentive scheme

Shares allocated to Ben Pierre Malherbe (1 050 069 Category 1 shares) had original trading restriction release dates of 1 March 2017 for 50% of the granted shares and 1 March 2018 for the remaining 50% of the granted shares. Due to his retirement on 28 February 2017 as an executive director and CEO, both the release dates were accelerated to 20 February 2017.

Refer to [note 33](#) for details on the share-based payments.

## 8. Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards.

## 9. Authorised and issued share capital

Total number of ordinary shares authorised at 28 February 2017	500 000 000
Total number of ordinary shares in issue at 28 February 2017	128 150 069
<b>Balance at beginning of the year</b>	<b>127 100 000</b>
Shares issued to Calgro M3 Employee Benefit Trust	5 212 909
Shares issued to Calgro M3 Empowerment Trust	5 212 909
Shares issued in terms of the Calgro M3 Executive Share Scheme (note 33)	8 468 630
Treasury shares in issue	(18 894 448)
Equity share scheme – trading restrictions released (note 33)	1 050 069
<b>Balance at end of the year</b>	<b>128 150 069</b>

## 10. Capital expenditure

Details on capital expenditure are set out in notes 6, 7 and 8 of the financial statements.

## 11. Dividends

No dividends were declared or paid to the shareholders during the year under review.

## 12. Going concern

Please refer to note 38 of the consolidated financial statements.

## 13. Directors

Name	Position	Date appointed	Contract expiry
Pumla Fundiswa Radebe	Independent Chairperson	29 June 2007	
Ben Pierre Malherbe	Non-Executive*	5 August 2005	
Mduduzi Edward Gama	Independent Non-Executive	10 January 2012	
Willem Jakobus Lategan	Chief Executive Officer*	5 August 2008	3 months' notice
Hatla Ntene	Independent Non-Executive	12 October 2007	
Ralph Bruce Patmore	Independent Non-Executive	18 January 2011	
Frederik Johannes Steyn	Strategic Planning Director	5 August 2005	3 months' notice
Hugh Colin Cameron	Independent Non-Executive	8 May 2015	
Willem Adolph Joubert	Finance Director	1 June 2015	3 months' notice
Wayne Williams	Executive Director	1 June 2015	3 months' notice
Venete Jarlene Klein	Independent Non-Executive	1 January 2016	
Manda Njongonkulu Nhkulu	Executive Director	1 March 2017	3 months' notice

\* Ben Pierre Malherbe resigned as Chief Executive Officer on 28 February 2017 but remained as a non-executive director. Willem Jakobus Lategan was promoted to Chief Executive Officer in his stead on 28 February 2017.

## Directors' Report *(continued)*

### 14. Secretary

I April has been appointed as the Group Company Secretary with effect from 11 May 2016.

As required by section 3.84(i) and (j) of the JSE Listings Requirements, the Board is satisfied that I April has appropriate qualifications, expertise and experience. In addition, the Board has satisfied itself that there is an arm's length relationship with I April, due to the fact that I April is not a director of the Company.

The address of the secretary is set out below:

**Business address:**

Calgro M3 Building  
Ballywoods Office Park  
33 Ballyclare Drive  
Bryanston  
2196

**Postal address:**

Private Bag X33  
Craighall  
2024

### 15. Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90 of the Companies Act 71 of 2008 (as amended) of South Africa, subject to approval of shareholders at the upcoming annual general meeting. Chantal Marais Roux will be the individual registered auditor who will undertake the audit for the 2018 financial year.

### 16. Preparer

The financial statements were internally compiled by UK Kissoon Singh CA(SA) and M Esterhuizen CA(SA) under the supervision of WA Joubert CA(SA).

### 17. Liquidity and solvency

The Directors have performed the required liquidity and solvency tests required by the Companies Act No 71 of 2008. The directors believe that the Group has adequate financial resources and is liquid and solvent to continue in operation for the foreseeable future.

### 18. Level of assurance

These financial statements have been audited by our external auditors PricewaterhouseCoopers Inc. in compliance with the applicable requirements of the Companies Act 71 of 2008.

### 19. Special resolution

At the annual general meeting held on 1 July 2016, the following special resolutions were approved:

- General authority to purchase shares;
- Remuneration of Non-Executive Directors; and
- Authorising general financial assistance.

No special resolution relating to the capital structure, borrowing powers or any other material matter that affects the understanding of the Group were passed by subsidiary companies during the year under review.

## 20. Analysis of shareholders

Shareholders' spread analysis as at 28 February 2017:

Shareholders' spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	1 364	49.33	538 298	0.42
1 001 – 10 000 shares	1 098	39.71	3 812 642	2.98
10 001 – 100 000 shares	247	8.93	7 374 396	5.75
100 001 – 1 000 000 shares	40	1.45	10 378 787	8.10
1 000 001 shares and over	16	0.58	106 045 946	82.75
	2 765	100.00	128 150 069	100.00

	Number of shareholders	%
<b>Distribution of shareholders</b>		
Financial institutions and other corporations	44 911 536	35.05
Nominee and trusts	38 021 785	29.67
Empowerment	24 465 767	19.09
Individuals	17 213 344	13.43
Private and public companies	3 537 637	2.76
	128 150 069	100.00
<b>Public/non-public shareholders</b>		
Directors and associates of the holding company	40 244 124	31.40
Public shareholders	87 905 945	68.60
Non-public shareholders	–	–
	128 150 069	100.00
<b>Shareholders with an interest of 3% or more in shares</b>		
Pershing LLC	36 873 416	28.77
Snowball Wealth Pty Ltd	13 631 445	10.64
BPM Family Trust	12 000 000	9.36
DNS Trust	10 000 000	7.80
FJS Trust	8 944 461	6.98
Mr LCH Chou	6 200 000	4.84
Mr WJ Lategan	5 238 496	4.09
	92 887 818	72.48
<b>Reconciliation of shares issued in the share register</b>		
Total shares in issue	147 044 518	
Less: Treasury shares		
Calgro M3 Employee Benefit Trust	(5 212 909)	
Calgro M3 Empowerment Trust	(5 212 909)	
Calgro M3 Executive Share Scheme*	(8 468 631)	
	128 150 069	

\* Refer to [note 33](#) for further details on the Calgro M3 Executive Share Scheme.

# Independent Auditor's Report

## To the shareholders of Calgro M3 Holdings Limited

### Report on the audit of the consolidated and separate financial statements

#### Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Calgro M3 Holdings Limited ("the Company") and its subsidiaries (together "the Group") as at 28 February 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

#### What we have audited

Calgro M3 Holdings Limited's consolidated and separate financial statements set out on  pages 100 to 172 comprise:

- the consolidated and separate statements of financial position as at 28 February 2017;
- the consolidated and separate statements of comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

#### Our audit approach

##### Overview

##### Overall group materiality

- Overall group materiality: R10 498 920, which represents 4.5% of the Group's consolidated profit before tax

##### Group audit scope

- We performed a full scope audit over all statutory entities of the Group

##### Key audit matters (applicable to the consolidated financial statements only)

- Construction contract revenue recognition
- Goodwill impairment assessment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R10 498 920
How we determined it	4.5% of the Group's consolidated profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 4.5% based on our professional judgement, after consideration of the range of qualitative materiality thresholds that we would typically apply when using profit before tax to compute materiality, and taking into account the level of debt within the Group.

## How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of 36 subsidiaries, associates and joint ventures (referred to as "components"). We performed full scope audits on all components.

In establishing the overall approach to the group audit, we determined the extent of the work that needed to be performed by us, as the group engagement team, to issue our audit opinion on the consolidated financial statements of the Group.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters listed below are applicable to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements to communicate in our report.

## Independent Auditor's Report *(continued)*

Key audit matter	How our audit addressed the key audit matter
<p><b>Construction contracts revenue recognition</b></p> <p>The Group has significant long-term construction contracts within the "Property Development" operating segment. Revenue of R1.5 billion has been generated from construction contracts during the year ended 28 February 2017 (refer to  notes 5 and 20 to the consolidated financial statements).</p> <p>The majority of revenue and related profits/losses on construction contracts are in accordance with the stage of completion principles outlined in IAS 11: <i>Construction Contracts</i>. (In certain circumstances, where the customer cannot specify major structural elements of design of units, the principles outlined in IAS 18: <i>Revenue</i> is applied).</p> <p>The stage of completion of construction contracts is assessed by reference to actual contract costs incurred to date as a percentage of total estimated contract costs.</p> <p>Construction contract revenue recognition is considered to be an area of most significance to our audit due to the significant judgement involved in preparing estimates of forecast costs and related revenue on long-term contracts.</p>	<p>Our audit procedures comprised of combination of internal control assessments and substantive audit procedures.</p> <p>We assessed certain internal financial controls over contract-related procurement expenditure.</p> <p>Our internal financial control tests consisted mainly of three-way match and payment pack testing.</p> <p>Three-way match testing was performed on a sample of transactions to determine whether those transactions are supported by a purchase order, invoice, receiving document and/or progress certificate.</p> <p>The payment pack testing was performed on a sample of transactions to determine whether payments to subcontractors were authorised by the appropriate level of management and supported by valid underlying third-party documents.</p> <p>We selected a sample of contracts on which detailed substantive testing procedures were performed. Our sample was selected based on a set of criteria which includes high-value contracts and assessing whether there were any significant loss making contracts or contracts with significant claims.</p> <p>For the contracts selected we:</p> <ul style="list-style-type: none"> <li>▪ Verified actual costs incurred during the period through a combination of internal financial control assessments and substantive audit procedures through the inspection of supporting transaction documentation on a sample basis;</li> <li>▪ Evaluated and tested management's cost and revenue estimation process as described per  note 20, by gaining an understanding of the significant assumptions and budgeting process, having detailed discussions with knowledgeable individuals within the management team, corroborating the assumptions to supporting contracts, quotations, internal assessments by experts (such as town planners and quantity surveyors), comparing past assumptions to historical data and considering whether the estimates were approved by management and third parties;</li> <li>▪ Recalculated the stage of completion based on the actual costs incurred to date as a percentage of the total estimated contract costs, and compared it to the stage of completion that was calculated by the client;</li> <li>▪ Recalculated the construction contract revenue recognised based on the recalculated stage of completion of the contract; and</li> <li>▪ Made use of the internal town planning and quantity surveyor expertise after assessing their relevant qualifications, experience and affiliation to professional bodies.</li> </ul> <p>Based on the results of our work performed, we accepted management's assumptions of estimated cost and revenue used to determine the stage of completion for the calculation and recognition of revenue on long-term construction contracts as reasonably supported.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>Goodwill impairment assessment</b></p> <p>The consolidated statement of financial position as at 28 February 2017 includes a goodwill balance amounting to R159.7 million, of which R154.8 million has been allocated to the "Property Development" segment.</p> <p>IAS 36 requires an annual goodwill impairment test to be conducted. Such a test incorporates judgement based on assumptions about future profitability and net cash flows from the related cash-generating units ("CGUs"), against which an appropriate discount rate must be applied. These assumptions are disclosed in <a href="#">note 8</a> to the consolidated financial statements.</p> <p>The complexity, level of judgement and estimation, and inherent uncertainty involved in forecasting and discounting future cash flows resulted in the goodwill impairment assessment being considered a matter of most significance to our audit.</p>	<p>We obtained the discounted cash flow valuation model used by management to determine the recoverable amount of the "Property Development" segment.</p> <p>We obtained an understanding of the underlying basis and assumptions used to prepare the discounted cash flow valuation model through detailed discussions with management. We assessed the basis, assumptions and process followed as reasonable based on our understanding of the business. We tested the mathematical accuracy of the discounted cash flow valuation model without exception.</p> <p>We recalculated the goodwill balance allocated to the Property Development segment with no discrepancies noted.</p> <p>As indicated in <a href="#">note 8</a> to the consolidated financial statements, the discounted cash flow valuation model is most sensitive to the following key assumptions:</p> <ul style="list-style-type: none"> <li>▪ Gross profit margins; and</li> <li>▪ Pre-tax discount rate.</li> </ul> <p>The gross profit margin was agreed to supporting feasibility studies, which had already been assessed as part of our audit procedures on construction contract revenue recognition, approved budgets and past performance.</p> <p>We made use of our internal valuation expertise to independently calculate a real discount rate, using independently obtained data. We found that the discount rate used by management fell within our acceptable range.</p>

## Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa and the Integrated Annual Report, which we obtained prior to the date of this auditor's report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independent Auditor's Report *(continued)*

### Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Calgro M3 Holdings Limited for 10 years.



**PricewaterhouseCoopers Inc.**

**Director: JP van Staden**

*Registered Auditor*

Johannesburg

12 May 2017

# Consolidated Statement of Financial Position

as at 28 February 2017

	Notes	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	6	6 518 700	–
Property, plant and equipment	7	5 805 870	3 827 044
Intangible assets	8	159 690 798	159 039 103
Investment in joint ventures and associates	9	12 348 966	6 079 686
Deferred income tax asset	10	14 846 951	13 787 806
		<b>199 211 285</b>	182 733 639
<b>Current assets</b>			
Loans to joint ventures and associates	11	26 450 965	2 700 143
Inventories	12	595 989 480	453 093 324
Current tax receivable		18 603 111	14 488 320
Construction contracts	13	1 383 647 602	910 736 977
Work in progress	14	3 889 550	12 783 457
Trade and other receivables	15	276 198 353	285 892 617
Cash and cash equivalents	16	240 765 157	80 070 805
		<b>2 545 544 218</b>	1 759 765 643
<b>Total assets</b>		<b>2 744 755 503</b>	1 942 499 282
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to owners of the parent			
Stated capital	17	116 255 971	96 021 721
Share-based payment reserve		60 847 268	47 921 782
Retained income		846 079 473	676 923 496
		<b>1 023 182 712</b>	820 866 999
Non-controlling interests	31	(101 281)	(1 078 145)
<b>Total equity</b>		<b>1 023 081 431</b>	819 788 854
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income tax liability	10	302 357 733	241 040 955
		<b>302 357 733</b>	241 040 955
<b>Current liabilities</b>			
Borrowings	18	571 645 578	538 463 465
Current income tax liabilities		9 069	419 112
Trade and other payables	19	847 661 692	342 786 896
		<b>1 419 316 339</b>	881 669 473
<b>Total liabilities</b>		<b>1 721 674 072</b>	1 122 710 428
<b>Total equity and liabilities</b>		<b>2 744 755 503</b>	1 942 499 282

The notes on  pages 104 to 160 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

for the year ended 28 February 2017

	Notes	2017	2016
Revenue	20	1 554 679 657	1 204 063 379
Cost of sales	21/23	(1 220 516 769)	(952 516 727)
<b>Gross profit</b>		<b>334 162 888</b>	251 546 652
Other income	22	16 599 999	19 465 682
Administrative expenses	23	(118 097 814)	(105 088 979)
Other expenses	23/24	(3 700 412)	(5 756 677)
<b>Operating profit</b>		<b>228 964 661</b>	160 166 678
Finance income	25	19 994 575	30 656 909
Finance costs	26	(21 919 191)	(18 782 441)
Share of profit of joint ventures and associates – net of tax	9	6 269 280	67 233 693
<b>Profit before tax</b>		<b>233 309 325</b>	239 274 839
Taxation	27	(63 176 484)	(46 090 117)
<b>Profit after taxation</b>		<b>170 132 841</b>	193 184 722
Other comprehensive income		–	–
<b>Total comprehensive income</b>		<b>170 132 841</b>	193 184 722
<b>Profit after taxation and other comprehensive income attributable to:</b>			
– Owners of the parent		169 155 977	194 176 196
– Non-controlling interests		976 864	(991 474)
		<b>170 132 841</b>	193 184 722
<b>Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in cents per share)</b>			
– Basic	37	133.06	152.77
– Diluted	37	129.00	150.45

The notes on  pages 104 to 160 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

for the year ended 28 February 2017

	Stated capital	Share- based payment reserve <sup>#</sup>	Retained income	Total	Non- controlling interests*	Total equity
<b>Balance at 1 March 2015</b>	96 021 721	–	482 747 300	<b>578 769 021</b>	(86 671)	<b>578 682 350</b>
Reclassification of share appreciation rights liability to equity	–	21 239 704	–	<b>21 239 704</b>	–	<b>21 239 704</b>
Share-based payment expense	–	26 682 078	–	<b>26 682 078</b>	–	<b>26 682 078</b>
<b>Comprehensive income</b>						
Profit for the period	–	–	194 176 196	<b>194 176 196</b>	(991 474)	<b>193 184 722</b>
<b>Other comprehensive income</b>	–	–	–	–	–	–
<b>Total comprehensive income</b>	–	–	194 176 196	<b>194 176 196</b>	(991 474)	<b>193 184 722</b>
<b>Balance at 29 February 2016</b>	96 021 721	47 921 782	676 923 496	<b>820 866 999</b>	(1 078 145)	<b>819 788 854</b>
<b>Balance at 1 March 2016</b>	<b>96 021 721</b>	<b>47 921 782</b>	<b>676 923 496</b>	<b>820 866 999</b>	<b>(1 078 145)</b>	<b>819 788 854</b>
Share-based payment expense	–	28 875 454	–	<b>28 875 454</b>	–	<b>28 875 454</b>
Executive share scheme shares released	20 234 250	(15 949 968)	–	<b>4 284 282</b>	–	<b>4 284 282</b>
<b>Comprehensive income</b>						
Profit for the period	–	–	169 155 977	<b>169 155 977</b>	976 864	<b>170 132 841</b>
<b>Other comprehensive income</b>	–	–	–	–	–	–
<b>Total comprehensive income</b>	–	–	169 155 977	<b>169 155 977</b>	976 864	<b>170 132 841</b>
<b>Balance at 28 February 2017</b>	<b>116 255 971</b>	<b>60 847 268</b>	<b>846 079 473</b>	<b>1 023 182 712</b>	<b>(101 281)</b>	<b>1 023 081 431</b>
Note	17	33			31	

\* This relates to the shareholding of the subsidiaries, Calgro M3 Memorial Parks (Pty) Ltd, Belhar Calgro M3 Developments Company (Pty) Ltd and Holm Jordaan GWA (Pty) Ltd, where the Calgro M3 Group does not hold 100% of the shareholding.

# Refer to note 33 for further details regarding the Calgro M3 Executive Share Scheme.

The notes on pages 104 to 160 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

for the year ended 28 February 2017

	Notes	2017	2016
<b>Cash generated from operating activities</b>			
Cash generated from operations	28	292 068 464	101 798 886
Finance income		16 726 568	7 929 681
Finance cost		(63 167 041)	(57 338 308)
Tax paid	29	(7 444 473)	(16 878 792)
<b>Net cash generated from operating activities</b>		<b>238 183 518</b>	<b>35 511 467</b>
<b>Cash flows invested in investing activities</b>			
Purchase of property, plant and equipment		(866 559)	(3 309 910)
Proceeds from the sale of investment property		–	5 807 017
Purchase of intangible assets		(52 385)	(30 975)
Acquisition of business	30	(4 500 000)	–
Acquisition of subsidiary	30	(93 000 000)	(142 999 261)
Loans advanced to joint ventures and associates		(18 471 759)	(500)
<b>Net cash invested in investing activities</b>		<b>(116 890 703)</b>	<b>(140 533 629)</b>
<b>Cash flows from financing activities</b>			
Proceeds of borrowings		239 809 420	260 000 000
Repayment of borrowings		(206 914 744)	(213 585 255)
Equity received in advance*	33	6 506 861	8 113 137
<b>Net cash from financing activities</b>		<b>39 401 537</b>	<b>54 527 882</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>160 694 352</b>	<b>(50 494 280)</b>
Cash and cash equivalents at the beginning of the year		80 070 805	130 565 085
<b>Cash and cash equivalents at the end of the year</b>	16	<b>240 765 157</b>	<b>80 070 805</b>

\* This relates to cash received for the subscription of shares issued under the Calgro M3 Executive Share Scheme. Refer to note 33 for further details.

The notes on pages 104 to 160 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 28 February 2017

## 1. General information

Calgro M3 Holdings Limited (the “Company”) and its subsidiaries, joint ventures and associates (together “the Group”) is a residential developer specialising in integrated developments aimed at the entry-level consumer. The Group’s turnkey business model provides the Group with a key differentiator: the capability to fulfil delivery across the full residential development cycle, from conceptualisation to hand-over of completed units to the end-user. The Group also engages in the development of Memorial Parks. In the current year the Group has also expanded its operations to include investments in rental units through its 49% shareholding in Afhco Calgro M3 Consortium (Pty) Ltd.

The Company has its primary listing on the Johannesburg Stock Exchange (“JSE”).

## 2. Summary of significant accounting policies

The most significant accounting policies have been presented next to the relevant notes in these financial statements. The remainder of the accounting policies not relating to a specific note is dealt with here. All policies have been consistently applied to all the years presented.

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), the SAICA Financial Reporting Guides and the Companies Act 71 of 2008. The financial statements have been prepared on the historical cost basis and are presented in South African Rand.

### 2.2 Working capital cycle

The operating cycle for inventory, construction contracts and work in progress is considered to be longer than 12 months. The operating cycle is generally between one and ten years, depending on the project size and type, which includes different typologies and infrastructure requirements. Accordingly the associated liabilities are classified as current as they are expected to be settled within the same operating cycle as inventory, construction contracts and work in progress.

### 2.3 Significant estimates and judgements

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. The significant judgements have been disclosed in the applicable note. These include:

▪ Fair value estimation	▣ Note 4
▪ Impairment of goodwill	▣ Note 8
▪ Assessment of joint control	▣ Note 9
▪ Land under development held for sale	▣ Note 12
▪ Impairment of trade receivables	▣ Note 15
▪ Percentage of completion for construction revenue	▣ Note 20
▪ Scope of construction agreements	▣ Note 20
▪ Share-based payments	▣ Note 33

## 2. Summary of significant accounting policies *(continued)*

### 2.4 New standards and interpretations

There were a number of new standards and interpretations effective and adopted in the current year, none of which have a significant impact on the Group, except for the standards and amendments listed below:

Topic	Key requirements	Effective date
Amendments to <b>IFRS 10: Consolidated Financial Statements</b> and <b>IAS 28: Investments in Associates and Joint Ventures</b> on applying the consolidation exemption	The amendments clarify the application of the consolidation exemption for investment entities and their subsidiaries.	1 January 2016
Amendments to <b>IFRS 10: Consolidated Financial Statements</b> and <b>IAS 28: Investments in Associates and Joint Ventures</b> on sale or contribution of assets	<p>The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to <b>IFRS 10: Consolidated Financial Statements</b> and <b>IAS 28: Investments in Associates and Joint Ventures</b>. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures.</p> <p>The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.</p>	1 January 2016
Amendment to <b>IAS 12: Income Taxes</b>	<p>The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.</p> <p>The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.</p>	1 January 2017
Amendment to <b>IAS 7: Cash Flow Statements</b>	<p>In January 2016, the International Accounting Standards Board ("IASB") issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p> <p>The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.</p>	1 January 2017

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 2. Summary of significant accounting policies *(continued)*

### 2.5 Standards and interpretations issued not yet effective

There are a number of new standards and amendments to new standards and interpretations which will only be effective after the 2017 year-end. Management is in the process of assessing the impact on the Group.


Topic	Key requirements	Effective date
<b>IFRS 15: Revenue from contracts with customers</b>	The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfers to a customer.	1 January 2018
<b>IFRS 9: Financial Instruments (2009 and 2010)</b> <ul style="list-style-type: none"> <li>Financial liabilities</li> <li>Derecognition of financial instrument</li> <li>Financial assets</li> <li>General hedge accounting</li> </ul>	<p>This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.</p> <p>The IASB has updated <b>IFRS 9: Financial Instruments</b> to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from <b>IAS 39: Financial Instruments: Recognition and Measurement</b>, without change, except for financial liabilities that are designated at fair value through profit or loss.</p>	1 January 2018
<b>IAS 40: Investment Property</b>	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.	1 January 2018
<b>IFRS 16: Leases</b>	<p>After 10 years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.</p> <p>The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).</p>	1 January 2019

## 2. Summary of significant accounting policies *(continued)*

### 2.5 Standards and interpretations issued not yet effective *(continued)*

Topic	Key requirements	Effective date
<b>IFRS 16: Leases</b> <i>(continued)</i>	<p>A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.</p> <p>One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).</p> <p>IFRS 16 supersedes <b>IAS 17: Leases</b>, <b>IFRIC 4: Determining whether an Arrangement contains a Lease</b>, <b>SIC 15: Operating Leases – Incentives</b> and <b>SIC 27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease</b>.</p>	

### 2.6 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group and all its subsidiaries. In the case of associates and joint ventures, those entities are presented as single line items in the statement of comprehensive income and statement of financial position (refer to  note 9). Inter-company transactions and balances are eliminated upon consolidation. Consistent accounting policies have been applied across the Group in the preparation of the consolidated financial statements.

