

## COMMENTARY

### NATURE OF BUSINESS

Calgro M3 is a mixed-use housing development company, established in 1995. The business model focuses on the acquisition of land, town planning and project management of civil infrastructure, services installation, marketing and construction of homes.

The market niche for the group housing products comprises two specific market segments viz.: Integrated housing and Mid to high income developments.

### Integrated housing comprises three components:

1. RDP homes – costed at government subsidy scales currently R54,650 and R22,418 for municipal engineering services.
2. “GAP” homes – valued between R180,000 and R400,000, (falling within the requirements of the financial services sector charter 2005); and
3. Affordable homes - valued between R400,000 and R600,000.

The company's strategy supports government's proactive drive as expressed in the 'Breaking New Ground' initiative aimed at ensuring the creation of sustainable human settlements. This is achieved through the integration of various income groups of buyers/beneficiaries as well as the provision of socio-amenities such as schools and hospitals, within a fully integrated community development.

### Mid to High income developments

These are homes valued between R600,000 and R1.6m.

### FINANCIAL OVERVIEW

Group revenue for the half year ended August 2008 increased by 28% compared to August 2007, although it decreased by 39% compared with the previous six months to February 2008. Headline earnings increased from August 2007 compared to the previous six months as a result of a Put and Call option gain released by the group in the six months under review. The material increase in liabilities compared with August 2007 is due to the fact that the entity was unlisted at that time and now has a much greater asset and revenue base.

We have experienced unavoidable delays in construction, mainly due to specification changes, necessitating contractual adjustments on the Pennyville project. A considerable number of units on this project are “GAP” houses, of which 40% of the costs are borne in the first 60% of the construction phase. Within the last 40% of the allocated construction period, 60% (i.e. fixtures, fittings and finishes) of costs will be borne. As construction of most of the “GAP” units commenced in the six months under review and have all reached 60% completion, with only 40% cost accumulated, the work in progress calculation is skewed. The picture for the following six months will therefore be different, presenting an improvement in profit.

During this reporting period, the mid to high income developments segment was still under pressure as a result of the shortage of electricity supply and the slowdown in the high end of residential market. Subsequent to our half year-end, there has been an improvement on both fronts as electricity supply has been secured on three projects and two have been registered. Sales have picked up during the last month and we expect to see a definite improvement over the next six months as we continue this trend.

The infrastructure of building capacity contributed to the material increase in overheads respect of the Fleurhof and Midrand projects which will start breaking ground within the next six months. This will have a major effect on profits going forward as all the infrastructure and feasibility studies were completed in the six months under review, with no corresponding income.

### Contingent liability

The company received a summons for R5.5m. After obtaining legal advice, management is of the opinion the claim will not succeed.

### “Green” initiative

Calgro M3 has commissioned on-going studies in the area of energy conservation and the reduction of carbon emissions. Our policy is to support these initiatives by promoting the use of natural resources with the installation of electricity-saving devices. These will have an enhanced appeal to the community in reducing electricity expenses and

we expect the benefits of these initiatives to be felt far into the future.

### Partnership agreement

A partnership agreement (Memorandum of Understanding) has been signed with the City of Johannesburg in respect of the Fleurhof Project, whereby the council will take up houses and provide infrastructure grants.

### Achievements in the interim period under review

The company has achieved significant milestones in the six months under review:

1. Yield X listing. The company was the first to list a debt programme of R300 million on the JSE Yield X on 25 August 2008 which was attended by the Minister of Housing, Lindiwe Sisulu. This had not yet been drawn down by 31 August 2008;
2. The Fleurhof project which will accommodate 6,500 homes. Major milestones have been reached on the Town Planning for the project and Calgro M3 is on track to begin the installation of civil infrastructure by November 2008, the actual construction of homes beginning in March 2009. The estimated turnover from this project is R1.6bn.
3. The Midrand project which comprises 14,700 homes. Town planning for the project is proceeding well and Calgro M3 is on track to obtain transfer once subdivision is completed. The project is expected to commence in the first quarter of the 2009 financial year. The expected turnover from the project is R2.6bn.
4. The Pennyville Project. The first units in the project were officially handed over to beneficiaries by the Mayor and MEC for Housing after a ribbon-cutting ceremony on 2 October 2008.

### PROSPECTS

#### Industry overview

With the shortage of housing in SA estimated to be at 2,1 million homes, coupled with government's commitment to discharging the constitutional obligation contained in Section 26 of the constitution, i.e. to provide homes for all South Africans, the prospects for the company are excellent. By leveraging off our solid performance, Calgro M3 is well positioned to unlock the opportunity and has in this regard formed a well-tested working relationship in a private-public partnership with the state to support this end result.

