



**JSE ALT^x LISTING
PRE-LISTING STATEMENT**



RACEC GROUP LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1998/006153/06)

Share code: RAC ISIN: ZAE000105409

("RACEC" or "the group")

PRE-LISTING STATEMENT

Prepared and issued in terms of the Listings Requirements ("the Listings Requirements") of the JSE Limited ("the JSE") relating to a private placement of ordinary shares by way of an offer for subscription of 27 500 000 ordinary shares by the group at an issue price of 100 cents per ordinary share ("the private placement"), thereby raising R27 500 000 before expenses and the subsequent listing of all of the ordinary shares of RACEC on the Alternative Exchange ("Alt^x") of the JSE.

Opening date of the private placing at 09:00 on	Monday, 1 October 2007
Closing date of the private placing at 12:00 on	Friday, 12 October 2007
Commencement of trade on	Thursday, 18 October 2007

This pre-listing statement is not an invitation to the public to subscribe for shares in RACEC. It is issued in compliance with the Listings Requirements of the JSE for the purpose of providing information to the public and investors with regard to RACEC.

Following the private placement, the authorised share capital of RACEC will comprise 500 000 000 ordinary shares with a par value of 0.001 cent per share. The group will have an issued share capital of 100 000 000 ordinary shares with a par value of 0.001 cent per share, issued at a premium of 99.999 cents each in respect of the private placement.

The ordinary shares issued in terms of the private placing will rank *pari passu* with all other ordinary shares issued by RACEC. Applications for shares in RACEC must be for a minimum of 100 000 shares.

Subject to the required spread of shareholders in terms of the Listings Requirements being obtained pursuant to the private placing, the JSE has granted RACEC a listing of 100 000 000 shares on Alt^x under the abbreviated name "RACEC", share code "RAC" and ISIN: ZAE000105409, with effect from the commencement of trade on Thursday, 18 October 2007 in the "Heavy Construction" sector FTSE 2357.

The directors of RACEC, whose names are set out in paragraph 10 accept, collectively and individually, full responsibility for the accuracy of the information contained herein and certify that, to the best of their knowledge and belief, there are no omissions of facts or considerations which would make any statements of fact or opinion contained in this pre-listing statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this pre-listing statement contains all information required by law and the Listings Requirements.

BDO Spencer Steward (Cape) Inc., whose reports are included in this pre-listing statement, have given and have not withdrawn their written consent to the inclusion of their reports in the form and context in which they appear. The Designated Advisor, attorneys, commercial banker and transfer secretaries, whose names are included in this pre-listing statement, have given and have not, prior to publication, withdrawn their written consents to the inclusion of their names in the capacities stated and, where applicable, to their reports being included in this pre-listing statement.

Copies of this pre-listing statement are only available in English and may be obtained during normal business hours from 09:00 on Monday, 1 October 2007 until 12:00 on Friday, 12 October 2007 from the registered office of RACEC or the office of the transfer secretaries, the information of which is set out in the "Corporate information" section of this pre-listing statement.

An abridged version of this pre-listing statement will be released on the Securities Exchange News Services of the JSE and published in the press on Friday, 5 October 2007.

Date of issue: Friday, 28 September 2007

Designated Advisor



Auditors and reporting accountants



Attorneys



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SALIENT FEATURES

The salient features are a summary only. For full appreciation, the pre-listing statement should be read in its entirety. The definitions and interpretation commencing on page 12 of this pre-listing statement apply *mutatis mutandis* to the salient information of the listing presented below:

1. 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.

