2674 CIRCULAR DL:Layout 1 23/10/09 3:47 PM Page 1

COMMENTS

1. Nature of business

Calgro M3 is a mixed-use housing development company, established in 1995, focusing on the acquisition of land, town planning, project management of civil infrastructure, services installation and the marketing and construction of residential properties. The company is currently predominantly Gauteng-based.

The niche market for the group's housing products comprises two specific market segments: integrated housing and mid to high income developments.

Integrated housing comprises three components:

- "BNG homes" (Breaking New Ground initiative as Government Gazetted 2005) valued according to government subsidy scales which are currently set at R55 705 for fully subsidised houses, plus a further subsidy of R22 162 per unit for the provision of municipal engineering services;
- "GAP homes" – valued between R180 000 and R340 000. This falls within the requirements of the financial services sector charter of 2005; and
- "Affordable homes" - valued between R240 000 and R600 000 per unit.

The company's business strategy supports government's proactive drive, which is expressed in the 'Breaking New Ground' initiative, aimed at ensuring the creation of sustainable settlements. This is achieved through the integration of various income groups, as well as the provision of socio-amenities such as schools, crèches, clinics, religious sites, community centres, sports grounds and business sites, all within the fully integrated community.

Mid to high income residential
These are homes valued between R600 000 and R1.8m, aimed at the owner-occupier in secure complexes in prime locations.

2. Financial overview

Calgro M3 is weathering one of the toughest economic storms in decades with the effect that financial institutions opt to be risk-averse in the property development sector. The board remain optimistic that opportunities exist to grow the company further, create sustainable jobs and secure Calgro M3's position as a leader in all spheres of residential developments. Calgro M3 has contained costs through the restructuring of management structures and a reduction of overheads in accordance with the company's business model and current strategy.

Group revenue for the half year ended August 2009 decreased by 3.5%, from R116m to R113m. Although the gross profit margin decreased by 3.6% compared to the previous year, administrative overheads were contained to a sustainable level of R14.2m as a result of close monitoring and implementation of tight management controls. As a consequence of the current economic climate, the company has surplus land in the mid to high segment of the market, to its requirements, some of which have been earmarked for sale to increase liquidity, and have accordingly been impaired to current nett realisable value. Operating profit excluding fair value adjustments, impairments and non-operational gains for the six months under review amounted to R4.9m compared to R3.3m for the comparable reporting period, and R12.7m for the 12 months ended 28 February 2009. Profit on sale of investment amounting to R25.3m after tax is attributable to the sale of a 30% stake in the Fleurhof project as previously reported.

The decrease in the gross profit percentage can be attributed to the group taking over a portion of construction on the Pennyville project, to maintain quality and control deliverables.

There was a further decrease in current liabilities, partly as a result of repayment out of operating cash flows and partly as a result of converting current liabilities to long-term liabilities. Cash generated from operations was also positive, amounting to R33.2m. This is consistent with year-end but a great improvement on the comparable reporting period.

3. Operational overview

The general credit crunch impacted on all segments of the business during the six months under review. During August, financial institutions announced the relaxation of their lending criteria to end- user finance in the affordable segment of the market.

The limited availability of funding from provincial and local government is a concern. However, the flexibility in managing cash flows provided by the integrated development model and the somewhat moderate availability of funding lines from financial institutions are providing opportunities for Calgro M3. Furthermore, the emergence of a strong social and rental component in the integrated segment of the market is also creating additional opportunities for existing and new projects, thereby diversifying the group's exposure.

Construction on the Pennyville project is nearing completion and the project will be concluded during the next six months. The installation of services on the Fleurhof project is well under way with completion of the first phase of the project scheduled for the first quarter of 2010, it should be noted however that limited contribution to profits is expected from the completion of phase 1 of the Fleurhof project.

The mid to high income segment has not yet witnessed an improvement in sales, although interest has picked up. The group does not foresee a correction in this market segment during the next 18 months and properties acquired in this segment will be "land-banked", with holding cost serviced monthly, until the market improves.

Achievements in the year under review:

- new industry standards are being set with regard to sectional title BNG units under construction on our Pennyville project;
- new partnerships with significant role-players in the industry were secured, relating to assisting government in delivering on their housing commitments;
- the company was awarded a hostel redevelopment project by the Gauteng Department of Housing, of which the first phase is to commence in January 2010; and
- transfer was taken of a property from Johannesburg Property Company for the construction of 1 600 units in the Jabulani CBD, Soweto.

4. Industry overview and prospects

The shortage of housing in South Africa is estimated at 2 million BNG units and an additional 600 000 affordable homes, with added pressure being created by funding constraints at both provincial and local government levels.