Government has set aside R42bn for housing projects over the next four years and aims to deliver 250,000 houses a year. This, together with government's concept of “breaking new ground” which focuses on integrated housing, supports Calgro M3's business model.

As part of the Financial Sector Charter, 2005, the major banks committed to the provision of R65bn by 2011 for the GAP market, which further supports government's drive for the development of integrated housing. Integrated housing is the model for the future and Calgro M3 has the proven ability to support this outcome.

In the cluster market, Calgro M3 expects the macroeconomic environment to continue to play a significant role. The impact will continue to be one of a slowdown for the next year in sales and prices will soften.

In the affordable market, the continued housing shortage supports strong demand, even in the prevailing macroeconomic environment. This market shows price elasticity as individuals continue to purchase houses as they become available. As interest rates rise, individuals purchase smaller houses relative to their income and affordability in light of interest-rate movements.

### Calgro M3 delivery

With the delivery on the Pennyville project and the construction of the Fleurhof and Midrand projects to commence within the next 12 months, a solid pipeline in integrated housing for the next seven to ten years has been established. This, coupled with the remedial actions in the cluster division to a strategic fit of 20% cluster and 80% integrated business model, will underpin the group's ability to deliver profits and sustainability of earnings growth. R100 million realised in cash for work in progress after our half year-end will also contribute to the restructuring of the balance sheet.

Management is confident that it has the capability and capacity to handle all its chosen projects particularly through the now proven roll out of the successful Pennyville model. Going forward management remains focused on growing shareholder earnings through delivering of the group strategy highlighted above.

## Interim results for the six months ended 31 August 2008



**CALGRO M3**  
H O L D I N G S

## CONDENSED CONSOLIDATED INCOME STATEMENT

R'000	Unaudited Six months ended 31 Aug 2008	Unaudited Six months ended 31 Aug 2007	Audited Year ended 29 Feb 2008	Audited Year ended 28 Feb 2007
<b>Revenue</b>	<b>116,889</b>	91,417	<b>316,677</b>	124,169
Cost of sales	(83,998)	(78,970)	(239,719)	(104,578)
<b>Gross profit</b>	<b>32,891</b>	12,447	<b>76,958</b>	19,591
Net administrative expenses	(26,297)	(11,928)	(29,433)	(12,848)
Gain on cancellation of put option	17,035	-	-	-
Impairment of Goodwill	(8,828)	-	-	-
<b>Operating profit</b>	<b>14,801</b>	519	<b>47,525</b>	6,743
Net finance cost	(1,362)	(190)	(2,393)	(176)
Profit before taxation	<b>13,439</b>	329	<b>45,132</b>	6,567
Taxation	(1,914)	(95)	(13,723)	(2,193)
<b>Profit after taxation</b>	<b>11,525</b>	234	<b>31,409</b>	4,374
<b>Attributable to:</b>				
Equity holders of the company	11,525	234	31,409	4,167
Minority interest	-	-	-	207
Earnings per share - cents	9.07	0.25	30.33	4.48
Headline earnings per share - cents	16.01	0.25	30.40	4.47
Fully diluted earnings per share - cents	9.48	0.25	28.32	4.48

## CONDENSED SEGMENT REPORT FOR THE GROUP

R'000	Clusters	Integrated housing	Total
<b>Aug 2008</b>			
Revenue	31,116	85,773	116,889
Operating (loss)/profit	(330)	13,017	12,687
Total assets	315,662	225,375	541,037
Total liabilities	220,900	174,188	395,088
<b>Feb 2008</b>			
Revenue	72,629	244,048	316,677
Operating (loss)/profit	(7,655)	55,180	47,525
Total assets	234,292	245,339	479,631
Total liabilities	140,615	205,845	346,460

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Rands)	Share capital	Share premium	Reserves for own shares/share repurchase	Minority interest	Total equity
<b>Balance at 01 March 2007</b>	930				4,984,647
Profit for the year					31,409,443
Issue of shares	341	96,020,450			96,020,791
Share appreciation scheme			963,141		963,141
Acquisition of minority interest				(206,926)	(206,926)
<b>Balance at 29 February 2008</b>	1,271	96,020,450	963,141	-	133,171,096
Profit for the period					11,524,000
Share appreciation scheme			1,253,448		1,253,448
<b>Balance at 31 August 2008</b>	1,271	96,020,450	2,216,589	-	145,948,544