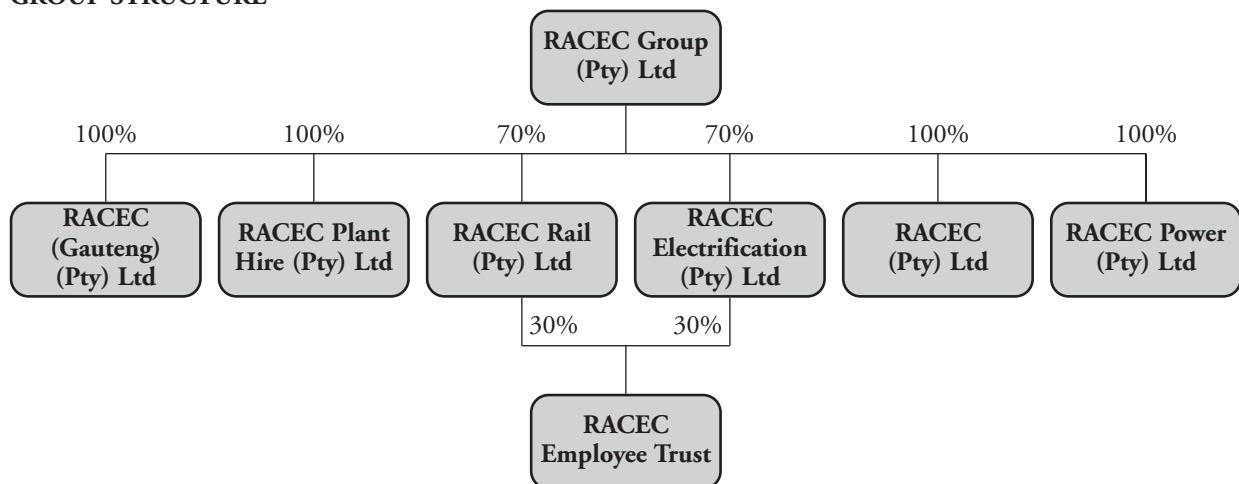
In 1976 RACEC was purchased by Metkor Ltd and in 1988 a management buyout, supported by Standard Corporate and Merchant Bank, was successfully completed.

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

Although originally purely a plate laying organisation, RACEC ventured into the field of electrical construction in 1977 as a result of desire to provide its clients in the rail sector with a more complete service.

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

2. GROUP STRUCTURE



3. OVERVIEW OF RACEC

RACEC provides engineering infrastructure solutions in two key focus areas, Rail and Electrical. The group strives to build long-term relationships with clients. The group does this through its dedicated and committed staff with superior knowledge and skill levels.

3.1 RACEC Rail

RACEC Rail concentrates mainly 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.

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;

- thermite 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;
- manufacture of precast concrete items for Spoornet.

3.2 RACEC Electrification

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 the intake substations through to the industrial, commercial or residential consumer supply.

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;
- maintenance of rail track electrification systems.

RACEC recently acquired the business and assets of JMB Electrical Contractors, effective 1 June 2007, which will be incorporated into RACEC Electrification. JMB Electrical Contractors is a well-established electrical reticulation contracting business, founded in 1972 and consists of two operating companies, Baden Tec and Baden Tec Plant Hire. JMB Electrical Contractors has been a competitor of RACEC for many years, specialising in overhead reticulation with a dominant position in the Overberg and South Cape regions. The acquisition of JMB Electrical Contractors will have a significant effect on RACEC's future earnings as it will increase the volume of business, particularly in areas where RACEC is not currently active.

4. RACEC'S KEY STRENGTHS

- 4.1 The move by Spoornet and Eskom towards increased outsourcing to companies with a substantial BEE ownership places RACEC in an ideal position.
- 4.2 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.
- 4.3 The senior management of RACEC (seven individuals) have a cumulative 97 years' experience with RACEC and have successfully delivered on a number of awarded projects over a long period.
- 4.4 The management structure and the quality of the current staff complement is ideally positioned for future expansion.
- 4.5 RACEC has a balanced portfolio across its lines of business and geographies. It's strong customer base includes a number of Government organisations throughout South Africa as well as many well-established private development companies.
- 4.6 Due to its focus on niche markets, RACEC has maintained an above annual revenue growth in both its target markets.
- 4.7 RACEC is favourably positioned for future tenders which will ensure that the group maintains its strong revenue growth over the next three years.

5. PROSPECTS

A number of Government initiatives, including the 2010 FIFA 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.

In addition, there has been very little spending on the electrification of railways systems over the last few years. However, Spoornet has recently committed to increased spending on their railway networks. This, together with Government's infrastructure spend, is regarded as a growth area in which RACEC is ideally positioned to benefit.

Current projects, which indicate Government's commitment to upgrading the railway infrastructure include:

- Spoornet's commitment to the upgrading of infrastructure and traction power as a result of spending by the Richard's Bay 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, 25 km north of Port Elizabeth, jointly the responsibility of the National Ports Authority (NPA), South African Ports Authority and Spoornet, which is expected to be complete by the end of 2008;
- continuation of work on reviving the 282 km long 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; and
- 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.

RACEC is currently involved in a number of projects involved in 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 in respect of the Amabele junction and improvement of rail infrastructure from Khayelitsha. Other potential work which is still in the feasibility 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 in excess of 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 Leeuwan coal mine project (ExXaro Coal (Pty) Limited), St Francis Links Golf Estate, Val de Vie Lifestyle and Country Estate, Pearl Valley Golf Estate, Pezuala Golf Estate, Arabella and Simola Golf Estates, Hartland Properties, Century City and Sheffield Business Park and will soon be starting on projects such as Atlantic Shores and Atlantic Sands.

