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excellence in engineering infrastructure
RACEC GROUP LIMITED ANNUAL REPORT 2007





corporate information

Company registration number
1988/006153/06



DIRECTORS

Executive directors

CJ Harrod (Chief executive officer)
GL Harrod
W Ollewagen
GJ Kleinschmidt (Financial director)
SC Wilkins

Non-executive directors

MJ Uys (Chairman)
CRS Gooden

COMPANY SECRETARY AND REGISTERED ADDRESS

Mrs GJ Kleinschmidt CA(SA)
8 Hawkins Avenue
Epping 1
Cape Town, 7460
(PO Box 61, Eppindust, 7475)
Telephone: 021 531 7540
Facsimile: 021 531 8488

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Limited
Registration number 2004/003647/07
Ground Floor
70 Marshall Street
Johannesburg 2001
(PO Box 61051, Marshalltown 2107)
Telephone: 011 370 7700
Facsimile: 011 688 7716

DESIGNATED ADVISER

BDO QuestCo (Pty) Limited
Registration number 2004/018276/07
13 Wellington Road
Parktown, 2193
(Private Bag X60500, Houghton, 2041)
Telephone: 011 488 1700
Facsimile: 011 642 6501

ATTORNEYS

C&A Friedlander Inc.
3rd Floor
42 Keerom Street
Cape Town, 8001
(Docex 96, Cape Town)
Telephone: 021 487 7900
Facsimile: 021 426 5650

AUDITOR AND REPORTING ACCOUNTANTS

BDO Spencer Steward (Cape) Inc.
Chartered Accountants (SA)
Registration number 1999/018618/21
BDO House
119 Hertzog Boulevard
Foreshore
Cape Town, 8001
(Docex 158, Cape Town)

COMMERCIAL BANKERS

The Standard Bank of South Africa Limited
Corporate and Investment Banking
Standard Bank Centre
Heerengracht Tower
Adderley Street
Cape Town, 8001
(PO Box 40, Cape Town, 8000)
Telephone: 021 401 2111
Facsimile: 021 401 2550

Telephone: 021 417 8800
Facsimile: 021 417 8700

shareholders' diary

Financial year-end
Preliminary announcement
Annual general meeting
Interim results announcement

30 September 2007
14 December 2007
27 February 2008
15 June 2008

mission statement

WE STRIVETO BUILD LONG-TERM RELATIONSHIPS WITH OUR CLIENTS by providing quality products and services which are cost-effective. We are specialists in the areas in which we operate. We have trained our dedicated and committed staff to equip them with superior knowledge and skill levels. This, coupled with a highly experienced and motivated team, has been responsible for RACEC's name becoming synonymous with "Excellence in Engineering Infrastructure".



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vision

TO BE A LEADING PROVIDER OF

engineering infrastructure solutions

IN OUR TWO FOCUS AREAS:

rail and electrical

RACEC's core values, being quality, cost-effectiveness, customer focus, safety, training, skills transfer and empowerment, have ensured that the group has become a leader in its two main focus areas. This has resulted in the group becoming the preferred supplier on a number of high-profile projects in the areas in which the group operates.

RACEC rail incorporation and history

The group was launched in 1956 under the name of Railway and Civil Engineering Construction (Pty) Ltd from which the present day name of RACEC was derived. The group at that time concentrated mainly on construction and maintenance of railway sidings.

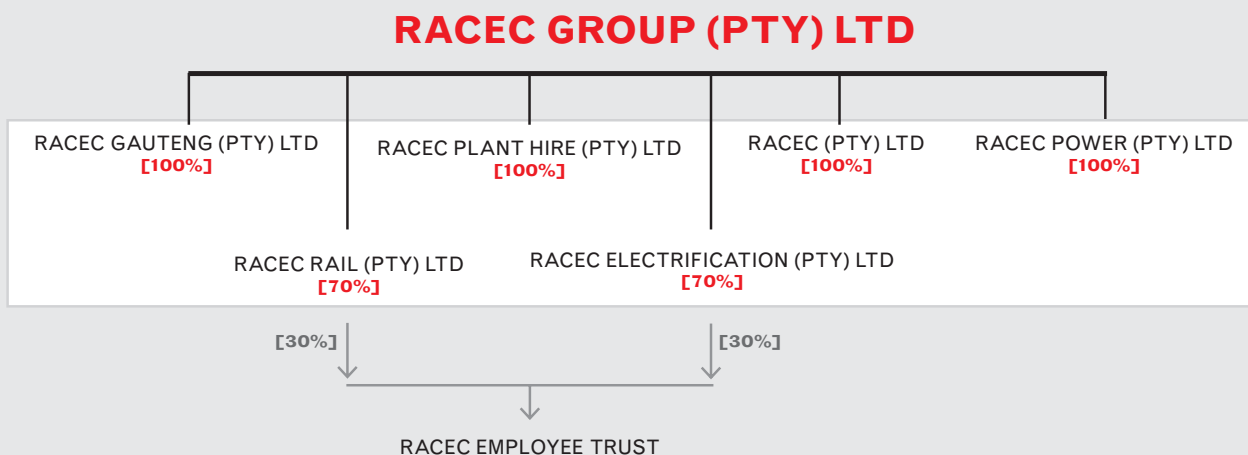
In 1976 RACEC was purchased by Metkor Ltd and in 1988 a management buyout, supported by Standard Corporate and Merchant Bank, was successfully completed.

The then privately owned company relocated its head office to Cape Town and the business activities were expanded nationally as well as further northwards into Africa.

Although originally purely a platelaying organisation, RACEC ventured into the field of electrical construction in 1977 as a result of a desire to provide its clients in the rail sector with a more complete service. The electrical business has now grown into a major part of the group's operation.

RACEC now operates throughout South and Southern Africa, with permanent offices in Cape Town, Gauteng, Richards Bay, Witbank, Caledon, Cato Ridge and George, and has established itself as a respected leader in both these specialised fields.

group structure



company overview

The group consists of companies that provide engineering solutions in two main focus areas, namely **Rail** and **Electrification**.

RACEC's directors are the major shareholders of the group, with the seven directors having a cumulative 97 years service in the group.



RACEC has a workforce of 559 permanent staff members, of whom more than 80% are previously disadvantaged. Flexibility is maintained by using temporary contracts of employment to supplement core staff. The sourcing of temporary employees is from communities in the vicinity of the relevant project in order to assist with the upliftment of those communities.

Revenue has increased by approximately 175% (after elimination of the revenue from businesses that have been sold) for the period 30 September 2002 to 30 September 2006, an indication of the success of RACEC's philosophy of focusing on its two key focus areas.

Revenue for the year ended 30 September 2007 amounted to R218,1 million, with approximately 50% relating to RACEC Rail and 50% relating to RACEC Electrical.



MJ Uys
Chairman

The current management team are all highly regarded in their respective fields, combining technical knowledge with extensive management experience.



Dear Shareholder

It is with a combination of pride and humility that I write to you, the RACEC shareholders. I have always been a direct, outspoken individual and accordingly my message is direct and straight from the heart. And first let me formally welcome you as fellow shareholders.

At our annual strategy sessions, the first question on the list has always been, "Would you buy RACEC shares?" and I must admit that our CEO and my long-term colleague, Charles Harrod, has consistently said "yes" whilst I must admit to an occasional "no" over the last 20 years.

Now that we have released our results to 30 September 2007, I am in the "open period" and will buy RACEC shares.

And why?

RACEC listed on 18 October 2007, so our slightly improved annual financial statements to year-end two weeks prior to that is not what would drive me. I assume investors bought RACEC shares because they considered we have clear direction and understand what we are doing (and they would be right) so that cannot be a factor.

It is the future earnings potential of RACEC that excites me and makes me a buyer. RACEC operates in an emerging economy with growth four times that of most developed economies (per the International Monetary Fund).

We are also in the right industry segment at the right time. After 1994, it was obvious that the imbalances wrought by the apartheid era would have to be corrected. The first and most pressing priority was that state cash flows be redirected, inter alia, to RDP housing, land redistribution, education, water, electricity, education and health care for all. Our need to grow the economy requires that we get our products to the market efficiently. We cannot do that without rail, road and

harbours that work and sufficient power coupled with the heavy electrical backbone to operate them. And RACEC is there as an important participant in that infrastructure rebuild.

But for how long will this happy high-margin state of affairs continue, you ask?

On the Rail side, we believe until 2012 at least, so we will use this period to grow our footprint in Africa, where we are already known in Namibia, Mozambique, Angola and Zambia, and add to our competence by strategic acquisitions of companies with scarce skills, such as our recent purchase of Sizabantu Infrastructure Maintenance cc. This served to increase our footprint in South Africa by adding a Cato Ridge base in KwaZulu-Natal and a depth of specialised track-welding experience.

On the Electrification side, the acquisition of the JM Badenhorst Group has bedded down well. We see 2015 as the time when margins may come under pressure again. In the future our revenue mix of 20/80 public/private sector may change to at least a 50/50 mix.

I have examined the latest updated forecasts (including actual results) on a contract-by-contract basis and am satisfied that the pre-listing estimates of revenue and profit are a realistic reflection of the result that will be achieved by September 2008.

Mike Uys
Chairman

11 December 2007



CJ Harrod
Chief Executive Officer

I am pleased to present this my first annual report since the listing of RACEC Group Limited on the Alternative Exchange (AltX) of the JSE on 18 October 2007.

Although the listing was in October, the financial results presented herein are for the financial year ending September 2007.



Financial performance

The RACEC Group increased its revenue for the financial year ending September 2007 by 38% (2006: 40%) to R218,1 million (2006: R157,8 million). Diluted earnings per share have increased by 281% to 17,5 cents (HEPS 12,4 cents) for the same period. However, this is based on a weighted average number of shares of 70,0 million. Diluted earnings per share and diluted headline earnings per share, based on 100,0 million shares (post listing), are 12,2 and 8,7 cents respectively. This increase can be attributed mainly to organic growth due to the increased spending on infrastructure projects which is starting to flow through as well as the acquisition of the JM Badenhorst Group which has substantially increased the size of our electrical operation.

Operational review

The RACEC Group's decision to focus its energy and resources in the rail and electrification infrastructure engineering fields has had a large impact on our business. RACEC has been in existence since 1956 and during this time has built up an extremely well-trained and experienced group of employees in these two focus areas. This places us in a strong position to take advantage of the current climate of expansion in both rail and electrification infrastructure projects. Although there is a lot of hype around the 2010 FIFA World Cup, we expect the spending on infrastructure to continue way beyond as there is a tremendous need to reverse the deterioration of the country's infrastructure as a result of the lack of investment in this area over the past decade.

Acquisitions

In June 2007, RACEC Electrification acquired the business, assets and staff of the JM Badenhorst Group which includes

JM Badenhorst Electrical Contractors (Pty) Ltd, Baden Tec Plant Hire (Pty) Ltd and Baden Tec (Pty) Ltd. The JMB Group is a well-established electrical contracting business and was a competitor of RACEC for many years. This acquisition has substantially increased the volume of business of RACEC Electrification as well as bringing a pool of well-trained and experienced staff on board.

RACEC Rail acquired the business of Sizabantu Infrastructure Maintenance cc, operating out of Cato Ridge in KwaZulu-Natal, in October 2007. Although this acquisition was after the financial year-end and therefore has had no impact on the results, RACEC Rail has now acquired the additional skills of an experienced rail welding business to complement and strengthen its position in the rail engineering sector.

Individual operations performance

RACEC Rail (Pty) Ltd

RACEC Rail has had a year of exceptional growth as a result of targeting long-term annuity type rail maintenance contracts which provide a constant monthly income as well as an increase in the number of main-line upgrade projects for Spoornet and is also currently busy with the construction of the rail network on the phase 5 expansion of the Richards Bay Coal Terminal. RACEC Rail increased its revenue for this reporting period by 82% (2006: 15%) to R106,7 million (2006: R58,7 million).

Recent awards include an R18 million extension to the universal sleeper replacement contract from Spoornet and a R21 million civil and trackwork contract at Blackhill Mine for Exxaro. There has also been a number of other project awards throughout the country.



opposite page, from left: Track repair work
from left: Street lighting on the CTIA approach road. On-track screener. New rail track (Exxaro project). Substation equipment installed by RACEC Electrification.



RACEC Electrification (Pty) Ltd

The 2007 revenue of RACEC Electrification of R111,4 million (2006: R101,9 million) represents an increase of 8,3% (2006: 72%) year on year. The operations of JMB Electrical Contractors contributed R20,9 million in revenue and R1,5 million to the company's profit before tax for the period between acquisition and the balance sheet date. The merger of the two businesses has now been completed and it is anticipated that strong growth will be achieved during the current year. Virtually all of the JMB employees have remained in our employ, which has gone a long way in overcoming the skills shortage plaguing the construction industry at present.

Recent negotiated contracts include a business park for R15 million and residential developments at Atlantic Sands and Atlantic Waves on the west coast of R19 million. There have also been successful tenders for R30 million in the Helderberg region and R10 million in the southern Cape area. Numerous other awards are also pending.

The RACEC Group anticipates revenue growth in excess of 50% for the current financial year, with headline earnings doubling during this period. Our order book for the current year is already at more than 50% of our sales forecast.

Both RACEC Rail and Electrification have strengthened their project and commercial management structures to take advantage of the many turnkey projects that are presenting themselves as a result of the current infrastructure spend throughout South Africa.

Charles Harrod
Chief Executive Officer

20 November 2007

review of operations



RACEC Rail mainly concentrates on the construction and maintenance of railway tracks throughout South and Southern Africa. Its activities include track design, survey, construction and maintenance as well as the refurbishment and merchandising of railway materials.



Winston Ollewagen
Executive Director

RACEC Rail is a leader in its field and has the capability of providing its clients turnkey project solutions as well as specialising in:

- construction, maintenance and upgrading of railway track systems;
- gantry, stacker reclaimer and ship loader trackwork;
- customised trolley tracks;
- thermit and arc butt welding of rails;
- crane tracks for the building industry;
- railway siding design;
- railway material refurbishment and sales;
- trackwork encased in concrete;
- track-related civil and ancillary works;
- management of industrial rail networks; and
- manufacture of precast concrete items for Spoornet.

Key rail projects that have been completed by RACEC Rail in the past include:

- the upgrading of Kei Rail for Department of Transport (R19 million);
- rail deviation for Platinum Highway at Wolmerton (R7,7 million);
- the upgrading of turnouts nationally for Spoornet (R83 million);
- the remodelling of rail infrastructure for South African Rail Commuter Corporation (SARCC) (R7,7 million);
- the Maputo harbour infrastructure upgrade (R9,1 million); and

- the construction and refurbishment of gantry and shiploader tracks for SA Ports at Saldanha (R6,1 million).

RACEC Rail's valued clients include Metro Rail, SARCC, Exxaro Coal (Proprietary) Limited, Sishen Ore Company (Proprietary) Limited, Sappi Kraft (Proprietary) Limited, Saldanha Steel (Proprietary) Limited, Chevron SA (Proprietary) Limited, Mittal Steel South Africa Limited, BHP Billiton Plc, Sasol Synfuels (Proprietary) Limited, Highveld Steel and Vanadium Corporation Limited and Spoornet.