## EARNINGS RECONCILIATION

R'000	Unaudited Six months ended 31 Aug 2008	Unaudited Six months ended 31 Aug 2007	Audited Year ended 29 Feb 2008	Audited Year ended 28 Feb 2007
<b>Determination of headline earnings</b>				
Attributable profit	11,525	234	31,409	4,167
Impairment of goodwill	8,828	-	-	-
Loss/(profit) on disposal of property, plant and equipment	-	-	72	(7)
<b>Headline earnings</b>	<b>20,353</b>	234	<b>31,481</b>	4,160
<b>Determination of diluted earnings</b>				
Attributable profit	11,525	234	31,409	4,167
Share option expense	1,253	-	963	-
<b>Diluted earnings</b>	<b>12,778</b>	234	<b>32,372</b>	4,167
Number of ordinary shares	127,100	93,000	127,100	93,000
Weighted average shares	127,100	93,000	103,562	93,000
Fully diluted weighted average shares	134,836	93,000	114,299	93,000

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

R'000	Unaudited Six months ended 31 Aug 2008	Unaudited Six months ended 31 Aug 2007	Audited Year ended 29 Feb 2008	Audited Year ended 28 Feb 2007
<b>Net cash from operating activities</b>	<b>(71,530)</b>	(2,595)	<b>(289,327)</b>	(20,664)
<b>Net cash from investing activities</b>	<b>8,917</b>	(4,776)	<b>(12,728)</b>	(8,552)
<b>Net cash from financing activities</b>	<b>47,081</b>	8,382	<b>300,372</b>	30,599
<b>Net (decrease)/increase in cash and cash equivalents and bank overdraft</b>	<b>(15,532)</b>	1,011	<b>(1,683)</b>	1,383
Cash and cash equivalents and bank overdraft at the beginning of the year	(2,197)	(514)	(514)	(1,897)
Cash and cash equivalents and bank overdraft at the end of the year	(17,729)	497	(2,197)	(514)

## CONDENSED CONSOLIDATED BALANCE SHEET

R'000	Unaudited Six months ended 31 Aug 2008	Unaudited Six months ended 31 Aug 2007	Audited Year ended 29 Feb 2008	Audited Year ended 28 Feb 2007
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	8,417	2,276	7,782	1,505
Other non-current assets	32,117	6,920	28,610	5,896
	<b>40,534</b>	9,196	<b>36,392</b>	7,401
<b>Current assets</b>				
Inventories	276,971	45,157	251,417	34,433
Construction contracts and receivables	144,363	10,493	91,000	6,855
Trade and other receivables	19,063	3,786	54,684	12,093
Other current assets	59,930	9,620	43,027	6,700
Cash and cash equivalents	176	2,220	3,111	1,066
	<b>500,503</b>	71,276	<b>443,239</b>	61,147
Total assets	<b>541,037</b>	80,472	<b>479,631</b>	68,548
<b>EQUITY AND LIABILITIES</b>				
Equity				
Capital and reserves	145,948	5,121	133,171	4,778
	<b>145,948</b>	5,121	<b>133,171</b>	4,778
Minority interest in equity	-	-	-	207
Total equity	<b>145,948</b>	5,121	<b>133,171</b>	4,985
Non-current liabilities				
Non-current borrowings	190,141	458	165,269	519
Other non-current liabilities	27,749	187	13,766	134
	<b>217,890</b>	645	<b>179,035</b>	653
<b>Current liabilities</b>				
Current borrowings	112,563	41,204	91,205	32,760
Other current liabilities	46,731	31,779	70,912	28,570
Bank overdraft	17,905	1,723	5,308	1,580
Total liabilities	<b>177,199</b>	74,706	<b>167,425</b>	62,910
Total equity and liabilities	<b>541,037</b>	80,472	<b>479,631</b>	68,548
Net asset value per share-cents	<b>114.8</b>	5.5	<b>104.8</b>	5.4

## NOTES

### 1. Basis of preparation

These consolidated condensed financial statements are prepared in accordance with the Listings Requirements of the JSE Ltd., the International Financial Reporting Standards (IFRS) on Interim Financial Reporting (IAS34) and Schedule 4 of the South African Companies Act. The accounting policies are consistent with those used in the annual financial statements for the year ended 29 February 2008.

### 2. Independent audit

These consolidated condensed financial statements have not been audited.

### 3. Dividends

No dividends have been declared for this interim period.