Amongst others, RACEC is also currently well-advanced in negotiations for their 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 months.

6. SUMMARY OF HISTORICAL AND FORECAST INCOME STATEMENT

Historic, forecast and projected income statements

Set out below is an extract from the historic income statements of RACEC for the financial year ended 30 September 2006 and the six months ended 31 March 2007, as well as the forecast income statements for the financial periods ending 30 September 2007, 2008 and 2009, the preparation of which is the responsibility of the directors. The results must be read in conjunction with the independent reporting accountant's report thereon reproduced in Annexure 2 and Annexure 8.

	RACEC Audited 12 months 30 September 2006 R'000	RACEC Audited 6 months 31 March 2007 R'000	RACEC Forecast 12 months 30 September 2007 R'000	RACEC Forecast 12 months 30 September 2008 R'000	RACEC Forecast 12 months 30 September 2009 R'000
REVENUE	157 797	89 535	211 915	326 018	393 984
Gross profit	25 701	15 233	33 703	49 617	61 311
Other income	754	363	4 353	–	–
Operating expenses	(19 597)	(10 981)	(20 860)	(26 053)	(28 635)
EBITDA	6 859	4 615	17 196	23 564	32 676
Depreciation	(1 263)	(1 254)	(3 279)	(2 498)	(2 992)
Profit before interest and taxation	5 597	3 361	13 917	21 066	29 684
Net interest received/(paid)	(130)	604	1 219	1 453	1 710
Profit before taxation	5 467	3 965	15 136	22 519	31 394
Taxation	(2 267)	(1 320)	(3 513)	(6 608)	(9 157)
Profit after taxation	3 200	2 645	11 623	15 911	22 237
<i>Illustrative</i> shares in issue	100 000 000	100 000 000	100 000 000	100 000 000	100 000 000
Earnings per share (cents)	3.2	2.7	11.6	15.9	22.2
Headline earnings per share (cents)	3.6	2.7	7.9	15.9	22.2
Dividend per share (cents)	4.4	0.9	3.9	5.0	7.4

Notes:

- Set out above are the actual income statements for the 12 months ended 30 September 2006, the six months ended 31 March 2007, as well as the forecast income statements for the three years ending 30 September 2007, 2008 and 2009. The RACEC employee share trust has been consolidated in terms of SIC 12 in the above results.
- The forecast income statements for the period ending 30 September 2007 includes actual trading for the six months ended 31 March 2007.
- Revenue comprises the fair value of the consideration for products and services rendered, net of discounts and rebates to customers, excluding value-added taxes.
- Included in the RACEC forecast for the 12 months ending 30 September 2007 is the financial impact of the acquisition of JMB Electrical Contractors, including:
 - a forecast gross revenue of R20.9 and net profit before tax of R1.2 million for the four months ending 30 September 2007; and
 - the excess of the net assets acquired over the purchase consideration paid, amounting to R3.8 million, which has been included in other income totalling R4.353 million.
- The results in the above table have been calculated based on the shares that will be in issue after the private placement.
- The report on the audited historic financial information for the year ended 30 September 2006 and the six months ended 31 March 2007 is set out in Annexure 1. Historically 1 000 shares were in issue and the earnings per share was R2 645 (R3 200 in 2006) and the headline earnings per share was R2 696 (R3 562 for the year ended 30 September 2006) for the six-month period ended 31 March 2007.

7. PURPOSE OF THE PRIVATE PLACEMENT AND LISTING

The private placement is made up of an offer for subscription of 27 500 000 new ordinary shares at an issue price of 100 cents per share. Therefore, a total amount of R27 500 000, before share issue and listing expenses, which is estimated to be R1.2 million, will be raised through the private placement to private individuals, corporations and institutions.

The purpose of the private placement is to:

- enhance investor and general public awareness of RACEC;
- allow the group to grow its market share through the funding of organic growth and acquisitions;

- allow the funding of working requirements of the existing business;
- unlock value for RACEC shareholders and create value for future shareholders.

Those private individuals, corporations and institutions that have been invited to apply should do so by completing the attached private placement application form in accordance with the provisions of this pre-listing statement and the instructions contained in the private placement application form.

No offer will be made to the general public in terms of the private placement as defined in the Companies Act. However individuals can subscribe for a minimum of 100 000 shares. The private placement will be made to selected applicants only.