The Group treats transactions with non-controlling interests that do not result in a loss of control as equity transactions. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### 2.7 Impairment of non-financial assets

The Group assesses at each end of the reporting period whether there is any indication that a non-financial asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Goodwill is tested annually for impairment regardless of any indicators of such.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing fair value and value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an individual non-financial asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss and is recognised directly in profit or loss.

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 2. Summary of significant accounting policies *(continued)*

### 2.7 Impairment of non-financial assets *(continued)*

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. An impairment loss in respect of goodwill is not reversed.

### 2.8 Provisions and contingencies

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event for which it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised.

No contingent assets or liabilities existed at year-end.

### 2.9 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in South African Rand, which is the Group's presentation currency.

#### (b) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

### 2.10 Financial instruments

#### 2.10.1 Classification

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

	Notes	2017	2016
<b>Financial assets – loans and receivables</b>			
Loans to joint ventures and associates	11	26 450 965	2 700 143
Trade and other receivables	15	232 061 602	278 676 785
Cash and cash equivalents	16	240 765 157	80 070 805
		<b>499 277 724</b>	361 447 733
<b>Financial liabilities – financial liabilities at amortised cost</b>			
Borrowings	18	571 645 578	538 463 465
Trade and other payables	19	813 211 796	317 471 864
		<b>1 384 857 374</b>	855 935 329

## 2. Summary of Significant Accounting Policies *(continued)*

### 2.10 Financial instruments *(continued)*

#### 2.10.2 Initial recognition and measurement

The Group initially records both financial assets and financial liabilities at fair value. Where transaction costs are incurred they are recognised as part of the initial cost of the financial instrument as the Group does not have any financial instruments classified as fair value through profit or loss.

#### 2.10.3 Subsequent measurement

All of the Group's financial assets are categorised as "loans and receivables" and are therefore subsequently measured at amortised cost. Amortised cost is the basis of moving the initial amount of the financial instrument (fair value of the instrument) to the maturity value of the instrument on a systematic basis using a fixed interest rate (effective interest rate) taking into account repayment dates and initial premiums or discounts. The carrying amount of amortised cost financial assets is adjusted for impairments.

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

#### 2.10.4 Impairment of financial assets

Financial assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment is normally determined based on a realistic assessment of future cash flows discounted using the original effective interest rate compared with contractual amounts. For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment. Impairment losses are recognised in profit or loss.

## 3. Risk management

### 3.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk.

Risk management is carried out by the Executive Committee which identifies and evaluates financial risks in close-cooperation with the Group's operating Board of Directors who are responsible for overall risk management, as well as guidance covering specific areas, such as interest rate risk and credit risk, and investment of excess liquidity.

#### (a) Market risk (cash flow interest rate risk)

The Group's interest rate risk arises mainly from its borrowings (refer to  note 18).

The interest rate exposure is monitored and managed by the Executive Committee and will not be hedged to limit interest rate risk. The Executive Committee monitors the cash flows relating to borrowings ie, interest paid, more so than the changes in the interest rate. Refer to the statement of cash flows for more information on finance costs paid.

The impact on post-tax profit of a 2% shift in the interest rate would be a maximum increase/decrease of:

	2017	2016
2% increase/(decrease) on finance charges on interest-bearing borrowings	9 262 728	7 753 874
2% increase/(decrease) on finance income on interest-bearing assets	1 126 287	1 215 193

A 2% shift is considered appropriate by management taking into account the current economic environment the Group operates in.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 3. Risk management *(continued)*

#### 3.1 Financial risk management *(continued)*

##### (b) Credit risk

Credit risk consists mainly of loans to joint ventures and associates, financial guarantees to third parties, cash deposits and cash equivalents and trade and other receivables (including retention debtors). The Group only deposits cash with major banks with a minimum rating of “BB+” and limits the exposure to any one counterparty. Trade and other receivables comprise a widespread customer base. Customers include government institutions, private sector entities and individuals. Management evaluates credit risk relating to trade debtors (excluding trade receivables owing by joint ventures and associates) on an ongoing basis taking into account their financial position, past experience and other factors. Credit risk is limited due to the nature of trade debtors which consist of outstanding draw downs from banks and government institutions. In cases where management deems the risk level to be unacceptable, payment guarantees or collateral are insisted upon.

The Group considers its credit risk relating to the loans and trade receivables owing by joint ventures and associates on a case by case basis. Any credit risk related to loans to joint ventures and associates is mitigated by the fact that management has insight into the financial position of the joint ventures as a result of the joint venture relationship.

For loans to joint ventures and associates, loan receivables, trade and other receivables (including retention debtors), and cash and cash equivalents, the maximum exposure to credit risk is limited to what is disclosed in the statement of financial position.

##### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Executive Committee maintains flexibility in funding by maintaining availability under committed credit lines. The Group manages liquidity risk by monitoring forecasted cash flows. The Group strives to match the maturity profile of borrowings with expected cash flows from the development projects.

A specific liquidity risk associated with the Group is the raising of loans at specified dates of repayment, against construction projects.

The related cash inflows from these construction projects are, however, uncertain and dependent on factors not under the control of the Group.

The financial liabilities to be settled within one year will be funded by cash and cash equivalents as well as the realisation of trade and other receivables and construction contracts.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting period date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

### 3. Risk management (continued)

#### 3.1 Financial risk management (continued)

##### (c) Liquidity risk (continued)

Financial instruments recognised on the statement of financial position

At 28 February	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Total
<b>2017</b>						
Borrowings (including future interest)	235 915 865	140 358 580	180 827 005	156 785 210	–	713 886 660
Trade and other payables	758 816 462	16 500 000	18 700 000	15 050 000	15 250 000	824 316 462
	994 732 327	156 858 580	199 527 005	171 835 210	15 250 000	1 538 203 122
<b>2016</b>						
Borrowings (including future interest)	250 942 496	174 028 379	116 159 670	10 304 365	97 728 274	649 163 184
Trade and other payables	317 471 864	–	–	–	–	317 471 864
	568 414 360	174 028 379	116 159 670	10 304 365	97 728 274	966 635 048

The above amounts will be repaid by utilising cash generated from operations, available cash, working capital facilities and the refinancing of borrowings.

The Group has overdraft facilities with major banks to the value of R60 000 000 (2016: R60 000 000).

#### 3.2 Capital risk management



The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

Management's intention is to use debt as a means to fund operations rather than to raise more capital.

The Group monitors capital on the basis of its net debt/equity ratio. The maximum allowed net debt/equity ratio for the Group is 1.5:1.

##### 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.

	2017	2016
<b>Net debt</b>		
Borrowings (refer to  note 18)	571 645 578	538 463 465
Other interest-bearing borrowings	71 599 426	–
Less: Cash and cash equivalents (refer to  note 16)	(240 765 157)	(80 070 805)
	402 479 847	458 392 660
<b>Equity</b>		
Stated capital	116 255 971	96 021 721
Retained income	846 079 473	676 923 496
	962 335 444	772 945 217
<b>Net debt/equity ratio</b>	0.42	0.59

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 4. Fair values

#### Financial instruments

All of the Group's financial instruments are measured at amortised cost. To determine the fair value of the financial instruments future contractual cash flows are discounted using current market interest rates available to the Company for similar financial instruments.

With the exception of the Group's borrowings, the financial instruments carrying values equal their fair values, due to the short-term nature of the instruments.

#### Non-financial instruments

In assessing the fair value of investment property, valuations consider title deed information, town planning conditions, locality and improvements made to the property. Property vacancy rates in surrounding areas, realised yields on comparative sales as well as micro and macro-economic conditions pertaining to residential properties are considered.

#### Fair value table

The table below analyses the valuation levels used to determine the fair values of the applicable line items in the statement of financial position.

Level number	Level definition
1.	Quoted prices (unadjusted) in active markets for identical assets or liabilities
2.	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
3.	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Comparison of carrying and fair values of applicable line items in the statement of financial position:

	Fair value					
	Carrying values		Level 2		Level 3	
	2017	2016	2017	2016	2017	2016
<b>Assets</b>						
Investment property	6 518 700	–			6 518 700	–
Loans to joint ventures and associates	26 450 965	2 700 143			26 450 965	2 700 143
Trade and other receivables	232 061 602	278 676 785			232 061 602	278 676 785
<b>Liabilities</b>						
Borrowings	571 645 578	538 463 465	581 941 516*	547 929 366*		
Trade and other payables	813 211 796	317 471 864			813 211 796	317 471 864

Based on the Group's accounting policies no assets and liabilities are recognised at fair value at year-end.

\* Based on quoted prices on the Bond Exchange.

## 5. Segment information

The appointed Chief Operating Decision Maker (“CODM”) within the Calgro M3 Group is the Group’s Executive Committee (“Exco”). It is Exco’s responsibility to meet on a regular basis (through weekly meetings and more frequently if required) and determine the strategy for the Group, set and review budgets, allocate group resources to the operating segments and assess the performance of the operating segments.

At Exco meetings, summarised feedback on the segments is provided by the Chief Executive Officer who is responsible for the management of the different operational activities within the Group.

The Chief Executive Officer obtains the necessary information to be discussed at Exco from the weekly management meeting (“Manco”) principally from the head of project management who is supported by the managers of the various activities within the Calgro turnkey business model.

These managers are not seen by the CODM as segment managers but rather as being responsible for the management of day-to-day operations within the activities they are responsible for.

The head of project management combines all information for the various projects and ensures the coordination of the internal and external processes.

The CODM manages the group activities in three distinct segments, namely:

- Professional Services which consists of the following activities: identify projects and due diligence; securing land; and township establishment;
- Property Development which consists of the following activities: infrastructure development; marketing and sales; construction; and handover to client; and
- Memorial Parks which consist of the following activities: land development; marketing and sales, burial rights and maintenance services.

The Group’s products relating to the Memorial Parks segment consist of burial rights and the associated burial and maintenance services. The operation of the Group’s other two segments, being Property Development and Professional Services encompass the following product range: mid to high income housing, as well as integrated developments. Integrated developments comprise affordable housing, Grassroots affordable people’s homes (“GAP”), finance linked individual subsidy programme (“FLISP”) and rental housing, social housing, Community Residential Units (“CRU”) housing, as well as Breaking New Ground (“BNG”) fully subsidised housing. The operation of the three operating segments span the entire product range. The Group’s customer base includes the government, financial institutions and the general public.

The segment information provided to Exco for the operating segments for the year ended 28 February 2017 has been provided below. The table indicates from where the Group’s revenue has been earned, including its joint ventures and associates. The revenue earned by the joint ventures and associates, in their own capacities, have been disclosed in [note 9](#).

The CODM assesses the performance of the operating segments based on a measure of revenue and adjusted profit before tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as legal expenses and goodwill impairments when the impairment is a result of an isolated, non-recurring event. The measure also excludes the effects of net finance income and the share of profits from joint ventures and associates as this information is not reviewed by the CODM.

A large portion of developments done by the Group is done through joint venture and associate arrangements. The joint ventures or associates sub-contract the Group to provide various services to these joint ventures and associates. The segmental revenue shown below has been broken down into the amount of revenue each segment of the Group has earned from these sub-contract arrangements.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 5. Segment information *(continued)*

	Property Development	Professional Services	Memorial Parks	Total
<b>2017</b>				
<b>Total Segment Revenue</b>	<b>1 538 913 398</b>	<b>11 449 218</b>	<b>4 317 041</b>	<b>1 554 679 657</b>
Fleurhof Project	717 525 789	–	–	717 525 789
Jabulani Project	52 741 501	–	–	52 741 501
Aquarella Investments 265 (Pty) Ltd	123 224	–	–	123 224
Summerset Project	177 856 010	–	–	177 856 010
Calgro Kuumba Planning & Design (Pty) Ltd	11 686 707	–	–	11 686 707
Witpoortjie Calgro M3 Development Company (Pty) Ltd	30 825 090	–	–	30 825 090
South Hills Development Company (Pty) Ltd	160 606 964	3 913 338	–	164 520 302
Safdev Tanganani (Pty) Ltd	–	6 929 245	–	6 929 245
Leratong Project	–	606 635	–	606 635
Belhar Project	234 811 656	–	–	234 811 656
Other third parties	152 736 457	–	4 317 041	157 053 498
<b>Combined revenue*</b>	<b>1 974 154 679</b>	<b>11 449 218</b>	<b>4 317 041</b>	<b>1 989 920 938</b>
Total segment revenue	1 538 913 398	11 449 218	4 317 041	1 554 679 657
Revenue of joint ventures and associates	435 241 281	–	–	435 241 281
Witpoortjie Calgro M3 Development Company (Pty) Ltd	50 182 821	–	–	50 182 821
Aquarella Investments 265 (Pty) Ltd	82 789 150	–	–	82 789 150
South Hills Development Company (Pty) Ltd	214 419 178	–	–	214 419 178
Calgro Kuumba Planning & Design (Pty) Ltd	87 850 132	–	–	87 850 132
<b>Profit before tax for reportable segments</b>	<b>201 181 783</b>	<b>8 107 150</b>	<b>594 100</b>	<b>209 883 033</b>
Operating profit	222 445 074	8 107 162	1 249 985	231 802 221
Finance costs	(21 263 291)	(12)	(655 885)	(21 919 188)
<b>Assets per segment</b>	<b>2 014 211 863</b>	<b>8 044 550</b>	<b>129 844 373</b>	<b>2 152 100 786</b>
Goodwill	154 800 714	4 155 000	694 804	159 650 518
Investment property	–	–	6 518 700	6 518 700
Property, plant and equipment	–	–	2 404 936	2 404 936
Inventories	475 763 547	–	120 225 933	595 989 480
Work in progress	–	3 889 550	–	3 889 550
Construction contracts	1 383 647 602	–	–	1 383 647 602

\* 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. Refer to note 9 for details on revenue attributable to joint ventures and associates.

## 5. Segment information *(continued)*

Operating segments for the year ended 29 February 2016, are disclosed below:

	Property Development	Professional Services	Memorial Parks	Total
<b>2016</b>				
<b>Total segment revenue</b>	1 183 418 276	19 989 854	655 249	1 204 063 379
Fleurhof Ext 2 (Pty) Ltd	636 610 494	12 724 297	–	649 334 791
Aquarella Investments 265 (Pty) Ltd	797 086	1 451 427	–	2 248 513
Calgro Kuumba Planning & Design (Pty) Ltd	10 405 416	–	–	10 405 416
Witpoortjie Calgro M3 Development Company (Pty) Ltd	26 184 169	2 062 900	–	28 247 069
South Hills Development Company (Pty) Ltd	125 932 956	4 944 763	–	130 877 719
Other third parties	383 488 155	(1 193 533)	655 249	382 949 871
<b>Combined revenue*</b>	2 272 563 350	19 989 854	655 249	2 293 208 453
<b>Total segment revenue</b>	1 183 418 276	19 989 854	655 249	1 204 063 379
Revenue of joint ventures and associates	1 089 145 074	–	–	1 089 145 074
Fleurhof Ext 2 (Pty) Ltd	886 443 998	–	–	886 443 998
Aquarella Investments 265 (Pty) Ltd	1 330 290	–	–	1 330 290
South Hills Development Company (Pty) Ltd	148 598 433	–	–	148 598 433
Calgro Kuumba Planning & Design (Pty) Ltd	52 772 353	–	–	52 772 353
<b>Profit before tax for reportable segments</b>	132 752 748	15 891 088	(1 929 784)	146 714 052
Operating profit	151 494 914	15 891 092	(1 893 656)	165 492 350
Finance costs	(18 742 166)	(4)	(36 128)	(18 778 298)
<b>Assets per segment</b>	1 433 723 028	16 938 457	84 907 987	1 535 569 472
Goodwill	154 800 714	4 155 000	–	158 955 714
Inventories	368 185 337	–	84 907 987	453 093 324
Work in progress	–	12 783 457	–	12 783 457
Construction contracts	910 736 977	–	–	910 736 977

\* 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. Refer to note 9 for details on revenue attributable to joint ventures and associates.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 5. Segment information *(continued)*

A reconciliation of profit before tax is provided as follows:

	2017	2016
Profit before tax for reportable segments	209 883 033	146 714 052
Group overhead costs	(2 837 560)	(5 325 672)
<b>Total share of profit of joint ventures and associates – net of tax</b>	<b>6 269 279</b>	<b>67 233 693</b>
Fleurhof Ext 2 (Pty) Ltd	–	62 187 690
Calgro Kuumba Planning & Design (Pty) Ltd	474 548	(246 249)
Witpoortjie Calgro M3 Development Company (Pty) Ltd	–	288 981
South Hills Development Company (Pty) Ltd	5 794 731	5 003 271
<b>Profit before tax, finance income and finance cost</b>	<b>213 314 752</b>	<b>208 622 073</b>
Finance income	19 994 575	30 656 909
Finance cost – unallocated to reportable segments	(2)	(4 143)
<b>Profit before tax</b>	<b>233 309 325</b>	<b>239 274 839</b>

Please refer to [note 9](#) for details of the share of profits of joint ventures and associates.

The amounts provided to Exco with respect to total assets are measured in a manner consistent with that in the statement of financial position. These assets are allocated based on the operations of the segment.

Reportable segments' assets are reconciled to total assets as follows:

	2017	2016
Segment assets for reportable segments	2 152 100 786	1 535 569 472
<b>Unallocated:</b>		
Deferred tax	14 846 951	13 787 806
Property, plant and equipment	3 400 934	3 827 044
Intangible assets excluding goodwill	40 280	83 389
Investment in joint ventures and associates	12 348 965	6 079 686
Loans to joint ventures and associates	26 450 966	2 700 143
Current tax receivable	18 603 111	14 488 320
Trade and other receivables	276 198 353	285 892 617
Cash and cash equivalents	240 765 157	80 070 805
<b>Total assets per the consolidated statement of financial position</b>	<b>2 744 755 503</b>	<b>1 942 499 282</b>

Loans to joint ventures and associates and trade and other receivables are managed on a Group level, on a customer basis rather than an operating segment basis.

The amounts provided to Exco with respect to total liabilities are measured in a manner consistent with that in the statement of financial position. These liabilities are allocated based on the operations of the segment.

## 5. Segment information *(continued)*

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2017	2016
Segment liabilities for reportable segments	–	–
<b>Unallocated:</b>		
Deferred tax	302 357 733	241 040 955
Borrowings	571 645 578	538 463 465
Current tax	9 069	419 112
Trade and other payables	847 661 692	342 786 896
<b>Total liabilities per the consolidated statement of financial position</b>	<b>1 721 674 072</b>	<b>1 122 710 428</b>

## 6. Investment property

### Accounting policy

The Group acquired six buildings through the acquisition of the Fourways Private Memorial Park business. The buildings are held to earn long-term rental. Refer to note 30 for the business combination relating to the acquisition of the investment property.

The investment property is initially recognised at cost and subsequently measured at fair value.

	Cost 2017	Fair value adjustment 2017	Carrying amount 2017	Cost 2016	Fair value adjustment 2016	Carrying amount 2016
Investment property	6 518 700	–	6 518 700	–	–	–

Investment properties to the value of R6 518 700 was acquired through the acquisition of Fourways Private Memorial Park business. Refer to note 30.

Land and buildings under investment property have a fair value of R6 518 700 (2016: Rnil). The fair value was based on a valuation by an independent valuer who held a recognised and relevant professional qualification and had recent experience in the location and category of the investment property being valued.

Rental income received in respect of investment property amounts to R641 103 (2016: Rnil). Refer to note 22.

## 7. 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 exceed the carrying amount, no depreciation is provided.

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

Item	Average useful life
▪ Land	Unlimited
▪ Buildings	Up to 50 years
▪ Plant and machinery and motor vehicles	5 years
▪ Leasehold improvements	10 years
▪ Furniture and fixtures and office equipment	6 years
▪ IT equipment	3 years

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 7. Property, plant and equipment *(continued)*

	Cost 2017	Accumulated depreciation 2017	Carrying amount 2017	Cost 2016	Accumulated depreciation 2016	Carrying amount 2016
Land and buildings	1 470 692	–	1 470 692	–	–	–
Plant and machinery	3 774 308	(2 990 544)	783 764	3 040 636	(2 848 911)	191 725
Furniture and fixtures	1 263 299	(371 864)	891 435	1 002 311	(181 102)	821 209
Motor vehicles	–	–	–	190 263	(152 211)	38 052
Office equipment	852 412	(337 660)	514 752	840 569	(196 250)	644 319
IT equipment	1 379 113	(818 686)	560 427	899 840	(529 295)	370 545
Leasehold improvements	1 895 844	(311 044)	1 584 800	1 863 671	(102 477)	1 761 194
<b>Total</b>	<b>10 635 668</b>	<b>(4 829 798)</b>	<b>5 805 870</b>	<b>7 837 290</b>	<b>(4 010 246)</b>	<b>3 827 044</b>

Property, plant and equipment with a carrying amount of R1 (Cost: R190 263, Accumulated depreciation: R190 262) (2016: R79 157 (Cost: R612 812, Accumulated depreciation: R549 916)) has been written off in the current year.

Additions of R2 988 639 (2016: R3 309 910) have been made in the current year. Included in the current year additions, R2 122 080 was acquired through the acquisition of Fourways Memorial Parks. Refer to note 30.

Depreciation expense of R1 009 815 (2016: R1 157 602) has been charged to “administrative expenses” in the statement of comprehensive income.

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the Company.

### 8. Intangible assets

#### Accounting policy

##### (a) Goodwill

Goodwill for the Group arose as a result of the acquisition of five subsidiaries: MS5 Pennyville (Pty) Ltd, CTE Consulting (Pty) Ltd, Clidet No 1014 (Pty) Ltd, Fleurhof Ext 2 (Pty) Ltd and Calgro M3 Memorial Parks Fourways (Pty) Ltd.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

##### (b) Computer software

Computer software is initially recorded at cost and subsequently carried at cost less accumulated amortisation and any impairment losses.

Amortisation on computer software is calculated using the straight-line method to allocate its cost to the statement of comprehensive income over its useful life of two years.

##### (c) Estimates and key judgements

Management used estimates in determining the fair value and value-in-use calculation for the annual goodwill impairment test. Refer below for further detail.

## 8. Intangible assets *(continued)*

	Cost 2017	Accumulated amortisation/ impairment 2017	Carrying amount 2017	Cost 2016	Accumulated amortisation/ impairment 2016	Carrying amount 2016
Goodwill	174 364 496	(14 713 978)	159 650 518	173 669 692	(14 713 978)	158 955 714
Computer software	258 155	(217 875)	40 280	261 874	(178 485)	83 389
	174 622 651	(14 931 853)	159 690 798	173 931 566	(14 892 463)	159 039 103

Amortisation expenses on computer software of R70 054 (2016: R213 623) has been included in "administration expenses" in the statement of comprehensive income.

Additions of R52 385 (2016: R30 975) have been made in the current year to computer software.

Computer software with a carrying amount of R25 440 (Cost: R56 104, Accumulated depreciation: R30 664) (2016: R7 (Cost: R387 724, Accumulated depreciation: R387 717)) has been written off in the current year.

Additions to goodwill in the current year was R694 804, relating to the acquisition of Calgro M3 Memorial Parks Fourways (Pty) Ltd. In the prior year, additions to goodwill totalled R118 250 791 relating to the acquisition of the remaining shareholding of Fleurhof Ext 2 (Pty) Ltd.

For details on the business combination please refer to  note 30.

	2017	2016
<b>Impairment tests for goodwill</b>		
Goodwill is monitored at the operating segment level. The following is a summary of goodwill allocation for each operating segment:		
Professional Services	4 155 000	4 155 000
Property Development	154 800 714	154 800 714
Memorial Parks	694 804	–
	159 650 518	158 955 714

The goodwill for Calgro M3 Memorial Parks Fourways (Pty) Ltd relates to the current year acquisition of the Fourways Private Memorial Park business and is tested annually for impairment.

The recoverable amounts of the Property Development and Professional Services operating segments have been determined based on value-in-use calculations.

These calculations use real pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 8. Intangible assets *(continued)*

The key assumptions used for value-in-use calculations are as follows:

	Property Development		Professional Services	
	2017 %	2016 %	2017 %	2016 %
Gross margin	21.69	20.40	66.00	66.00
Pre-tax discount rate (real)	22.13	25.56	29.10	26.86

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. Management determined budgeted gross margins based on past performance and its expectations of market development and availability of cash for the end user.

If the budgeted gross margin used in the value-in-use calculations had been lower by 5% than the management estimates, the Group would still not recognise an impairment of goodwill.