RACEC Rail operates throughout Southern Africa, with permanent offices in

- Epping, Cape Town
Operates in the industrial track market and currently maintains industrial feeder lines for the City of Cape Town and Paarl.
- Brakpan, Gauteng
Operates in the industrial track market and currently maintains industrial feeder lines for Mittal Steel, Highveld Steel, Ekurhuleni Metropolitan Municipality, BHP Billiton, Roodekop and Sasol Secunda.
- Richards Bay, KwaZulu-Natal
Maintains the rail infrastructure of the Richards Bay Coal Terminal, which is the largest of its kind in the world. The terminal comprises, inter alia, 85 000 metres of track, 150 turnouts, as well as diamond crossings and block joints. In addition, 15 000 metres of stacker reclaimer and shiploader



opposite page, from left: Front view of substation switchgear. New turn-out installation. Stacker reclaim tracks. New track installation. Outside installation of 11 kV cables. New turn-out installation. Upliftment of track.

from left: Richards Bay Coal Terminal track infrastructure layout. New track work Mittal Steel. Streetlight poles at the V&A Waterfront.

tracks are maintained. RACEC's Richards Bay branch has a four-star platinum NOSA rating.

• Cato Ridge, KwaZulu-Natal

The base of the recently acquired business operations of Sizabantu Infrastructure Maintenance cc, a specialist rail track-welding operation .

The following are examples of the larger valued long-term rail contracts in place at the date of this prelisting statement:

- Richards Bay Coal Terminal project: A five-year maintenance contract that expires in December 2011, with a total contract value of R37,6 million
- Richards Bay Coal Terminal phase five expansion project:

A two-year construction project that expires in November 2008, with a total contract value of R28,4 million

- Sasol Synfuels Secunda: A maintenance contract that expires in October 2009, with an option to extend for a further two years and a total contract value of R21,5 million
- Highveld Steel maintenance project (Witbank): A five-year maintenance contract that expires in October 2011, with a total contract value of R25,5 million

In addition to the above, there are a number of smaller long-term rail contracts in place, including a number of annuity type rail maintenance contracts.

RACEC Electrification came about in 1977 as a result of the group's desire to complement its then main activity of rail track construction with the electrification of rail track. From this beginning RACEC Electrification has grown into an integral part of the group, focusing on electrical reticulation. These electrical reticulation projects include the installation of medium and low-voltage electrical networks from intake substations through to industrial, commercial or residential consumer supply.



Garry Harrod
Executive Director

RACEC Electrification has the technical skill and experience capable of undertaking projects, from design stage through to commissioning, related to:

- electrical reticulation;
- electrical metering and vending;
- electrical distribution;
- electrical substations;
- overhead transmission lines;
- road and area lighting;
- rail track electrification;
- maintenance of electrical networks; and
- maintenance of rail track electrification systems.

Key projects that have been completed by RACEC Electrification in the past include:

- V&A Waterfront reticulation and lighting (R8 million);
- Cape Town International Airport runway lighting (R12 million);
- Century City reticulation and lighting (R10 million);
- Grand West Casino electrical distribution (R11 million);
- Welgevonden housing estate (R10 million);
- Parklands reticulation and streetlighting (R22 million);
- Bettys Bay and Pringle Bay reticulation (R13 million);
- Val de Vie Lifestyle Estate (R22 million);
- Stonehurst Village electrical reticulation (R6 million); and

review of operations



- Golf Estate electrical reticulation at:
 - Erinvale (R3 million);
 - Sunset Beach (R3 million);
 - Atlantic Beach (R7 million);
 - De Zalze (R15 million);
 - Pearl Valley (R14 million); and
 - St Francis Links golf estates (R18 million).

Due to the quality of customer service, many projects initially tendered for, have developed into long-term relationships with repeat work, including the V&A Waterfront reticulation and lighting projects, the Century City reticulation and lighting project and the De Zalze and Pearl Valley Golf Estate electrical reticulation projects.

In addition, RACEC has recently acquired the business and assets of JMB Electrical Contractors, which will have a significant positive effect on RACEC's future earnings as it will increase the volume of the electrification business significantly, particularly in areas where RACEC is not currently active. The complementary fit of JMB Electrical Contractors will ensure increased growth and success, particularly in the overhead-line and Eskom markets, as well as the previously inactive areas of the Overberg and Southern Cape. Although JMB Electrical Contractors has been a close competitor for many years, it has an excellent track record of successfully servicing its own clients during this period. RACEC intends to maintain the key JMB Electrical Contractors personnel and systems in the same areas that made them successful previously. However, with the increased support from RACEC as a whole, this business is well positioned within RACEC to further increase its client base.

JMB Electrical Contractors is also an Eskom-approved contractor which will further allow RACEC to take advantage of

the increased budget allocations for future electricity network demand upgrades and maintenance.

RACEC Electrification, with the combined resources of JMB Electrical Contractors and the synergies of RACEC Rail, is mobilising to expand its activities from the Southern Cape to Coega and further afield. This strategic but controlled expansion will further establish RACEC Electrification as a dominant player in these regions.

Other subsidiaries

RACEC Company renders financial, investment, administrative and HR services primarily to companies within the group. However, some external fees are earned for the rendering of financial and administrative services to external clients.

RACEC Plant Hire earns revenue from renting out plant and equipment.

RACEC Gauteng and RACEC Power are dormant.

Key strengths

The move by Spoornet and Eskom towards increased outsourcing to companies with a substantial BEE ownership places RACEC in an ideal position.

Government's stated spending on infrastructural projects, including the upgrade of railway infrastructure and development of townships for low-cost housing, is directly in line with RACEC's capabilities and experience.

The senior management of RACEC (seven individuals) have a cumulative 97 years of experience with RACEC and have successfully delivered on a number of awarded projects over a long period.

The management structure and the quality of the current staff complement is ideally positioned for future expansion.



opposite page, from left: Harmonic filter yard at Potsdam Wastewater works. Street lighting. New track installation, internal view of substation equipment.

from left: Tandem tipplers. Recently installed generator. 11 kV switchgear at Cape Flats wastewater intake substation.

RACEC has a balanced portfolio across its lines of business and geographies. Its strong customer base includes a number of government organisations throughout South Africa as well as many well-established private development companies.

Due to its focus on niche markets, RACEC has maintained an above average revenue growth in both its target markets.

RACEC is favourably positioned for future projects which will ensure that the group maintains its strong revenue growth.

RACEC's growth strategy

Maximise profitability of established business

RACEC intends to continue business in its main focus areas and to improve profitability by fully utilising resources currently employed and strengthening in those areas where required.

As noted previously, RACEC has finalised the acquisition of JMB Electrical Contractors, which will almost double the size of the current electrical business, thus optimising the resource utilisation and providing a better geographic spread.

There has been very little spending on the electrification of railways systems over the last few years. However, Spoornet has recently committed to increase spending on its rail networks. This, combined with government's anticipated increase in infrastructure spend, is regarded as a growth area for RACEC. The group is ideally positioned in both the rail and electrification markets.

RACEC has targeted and been successful in obtaining long-term rail maintenance contracts, on average of five years, with clients such as Richards Bay Coal Terminal, Highveld Steel and Sasol. These contracts are of strategic importance to provide both a sustainable workload and in providing a long-term geographic presence.

Improve market position

RACEC is a market leader in the niche areas in which it operates. It is well positioned to expand into the geographical areas not currently covered and is continually seeking opportunities to strengthen its position in Southern Africa.

A number of government initiatives, including the 2010 Soccer World Cup, low-cost housing and an increase in electricity demand should result in an increased demand for the services offered by RACEC. Government has announced a budgeted infrastructure spend of approximately R370 billion over the next five years.

Current projects which indicate Government's commitment to upgrade the railway infrastructure:

- Spoornet's commitment to the upgrading of infrastructure and traction power as a result of spending by the Richards Bay Coal Terminal in expanding throughput from 72 million tons to 91 million tons by 2009.
- Rail connections to the new Ngqura port under construction at Coega, 20 km northeast of Port Elizabeth, jointly the responsibility of the National Ports Authority (NPA), South African Ports Authority and Spoornet, which is expected to be completed by the end of 2008.
- Continuation of work on reviving the 282 km disused line from Amabele junction to Mthatha.
- Planned R450 million spend on the new non-stop link between Cape Town city centre and Cape Town International Airport.
- The Western Cape government's commitment to spend more than R1 billion on improving the province's rail infrastructure, with a plan for an express train to service commuters travelling from Khayelitsha. The province is proposing an improved rail service along three corridors – Cape Town to Simon's Town, Cape Town to Bellville and Cape Town to Khayelitsha.

review of operations



from left: Front view of substation equipment. Installation of low-voltage cabling. Shiploader rail.

opposite page, from left: Commissioning newly installed substation. Earthworks for new track installation. New turn-out installation. Track installation following earthworks. Internal view of newly installed distribution board.

RACEC is currently part of a number of projects in connection with upgrading Spoornet's infrastructure, including the supply and installation of universal concrete sleepers, the loop extension project on the iron ore Saldanha Sishen line and the phase five project in respect of Richards Bay Coal Terminal. In addition to the above, RACEC has tendered for and is awaiting the result or is in the process of finalising its tender on a number of rail projects, including work rewarding the Amabele junction and improvement of rail infrastructure from Khayelitsha. Other potential work which is still in the planning stage, such as the link between the Cape Town city centre and Cape Town International Airport, will be considered when the tender process opens.

Further to Spoornet's commitment, Eskom is committed to the upgrading and construction of rail infrastructure for the Majuba power station in Mpumalanga, which will result in laying a total of more than 60 km of further track.

South Africa is currently experiencing capacity constraints in the engineering sector. This allows highly specialised and empowered companies such as RACEC, with an experienced management team and highly skilled staff complement, to focus on high-quality projects with better margin levels.

RACEC's principal clients are government departments,

parastatals, local governments and large corporates involved in various development projects. The group is currently involved in a number of projects, including the Leeuwpan coal mine project (Exxaro Coal (Pty) Limited), St Francis Links Golf Estate, Val de Vie Lifestyle and Country Estate, Pearl Valley Golf Estate, Pezula Golf Estate, Arabella and Simola Golf Estates, AECI bulk infrastructure, Century City, and Sheffield Business Park, and will soon be starting on projects such as Atlantic Shores and Atlantic Sands (Laaiplek).

Amongst others, RACEC is currently also well advanced in negotiations for its involvement in two large business parks in the Western Cape (electrical value of approximately R40 million), a new Western Cape golf estate (electrical value of approximately R50 million) and a new Golf Estate expansion in the Overberg (electrical value of approximately R45 million), all of which are planned for commencement within the next 12 to 18 months.

bee profile



BEE profile

A multi-faceted approach to BEE has been adopted which aims to increase the number of previously disadvantaged individuals that manage, own and control South Africa's economy. The three core elements of the BEE Act are direct control through ownership of an organisation's equity, human resource development and employment equity, and indirect empowerment through preferential procurement policies.

RACEC is fully committed to the principles of BEE, as set out in the BEE Act.

- Directors

Of the eight directors within the group, two are previously disadvantaged individuals.

- Shareholding

The BEE ownership within the RACEC Employee Share Trust, as well as the BEE ownership in RACEC, results in RACEC Rail and RACEC Electrification being 34% BEE owned.

- Skills development

RACEC has made a significant investment of skills and resources into the development of employees from previously disadvantaged backgrounds.

- SMMEs

The group has assisted a number of previously disadvantaged individuals with potential in starting their own businesses, including:

- Sibanye Africa (Proprietary) Limited;
- Cof'e Dongweni Engineering CC;
- Hlanganani Rail Services CC;
- Uphondo Electrical (Proprietary) Limited;
- Zomba Construction (Proprietary) Limited; and
- Luxor Electrical (Proprietary) Limited.

- Joint ventures/Partnerships

RACEC has established and built long-term relationships with emerging contractors from previously disadvantaged backgrounds. This facilitates emerging contractors to be able to bid for larger contracts and ensures skills transfer.

Joint venture contracts awarded to RACEC include:

- Grand West Casino;
- Sasol Secunda;
- V&A Waterfront;
- Cape Town International Airport; and
- Kei rail refurbishment.

sustainability report



from left: Track installation team. Streetlighting bollard. New track work. Installation of distribution boards.



BBBEE

The RACEC Group is committed to the principles of broad-based black economic empowerment (BBBEE) and has made it part of our business imperative. In 2004, the RACEC Employee Trust was established with ownership offered to all our staff. The shareholders provided the Trust with a loan to enable it to purchase 30% of the equity in both of the two operating companies, namely RACEC Rail and RACEC Electrification. This has proved to be a resounding success not only as a staff motivator but as a means of providing true empowerment for our staff and has resulted in the operating companies now having a BEE ownership of in excess of 30%. The Trust has received dividends of more than R2,1 million to date.

Employment equity/Skills development

Our staff is our most valued asset and therefore their wellbeing and development is of great importance to us. RACEC has a dedicated manager tasked with the responsibility of handling all issues related to equity and training. As a group, we are committed to the philosophy of creating opportunities for our staff through training and promotion from within, wherever possible.

Health and safety

Because RACEC places high value on all our staff we believe that their right to safe working conditions is non-negotiable. We

therefore have a health and safety manager who reports directly to the CEO and carries his authority. Health and safety committees are established at all our branches and continuous assessments of all work areas are carried out. There is a training programme in place and all safety representatives are trained and continuously monitored.

HIV/AIDS

As a further commitment to our staff we have arranged HIV/AIDS information sessions and testing of all our staff on a voluntary basis. The results of these tests are strictly confidential and counselling is arranged for those requiring further assistance. Information about the HIV/AIDS pandemic is provided on an ongoing basis.

We have just completed a very good and exciting year and the year ahead has tremendous opportunities for all our staff and investors. One of the many benefits of the AltX listing has been the re-examination of all our business systems and controls as well as reaffirming our focus in the areas of our strengths.

The success achieved last year would not have happened were it not for the great efforts of all our employees. With the continued support of our employees, customers, investors, auditors and bankers we anticipate another successful year ahead with many opportunities grow our business.

corporate governance

The board of directors of RACEC are fully committed and accept full responsibility for the application of the principles necessary to ensure effective corporate governance as set out in the King Report II on corporate governance – 2002. Furthermore it is their aim to ensure that these principles are practised consistently throughout the group.

Chairperson and chief executive officer (CEO)

The board is chaired by the non-executive chairman who is responsible for the effective functioning of the board, leadership and selection of the board as well as ensuring that the corporate governance practices are upheld.

The CEO has been tasked to control the day-to-day affairs of the business and to implement the policies and strategies adopted by the board. The roles of the chairperson and CEO are distinct and independent from each other.

Board of directors

The board of directors comprise five executive directors and two non-executive directors, one of whom is independent.

The board's responsibilities include providing RACEC with a clear strategy, directing the group and overseeing the operational performance of management. The board is also responsible for implementing effective internal control procedures and monitoring these controls to effectively manage the risk areas in the group.

The board is responsible for the appointment of the CEO.

The board has defined levels of authority which may be delegated to management from time to time. These levels are reviewed and monitored on a regular basis.