Subject to the achievement of the required spread of 100 public shareholders and the public shareholders holding 10% of the ordinary shares of RACEC, the JSE has formally approved the listing of 100 000 000 ordinary shares in the share capital of RACEC on Alt^x with effect from the commencement of business on Thursday, 18 October 2007. The shares will trade under the abbreviated name “RACEC”, with the share code “RAC” and ISIN: ZAE000105409.

8. DETAILS OF THE PLACEMENT

The salient features of the private placing are as follows:

• Offer price per share (cents)	100
• Par value per ordinary share (cent)	0.001
• Premium per ordinary share (cents)	99.999
• Number of ordinary shares offered in terms of private placement	27 500 000
• Issue consideration, before expenses	R27 500 000

The opening and closing dates of the private placement are as follows:

• Opening date of the private placement at 09:00 on	Monday, 1 October 2007
• Closing date of private placement at 12:00 on	Friday, 12 October 2007
• Commencement of trade on	Thursday, 18 October 2007

The placement will not be underwritten and is not subject to a minimum subscription being achieved.

9. COPIES OF THIS PRE-LISTING STATEMENT

Copies of this pre-listing statement, in English, may be obtained during business hours from 09:00 on Monday, 1 October 2007 until 12:00 on Friday, 12 October 2007 from the registered office of RACEC and the offices of BDO QuestCo (Pty) Ltd and the transfer secretaries, details of which are set out in the “Corporate information” section of this pre-listing statement.

SALIENT DATES AND TIMES

2007

Abridged pre-listing statement published in the press on	Friday, 5 October
Opening date of the private placing at 09:00 on	Monday, 1 October
Closing of the private placing at 12:00 on	Friday, 12 October
Results of the private placing released on SENS on or about	Wednesday, 17 October
Results of the private placing published in the press on or about	Wednesday, 17 October
Commencement of trade	Thursday, 18 October
Posting of share certificates in respect of certificated shareholders on or about	Thursday, 18 October
Accounts at CSDP or broker updated in respect of dematerialised shareholders on ⁽¹⁾	Wednesday, 17 October
Refund of surplus private placing application monies paid (where applicable) on	Thursday, 18 October

Note:

1. The above dates are subject to change. Any such change will be released on SENS and published in the press.

DEFINITIONS AND INTERPRETATION

In this pre-listing statement, annexures and attachment hereto, unless the context indicates otherwise, references to the singular include the plural and *vice versa*, words denoting one gender include the other, expressions denoting natural persons include juristic persons and associations of persons and *vice versa*, and words in the first column hereunder have the meanings stated opposite them in the second column, as follows:

“Alt ^x ”	the Alternative Exchange of the JSE;
“applicants”	select private individuals, corporations and institutions that have been invited to subscribe for RACEC shares in terms of the private placing;
“Baden Tec”	Baden Tec (Proprietary) Limited, registration number 2002/007936/07, a private company incorporated in South Africa and a 100% subsidiary of J M Badenhorst Electrical Contractors (Pty) Ltd;
“Baden Tec Plant Hire”	Baden Tec Plant Hire (Proprietary) Limited, registration number 2002/007935/07, a private company incorporated in South Africa and a 100% subsidiary of J M Badenhorst Electrical Contractors (Pty) Ltd;
“BBBEE” or “BEE”	broad-based black economic empowerment as defined in the BEE Act;
“BEE Act”	Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003);
“CEO”	Chief Executive Officer;
“certificated shareholders”	RACEC shareholders who own shares in certificated form;
“certificated shares”	shares which have not yet been dematerialised, title to which is represented by a share certificate or other document of title;
“cents”	South African cents;
“the Codes”	the revised Codes of Good Practice on Broad-Based Black Economic Empowerment as published by the DTI as promulgated on 9 February 2007;
“the Companies Act”	the Companies Act, 1973 (Act 61 of 1973), as amended;
“CSDP”	a depository institution accepted by Strate as a participant in terms of the Custody and Administration of Securities Act, 1992 (Act 85 of 1992), as amended, with whom a beneficial holder of shares holds a dematerialised share account;
“custody agreement”	the agreement which regulates the relationship between the CSDP or broker and each beneficial holder of dematerialised shares;
“dematerialised shares”	shares which have been incorporated into the Strate system and which are no longer evidenced by certificates or other physical documents of title;
“Designated Advisor”	BDO QuestCo (Proprietary) Limited, registration number 2004/018276/07, a private company incorporated in South Africa, and a designated advisor as contemplated in the Listings Requirements which will be acting as the designated advisor for the purpose of RACEC’s listing on Alt ^x ;
“directors” or “board of directors”	the directors of RACEC, further details of whom appear in paragraph 10;
“documents of title”	share certificates, certified transfer deeds, balance receipts or any other documents of title to certificated shares acceptable to RACEC;
“DTI”	Department of Trade and Industry;
“Exchange Control Regulations”	the Exchange Control Regulations, 1961, as amended, promulgated in terms of section 9 of the Currency and Exchanges Act, 1933 (Act 9 of 1933), as amended;
“HR”	human resources;
“the group”	collectively, RACEC and its subsidiaries;