Lack of funding for housing projects has resulted in emerging and established contractors venturing into other market segments and forging new partnerships with government, funders and developers alike. Calgro M3's solid performance in the delivery of good quality houses and excellent working relationships with government has positioned the company favourably to benefit from these public/private partnerships while supporting government on its commitment of delivering 250 000 houses a year. Government's "Breaking New Ground" initiative, which focuses on integrated and mixed housing developments, is in direct alignment with the company's business model.

The continued housing shortage in the affordable market translates into a strong demand, notwithstanding the prevailing macro-economic environment. In the light of recent downward interest-rate movements and banks' relaxation of lending criteria, this market shows all indications of being the first to recover.

The group expects the macro-economic environment to remain unchanged and properties acquired in the mid to high income market segment will be "land-banked" until market conditions improve.

Subsequent events
No significant events have occurred in the period between the reporting date and the date of this announcement.

For and on behalf of the board

Johannesburg

21 October 2009

CALGRO M3
HOLDINGS

INTERIM REPORT FOR THE SIX MONTHS ENDED 31 AUGUST 2009

CALGRO M3 HOLDINGS LIMITED

(INCORPORATED IN THE REPUBLIC OF SOUTH AFRICA)

(REGISTRATION NUMBER: 2005/027663/06)

SHARE CODE: CGR ISIN: ZAE000109203

"CALGRO M3" OR "THE COMPANY" OR "THE GROUP"

Directors: PF Radebe (Chairperson) *, BP Malherbe (acting CEO), JB Gibbon*,
WJ Lategan, MP Lakhethe*, N Maninjwa*, H Ntene*,
FJ Steyn (*Non-executive)
Registered office: 112 – 11th Street, Parkmore, Sandton 2196
(Private Bag X33, Craighall 2024)

Transfer secretaries: Computershare Investor Services (Pty) Ltd
70 Marshall Street, Johannesburg 2001 • (PO Box 61051, Marshalltown 2107)
Company secretary: F Pieterse
Designated advisor: PSG Capital (Pty) Ltd • **Auditors**: PricewaterhouseCoopers Inc.
www.calgrom3.com

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R'000	**Unaudited six months ended 31 Aug 2009**	Unaudited six months ended 31 Aug 2008	**Audited year ended 28 Feb 2009**	Audited year ended 29 Feb 2008
Revenue	**112 832**	116 889	**233 054**	316 677
Cost of sales	**(92 277)**	(83 998)	**(182 205)**	(239 719)
Gross profit	**20 555**	32 891	**50 849**	76 958
Net administrative expenses	**(14 270)**	(26 297)	**(34 787)**	(29 433)
Impairment of inventory	**(11 385)**	-	**(8 991)**	-
Gain on cancellation of put option	**-**	17 035	**17 035**	-
Impairment of goodwill	**-**	(8 828)	**(14 714)**	-
Profit on sale of investment	**29 450**	-	**-**	-
Operating profit	**24 350**	14 801	**8 392**	47 525
Net finance cost	**226**	(1 362)	**(506)**	(2 393)
Profit before taxation	**24 576**	13 439	**7 886**	45 132
Taxation	**(2 974)**	(1 914)	**(1 864)**	(13 723)
Profit after taxation	**21 602**	11 525	**6 022**	31 409
Total comprehensive income	**21 602**	11 525	**6 022**	31 409
Profit attributable to:				
Owners of the company	**21 602**	11 525	**6 022**	31 409
Earnings per share - cents	**17.00**	9.07	**4.74**	30.33
Headline earnings per share – cents	**(2.93)**	16.01	**16.32**	30.40