The board of directors is entitled to seek the advice of independent professionals on any matters concerning the affairs of RACEC. A corporate code of conduct will be adopted to deal with specific issues, i.e. conflicts of interest and other director-related matters.

Non-executive directors are high-calibre individuals and bring an independent view to the board's decision-making process.

The board meets quarterly on a formal basis, with an agenda being distributed well in advance to ensure that reasonable and informed decisions can be made.

Independence of the board

The board's independence is maintained by the following:

- Separate roles for the chairperson and chief executive officer
- The chairperson is a non-executive director
- The two non-executive directors are not involved in the day-to-day operations of the company
- The non-executive directors do not hold a fixed term of office
- The non-executive directors are high-calibre individuals and will bring an independent view to the board's decision-making process

Accountability to the shareholders remains paramount in board decisions and this is balanced against the demands of the regulatory environment in which the group operates.

Remuneration committee

The remuneration committee comprises the two non-executive directors and one executive director. The committee is responsible for establishing the group's remuneration policies and for making recommendations to the board in respect of the remuneration packages of executive directors.

The committee is also responsible for reviewing the terms and conditions of employment of all executive directors as well as of incentive schemes.

Full disclosure of the directors' remuneration is provided in the annual report on an individual basis.

Nomination committee

A nomination committee has been formed comprising two non-executive directors, one of whom is independent.

The nomination committee is chaired by the board chairman. The nomination committee is responsible for accepting nominations from the board. These nominations must be transparent and meet the formal nominations requirements before they can be recommended to the board for approval.

Audit committee

The audit committee is chaired by the independent non-executive director and attended by the group's designated adviser. The audit committee's main purpose will be to monitor and review:

- the effectiveness of the group's systems of internal control;
- the effectiveness of the group's information systems;
- the effectiveness of the internal audit function;
- reports issued by the internal and external auditors;
- the external audit findings and fees and approval thereof;
- the annual report and the annual financial statements therein;
- the accounting policies of the group and any proposed revisions thereto; and
- compliance with applicable legislation and requirements of regulatory authorities.

The audit committee will meet biannually to meet the objectives as set out above. The internal and external auditors will have unrestricted access to the audit committee which will ensure that their independence is not impaired. The audit committee will also set the principles for recommending the use of the external auditors for non-audit services.

Company secretary

The company secretary is appointed by the board and acts as adviser to the board. The role of the company secretary is to provide guidance to the chairperson and the board on their responsibilities, their duties and on the proper discharge of these duties in the interest of the group.

Executive directors

Charles John Harrod

National Engineering Diploma, majoring in electronics and electrotechnics (1973) (Witwatersrand Technical College), National Technical Certificate Part V (1969), majoring in electronics and electrotechnics (Witwatersrand Technical College)

Charles began his career at the South African Transport Services (SATS) in 1966 where he first held the position of draughtsman in the chief electrical engineer's office. Charles left the employ of the SATS in 1975 and remained self-employed until 1979.

Charles joined RACEC in 1979, when he was employed in the electrical contracting division in Johannesburg. His responsibilities were primarily railway electrification design and construction projects and later expanded into township reticulation, transmission line, and underground trolley line projects.

Charles set up RACEC's electrical division in 1987 which later expanded into the Eastern Cape and subsequently became RACEC Electrification. From this division of Metkor Industries Ltd, RACEC Electrification has grown into the major electrical reticulation contractor in the Western and Southern Cape as well as being a major contributor to the success of RACEC.

In December 1988, Charles, supported by Standard Corporate and Merchant Bank and, with the management of RACEC, successfully achieved a management buy-out of the group from Metkor Group Ltd. Charles became the managing director of RACEC Electrification and a board member of the group and all its subsidiaries.

In 2002, Charles was appointed chief executive of RACEC.

Charles was instrumental in setting up the RACEC Employee Share Trust in 2004, where 30% of the shares in RACEC Rail and RACEC Electrification were sold to the Trust. This has resulted in the two operating companies now having a BEE ownership in excess of 30%.

Gillian Jacqueline Kleinschmidt

BComm (Unisa), BComm (Hons) (University of Natal), CA(SA)

Gillian commenced her articles at H.J. Haak & Co in 1989 and remained there until 1992.

Gillian joined RACEC as financial manager in 1997 and was promoted to the position of financial director in 1999, a position that she currently holds. She also acts as company secretary and public officer for the group.

Gillian heads up RACEC Company, which provides financial, administrative and HR services to the various subsidiaries within the group.

Gary Lee Harrod

BSc (Construction Management) (University of Cape Town), Construction Management Programme (University of Stellenbosch, MBA School)

Gary was granted a Grinaker bursary in 1990 while undertaking his studies at the University of Cape Town.

In 1998 Gary joined RACEC Electrification as contracts manager and was immediately responsible for the supervision and co-ordination of multiple construction work supervisors and the implementation of newly legislated government and company policies.

In 2002, Gary was appointed as managing director of RACEC Electrification, a position that he currently holds.

Later in 2002, Gary was also appointed as a director of the holding company, a position he still holds. He is actively involved in the overall management of the group.

Winston Ollewagen

National Diploma (Civil) (Technikon Cape Town), Construction Management Programme (Stellenbosch), Geotechnical Aspects of Railway Engineering (Pretoria)

Winston began his career in 1995 as a site agent for Railway Construction (Cape) (Pty) Ltd. In 1996, Winston was promoted to the position of contracts manager for Railway Construction (Cape) (Pty) Ltd and became a director in 1999, where he was instrumental in changing the name of the company to RACEC Cape (Pty) Ltd, where he was responsible for all rail projects on a national scale, including surveying, contract costing and overall management of staff and logistics.

Winston was promoted to the position of managing director of RACEC Cape (Pty) Ltd in 2000.

He has been instrumental in taking RACEC into Africa where he has completed a number of successful contracts in Zambia and Mozambique.

In 2004 Winston was promoted to the position of managing director of the rail division.

In 2007 Winston saw the need to further complement the existing civils side by appointing a full-time civil contracts manager to handle all civil-related activities. In doing so he has been successful in negotiating a number of contracts not only in South Africa but also in Mozambique.

Winston has more than 15 years experience in railway-related aspects of construction, maintenance and infrastructure management.

Winston is now a director of the holding company and is actively involved in the overall management of the group.



Non-executive directors

Sean Charles Wilkins

BComm (University of Cape Town),
H Dip Acc (University of Natal), CA(SA)

Sean completed his articles with BDO Spencer Steward (Cape) in 1999. In June 2000, Sean left to join Ernst & Young's corporate finance team in the United Kingdom. He returned to Cape Town in 2005, where he rejoined BDO Spencer Steward (Cape) and was responsible for building the corporate finance division.

Sean has gained extensive experience in due diligence reviews covering a wide spectrum of industry sectors, including technology, travel and tourism, waste management, media, manufacturing and construction.

Sean has also been involved in stock exchange listing work, including the reporting accountant's work for a number of London Stock Exchange and AIM listings while in the United Kingdom, and an AltX listing while in South Africa.

Other transactional advisory work that Sean has been involved in includes the raising of finance, vendor due diligence reviews, valuations and other business advisory assignments.

Michael John Uys

BSc Civil Engineering (University of Cape Town), Construction Management Programme (University of Stellenbosch, MBA School)

Mike was granted a bursary by the South African Railways and Harbours and started as an assistant engineer at New Works in Cape Town in January 1971. He was offered a position with RACEC in its Cape division as an engineer in 1972, operating only in the railway construction and maintenance field.

Mike was promoted to the position of divisional manager in 1984, and in 1986 to that of divisional general manager of RACEC Construction, a division of Metkor Industries Limited.

In December 1988, assisted by Standard Corporate and Merchant Bank, Mike led a management team of RACEC in the management buy-out of the group from Metkor Group Ltd and became chief executive of the group.

In 2000, due to the complexity of legislative changes, Mike set up the separate human resources department within the group.

During 2000, Mike initiated and controlled the roll-out of offices to East London, Richards Bay and Gauteng.

Mike assumed the position of executive chairman in October 2002, and was appointed as non-executive chairman in April 2006.

Colin Rodney Spry Gooden

BComm (University of Cape Town), CA(SA)

Colin qualified as chartered accountant in 1968. He joined a medium-sized audit firm, Dekker Nash, and became a partner in 1972. Dekker Nash merged with Coopers and Lybrand in 1977.

Colin worked in the entrepreneur advice division, where his duties included auditing, providing business and tax advice to emerging clients of the firm and giving presentations to potential clients of the firm. Colin was also involved in liquidation work.

Colin's larger clients were in the construction, manufacturing, tourism, farming, insurance and quarrying industries.

In 2004, Colin retired at 60 years of age from PricewaterhouseCoopers Inc, which had been created a few years earlier from the merger of Coopers and Lybrand and Price Waterhouse.

Since his retirement, Colin has retained his membership with the South African Institute of Chartered Accountants. Clients still consult Colin on a regular basis to discuss business strategies and asset growth.

statement of responsibility by the board of directors

The directors are required by the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the group as at 30 September 2007 and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The 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 place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board 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 all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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 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's cash flow forecast for the year ended 30 September 2008 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the board is primarily responsible for the financial affairs of the group, they are supported by the group's external auditors. The external auditors are responsible for independently reviewing and reporting on the group's financial statements. The financial statements have been examined by the group's external auditor and their report is presented on page 18.

The financial statements set out on pages 19 to 53, which have been prepared on the going concern basis, were approved by the board on 10 December 2007 and were signed on its behalf by:



Charles Harrod
Chief executive officer



Gillian Kleinschmidt
Financial director

Cape Town
10 December 2007

declaration by secretary

In terms of Section 268G(d) of the Companies Act of 1973, as amended, I hereby certify that the company has lodged, with the Registrar of companies, all such returns as are required of a public company, in terms of the Companies Act, No 61 of 1973, as amended, and that all such returns are true, correct and up to date.



Gillian Kleinschmidt
Company secretary

Cape Town
10 December 2007

report of the independent auditor

To the shareholders of RACEC Group Limited

We have audited the accompanying financial statements of RACEC Group Limited and its subsidiaries, which comprise the directors' report, the balance sheet as at 30 September 2007, the income statement, the statement of changes in equity and cash flow statement for the 12 months then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 19 to 53.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The group's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group as of 30 September 2007, and of its financial performance and its cash flows for the 12 months then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



BDO Spencer Steward (Cape) Incorporated

Registered auditors

Cape Town

10 December 2007

The directors have pleasure in presenting their annual report which forms part of the annual financial statements of the company and the group for the year ended 30 September 2007.

NATURE OF BUSINESS

The group's primary business is that of the provision of engineering infrastructure solutions.

The RACEC Group comprises a holding company and a number of subsidiaries, out of which the business operations are conducted. The two main operating subsidiaries are RACEC Rail and RACEC Electrification.

RACEC Rail concentrates mainly on the construction and maintenance of railway tracks throughout South and Southern Africa.

RACEC Electrification is involved in electrical reticulation and grew out of RACEC's desire to have a business which complemented its rail track insulation business with the electrification of railway tracks. It is now an integral part of the RACEC operations.

There have been no major changes in the nature of the business.

FINANCIAL RESULTS

For the 2007 financial year group revenue has increased by R60,3 million, representing a 38,2% increase, and group profit after tax has increased significantly by R9,1 million, representing an increase 284,4%.

The group revenue and profit after tax are ahead of the listing forecast by R6,2 million (2,9%) and R611 000 (5,2%) respectively.

Headline earnings per share has increased by 148% in the year under review.

PROPERTY, PLANT AND EQUIPMENT

During the year, RACEC acquired property, plant and equipment amounting to R16,8 million, which include the assets acquired from JMB Electrical Contractors totalling R5,8 million.

POST BALANCE SHEET EVENTS

During the 2007 financial year the shareholders and directors of the RACEC Group decided to list on the AltX via a private placement of 30,0 million shares. The listing resulted in R27,5 million of equity capital being injected into the group. Trading commenced on 18 October 2007.

All related-party loans owing to RACEC were repaid in full on 1 December 2007.

AUTHORISED AND ISSUED SHARE CAPITAL

Details of the authorised and issued share capital are reflected in note 10 and the analysis of shareholders on page 54.

As referred to above the shareholders and directors of the RACEC Group decided to list on the AltX. To effect the listing, a number of resolutions were passed on 2 August 2007 which affected the authorised and issued share capital of RACEC Group (Pty) Ltd, namely the authorised share capital was changed to 500 000 000 ordinary shares with a par value of 0,001 cent each, and a specific share buy-back as contemplated in section 85(2) of the Companies Act, No 61 of 1973, was approved, which resulted in 30 000 000 shares being acquired by the company.

The directors propose that the general authority granted to them to control the unissued shares and to issue new shares for cash be renewed.

DIVIDENDS

The dividends already declared and paid to shareholders during the financial year ended 30 September 2007 are as reflected in the attached statement of changes in equity.

It is the policy of the group to declare dividends up to a maximum of one third of annual profits after tax, subject to working capital requirements and acquisition activities.

The dividend will be declared in the form of a half-year interim dividend and a final dividend.

In addition, it is the intention of the group to periodically consider this dividend policy, taking into account the prevailing market conditions, the particular circumstances of the group and future cash requirements in determining if it is appropriate to pay dividends.

DIRECTORS AND SECRETARY

The directors of the company during the financial year and to the date of this report are as follows:

EXECUTIVE DIRECTORS

Name	Nationality
GL Harrod	South African
GJ Kleinschmidt	South African
W Ollewagen	South African
CJ Harrod	South African
SC Wilkins	South African (appointed 01/09/2007)

NON-EXECUTIVE DIRECTORS

Name	Nationality
M Uys	South African
CRS Gooden	South Africa (appointed 01/09/2007)

COMPANY SECRETARY

The secretary of the company and its subsidiaries is Gillian Kleinschmidt of:

Business address

8 Hawkins Avenue, Epping 1, 7475

Postal address

PO Box 61, Eppindust, 7460

AUDITOR

BDO Spencer Steward (Cape) Incorporated will continue in office in accordance with section 270(2) of the Companies Act.

SUBSIDIARY COMPANIES

The following information relates to the company's financial interest in its subsidiaries which are material to the group. They were all subsidiaries throughout the year.

	Issued capital		Shares at cost		Indebtedness		Net profit after tax	
	Number	Percentage held	2007 R	2006 R	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Direct subsidiaries								
RACEC (Pty) Ltd	300	100	300	300	176	(2 937)	1 537	414
RACEC Plant Hire (Pty) Ltd	100	100	100	100	1 274	–	357	–
RACEC Electrification (Pty) Ltd	100	70	70	70	8 103	1 197	3 694	1 966
RACEC Rail (Pty) Ltd	300	70	210	210	3 226	3 516	2 724	944
RACEC (Gauteng) (Pty) Ltd	100	100	100	100	–	–	–	–
Luxor Electrical Services (Pty) Ltd	100	–	–	52	–	–	50	253
RACEC Power (Pty) Ltd	100	100	100	100	–	–	–	–
			880	932	12 779	1 776	8 362	3 577

RACEC Group and all of the subsidiary companies are incorporated in South Africa. RACEC Group Limited is the ultimate parent of the group.