“JMB Electrical Contractors”	J M Badenhorst Electrical Contractors (Proprietary) Limited, registration number 2002/023859/07, a private company incorporated in South Africa and its subsidiaries Baden Tec and Baden Tec Plant Hire;
“the JSE”	the JSE Limited, registration number 2005/022939/06, a public company incorporated in South Africa and which is licensed as an exchange in terms of the Securities Services Act;
“KZN”	the province of KwaZulu-Natal in South Africa;
“the last practicable date”	the last practicable date prior to the finalisation of this Pre-listing statement, which date was Monday, 17 September 2007;
“the listing”	subject to the achievement of the required spread of shareholders, the proposed listing of the entire issued ordinary share capital of RACEC on Alt ^x , which listing is anticipated to commence at 09:00 on Thursday, 18 October 2007;
“Listings Requirements”	the Listings Requirements of the JSE;
“non-resident”	a person whose registered address is outside the common monetary area;
“NOSA”	National Occupational Safety Association;
“the press”	collectively, <i>Business Day</i> and <i>Burger</i> ;
“the private placing”	the private placing by way of an offer for subscription by RACEC of a maximum of 27 500 000 shares at 100 cents per share to applicants, thereby raising R27 500 000;
“the private placing application”	the attached application form in respect of the private placing and a personalised letter to applicants invited to participate in the private placing;
“private placing shares”	the maximum of 27 500 000 RACEC shares offered for subscription by RACEC;
“pre-listing statement”	this bound document, dated 28 September 2007, including all annexures and enclosure hereto;
“RACEC” or “the group”	RACEC Group Limited, registration number 1998/0060153/07, a company incorporated in South Africa;
“RACEC Company”	RACEC (Proprietary) Limited, registration number 1964/009444/07, a private company incorporated in South Africa and a 100% subsidiary of RACEC;
“RACEC Electrification”	RACEC Electrification (Proprietary) Limited, registration number 1979/060034/07, a private company incorporated in South Africa and a 70% subsidiary of RACEC;
“RACEC Gauteng”	RACEC Gauteng (Proprietary) Limited, registration number, 1996/005025/07, a private company incorporated in South Africa and a 100% subsidiary of RACEC;
“RACEC Plant Hire”	RACEC Plant Hire (Proprietary) Limited, registration number 1990/000190/07, a private company incorporated in South Africa and a 100% subsidiary of RACEC;
“RACEC Power”	RACEC Power (Proprietary) Limited, registration number, 2001/025298/07, a private company incorporated in South Africa and a 100% subsidiary of RACEC (formerly RACEC Natal (Proprietary) Limited);
“RACEC Rail”	RACEC Rail (Proprietary) Limited, registration number 1964/001845/07, a private company incorporated in South Africa and a 70% subsidiary of RACEC;
“Rand” or “R”	South African Rand;
“register”	the register of RACEC shareholders;
“the Securities Services Act”	the Securities Services Act, 2004 (Act 36 of 2004), as amended;
“SENS”	the Securities Exchange News Service of the JSE;
“shareholders” or “RACEC shareholders”	registered holders of RACEC shares;
“shares” or “RACEC shares”	ordinary shares with a par value of 0.001 cent each in the share capital of RACEC;
“SMME”	Small Micro Medium Enterprise;

“South Africa”	the Republic of South Africa;
“Strate”	the settlement and clearing system used by the JSE, managed by Strate Limited, registration number 1998/022242/06, a public company incorporated in South Africa and which is a registered central securities depository in terms of the Securities Services Act;
“the subsidiaries”	the subsidiaries of RACEC, namely RACEC Rail, RACEC Electrification, RACEC Company, RACEC Plant Hire, RACEC Gauteng and RACEC Power, further details of which are set out in paragraph 23; and
“transfer secretaries”	Computershare Investor Services 2004 (Proprietary) Limited, registration number 2004/003647/07, a private company incorporated in South Africa.



