

Audited Annual Results for the Year Ended 28 February 2009



CONDENSED CONSOLIDATED INCOME STATEMENT

R'000	Audited year ended 28 Feb 2009	Audited year ended 29 Feb 2008
Revenue	233 054	316 677
Cost of sales	(182 205)	(239 719)
Gross profit	50 849	76 958
Other income	17 508	-
Other expenses	(23 705)	-
Net administrative expenses	(36 260)	(29 433)
Operating profit	8 392	47 525
Net finance cost	(506)	(2 393)
Profit before taxation	7 886	45 132
Taxation	(1 864)	(13 723)
Profit after taxation	6 022	31 409
Attributable to:		
Equity holders of the company	6 022	31 409
Minority interest	-	-
Earnings per share - cents	4.74	30.33
Headline earnings per share - cents	16.32	30.40
Fully diluted earnings per share - cents	3.80	28.32

CONDENSED SEGMENT REPORT FOR THE GROUP

R'000	Clusters	Integrated housing	Total
Feb 2009			
Revenue	73 332	159 722	233 054
Depreciation and amortisation	2 452	127	2 579
Impairment of goodwill	-	14 713	14 713
Operating (loss)/profit	(12 668)	21 060	8 392
Total assets	343 660	227 476	571 136
Total liabilities	250 053	182 853	432 906
Feb 2008			
Revenue	72 629	244 048	316 677
Depreciation and amortisation	895	90	985
Impairment of goodwill	-	-	-
Operating 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 reserve	Retained income	Minority interest	Total equity
Balance at 01 March 2007	930	-	-	4 776 791	206 926	4 984 647
Profit for the year	-	-	-	31 409 444	-	31 409 444
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)
Balance at 29 February 2008	1 271	96 020 450	963 141	36 186 235	-	133 171 097
Profit for the period	-	-	-	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

COMMENTS

1. Nature of business

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

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:

- RDP homes – valued at government subsidy scales which currently stand at R54 650 for "give away" houses. In addition to this, there is a subsidy of R22 418 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.

Our 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, hospitals, etc, within a fully integrated community.

Mid to high income residential

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

2. Financial overview

Group revenue for the year-ended February 2009 decreased by 26.41%, from R317m to R233m. Whilst this decrease had a material impact on gross profit, which declined by R26m, the gross profit margin remained consistent with the previous year. Close monitoring and tight control of the administrative overheads in the last six months of the year contained these to R36.2m for the year compared with R26.2m for the first six months and R29.5m for 2008. This has helped to contain the overall decreases of 82.34% in operating profit and 46.32% in headline earnings per share.

The focus for the year under review was the restructuring of the balance sheet. This means that the company is now better structured to handle added pressures exerted by the global economy. Cash generated from operations improved from a net negative R289m to net positive R68m with R20m of debt settled from operations during the period under review.

Achievements in the year under review:-

- New industry standards were set, by refining the integrated model as set out in government's "Breaking New Ground Policy" on our Pennyville Project;
- Partnerships with significant role-players in the industry were secured;
- The company was listed on the Yield X on 11 October 2008, and raised R45m;
- Town planning is in the final stages of completion for 441ha of land for the Fleurhof Integrated Development Project, which is located 12km south west of the Johannesburg CBD. This development will consist of 6 500 homes. The estimated turnover from this project is approximately R1.6bn;
- On 1 October 2008, Calgro M3 Holdings Limited acquired the 37.5% minority shares previously held by Refilile Consulting (Pty) Ltd in the Fleurhof Project with loan finance and cash; and
- Units in the Pennyville Project were officially handed over to beneficiaries by the Mayor of Johannesburg and MEC for Housing on 2 October 2008 at a formal ceremony.

Review of performance

The mid to high income division of the group, taking into account the balance sheet write-down of inventory of R6.5m, together with the added pressure of generating sales in a depressed market, actually performed significantly better than in 2008.

During the period under review, the mid to high income developments segment was under pressure for new sales, however, the significant pre-sold book contributed to the generation of construction profits.

In the integrated segment, some group projects were affected by unforeseen difficulties that resulted in construction delays. These difficulties were resolved and construction is currently on target to meet the contractual completion dates. The emergence of a strong social housing component in this segment of the market, spread risks over a wider spectrum. A significant number of units were sold early in the financial year to social housing companies.

MSS Projects (Pty) Ltd, our subsidiary focusing on the affordable housing market, was heavily impacted by the introduction and enforcement of the regulations of the National Credit Act in addition to the changes in bank lending criteria. However, towards the end of the financial year, the reduction in interest rates saw a marked improvement in approved bonds. MSS Projects (Pty) Ltd has an added advantage in that the affordable housing market has an overall shortage of houses, ensuring that the company should perform well in the future.

Building capacity contributed to a material increase in the overheads of the Fleurhof and Midrand projects. This will have no major negative effects on profits going forward, as all the infrastructure and feasibility studies have been completed and expensed, with no corresponding income recognised.

The availability of electricity returned to normal towards the second half of the financial year after causing major delays on projects in the first half of the year.

3. Change in the board of directors

Peter Waweru resigned in January 2009 as an executive director. John Gibbon, Mmakgosi Petla Lekhethe and Noxolo Maninjwa were appointed as independent non-executive directors during November 2008, replacing Quinton Woods and Eddie Funde.

4. The "Green" Initiative

Calgro M3 has commissioned an ongoing study 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. The enhanced appeal to the community will be reduced electricity expenses, the benefits of which will be felt in the long-term.