The RACEC Employee Share Trust owns 30% of the ordinary share capital of RACEC Electrification (Pty) Ltd and RACEC Rail (Pty) Ltd. In terms of International Financial Reporting Standards, the RACEC Employee Share Trust has been consolidated in the group's financial statements. Consequently the consolidated financial statements include 100% of the equity relating to these subsidiaries.

During the year the board took the decision to dispose of its interest in Luxor Electrical Services (Pty) Ltd, as the activities of this subsidiary no longer fitted in with the core focus of the RACEC Group.

Further details of the company's subsidiaries are shown in note 26.

RACEC EMPLOYEE SHARE TRUST

The RACEC Employee Share Trust was created on 1 April 2004, with the view to:

- allow the employees of RACEC to have a greater involvement and participation in the company;
- empower the employees of RACEC;
- allow loyal employees of RACEC to share in the growth of the company; and
- achieve a stable employment base and combine employee participation in RACEC, i.e. one share – one vote.

The trustees administer the trust and are elected from the trust members who are all employees of RACEC. The trustees meet quarterly to discuss any administration matters regarding the trust and review the reports prepared by the independent accountant who has been appointed by the trustees to administer the books of the trust.

The scheme

ELIGIBILITY – All employees employed by any of the companies within the group on or before 30 September 2003 and born on or after 1 October 1949 were eligible to participate as beneficiaries of the trust.

INITIAL OFFER OF THE UNITS – The share trust purchased an initial 30% interest in each of the two operating companies being RACEC Electrification (Pty) Ltd and RACEC Rail (Pty) Ltd. The trust capital is divided into 10 000 units, giving each employee an opportunity to purchase units at an initial offer price of R387,88 per unit, which entitles the employee to dividends accruing from 1 October 2004.

PAYMENT OF THE SALE/OFFER PRICE – The sale price plus interest owing shall be paid to the trust by a periodic deduction from the employee's gross pay. Any dividends or awards made shall first be applied towards the repayment of the outstanding balance.

OBLIGATION TO REACQUIRE UNITS – The trust is obligated to reacquire units if a beneficiary:

- puts in a put option; and
- if certain other conditions prevail, which include insolvency, ceasing to be an employee and being in breach of this deed.

The purchase is on the following terms:

- With effect on the trigger of the event above.
- The buy-back price is determined in accordance with the trust deed and is based on the net asset value of the operating companies.

DIRECTORS' INTEREST

As at 30 September 2007, the present directors of the company held the following direct and indirect beneficial and non-beneficial interests in the company. There have been no changes in the directors' interest up to the date of this report.

Director	Beneficial		Non-beneficial		Total	Percentage held
	Direct	Indirect	Direct	Indirect		
MJ Uys	–	13 860 000	–	–	13 860 000	13,8
CJ Harrod	–	17 290 000	–	–	17 290 000	17,3
GL Harrod	–	15 260 000	–	–	15 260 000	15,3
GJ Kleinschmidt	7 630 000	–	–	–	7 630 000	7,6
W Ollewagen	–	15 260 000	–	–	15 260 000	15,3
SC Wilkins	700 000	–	–	–	700 000	0,7
CRS Gooden	100 000	–	–	–	100 000	0,1
Total	8 430 000	61 670 000	–	–	70 100 000	70,1

The designated adviser of RACEC Group Limited held 2 500 000 shares directly in the ordinary share capital of the company at year-end.

DIRECTORS' REMUNERATION

The directors' remuneration is reflected in full in note 35 of this annual report.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements as set out on pages 19 to 52 were approved by the board of directors on 10 December 2007 and signed on their behalf by:



CJ Harrod
Chief executive officer



GJ Kleinschmidt
Financial director

balance sheet
at 30 September

	Notes	GROUP		COMPANY	
		2007 R	2006 R	2007 R	2006 R
ASSETS					
Non-current assets					
Property, plant and equipment	2	26 352 351	13 286 983	–	–
Investment property	3	350 000	–	–	–
Intangible assets	4	1 735 585	–	–	–
Investments in subsidiaries		–	–	13 071 520	4 714 185
Deferred tax	7	–	–	161 380	182 185
		28 437 936	13 286 983	13 232 900	6 362 432
Current assets					
Inventories	8	14 802 635	9 278 956	–	–
Loans to shareholders	6	–	15 000	–	–
Trade and other receivables	9	70 093 200	32 589 384	3 079 421	2 755 725
Loans to related parties	5	9 375 632	5 590 685	–	1 466 062
Cash and cash equivalents	10	19 471 951	3 252 602	10 724 956	–
		113 743 418	50 726 627	13 804 377	2 755 725
Total assets		142 181 354	64 013 610	27 037 272	9 118 157
EQUITY AND LIABILITIES					
Equity					
Share capital	11	700	1 000	700	1 000
Share buy-back		(3 878 805)	(3 878 805)	–	–
Reserves	13	2 939 446	5 472 878	–	–
Retained income		17 307 947	4 917 784	6 935 559	3 182 075
Equity attributable to equity holders of the parent		16 369 288	6 512 857	6 936 259	3 183 075
Minority interest		–	64 041	–	–
Total equity		16 369 288	6 576 898	6 936 259	3 183 075
Liabilities					
Non-current liabilities					
Loans from related parties	5	676 492	–	–	–
Other financial liabilities	14	8 420 083	4 781 573	–	–
Share-based payments	12	1 582 288	628 284	–	–
Deferred tax	7	655 780	2 930 677	–	–
		11 334 643	8 340 534	–	–
Current liabilities					
Loans from shareholders	6	9 152 251	4 562 386	2 918 315	2 917 917
Loans to subsidiaries		–	–	–	2 937 018
Other financial liabilities	14	14 738 005	4 459 515	7 492 130	–
Current tax payable		5 781 784	1 572 009	87 288	80 147
Trade and other payables	15	62 947 228	30 709 049	9 603 286	–
Provisions	16	800 000	–	–	–
Bank overdraft	10	21 058 155	7 793 219	–	–
		114 477 423	49 096 178	20 101 018	5 935 082
Total liabilities		125 812 066	57 436 712	20 101 018	5 935 082
Total equity and liabilities		142 181 354	64 013 610	27 037 277	9 118 157

income statement
for the years ended 30 September

	Notes	GROUP		COMPANY	
		2007 R	2006 R	2007 R	2006 R
Revenue	17	218 147 780	157 797 278	–	–
Cost of sales		(180 025 630)	(132 095 523)	–	–
Gross profit		38 122 150	25 701 755	–	–
Other income		4 999 622	754 754	5 774 177	2 755 725
Other expenses		(27 172 017)	(20 859 072)	(55)	–
Net profit before finance costs and taxation	18	15 949 755	5 597 437	5 774 122	2 755 725
Investment revenue	19	3 032 697	3 669 513	11	–
Finance costs	20	(2 755 496)	(3 799 403)	–	–
Profit before taxation		16 226 956	5 467 547	5 774 133	2 755 725
Taxation	21	(3 992 759)	(2 267 145)	(27 944)	(80 148)
Profit for the period		12 234 197	3 200 402	5 746 187	2 675 577
Attributable to:					
Equity holders of the parent		12 234 197	3 092 529	5 746 187	2 675 577
Minority Interest		–	107 873	–	–
		12 234 197	3 200 402	5 746 187	2 675 577
Earnings per share					
Basic earnings per share (cents)	34	17,5	4,5	8,2	3,8
Basic headline earnings per share (cents)	34	12,4	5,0	2,8	3,8
Diluted earnings per share (100 000 000 shares in issue)					
Diluted earnings per share	34	12,2	3,2	5,7	2,7
Diluted headline earnings per share	34	8,7	3,5	1,9	2,7

statement of changes in equity

for the years ended 30 September

	Share capital R	Share buy-back R	Revaluation reserve R	Retained income R	Total attributable to equity holders of the group R	Minority interest R	Total equity R
GROUP							
Opening balance as previously reported	1 000	(3 878 805)	3 658 619	5 831 480	5 612 294	10 888	5 623 182
Adjustments:							
First-time adoption of IFRS	–	–	1 984 034	(396 066)	1 587 968	–	1 587 968
Balance at 1 October 2005	1 000	(3 878 805)	5 642 653	5 435 414	7 200 262	10 888	7 211 150
Changes in equity:							
Realised revaluation through depreciation	–	–	(824 601)	824 601	–	–	–
Revaluation of property, plant and equipment	–	–	703 851	–	703 851	–	703 851
Reversal of property, plant and equipment previously revalued	–	–	(49 025)	–	(49 025)	–	(49 025)
Net (expense)/income recognised directly in equity	–	–	(169 775)	824 601	654 826	–	654 826
Profit for the year	–	–	–	3 092 529	3 092 529	107 873	3 200 402
Total recognised income and expense for the period	–	–	(169 775)	3 917 130	3 747 355	107 873	3 855 228
Dividends	–	–	–	(4 434 760)	(4 434 760)	(54 720)	(4 489 480)
Total changes	–	–	(169 775)	(517 630)	(687 405)	53 153	(634 252)
Balance at 1 October 2006	1 000	(3 878 805)	5 472 878	4 917 784	6 512 857	64 041	6 576 898
Notes	11		13				
Balance at 1 October 2006	1 000	(3 878 805)	5 472 878	4 917 784	6 512 857	64 041	6 576 898
Share capital acquired by the company	(300)				(300)		(300)
Realised revaluation through depreciation	–	–	(3 336 875)	3 336 875	–	–	–
Revaluation of property, plant and equipment			803 443		803 443		803 443
Net (expense)/income recognised directly in equity	–	–	(2 533 432)	3 336 875	803 443	–	803 443
Profit for the year	–	–	–	12 234 197	12 234 197	26 228	12 260 425
Disposal of subsidiary						(90 269)	(90 269)
Total recognised income and expense for the year	–	–	(2 533 432)	15 571 072	13 037 640	(64 041)	12 973 599
Dividends	–	–	–	(3 180 909)	(3 180 909)		(3 180 909)
Total changes	(300)	–	(2 533 432)	12 390 163	9 856 431	(64 041)	9 792 390
Balance at 30 September 2007	700	(3 878 805)	2 939 446	17 307 947	16 369 288	–	16 369 288
Notes	11		13				
COMPANY							
Balance at 1 October 2005	1 000			4 537 023			4 538 023
Profit for the year	–			2 675 577			2 675 577
Total recognised income and expense for the year	–			2 675 577			2 675 577
Dividends	–			(4 030 525)			(4 030 525)
Total changes	–			(1 354 948)			(1 354 948)
Balance as at 30 September 2006	1 000			3 182 075			3 183 075
Share capital acquired by the company	(300)						(300)
Profit for the year	–			5 746 187			5 746 187
Total recognised income and expense for the year	–			5 746 187			5 745 887
Dividends	–			(1 992 703)			(1 992 703)
Total changes	(300)			3 753 484			3 753 184
Balance at 30 September 2007	700			6 935 559			6 936 259

cash flow statement
for the years ended 30 September

	Notes	GROUP		COMPANY	
		2007 R	2006 R	2007 R	2006 R
Cash flows from operating activities					
Cash generated from operations	23	15 079 112	3 704 698	1 935 521	2 755 725
Interest income		3 032 697	3 669 513	11	–
Finance costs		(2 755 496)	(3 799 403)	–	–
Tax paid	24	1 167 313	(394 082)	–	–
Net cash from operating activities		14 189 001	3 180 726	1 935 532	2 755 725
Cash flows from investing activities					
Purchase of property, plant and equipment		(10 956 858)	(3 903 006)	(8 400 000)	–
Purchase of business operations	29	(10 870 083)	–	–	–
Sale of property, plant and equipment		225 040	380 962	12 238 549	–
Sale of subsidiary	31	85 528	–	–	–
Net cash (utilised)/from investing activities		(21 516 373)	(3 522 044)	3 838 549	–
Cash flows from financing activities					
Loans advanced by group companies		–	(4 096 899)	(11 913 100)	(2 159 550)
Advance of other financial liabilities		11 966 583	1 382 085	17 390 518	–
(Repayment)/advance of loans by related parties		(3 108 455)	–	1 466 062	–
Advance of shareholders' loan		4 604 565	430 613	98	3 434 350
Dividends paid	25	(3 180 907)	(4 434 760)	(1 992 703)	(4 030 525)
Net cash from financing activities		10 281 786	(6 718 961)	4 950 875	(2 755 725)
Total cash movement for the period		2 954 413	(7 060 279)	10 724 956	–
Cash at the beginning of the period		(4 540 617)	2 519 662	–	–
Total cash at end of the period	11	(1 586 204)	(4 540 617)	10 724 956	–

notes to the financial statements

for the years ended 30 September

1. ACCOUNTING POLICIES

1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa. The financial statements have been prepared based on the historical cost convention, modified for certain items measured at fair value, and incorporate the following principal accounting policies, which are consistent with those of the previous years except as disclosed in note 25.

Adoption of new and revised standards

In the year under review, the group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 October 2006. The adoption of these new and revised standards and interpretations has not resulted in any change to the group's accounting policies other than for the effects of the first-time adoption of IFRS (refer note 25).

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of the group.

1.2 Basis of consolidation

On acquisition the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at cost.

The consolidated financial statements incorporate the financial statements of the company and entities (including special-purpose entities) controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

1.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control, plus any costs directly attributable to the business combination. The identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

1.4 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of the cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1.5 Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date.
- Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Revenue from construction contracts is recognised in accordance with the accounting policy outlined below.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

1. ACCOUNTING POLICIES (CONTINUED)

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership to the lessee.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases – lessee

Assets held under finance leases are initially recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.7 Translation of foreign currencies

Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period.

1.8 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.9 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 12.

1.10 Critical accounting judgements and key sources of estimate uncertainty

In the application of the group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The only critical judgements, apart from those involving estimates (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements relate to share-based payments. See note 12 for critical accounting judgements and key sources of estimate uncertainty.

1.11 Taxation

Tax expenses

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

1. ACCOUNTING POLICIES (CONTINUED)

1.11 Taxation (continued)

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

1.12 Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Cost includes costs incurred initially to acquire or construct an item of plant and equipment and costs incurred subsequently to add to or replace part of it, to the extent that it is probable that future economic benefits will flow to the entity and the cost can be measured reliably. If a replacement part is recognised in the carrying amount of an item of plant and equipment, the carrying amount of the replaced part is derecognised.

Thereafter all property, plant and equipment are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the balance sheet date. Any revaluation increase arising on the revaluation of such assets is credited in equity to a revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such assets is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Each year the difference between depreciation based on the revalued carrying amount of the assets (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Depreciation is charged so as to write off the cost or valuation of assets, other than land, over their estimated useful lives to their residual values, using the straight-line method. Where parts of an asset have different useful lives or depreciation methods to the item itself, these parts are separately depreciated over their estimated useful lives if they have a cost that is significant in relation to the cost of the remainder of the asset. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The estimated useful lives of the major categories of property, plant and equipment are:

Item	Average useful life
Buildings	40 years
Motor vehicles, trucks and caravans	8 years
Containers	12 years
Plant and machinery	7 years
Office furniture and equipment	8 years
Computer equipment	3 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

1.13 Impairment of assets other than goodwill

At each balance sheet date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.14 Investment property

The investment property, which is property held for capital appreciation, is stated at the cost of acquisition, effective 31 May 2007.