RACEC GROUP LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1998/006153/06)

Share code: RAC ISIN: ZAE000105409

Directors

M J Uys * (*Chairman*)

C J Harrod (*CEO*)

C R S Gooden*

G L Harrod

G J Kleinschmidt

W Ollewagen

S C Wilkins

* Non-executive

PRE-LISTING STATEMENT

1. INTRODUCTION

RACEC intends to list on the Alt^x, a move that will enhance investor and general public awareness of RACEC, allow the group to grow its market share through the funding of organic growth and acquisitions and to allow the funding of the working capital requirements of the existing business. It will also support the group's vision of becoming a prominent provider of engineering infrastructure solutions in its two main focus areas, Rail and Electrical.

RACEC is a leading provider of engineering infrastructure products in the focus areas in which the group operates. The group provides its services to clients who range from parastatals and local governments to medium and large sized corporates. The group strives to build long-term relationships with its clients by providing quality products and services which are cost effective. The group's trained and dedicated staff has the necessary knowledge and skill levels to deliver the specialist services required by each of the group's clients.

Part of the group's business strategy is the implementation of its empowerment objectives. Central to this is the BEE ownership within the RACEC Employee Share Trust, which owns 30% of each of RACEC Rail and RACEC Electrification. This, together with the BEE ownership in RACEC, results in the RACEC Rail and Electrification being 34% BEE owned. In addition, 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, ensuring skills transfer, while at the same time ensuring that the objectives of Government's BBEE objectives, in terms of the BEE Act, are met.

RACEC's core values, being quality, cost effectiveness, customer focus, safety, training, skills transfer and empowerment, has 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 recently acquired the business and assets of JMB Electrical Contractors, effective 1 June 2007, which will be incorporated into RACEC Electrification. JMB Electrical Contractors is a well-established electrical reticulation contracting business, founded in 1972 and consists of two operating companies, Baden Tec and Baden Tec Plant Hire. JMB Electrical Contractors has been a competitor of RACEC for many years, specialising in overhead reticulation with a dominant position in the Overberg and South Cape regions. The acquisition of JMB Electrical Contractors will have a significant effect on RACEC's future earnings as it will increase the volume of business, particularly in areas where RACEC is not currently active.

2. 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.

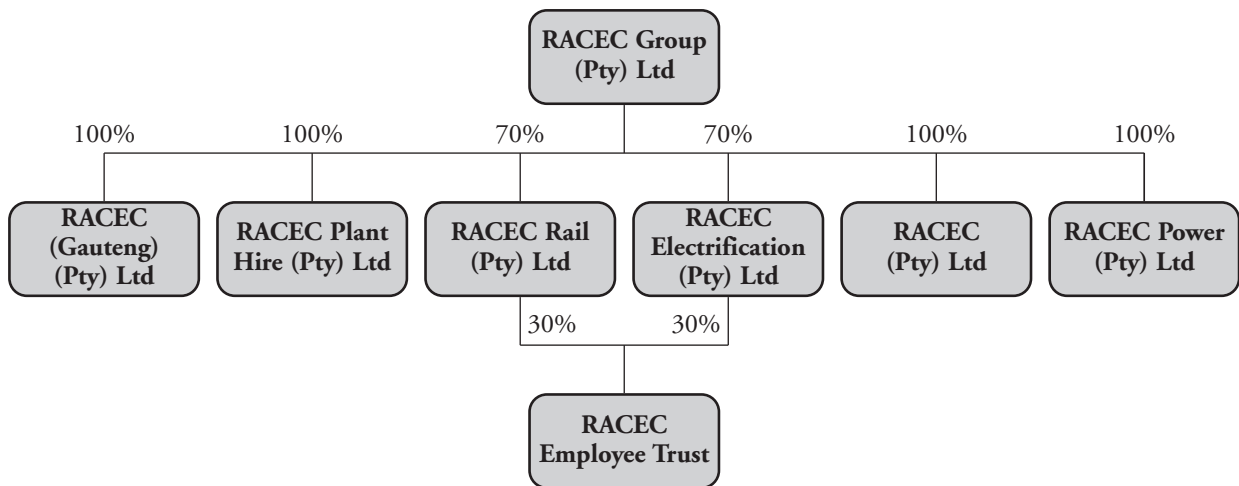
The then privately owned company relocated its head office Cape Town and the business activities were expanded nationally as well as further northwards into Africa.

Although originally purely a plate laying organisation, RACEC ventured into the field of electrical construction in 1977 as a result of desire to provide its clients in the rail sector with a more complete service.