5. Industry overview and prospects

The shortage of housing in South Africa is estimated to be approximately 2.6 million homes, of which 2 million are RDP and 600 000 are affordable houses. There are excellent prospects for the group to contract for a sizable portion of this shortage to assist government in its endeavours to fulfill its constitutional obligation to the people of South Africa. Calgro M3 Limited's solid performance in the delivery of good quality houses has it well positioned to unlock this opportunity. It is in this regard that we have formed excellent working relationships with government in a private-public partnership to support their goals. Government has set aside R73bn for housing projects over the next four years and aims to deliver 250 000 houses a year. Government's "Breaking New Ground" principle, which focuses on integrated and mixed housing developments, is in direct alignment with our business model.

As part of the Financial Sector Charter of 2005, the major banks are committed to the provision of R65bn by 2011 for the "GAP" market. This further supports government's initiative for the development of integrated housing. Integrated housing is the model for the future and Calgro M3 Holdings Limited has the proven track record to deliver.

In the mid to high income residential market, Calgro M3 expects the macro economic 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 will see prices soften. We do however, foresee a positive upturn in the residential property market in the not too distant future.

The affordable housing market's continued housing shortage translates to a strong demand, even in the prevailing macroeconomic environment. This market shows price elasticity as individuals continue to purchase the houses as they become available. In the light of interest-rate movements, clients are purchasing smaller houses due to the National Credit Act's impact and affordability.

EARNINGS RECONCILIATION

R'000	Audited year ended 28 Feb 2009	Audited year ended 29 Feb 2008
Determination of headline earnings		
Attributable profit	6 022	31 409
Loss/(profit) on disposal of property, plant and equipment	-	72
Impairment of goodwill	14 714	-
Headline earnings	20 736	31 481
Determination of diluted earnings		
Attributable profit	6 022	31 409
Share option expense	(963)	963
Diluted earnings	5 059	32 372
Number of ordinary shares	127 100	127 100
Weighted average shares	127 100	103 562
Fully diluted weighted average shares	133 208	114 299

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

R'000	Audited year ended 28 Feb 2009	Audited year ended 29 Feb 2008
Net cash from operating activities	68 240	(289 327)
Net cash from investing activities	(30 666)	(12 728)
Net cash from financing activities	(20 626)	300 372
Net (decrease)/increase in cash and cash equivalents and bank overdraft	16 948	(1 683)
Cash and cash equivalents and bank overdraft at the beginning of the year	(2 197)	(514)
Cash and cash equivalents and bank overdraft at the end of the year	14 751	(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) and Schedule 4 of the South African Companies Act and the JSE Listings Requirements. The accounting policies are consistent with those used in the annual financial statements for the year ended 29 February 2008. These consolidated condensed financial statements must be read in conjunction with the audited annual financial statements. A copy of the audited annual financial statements is available for inspection at the registered office of the company.

2. Independent audit

These consolidated condensed financial statements have been audited by our auditors PricewaterhouseCoopers Inc., who have performed the audit in accordance with the International Standards on Auditing. A copy of the unqualified audit report is available for inspection at the registered office of the company.

3. Dividends

No dividends have been declared for the financial year.

We are currently investigating a number of viable projects being prioritised by the government, based on the "Breaking New Ground" principle.

Calgro M3 delivery

With delivery on the Pennyville project and with development of the new integrated projects, namely Fleurhof and Midrand to commence in the near future, a solid pipeline for the next seven to ten years has been established. This, coupled with the remedial action in the mid to high income residential division to a strategic fit of 20% mid to high segment and 80% integrated housing business model, will ensure the group's continuing viability, and sustainable earnings growth. Management is confident that Calgro M3 has the capability and capacity to handle all its chosen projects. In addition to this, management still maintains more than 51% shareholding in the company and this provides a powerful incentive for the team members to create wealth for all shareholders. The way forward remains focused on growing shareholder earnings through the delivery of the group's strategy as previously outlined.

6. Post balance sheet events

Sale of a 30% share in the Fleurhof project

In the announcement released on SENS on 13 March 2009, shareholders were advised that Calgro M3 Land had entered into a Sale of Shares Agreement, in which Calgro M3 Land will dispose of 30% of its equity interest in Fleurhof, to the South Africa Workforce Housing Fund for a total cash consideration of R30m. A further amount of R50m in the form of a shareholders' loan will also be advanced for the development of the Fleurhof Project.

Rationale for the transaction

In response to the current depressed and uncertain market conditions facing both local and international businesses, and in light of ongoing commitments facing Calgro M3 in connection with various upcoming development projects, management considered it prudent and in the best interests of the company, to inject capital into the business by partnering with a locally based equity funder. The capital raised from the transaction will be used to partly satisfy the medium term funding requirements of the Fleurhof project, but will also assist in de-risking the wider Calgro M3 group by providing a source of easily accessible capital funds and to some extent, reducing current debt levels. Furthermore, management believes that the relationship with the South Africa Workforce Housing Fund will not only provide capital resources, but also potential future investment opportunities for the wider Calgro M3 Group, as well as access to the research, risk assessment and technical advisory capabilities of the South Africa Workforce Housing Fund.

7. The year ahead

The CEO reported that the company had established itself as a role-player in the market with established relationships with other major role-players in the industry. As developers of integrated projects, the Pennyville development set new industry standards and the management team is looking forward to implementing the lessons learned on the project and further refining the model in order to stay ahead of the competition in this market segment.

Calgro M3 has restructured its administration, completed the transition from a family-owned to a corporate business and is set to grow from its solid foundation

Annual Report

The annual report containing notice of the annual general meeting will be posted to shareholders by the end of May 2009.

A further announcement confirming the posting of the annual report and notice of AGM will be published in due course.

Johannesburg

11 May 2008