1.15 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the assets will flow to the entity;
- the cost of the asset can be measured reliably;
- it will generate probable future economic benefits.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight-line basis over their useful life. The amortisation period and the amortisation method for intangible assets are reviewed every period end.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

1.16 Inventories

Inventories are valued at the lower of cost or net realisable value, determined on either the weighted average cost basis or on actual cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

1.17 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. An accrual is recognised for the estimated liability for leave and bonuses accruing to employees up to balance sheet date.

1.18 Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and cost are recognised by reference to the stage of completion of the contract activity at the balance sheet date, measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract the costs incurred will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

1. ACCOUNTING POLICIES (CONTINUED)

1.19 Employee benefits

Defined-contribution plans

The contribution to the defined-contribution plans is charged to profit and loss when employees have rendered service entitling them to the contributions.

1.20 Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents and bank overdrafts are measured at fair value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs (refer note 1.8).

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

The group does not use any derivative financial instruments.

1.21 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If a company in the group reacquires its own equity instruments, those instruments are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments. Consideration paid or received is recognised directly in equity.

1.22 Segments

Geographical segments provide products and services that are subject to risks and returns that are different. Segment assets include property, plant and equipment, inventories, receivables and cash and cash equivalents. Segment liabilities include all operating liabilities, short-term borrowings and non-current liabilities. Capital expenditure includes additions to property, plant and equipment. The allocation of segmental costs is based on actual expenditure incurred geographically and by each business segment.

	2007			2006		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
2. PROPERTY, PLANT AND EQUIPMENT						
Land and buildings	6 404 848	–	6 404 848	1 900 000	–	1 900 000
Motor vehicles, trucks and caravans	13 543 587	(311 441)	13 232 146	7 896 670	(675 910)	7 220 760
Containers	1 019 446	(51 352)	968 094	835 957	(38 975)	796 982
Plant and machinery	6 855 752	(1 777 934)	5 077 818	4 057 470	(946 812)	3 110 658
Office furniture and equipment	415 407	(66 617)	348 789	239 912	(29 021)	210 890
Computer equipment	449 293	(128 635)	320 658	83 366	(35 674)	47 692
Total	28 688 332	(2 335 979)	26 352 351	15 013 375	(1 726 392)	13 286 983

Reconciliation of property, plant and equipment – 2007

	Opening balance	Additions	Acquisition of business operations	Disposals	Disposal of subsidiary	Depreciation	Closing balance
Land and buildings	1 900 000	2 050 000	2 454 848	–	–	–	6 404 848
Motor vehicles, trucks and caravans	7 220 760	5 052 481	2 628 652	(388 350)	(230 737)	(1 050 660)	13 232 146
Containers	796 982	239 708	–	–	–	(68 596)	968 094
Plant and machinery	3 110 658	3 109 943	304 352	(43 017)	(14 648)	(1 389 470)	5 077 818
Office furniture and equipment	210 890	119 750	87 603	(18 655)	(7 188)	(43 612)	348 788
Computer equipment	47 692	384 981	–	(12 126)	(938)	(97 952)	320 657
	13 286 983	10 956 864	5 475 456	(463 147)	(253 510)	(2 650 289)	26 352 351

Reconciliation of property, plant and equipment – 2006

	Opening balance	Additions	Disposals	Revaluation	Impairment	Depreciation	Closing balance
Land and buildings	1 640 468	–	–	260 000	(468)	–	1 900 000
Motor vehicles, trucks and caravans	5 407 754	2 526 856	(153 888)	87 741	(122 318)	(525 385)	7 220 760
Containers	177 330	850 657	–	59 309	(265 919)	(24 395)	796 982
Plant and machinery	3 228 024	432 606	(305 812)	461 485	(49 984)	(655 662)	3 110 658
Office furniture and equipment	167 388	64 542	(250)	16 301	(10 368)	(26 723)	210 890
Computer equipment	72 711	28 346	–	10 899	(33 742)	(30 522)	47 692
	10 693 677	3 903 006	(459 950)	895 736	(482 799)	(1 262 686)	13 286 983

A register containing the information required by paragraph 22(3) Schedule 4 of the Companies Act is available for inspection at the registered office of the company.

Pledged as security

Certain assets are encumbered as security for amounts owing under mortgage bonds and hire purchase agreements as set out in note 14. The carrying values of assets under mortgage bonds are R5 404 848 (2006: R900 000) and under hire purchase agreements are R14 502 231 (2006: R6 301 378).

notes to the financial statements
for the years ended 30 September

2. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Details of properties

Freehold land and buildings comprise:

- a) Holding 162 Withok Estates Agricultural Holdings situated in Gauteng, measuring 4 0442 hectares purchased in 1991.
- b) Erf 152, 153, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 172 and 173 situated at Nyanga held under deed of transfer no. TL63902/1991. It is considered that these properties are irrecoverable and an appropriate diminution in value has been recognised.
- c) Erf 871, situated in Richards Bay area, purchased in 1999.
- d) Erf 855, situated in Blackheath area, purchased on 31 May 2007.
- e) Erf 8827, situated in George industrial area, purchased on 4 April 2007.

A valuation of the group's property, plant and equipment was performed on 30 September 2006 by the directors to determine the fair value of property, plant and equipment. The following assumptions have been used:

- The values of motor vehicles, trucks, caravans and plant and machinery were based on the trade values as issued by the group's insurance company for insurance purposes.
- All other assets have been valued at fair market values.

3. INVESTMENT PROPERTY

	2007			2006		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Land	350 000	–	350 000	–	–	–
	350 000	–	350 000	–	–	–

Reconciliation of investment property – 2007

	Opening balance	Acquisition of business operations	Closing balance
Land	350 000	–	350 000
	350 000	–	350 000

Reconciliation of investment property – 2006

	Opening balance	Acquisition of business operations	Closing balance
Land	–	–	–
	–	–	–

Investment property comprises Erf 3226, situated in Bredasdorp area, purchased 31 May 2007.

	2007			2006		
	Cost/Fair valuation	Amortisation	Carrying value	Cost/Fair valuation	Amortisation	Carrying value
4. INTANGIBLE ASSETS						
Fair value of contracts	1 852 785	(117 200)	1 735 585	–	–	–
	1 852 785	(117 200)	1 735 585	–	–	–

Reconciliation of intangible assets – 2007

	Opening balance	Acquisition of business operations	Amortisation	Closing balance
Fair value of contracts	–	1 852 785	(117 200)	1 735 585
	–	1 852 785	(117 200)	1 735 585

Reconciliation of intangible assets – 2006

	Opening balance	Acquisition of business operations	Amortisation	Closing balance
Fair value of contracts	–	–	–	–
	–	–	–	–

The intangible asset arises on application of IFRS 3 and represents the fair value of contracts and customers acquired. The useful life of the intangible assets is estimated to be five years.

	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
5. LOANS TO/(FROM) RELATED PARTIES				
CI Merchandising (Pty) Ltd	38 509	3 479 926	–	1 466 062
Cardita Circle (Pty) Ltd	9 335 601	2 107 813	–	–
Uphondo Electrical (Pty) Ltd	(676 492)	2 946	–	–
	8 707 398	5 590 685	–	1 466 062
Current assets	9 375 632	5 590 685	–	1 466 062
Non-current liabilities	(676 492)	–	–	–
	8 707 398	5 590 685	–	1 466 062

The above loans are unsecured, bear interest at prime lending rates and have no fixed terms of repayment.

The loan owed by Cardita Circle (Pty) Ltd was repaid in full on 1 December 2007.

notes to the financial statements
for the years ended 30 September

	GROUP		COMPANY	
	2007	2006	2007	2006
	R	R	R	R
6. LOANS TO/(FROM) SHAREHOLDERS				
E Scallo	-	15 000	-	-
MJ Uys	(2 966 968)	(635 607)	-	-
CJ Harrod	(2 366 968)	(635 607)	-	-
GL Harrod	(800 000)	-	-	-
The Mike and Jen Uys Trust	(461 071)	(855 705)	(461 071)	(669 006)
The Charles and Tertia Harrod Trust	(626 637)	(822 793)	(626 637)	(636 091)
GJ Kleinschmidt	(457 338)	(329 117)	(357 338)	(329 147)
The Gary Harrod Family Trust	(719 378)	(641 779)	(719 378)	(641 837)
The Ollewagen Family Trust	(719 379)	(641 778)	(719 379)	(641 836)
SC Wilkins	(32 912)	-	(32 912)	-
	(9 152 251)	(4 547 386)	(2 918 315)	(2 917 917)
The loans are unsecured, bear interest at varying rates as agreed from time to time (2007: 12,5%/2006: 11,0%) and are not subject to any fixed terms of repayment. R3 291 168 (2006: R4 116 773) of the loans have been ceded to SCMB as security for the banking facilities of the group.				
Current assets	-	15 000	-	-
Current liabilities	(9 152 251)	(4 562 386)	(2 918 315)	(2 917 917)
	(9 152 251)	(4 547 386)	(2 918 315)	(2 917 917)
7. DEFERRED TAX				
Property, plant and equipment	(326 315)	(2 210 182)		
Prepayments	(172 448)	(146 562)		
Retentions	(1 378 542)	(1 414 173)		
Provisions	669 581	407 599		
Deferred interest	89 535	233 837		
Assessed losses	246 779	-		
Capital loss on disposal of subsidiary	161 380	182 185	161 380	182 185
Share-based payments	34 625	16 619		
Operating leases	19 624	-		
	(655 780)	(2 930 677)	161 380	182 185
Deferred tax asset/(liability)				
Reconciliation of deferred tax asset/(liability)				
Balance at beginning of the year	(2 930 677)	(1 232 919)	182 185	182 185
Movements during period/year attributable to:				
- Building allowance	-	(1 323)	-	-
- Prepayments	(26 655)	(15 201)	-	-
- Retentions	(8 437)	(682 997)	-	-
- Provisions	279 571	79 350	-	-
- Property, plant and equipment	1 054 395	(641 433)	-	-
- Property, plant and equipment recognised directly in equity	803 445	95 713	-	-
- Deferred interest	(144 302)	233 837	-	-
- Assessed losses	246 779	(62 612)	-	-
- Capital profit on disposal of subsidiary	(20 805)	-	(20 805)	-
- Revaluation of property, plant and equipment	-	(701 386)	-	-
- Share-based payments	18 004	(1 706)	-	-
- Operating leases	19 624	-	-	-
- Subsidiary disposed	52 976	-	-	-
Balance at end of the year	(655 780)	(2 930 677)	161 380	182 185

At the balance sheet date, the group has unutilised tax losses of R850 963 (2006: Rnil) available for set-off against future profit and a capital loss of approximately R556 484 (2006: R628 224).

	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
8. INVENTORIES				
The cost of inventories recognised as an expense during the period was R124 466 068 (2006: R92 154 500).				
Raw materials	8 279 577	3 480 640	–	–
Contracts in progress	6 523 058	5 798 316	–	–
	14 802 635	9 278 956	–	–
9. TRADE AND OTHER RECEIVABLES				
Contract debtors	65 536 707	28 046 130	–	–
Prepayments	1 010 445	596 432	–	–
Deposits	89 950	104 366	–	–
VAT	1 875 721	52 819	–	–
Sundry debtor	1 580 377	3 789 637	–	–
Dividends owing by subsidiaries	–	–	3 079 421	2 755 725
	70 093 200	32 589 384	3 079 421	2 755 725
No interest is charged on the trade receivables. Based on past experiences the group has reviewed all trade receivables at year-end to determine whether a provision against potential bad debts needs to be recognised.				
The amount recognised in profit or loss in respect of the allowance for doubtful debts is R16 222 (2006: R94 875). Receivables are stated at their fair values after taking into account the effect of discounting.				
10. CASH AND CASH EQUIVALENTS				
Cash and cash equivalents consist of cash on hand, balances with banks, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:				
Cash on hand	31 134	29 004	–	–
Bank balances	19 440 817	3 214 923	10 724 956	–
Cash advances	–	8 675	–	–
Bank overdraft	(21 058 155)	(7 793 219)	–	–
	(1 586 204)	(4 540 617)	–	–
Current assets	19 471 951	3 252 602	10 724 956	–
Current liabilities	(21 058 155)	(7 793 219)	–	–
	(1 586 204)	(4 540 617)	10 724 956	–

Bank overdraft and guarantee facilities are secured by means of a cession of book debts of the subsidiary companies as well as an unlimited suretyship signed in favour of RACEC (Pty) Ltd, RACEC Plant Hire (Pty) Ltd, RACEC Electrification (Pty) Ltd and RACEC Rail (Pty) Ltd. The shareholders of the group have ceded the first R3 291 471 (2006: R3 291 471) of their loan accounts to Standard Corporate and Merchant Bank as security for banking facilities extended to the group.

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	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
11. SHARE CAPITAL				
Authorised				
500 000 000 (2006: 1 000) ordinary shares of 0,001 cent (2006: R1,00) each				
At beginning of year	1 000	1 000	1 000	1 000
Increase in share capital	4 000	–	4 000	–
At end of year	5 000	1 000	5 000	1 000
Issued				
70 000 000 (2006: 1 000) ordinary shares of 0,001 cent (2006: R1,00) each				
At beginning of year	1 000	1 000	1 000	1 000
Share buy-back	(300)	–	(300)	–
At end of year	700	1 000	700	1 000
Fully paid ordinary shares, which have a par value of 0,001 cent, carry one vote per share and carry the right to dividends.				
12. SHARE-BASED PAYMENTS				
Share-based payment liability arising on consolidation of RACEC Employee Share Trust	1 520 206	634 169	–	–
Fair value adjustments of options granted to employees	62 082	(5 885)	–	–
	1 582 288	628 284	–	–

The group has a compensation scheme for all employees of the group. The scheme is similar to share appreciation rights (SARs) and requires the group to pay the intrinsic value of the SAR to the employee at the date of exercise. It is referred to as options hereafter. In accordance with the provisions of the plan, as approved by shareholders at a previous annual general meeting, employees with more than one year's service with the group may be granted units in terms of the share option scheme. The number of units granted is calculated in accordance with the level of employee approved by shareholders at a previous annual general meeting and is subject to approval by the remuneration committee. The scheme requires the employees of the group to acquire the units at the date the SAR is granted, at the adjusted net asset value per unit of certain companies in the group to which the scheme relates. The adjusted net asset value per unit is determined at the date at which the SAR is granted. Generally no amounts are paid or payable by the recipient on receipt of the option as the employees are financed by way of a loan bearing a market-related interest rate. The units carry the right to dividends and voting rights. Options may be exercised at any time from the date of vesting (five years) to the date of their expiry by putting the SARs back to the group for cash. The options granted expire on the resignation, death or retrenchment of the employee.

12. SHARE-BASED PAYMENTS (CONTINUED)

At 30 September 2007, the group has recorded liabilities of R1 582 288 (2006: R628 284). The fair value of the SARs is determined using the binomial pricing model using the assumptions noted below. The group recorded total expenses of R62 082 (2006: (R5 885)) during the period/year in respect of SARs. At 30 September 2007, the total intrinsic value of the vested SARs was R119 319 (2006: R57 312).