If the estimated discount rate applied to the cash flows had been 5% higher than the management estimates, the Group would still not recognise an impairment of goodwill.

### 9. Investment in joint ventures and associates

#### Accounting policy

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are companies in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the decisions about relevant activities require the unanimous consent of the joint partners. In both cases, the Group equity accounts these investments resulting in the Group's statement of comprehensive income reflecting its share of the entity's profit or loss after tax and the statement of financial position records the Group's share of the net assets.

When the Group's share of losses in a joint venture or associate equals or exceeds its interests in the joint ventures and associates (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures and associates), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures and associates.

Unrealised gains on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint ventures and associates, unless the transaction provides evidence of an impairment of the asset transferred.

#### Significant judgement and source of estimation uncertainty

The Group holds either more or less than 50% of the shareholding in a number of these entities. Refer below to the judgements management exercised in determining whether or not it has joint control over the various entities.

## 9. Investment in joint ventures and associates (continued)

	% Voting power 2017	% Voting power 2016	% Holding 2017	% Holding 2016	Carrying amount 2017	Carrying amount 2016
<b>Joint ventures</b>						
Aquarella Investments 265 (Pty) Ltd <sup>#</sup>	50.00	50.00	14.00	14.00	14	14
Sabre Homes Projects (Pty) Ltd <sup>^</sup>	50.00	50.00	60.00	60.00	600	600
Witpoortjie Calgro M3 Development Company (Pty) Ltd <sup>^</sup>	50.00	50.00	75.83	75.83	288 981	288 981
South Hills Development Company (Pty) Ltd <sup>^*</sup>	50.00	50.00	57.50	57.50	11 584 323	5 789 591
Safdev Tanganani (Pty) Ltd	50.00	50.00	50.00	50.00	500	500
					11 874 418	6 079 686
<b>Associates</b>						
Calgro Kuumba Planning & Design (Pty) Ltd	35.00	35.00	35.00	35.00	474 548	–
Afhco Calgro M3 Consortium (Pty) Ltd	49.00	0.00	49.00	0.00	–	–
					474 548	–
					12 348 966	6 079 686

\* Although the Group holds 57.5% of the shareholding in South Hills Development Company (Pty) Ltd, it only equity accounts for 42.5% as 15% of the shareholding and related profits have been ceded to a third party.

<sup>^</sup> Although the Group has majority shareholding in these entities, it does not have control of the Company as the Board comprises an equal number of representatives from both the Group as well as the minority shareholder. Both parties have equal voting rights, irrespective of the percentage shareholding or representation on the Board of Directors. Any decision regarding the relevant activities of these entities that significantly affect the returns of the entity are made with the unanimous consent of both parties.

<sup>#</sup> Although the Group has minority shareholding in this entity, the board comprises an equal number of representatives from both the Group as well as the majority shareholder. Both parties have equal voting rights, irrespective of the percentage shareholding or representation on the Board of Directors. The majority shareholder does not have sole control over the activities of the entity. This is because decisions regarding the relevant activities of the entity that significantly affect the returns of the entity are made with the unanimous consent of both parties.

The joint ventures are managed by steering committees that contain an equal number of representatives from both the Calgro M3 Group as well as the other shareholders.

The steering committees meet on a regular basis to discuss the relevant activities of the project. These activities include the authorisation of budgets, project feasibilities, cash flow forecasts, distributions, potential variation orders, cost over runs, determining of sales prices and the appointment of all contractors and professional teams. Any decisions related to the relevant activities that significantly affect the returns of the entity need to carry the unanimous consent of both joint venture partners, irrespective of the number of representatives a party has on the steering committee or directorate of the respective Company.

The shares in Afhco Calgro M3 Consortium (Pty) Ltd have been pledged as security for the Group's proportionate share of a loan payable by Afhco Calgro M3 Consortium (Pty) Ltd to Afhco Holdings (Pty) Ltd.

Other than loans to joint ventures and associates (see note 11), trade and other receivables (see note 15) and related-party transactions (see note 35) which arose in the ordinary course of business, the Calgro M3 Group has no further financial risks associated with these joint ventures and associates.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 9. Investment in joint ventures and associates *(continued)*

The projects which are managed by each joint venture or associate are as follows:

Name of company	Name of project
Aquarella Investments 265 (Pty) Ltd	Jabulani CBD
Sabre Homes Projects (Pty) Ltd	Jukskei View
Witpoortjie Calgro M3 Development Company (Pty) Ltd	Witpoortjie
South Hills Development Company (Pty) Ltd	South Hills
Safdev Tanganani (Pty) Ltd	Diepsloot
Calgro Kuumba Planning & Design (Pty) Ltd	Otjomuise, Windhoek, Namibia

The place of business for all joint ventures and associates is South Africa, with the exception of Calgro Kuumba Planning & Design (Pty) Ltd, which place of business is in Namibia.

The functional currency of all joint ventures and associates are South African Rand with the exception of Calgro Kuumba Planning & Design (Pty) Ltd which is Namibian Dollar.

All the year ends of joint ventures and associates, except for Afhco Calgro M3 Consortium (Pty) Ltd, are consistent with those of the Group. Afhco Calgro M3 Consortium (Pty) Ltd year-end is 31 December.

A detailed statement of financial position of comprehensive income for each individual joint venture and associate is disclosed in the notes below. The impact of the cash flows on the Calgro M3 Group from these joint ventures and associates are also presented for each individual joint venture and associate in the notes below.

	Aquarella Investments 265 (Pty) Ltd		Sabre Homes Projects (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of financial position</b>				
<b>Assets</b>				
<b>Non-current assets</b>				
Loans to shareholders	–	–	600	600
Deferred income tax asset	–	6 974 253	3 646 802	3 366 396
	–	6 974 253	3 647 402	3 366 996
<b>Current assets</b>				
Inventories/construction contracts	17 154 436	160 037 820	854 243	854 243
Trade and other receivables	9 965 355	7 927 386	3 523	–
Cash and cash equivalents	2 634	2 364	51 912	1 370 241
	27 122 425	167 967 570	909 678	2 224 484
<b>Total assets</b>	27 122 425	174 941 823	4 557 080	5 591 480
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	100	100	1 000	1 000
Retained income/(accumulated loss)	20 746 252	(18 001 082)	(6 647 168)	(5 926 123)
	20 746 352	(18 000 982)	(6 646 168)	(5 925 123)
<b>Liabilities</b>				
<b>Current liabilities</b>				
Loans from shareholders	–	176 156 151	11 203 248	4 463 658
Trade and other payables	6 376 073	16 786 654	–	7 052 945
	6 376 073	192 942 805	11 203 248	11 516 603
<b>Total liabilities</b>	6 376 073	192 942 805	11 203 248	11 516 603
<b>Total equity and liabilities</b>	27 122 425	174 941 823	4 557 080	5 591 480

## 9. Investment in joint ventures and associates *(continued)*

	Aquarella Investments 265 (Pty) Ltd		Sabre Homes Projects (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of comprehensive income</b>				
Revenue	82 789 150	1 330 290	–	–
Cost of sales	(119 511 444)	(2 990 941)	(25 173)	(2 740)
<b>Gross loss</b>	<b>(36 722 294)</b>	<b>(1 660 651)</b>	<b>(25 173)</b>	<b>(2 740)</b>
Other income	96 087 017	211 299	91 083	–
Administrative expenses	(578 342)	(118 578)	(21 437)	(857 144)
Other expenses	(13 064 997)	–	–	–
<b>Operating profit/(loss)</b>	<b>45 721 384</b>	<b>(1 567 930)</b>	<b>44 473</b>	<b>(859 884)</b>
Finance income	203	606	31 071	36 232
Finance cost	–	–	(1 076 995)	(484 736)
<b>Profit/(loss) before tax</b>	<b>45 721 587</b>	<b>(1 567 324)</b>	<b>(1 001 451)</b>	<b>(1 308 388)</b>
Taxation	(6 974 253)	394 395	280 406	158 276
<b>Profit/(loss) after taxation</b>	<b>38 747 334</b>	<b>(1 172 929)</b>	<b>(721 045)</b>	<b>(1 150 112)</b>
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	<b>38 747 334</b>	<b>(1 172 929)</b>	<b>(721 045)</b>	<b>(1 150 112)</b>
<b>Reconciliation of detailed financial information</b>				
Reconciliation of the detailed information presented to the carrying amount of its interest in the joint venture.				
<b>Summarised financial information</b>				
Opening net assets at 1 March	(18 000 982)	(16 828 053)	(5 925 123)	(4 775 011)
Profit/(loss after tax)	38 747 334	(1 172 929)	(721 045)	(1 150 112)
<b>Closing net assets</b>	<b>20 746 352</b>	<b>(18 000 982)</b>	<b>(6 646 168)</b>	<b>(5 925 123)</b>
Limitation due to contractual preferential right to profit in favour of the joint venture partner	(20 746 352)	18 000 982	6 646 168	5 925 123
Interest in joint venture at 14% and 60%	14	14	600	600
<b>Carrying value</b>	<b>14</b>	<b>14</b>	<b>600</b>	<b>600</b>

No share of profits or losses in Aquarella Investments 265 (Pty) Ltd and Sabre Homes Projects (Pty) Ltd have been accounted for in the statement of comprehensive income in the current year.

In terms of the shareholders' agreements the other shareholders of these joint ventures have a preferential right to a share of the profits before any distributions may be made to the Group. The Group will commence accounting for its share of profits once the other shareholders' preferred rights have been met.

	Aquarella Investments 265 (Pty) Ltd		Sabre Homes Projects (Pty) Ltd	
	2017	2016	2017	2016
<b>Reconciliation of investment in joint venture</b>				
At 1 March	14	14	600	600
Share of profit	–	–	–	–
<b>Net carrying value</b>	<b>14</b>	<b>14</b>	<b>600</b>	<b>600</b>

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 9. Investment in joint ventures and associates *(continued)*

	Aquarella Investments 265 (Pty) Ltd		Sabre Homes Projects (Pty) Ltd	
	2017	2016	2017	2016
<b>The impact of the cash flows on the Group consists of the following:</b>				
Cash (outflow)/inflow from construction activities (net movement in trade debtors)	6 483 475	(3 355 452)	–	–
Cash inflow for loans from joint ventures	–	–	–	–
Cash outflow for loans to joint ventures	–	–	(3 700 412)	–
<b>Net cash flows on the Group from joint ventures</b>	<b>6 483 475</b>	<b>(3 355 452)</b>	<b>(3 700 412)</b>	<b>–</b>

	Witpoortjie Calgro M3 Development Company (Pty) Ltd		South Hills Development Company (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of financial position</b>				
<b>Assets</b>				
<b>Non-current assets</b>				
Deferred income tax asset	151 860	–	–	–
	151 860	–	–	–
<b>Current assets</b>				
Inventories/construction contracts	144 950 235	150 865 781	135 951 588	38 743 864
Trade and other receivables	666 269	4 672 280	6 308 142	466 424
Cash and cash equivalents	641 693	251 706	15 068	–
	146 258 197	155 789 767	142 274 798	39 210 288
<b>Total assets</b>	<b>146 410 057</b>	<b>155 789 767</b>	<b>142 274 798</b>	<b>39 210 288</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital*	–	–	120	120
(Accumulated loss)/retained income	(509 333)	401 761	28 375 407	13 622 405
	(509 333)	401 761	28 375 527	13 622 525
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Deferred income tax liability	–	202 452	11 034 882	5 297 602
	–	202 452	11 034 882	5 297 602
<b>Current liabilities</b>				
Borrowings	62 497 120	54 803 114	–	–
Bank overdraft	–	–	32 472 568	7 997 636
Loans from shareholders	–	–	5 774 746	5 202 010
Trade and other payables	84 422 270	100 382 440	64 617 075	7 090 515
	146 919 390	155 185 554	102 864 389	20 290 161
<b>Total liabilities</b>	<b>146 919 390</b>	<b>155 388 006</b>	<b>113 899 271</b>	<b>25 587 763</b>
<b>Total equity and liabilities</b>	<b>146 410 057</b>	<b>155 789 767</b>	<b>142 274 798</b>	<b>39 210 288</b>

\* Witpoortjie Calgro M3 Development Company (Pty) Ltd has been incorporated under the new Companies Act 71 of 2008. The value of the shares are stated at no par value.

## 9. Investment in joint ventures and associates *(continued)*

	Witpoortjie Calgro M3 Development Company (Pty) Ltd		South Hills Development Company (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of comprehensive income</b>				
Revenue	50 182 821	9 363 357	214 419 178	148 598 433
Cost of sales	(50 861 941)	(8 707 007)	(193 878 704)	(132 282 689)
<b>Gross (loss)/profit</b>	(679 120)	656 350	20 540 474	16 315 744
Other income	39 297	165 045	–	–
Administrative expenses	(625 583)	217 186	(667 460)	(84 344)
<b>Operating (loss)/profit</b>	(1 265 406)	604 209	19 873 014	16 231 400
Finance income	–	4	617 268	119 161
<b>(Loss)/profit before tax</b>	(1 265 406)	604 213	20 490 282	16 350 561
Taxation	354 312	(202 452)	(5 737 280)	(4 578 157)
<b>(Loss)/profit after taxation</b>	(911 094)	401 761	14 753 002	11 772 404
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	(911 094)	401 761	14 753 002	11 772 404
<b>Reconciliation of detailed financial information</b>				
Reconciliation of the detailed information presented to the carrying amount of its interest in the joint venture.				
<b>Summarised financial information</b>				
Opening net assets at 1 March	401 761	–	13 622 525	1 850 001
Issue of stated capital	–	–	–	120
(Loss)/profit after tax	(911 094)	401 761	14 753 002	11 772 404
<b>Closing net assets</b>	(509 333)	401 761	28 375 527	13 622 525
Loss limitation	386 227	–	–	–
Unrealised profits eliminated	–	–	(475 276)	–
Interest in joint venture at 75.83% and 42.5%	(386 227)	304 656	12 059 599	5 789 591
<b>Carrying value</b>	–	304 656	11 584 323	5 789 591
<b>Reconciliation of investment in joint venture</b>				
At 1 March	304 656	–	5 789 591	786 320
Unrealised profits eliminated	–	–	(475 276)	–
Loss limitation	386 227	–	–	–
Share of profit	(690 883)	304 656	6 270 008	5 003 272
<b>Net carrying value</b>	–	304 656	11 584 323	5 789 591
<b>The impact of the cash flows on the Group consists of the following:</b>				
Cash (outflow)/inflow from construction activities (net movement in trade debtors)	(912 266)	(22 454 572)	(44 911 100)	11 956 506
Cash inflow for loans from joint ventures	–	–	–	–
Cash outflow for loans to joint ventures	–	–	–	–
<b>Net cash flows on the Group from joint ventures</b>	(912 266)	(22 454 572)	(44 911 100)	11 956 506

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 9. Investment in joint ventures and associates *(continued)*

	Safdev Tanganani (Pty) Ltd		Calgro Kuumba Planning and Design (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of financial position</b>				
<b>Assets</b>				
<b>Non-current assets</b>				
Deferred income tax asset	619 556	596 553	–	33 377
	619 556	596 553	–	33 377
<b>Current assets</b>				
Construction contracts	–	–	3 229 640	–
Inventories	66 511 294	53 447 597	–	–
Trade and other receivables	970 196	2 270	536 000	39 491
Current income tax asset	–	–	4 218	4 218
Cash and cash equivalents	42 457	23 320	964 371	2 782
	67 523 947	53 473 187	4 734 229	46 491
<b>Total assets</b>	<b>68 143 503</b>	<b>54 069 740</b>	<b>4 734 229</b>	<b>79 868</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	1 000	1 000	100	100
Retained Income	450 281	509 432	1 313 657	(42 195)
	451 281	510 432	1 313 757	(42 095)
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Deferred income tax liability	–	–	606 158	–
	–	–	606 158	–
<b>Current liabilities</b>				
Amounts owing to related parties	66 243 662	–	–	–
Loans from shareholders	–	52 110 748	–	–
Trade and other payables	1 448 560	1 448 560	2 814 314	121 963
	67 692 222	53 559 308	2 814 314	121 963
<b>Total liabilities</b>	<b>67 692 222</b>	<b>53 559 308</b>	<b>3 420 472</b>	<b>121 963</b>
<b>Total equity and liabilities</b>	<b>68 143 503</b>	<b>54 069 740</b>	<b>4 734 229</b>	<b>79 868</b>

## 9. Investment in joint ventures and associates *(continued)*

	Safdev Tanganani (Pty) Ltd		Calgro Kuumba Planning and Design (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of comprehensive income</b>				
Revenue	–	12 827 685	87 850 132	52 772 353
Cost of sales	–	(12 827 685)	(83 507 914)	(47 280 578)
<b>Gross profit</b>	–	–	4 342 218	5 491 775
Administrative expenses	(82 220)	(87 321)	(2 348 655)	(7 035 159)
<b>Operating (loss)/profit</b>	(82 220)	(87 321)	1 993 563	(1 543 384)
Finance income	66	200	1 824	402 158
<b>(Loss)/profit before tax</b>	(82 154)	(87 121)	1 995 387	(1 141 226)
Taxation	23 003	596 553	(639 535)	395 563
<b>(Loss)/profit after taxation</b>	(59 151)	509 432	1 355 852	(745 663)
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	(59 151)	509 432	1 355 852	(745 663)
<b>Reconciliation of detailed financial information</b>				
Reconciliation of the detailed information presented to the carrying amount of its interest in the joint venture.				
<b>Summarised financial information</b>				
Opening net assets at 1 March	510 432	1 000	(42 095)	703 568
(Loss)/profit after tax	(59 151)	509 432	1 355 852	(745 663)
<b>Closing net assets</b>	451 281	510 432	1 313 757	(42 095)
Limitation due to contractual preferential right to profit in favour of the joint venture partner	(450 781)	(509 932)	14 733	–
Interest in joint venture/associate at 50% and 35%	–	–	459 815	–
<b>Carrying value</b>	500	500	474 548	–
<b>Reconciliation of investment in joint venture</b>				
At 1 March	–	–	–	246 249
Share of profit	–	–	474 548	(246 249)
<b>Net carrying value</b>	–	–	474 548	–
<b>The impact of the cash flows on the Group consists of the following:</b>				
Cash inflow/(outflow) from construction activities (net movement in trade debtors)	–	–	(191 580)	657 634
Cash inflow for loans from joint ventures	–	–	–	–
Cash outflow for loans to joint ventures	–	–	–	–
<b>Net cash flows on the Group from joint ventures</b>	–	–	(191 580)	657 634

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 9. Investment in joint ventures and associates *(continued)*

	Fleurhof Extension 2 (Pty) Ltd		Afhco Calgro M3 Consortium (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of financial position</b>				
<b>Assets</b>				
<b>Non-current assets</b>				
Deferred income tax asset	–	–	–	–
	–	–	–	–
<b>Current assets</b>				
Construction contracts	–	–	–	–
Inventories	–	–	–	–
Trade and other receivables	–	–	100 000 000	–
Current income tax asset	–	–	–	–
Cash and cash equivalents	–	–	–	–
	–	–	100 000 000	–
<b>Total assets</b>	–	–	100 000 000	–
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	–	–	–	–
Retained income/(accumulated loss)	–	–	–	–
	–	–	–	–
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Deferred income tax liability	–	–	–	–
	–	–	–	–
<b>Current liabilities</b>				
Current income tax liabilities	–	–	–	–
Loans from shareholders	–	–	100 000 000	–
Trade and other payables	–	–	–	–
	–	–	100 000 000	–
<b>Total liabilities</b>	–	–	100 000 000	–
<b>Total equity and liabilities</b>	–	–	100 000 000	–

## 9. Investment in joint ventures and associates (continued)

	Fleurhof Extension 2 (Pty) Ltd		Afhco Calgro M3 Consortium (Pty) Ltd	
	2017	2016	2017	2016
<b>Detailed statement of comprehensive income</b>				
Revenue	–	886 443 998	–	–
Cost of sales	–	(762 865 447)	–	–
<b>Gross profit/(loss)</b>	–	123 578 551	–	–
Other income	–	37 971	–	–
Administrative expenses	–	(1 004 822)	–	–
<b>Operating profit/(loss)</b>	–	122 611 700	–	–
Finance income	–	242 264	–	–
Finance cost	–	–	–	–
<b>Profit/(loss) before tax</b>	–	122 853 964	–	–
Taxation	–	(34 014 407)	–	–
<b>Profit/(loss) after taxation</b>	–	88 839 557	–	–
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	–	88 839 557	–	–

\* The Group acquired the remaining 30% of Fleurhof Ext 2 (Pty) Ltd in the 2016 financial year. Fleurhof Ext 2 (Pty) Ltd was previously a joint venture. The statement of financial position was consolidated in the 2016 financial year, however the Group accounted for the statement of comprehensive income effect in the share of profits from a joint venture as it was a joint venture for the 2016 financial year. The Group now holds 100% of the issued share capital, as well as 100% of the voting rights. The investment is therefore accounted for as a subsidiary in the 2017 financial year. Refer to note 30 for details of the business combination.

	Fleurhof Extension 2 (Pty) Ltd		Afhco Calgro M3 Consortium (Pty) Ltd	
	2017	2016	2017	2016
<b>Reconciliation of detailed financial information</b>				
Reconciliation of the detailed information presented to the carrying amount of its interest in the joint venture.				
<b>Summarised financial information</b>				
Opening net assets at 1 March	–	321 359 354	–	–
Profit/(loss) after tax	–	88 839 557	–	–
<b>Closing net assets</b>	–	410 198 911	–	–
Limitation due to contractual preferential right to profit in favour of the joint venture partner	–	–	–	–
Dividend distribution to other joint venture partner	–	–	–	–
<b>Closing net assets</b>	–	410 198 911	–	–
Interest in joint venture/associate at 70% and 49%	–	287 139 238	–	–
70% of previous dividend not distributed to the Group	–	7 079 228	–	–
<b>Carrying value</b>	–	294 218 466	–	–
Unrealised profits eliminated	–	–	–	–
Acquisition of joint venturer's shareholding in Fleurhof Ext 2 (Pty) Ltd (note 30)	–	(294 218 466)	–	–
<b>Net carrying value</b>	–	–	–	–

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 9. Investment in joint ventures and associates *(continued)*

	Fleurhof Extension 2 (Pty) Ltd		Afeco Calgro M3 Consortium (Pty) Ltd	
	2017	2016	2017	2016
<b>Reconciliation of investment in joint venture</b>				
At 1 March	-	228 533 992	-	-
Share of profit	-	62 187 690	-	-
Unrealised profits recognised	-	3 496 784	-	-
Acquisition of joint venturer's shareholding in Fleurhof Ext 2 (Pty) Ltd (see note 30)	-	(294 218 466)	-	-
<b>Net carrying value</b>	-	-	-	-
<b>The impact of the cash flows on the Group consists of the following:</b>				
Cash (outflow)/inflow from construction activities (net movement in trade debtors)	-	-	100 000 000	-
Cash inflow for loans from joint ventures	-	-	-	-
Cash outflow for loans to joint ventures	-	-	-	-
<b>Net cash flows on the Group from joint ventures</b>	-	-	100 000 000	-

## 10. Deferred income tax (liabilities)/assets

### Accounting policy

Deferred tax assets and liabilities represent amounts of tax that will become recoverable and payable in future accounting periods. They generally arise as a result of temporary differences, where the time at which profits and losses are recognised for tax purposes differs from the time at which the relevant transaction is recorded in the accounts. A deferred tax asset represents a tax reduction that is expected to arise in a future period. A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

In respect of deferred tax assets, the Group only recognises a deferred tax asset when the availability of future profits necessary to support the deferred tax asset is probable.