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

3. GROUP STRUCTURE

The group structure of RACEC is as follows:



4. OVERVIEW OF RACEC

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 in the group. RACEC has a workforce of 463 permanent staff members, of which more than 80% are black. 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 areas.

Revenue for the year ended 30 September 2006 amounted to R157.8 million, with approximately 37% relating to RACEC Rail and 63% relating to RACEC Electrical.

4.1 RACEC Rail

RACEC Rail concentrates mainly 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.

RACEC Rail as 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;
- thermite 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;
- 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 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, South African Rail Commuter Corporation, 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, BHP Billiton, Roodekop and Sasol Secunda.
- Richards Bay, KZN
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 tracks are maintained. RACEC's Richards Bay branch has a four-star platinum NOSA rating.

The following are examples of the larger valued long-term rail contracts in place at the date of this pre-listing 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 five-year 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; and
- 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 and yard sales contracts.

4.2 RACEC Electrification

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 sub-stations through to industrial, commercial or residential consumer supply.

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;
- 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 street lighting (R22 million);
- Bettys Bay and Pringle Bay reticulation (R13 million);
- Val de Vie Lifestyle Estate (R22 million);
- Stonehurst Village electrical reticulation (R6 million); and
- Golf Estate electrical reticulation at:
 - Erinvale R3 million);
 - Sunset Beach (R3 million);
 - Atlantic Beach (R7 million);
 - De Zalze (R15 million);
 - Pearl Valley (R14 million);
 - 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 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 over-headline 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 their own clients during this period. Post-acquisition, RACEC intends to maintain the key JMB Electrical Contractors personnel and systems in the same areas which made them previously successful. However, with the increased support from RACEC as a whole, this business will be well-positioned within RACEC to further increase their 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.

4.3 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 the hire of plant and equipment.

RACEC Gauteng and RACEC Power are dormant.

5. RACEC'S KEY STRENGTHS

- 5.1 The move by Spoornet and Eskom towards increased outsourcing to companies with a substantial BEE ownership places RACEC in an ideal position.
- 5.2 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.
- 5.3 The senior management of RACEC (seven individuals) have a cumulative 97 years' experience with RACEC and have successfully delivered on a number of awarded projects over a long period.
- 5.4 The management structure and the quality of the current staff complement is ideally positioned for future expansion.
- 5.5 RACEC has a balanced portfolio across its lines of business and geographies. It's strong customer base includes a number of Government organisations throughout South Africa as well as many well-established private development companies.
- 5.6 Due to its focus on niche markets, RACEC has maintained an above annual revenue growth in both its target markets.
- 5.7 RACEC is favourably positioned for future tenders which will ensure that the group maintains its strong revenue growth over the next three years.

6. RACEC'S GROWTH STRATEGY

6.1 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 their 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.

6.2 Improve market position

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

7. PROSPECTS

A number of Government initiatives, including the 2010 FIFA 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.

In addition, there has been very little spending on the electrification of railways systems over the last few years. However, Spoornet has recently committed to increased spending on their railway networks. This, together with Government's infrastructure spend, is regarded as a growth area in which RACEC is ideally positioned to benefit.

Current projects, which indicate Government's commitment to upgrading the railway infrastructure include:

- Spoornet's commitment to the upgrading of infrastructure and traction power as a result of spending by the Richard's Bay 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, 25 km north of Port Elizabeth, jointly the responsibility of the National Ports Authority (NPA), South African Ports Authority and Spoornet, which is expected to be complete by the end of 2008;
- continuation of work on reviving the 282 km long 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; and
- 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.

RACEC is currently involved in a number of projects involved in 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 in respect of the Amabele junction and improvement of rail infrastructure from Khayelitsha. Other potential work which is still in the feasibility 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 in excess of 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, Pezuala Golf Estate, Arabella and Simola Golf Estates, Hartland Properties, Century City and Sheffield Business Park and will soon be starting on projects such as Atlantic Shores and Atlantic Sands.

Amongst others, RACEC is also currently well-advanced in negotiations for their 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 months.

8. 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 seven directors within the group, one is a previously disadvantaged individual.

- 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.

- SMME's

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

- Sibanye Africa (Proprietary) Limited;
- Co'f'e Dongweni Engineering C.C;
- Hlanganani Rail Services C.C;
- 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.