CONDENSED SEGMENT REPORT FOR THE GROUP

R'000	Construction	Land development	Professional services	Inter-group & holding	Total
Aug 2009					
Revenue	**104 363**	**8 276**	**519**	**(326)**	**112 832**
Operating (loss)/profit	**4 098**	**21 835**	**(820)**	**(763)**	**24 350**
Aug 2008					
Revenue	110 235	6 542	112	-	116 889
Operating (loss)/profit	16 185	(1 104)	(101)	(179)	14 801
Aug 2009					
Total assets	**254 227**	**304 297**	**10 197**	**(121 152)**	**447 569**
Total liabilities	**(114 432)**	**(282 086)**	**(4 498)**	**113 280**	**(287 736)**
Feb 2009					
Total assets	294 363	416 814	10 073	(150 114)	571 136
Total liabilities	(150 326)	(415 567)	(3 792)	136 780	(432 905)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R'000	**Unaudited six months ended 31 Aug 2009**	Unaudited six months ended 31 Aug 2008	**Audited year ended 28 Feb 2009**	Audited year ended 29 Feb 2008
ASSETS				
Non-current assets				
Property, plant and equipment	**8 388**	8 417	**8 100**	7 782
Loans to associates	**19 888**	-	**-**	-
Other non-current assets	**51 639**	32 117	**49 433**	28 610
	79 915	40 534	**57 533**	36 392
Current assets				
Inventories	**254 414**	276 971	**260 115**	251 417
Construction contracts	**67 125**	144 363	**64 389**	91 000
Trade and other receivables	**6 824**	19 063	**18 368**	54 684
Other current assets	**13 361**	59 930	**13 836**	43 027
Cash and cash equivalents	**25 930**	176	**30 594**	3 111
	367 654	500 503	**387 302**	443 239
Assets of a disposal group classified as held for sale	**-**	-	**126 301**	-
Total assets	**447 569**	541 037	**571 136**	479 631
EQUITY AND LIABILITIES				
Equity				
Capital and reserves	**159 833**	145 948	**138 231**	133 171
Total equity	**159 833**	145 948	**138 231**	133 171
Non-current liabilities				
Non-current borrowings	**165 702**	190 141	**117 957**	165 269
Other non-current liabilities	**14 725**	27 749	**19 266**	13 766
	180 427	217 890	**137 223**	179 035
Current liabilities				
Current borrowings	**10 036**	112 563	**69 350**	91 205
Other current liabilities	**82 364**	46 731	**104 094**	70 912
Bank overdraft	**14 909**	17 905	**15 842**	5 308
	107 309	177 199	**189 286**	167 425
Assets of a disposal group classified as held for sale	**-**	-	**106 396**	-
Total equity and liabilities	**447 569**	541 037	**571 136**	479 631
Net asset value per share – cents	**352.14**	425.68	**449.36**	377.37

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Rands)	Share capital	Share premium	Other reserves	Retained income	Total equity
Balance at 01 March 2008	1 271	96 020 450	963 141	36 186 235	133 171 097
Profit for the year	-	-	-	6 022 452	6 022 452
Share appreciation scheme	-	-	(963 141)	-	(963 141)
Balance at 28 February 2009	1 271	96 020 450	-	42 208 687	138 230 408
Profit for the period	-	-	-	21 602 285	21 602 285
Total comprehensive income for the period ended 31 August 2009	-	-	-	21 602 285	21 602 285
Balance at 31 August 2009	**1 271**	**96 020 450**	**-**	**63 810 972**	**159 832 693**

EARNINGS RECONCILIATION

R'000	**Unaudited six months ended 31 Aug 2009**	Unaudited six months ended 31 Aug 2008	**Audited year ended 28 Feb 2009**	Audited year ended 29 Feb 2008
Determination of headline earnings				
Attributable profit	**21 602**	11 525	**6 022**	31 409
Impairment of goodwill	**-**	8 828	**14 714**	-
Loss/(profit) on disposal of property, plant and equipment	**-**	-	**-**	72
Profit on sale of investments – net of tax	**(25 327)**	-	**-**	-
Headline earnings	**(3 725)**	20 353	**20 736**	31 481
Determination of diluted earnings				
Attributable profit	**21 602**	11 525	**6 022**	31 409
Share option expense	**-**	1 253	**(963)**	963
Diluted earnings	**21 602**	12 778	**5 059**	32 372
Number of ordinary shares	**127 100**	127 100	**127 100**	127 100
Weighted average shares	**127 100**	127 100	**127 100**	103 562

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R'000	**Unaudited six months ended 31 Aug 2009**	Unaudited six months ended 31 Aug 2008	**Audited year ended 28 Feb 2009**	Audited year ended 29 Feb 2008
Net cash from operating activities	**33 272**	(71 530)	**68 240**	(289 327)
Net cash from investing activities	**7 614**	8 917	**(30 666)**	(12 728)
Net cash from financing activities	**(44 617)**	47 081	**(20 625)**	300 372
Net (decrease)/increase in cash and cash equivalents and bank overdraft	**(3 731)**	(15 532)	**16 949**	(1 683)
Cash and cash equivalents and bank overdraft at the beginning of the year	**14 752**	(2 197)	**(2 197)**	(514)
Cash and cash equivalents and bank overdraft at the end of the year	**11 021**	(17 729)	**14 752**	(2 197)

NOTES

1. **Basis of preparation**
   These consolidated condensed financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) on Interim Financial Reporting (IAS34), Schedule 4 of the South African Companies Act and the Listings Requirements of the JSE Limited. The accounting policies are consistent with those used in the annual financial statements for the year ended 28 February 2009.
2. **Independent audit**
   These consolidated condensed financial statements have been not been audited.
3. **Dividends**
   No dividends have been declared for this interim period.