Where a temporary difference arises in relation to the Group's investment in subsidiaries, associates or joint ventures a deferred tax liability can only be recognised by the Group if the Group cannot control the timing of the reversal of the temporary difference and it is probable that the temporary difference will reverse in future. Similarly a deferred tax asset can only be recognised by the Group if the temporary difference will reverse in the future and there will be taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## 10. Deferred income tax (liabilities)/assets (continued)

	2017	2016
<b>Reconciliation of deferred tax (liability)/asset</b>		
<b>Opening balance</b>	<b>(227 253 149)</b>	<b>(24 126 235)</b>
Construction contracts	<b>(123 594 138)</b>	<b>(18 548 307)</b>
Construction contracts – acquisition of subsidiary	–	<b>(196 679 313)</b>
Accelerated capital allowances for tax purposes	–	97 520
Inventories	<b>(1 975 489)</b>	141 497
Unrealised profits – joint ventures and associates	–	<b>(979 100)</b>
Bonus accrual	<b>(4 772 896)</b>	1 200 096
Share appreciation scheme	<b>186 770</b>	<b>(16 448 613)</b>
Work in progress	<b>2 490 294</b>	383 461
Tax losses available for set off against future taxable income	<b>72 549 744</b>	<b>(6 111 150)</b>
Tax losses available for set off against future taxable income – acquisition of subsidiary	–	23 493 773
Capital losses available for future use	<b>(113 181)</b>	1 541 089
Share appreciation right settlement	<b>(3 331 613)</b>	3 331 613
Share appreciation right settlement prepayment	<b>(581 197)</b>	<b>(315 739)</b>
Executive share scheme	<b>(1 528 674)</b>	4 618 549
Deferred revenue	<b>240 731</b>	111 681
Provisions	<b>116 185</b>	–
Trade receivables	<b>(242 563)</b>	1 088 156
Other	<b>298 394</b>	<b>(52 127)</b>
<b>Closing balance</b>	<b>(287 510 782)</b>	<b>(227 253 149)</b>
<b>Reconciliation of deferred tax (liability)/asset movement in the statement of comprehensive income</b>		
<b>Opening balance</b>	<b>(227 253 149)</b>	<b>(24 126 235)</b>
Statement of comprehensive income charge	<b>(60 256 845)</b>	<b>(29 941 371)</b>
Acquisition of subsidiary	–	<b>(173 185 543)</b>
<b>Closing balance</b>	<b>(287 510 782)</b>	<b>(227 253 149)</b>
The analyses of deferred tax assets and deferred tax liabilities are as follows:		
<b>Deferred tax liabilities</b>		
Construction contracts	<b>(375 337 688)</b>	<b>(69 160 437)</b>
Construction contracts – acquisition of subsidiary	–	<b>(196 679 313)</b>
Capital allowances	<b>(92 994)</b>	<b>(92 994)</b>
Inventories	<b>(11 253 670)</b>	<b>(10 364 646)</b>
Bonus accrual	–	4 772 896
Share appreciation scheme	<b>553 351</b>	366 581
Work in progress	<b>(1 089 078)</b>	<b>(3 579 372)</b>
Tax losses available for set off against future taxable income	<b>79 954 138</b>	–
Tax losses available for set off against future taxable income – acquisition of subsidiary	–	23 493 773
Capital losses available for future use	<b>1 427 908</b>	1 404 845
Share appreciation right settlement	–	3 331 613
Share appreciation right settlement prepayment	<b>(896 936)</b>	<b>(315 739)</b>
Executive share scheme	<b>3 089 875</b>	4 618 549
Trade receivables	<b>627 629</b>	801 951
Other	<b>659 732</b>	361 338
<b>Deferred tax liabilities</b>	<b>(302 357 733)</b>	<b>(241 040 955)</b>

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 10. Deferred income tax (liabilities)/assets *(continued)*

	2017	2016
<b>Deferred tax assets</b>		
Construction contracts	(11 390 729)	2 705 471
Inventories	7 709 170	8 795 635
Provisions	116 185	–
Trade receivables	217 964	286 205
Deferred revenue	352 412	111 681
Capital losses available for future use	–	136 244
Tax losses available for set off against future taxable income	17 841 949	1 752 570
<b>Deferred tax assets</b>	<b>14 846 951</b>	<b>13 787 806</b>
	<b>(287 510 782)</b>	<b>(227 253 149)</b>
<b>Deferred tax liabilities</b>		
Deferred tax liability to be realised within 12 months	(136 966 266)	(230 949 896)
Deferred tax liability to be realised after more than 12 months	(165 391 467)	(10 091 059)
	<b>(302 357 733)</b>	<b>(241 040 955)</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered within 12 months	14 846 951	4 992 171
Deferred tax asset to be recovered after more than 12 months	–	8 795 635
	<b>14 846 951</b>	<b>13 787 806</b>

## 11. Loans to joint ventures and associates

### Accounting policy

These loans are classified as loans and receivables, measured at amortised cost, and are recognised initially at fair value plus direct transaction costs.

	Interest rate	Expected repayment date	2017	2016
South Hills Development Company (Pty) Ltd (unsecured)	Prime plus 2%	28 February 2019	2 887 373	2 600 406
Safdev Tanganani (Pty) Ltd (unsecured)	Prime	28 February 2019	23 563 592	99 737
Sabre Homes Projects (Pty) Ltd (unsecured) – Loan impaired	Prime plus 2%	28 February 2018	–	–
<b>Loans to joint ventures and associates</b>			<b>26 450 965</b>	<b>2 700 143</b>
Principal loan amount			30 151 377	21 539 443
Loan reclassified as loans to subsidiaries – refer to note 30 for details on business combination			–	(18 839 300)
Loan impaired <sup>#</sup>			(3 700 412)	–
			<b>26 450 965</b>	<b>2 700 143</b>
Loans to be realised within 12 months			–	2 700 143
Loans to be realised after more than 12 months			26 450 965	–
			<b>26 450 965</b>	<b>2 700 143</b>

<sup>#</sup> A loan was provided to Sabre Homes Projects (Pty) Ltd during the year to the amount of R3 700 412 for the payment of creditors and has subsequently been impaired.

## 12. Inventories

### Accounting policy

Land owned by the Group which is being developed to get into a condition to start construction of the various projects is classified as inventory. The land may also be sold without any construction depending on the intention of management. Inventories are stated at the lower of cost or net realisable value. The cost of land under development held for sale comprises design costs, building materials, indirect labour, borrowing costs and other direct costs.

The amount of any write-down of inventories to net realisable value is recognised as an expense in the period which the write-down occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Individual units which do not form part of construction contracts are classified as inventory and are sold as a completed unit.

### Significant estimates and judgements

In assessing the net realisable value of land under development held for sale, valuers consider title deed information, town planning conditions, locality and improvements made to the property. Property vacancy rates in surrounding areas, realised yields on comparative sales as well as micro and macro-economic conditions require judgement.

	2017	2016
Opening balance	453 093 324	498 089 210
Net additions	137 667 886	36 056 975
Borrowing costs capitalised	21 397 723	35 277 326
Disposals	(16 169 453)	(116 330 187)
<b>Closing balance</b>	<b>595 989 480</b>	<b>453 093 324</b>
Inventories to be sold within 12 months	120 044 749	156 941 989
Inventories to be sold after more than 12 months	475 944 731	296 151 335
	<b>595 989 480</b>	<b>453 093 324</b>

\* The normal operating cycle for inventory, construction contracts and work in progress is considered to be longer than 12 months.

Inventories to the value of R2 952 031 (2016: R35 551 629) are stated at net realisable value.

## 13. Construction contracts

### Accounting policy

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage-of-completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Estimates are made by management to calculate the forecasted cost and the forecasted revenue of a project. The estimates used are in terms of an approved feasibility study. Management forecasts are approved by the Board of Directors and if third parties are involved, their approval is also obtained. Management performs monthly reviews of the work in progress schedule to update the forecast costs and profits.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 13. Construction contracts *(continued)*

#### Accounting policy *(continued)*

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories or construction contracts depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "trade and other receivables" (refer to note 15).

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

	2017	2016
The aggregate costs incurred and recognised profits to date	7 987 134 353	5 818 149 996
Less: Progress billings	(6 609 751 698)	(4 908 488 464)
<b>Net statement of financial position balance for ongoing contracts</b>	<b>1 377 382 655</b>	<b>909 661 532</b>
Excess billings over work done classified under trade and other payables (note 19)	6 264 947	1 075 445
<b>Statement of financial position balance for ongoing contracts</b>	<b>1 383 647 602</b>	<b>910 736 977</b>
Construction contracts to be realised within 12 months	665 839 043	874 069 896
Construction contracts to be realised after 12 months	717 808 559	36 667 081
	<b>1 383 647 602</b>	<b>910 736 977</b>

\* The normal operating cycle for inventory, construction contracts and work in progress is considered to be longer than 12 months.

Borrowing costs to the value of R21 844 495 (2016: R5 382 144) have been capitalised (note 26).

### 14. Work in progress

#### Accounting policy

Work in progress relates to services rendered, eg town planning and related professional services, which have not yet been billed to the customer.

	2017	2016
The aggregate costs incurred and recognised profits to date	3 889 550	12 783 457
Less: Progress billings	–	–
<b>Net statement of financial position balance for ongoing work in progress</b>	<b>3 889 550</b>	<b>12 783 457</b>
Work in progress to be realised within 12 months	3 889 550	12 783 457
Work in progress to be realised after 12 months	–	–
	<b>3 889 550</b>	<b>12 783 457</b>

\* The normal operating cycle for inventory, construction contracts and work in progress is considered to be longer than 12 months.

## 15. Trade and Other Receivables

### Accounting policy

Trade receivables are a financial asset measured at amortised cost. Refer to the financial instruments accounting policy in [note 2.10](#) for further information.

Credit terms of trade receivables and trade receivables with related parties are generally 30 days from statement date.

	2017	2016
Trade receivables and retention debtors	213 332 449	256 548 691
Trade receivables – third parties	11 434 420	99 585 840
Retention debtors – third parties	7 021 286	1 554 579
Trade receivables – related parties	119 525 514	76 819 018
Retention debtors – related parties	1 903 413	5 078 438
Trade receivables – land sales <sup>1</sup>	73 447 816	73 510 816
Value added tax	44 136 751	7 215 832
Other receivables <sup>2</sup>	9 577 559	7 266 474
Share appreciation rights settlement prepayment <sup>3</sup>	1 746 933	1 127 641
Amounts due from executive share scheme – related parties <sup>4</sup>	7 001 288	13 288 687
Securing deposits	403 373	445 292
	276 198 353	285 892 617
Trade and other receivables to be realised within 12 months	194 932 661	169 885 562
Trade and other receivables to be realised after 12 months	81 265 692	116 007 055
	276 198 353	285 892 617

1. Trade receivables – land sales with a total carrying amount of R73 447 816 are secured by covering bonds that have been registered in favour of the Group in the amount of R77 000 000 over Holdings 5, 6 and 57 Harveston Agricultural Holdings, Registration Division IQ, Gauteng, as well as Portion 501 of the Farm Wilgespruit No 190, Registration Division IQ, Gauteng, and are repayable in instalments over a 30-month period from 1 March 2016 in terms of the sale agreement between the parties and bears interest at prime less 4%.

2. Included in other receivables is an amount of R1 456 409 relating to the recovery of settlement prepayment previously paid to an employee who resigned in the current year (refer [note 33](#)).

3. Refer to [note 33](#) for further details.

4. This relates to the payable by participants of the Executive Share Scheme with respect to the subscription price for the shares issued under the scheme. Refer to [notes 33 and 35](#) for further details.

\* The normal operating cycle for inventory, construction contracts and work in progress is considered to be longer than 12 months.

### Trade receivables and retention debtors fully performing

At 28 February 2017, trade receivables and retention debtors of R212 853 568 (2016: 190 411 976) were fully performing.

	2017	2016
<b>Trade receivables and retention debtors from related parties</b>		
Aquarella Investments 265 (Pty) Ltd	–	6 483 475
South Hills Development Company (Pty) Ltd	52 001 615	7 090 515
Calgro Kuumba Planning & Design (Pty) Ltd	302 847	111 267
Witpoortjie Calgro M3 Development Company (Pty) Ltd	69 124 465	68 212 199
<b>Total</b>	<b>121 428 927</b>	<b>81 897 456</b>

Trade receivables and retention debtors owing from related parties are not considered past due as they were granted in the normal course of business within the Group's operating cycle of greater than 12 months. The due dates for amounts are determined specifically for each related party. Management of the Group has insight into the financial position of all joint ventures and associates as at 28 February 2017 and do not believe that there are indicators that these amounts are impaired at year-end. These receivables bear interest at market-related rates.

Please refer to [note 9](#) for summarised financial information as well as detailed analysis of joint venture and associates relationships.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 15. Trade and other receivables *(continued)*

#### Trade receivables and retention debtors – third parties past due but not impaired

At 28 February 2017, trade receivables and retention debtors of R478 881 (2016: R66 136 715) were past due but not impaired.

	Other debtors	
	2017	2016
<b>Ageing of trade receivables and retention debtors – third parties</b>		
Less than 30 days	17 976 825	35 003 704
30 days and older	478 881	66 136 715
<b>Total</b>	<b>18 455 706</b>	<b>101 140 419</b>

#### Trade receivables impairment

At 28 February 2017, trade receivables of Rnil (2016: Rnil) were written off as bad debt.

No allowance for doubtful debts was raised at 28 February 2017 and none of the trade receivables that are past due are considered to be impaired.

The debtors balances relate to customers with no history of default.

The maximum exposure to credit risk for these instruments at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security for trade and other receivables, other than for trade receivables – land sales as disclosed above. Refer to [note 2.10](#) for details of financial instruments.

### 16. Cash and cash equivalents

#### Accounting policy

Cash and cash equivalents include cash on hand and deposits held at call with banks.

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2017	2016
Cash on hand	5 878	4 026
Bank balances	240 759 279	80 066 779
	<b>240 765 157</b>	<b>80 070 805</b>

## 17. Stated capital

### Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

	Number of Shares		Rand amount	
	2017	2016	2017	2016
<b>Authorised</b>				
Ordinary no par value shares	500 000 000	500 000 000		
<b>Issued</b>				
Balance at the beginning of the year	147 044 518	127 100 000	487 926 324	96 021 721
Shares issued to Calgro M3 Employee Benefit Trust	–	5 212 909	–	104 239 627
Shares issued to Calgro M3 Empowerment Trust	–	5 212 909	–	104 239 627
Shares issued in terms of the Calgro M3 Executive Share Scheme	–	9 518 700	–	183 425 349
Treasury shares in issue – opening balance	(19 944 518)	(19 944 518)	(391 904 603)	(391 904 603)
Equity share scheme – trading restrictions released (note 33)	1 050 069	–	20 234 250	–
Closing balance treasury shares in issue	(18 894 449)	(19 944 518)	(371 670 353)	(391 904 603)
<b>Balance at end of the year</b>	<b>128 150 069</b>	<b>127 100 000</b>	<b>116 255 971</b>	<b>96 021 721</b>

### Shares held by Calgro M3 Employee Benefit Trust and Calgro M3 Empowerment Trust

In terms of IFRS 10: *Consolidated Financial Statements*, both trusts are consolidated into the Group, and as a result, shares owned by these entities are carried as treasury shares on consolidation.

### Shares issued with respect to the Calgro M3 Executive Share Scheme

The shares issued to Directors and selected employees in respect of the Calgro M3 Executive Share Scheme contain restriction of trade clauses in terms of the scheme rules. These shares are therefore considered to be treasury shares. During the current year, the service period for all Category 1 shares was completed resulting in the trading restrictions being released. Refer to note 33 for further details.

All issued shares are fully paid.

Unissued ordinary shares are under the control of the Directors in terms of a resolution of members passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 18. Borrowings

### Accounting policy

Borrowings are classified as financial liabilities at amortised cost. Refer to the financial instruments accounting policy, note 2.10 for further details.

Borrowings are classified as current liabilities based on the operating cycle of the Group (refer to note 2.2).

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan. The fee is amortised over the life of the facility.

	Interest rate	Expiration date	2017	2016
Bond exchange			571 645 578	538 463 465
Floating rate note – CGR 10	JIBAR plus 5.3%	8 December 2016	–	19 852 197
Floating rate note – CGR 13	JIBAR plus 4.5%	27 June 2016	–	117 062 547
Floating rate note – CGR 14	JIBAR plus 4.75%	13 February 2018	30 000 000	30 000 000
Floating rate note – CGR 15	JIBAR plus 4%	21 July 2017	24 000 000	24 000 000
Floating rate note – CGR 16	JIBAR plus 3.4%	22 September 2017	49 000 000	49 000 000
Floating rate note – CGR 17	JIBAR plus 3.7%	24 October 2017	40 000 000	40 000 000
Floating rate note – CGR 18	JIBAR plus 3.2%	4 May 2018	30 000 000	30 000 000
Floating rate note – CGR 19	JIBAR plus 3.2%	4 June 2018	30 000 000	30 000 000
Floating rate note – CGR 20	JIBAR plus 3.2%	4 July 2018	15 000 000	15 000 000
Floating rate note – CGR 21	JIBAR plus 4.5%	12 October 2020	70 000 000	70 000 000
Floating rate note – CGR 22	JIBAR plus 1.5%	8 February 2017	–	70 000 000
Floating rate note – CGR 23	JIBAR plus 4%	8 February 2019	25 000 000	25 000 000
Floating rate note – CGR 24	JIBAR plus 5%	8 February 2021	20 000 000	20 000 000
Floating rate note – CGR 25	JIBAR plus 5%	27 June 2019	111 000 000	–
Floating rate note – CGR 26	JIBAR plus 1.7%	27 June 2017	8 000 000	–
Floating rate note – CGR 27	JIBAR plus 4%	25 November 2019	43 000 000	–
Floating rate note – CGR 28	JIBAR plus 1.7%	8 February 2018	15 000 000	–
Floating rate note – CGR 29	JIBAR plus 4.35%	8 February 2021	52 000 000	–
Yield rate note – CGR 30	Implied yield 8.15%	8 May 2017	10 785 661	–
Transaction cost amortisation*			(1 140 083)	(1 451 279)
<b>Total borrowings</b>			<b>571 645 578</b>	<b>538 463 465</b>

All borrowings are unsecured.

\* The transaction costs are amortised over the life of the facilities. It is expected that these costs will be fully amortised when the facilities are settled.

The table below provides information regarding the present value of the borrowings to be settled within 12 months and after 12 months. For the undiscounted cash flows related to borrowings, refer to note 3.

	2017	2016
Borrowings to be settled within 12 months	176 785 661	136 914 744
Borrowings to be settled after more than 12 months	394 859 917	401 548 721
	<b>571 645 578</b>	<b>538 463 465</b>

### General

The Directors have not breached the requirements of the Company's Memorandum of Incorporation in terms of their borrowing powers.

## 19. Trade and other payables

### Accounting policy

Trade and other payables are measured at amortised cost. Refer to the financial instruments accounting policy, [note 2.10](#).

	2017	2016
Trade payables	227 610 292	109 871 861
Trade payables – related parties	9 965 355	–
Retention creditors	20 545 777	26 675 915
Accrued expenses	18 990 930	36 644 445
Executive Share Scheme liability	34 552 012	38 836 294
Share appreciation rights liabilities	1 976 253	1 309 217
Value added tax	13 970 416	22 205 754
Income received in advance	364 703	724 616
Accrual for leave pay	462 570	544 732
Deferred revenue	7 815 109	–
Deposits received – Afhco Consortium and Summerset units*	287 455 130	–
Other payables – balance of purchase price for acquisition of Fleurhof Ext 2 (Pty) Ltd	–	93 000 000
Land purchase liability – balance of purchase price for acquisition of Jabulani and Kwa Nobuhle-land#	189 730 029	–
Other payables – balance of purchase price for acquisition of Fourways Private Memorial Parks	14 665 305	–
Other payables – related parties	13 292 864	–
Share appreciation rights settlement liability	–	11 898 617
Excess billings over work done	6 264 947	1 075 445
	<b>847 661 692</b>	<b>342 786 896</b>

\* Deposits received relates to units that will be completed and transferred within the next 12 months.

# Land purchase liability is carried at amortised cost. Repayments have been aligned with the sale of completed units.

Refer to [note 3](#) for details of financial instruments. For the remaining non-financial instruments, R25 118 246 (2016: R22 205 754) will be settled within the next 12 months and R9 331 650 (2016: R3 109 278) will be settled after more than 12 months.

## 20. Revenue

### Accounting policy

The Group earns revenue from the sale of land, through the rendering of services and construction contracts.

#### (a) Sale of land (Property Development segment)

The sale of land relates to land, classified as inventory, which is either developed or not. Revenue is recognised when the land is sold and all documents of ownership have been transferred.

#### (b) Sale of completed units (Property Development segment)

The sale of completed units relates to the sale of units that do not form part of construction contracts, classified as inventory. Revenue is recognised when the unit is sold and all documents of ownership have been transferred.

#### (c) Rendering of services (Professional Services segment)

The rendering of services relates to revenue generated from professional services provided by the Group, eg town planning, etc. Revenue is recognised at the date that these services are rendered.

#### (d) Construction contracts (Property Development segment)

Revenue is recognised over the period of the contract on the “percentage-of-completion” basis by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. In applying the recognition criteria in IAS 11: *Construction Contracts*, judgement is required in determining whether:

- a single transaction includes separately identifiable components; or
- two or more transactions together, when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole, should be grouped.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 20. Revenue *(continued)*

#### Accounting policy *(continued)*

##### (e) *Sale of burial rights (Memorial Park segment)*

The sale of burial rights relates to revenue generated from the reservation of a gravesite, which is classified as inventory. Revenue is recognised when the burial rights are sold to the customer.

##### (f) *Burial services (Memorial Park segment)*

The burial services relate to the revenue generated from the interment services provided by the Group. Revenue is recorded at the date that these services are rendered.

##### (g) *Maintenance services (Memorial Park segment)*

The maintenance services relate to the revenue generated from the memorial park maintenance provided by the Group for the reserved graves. Revenue is recognised over a period of between 10 and 19 years, from the date of sale of the associated burial right.

#### Significant judgement and source of estimation uncertainty

The Group uses the “percentage-of-completion” method in accounting for its construction contracts. Use of the “percentage-of-completion” method requires the Group to estimate the construction services and activities performed to date as a proportion of the total services and activities to be performed. In addition, judgements are required when recognising and measuring any variations or claims on each contract.

Estimates are made by management to calculate the forecasted cost of a project. The estimates used are in terms of an approved feasibility study. Management forecasts are approved by the Board of Directors and if third parties are involved, their approval is also obtained. Management performs monthly reviews of the work in progress schedule to update the forecast costs and profits.

Estimates are made by management to calculate the fair value of the revenue relating to burial and maintenance services including, but not limited to the discount rate, inflation rate and the discounting period. Management assesses these assumptions on an annual basis.

The Group applies judgement in determining whether contracts for the sale of land and the construction of residential housing include separately identifiable components or whether they should be grouped together.

The Group considers the customer’s ability to specify the major structural elements of the design with respect to a construction agreement, before both the commencement of construction and during construction, when determining whether a construction agreement should be accounted for within the scope of IAS 11: *Construction Contracts* or IAS 18: *Revenue*.

	2017	2016
Sale of land	–	111 564 826
Sale of completed units	14 089 719	–
Construction contracts	1 536 122 574	1 071 853 451
Professional services	150 323	19 989 854
Memorial Parks burial rights	3 849 663	611 522
Memorial Parks maintenance	48 430	4 726
Memorial Parks burial services	418 948	39 000
	<b>1 554 679 657</b>	<b>1 204 063 379</b>

	2017	2016
<b>21. Cost of sales</b>		
Sale of land	–	116 330 187
Cost of completed units	14 178 496	–
Construction contracts	1 199 759 261	825 688 799
Professional services	4 192 922	6 884 725
Memorial Parks burial rights	1 990 957	3 569 720
Memorial Parks maintenance	44 027	4 296
Memorial Parks burial services	351 106	39 000
	<b>1 220 516 769</b>	<b>952 516 727</b>
<b>22. Other income</b>		
Bond commissions	1 274 513	969 690
Gain on deemed disposal of interest in joint venture*	–	17 631 533
Insurance refunds	87 959	293 911
Cancellation of trade payable – related parties	13 064 997	–
Rental income	641 103	185 812
SETA refunds and other income	1 531 427	384 736
	<b>16 599 999</b>	<b>19 465 682</b>
* Refer to note 30.		
<b>23. Expense by nature</b>		
Advertising	8 225 022	3 779 871
Auditor's remuneration	3 676 589	2 612 122
Completed unit costs	14 178 496	–
Computer expenses	1 890 451	1 820 231
Net construction costs	1 199 759 261	823 187 927
Depreciation on property, plant and equipment and amortisation on computer software	1 079 869	1 371 225
Directors' fees – non-executive	1 905 554	1 663 791
Donations	3 415 801	28 200
Insurance	867 297	810 649
Loss on disposal/write-off of property, plant and equipment and computer software	25 440	79 164
Net land development costs	–	116 330 187
Memorial Parks costs	2 386 090	3 613 016
Motor vehicle expenses	1 198 319	1 298 659
Lease rentals on operating leases	6 134 315	5 272 916
Legal fees	2 009 429	1 411 582
Professional fees	2 120 163	2 432 895
<b>Total employee costs</b>	<b>76 001 950</b>	<b>72 871 537</b>
Executive share scheme expense	28 875 454	26 682 078
Employee costs	41 698 793	33 033 988
Share Appreciation Rights expense	667 036	(11 585 341)
Share Appreciation Rights settlement expense	4 760 667	24 740 812

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 23. Expense by nature *(continued)*

	2017	2016
Sponsorships	–	365 000
Telephone and fax	1 028 773	849 983
Town planning and architecture	4 192 922	6 884 725
Write-down of loan	3 700 412	5 756 677
Write-down of prepayments	–	2 500 872
Other	8 518 842	8 421 154
<b>Total cost of sales, administration expenses and other expenses</b>	<b>1 342 314 995</b>	<b>1 063 362 383</b>

### 24. Other expenses

	2017	2016
Write-down of loan	3 700 412	5 756 677
	<b>3 700 412</b>	<b>5 756 677</b>

### 25. Finance income

#### Accounting policy

Finance income is recognised on a time-proportion basis using the effective interest method. Finance income on impaired loans is recognised using the original effective interest rate.