Grant date

	Fair value Exercise price R
30 September 2004	387
30 September 2005	428
30 September 2006	421
30 September 2007	515

No units have been issued subsequent to 30 September 2006.

In accordance with the terms of the share-based arrangement, all options issued vest after five years and the options do not have an expiry date.

The weighted average fair value of the share options granted during the financial period is R442,70 (2006: R411,96). Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical performance.

	2007	2006
Exercise price	515	421
Fair value at grant date	571	467
Expected volatility	11,84%	11,52%
Option life	10 years	10 years
Dividend yield	16,08%	27,48%
Risk-free rate	8,16%	8,35%

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the period/year:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the period/year	10 580	443	7 900	412
Granted	–		1 460	
Forfeited	–		1 010	
Exercised	–		–	
Expired	–		–	
Balance at end of the period/year	10 580	443	6 890	522
Exercisable at end of the period/year	–		–	

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	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
13. REVALUATION RESERVE				
Balance at beginning of the period/year	5 472 878	5 642 653	–	–
Movement during the period/year:				
– Surplus arising from revaluation of property, plant and equipment	–	964 971	–	–
– Deferred tax liability arising on revaluation	–	(261 120)	–	–
– Transferred to retained earnings	(3 568 213)	(1 616 410)	–	–
– Deferred tax released on transfer to retained earnings	1 034 781	336 809	–	–
– Reversal of amounts previously revalued	–	(69 049)	–	–
– Deferred tax released on reversal of amounts previously revalued	–	20 024	–	–
Balance at end of the period/year	2 939 446	5 472 878	–	–
The revaluation reserve arises on the revaluation of property, plant and equipment. Where revalued assets are sold, the portion of the revaluation reserve that relates to that asset is effectively realised, and transferred directly to retained profits.				
14. OTHER FINANCIAL LIABILITIES				
Held at amortised cost				
Instalment sale agreements – motor vehicles	11 511 244	5 446 536	–	–
Liabilities under instalment sale agreements payable over the next 2 to 4 years bearing interest at market-related rates of prime less 2% (2006: prime less 2%) and are repayable in monthly instalments of R618 611 (2006: R318 055). The liabilities are secured by the assets as set out in note 2.				
Mortgage bonds – Property	1 896 599	–	–	–
Liabilities under mortgage bond, payable over the next 5 years bearing interest at market-related rates of prime less 1% and repayable in monthly instalments of R30 195,09 (2006: Rnil). The liabilities are secured by assets as set out in note 2.				
Operating lease liability	198 929	–	–	–
Shareholders for dividends	730 016	–	730 016	–
JMB Electrical Contractors (Pty) Ltd	6 762 114	–	6 762 114	–
The Mike and Jen Uys Trust	535 388	1 035 642	–	–
The Charles and Tertia Harrod Trust	514 796	970 588	–	–
The Ollewagen Family Trust	401 541	812 781	–	–
The Gary Harrod Family Trust	401 541	644 849	–	–
GJ Kleinschmidt	205 919	330 692	–	–
	23 158 088	9 241 088	–	–
The above loans bear interest at rates linked to the prime lending rate, are unsecured and have no fixed terms of repayment. JMB Electrical Contractors' loan was settled in full on 22 November 2007.				
Non-current liabilities				
At amortised cost	8 420 083	4 781 573	–	–
Current liabilities				
At amortised cost	14 738 005	4 459 515	7 492 130	–
	23 158 088	9 241 088	7 492 130	–

	GROUP		COMPANY	
	2007	2006	2007	2006
	R	R	R	R
15. TRADE AND OTHER PAYABLES				
Trade payables	34 705 924	15 128 735	–	–
Income received in advance	3 020 416	–	–	–
VAT	3 851 576	840 975	–	–
Amounts due to contract customers	17 186 117	8 637 582	–	–
Accrued expense	460 477	395 661	–	–
Other payables	3 453 724	5 706 096	9 603 286	–
	62 947 228	30 709 049	9 603 286	–
No interest is charged on the trade payables. The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.				
Payables are stated at their fair values after taking into account the effect of discounting.				
16. PROVISIONS				
Opening balance	–	–	–	–
Acquired through acquisitions	800 000	–	–	–
Closing balance	800 000	–	–	–
17. REVENUE				
Major classes of revenue comprise				
Contract revenue	218 147 780	157 797 278	–	–
18. OPERATING PROFIT				
Operating profit for the period/year is stated after accounting for the following:				
Operating lease charges				
Premises – Contractual amounts	852 429	714 664	–	–
Equipment – Contractual amounts	147 517	120 825	–	–
	999 946	835 489	–	–
Loss on sale of property, plant and equipment	238 107	26 197	–	–
Loss/(profit) on sale of subsidiary	67 554	–	(71 740)	–
Impairment on property, plant and equipment	–	482 799	–	–
(Profit)/loss on exchange differences	(51 637)	36 943	–	–
Negative goodwill (JMB Electrical Contractors) (note 29)	(3 757 784)	–	(3 757 784)	–
Insurance recoveries	45 161	71 150	–	–
Defined benefit contributions	3 033 942	2 623 974	–	–
Share-based payments	62 082	(5 885)	–	–
Audit fees	(2 000)	133 500	–	–
Depreciation on property, plant and equipment	2 650 289	1 262 686	–	–
Directors' emoluments	4 102 700	2 633 370	–	–
Employee costs	26 294 906	18 473 425	–	–
Operating expenses				
Administration costs	9 669 699	4 338 279	55	–
Operations	17 502 318	16 520 793	–	–
	27 172 017	20 859 072	55	–

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	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
19. INVESTMENT REVENUE				
Interest revenue				
Bank	404 687	–	11	–
Related parties	761 086	192 120	–	–
Deemed interest income	1 601 679	3 208 609	–	–
RACEC Employee Share Trust unit holders	265 245	268 784	–	–
	3 032 697	3 669 513	11	–
20. FINANCE COSTS				
Bank	1 064 465	896 536	–	–
Shareholders	1 101 861	569 872	–	–
Deemed interest expense	589 170	2 332 995	–	–
	2 755 496	3 799 403	–	–
21. TAXATION				
Major components of the tax expense/(income)				
Current				
Local income tax – current period	4 878 737	998 032	–	–
Local income tax – previous year	2 388	–	–	–
Capital gains tax	193 936	–	–	–
Secondary tax on companies	352 393	575 906	(7 140)	–
	5 427 454	1 573 938	(7 140)	–
Deferred				
Originating and reversing temporary differences	(1 434 693)	693 207	(20 804)	–
	3 992 759	2 267 145	(27 944)	–
Reconciliation of the tax expense				
Reconciliation between applicable tax rate and average effective tax rate				
Applicable tax rate	29,00%	29,00%	29,00%	29,00%
Exempt income	(4,80%)	0,45%	(28,94%)	–
RACEC Employee Share Trust not taxable	(2,90%)	(4,90%)	–	–
Capital loss not deductible	–	1,54%	–	–
Outside shareholders	–	(0,49%)	–	–
Disallowable charges	0,35%	1,29%	–	–
Secondary tax on companies	2,00%	7,76%	0,42%	–
Capital gains tax	1,50%	–	–	–
	24,45%	34,65%	0,48%	28,00%

	GROUP		COMPANY	
	2007	2006	2007	2006
	R	R	R	R
22. OPERATING LEASES				
Operating leases relate to office and warehouse facilities with lease terms of 5 years, with an option to extend for a further 5 years. All operating lease contracts contain market review clauses in the event that the group exercises its option to renew. The group does not have an option to purchase the leased asset at the expiry of the lease period.				
Payments recognised as an expense				
Minimum lease payments	852 429	714 664	–	–
Sub-lease payments received	(211 164)	(154 164)	–	–
	641 265	560 500	–	–
Non-cancellable operating lease commitments				
Not longer than 1 year	928 936	–	–	–
Between 1 and 5 years	4 939 785	–	–	–
After 5 years	720 973	–	–	–
	6 589 694	–	–	–
23. CASH GENERATED FROM OPERATIONS				
Profit before taxation	16 226 956	5 467 547	5 774 133	2 755 725
Adjustments for:				
Depreciation and amortisation	2 767 489	1 262 686	–	–
(Profit)/loss on sale of assets	238 107	26 197	(71 740)	–
Profit on acquisition of business operations	(3 757 784)	–	(3 757 784)	–
Loss on disposal of subsidiary	67 462	–	–	–
Share-based payments	62 082	307 191	–	–
Interest received	(3 032 697)	(3 669 513)	11	–
Finance costs	2 755 496	3 799 403	–	–
Impairment loss	–	482 799	–	–
Changes in working capital:				
Inventories	592 344	(913 958)	–	–
Trade and other receivables	(21 552 383)	758 274	–	–
Trade and other payables	20 712 040	(3 815 928)	–	–
	15 079 112	3 704 698	1 935 521	2 755 725
24. TAX PAID				
Balance at beginning of the period/year	(1 572 009)	(392 154)	(80 147)	–
Current tax for the period recognised in income statement	(5 427 454)	(1 573 938)	(7 141)	(80 147)
Disposal of subsidiary	50 366	–	–	–
Balance at end of the period/year	5 781 784	1 572 009	(87 288)	80 147
	1 167 313	(394 082)	–	–
25. DIVIDENDS PAID				
Dividends	3 180 902	(4 434 670)	1 992 703	4 030 525

During the year dividends of 2,8 (2006: 5,8) cents per share (total dividend R1 993 000 (2006: R4 030 000)), were paid to holders of fully paid ordinary shares who were shareholders at the date of declaration.

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	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
26. CONTINGENCIES				
Tax consequences of undistributed reserves				
STC on remaining reserves	1 890 636	546 420		

There is a contingent liability with respect to outstanding performance guarantees provided by Lombards Insurance Company and C & G Underwriting Managers totalling R21 833 622 (2006: R12 285 570) for work done by the subsidiary companies.

27. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first period that the group has presented its financial statements under IFRS. The previous financial statements under South African Statements of Generally Accepted Accounting Practice (SA GAAP) were for the year ended 30 September 2006 and the date of transition to IFRS is therefore 1 October 2005.

When preparing the 2007 interim financial statements, management has amended certain accounting, valuation and disclosures applied in the SA GAAP financial statements to comply with IFRS. The comparative figures in respect of the year ended 30 September 2006 and opening retained earnings at 1 October 2005 were restated to reflect these adjustments. Reconciliations and descriptions of the effect of the transition from SA GAAP to IFRS and its profit or loss are shown below. There was no impact on the cash flows.

Basis of preparation

The RACEC Group has applied IFRS 1: First-time Adoption of International Financial Reporting Standards in preparing these financial statements.

At transition date (1 October 2005) IFRS 1 permits a number of exemptions from and exceptions to the retrospective application principle on adoption of IFRS. The group has elected to apply the following optional exemptions from full retrospective application of IFRS.

Fair value/revaluation as deemed cost

RACEC has elected to measure all property plant and equipment at their fair value at the transition date as their deemed cost.

The aggregate of those fair values is R10 144 182 and the aggregate adjustment to the previous carrying amounts under SA GAAP is R2 236 575.

Reassessment of accounting under SA GAAP

During the implementation of IFRS, the group has become aware of certain areas where the interpretation and/or application of SA GAAP should have been different. Comparative information and opening retained income has been adjusted for these instances. Refer to note 27 for additional information.

Reconciliation of equity at 30 September 2006 – Assets

	As reported under previous GAAP	Effects of transition to IFRS	IFRS
ASSETS			
Non-current assets			
Property, plant and equipment	11 050 407	2 236 576	13 286 983
Loans to related parties	5 590 685	–	5 590 685
	16 641 092	2 236 576	18 877 668
Current assets			
Inventories	9 278 956	–	9 278 956
Loans to shareholders	15 000	–	15 000
Trade and other receivables	32 589 384	–	32 589 384
Cash and cash equivalents	3 252 602	–	3 252 602
	45 135 942	–	45 135 942
Total assets	61 777 034	2 236 576	64 013 610

27. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**Reconciliation of equity at 30 September 2006 – Equity and liabilities**

	As reported under previous GAAP	Effects of transition to IFRS	IFRS
EQUITY			
Share capital	1 000	–	1 000
Share buy-back	(3 878 805)	–	(3 878 805)
Reserves	3 488 844	1 984 034	5 472 878
Retained income	5 313 850	(396 066)	4 917 784
Equity attributable to equity holders of the parent	4 924 889	1 587 968	6 512 857
Minority interest	64 041	–	64 041
Total equity	4 988 930	1 587 968	6 576 898
LIABILITIES			
Non-current liabilities			
Other financial liabilities	4 781 573	–	4 781 573
Deferred tax	2 282 070	648 607	2 930 677
Share-based payments	628 284	–	628 284
	7 691 927	648 607	8 340 534
Current liabilities			
Loans from shareholders	4 562 386	–	4 562 386
Other financial liabilities	4 459 515	–	4 459 515
Current tax payable	1 572 009	–	1 572 009
Trade and other payables	30 709 049	–	30 709 049
Bank overdraft	7 793 219	–	7 793 219
	49 096 178	–	49 096 178
Total liabilities	56 788 105	648 607	57 436 712
Total equity and liabilities	61 777 035	2 236 575	64 013 610
Reconciliation of profit or loss for 2006			
Revenue	157 797 278	–	157 797 278
Cost of sales	(132 095 523)	–	(132 095 523)
Gross profit	25 701 755	–	25 701 755
Other income	754 754	–	754 754
Operating expenses	(21 200 542)	341 470	(20 859 072)
Operating profit	5 255 967	341 470	5 597 437
Investment revenue	3 669 513	–	3 669 513
Finance costs	(3 799 403)	–	(3 799 403)
Profit before taxation	5 126 077	341 470	5 467 547
Taxation	(2 168 119)	(99 026)	(2 267 145)
Profit for the period	2 957 958	242 444	3 200 402

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28. RELATED PARTIES

Relationships

Common shareholders	CI Merchandising (Pty) Ltd Uphondo Electrical (Pty) Ltd Hlanganani Rail Services CC Cardita Circle (Pty) Ltd
Subsidiaries	See below
Shareholders	See notes 4 and 13

	GROUP		COMPANY	
	2007	2006	2007	2006
	R	R	R	R
Related-party balances				
<i>Loan accounts – owing/(to) by related parties</i>				
CI Merchandising (Pty) Ltd	38 509	2 015 597	–	–
Uphondo Electrical (Pty) Ltd	(676 492)	–	–	–
Hlanganani Rail Services CC	–	3 068	–	–
Cardita Circle (Pty) Ltd	9 335 601	2 107 812	–	–
<i>Amounts included in trade receivables/ (trade payables) regarding related parties</i>				
CI Merchandising (Pty) Ltd	(8 123)	–	–	–
Hlanganani Rail Services CC	–	674 047	–	–
Related-party transactions				
<i>Interest paid to/(received from) related parties</i>				
CI Merchandising (Pty) Ltd	(45 095)	(192 120)	–	–
Shareholders	1 101 861	569 872	–	–
Cardita Circle (Pty) Ltd	(626 332)	–	–	–
<i>Sales to related parties</i>				
CI Merchandising (Pty) Ltd	28 329	(69 931)	–	–
Uphondo Electrical (Pty) Ltd	322 083	(13 034 616)	–	–
Hlanganani Rail Services CC	496 780	(1 191 566)	–	–
Related-party transactions				
<i>Purchases from related parties</i>				
CI Merchandising (Pty) Ltd	70 659	78 314	–	–
Uphondo Electrical (Pty) Ltd	–	10 372 902	–	–
<i>Rent paid to/(received from) related parties</i>				
CI Merchandising (Pty) Ltd	(142 000)	(144 000)	–	–
<i>Management and administration fees paid to/(received from) related parties</i>				
CI Merchandising (Pty) Ltd	(330 000)	(120 000)	–	–
Uphondo Electrical (Pty) Ltd	(676 492)	–	–	–
CI Merchandising (Pty) Ltd	40 031	12 076	–	–
<i>Dividends owing by subsidiaries</i>	–	–	3 079 421	2 755 725

	GROUP		COMPANY	
	2007	2006	2007	2006
	R	R	R	R
28. RELATED PARTIES (CONTINUED)				
Compensation to directors and other key management				
Short-term employee benefits – directors' emoluments	4 102 700	2 633 370	–	–
Share-based payment – RACEC Employee Share Trust	62 082	(5 885)	–	–

During the year the group, in the ordinary course of business, entered into various related-party sales, purchases and investment transactions. These transactions occurred under terms that are no less favourable than those arranged with third parties. Intra-group transactions are eliminated on consolidation. Transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed above.