	2017	2016
Bank	2 883 672	5 634 085
Trade receivables	5 937 001	2 600 338
SARS	42 943	34 176
Related parties (SAR vendor finance)	762 592	–
Related parties (interest from joint ventures and associates)	10 368 367	22 388 310
	<b>19 994 575</b>	<b>30 656 909</b>

### 26. Finance cost

#### Accounting policy

Borrowing costs that are directly attributable to the acquisition, construction or production of “land under development” (classified as inventories) are capitalised as part of its cost.

Borrowing costs that are directly attributable to the construction of the developments are treated as part of the construction contract costs.

The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining and developing a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing cost incurred.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

## 26. Finance cost (continued)

	2017	2016
Bank	1 941 051	1 362 217
Other	3 484 206	2 236 128
Interest-bearing borrowings	59 736 152	55 843 566
<b>Finance cost</b>	<b>65 161 409</b>	<b>59 441 911</b>
Less: Amounts capitalised on qualifying assets (inventory)	(21 397 723)	(35 277 326)
Less: Amounts capitalised on qualifying assets (construction contracts)	(21 844 495)	(5 382 144)
<b>Total finance cost recognised in statement of comprehensive income</b>	<b>21 919 191</b>	<b>18 782 441</b>

Finance costs capitalised to inventory and construction contracts have been incurred on general borrowings.

## 27. Taxation

### Accounting policy

The majority of the companies within the Group are South African tax residents and will therefore pay taxes according to the rates applicable in South Africa which were enacted or substantively enacted at the reporting date. Most taxes are recorded in the statement of comprehensive income and relate to taxes payable for the reporting period or any adjustment to tax payable in respect of previous years (current tax). The charge also includes benefits and charges relating to when income and expenses are recognised in a different period for tax and accounting purposes (deferred tax).

Major components of the income tax expense	2017	2016
<b>Current</b>		
Local income tax – current period	2 919 639	16 379 263
Local income tax – recognised in current tax for prior periods	–	(230 517)
	<b>2 919 639</b>	<b>16 148 746</b>
<b>Deferred</b>		
Current year	62 796 129	28 257 740
Under/(over) provision for prior year	(2 539 284)	1 683 631
	<b>60 256 845</b>	<b>29 941 371</b>
	<b>63 176 484</b>	<b>46 090 117</b>
<b>Reconciliation of the income tax expense</b>		
Applicable tax rate	28.00%	28.00%
Disallowable charges	0.84%	0.49%
Gain on deemed disposal of interest in joint venture	0.00%	(2.06)%
Share of profit of joint ventures and associates – net of tax	(0.75)%	(7.88)%
Under-provision for deferred tax prior year	(1.02)%	0.60%
Capital gains tax	0.00%	0.11%
<b>Effective tax rate</b>	<b>27.07%</b>	<b>19.26%</b>

The estimated tax losses available for set off against future taxable income within the Group is R349 275 753 (2016: R86 267 604).

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 28. Cash generated from operations

	2017	2016
Profit before taxation	233 309 325	239 274 839
<b>Adjustments for:</b>		
Depreciation and amortisation	1 079 869	1 371 225
Loss on disposal/write-off of property, plant and equipment and computer software	25 440	79 164
Unrealised profits recognised in revenue	–	(3 496 783)
Executive Share Scheme expense	28 875 454	26 682 078
Share Appreciation Rights settlement expense	4 760 667	24 740 812
Write-down of loan	3 700 412	5 756 677
Write-down of prepayments	–	2 500 872
Finance income	(19 994 575)	(30 656 909)
Finance cost	21 919 191	18 782 441
Gain on deemed disposal of interest in joint venture	–	(17 631 533)
Share of profit of joint ventures and associates – net of tax	(6 269 280)	(67 233 693)
Other	(109 149)	(63 715)
<b>Changes in working capital:</b>		
Inventories	(121 498 433)	80 369 607
Trade and other receivables	5 725 411	(31 871 152)
Construction contracts	(451 066 130)	(4 717 275)
Work in progress	8 893 907	1 369 503
Trade and other payables	582 716 355	(143 457 272)
	292 068 464	101 798 886
<b>29. Tax paid</b>		
Balance at the beginning of the year	14 069 208	3 874 139
Current tax for the year	(2 919 639)	(16 148 746)
Current tax receivable acquired	–	9 465 023
Balance at the end of the year	(18 594 042)	(14 069 208)
	(7 444 473)	(16 878 792)

## 30. Business combinations

### Accounting policy

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

### 30. Business combinations *(continued)*

#### 2017 financial year

On 1 November 2016 (acquisition date), the Group acquired 100% of the Fourways Private Memorial Park business through the purchase of all assets and liabilities from Fourways Private Memorial Park CC, an unlisted South African private memorial park property development close corporation. The total deemed consideration for the acquisition was R20 470 447.

None of the goodwill is expected to be deductible for tax purposes. The transaction was entered into to benefit from synergies between the Fourways Private Memorial Park project as well as current and future private memorial park developments across South Africa.

The business combination comprises the indivisible acquisition of the integrated set of business activities of Fourways Memorial Parks Close Corporation and the adjoining residential property situated on Erf 1643 Marodadal Extension 40. The amount of R2 000 000 which was paid by 1 December 2016, relates to the acquisition of Erf 1643 Marodadal Extension 40 township.

The goodwill of R694 804 comprises the established industry knowledge, relationships and furthermore the expertise acquired from the business with future benefits to be obtained from it.

The following table summarises the consideration paid for the Fourways Private Memorial Park business, and the assets acquired and liabilities assumed at the acquisition date:

#### Consideration at 1 November 2016

Fair value of the purchase price liability for the business	18 470 447
Purchase price consideration for property, plant and equipment relating to the business	2 000 000

<b>Total deemed consideration for 100%</b>	<b>20 470 447</b>
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#### Identifiable assets acquired and liabilities assumed at fair value

Investment property	6 518 700
Property, plant and equipment	2 122 080
Fair value of inventory and vacant land	17 349 360
Deferred revenue	(6 141 546)
Take-on leave accrual	(72 951)

<b>Total identifiable net assets</b>	<b>19 775 643</b>
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Goodwill	694 804
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<b>Total deemed consideration</b>	<b>20 470 447</b>
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Total purchase consideration	20 470 447
Cash consideration paid in the 2017 financial year for the purchase price of the business	(4 500 000)
Less: Cash acquired	–

<b>Net cash outflow on acquisition date</b>	<b>(4 500 000)</b>
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The balance of R2 000 000 for the purchase price relating to the property, plant and equipment of the business was settled in full on 1 December 2016. The balance of the purchase price liability for the business is expected to be settled in full by September 2019.

The fair value of the purchase price liability for the business was a result of the agreed upon purchase price for an undiscounted value of R22 000 000, payable over three years. No interest is charged by Fourways Memorial Park CC on the purchase price liability. The fair value of the liability was determined using a discount rate of 11% over a period of three years. The value of the purchase price liability on 28 February 2017 net of post-acquisition payments was R14 665 304.

The fair value of inventory and vacant land is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the inventory being valued.

In assessing the fair value of Memorial Parks – land, the valuer considers title deed information, town planning conditions, locality and improvements made to the property. Property vacancy rates in surrounding areas, realised yields on comparative sales as well as micro and macro-economic conditions pertaining to land development are considered.

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 30. Business combinations *(continued)*

Deferred revenue has been recognised at the present value of the estimate future maintenance expenditure allocated to interned graves and sold burial plots at acquisition date.

The deferred revenue calculation is based on a discount rate of between 8.4% and 9.24%, an inflation rate of 6.05% and for a period as determined.

The acquired business contributed a revenue of R1 622 447 and a total income of R2 126 198 as well as contributing R766 067 profit to the Group from the period of 1 November 2016 to 28 February 2017.

If the acquisition had occurred on 1 March 2016, consolidated pro forma revenue and profit for the year ended 28 February 2017 would have been R4 677 386 and R1 357 577 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for differences in accounting policy.

#### 2016 financial year

On 29 February 2016 (acquisition date), the Group acquired the remaining 30% of the share capital and associated 50% of the voting rights of Fleurhof Ext 2 (Pty) Ltd, an unlisted South African property development company. The total deemed consideration for the acquisition was R573 689 300. As a result of the acquisition, the Group increased its stake in the Fleurhof Development located in Soweto, South Africa. None of the goodwill is expected to be deductible for tax purposes. The transaction was entered into to benefit from synergies between the Fleurhof project and future developments in the surrounding areas.

The goodwill of R118 250 791 comprises the expected value of having a controlling stake as well as the synergies between the Fleurhof project and future developments in the surrounding areas.

The acquisition resulted in a deemed gain of R17 631 533 as a result of the remeasurement of the Group's previously held equity interest. Refer to [note 22](#) where this has been recognised in the statement of comprehensive income.

Prior to the business combination, the Group had a shareholder loan with Fleurhof Ext 2 (Pty) Ltd. Application of the principles of IFRS 3: *Business Combinations* effectively resulted in the extinguishment of the loan due to the pre-existing relationship. The loan was not legally extinguished.

The following table summarises the consideration paid for Fleurhof Ext 2 (Pty) Ltd, and the assets acquired and liabilities assumed at the acquisition date.

#### Consideration at 29 February 2016

Consideration paid for 30% interest	243 000 000
Fair value of previously held 70% interest	311 850 000
Carrying value of loan to joint venture at 29 February 2016	18 839 300

<b>Total deemed consideration for 100%</b>	<b>573 689 300</b>
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#### Identifiable assets acquired and liabilities assumed at fair value

Construction contracts – top structure	298 396 304
Construction contracts – land	404 029 817
Trade receivables	76 113 539
Current income tax receivable	9 465 023
Cash	7 000 739
Deferred income tax liability	(173 185 540)
Trade and other payables	(166 381 373)

<b>Total identifiable net assets</b>	<b>455 438 509</b>
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Goodwill	118 250 791
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<b>Total deemed consideration</b>	<b>573 689 300</b>
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### 30. Business combinations *(continued)*

Total purchase consideration for 30% interest	(243 000 000)
Balance of consideration for the 30% interest paid on 1 March 2016	93 000 000
Cash consideration paid in 2016 financial year	(150 000 000)
Less: Cash acquired	7 000 739
<b>Net cash outflow on acquisition</b>	<b>(142 999 261)</b>

The balance of the consideration for the 30% interest (R93 million) was paid on 1 March 2016.

The fair value of construction contracts – land is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the inventory being valued.

In assessing the fair value of construction contracts – land, the valuer considers title deed information, town planning conditions, locality and improvements made to the property. Property vacancy rates in surrounding areas, raised yields on comparative sales as well as micro and macro-economic conditions pertaining to land development are considered.

The carrying value of construction contracts – top structure approximates fair value.

The financial results of Fleurhof Ext 2 (Pty) Ltd was equity accounted up until 29 February 2016, after which it was consolidated. Refer to [note 9](#) for further details.

### 31. Non-controlling interest

Summary of non-controlling interest where the Group owns less than 100% of shareholding is summarised below:

	2017	2016
Calgro M3 Memorial Parks (Pty) Ltd	(856 027)	(1 078 196)
Belhar Calgro M3 Development Company (Pty) Ltd	51	51
Holm Jordaan GWA (Pty) Ltd	754 695	–
	<b>(101 281)</b>	<b>(1 078 145)</b>

Summary financial information of subsidiary companies with non-controlling interest below:

	Calgro M3 Memorial Parks (Pty) Ltd		Holm Jordaan GWA (Pty) Ltd	
	2017	2016	2017	2016
<b>Total assets</b>	<b>110 260 087</b>	96 738 906	<b>1 670 634</b>	–
<b>Total liabilities</b>	<b>112 605 468</b>	98 537 958	<b>135 546</b>	–
<b>Total equity</b>	<b>(2 345 381)</b>	(1 799 052)	<b>1 535 088</b>	–
<b>Comprehensive income</b>	<b>(546 329)</b>	(1 561 459)	<b>1 535 088</b>	–
<b>Non-controlling interest relating to equity</b>	<b>(199 411)</b>	(569 933)	<b>754 695</b>	–

No non-controlling interest is accounted for relating to Belhar Calgro M3 Development Company (Pty) Ltd. In terms of the shareholders' agreement the Group has a preferential right to a share of the profits before any distributions may be made to the other shareholder.

### 32. Commitments

#### Operating lease

The Group has bound itself to a rental agreement for the head office in Bryanston, Gauteng until August 2025. The amount payable in the following 12 months is R3 961 834, with an amount of R22 089 462 payable within two to five years. The lease agreement has an escalation clause of 7.5% effective in the month of September.

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 33. Share-based payments

### Accounting policy

Share-based compensation benefits are provided to employees via the Share Appreciation Rights Scheme and the Calgro M3 Executive Share Scheme. The Share Appreciation Rights Scheme is settled in cash, ie the employees do not receive shares or options at settlement. The year in which the employee renders services to the Group to obtain the award is the year in which the expense is recognised in the statement of comprehensive income with a corresponding increase recognised in the liability. The expense is determined by measuring the fair value of the liability at each year-end.

The fair value of shares granted to Directors and employees under the Calgro M3 Executive Share Scheme is recognised as an expense over the relevant service period. The fair value is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve.

If the share-based payments granted do not vest until the counterparty completes a specified period of service, the Group accounts for those services as they are rendered by the counterparty during the vesting period on a straight-line basis over the vesting period. If the share-based payments vest immediately, the services received are recognised in full.

When a cash-settled share scheme is modified to an equity-settled share scheme, the liability at the date of modification is reclassified directly in equity. The valuation of the equity-settled scheme is performed at grant date, and the difference between the valuation and the liability reclassified in equity is recognised as an expense over the relevant service period of each participant.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

### Significant judgement and source of estimation uncertainty

Management used generally accepted valuation methods to determine the value of the share-based payment schemes.

### Share Appreciation Rights

The Share Appreciation Rights ("SARs") which are granted to Directors and selected employees are divided into two main categories with various SAR issues within each category. The rights will vest if the share price at each vesting date exceeds the hurdle price. The hurdle price is the strike (allocation) price grown by CPI plus 2% per year over the vesting period. In the situation that the hurdle price is not achieved at the vesting date, 25% of the possible vested SARs will roll over to the next vesting date. During the prior year, all Directors and selected employees who were previously granted SARs were given the option to either continue on the SAR scheme, agree a settlement value for their unvested SARs with the Group or modify their unvested SARs to the Calgro M3 Executive Share Scheme.

In the prior year, 1 616 667 Category 1 SARs and 1 050 000 Category 2 SARs were exercised prior to participants making an election as outlined above.

The cash-settled share appreciation rights scheme was amended following the respective elections of the participants which has been outlined below:

- (1) One individual cancelled 50% of his unvested SARs and agreed new settlement terms. The remaining 50% of his unvested SARs is still on the scheme (Category 2: Issue 4);
- (2) Eight individuals converted 100% of the unvested SARs from the SAR scheme to the Executive Share Scheme; and
- (3) Four individuals cancelled 100% of their unvested SARs and agreed new settlement terms.

### 33. Share-based payments *(continued)*

The details of the arrangement are described below:

	Category 2
	Issue 4
<b>Date of grant</b>	30 September 2014
Number of instruments granted	600 000
Number of options exercised	–
Number of options forfeited	–
Number of options settled	(300 000)
Number of options converted to Executive Share Scheme	–
Strike price at grant date	7.78
Contractual life (option life)	53 months
Vesting conditions – if the price at each vesting date exceeds the hurdle price	
Settlement	Cash
<b>Share Appreciation Rights (“SAR”) reconciliation</b>	
SARs not vested at 1 March 2015	600 000
Settled	(300 000)
Converted to Executive Share Scheme	–
<b>SARs not vested at 29 February 2016</b>	300 000
<b>SARs not vested at 28 February 2017</b>	<b>300 000</b>

#### Share Appreciation Rights (“SAR”) exercised reconciliation

	Category 1	Category 2	
	Issue 1	Issue 1	Issue 2
SARs vested not exercised at 1 March 2015	1 616 667	900 000	150 000
Forfeited	–	–	–
Exercised	(1 616 667)	(900 000)	(150 000)
<b>SARs vested not exercised at 29 February 2016</b>	–	–	–
<b>SARs vested not exercised at 28 February 2017</b>	–	–	–

SARs outstanding at the end of the period have the following vesting dates and amortised values thereof:

Category 2	Issue 4	50% of the SARs will vest annually from 1 March 2019 until 1 March 2020
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The spot price on 28 February 2017 was R17.50 (29 February 2016: R18.20). The strike price or allocation price is the price at which the SAR scheme is granted to the employee and is used to calculate the benefit payable to the employee. A 30-day average spot price, measured 30 days prior to the vesting date, was applied to calculate the strike price.

The volatility used in the valuation was 29.81% (2016: 38.81%). The ZAR zero coupon swap curve as at the valuation date was used as the risk-free rate.

The amount recognised in the financial statements (before tax) for the share-based payment transaction with employees is as follows:

	2017	2016
<b>Expense</b>		
Share appreciation rights expense/(credit)	667 036	(11 585 341)
<b>Liability</b>		
Share appreciation rights liabilities	1 976 253	1 309 217

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 33. Share-based payments *(continued)*

The amounts recognised in the financial statements (before taxes) for the share-based payment transaction with employees is as below:

	2017	2016
<b>Cash-settled share-based payment liability</b>		
<b>Reconciliation of SAR liability</b>		
<b>Opening balance</b>	<b>1 309 217</b>	60 054 266
<b>SARs vested to participants</b>	–	(25 920 003)
Participants settled in cash	–	(12 636 000)
Participants elected to offset this amount against the subscription price in respect of the Executive Share Scheme	–	(13 284 003)
<b>Participant remaining on SAR scheme</b>		
Share-based payment charge for the year recognised in statement of comprehensive income	<b>667 036</b>	965 660
<b>Individuals converted unvested SARs to Executive Share Scheme</b>		
The associated liability for these individuals has been reclassified to equity	–	(21 239 704)
<b>Individuals cancelled their unvested SARs</b>		
The associated liability has been derecognised through the statement of comprehensive income	–	(12 551 002)
<b>Closing balance at the end of the year</b>	<b>1 976 253</b>	1 309 217


#### Share appreciation rights settlement liability

In the prior year, five individuals elected to exit the cash-settled share appreciation rights scheme. On exit of the scheme, a settlement amount was negotiated with each of these individuals.

The terms of the settlement, payments were specific to each individual and included an associated service period for certain individuals.

The settlement agreement is no longer considered to be a share-based payment as the settlement amount is not based on the equity of the Group, and is therefore accounted for in terms of IAS 19: *Employee Benefits*.

At 1 March 2015, the associated share appreciation rights liability of R12 551 002 was derecognised (refer to reconciliation above) and an expense based on the settlement agreement was recognised during the 2016 and 2017 financial year.

During the current year, the participants resigned resulting in a portion of one of the prepayment being transferred to a receivable (refer  note 15).

	2017	2016
<b>Expense</b>		
Share appreciation rights settlement expense	<b>4 760 666</b>	24 740 812
<b>Asset</b>		
Share appreciation rights settlement prepayment	<b>1 746 933</b>	1 127 641
<b>Liability</b>		
Share appreciation rights settlement payable	–	(11 898 617)

### 33. Share-based payments (continued)

	2017	2016
<b>Reconciliation of SAR settlement asset/(liability)</b>		
Opening balance – net payable	(10 770 976)	–
Expense for the year	(4 760 666)	(24 740 812)
Cash payment made to employees and directors	18 734 984	13 969 836
Transfer prepayment to receivable	(1 456 409)	–
Prepayment at end of year*	(1 746 933)	(1 127 641)
<b>Payable at end of year*</b>	<b>–</b>	<b>(11 898 617)</b>

\* The prepayment has been disclosed in note 15 and the payable has been disclosed in note 19.

#### Calgro M3 Executive Share Scheme

The Executive Share Scheme was approved by shareholders in July 2015 whereby 10 215 572 shares were made available to participants of the scheme at a subscription price of R4.08. Only individuals who were currently allocated SARs and elected to convert at least 75% of their unvested SARs into the new scheme were eligible to participate in the new scheme. 9 518 700 shares were granted to individuals during the year and 696 872 shares were not taken up. The Calgro M3 Executive Share Scheme is considered to be a modification of the SAR scheme. Under the Executive Scheme, participants are allocated shares in line with the scheme rules and are required to subscribe for these shares at R4.08 per share. There are no performance conditions related to this scheme other than the service periods as outlined below.

Shares issued under the scheme may not be sold by participants until the completion of service periods and release dates stipulated in the scheme rules as outlined below.

The shares were considered to be deeply in the money, resulting in the equity-settled shares being valued at intrinsic value based on the 30-day volume weighted average market price of R19.27 at the grant date of 29 July 2015.

During the current year, the following amendments were approved with respect to the Category 1 shares:

- (1) Trading restriction 1 to 20 February 2017 (previously 1 March 2017);
- (2) Trading restriction 2 to 20 February 2017 (previously 1 March 2018);
- (3) Service period – two years (previously three years).

These amendments resulted in the final release date of all Category 1 shares being amended to 20 February 2017.

Reconciliation of subscription price for shares issued:

	2017	2016
Opening balance receivable from participants	13 288 688	–
Total amount to be received for subscription of shares	–	38 836 294
Cash received	(6 506 861)	(8 113 137)
Offset against bonus	(543 128)	(4 150 466)
Offset against exercised SARs	–	(13 284 003)
Finance income on receivable	762 588	–
<b>Balance receivable by Group included under trade and other receivables</b>	<b>7 001 287</b>	<b>13 288 688</b>

	Number of shares granted	Service commencement date	50% trading restriction – release date 1	50% trading restriction – release date 2	Service period	Final release date	Value
Category 1	1 050 069	1 Mar 2015	20 Feb 2017	20 Feb 2017	2 years	20 Feb 2017	15 949 968
Category 2	2 787 490	1 Mar 2015	1 Mar 2019	1 Mar 2020	5 years	1 Mar 2020	31 755 326
Category 3	5 681 140	1 Mar 2015	1 Mar 2020	1 Mar 2021	6 years	1 Mar 2021	96 878 460
<b>Total</b>	<b>9 518 699</b>						<b>144 583 754</b>

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 33. Share-based payments *(continued)*

	2017	2016
<b>Opening balance of share-based payment reserve</b>	<b>47 921 782</b>	–
Reclassification of share appreciation rights liability to equity	–	21 239 704
Share-based payment expense recognised in equity	<b>28 875 454</b>	26 682 078
Shares released to share capital	<b>(15 949 968)</b>	–
<b>Closing balance of share-based payment reserve</b>	<b>60 847 268</b>	47 921 782

#### Employee share scheme

An employee share scheme whereby shares may be issued by the Group to employees for no cash consideration was approved by shareholders at the 2015 annual general meeting.

All employees of the Group, who do not already participate in another share scheme, are eligible to participate. The employee share scheme is administered through the Calgro M3 Employee Benefit Trust which was founded by the Group in February 2016. The trust is consolidated in accordance with IFRS 10: *Consolidated Financial Statements*. 5 212 909 ordinary shares have been subscribed to by the trust as at 29 February 2016 and are considered to be treasury shares in the Group until the shares vest to the participant of the scheme. At 28 February 2017 no shares had been allocated to employees in accordance with the scheme rules, therefore no expense has been recognised in the 2017 financial year.

The shares vest 25% in 10 years, 25% at 15 years and the remaining 50% vests at 20 years. Shares are transferred to employees upon vesting.

### 34. Employee Costs

#### Accounting policy

##### (a) *Defined contribution plans*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

##### (b) *Short-term benefits*

The costs of short-term employee benefits include those payable within 12 months after the service is rendered, such as paid vacation leave, sick leave and bonuses.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

##### (c) *Bonus plans*

The Group recognises an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. The Group expects these liabilities to be settled within 12 months.