All related-party loans owing to RACEC Group were repaid in full on 1 December 2007.

Subsidiary companies

Direct subsidiaries	Issued capital	Percentage held	Shares at cost		Indebtedness		Net profit after tax	
			2007	2006	2007	2006	2007	2006
	Number		R	R	R'000	R'000	R'000	R'000
RACEC (Pty) Ltd	300	100	300	300	176	(2 937)	1 537	414
RACEC Plant Hire (Pty) Ltd	100	100	100	100	1 274	–	357	–
RACEC Electrification (Pty) Ltd	100	70	70	70	8 103	1 197	3 694	1 966
RACEC Rail (Pty) Ltd	300	70	210	210	3 226	3 516	2 724	944
RACEC (Gauteng) (Pty) Ltd	100	100	100	100	–	–	–	–
Luxor Electrical Services (Pty) Ltd	100	–	–	52	–	–	50	253
RACEC Power (Pty) Ltd	100	100	100	100	–	–	–	–
			880	932	12 779	1 776	8 362	3 577

All of the subsidiary companies are incorporated in South Africa.

The RACEC Employee Share Trust owns 30% of the ordinary share capital of RACEC Electrification (Pty) Ltd and RACEC Rail (Pty) Ltd. In terms of International Financial Reporting Standards, the RACEC Employee Share Trust has been consolidated in the group's financial statements. Consequently the consolidated financial statements include 100% of the equity relating to these subsidiaries.

On 1 April 2007, the group disposed of its investment in Luxor Electrical (Pty) Ltd. The operating results of this company are not significant to the group.

notes to the financial statements
for the years ended 30 September

29. ACQUISITIONS

On 31 May 2007 the group bought the assets and liabilities (and not the shares) of JMB Electrical Contractors for R8 400 000 payable in cash on or before 15 October 2007.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
Net assets acquired:			
Property, plant and equipment	3 847 451	1 628 005	5 475 456
Intangible asset	–	1 852 785	1 852 785
Deferred tax asset – investment property	239 973	110 027	350 000
Inventories	6 227 755	–	6 227 755
Trade receivables	16 525 607	–	16 525 607
Bank and cash balances	419 933	–	419 933
Bank loans	(1 341 723)	–	(1 341 723)
Trade payables	(12 805 725)	–	(12 805 725)
Bank overdraft	(2 890 016)	–	(2 890 016)
Current portion of long-term liabilities	(856 288)	–	(856 288)
Provisions	(800 000)	–	(800 000)
	8 566 967	3 590 817	
Negative goodwill			(3 757 784)
Total consideration, satisfied by cash			8 400 000
Net cash outflow arising on acquisition:			
Cash consideration paid			8 400 000
Cash and cash equivalents acquired			2 470 083
			10 870 083

The negative goodwill arising on the acquisition of the trade and assets of JMB Electrical Contractors is attributable to the excess of net assets acquired over the purchase price paid.

The operations of JMB Electrical Contractors contributed R20,9 million revenue and R1,3 million to the group's profit before tax for the period between the date of acquisition and the balance sheet date.

30. POST BALANCE SHEET EVENTS

During the 2007 financial year the shareholders and directors of the RACEC Group decided to list on the AltX via a private placement of 30,0 million shares. The listing resulted in R27,5 million of equity capital being injected into the group. Trading commenced on 18 October 2007.

All related-party loans owing to RACEC were repaid in full on 1 December 2007.

On 21 October 2007, RACEC Group acquired the trade and fixed assets of Sizabantu Infrastructure Maintenance cc for R1 500 000.

The books and records of Sizabantu Infrastructure Maintenance cc were incomplete and as such it is not practically possible to provide additional disclosure as required. The directors have reviewed the assets acquired, which consist of plant and vehicles and have ascribed a value of R1 500 000, on which the purchase price was based.

31. DISPOSAL OF SUBSIDIARY

As referred to in note 11, on 1 April 2007 the group disposed of its investment in Luxor Electrical (Pty) Ltd.

	31 March 2007
Property, plant and equipment	253 510
Contracts in progress	111 732
Trade receivables and other debtors	575 699
Bank balances and cash	13 000
Hire purchase liabilities	(194 634)
Deferred tax liability	(21 135)
Current tax liability	(50 366)
Trade payables and other liabilities	(479 494)
Bank overdraft	(26 736)
Intercompany and other loans	48 039
	229 615
Minority interest	(90 269)
	139 346
Loss on disposal	(67 554)
	71 792
Total consideration	71 792
Satisfied by cash	71 792
	71 792
Net cash inflow arising on disposal:	
Cash consideration received	71 792
Cash and cash equivalents disposed of	13 736
	85 528

The consideration was settled in cash by the purchaser on 17 August 2007.

The impact of Luxor Electrical (Pty) Ltd on the group's results and cash flows in the current and prior periods is not considered to be material.

32. FINANCIAL INSTRUMENTS

Financial instruments on the balance sheet consist of loans receivable, accounts receivable, bank balances and cash, shareholders' loans, interest-bearing borrowings and accounts payable. The principal risks are listed below and the group does not hedge any of the risks.

Interest rate risk

Interest-bearing borrowings and bank overdrafts of R10 000 000 (2006: R7 745 000) are arranged at variable interest rates and expose the group to cash flow interest rate risk. There is no exposure to fair value interest rate risk as no borrowings or loans are at fixed interest rates.

Currency risk

The group is exposed to minimal foreign currency risk on its transactions that are denominated in currencies other than its functional currency as all contracts from the beginning of the current financial year are negotiated in rands. The existing contracts to which the group has a foreign exchange exposure are immaterial and were completed by the end of the 2007 financial year.

Credit risk

The group's principal financial assets are bank balances and cash and trade and other receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The group has a policy to avoid heavy concentrations of credit risk and therefore has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Fair value

The carrying values of financial instruments in the financial statements approximate their fair values.

Key estimations and uncertainties

The company business operations do not require any significant estimations and uncertainties that would result in a material adjustment to the carrying value of the group's assets or liabilities if proved incorrect.

notes to the financial statements
for the years ended 30 September

	GROUP		COMPANY	
	2007 R	2006 R	2007 R	2006 R
33. CONSTRUCTION CONTRACTS				
Contracts in progress at the balance sheet date:				
Construction costs incurred plus recognised profits	207 484 721	157 690 056		
Less: Progress billings	(218 147 780)	(160 529 322)		
	(10 663 059)	(2 839 266)		
Recognised and included in the financial statements as amounts due:				
From customers under construction contracts (note 8)	6 523 058	5 798 316		
To customers under construction contracts (note 14)	(17 186 117)	(8 637 582)		
	(10 663 059)	(2 839 266)		
At 30 September 2007, retentions held by customers for contract work amount to R4 753 592 (2006: R4 876 457). Advances received from customers for contract work amounted to R17 186 117 (2006: R8 637 582).				
The average credit period in respect of construction contracts is 30 days. No interest is charged on the receivables from the date of invoice.				
34. EARNINGS PER ORDINARY SHARE				
The calculation of earnings per ordinary share is based on net profit attributable to ordinary shareholders and a weighted number of 70 000 000 ordinary shares in issue.				
The calculation of headline earnings per ordinary share is based on net profit attributable to ordinary shareholders and a weighted number of 70 000 000 ordinary shares in issue, taking into account the following adjustments:				
Reconciliation between earnings and headline earnings:				
Profit after tax	12 234 197	3 200 402	5 746 187	2 675 577
Impairment losses	-	482 799	-	-
Negative goodwill (JMB Electrical Contractors) (note 29)	(3 757 784)	-	(3 757 784)	-
Loss on disposal of property, plant and equipment	238 107	26 197	-	-
(Profit)/loss on disposal of subsidiary	67 554	-	(71 740)	-
Tax effect of adjustment	(69 051)	(147 609)	20 805	-
	8 713 023	3 561 789	1 937 468	2 675 577
Earnings per share (cents)				
Basic earnings per share	17,5	4,5	8,2	3,8
Headline earnings per share	12,4	5,0	2,8	3,8
Diluted earnings per share (cents)				
Diluted basic earnings per share	12,2	3,2	5,7	2,7
Diluted headline earnings per share	8,7	3,5	1,9	2,7

The diluted earnings per share and diluted headline earnings per share are based on 100 000 000 shares, which is after taking into account the additional 30 000 000 shares issued as part of the private placement on 18 October 2007.

35. DEFINED-CONTRIBUTION PLANS

The group operates defined-contribution retirement benefit plans for all qualifying employees of its subsidiaries. The assets of the plans are held separately from those of the group in funds under the control of trustees. Where employees leave the plans prior to full vesting of the contributions, the contributions payable by the group are reduced by the amount of forfeited contributions.

36. SEGMENT ANALYSIS

Business segments

For management purposes, the group is currently organised into four divisions. These divisions are the basis on which the group reports its primary segment information.

- Administrative and investment services
- Electrical reticulation
- Rail construction

Principal activities are as follows:

Administration and investment services

Administration and investment services are rendered by RACEC (Pty) Ltd to the rest of the subsidiaries in the RACEC Group. The administration services include financial services, investment and cash management and human resource services. Plant hire services are also included in these administration services and are rendered by RACEC Plant Hire (Pty) Ltd to the subsidiaries in the RACEC Group.

Electrical reticulation

Electrical reticulation services are rendered by RACEC Electrification (Pty) Ltd. These services include the installation of high-voltage distribution networks, electrical substations, overhead transmission lines, road and area lighting and the maintenance of electrical networks and rail track electrification systems.

Rail construction

Rail construction services are rendered by RACEC Rail (Pty) Ltd and include the construction, maintenance and upgrading of rail track work, gantries, stacker reclaimers, ship loader track work, specialised trolley tracks, crane tracks, thermit welding, railway siding design and railway material sales and track-related civil works, such as stormwater works and associated concrete structures.

Geographical segments

For management purposes, the group is currently organised into three divisions. These divisions are the basis on which the group reports its secondary segment information.

- Western Cape
- KwaZulu-Natal
- Gauteng

notes to the financial statements
for the years ended 30 September

36. SEGMENT ANALYSIS (CONTINUED)

Business segments				
	Administrative investment and plant hire services R	Electrical reticulation R	Rail construction R	Consolidated R
2007				
Revenue				
– external	–	111 443 160	106 704 620	218 147 780
– intersegment	3 029 431	430 674	15 872	3 475 977
Segment result	(7 763 028)	11 110 943	12 879 041	16 226 956
Other information				
Segment assets	58 880 096	57 164 703	26 136 555	142 181 354
Segment liabilities	55 579 646	44 618 340	25 614 080	125 812 066
Capital expenditure	23 236 765	643 890	6 693 348	30 574 003
2006				
Revenue				
– external	237	101 483 372	56 313 669	157 797 278
– intersegment	–	580 392	19 996	600 388
Segment result	(3 227 420)	6 171 139	2 523 828	5 467 547
Impairment expense				
– recognised in equity	5 669	57 650	61 700	125 019
– recognised in profit/loss	214 709	172 145	679 485	1 066 339
Other information				
Segment assets	11 897 260	26 675 599	25 440 751	64 013 610
Segment liabilities	16 865 903	20 187 488	20 383 321	57 436 712
Capital expenditure	152 927	137 192	2 395 127	2 685 246
Geographical segments				
	Western Cape R	KwaZulu- Natal R	Gauteng R	Consolidated R
2007				
Revenue				
– external	131 385 636	12 564 605	74 197 539	218 147 780
– intersegment	3 475 977	–	–	3 475 977
Segmental result	6 733 508	720 397	8 773 051	16 226 956
Other information				
Segment assets	130 595 802	1 591 816	9 993 736	142 181 354
Segment liabilities	122 196 735	158 379	3 456 953	125 812 066
Capital expenditure	30 574 003	–	–	30 574 003

36. SEGMENT ANALYSIS (CONTINUED)**Geographical segments**

	Western Cape R	KwaZulu-Natal R	Gauteng R	Consolidated R
2006				
Revenue				
– external based on location of customers	116 692 032	7 351 634	33 753 612	157 797 278
– intersegment	600 388	–	–	600 388
Segmental results	4 093 065	35 203	1 339 279	5 467 547
Impairment expenses				
– recognised in equity	125 019	–	–	125 019
– recognised in profit/loss	1 066 339	–	–	1 066 339
Other information				
Segment assets	54 317 083	2 535 470	7 161 057	64 013 610
Segment liabilities	56 918 512	263 200	255 000	57 436 712
Capital expenditure	2 685 246	–	–	2 685 246

37. DIRECTORS' REMUNERATION

For the year ended 30 September 2007, remuneration paid to the directors were as follows:

	Basic R	Motor vehicle R	Pension R	Medical aid R	Total R
MJ Uys	447 731	134 722	78 353	45 498	706 304
CJ Harrod	628 986	190 969	110 072	24 819	954 846
GL Harrod	554 128	160 334	55 413	31 794	801 669
GJ Kleinschmidt	392 329	123 195	68 657	31 794	615 975
W Ollewagen	530 218	152 115	53 022	25 218	760 573
S Wilkins	247 424	11 667	4 242	–	263 333
Total	2 800 816	773 002	369 759	159 123	4 102 700

For the year ended 30 September 2006, remuneration paid to the directors were as follows:

	Basic R	Motor vehicle R	Pension R	Medical aid R	Total R
MJ Uys	348 195	71 922	60 934	42 462	523 513
CJ Harrod	428 191	46 990	74 933	37 994	588 108
GL Harrod	457 525	35 762	45 752	30 048	569 087
GJ Kleinschmidt	323 977	69 493	56 696	24 666	474 832
W Ollewagen	394 335	21 346	39 433	22 716	477 830
Total	1 952 223	245 513	277 748	157 886	2 633 370

shareholders' analysis

The following tables set out an analysis of shareholding as at 30 September 2007. The number of shares held by the shareholders as at 30 September 2007 is as reflected in the directors' report on page 21, with the exception of CRS Gooden, who acquired shares as part of the private placement. At 30 September 2007, the 70 000 000 shares related to 100% of the shares in issue.