### 34. Employee Costs (continued)

	2017	2016
Salary and wages	74 651 121	79 399 641
Executive share scheme expense	28 875 454	26 682 077
Directors' share based payment expense	17 931 385	15 193 967
Employees' share based payment expense	10 944 069	11 488 110
Share appreciation rights expense	667 036	(11 585 341)
Share appreciation rights settlement expense	4 760 667	24 740 812
Directors' emoluments	13 699 819	30 461 812
Executive Directors *	11 794 265	28 798 021
Non-executive Directors	1 905 554	1 663 791
<b>Salary and wages</b>	<b>122 654 097</b>	<b>149 699 001</b>
Less: Amounts allocated to qualifying assets (construction contracts)	(46 652 147)	(76 827 464)
<b>Total employee costs and share appreciation rights settlement</b>	<b>76 001 950</b>	<b>72 871 537</b>

\* - The executive directors emoluments includes only the guaranteed remuneration, cash settled long term incentive and the short term incentive.

### 35. Related parties

All joint ventures and associates are considered related parties to the Group. Refer to note 9 for a detailed list of all joint ventures and associates.

#### (a) Related-party balances

##### (i) Loans to joint ventures and associates

During the period loans have been issued to joint ventures and associates, refer to note 11 for details.

##### (ii) Receivables from joint ventures and associates

During the period, the Group obtained receivables from joint ventures and associates, refer to note 15.

##### (iii) Receivables from prescribed officers relating to the Executive Share Scheme

	2017	2016
MN Nkuhlu^	–	4 174 698
MN Nkuhlu – vendor finance loan*	4 634 165	4 174 698
	<b>4 634 165</b>	<b>8 349 396</b>
^ This loan is unsecured, repayable on demand and bears interest at prime plus 2%.		
* This loan is unsecured, repayable in terms of a vendor finance agreement and bears interest at prime.		
(iv) Payables to Directors and prescribed officers relating to share appreciation rights settlement liability		
FJ Steyn	–	(928 423)
CTE le Roux	–	(791 002)
DN Steyn	–	(7 440 633)
	–	(9 160 058)
(v) Payables to Directors and prescribed officers with respect to the shares issued in terms of the Calgro M3 Executive Share Scheme (repayable only if these individuals do not complete their service period in terms of the scheme rules)		
BP Malherbe	–	(4 284 283)
WJ Lategan	(9 360 393)	(9 360 393)
W Williams	(4 426 047)	(4 426 047)
WA Joubert	(3 886 454)	(3 886 454)
MN Nkhulu	(8 349 396)	(8 349 396)
	<b>(26 022 290)</b>	<b>(30 306 573)</b>

# Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 35. Related parties *(continued)*

	2017	2016
<b>(a) Related-party balances <i>(continued)</i></b>		
<i>(vi) Trade and other payables to related parties</i>		
Trade payable – Aquarella Investments 265 (Pty) Ltd	9 965 355	–
Deposits received – Afhco Calgro M3 Consortium (Pty) Ltd	100 000 000	–
Other payables – HB Malherbe	13 292 864	–
	<b>123 258 219</b>	–
<b>(b) Related-party transactions</b>		
<i>(i) Key management personnel compensation</i>		
Employee expenses – Directors and prescribed officers (non-cash)	60 894 177	67 448 477
	<b>60 894 177</b>	67 448 477
<i>(ii) Purchase of inventory</i>		
Aquarella Investments 265 (Pty) Ltd	79 900 000	–
	<b>79 900 000</b>	–
<i>(iii) Trade payable cancelled</i>		
Aquarella Investments 265 (Pty) Ltd	13 064 997	–
	<b>13 064 997</b>	–
<i>(iv) Other transactions with joint ventures and associates</i>		

	Finance income received/(paid)		Contract revenue received		Service fees received	
	2017	2016	2017	2016	2017	2016
Fleurhof Ext 2 (Pty) Ltd	–	16 023 266	–	636 610 494	–	12 724 297
Aquarella Investments 265 (Pty) Ltd	<b>349 171</b>	469 187	–	797 086	–	1 451 427
Sabre Homes Projects (Pty) Ltd	<b>291 976</b>	–	–	–	–	–
Calgro Kuumba Planning & Design (Pty) Ltd	–	–	<b>11 686 707</b>	10 405 416	–	–
Witpoortjie Calgro M3 Development Company (Pty) Ltd	<b>9 030 458</b>	5 267 625	<b>30 825 090</b>	26 184 169	–	2 062 900
South Hills Development Company (Pty) Ltd	<b>286 368</b>	628 232	<b>160 606 964</b>	125 932 956	<b>3 913 338</b>	4 944 763
Safdev Tanganani (Pty) Ltd	<b>410 395</b>	–	–	–	<b>6 929 245</b>	–
	<b>10 368 368</b>	22 388 310	<b>203 118 761</b>	799 930 121	<b>10 842 583</b>	21 183 387

### 35. Related parties (continued)

#### (b) Related-party transactions (continued)

- (v) Shares issued and expense recognised for Directors and prescribed officers with respect to the Calgro M3 Executive Share scheme – not considered cash remuneration

	Share-based payment expense for 2017 FY*	Share-based payment expense for 2016 FY*	Number of shares granted	Service commencement date	50% trading restriction – release date 1	50% trading restriction – release date 2
<b>Directors</b>						
BP Malherbe	7 676 817	5 483 441	1 050 069	1 Mar 2015	20 Feb 2017	20 Feb 2017
WJ Lategan	5 416 787	5 416 787	2 294 214	1 Mar 2015	1 Mar 2020	1 Mar 2021
W Williams	2 661 617	2 661 617	1 084 815	1 Mar 2015	1 Mar 2020	1 Mar 2021
WA Joubert	2 176 164	1 632 123	952 562	1 Mar 2015	1 Mar 2020	1 Mar 2021
	<b>17 931 385</b>	15 193 968	5 381 660			
<b>Prescribed officers</b>						
MN Nkuhlu	5 553 384	5 553 384	2 046 421	1 Mar 2015	1 Mar 2020	1 Mar 2021
	<b>5 553 384</b>	5 553 384	2 046 421			

Refer to [note 33](#) for further details on the Calgro M3 Executive Share Scheme.

\* This amount relates to the share-based payment expense recognised in the statement of comprehensive income and is not a cash consideration paid to directors. Refer to [note 33](#) for further details of share-based compensation benefits.

### 36. Directors' emoluments

#### Executive Directors

The remuneration noted below is for services rendered in connection with the carrying on of affairs of the business within the same group of companies, joint ventures and associates.

	Remuneration and other benefits			
	Guaranteed remuneration	Equity-settled long-term incentive*	Short-term incentive	Total
<b>2017</b>				
BP Malherbe	3 176 699	18 796 235	–	21 972 934
WJ Lategan	2 664 968	–	–	2 664 968
FJ Steyn	2 482 573	–	–	2 482 573
WA Joubert	1 665 131	–	–	1 665 131
W Williams	1 804 894	–	–	1 804 894
<b>Total Executive Directors</b>	<b>11 794 265</b>	<b>18 796 235</b>	<b>–</b>	<b>30 590 500</b>

\* Equity settled long term incentives relates to the release of the trading restrictions on the shares granted to the director. This amount was expensed in the current and prior years in terms of the service period associated to the grant. Refer to [note 33](#).

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 36. Directors' emoluments *(continued)*

	Remuneration and other benefits			Total
	Guaranteed remuneration	Cash-settled long-term incentive	Short-term incentive	
<b>2016</b>				
BP Malherbe	2 898 215	–	2 060 307	4 958 522
WJ Lategan	2 510 715	–	2 060 307	4 571 022
FJ Steyn	2 368 217	7 440 633	1 648 245	11 457 095
DN Steyn	543 304	1 860 158	412 061	2 815 523
WA Joubert	1 212 329	–	1 236 184	2 448 514
W Williams	1 311 161	–	1 236 184	2 547 345
<b>Total Executive Directors</b>	<b>10 843 941</b>	<b>9 300 791</b>	<b>8 653 288</b>	<b>28 798 021</b>

#### Independent Non-Executive Directors

The remuneration noted below is for services rendered as a Director of the Group.

	2017	2016
PF Radebe	384 500	312 000
H Ntene	254 333	184 500
RB Patmore	348 167	325 000
JB Gibbon	35 554	240 667
ME Gama	346 833	340 167
HC Cameron	300 334	220 957
VJ Klein	235 833	40 500
<b>Total Non-Executive Directors</b>	<b>1 905 554</b>	<b>1 663 791</b>
<b>Summary</b>		
<b>Executive Directors</b>	<b>30 590 500</b>	<b>28 798 021</b>
<b>Non-Executive Directors</b>	<b>1 905 554</b>	<b>1 663 791</b>
<b>Total Directors</b>	<b>32 496 054</b>	<b>30 461 812</b>

#### Prescribed officers

The prescribed officers' appointment, terms of contract and remuneration for the year under review is as follows:

	Date appointed as a prescribed officer	Date resigned as a prescribed officer	Contract expiry
CTE le Roux	5 August 2005	1 November 2016	1 month's notice
MN Nkuhlu	1 September 2014	1 March 2017	1 month's notice
DN Steyn	1 June 2016		3 month's notice

The remuneration noted below is for services rendered in connection with the carrying on of affairs of other companies in the same Group.

### 36. Directors' emoluments (continued)

	Remuneration and other benefits			Total
	Guaranteed remuneration	Equity-settled long-term incentive*	Short-term incentive	
<b>2017</b>				
CTE le Roux	1 182 561	–	–	1 182 561
MN Nkuhlu	1 396 196	–	–	1 396 196
DN Steyn	2 334 597	–	–	2 334 597
	<b>4 913 354</b>	<b>–</b>	<b>–</b>	<b>4 913 354</b>

\* Equity settled long term incentives relates to the release of the trading restrictions on the shares granted to the director. This amount was expensed in the current and prior years in terms of the service period associated to the grant. Refer to note 33.

	Remuneration and other benefits			Total
	Guaranteed remuneration	Cash-settled long-term incentive	Short-term incentive	
<b>2016</b>				
CTE Le Roux	1 778 789	1 638 460	594 203	4 011 452
W Williams	380 269	–	412 061	792 330
MN Nkuhlu	1 288 215	–	1 648 245	2 936 460
DN Steyn	1 682 412	5 580 475	1 236 184	8 499 071
	<b>5 129 685</b>	<b>7 218 935</b>	<b>3 890 693</b>	<b>16 239 313</b>

### 37. Earnings per share (and other performance indicators)

#### Accounting policy

##### Basic earnings per share

Earnings per share is calculated using the weighted average number of ordinary shares in issue during the period and is based on the net profit attributable to ordinary shareholders.

##### Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares and is based on the net profit attributable to ordinary shareholders, adjusted for the after-tax dilutive effect.

For the share options and share rights, a calculation is done to determine the number of the Group's shares that would be required at fair value to settle the monetary value of the rights, after deducting the unamortised share-based payment value. For the purposes of this calculation, the average annual market share price of the Group is used.

##### Headline earnings per share

Headline earnings per share is calculated using the weighted average number of ordinary shares in issue during the period and is based on the earnings attributable to ordinary shareholders, after excluding those items as required by Circular 2/2013 issued by the South African Institute of Chartered Accountants ("SAICA").

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 37. Earnings per share (and other performance indicators) *(continued)*

	2017	2016
<b>(a) Basic</b>		
Profit attributable to shareholders	169 155 977	194 176 196
Weighted average number of ordinary shares in issue	127 125 892	127 100 000
<b>Basic earnings per share (cents per share)</b>	<b>133.06</b>	152.77
<b>(b) Diluted</b>		
Profit attributable to shareholders	169 155 977	194 176 196
Weighted average number of ordinary shares in issue	127 125 892	127 100 000
Calgro M3 Executive Scheme	4 001 478	1 961 876
Fully diluted weighted average number of ordinary shares in issue	131 127 370	129 061 876
<b>Fully diluted earnings per share (cents per share)</b>	<b>129.00</b>	150.45
<b>(c) Headline</b>		
Headline earnings is calculated as follows:		
Profit attributable to shareholders	169 155 977	194 176 196
Loss on disposal of property, plant and equipment and computer software	25 440	79 164
Gain on deemed disposal of interest in joint venture*	–	(17 631 533)
<i>* This item has no current or deferred tax impact.</i>		
Profit used to determine headline earnings per share	169 181 417	176 623 827
Weighted average number of ordinary shares in issue	127 125 892	127 100 000
<b>Headline earnings per share (cents per share)</b>	<b>133.08</b>	138.96
<b>(d) Diluted headline</b>		
Diluted headline earnings is calculated as follows:		
Profit used to determine headline earnings per share	169 181 417	176 623 827
Fully diluted weighted average number of ordinary shares in issue	131 127 370	129 061 876
<b>Fully diluted headline earning per share (cents per share)</b>	<b>129.02</b>	136.85
<b>(e) Net asset value per share</b>		
Net asset value per share is calculated by dividing the net asset value, calculated by reducing the total assets by total liabilities, by the number of share in issue.		
Total assets	2 744 755 503	1 942 499 282
Less: Total liabilities	(1 721 674 072)	(1 122 710 428)
<b>Net assets</b>	<b>1 023 081 431</b>	819 788 854
Number of ordinary shares in issue	128 150 069	127 100 000
<b>Net asset value per share (cents per share)</b>	<b>798.35</b>	645.00

### 37. Earnings per share (and other performance indicators) (continued)

	2017	2016
<b>(f) Other key performance indicators ("KPIs")</b>		
<b>Assets</b>	<b>2 744 755 503</b>	<b>1 942 499 282</b>
Non-current assets	199 211 285	182 733 639
Intangible assets	159 690 798	159 039 103
Property, plant and equipment	5 805 870	3 827 044
Other non-current assets	33 714 617	19 867 492
Current assets	2 545 544 218	1 759 765 643
<b>Equity</b>	<b>1 023 081 431</b>	<b>819 788 854</b>
<b>Liabilities</b>	<b>1 721 674 072</b>	<b>1 122 710 428</b>
Non-current liabilities	302 357 733	241 040 955
Current liabilities	1 419 316 339	881 669 473
Net assets	1 023 081 431	819 788 854
Net tangible assets	863 390 633	660 749 751
Net working capital	1 126 227 879	878 096 170
<b>Revenue</b>	<b>1 554 679 657</b>	<b>1 204 063 379</b>
– % growth since prior year	29.12%	29.16%
<b>Gross profit</b>	<b>334 162 888</b>	<b>251 546 652</b>
– % growth since prior year	32.84%	43.85%
<b>Operating profit</b>	<b>228 964 661</b>	<b>160 166 678</b>
– % growth since prior year	42.95%	91.13%
<b>Profit before tax</b>	<b>233 309 325</b>	<b>239 274 839</b>
– % growth since prior year	(2.49%)	42.30%
<b>Profit after tax</b>	<b>170 132 841</b>	<b>193 184 722</b>
– % growth since prior year	(11.93%)	32.66%
Number of ordinary shares in issue	128 150 069	127 100 000
<b>Net asset value per share (cents per share)</b>	<b>798.35</b>	<b>645.00</b>
* Calculated by dividing the net asset value (calculated by reducing the total assets by total liabilities) by the number of shares in issue.		
<b>Tangible net asset value per share (cents per share)</b>	<b>673.73</b>	<b>519.87</b>
* Calculated by dividing the net tangible asset value (calculated by reducing the total assets by intangible assets and total liabilities) by the number of shares in issue.		
<b>Return on net assets</b>	<b>16.63%</b>	<b>23.57%</b>
* Calculated by dividing the profit after tax by net assets.		
<b>Return on net tangible assets</b>	<b>19.71%</b>	<b>29.24%</b>
* Calculated by dividing the profit after tax by net tangible assets.		
<b>Return on capital employed</b>	<b>15.93%</b>	<b>18.72%</b>
* Calculated by dividing the earnings before finance cost and tax by the sum of average debt and average equity.		
<b>Current ratio</b>	<b>1.79</b>	<b>2.00</b>
* Calculated by dividing current assets by current liabilities.		
<b>Return on equity</b>	<b>18.36%</b>	<b>27.77%</b>
* Calculated by dividing the earnings attributable to the parent by average total equity.		
<b>Gross profit %</b>	<b>21.49%</b>	<b>20.89%</b>
* Calculated by dividing the gross profit by revenue.		

## Notes to the Group Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 38. Going concern

The Directors believe that the Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis.

The Board is not aware of any new material changes that may adversely impact the Group, any material non-compliance with statutory or regulatory requirements or any pending changes in litigation that may affect the Group.

### 39. Events after the reporting period

There were no events after the period ended 28 February 2017 that warrant disclosure in this report.

### 40. Shareholders' analysis

Please refer to Directors' Report  pages 89 to 93,  note 17.

# Company Statement of Financial Position

as at 28 February 2017

	Notes	2017	2016
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	42	288 420 698	103 272 814
Deferred income tax asset	43	–	79 036
		<b>288 420 698</b>	103 351 850
<b>Current assets</b>			
Loans to Group companies	44	507 555 316	579 747 829
Current tax receivable		160 148	155 077
Trade and other receivables	45	219 115	361 680
Cash and cash equivalents	46	10 137	100 148
		<b>507 944 716</b>	580 364 734
<b>Total assets</b>		<b>796 365 414</b>	683 716 584
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to owners of the parent			
Stated capital	47	279 441 769	279 441 769
Retained income		9 767 703	8 300 735
<b>Total equity</b>		<b>289 209 472</b>	287 742 504
<b>Liabilities</b>			
<b>Current liabilities</b>			
Loans from Group companies	44	506 052 640	393 978 580
Trade and other payables	48	1 103 302	1 995 500
		<b>507 155 942</b>	395 974 080
<b>Total liabilities</b>		<b>507 155 942</b>	395 974 080
<b>Total equity and liabilities</b>		<b>796 365 414</b>	683 716 584

The notes on  pages 165 to 172 are an integral part of these consolidated financial statements.

## Company Statement of Comprehensive Income

for the year ended 28 February 2017

	Notes	2017	2016
Other income	49	3 400 000	2 900 000
Administrative expenses	50	(2 837 560)	(5 325 671)
<b>Operating profit/(loss)</b>		<b>562 440</b>	<b>(2 425 671)</b>
Finance income	51	18 996 448	1 236
Finance costs	52	(17 343 875)	(4 143)
<b>Profit/(loss) before tax</b>		<b>2 215 013</b>	<b>(2 428 578)</b>
Taxation	53	(748 045)	79 036
<b>Profit/(loss) after taxation</b>		<b>1 466 968</b>	<b>(2 349 542)</b>
Other comprehensive income		–	–
<b>Total comprehensive income</b>		<b>1 466 968</b>	<b>(2 349 542)</b>

The notes on  pages 165 to 172 are an integral part of these consolidated financial statements.

## Company Statement of Changes in Equity

for the year ended 28 February 2017

	Stated capital	Retained income	Total equity
<b>Balance at 1 March 2015</b>	96 021 721	10 650 277	<b>106 671 998</b>
Issue of shares	183 420 048	–	<b>183 420 048</b>
<b>Comprehensive income</b>			
Loss for the period	–	(2 349 542)	<b>(2 349 542)</b>
Other comprehensive income	–	–	–
<b>Total comprehensive income</b>	–	(2 349 542)	<b>(2 349 542)</b>
<b>Balance at 29 February 2016</b>	279 441 769	8 300 735	<b>287 742 504</b>
<b>Balance at 1 March 2016</b>	279 441 769	8 300 735	<b>287 742 504</b>
<b>Comprehensive income</b>			
Profit for the period	–	<b>1 466 968</b>	<b>1 466 968</b>
Other comprehensive income	–	–	–
<b>Total comprehensive income</b>	–	<b>1 466 968</b>	<b>1 466 968</b>
<b>Balance at 28 February 2017</b>	<b>279 441 769</b>	<b>9 767 703</b>	<b>289 209 472</b>

Note

47

The notes on  pages 165 to 172 are an integral part of these consolidated financial statements.

## Company Statement of Cash Flows

for the year ended 28 February 2017

	Notes	2017	2016
<b>Cash utilised in operations</b>			
Cash generated from/(utilised in) operations	54	576 411	(804 942)
Finance income		7 661	1 237
Finance cost		(3)	(4 143)
Tax paid	55	(674 080)	(215 969)
<b>Net cash utilised in operations</b>		<b>(90 011)</b>	<b>(1 023 817)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(90 011)</b>	<b>(1 023 817)</b>
Cash and cash equivalents at the beginning of the year		100 148	1 123 965
<b>Cash and cash equivalents at the end of the year</b>	46	<b>10 137</b>	100 148

The notes on  pages 165 to 172 are an integral part of these consolidated financial statements.

# Notes to the Company Consolidated Financial Statements

for the year ended 28 February 2017

Included in the notes to the Company financial statements are those accounting policies only applicable to the Company.

Where the same accounting policy applies to both the Consolidated and Company Financial Statements refer to the applicable notes in the Consolidated Financial Statements.

## 41. Significant judgements and sources of estimation uncertainty

In preparing the Company financial statements, management applied estimates and assumptions in determining which investments to classify as subsidiaries.

Refer to the investments in subsidiaries note ( note 42).

## 42. Investment in subsidiaries

### Accounting policy

Investments in subsidiaries are carried at cost less any accumulated impairment.

### Significant judgement and sources of estimation uncertainty

Although the Group has a minority shareholding in Belhar Calgro M3 Development Company (Pty) Ltd, it does have control, as the Board comprises equal number of representatives from both the minority and the Group. The Group appoints the chairman which has the casting vote. The investment is therefore accounted for as a subsidiary as the Group has control over the relevant activities of the entity.

Name of company	% Voting power 2017	% Voting power 2016	% Holding 2017	% Holding 2016	Carrying amount 2017	Carrying amount 2016
<b>Direct subsidiaries</b>						
Calgro M3 Developments Ltd	100.00	100.00	100.00	100.00	95 774 364	95 774 364
Calgro M3 Land (Pty) Ltd	100.00	100.00	100.00	100.00	188 146 234	2 998 350
Calgro M3 Project Management (Pty) Ltd	100.00	100.00	100.00	100.00	4 500 100	4 500 100
Calgro M3 Real Estate (Pty) Ltd <sup>#</sup>	100.00	0.00	100.00	0.00	–	–
Calgro M3 Memorial Parks Fourways (Pty) Ltd <sup>#</sup>	100.00	0.00	100.00	0.00	–	–
					<b>288 420 698</b>	<b>103 272 814</b>
<b>Indirect subsidiaries</b>						
<b>Subsidiaries of Calgro M3 Developments Ltd</b>						
CM3 Randpark Ridge Ext 120 (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
MS5 Pennyville (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
PZR Pennyville Zamamphilo Relocation (Pty) Ltd	100.00	100.00	100.00	100.00	–	–
MS5 Projects (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
Calgro M3 Rectification Company (Pty) Ltd <sup>#</sup>	100.00	100.00	100.00	100.00	–	–
Calgro M3 Procurement Management (Pty) Ltd <sup>#</sup>	100.00	0.00	100.00	0.00	–	–
Calgro M3 Procurement Services (Pty) Ltd <sup>#</sup>	100.00	0.00	100.00	0.00	–	–
Calgro M3 Contractors (Pty) Ltd <sup>#</sup>	100.00	0.00	100.00	0.00	–	–

# Notes to the Company Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 42. Investment in subsidiaries *(continued)*

Name of company	% Voting power 2017	% Voting power 2016	% Holding 2017	% Holding 2016	Carrying amount 2017	Carrying amount 2016
<b>Indirect subsidiaries <i>(continued)</i></b>						
<b>Subsidiaries of Calgro M3 Land (Pty) Ltd</b>						
Fleurhof Ext 2 (Pty) Ltd <sup>^</sup>	100.00	100.00	100.00	100.00	243 000 000	243 000 000
Clidet No 1014 (Pty) Ltd	100.00	100.00	100.00	100.00	1 964 829	1 964 829
Belhar Calgro M3 Development Company (Pty) Ltd	51.00	51.00	49.00	49.00	49	49
Hightrade-Invest 60 (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
CM3 Witkoppen Ext 131 (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
Tres Jolie Ext 24 (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
Ridgewood Estate (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
Business Venture Investment No 1244 (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
Business Venture Investment No 1221 (Pty) Ltd	100.00	100.00	100.00	100.00	100	100
Calgro M3 Jabulani (Pty) Ltd <sup>#</sup>	100.00	0.00	100.00	0.00	–	–
Calgro M3 Memorial Parks (Pty) Ltd	50.00	50.00	63.50	63.50	635	635
<b>Subsidiary of Calgro M3 Project Management (Pty) Ltd</b>						
CTE Consulting (Pty) Ltd	100.00	100.00	100.00	100.00	4 500 100	4 500 100
Holm Jordaan GWA (Pty) Ltd	66.67	66.67	50.837	50.837	–	–
					<b>249 466 513</b>	<b>249 466 513</b>

On 12 February 2016, the Company founded the Calgro M3 Empowerment Trust and the Calgro M3 Employment Benefit Trust. In accordance with the principles of IFRS, both the trusts are controlled by the Company and are considered to be agents of the Company. There is no financial impact on transactions between the Company and the trusts. Both trusts are registered in South Africa and their year-ends are consistent with the Group.