	Number of shareholders	%	Number of shares	%
DISTRIBUTION OF SHAREHOLDERS				
Banks	4	0,40	729 660	0,73
Close corporations	26	2,61	625 514	0,63
Endowment funds	2	0,20	36 000	0,04
Individuals	803	80,70	23 154 679	23,15
Insurance companies	8	0,80	205 486	0,21
Investment companies	1	0,10	10 000	0,01
Mutual funds	8	0,80	7 189 957	7,19
Nominees and trusts	85	8,54	63 226 758	63,23
Other corporations	17	1,71	205 939	0,21
Pension funds	3	0,30	1 130 130	1,13
Private companies	38	3,82	3 485 877	3,49
	995	100,00	100 000 000	100,00

PUBLIC/NON-PUBLIC SHAREHOLDERS

Non-public shareholders	20	2,01	70 000 000	70,00
Directors' holdings	20	2,01	70 000 000	70,00
Public shareholders	975	97,99	30 000 000	30,00
	995	100,00	100 000 000	100,00

	Number of shares	%
BENEFICIAL SHAREHOLDERS' HOLDING OF 3% OR MORE		
CJ Harrod	17 290 000	17,29
GL Harrod	15 260 000	15,26
W Ollewagen W	15 260 000	15,26
MJ Uys	13 860 000	13,86
GJ Kleinschmidt	7 630 000	7,63
STANLIB funds	5 000 000	5,00

	Number of shares	Percentage of shares
BREAKDOWN OF NON-PUBLIC HOLDINGS		
Directors		
CJ Harrod	17 290 000	17,29
Charles & Tertia Harrod Trust	8 645 000	
Charles & Tertia Harrod Trust	4 322 500	
Charles & Tertia Harrod Trust	4 322 500	
GL Harrod	15 260 000	15,26
Gary Harrod Family Trust	7 630 000	
Gary Harrod Family Trust	3 815 000	
Gary Harrod Family Trust	3 815 000	
W Ollewagen	15 260 000	15,26
Ollewagen Family Trust	7 630 000	
Ollewagen Family Trust	3 815 000	
Ollewagen Family Trust	3 815 000	
MJ Uys	13 860 000	13,86
The Mike & Jen Uys Trust	6 930 000	
The Mike & Jen Uys Trust	3 465 000	
The Mike & Jen Uys Trust	3 465 000	
GJ Kleinschmidt	7 630 000	7,63
Gillian Kleinschmidt	3 815 000	
Gillian Kleinschmidt	1 907 500	
Gillian Kleinschmidt	1 907 500	
SC Wilkins	700 000	0,70
Sean Wilkins	350 000	
Sean Wilkins	175 000	
Sean Wilkins	175 000	

notice of annual general meeting

NOTICE is hereby given that the annual general meeting of the shareholders of RACEC will be held at Kelvin Grove Club, Newlands, Cape Town on Wednesday, 27 February 2008, at 10:00 for the following purposes:

1. To consider the annual financial statement of the company for the year ended 30 September 2007;
2. To transact such other business as may be transacted at the annual general meeting of the company including the reappointment of the auditors and the re-election of retiring directors; and
3. To consider and, if deemed fit, to pass, with or without modification, the following resolutions set out below, in the manner required by the South Africa Companies Act, 1973, as amended:

SPECIAL RESOLUTION

Special resolution number 1

Share repurchases

“RESOLVED, as a special resolution, that the directors be authorised pursuant inter alia to the company’s articles of association, until this authority lapses at the next annual general meeting of the company, unless it is then renewed at the next annual general meeting of the company and provided that this authority shall not extend beyond 15 months from date of passing this special resolution, for the company or any subsidiary of the company to acquire shares of the company, subject to the Listings Requirements of JSE Limited (“JSE”), provided that:

1. any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
2. the company may only appoint one agent to effect any repurchases on its behalf;
3. the company must be authorised thereto by its articles of association;
4. the number of shares which may be acquired pursuant to this authority in any financial year (which commenced 1 March 2006) may not in the aggregate exceed 20% (twenty percent) of the company’s issued share capital as at the date of passing of this special resolution;
5. repurchases of shares may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the securities for the five business days immediately preceding the date on which the transaction was effected;
6. repurchases may not be undertaken by the company or one of its wholly owned subsidiaries during a prohibited period (as defined in paragraph 3.67 of the Listings Requirements of the JSE);
7. repurchases may only take place if, after such repurchase, the shareholder spread of the company still complies with the Listings Requirements of the JSE;
8. after the company has acquired shares which constitute, on a cumulative basis, 3% (three percent) of the number of shares in issue (at the time that authority from shareholders for the repurchase is granted), the company shall publish an announcement to such effect, or any other announcements that may be required in such regard in terms of the Listings Requirements of the JSE which may be applicable from time to time; and
9. the company’s designated adviser shall confirm the adequacy of the company’s working capital for purposes of undertaking the repurchase of shares in writing to the JSE prior to entering the market to proceed with the repurchase.

In accordance with the Listings Requirements of the JSE, the directors record that:

Although there is no immediate intention to effect a repurchase of securities of the company, the directors would utilise the general authority to repurchase securities as and when suitable opportunities present themselves, which opportunities may require expeditious and immediate action.

The directors, after considering the maximum number of securities which may be purchased and the price at which the repurchases may take place pursuant to the buy-back general authority, are of the opinion that for a period of 12 months after the date of notice of this annual general meeting:

- the company and the group will be able to pay their debts in the ordinary course of business;
- the consolidated assets of the company and of the group fairly valued in accordance with generally accepted accounting practice, will exceed the consolidated liabilities of the company and of the group after the buy-back;
- the share capital and reserves of the company and of the group will be adequate for the purposes of the business of the company and its subsidiaries; and
- the working capital available to the company and its subsidiaries will be adequate for the purposes of the business of the company and its subsidiaries.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of paragraph 11.26 of the Listings Requirements of the JSE for purposes of this general authority:

- Directors – page 14 and 15
- Major beneficial shareholders – page 54

- Directors' interests in ordinary shares – page 21
- Share capital of the company – page 38

Litigation statement

The directors, whose names appear on page 20 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past (being at least the previous 12 (twelve) months) a material effect on the group's financial position.

Directors' responsibility statement

Directors whose names appear on page 20 of the annual report collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution 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, that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required in terms of the Listings Requirements of the JSE.

Material changes

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the date of signature of the audit report for the year ended 30 September 2007 and up to the date of this notice.

Reasons for and effects of Special Resolution number 1

The reason for Special Resolution number 1 is to afford directors of the company or a subsidiary of the company a general authority to effect a buy-back of the company's shares on the JSE. The effect of the resolution will be that the directors will have the authority, subject to the Rules and Requirements of the JSE, to effect acquisitions of the company's shares on the JSE.

ORDINARY RESOLUTIONS

Ordinary resolution number 1

RESOLVED THAT the directors have the power to allot and issue any new securities of any class already in issue in the capital of the company for cash when the directors consider it appropriate in the circumstances, subject to the following:

- This authority shall not endure beyond the earlier of the next annual general meeting of the company or beyond 15 months from the date of this meeting;
- There will be no restrictions with regard to the persons to whom the securities may be issued, provided that such securities are issued to public shareholders (as defined in the JSE Limited Listings Requirements (the "Listings Requirements") and not to related parties as defined in the Listings Requirements;
- Upon any issue of securities which, together with prior issues during any financial year, will constitute 5% or more of the number of securities of the class in issue, the company shall, by way of a SENS announcement in terms of the Listings Requirements, give full details thereof, including the effect on the net asset value of the company and earnings per share, the number of securities issued and the average discount to the weighted average traded price of the securities over the 30-day period prior to the date that the price of the such issue was determined or agreed by the company's directors;
- That issues in aggregate in any one financial year may not exceed 50% of the number of securities of that class of the company's issued share capital (including instruments that are compulsorily convertible into shares of that class) at the date of application less any securities of that class issued, or to be issued in the future arising from options/convertible securities issued during the current financial year, plus any securities to be issued pursuant to an announced, irrevocable and fully underwritten rights offer or to be issued pursuant to any acquisition for which the final terms have been announced; and
- The maximum discount at which securities may be issued is 10% of the weighted average traded price of those securities over the 30 business days prior to the date that the price of issue is determined or agreed by the directors.

In terms of the Listings Requirements, the validity of this resolution is subject to securing the approval of a 75% majority of the votes cast by shareholders, present or presented by proxy at the general meeting.

Ordinary resolution number 2

RESOLVED THAT all authorised but unissued shares in the share capital of the company be and are hereby placed under the control of the directors of the company as an unconditional general authority in terms of section 221(2) of the Companies Act (No 61 of 1973), as amended ("the Companies Act"), with the power to allot and issue all or any of such shares at their discretion, subject to the JSE Listings Requirements and the provisions of sections 221 and 222 of the Companies Act and the company's Articles of Association.

notice of annual general meeting

Ordinary resolution number 3

RESOLVED THAT Gary Harrod and Sean Wilkins be re-elected as directors of the company.

Ordinary resolution number 4

RESOLVED THAT any director of the company be and is hereby authorised to take all such actions and steps and sign all such documents as he or she consider are necessary to implement the resolutions set out herein and which are passed by the members in accordance with and subject to the terms thereof.

Ordinary resolution number 5

RESOLVED THAT the remuneration of the directors, as set out on page 53 of the annual report of which this notice forms part, be and is hereby confirmed and ratified.

Ordinary resolution number 6

RESOLVED THAT BDO Spencer Steward (Cape) Inc. be reappointed as auditor of the company.

VOTING AND PROXIES

A shareholder of the company entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies (who need not be a shareholder of the company) to attend, vote and speak in his/her stead.

On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company present in person or by proxy shall have one vote for every share held in the company by such shareholder.

A form of proxy is attached for the convenience of any shareholder holding RACEC shares who cannot attend the annual general meeting. Forms of proxy may also be obtained on request from the company's registered office. The completed forms of proxy must be deposited at or posted to the office of the transfer secretaries of the company, Computershare Investor Services 2004 (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received no later than 48 hours prior to the meeting. Any member who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the general meeting should the member subsequently decide to do so.

Shareholders who have already dematerialised their shares through their Central Securities Depository Participant ("CSDP") or broker rather than through own-name registration and who wish to attend the annual general meeting must instruct their CSDP or broker to issue them with the necessary authority to attend.

Dematerialised shareholders, who have elected own-name registration in the subregister through a CSDP and who are unable to attend but wish to vote at the annual general meeting should complete and lodge the attached form of proxy with the transfer secretary of the company.

Dematerialised shareholders, who have elected own-name registration in the subregister through a CSDP and who are unable to attend but wish to vote at the annual general meeting, should timeously provide their CSDP or broker with their voting instructions, in terms of the custody agreement entered into between the shareholder and his/her CSDP or broker.

By order of the board

GJ Kleinschmidt

Company secretary

Registered address: 8 Hawkins Avenue, Epping 1, Cape Town 7460, (PO Box 61, Eppindust, 7475)

Transfer secretaries: Computershare Investor Services 2004 (Pty) Ltd, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown, 2107)

form of proxy



RACEC GROUP LIMITED

(Incorporated in the Republic of South Africa)
 (Registration number 1998/006153/06)
 Share code: RAC ISIN: ZAE000105409
 "RACEC" or "the company"

Form of proxy for the annual general meeting of the company to be held at 10:00 on Wednesday, 27 February 2008, at Kelvin Grove Club, Newlands, Cape Town ("the annual general meeting").

For use by certificated shareholders, nominee companies of Central Securities Depository Participants ("CSDP"), broker nominee companies and shareholders who have dematerialised their shares and who have elected own-name registration, who wish to vote on the ordinary resolutions per the Notice of the Annual General Meeting to which this form is attached.

Shareholders who have dematerialised their shares through a CSDP or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for shareholders who elected own-name registration in the subregister through a CSDP, which shareholders must complete this form of proxy and lodge it with Computershare Investor Services 2004 (Pty) Ltd. Holders of dematerialised shares other than with own-name registration, wishing to attend the annual general meeting, must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary authorisation to attend.

I/We (name in block letters)			
Of (address)			
Being the holder/s of		ordinary shares in the company, do hereby appoint	
1.		or failing him/her	
2.		or failing him/her	
3. the chairperson of the annual general meeting			
as my/our proxy to act for me/us on my/our behalf at the annual general meeting of the company, or any adjournment thereof, which will be held for the purposes of considering and, if deemed fit, of passing, with or without modification, the resolutions as detailed in the Notice of Annual General Meeting, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s, in accordance with the following insertions (refer notes):			
		Number of votes on a poll (one vote per ordinary share)	
		For	Against
		Abstain	
Special resolution			
1. To effect share buy-backs			
Ordinary resolutions			
1. To issue for cash the authorised but unissued shares			
2. To place the unissued shares under the control of the directors			
3. To re-elect the directors:			
Gary Harrod			
Sean Wilkins			
4. To authorise the signature of documentation			
5. To confirm and ratify directors' remuneration			
6. To reappoint BDO Spencer Steward (Cape) Inc. as auditor of the company			
Signature		Signed at: _____ on _____ 2008	
Assisted by (if applicable)			

notes

1. Each shareholder is entitled to appoint one or more proxies (none of whom need to be a shareholder of the company) to attend, speak and vote in place of that shareholder at the annual general meeting.
2. Shareholder(s) that are certificated or own-name dematerialised shareholders may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space(s) provided, without deleting "the chairperson of the meeting", but any such deletion must be initialled by the shareholder(s). The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. If no proxy is named on a lodged form of proxy the chairperson shall be deemed to be appointed as the proxy.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes excisable by the shareholder in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy, in the case of any proxy other than the chairperson, to vote or abstain from voting as deemed fit and in the case of the chairperson to vote in favour of the resolution.
4. A shareholder of his/her proxy is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast or abstained from may not exceed the total of the votes exercisable in respect of the shares held by the shareholder.
5. Forms of proxy must be lodged at or posted to Computershare Investor Services 2004 (Pty), Ground Floor, Marshall Street Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received no later than 48 hours prior to the meeting.
6. Completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so. Where there are joint holders of shares, the vote of the first joint shareholder who tenders a vote, as determined by the order in which the names stand in the register of members, will be accepted.
7. The chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes, provide that, in respect of acceptances, the chairperson is satisfied as to the manner in which the shareholder concerned wishes to vote.
8. Documentary evidence establishing the authority of a person signing this proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company of Computershare Investor Services 2004 (Pty) Ltd or waived by the chairperson of the annual general meeting.
9. Any alteration or correction made to this form of proxy must be initialled by the signatories.
10. A minor must be assisted by his/her parent/guardian unless relevant documents establishing his/her legal capacity are produced or have been registered by Computershare Investors Services 2004 (Pty) Ltd.
11. Where there are joint holders of any shares, only the holder whose name appears first in the register in respect of such shares need sign this form of proxy.