All subsidiaries are incorporated in South Africa. The year-ends of all the direct and indirect subsidiaries are consistent with those of the Group.

<sup>#</sup> These companies have been incorporated under the new Companies Act 71 of 2008. The value of the shares are stated at no par value.

<sup>^</sup> This Company was previously a joint venture and the Group now holds 100% of the issued share capital as well 100% of the voting rights. The investment is therefore accounted for as a subsidiary.

#### 43. Deferred income tax asset

##### Accounting policy

Refer to  note 10 of the consolidated financial statements for the applicable accounting policy.

	2017	2016
<b>Reconciliation of deferred tax asset</b>		
Opening balance	79 036	–
Statement of comprehensive income charge	(79 036)	79 036
	–	79 036
The analyses of deferred tax assets are as follows:		
<b>Deferred tax assets</b>		
Tax losses available for set off against future taxable income	–	79 036
	–	79 036
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered within 12 months	–	79 036
Deferred tax asset to be recovered after more than 12 months	–	–
	–	79 036

#### 44. Loans to/(from) Group companies

##### Accounting policy

These loans are classified as loans and receivables or financial liabilities measured at amortised cost.

The loans are unsecured, interest is charged at a rate as agreed to between the parties from time to time and is repayable on demand.

##### Loans to/(from) direct and indirect subsidiaries


	Interest rate	Repayment terms	Security	2017	2016
<b>Loans from subsidiaries</b>					
Calgro M3 Developments Ltd	Prime charged from 1 November 2016 (2016: 0%)	On demand	Unsecured	(506 052 640)	(393 978 580)
				(506 052 640)	(393 978 580)
<b>Loans to subsidiaries</b>					
Calgro M3 Land (Pty) Ltd	Prime charged from 1 November 2016 (2016: 0%)	On demand	Unsecured	507 555 316	579 747 829
				507 555 316	579 747 829
<b>Loans to Group companies</b>				507 555 316	579 747 829
<b>Loans from Group companies</b>				(506 052 640)	(393 978 580)
				1 502 676	185 769 249

## Notes to the Company Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 45. Trade and other receivables


#### Accounting policy

Refer to accounting policy  note 15 of the consolidated financial statements for the applicable accounting policy.

	2017	2016
Other receivables	219 115	214 191
Value Added Tax Receivable	–	147 489
	<b>219 115</b>	<b>361 680</b>

### 46. Cash and cash equivalents

#### Accounting policy


Refer to accounting policy  note 16 of the consolidated financial statements for the applicable accounting policy.

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2017	2016
Cash on hand	330	330
Bank balances	9 807	99 818
	<b>10 137</b>	<b>100 148</b>

### 47. Stated capital

#### Accounting policy and note

Refer to  note 17 of the consolidated financial statements for the applicable accounting policy.

	Number of shares		Rand amount	
	2017	2016	2017	2016
<b>Authorised</b>				
Ordinary no par value shares	500 000 000	500 000 000		
<b>Issued</b>				
Balance at the beginning of the year	147 044 518	127 100 000	96 021 721	96 021 721
Shares issued to Calgro M3 Employee Benefit Trust	–	5 212 909	104 239 627	104 239 627
Shares issued to Calgro M3 Empowerment Trust	–	5 212 909	104 239 627	104 239 627
Shares issued with respect to the Calgro M3 Executive Share Scheme	–	9 518 700	183 420 048	183 420 048
Treasury shares in issue*	(10 425 818)	(10 425 818)	(208 479 254)	(208 479 254)
<b>Balance at the end of the year</b>	<b>136 618 700</b>	<b>136 618 700</b>	<b>279 441 769</b>	<b>279 441 769</b>


All issued shares are fully paid.

\* These shares relate to the shares issued to the Calgro M3 Empowerment Trust and the Calgro M3 Employee Benefit Trusts. In accordance with the principles of IFRS, the trusts are controlled by the Company and are considered agents of the Company. These shares are therefore considered to be treasury shares.

Unissued ordinary shares are under the control of the Directors in terms of a resolution of members passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

#### 48. Trade and other payables


##### Accounting policy

Refer to  note 20 of the consolidated financial statements for the applicable accounting policy.

	2017	2016
Trade payables	372 320	915 712
Accrued expenses	612 987	1 079 788
Value added tax	117 995	–
	<b>1 103 302</b>	<b>1 995 500</b>

#### 49. Other income

##### Accounting policy

Other income only consists of management fees. Management fees are charged by the Company to its subsidiary, Calgro M3 Developments Ltd, for providing the infrastructure and employees to operate the subsidiary and are recognised on the date the services are performed. Refer to the related-party  note 56.


	2017	2016
Management fees	3 400 000	2 900 000
	<b>3 400 000</b>	<b>2 900 000</b>

#### 50. Expense by nature

	2017	2016
Auditor's remuneration	30 820	696 693
Directors' fees – non-executive	1 905 554	1 663 791
Fines, penalties and interest	–	1 434
Professional fees	300 630	1 931 922
Sundry expenses	238 211	621 981
Transaction costs – trusts	362 345	409 850
<b>Total cost of sales, administration expenses and other expenses</b>	<b>2 837 560</b>	<b>5 325 671</b>

#### 51. Finance income

##### Accounting policy

Refer to  note 25 of the consolidated financial statements for the applicable accounting policy.


	2017	2016
Bank	7 661	1 236
Interest on Group loans	18 988 787	–
<b>Finance income</b>	<b>18 996 448</b>	<b>1 236</b>

# Notes to the Company Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

## 52. Finance cost


### Accounting policy

Refer to  note 26 of the consolidated financial statements for the applicable accounting policy.

	2017	2016
Bank	3	4 143
Interest on Group loans	17 343 872	–
<b>Finance cost</b>	<b>17 343 875</b>	<b>4 143</b>

## 53. Taxation

### Accounting policy

Refer to  note 27 of the consolidated financial statements for the applicable accounting policy.

Major components of the income tax expense	2017	2016
<b>Current</b>		
Local income tax – current period	669 009	–
	669 009	–
<b>Deferred</b>		
Current year	79 036	(79 036)
	79 036	(79 036)
	748 045	(79 036)
<b>Reconciliation of the income tax expense</b>		
Applicable tax rate	28.00%	28.00%
Disallowable charges	5.77%	(24.75)%
Effective tax rate	33.77%	3.25%

The estimated tax losses available for set off against future taxable income for the Company is Rnil (2016: R282 271).

## 54. Cash generated from/(utilised in) operations

	2017	2016
Profit/(loss) before taxation	2 215 013	(2 428 578)
<b>Adjustments for:</b>		
Finance income	(18 996 448)	(1 236)
Finance cost	17 343 875	4 143
Trade and other receivables	142 565	(169 377)
Trade and other payables	(892 198)	1 115 498
Loans (from)/to Group companies*	763 604	674 609
	576 411	(804 942)

\* Loans (from)/to Group companies forms part of the working capital of the Company due to all transactions between segments flowing through the Company.

## 55. Taxation paid

	2017	2016
Balance at the beginning of the year	155 077	(60 892)
Current tax for the year	(669 009)	–
Balance at the end of the year	(160 148)	(155 077)
	(674 080)	(215 969)

## 56. Related parties

### Subsidiaries

Refer to [note 42](#) for a detailed list of all subsidiaries of the Company.

### Related-party balances

Refer to [note 44](#) for loans (from)/to Group companies.

### Related-party transactions

	Administration fees received		Finance income received		Finance costs paid	
	2017	2016	2017	2016	2017	2016
Calgro M3 Developments Ltd	3 400 000	2 900 000	–	–	17 343 872	–
Calgro M3 Land (Pty) Ltd	–	–	18 988 787	–	–	–
	3 400 000	2 900 000	18 988 787	–	17 343 872	–

## 57. Financial assets and liabilities by category

	Loans and receivables		Financial liabilities at amortised cost		Fair values	
	2017	2016	2017	2016	2017	2016
Loans to Group companies	507 555 316	579 747 829			507 555 316	579 747 829
Cash and cash equivalents	10 137	100 148			10 137	100 148
Loans from Group companies			(506 052 640)	(393 978 580)	(506 052 640)	(393 978 580)
Trade and other payables			(985 307)	(1 995 500)	(985 307)	(1 995 500)
	507 565 453	579 847 977	(507 037 947)	(395 974 080)	527 506	183 873 897

## Notes to the Company Consolidated Financial Statements *(continued)*

for the year ended 28 February 2017

### 58. Risk management

#### 58.1 Financial risk management

Due to the fact that the Company is a pure holding Company, the most significant risks the Company is exposed to are market risk (via cash flow interest rate) and liquidity risk.

##### (i) **Market risk (cash flow interest rate risk)**

The Company has interest-bearing loans to and from Group companies. The loans issued at variable rates expose the Company to cash flow interest rate risk. The Group Executive Committee monitors the interest of the Company on a cash basis. Refer to the finance income (📄 note 51) and finance cost (📄 note 52) notes for the interest received/paid.

##### (ii) **Credit risk**

Credit risk consists mainly of loans to Group companies, cash deposits and cash equivalents.

The Company only deposits cash with major banks with a minimum rating of “BB+” and limits the exposure to any one counter party. No credit risk is associated to other receivables as this consists of prepayments.

The Company considers its credit risk relating to the loans owing by Group companies on a case-by-case basis. Any credit risk related to loans to Group companies is mitigated by the fact that management has insight into the financial position of the Group companies as a result of the relationship.

For loans to Group companies and cash and cash equivalents, the maximum exposure to credit risk is limited to what is disclosed in the statement of financial position.

##### (iii) **Liquidity risk**

The Company’s liquidity risk arises from its financial liabilities, which includes loans from Group companies and trade payables. The Company manages liquidity risk by monitoring forecasted cash flows to ensure there will be funds available to cover future commitments.

Both the loans from Group companies (refer to 📄 note 44) and trade payables (refer to 📄 note 48) are repayable within one year.

The Company had no overdraft facilities with major banks in the current or prior year.

### 60. Directors’ emoluments

Please refer to 📄 note 36 of the consolidated financials for the emoluments paid to non-executive directors.



### Belhar

The Belhar development, situated in close proximity to the Cape Town International airport, currently has **998** units under construction as well as **627** Social Housing Units under way. The majority of the development is aimed at student and rental housing.

# 6

## Shareholder Information

## Shareholder's diary

	2017
Financial year-end	28 February
Year-end results	15 May
Annual general meeting	30 June
Interim report	October

# Notice of Annual General Meeting

## 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 Group" or "the Company")

Notice is hereby given to all members of the Company as at 26 May 2017, being the record date to receive notice of the Annual General Meeting in terms of section 59(1) of the Companies Act, 71 of 2008, as amended ("Companies Act"), that the eighth Annual General Meeting ("AGM") of members or any postponement or adjournment thereof will be held at 10:00 on Friday, 30 June 2017 at the Calgro M3 Boardroom, Calgro M3 Building, Ballywoods Office Park, 33 Ballyclare Drive, Bryanston, Sandton to (i) deal with such other business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit to pass, with or without modification, the following ordinary and special resolutions, in the manner required by the Companies Act, as read with the JSE Limited ("JSE") Listings Requirements ("JSE Listings Requirements"), which meeting is to be participated in and voted at by shareholders as at 23 June 2017, being the record date to attend, participate, speak and vote at the AGM in terms of section 62(3) (a), read with section 59(1)(b), of the Companies Act ("Voting Record Date").


Important dates to note	2017
Last day to trade in order to be eligible to vote at the AGM	Tuesday, 20 June
Voting Record Date to be able to vote at the AGM	Friday, 23 June
Forms of Proxy to be received by no later than 10:00 on	Wednesday, 28 June
AGM to be held at 10:00 on	Friday, 30 June

NB: Section 63(1) of the Companies Act – Identification of meeting participants.


Kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in the shareholders' meeting. Forms of identification include valid identity documents, driver's licences and passports.

## Presentation of Annual Financial Statements

The annual financial statements of the Company for the year ended 28 February 2017 (as approved by the Board of Directors of the Company), including the Directors' Report and the Report of the Auditors thereon, have been distributed as required and will be presented to the shareholders.

The complete annual financial statements are set out on  pages 100 to 172 of the Integrated Annual Report.

## Non-Binding Advisory Endorsement of the Remuneration Philosophy (Policy)

To endorse, through a non-binding advisory vote, the Company's remuneration policy, as set out set out on  pages 75 to 80 of the Integrated Annual Report.

In terms of the King Report on Governance for South Africa, 2009 (King III), an advisory vote should be put to the shareholders relating to the Company's remuneration policy. The vote allows the shareholders to express their views on the remuneration policy adopted and implemented, but it is not binding on the Company.

## 1. Ordinary Resolution Number One: Re-election of Non-Executive Director

"Resolved that the reappointment of RB Patmore as a Non-Executive Director of the Company and Lead Independent Director of the Board of Directors, who retires by rotation, but being eligible, offers himself for re-election in accordance with Article 24.9, read with Article 24.3 of the Company's Memorandum of Incorporation, for a further term of office be authorised and confirmed."

(A brief CV of RB Patmore appears on  page 37 of the Integrated Annual Report.)

The percentage of voting rights that will be required for this ordinary resolution number one to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

## Notice of Annual General Meeting *(continued)*

### 2. Ordinary Resolution Number Two: Re-election of Non-Executive Director

“Resolved that the reappointment of HC Cameron as a Non-Executive Director of the Company, who retires by rotation, but being eligible, offers himself for re-election in accordance with Article 24.9, read with Article 24.3 of the Company’s Memorandum of Incorporation, for a further term of office be authorised and confirmed.”

(A brief CV of HC Cameron appears on  page 37 of the Integrated Annual Report.)

The percentage of voting rights that will be required for this ordinary resolution number two to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

### 3. Ordinary Resolution Number Three: Re-election of Non-Executive Director

“Resolved that the reappointment of VJ Klein as a Non-Executive Director of the Company, who retires by rotation, but being eligible, offers herself for re-election in accordance with Article 24.9, read with Article 24.3 of the Company’s Memorandum of Incorporation, for a further term of office be authorised and confirmed.”

(A brief CV of VJ Klein appears on  page 38 of the Integrated Annual Report.)

The percentage of voting rights that will be required for this ordinary resolution number three to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

### 4. Ordinary Resolution Number Four: Election of Non-Executive Director

“Resolved that the appointment of BP Malherbe as a Non-Executive Director of the Company with effect from 1 March 2017, in accordance with Article 24.3 of the Company’s Memorandum of Incorporation, be authorised and confirmed.”

(A brief CV of BP Malherbe appears on  page 38 of the Integrated Annual Report.)

The percentage of voting rights that will be required for this ordinary resolution number four to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

### 5. Ordinary Resolution Number Five: Election of Executive Director

“Resolved that the appointment of MN Nkuhlu as an Executive Director of the Company with effect from 1 March 2017, in accordance with Article 24.3 of the Company’s Memorandum of Incorporation, be authorised and confirmed.”

(A brief CV of MN Nkuhlu appears on  page 38 of the Integrated Annual Report.)

The percentage of voting rights that will be required for this ordinary resolution number five to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

### 6. Ordinary Resolution Number Six: Reappointment of Auditors

“Resolved that the reappointment of PricewaterhouseCoopers as auditors, and Chantel Marais Roux being a member of PricewaterhouseCoopers Inc., as the individual designated auditor who will undertake the audit of the Company for the ensuing year, until the conclusion of the next annual general meeting in accordance with the Companies Act, be authorised and confirmed.”

The percentage of voting rights that will be required for this ordinary resolution number six to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

### 7. Ordinary Resolution Number Seven: Appointment of Audit Committee member

“Resolved that the appointment of HC Cameron as a member of the Audit Committee in terms of section 94(2) of the Companies Act, is approved with effect from the end of this meeting.”

The percentage of voting rights that will be required for this ordinary resolution number seven to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

## 8. Ordinary Resolution Number Eight: Appointment of Audit Committee member

“Resolved that the appointment of ME Gama as a member of the Audit Committee in terms of section 94(2) of the Companies Act, is approved with effect from the end of this meeting.”

The percentage of voting rights that will be required for this ordinary resolution number eight to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

## 9. Ordinary Resolution Number Nine: Appointment of Audit Committee member

“Resolved that the appointment of RB Patmore as a member of the Audit Committee in terms of section 94(2) of the Companies Act, is approved with effect from the end of this meeting.”

The percentage of voting rights that will be required for this ordinary resolution number nine to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

## 10. Ordinary Resolution Number Ten: General payments to shareholders

“Resolved that, in terms of Articles 5.1.1.3 and 21 of the Company’s Memorandum of Incorporation and subject to the Companies Act and to the Directors being satisfied that after considering the effect of such maximum payment, the:

- (a) Company will in the ordinary course of business be able to pay its debts for a period of 12 months after the date of the notice of the AGM;
- (b) assets of the Company will be in excess of the liabilities of the Company for a period of 12 months after the date of the notice of the AGM. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited Annual Group Financial Statements;
- (c) share capital and reserves to the Company will be adequate for ordinary business purposes for a period of 12 months after the date of notice of the AGM; and
- (d) working capital of the Company will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the AGM.

The Directors of the Company shall be entitled, from time to time, to pay by way of reduction of share premium, capital distributions to shareholders of the Company in lieu of a dividend. Such distributions shall be made pro rata to all shareholders and be amounts equal to the amounts which the Directors would have declared and paid out of profits of the Company as interim and final dividends in respect of the financial year ended 28 February 2017. This authority shall not extend beyond the date of the AGM following the date of the AGM at which this resolution is being proposed, or 15 months from date of the resolution, whichever is shorter.”

Shareholders are referred to the explanatory notes set out under special resolution number one (termed “Reason and effect of special resolution number one”) which apply mutatis mutandis to this resolution.

The percentage of voting rights that will be required for this ordinary resolution number ten to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

## 11. Ordinary Resolution Number Eleven: Control of authorised but unissued shares

“Resolved that all the unissued shares in the authorised share capital of the Company be and are hereby placed under the control of the Directors of the Company, who are authorised to allot and issue the same to such persons and on such terms and conditions as they may determine in their sole and absolute discretion, until the next annual general meeting of the Company, subject to the provisions of the Companies Act, the Company’s Memorandum of Incorporation and the JSE Listings Requirements.”

The percentage of voting rights that will be required for this ordinary resolution number eleven to be adopted is at least 50%+1 of the voting rights exercised on the resolution.

## Notice of Annual General Meeting *(continued)*

### 12. Ordinary Resolution Number Twelve: General authority to issue shares for cash

“Resolved that the Directors be given the general authority to issue unissued shares of a class already in issue held under their control, for cash, when the Directors consider it appropriate in the circumstances, subject to the provisions of the Companies Act, the Company’s Memorandum of Incorporation, the JSE Listings Requirements and subject to the following limitations, that:

- the authority shall be valid until the next annual general meeting of the Company (provided it shall not extend beyond fifteen months from the date of this resolution);
- an announcement giving full details, including the number of shares issued, the average discount to the weighted average traded price of the shares over the 30 business days prior to the date the Company agrees to issue the shares, and an explanation, including supporting information, of the intended use of the funds, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of shares in issue prior to such issue;
- issues for cash in any one financial year may not exceed 15% of the issued shares in the share capital of the Company, as at the date of the notice of Annual General Meeting, being 22 056 678 ordinary shares;
- any shares issued for cash under the authority must be deducted from the number above;
- in the event of a subdivision or consolidation of issued shares during the period when this authority is valid, the existing authority must be adjusted accordingly to represent the same allocation ratio;
- the issues for cash must be made to public shareholders and not to related parties as defined by the JSE Listings Requirements; and
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% of the volume weighted average traded price of those shares as determined over the 30 business days prior to the date that the price of the issue is determined or agreed by the Directors of the Company.”

The percentage of voting rights that will be required for this ordinary resolution number twelve to be adopted is at least 75%+1 of the voting rights exercised on the resolution.

Shareholders are referred to the explanatory notes set out under special resolution number one (termed “Reason and effect of special resolution number one”) which apply mutatis mutandis to this resolution.

### 13. Special Resolution Number One: General authority to repurchase shares

“Resolved that the Board of Directors of the Company be hereby authorised, by way of a general authority, to approve the purchase of the Company’s own ordinary shares or to approve the purchase of ordinary shares in the Company by any subsidiary of the Company, from time to time, provided that:

- (a) any acquisition of shares shall be implemented through the order book operated by the JSE Limited’s trading system and done without any prior understanding or arrangement between the Company and/or its relevant subsidiaries and the counterparty;
- (b) this authority shall be valid only until the next annual general meeting provided that it shall not extend beyond fifteen months from the date of this resolution;
- (c) the general repurchase(s) shall in any one financial year be limited to a maximum of 20% of the Company’s issued share capital of that class at the time the authority is granted;
- (d) a resolution by the Board of Directors is passed which authorises the repurchase, confirms that the Company passes the solvency and liquidity test in terms of section 4 of the Companies Act;
- (e) the acquisition of shares by a subsidiary of the Company may not exceed 10% in aggregate of the number of issued shares of the Company;
- (f) repurchase(s) must not be made at a price more than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date of repurchase(s);
- (g) a paid press announcement (complying with paragraph 11.27 of the JSE Listings Requirements) will be published as soon as the Company and/or its subsidiaries have acquired shares constituting, on a cumulative basis, 3% or more of the initial number of ordinary shares in issue at the time of the granting of this authority, giving full details of such acquisitions and for each 3% in aggregate of the initial number of ordinary shares acquired thereafter by the Company and/or its subsidiaries;

### 13. Special Resolution Number One: General authority to repurchase shares *(continued)*

- (h) the Company will, at any point in time, appoint only one agent to effect any repurchase(s) on the Company's behalf;
- (i) the Company will not repurchase its shares during any prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements; and
- (j) such repurchase(s) shall be subject to the Companies Act, the Company's Memorandum of Incorporation and the JSE Listings Requirements."

#### **Reason and effect of Special Resolution Number One**

The reason for special resolution number one is to grant the Company a general authority in terms of the Companies Act for the acquisition by the Company or any of its subsidiaries of shares issued by the Company or its holding company, which authority shall be valid until the earlier of the next annual general meeting of the Company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company, provided that the general authority shall not extend beyond fifteen months from the date of this AGM. The passing and registration of this special resolution will have the effect of authorising the Company or any of its subsidiaries to acquire shares issued by the Company or its holding company.

A repurchase of shares is not contemplated at the date of this notice. However, the Board believes it to be in the interest of the Company that shareholders grant a general authority to provide the Board with optimum flexibility to repurchase shares as and when an opportunity, that is in the best interest of the Company arises.

Shareholders are referred to the explanatory notes attached to this notice for further disclosures in respect of this general authority to repurchase shares in terms of paragraph 11.26 of the JSE Listing Requirements.

The percentage of voting rights that will be required for this special resolution number one to be adopted is at least 75% of the voting rights exercised on the resolution.

### 14. Special Resolution Number Two: Specific financial assistance in respect of the Calgro M3 Employee Share Ownership Scheme 2017 ("Calgro M3 ESOP Trust")

"Resolved that the Company and its subsidiaries be and are hereby authorised, in terms of section 44 of the Companies Act, for a period of two years from the passing of this resolution, to provide direct and/or indirect financial assistance to the Calgro M3 ESOP Trust, for the purpose of and/or in connection with the acquisition of ordinary shares of the Company from time to time or otherwise as may be required for the operation and administration of the Calgro M3 ESOP Broad-based Employee Share Ownership Scheme 2017, subject to the provisions of the Companies Act."

#### **Reason and effect of Special Resolution Number Two**

In the ordinary course of business, and specifically in connection with the operation of the Calgro M3 ESOP Broad-based Employee Share Ownership Scheme 2017, the directors will be required to authorise the Company to provide financial assistance to the Calgro M3 ESOP Trust, inter alia, for the purpose of, and/or in connection with, the acquisition of ordinary shares in the Company on behalf of the Calgro M3 ESOP participants from time to time. Section 44 of the Companies Act requires, inter alia, that:

- the provision of financial assistance by the Company to the Calgro M3 ESOP Trust; and
- the provision of financial assistance for the purpose of, or in connection with, the acquisition of securities of the Company,

must be approved by a special resolution of shareholders adopted within the previous two years. Accordingly, the directors propose for approval a special resolution granting the Company and its subsidiaries the authority to provide the required financial assistance for purposes of the Calgro M3 Broad-based Employee Share Ownership Scheme 2017.

The effect of special resolution number two is that the Company will be authorised to fund the Calgro M3 ESOP Trust for a period of two years, for an amount as determined by the Board in accordance with the Calgro M3 ESOP Rules, in order for the Calgro M3 ESOP Trust to acquire the required number of ordinary shares in the Company, to satisfy the requirements of the Calgro M3 Broad-based Employee Share Ownership Scheme 2017 and to otherwise fund the operations of the Calgro M3 ESOP Trust in administering the Calgro M3 Broad-based Employee Share Ownership Scheme 2017.

## Notice of Annual General Meeting *(continued)*

### 14. Special Resolution Number Two: Specific financial assistance in respect of the Calgro M3 Employee Share Ownership Scheme 2017 ("Calgro M3 ESOP Trust") *(continued)*

A special resolution to the same effect as special resolution number two was previously adopted by shareholders at the AGM held on 29 July 2015 and was adopted for a period of two years, with effect from 29 July 2015 until 29 July 2017.

The Board will not authorise any such financial assistance unless it is satisfied that:

- considering all reasonably foreseeable financial circumstances of the Company at that time, the Company will, immediately after providing the financial assistance, satisfy the solvency and liquidity test stipulated in the Companies Act;
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company; and
- any conditions or restrictions in respect of the granting of financial assistance set out in the Company's Memorandum of Incorporation have been satisfied.

The percentage of voting rights that will be required for this special resolution number two to be adopted is at least 75% of the voting rights exercised on the resolution.

### 15. Special Resolution Number Three: Remuneration of Non-Executive Directors

"Resolved that the fees paid to the Non-Executive Directors of the Company set out below, be approved up and to the date of the next annual general meeting."

Director	Annual retainer fee 2017/2018	Meeting chaired	Audit Committee meeting attendance	Meeting attendance of other Board committees fee 2017/2018
PF Radebe	R235 000	R38 500		R20 000
VJ Klein	R157 500	R27 500		R20 000
H Ntene	R157 500	R27 500		R20 000
RB Patmore	R188 000	R27 500	R22 500	R20 000
ME Gama	R157 500	R27 500	R22 500	R20 000
HC Cameron	R157 500	R33 000		R20 000
BP Malherbe	R157 500	R27 500		R20 000

#### Reason for and effect of Special Resolution Number Three

Special resolution number three is proposed in order to comply with the requirements of the Companies Act and the Company's Memorandum of Incorporation. The above rates have been selected to ensure that the remuneration of Non-Executive Directors remains competitive in order to enable the Company to retain and attract persons of the calibre, appropriate capabilities, skills and experience required in order to make meaningful contributions to the Company.

The effect of special resolution number three is that, if approved by the shareholders at the Annual General Meeting, the fees payable to Non-Executive Directors until the next annual general meeting will be as set out above.

The percentage of voting rights that will be required for this special resolution number three to be adopted is at least 75% of the voting rights exercised on the resolution.

### 16. Special Resolution Number Four: Authorising general financial assistance

"Resolved that, to the extent required by the Companies Act, the Board of Directors of the Company may, subject to compliance with the requirements of the Company's Memorandum of Incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to:

- any of its present or future subsidiaries and/or any other company or entity that is/or becomes related or inter-related to the Company or any of its subsidiaries, and/or to a member of such subsidiary or related or inter-related company or entity, all as contemplated in sections 44 and/or 45 of the Companies Act, for such amounts and on such terms and conditions as the Directors of the Company may determine. Such authority to endure until the annual general meeting of the Company for the year ended February 2018."

## 16. Special Resolution Number Four: Authorising general financial assistance *(continued)*

### Reasons for and effect of Special Resolution Number Four

Notwithstanding the title of section 45 of the Companies Act, being “Loans or other financial assistance to directors”, on a proper interpretation, the body of the section may also apply to financial assistance provided by a company to related or inter-related companies and other entities, including, inter alia, its subsidiaries, associates, joint ventures, partnerships, collaboration arrangements, etc for any purpose.

Furthermore, section 44 of the Companies Act may also apply to the financial assistance so provided by a company to related or inter-related companies or other entities, in the event that the financial assistance is provided for the purpose of, or in connection with, the acquisition or subscription for any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company.

Both sections 44 and 45 of the Companies Act provide, inter alia, that the particular financial assistance must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the Board of Directors must be satisfied that:

- considering all reasonably foreseeable financial circumstances of the Company at the time, immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test;
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company; and
- any conditions or restrictions in respect of the granting of financial assistance set out in the Company’s Memorandum of Incorporation have been satisfied.

The Company would like the ability to provide financial assistance, if necessary, also in other circumstances, in accordance with section 45 of the Companies Act. Furthermore, it may be necessary or desirous for the Company to provide financial assistance to related or inter-related companies and entities to acquire or subscribe for options or securities or purchase securities of the Company or another company related or inter-related to it. Under the Companies Act, the Company will, however, require the special resolution referred to above to be adopted. In the circumstances and in order to, inter alia, ensure that the Company’s subsidiaries and other related and inter-related companies and entities have access to financing and/or financial backing from the Company (as opposed to banks), it is necessary to obtain the approval of shareholders, as set out in special resolution number four.

Sections 44 and 45 contain exemptions in respect of employee share schemes that satisfy the requirements of section 97 of the Companies Act. To the extent that any of the Company’s shares or other employee incentive schemes do not satisfy such requirements, financial assistance (as contemplated in sections 44 and 45) to be provided under such schemes will, inter alia, also require approval by special resolution.

Accordingly, special resolution number four will have the effect of authorising financial assistance to any of the Company’s Directors or prescribed officers (or any person related to any of them or to any company or corporation related or inter-related to them), or to any other person who is a participant in any of the Company’s share or other employee incentive schemes, in order to facilitate their participation in any such schemes that do not satisfy the requirements of section 97 of the Companies Act. This resolution will enable the Company to provide financial assistance within the Company’s group which may be required from time to time in the normal course of business.

The percentage of voting rights that will be required for this special resolution number four to be adopted is at least 75% of the voting rights exercised on the resolution.

## Notice of Annual General Meeting *(continued)*

### 17. Special Resolution Number Five: Specific financial assistance in respect of the Calgro M3 Executive Scheme

“Resolved that the Company and its subsidiaries be and are hereby authorised, in terms of sections 44 and 45 of the Companies Act (to the extent applicable), for a period of two years from the passing of this resolution, to provide further direct and/or indirect financial assistance, to a maximum of 50% of the aggregate subscription price, to the participants of the Calgro M3 Executive Scheme, and to the Directors and prescribed officers of the Company or any of its subsidiaries participating in the Calgro M3 Executive Scheme, for the purpose of and/or in connection with the acquisition of ordinary shares of the Company from time to time or otherwise as may be required for the operation and administration of the Calgro M3 Executive Scheme, subject to the provisions of the Companies Act.”

#### Reason and effect of Special Resolution Number Five

In the ordinary course of business, and specifically in connection with the operation of the Calgro M3 Executive Scheme, the Directors will be required to authorise the Company to provide financial assistance to the participants of the Calgro M3 Executive Scheme, inter alia, for the purpose of, and/or in connection with, the acquisition of ordinary shares in the Company by the Calgro M3 Executive Scheme participants from time to time. Sections 44 and 45 of the Companies Act require, inter alia, that:

- the provision of financial assistance by the Company to the participants of the Calgro M3 Executive Scheme and, consequently, to directors and prescribed officers of the Company or any of its subsidiaries, being related/inter-related persons of the Company; and
- the provision of financial assistance for the purpose of, or in connection with, the acquisition of securities of the Company, must be approved by a special resolution of shareholders adopted within the previous two years.

A special resolution to the same effect as special resolution number five was previously adopted by shareholders at the AGM held on 29 July 2015 and was adopted for a period of two years, with effect from 29 July 2015 until 29 July 2017. Accordingly, the Directors propose for further approval of a special resolution granting the Company and its subsidiaries the authority to provide the required financial assistance for purposes of the Calgro M3 Executive Scheme.

The effect of special resolution number five is that the Company will be authorised to fund the participants of the Calgro M3 Executive Scheme (and, consequently, the Directors and prescribed officers of the Company or any of its subsidiaries) for a further period of two years, with an amount as determined by the Board (to a maximum of 50% of the aggregate subscription price) in accordance with the Calgro M3 Executive Scheme Rules, in order for the Calgro M3 Executive Scheme participants to acquire the required number of ordinary shares in the Company to satisfy the requirements of the Calgro M3 Executive Scheme Rules.

The Board will not authorise any such financial assistance unless it is satisfied that:

- considering all reasonably foreseeable financial circumstances of the Company at that time, the Company will, immediately after providing the financial assistance, satisfy the solvency and liquidity test stipulated in the Companies Act;
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company; and
- any conditions or restrictions in respect of the granting of financial assistance set out in the Company’s Memorandum of Incorporation have been satisfied.

The percentage of voting rights that will be required for this special resolution number five to be adopted is at least 75% of the voting rights exercised on the resolution.

### 18. Special Resolution Number Six: Specific financial assistance in respect of the Calgro M3 B-BBEE Trust

“Resolved that the Company and its subsidiaries be and are hereby authorised, in terms of section 44 of the Companies Act, for a period of two years from the passing of this resolution, to provide direct and/or indirect financial assistance to the Calgro M3 B-BBEE Trust, for the purpose of and/or in connection with the acquisition of ordinary shares of the Company from time to time or otherwise as may be required for the operation and administration of the Calgro M3 B-BBEE Trust, subject to the provisions of the Companies Act.”

## 18. Special Resolution Number Six: Specific financial assistance in respect of the Calgro M3 B-BBEE Trust *(continued)*

### Reason and effect of Special Resolution Number Six

In the ordinary course of business, and specifically in connection with the operation of the Calgro M3 B-BBEE Trust, the Directors will be required to authorise the Company to provide financial assistance to the Calgro M3 B-BBEE Trust, inter alia, for the purpose of, and/or in connection with, the acquisition of ordinary shares in the Company on behalf of the Calgro M3 B-BBEE Trust participants from time to time. Sections 44 and 45 of the Companies Act require, inter alia, that:

- the provision of financial assistance by the Company to the Calgro M3 B-BBEE Trust; and
- the provision of financial assistance for the purpose of, or in connection with, the acquisition of securities of the Company,

must be approved by a special resolution of shareholders adopted within the previous two years. Accordingly, the directors propose for approval a special resolution granting the Company and its subsidiaries the authority to provide the required financial assistance for purposes of the Calgro M3 B-BBEE Trust.

The effect of special resolution number six is that the Company will be authorised to fund the Calgro M3 B-BBEE Trust for a period of two years, with an amount as determined by the Board, in order for the Calgro M3 B-BBEE Trust to acquire the required number of ordinary shares in the Company on behalf of the Calgro M3 B-BBEE Trust and to otherwise fund the operations of the Calgro M3 B-BBEE Trust.

A special resolution to the same effect as special resolution number six was previously adopted by shareholders at the AGM held on 29 July 2015 and was adopted for a period of two years, with effect from 29 July 2015 until 29 July 2017.

The Board will not authorise any such financial assistance unless it is satisfied that:




- considering all reasonably foreseeable financial circumstances of the Company at that time, the Company will, immediately after providing the financial assistance, satisfy the solvency and liquidity test stipulated in the Companies Act;
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company; and
- any conditions or restrictions in respect of the granting of financial assistance set out in the Company's Memorandum of Incorporation have been satisfied.

The percentage of voting rights that will be required for this special resolution number six to be adopted is at least 75% of the voting rights exercised on the resolution.


## 19. To transact such other business as may be transacted at an Annual General Meeting.

### Explanatory notes

Disclosures in terms of paragraph 11.26 of the JSE Listings Requirements:

- Major shareholders:  page 93 of the annual financial statements
- Share capital of the Company:  page 137  note 17 of the notes to the annual financial statements

### Directors' responsibility statement

The Directors, whose names are given on  pages 37 and 38 of the Integrated Annual Report in which this notice was included, collectively and individually accept full responsibility for the accuracy of the information given in this notice and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the Integrated Annual Report and notice contain all information required by law and the JSE Listings Requirements.

### Material changes

There has been no material change in the financial or trading position of the Company and its subsidiaries that has occurred since 28 February 2017.

## Notice of Annual General Meeting *(continued)*

### Quorum

The shareholders' meeting may not begin until sufficient persons are present (in person or represented by proxy) at the shareholders' meeting to exercise, in aggregate, at least 25% of all the voting rights that are entitled to be exercised in respect of at least one matter to be decided at the shareholders' meeting. A matter to be decided at the shareholders' meeting may not begin to be considered unless sufficient persons are present at the meeting (in person or represented by proxy) to exercise, in aggregate, at least 25% of all of the voting rights that are entitled to be exercised on that matter at the time the matter is called on the agenda.

For the purpose of counting a quorum at any time, a shareholder who is personally present or represented at the meeting at that time, or who participates in person or through a representative electronically, shall be counted towards the quorum at that time.

### Form of proxy

Any shareholders wishing to attend the AGM who have already dematerialised their shares in Calgro M3, and such dematerialised shares are not recorded in the electronic sub-register of Calgro M3 in their own names, should request letters of representation from their duly appointed CSDP or stockbroker, as the case may be, to authorise them to attend and vote at the AGM in person.

In terms of section 62(3)(e) of the Companies Act, any shareholders who are entitled to attend and vote at the AGM are entitled to appoint proxies to attend, speak and vote at the AGM in the name and stead of the shareholder. The proxies so appointed need not be shareholders of the Company but must be individuals.

If you have not yet dematerialised your shares in Calgro M3 and are unable to attend the AGM, but wish to be represented thereat, you must complete the attached Form of Proxy in accordance with the instructions therein and lodge it with the Transfer Secretaries of Calgro M3 namely, Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) to be received by no later than 10:00 on 28 June 2017. Attached to the Form of Proxy is an extract of section 58 of the Companies Act, to which shareholders are referred.

If you have already dematerialised your shares in Calgro M3:

- and such dematerialised shares are recorded in the electronic sub-register of Calgro M3 in your own name and you are unable to attend the AGM, but wish to be represented thereat, you must complete the attached Form of Proxy in accordance with the instructions therein and lodge it with the Transfer Secretaries of Calgro M3 namely, Computershare Investor Services (Pty) Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) to be received by no later than 10:00 on 28 June 2017; or
- and such dematerialised shares are not recorded in the electronic sub-register of Calgro M3 in your own name, you should notify your duly appointed CSDP or stockbroker, as the case may be, in the manner and cut-off time stipulated in the agreement governing your relationship with your CSDP or broker of your instructions as regards voting your shares at the AGM.

If any shareholders of the Company wish to participate (but not vote) in the AGM electronically, they:

- must contact the Company Secretary on 011 300 7500, five business days prior to the annual general meeting in order to obtain a pin number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the AGM, provided that shareholders and their proxies will not be able to vote telephonically at the AGM and will still need to appoint a proxy to attend the AGM and to vote on their behalf.

By order of the board

*Company Secretary*

12 May 2017  
Sandton

# Form of Proxy

## 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")

For use by the holders of Certificated Shares and/or Dematerialised Shares held through a CSDP or broker who have selected "own-name" registration, registered as such at the close of business on the Voting Record Date, at the eighth annual general meeting to be held at 10:00 on Friday, 30 June 2017 at the Calgro M3 boardroom, Calgro M3 Building, Ballywoods Office Park, 33 Ballyclare Drive, Bryanston or any postponement or adjournment thereof.

Dematerialised shareholders who have not selected "own-name" registration must inform their CSDP or broker timeously of their intention to attend and vote at the AGM or be represented by proxy thereat in order for the CSDP or broker to issue them with the necessary letter of representation to do so or provide the CSDP or broker timeously with their voting instruction, should they not wish to attend the AGM in order for the CSDP or broker to vote in accordance with their instructions at the AGM.

I/We (FULL NAMES IN BLOCK LETTERS PLEASE)

of (ADDRESS)

Telephone

Cellphone number

Email address,

being the holder/s of

ordinary shares in Calgro M3, hereby appoint

(see note 1 below) or failing him/her,

or failing him/her,

the Chairman of the AGM, as my/our proxy to act for me/our behalf at the AGM in accordance with the following instructions (see note 2 below)

	Number of votes*		
	For	Against	Abstain
Non-Binding Advisory Endorsement of the Remuneration Philosophy (Policy)			
Ordinary resolution number one: Re-election of Non-Executive Director (RB Patmore)			
Ordinary resolution number two: Re-election of Non-executive Director (HC Cameron)			
Ordinary resolution number three: Re-election of Non-executive Director (VK Klein)			
Ordinary resolution number four: Election of BP Malherbe as Non-Executive Director			
Ordinary Resolution number five: Election of Executive Director (MN Nkuhlu)			
Ordinary resolution number six: Reappointment of auditors (PricewaterhouseCoopers)			
Ordinary resolution number seven: Appointment of Audit Committee member (HC Cameron)			
Ordinary resolution number eight: Appointment of Audit Committee member (ME Gama)			
Ordinary resolution number nine: Appointment of Audit Committee member (RB Patmore)			
Ordinary resolution number ten: General payments to shareholders			
Ordinary resolution number eleven: Control of authorised but unissued shares			
Ordinary resolution number twelve: General authority to issue shares for cash			
Special resolution number one: General authority to repurchase shares			
Special resolution number two: Specific financial assistance in respect of the Calgro M3 Employee Share Ownership Scheme 2017 ("Calgro M3 ESOP Trust")			
Special resolution number three: Remuneration of Non-Executive Directors			
Special resolution number four: Authorising general financial assistance			
Special resolution number five: Specific financial assistance in respect of the Calgro M3 Executive Scheme			
Special resolution number six: Specific financial assistance in respect of the Calgro M3 B-BBEE Trust			

\* One vote per share held by shareholders recorded in the Register on the Voting Record.

Date

Signed at

on

2017

Signature

Assisted by me (where applicable)

## Notes to the Form of Proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the Shareholder's choice in the space(s) provided. The person whose name appears first on this Form of Proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. A proxy appointed by a shareholder in terms hereof may not delegate his authority to act on behalf of the shareholder to any other person.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the shareholder in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the AGM as he deems fit in respect of all the shareholder's votes exercisable thereat.
4. Forms of Proxy must be lodged at or posted to Computershare Investor Services (Pty) Ltd, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) to be received by not later than 10:00 on 28 June 2017.
5. The completion and lodging of this Form of Proxy will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Shareholder wish to do so. In addition to the foregoing, a shareholder may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy, and to Calgro M3. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as at the later of the date stated in the revocation instrument, if any; or the date on which the revocation instrument was delivered in the required manner.
6. The chairman of the AGM may reject or accept any Form of Proxy which is completed and/or received otherwise than in accordance with these notes, provided that, in respect of acceptances, he is satisfied as to the manner in which the shareholder(s) concerned wish(es) to vote.
7. Each shareholder is entitled to appoint one or more proxies (none of whom need be a member of Calgro M3) to attend, speak and vote in place of that shareholder at the AGM.
8. Documentary evidence establishing the authority of a person signing this Form of Proxy in a representative capacity must be attached to this Form of Proxy unless previously recorded by Calgro M3 or Computershare Investor Services (Pty) Ltd or waived by the chairman of the AGM.
9. Any alteration or correction made to this Form of Proxy must be initialled by the signatory(ies).
10. Where there are joint holders of shares:
  - 10.1 Any one holder may sign the Form of Proxy; and
  - 10.2 The vote of the senior (for that purpose seniority will be determined by the order in which the names of shareholders appear in the Register of Members) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint holder(s) of Calgro M3 shares.
11. This Form of Proxy may be used at any adjournment or postponement of the AGM, including any postponement due to a lack of quorum, unless withdrawn by the shareholder.
12. An extract from the Companies Act reflecting the provisions of section 58 of the Companies Act is attached as Annexure A to this Form of Proxy.

### ANNEXURE A:

#### "58. Shareholder's right to be represented by proxy

- (1) At any time, a shareholder of a company may appoint any individual, including an individual who is not a shareholder of that company, as a proxy to:
  - (a) participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder; or
  - (b) give or withhold written consent on behalf of the shareholder to a decision contemplated in section 60.
- (2) A proxy appointment:
  - (a) must be in writing, dated and signed by the shareholder; and
  - (b) remains valid for:
    - (i) one year after the date on which it was signed; or
    - (ii) any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in subsection (4)(c), or expires earlier as contemplated in subsection (8)(d)."

- (3) Except to the extent that the Memorandum of Incorporation of a company provides otherwise:
  - (a) a shareholder of that company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder;
  - (b) a proxy may delegate the proxy's authority to act on behalf of the shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
  - (c) a copy of the instrument appointing a proxy must be delivered to the Company, or to any other person on behalf of the Company, before the proxy exercises any rights of the shareholder at a shareholders' meeting.
- (4) Irrespective of the form of instrument used to appoint a proxy:
  - (a) the appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
  - (b) the appointment is revocable unless the proxy appointment expressly states otherwise; and
  - (c) if the appointment is revocable, a shareholder may revoke the proxy appointment by:
    - (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
    - (ii) delivering a copy of the revocation instrument to the proxy, and to the Company.
- (5) The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of:
  - (a) the date stated in the revocation instrument, if any; or
  - (b) the date on which the revocation instrument was delivered as required in subsection (4)(c)(ii).
- (6) If the instrument appointing a proxy or proxies has been delivered to a company, as long as that appointment remains in effect, any notice that is required by this Act or the Company's Memorandum of Incorporation to be delivered by the Company to the shareholder must be delivered by the Company to:
  - (a) the shareholder; or
  - (b) the proxy or proxies, if the shareholder has:
    - (i) directed the Company to do so, in writing; and
    - (ii) paid any reasonable fee charged by the Company for doing so.
- (7) A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the Memorandum of Incorporation, or the instrument appointing the proxy, provides otherwise.
- (8) If a company issues an invitation to shareholders to appoint one or more persons named by the company as a proxy, or supplies a form of instrument for appointing a proxy:
  - (a) the invitation must be sent to every shareholder who is entitled to notice of the meeting at which the proxy is intended to be exercised;
  - (b) the invitation, or form of instrument supplied by the company for the purpose of appointing a proxy, must: bear a reasonably prominent summary of the rights established by this section;
    - (i) contain adequate blank space, immediately preceding the name or names of any person or persons named in it, to enable a shareholder to write in the name and, if so desired, an alternative name of a proxy chosen by the shareholder; and
    - (ii) provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour of or against any resolution or resolutions to be put at the meeting, or is to abstain from voting;
  - (c) the Company must not require that the proxy appointment be made irrevocable; and
  - (d) the proxy appointment remains valid only until the end of the meeting at which it was intended to be used, subject to subsection (5).
- (9) Subsection (8)(b) and (d) do not apply if the Company merely supplies a generally available standard Form of Proxy appointment on request by a shareholder."

## General information

### Calgro M3 Holdings Limited

Incorporated in the Republic of South Africa

**Registration number:** 2005/027663/06

**Share code:** CGR

**ISIN:** ZAE000109203

### Registered office

Calgro M3 Building  
Ballyclare Office Park  
33 Ballyclare Drive  
Bryanston  
2196

### Business address

Calgro M3 Building  
Ballywoods Office Park  
33 Ballyclare Drive  
Bryanston  
2196

### Postal Address

Private Bag X33  
Craighall  
2024

### Published

12 May 2017

### Preparer

The financial statements were internally compiled by UK Kissoon Singh CA(SA) and M Esterhuizen CA(SA) under the supervision of WA Joubert CA(SA).

### Level of assurance

These financial statements have been audited by our external auditors PricewaterhouseCoopers Inc. in accordance with the applicable requirements of the Companies Act 71 of 2008 (as amended).

### Transfer secretaries

Computershare Investor Services

### Bankers

First National Bank  
Standard Bank

### Auditors

PricewaterhouseCoopers Inc.

### Sponsors

Grindrod Bank Limited

### Secretary

I April

### Directors

PF Radebe (Independent Non-Executive)  
BP Malherbe (Non-Executive)  
ME Gama Independent (Non-Executive)  
WJ Lategan (Executive)  
H Ntene (Independent Non-Executive)  
RB Patmore (Independent Non-Executive)  
FJ Steyn (Executive)  
HC Cameron (Independent Non-Executive)  
WA Joubert (Executive)  
W Williams (Executive)  
VJ Klein (Independent Non-Executive)  
MN Nkuhlu (Executive)





  
**CALGRO M3**  
[www.calgrom3.com](http://www.calgrom3.com)