9. MAJOR AND CONTROLLING SHAREHOLDERS AND SHAREHOLDER SPREAD

At the last practicable date, the following major shareholders and directors are interested in the issued share capital of RACEC:

Name of shareholder	Number of shares held	Percentage held
Pre-listing:		
C J Harrod	17 290 000	24.7
G L Harrod	15 260 000	21.8
W Ollewagen	15 260 000	21.8
M J Uys	13 860 000	19.8
G J Kleinschmidt	7 630 000	10.9
S C Wilkins	700 000	1.0
	70 000 000	100.0
Post-listing:		
C J Harrod	17 290 000	17.3
G L Harrod	15 260 000	15.3
W Ollewagen	15 260 000	15.3
M J Uys	13 860 000	13.8
G J Kleinschmidt	7 630 000	7.6
S C Wilkins	700 000	0.7
	70 000 000	70.0

Save as set out in the table above, no other shareholder, other than the directors will, as far as the directors of RACEC are aware, directly or indirectly, hold 5% or more of the issued share capital of RACEC following the private placing.

Following the private placing, RACEC will not have a controlling shareholder (as defined in the Listings Requirements).

As required by the Listings Requirements, RACEC shall have a share capital of at least R2 million and will have a public shareholding of at least 100 shareholders holding a minimum of 10% of RACEC shares in issue on listing.

10. DIRECTORS AND MANAGEMENT

Details of directors

The full names, ages, occupations and business address of the directors of RACEC are outlined below:

Full name	Age	Occupation	Business address
Michael John Uys	61	Non-executive chairman	8 Hawkins Avenue Epping 1 Cape Town, 7460
Colin Rodney Spry Gooden	63	Non-executive director	8 Hawkins Avenue Epping 1 Cape Town, 7460
Charles John Harrod	60	CEO	8 Hawkins Avenue Epping 1 Cape Town, 7460
Gillian Jacqueline Kleinschmidt	39	Financial director	8 Hawkins Avenue Epping 1 Cape Town, 7460
Gary Lee Harrod	36	Executive director	8 Hawkins Avenue Epping 1 Cape Town, 7460
Winston Ollewagon	34	Executive director	8 Hawkins Avenue Epping 1 Cape Town, 7460
Sean Charles Wilkins	35	Executive director	8 Hawkins Avenue Epping 1 Cape Town, 7460

All directors are South African citizens.

None of the directors are partners with unlimited liability or founders as defined by the Listings Requirements.

Experience of directors

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 their Cape division as an engineer in 1972, operating only in the railway construction and maintenance field.

Mike was instrumental in starting a merchandising division of RACEC in 1982, known as C I Merchandising (Proprietary) Limited, which was sold during the 2005 financial year.

Mike was promoted to divisional manager in 1984 and again promoted to divisional general manager of RACEC Construction, a division of Metkor Industries Limited, in 1986. Mike was instrumental in starting the civil engineering division of RACEC in 1984.

In December 1988, Mike assisted by Standard Corporate and Merchant Bank, lead a management team of RACEC in the management buy-out of the group from the Metkor Group Ltd. At that time, the group had approximately 65 employees. After the management buy-out, Mike became CEO of the group.

Mike was responsible for restructuring the group and closed down the civil engineering division. The RACEC head office was relocated from Johannesburg to Cape Town. Mike was responsible for negotiating the sale of the underground rail division to Fraser Alexander Limited and RACEC Industries (direct manufacturing) to Cementation Africa Limited, now VAE Ltd.

Mike introduced long-term succession planning into the group, appointing managing directors to head up all subsidiary companies within 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 rollout of offices to East London, Richards Bay and Gauteng.

Due to significant increases in the volume of business, Mike assumed the position of executive chairman in October 2002, with the managing director of RACEC Electrification at that time being promoted to the position of CEO. Mike was appointed as the non-executive chairman in April 2006.

Colin Rodney Spry Gooden – B Comm (University of Cape Town), CA(SA)

Colin completed five years of articles with a Cape Town firm of Chartered Accountants while studying part-time at the University of Cape Town from 1963 to 1967. He qualified as a Chartered Accountant in 1968.

Colin joined a medium-sized audit firm, Dekker Nash, and became a partner in 1972. Dekker Nash merged with Coopers & 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.

Colin retired at 60 years of age in 2004 from PricewaterhouseCoopers Inc, which had been created a few years earlier from the merger of Coopers & 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.

Charles John Harrod – National Technical 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 in 1966 where he began as the position of a draughtsman in the chief electrical engineer's office. Charles' main job functions included electrical reticulation, track electrification, telecommunications, train lighting, air-conditioning, traction sub-stations, distribution sub-stations, yard lighting and traction motors.

Charles attended various in-house training programmes designed by the South African Transport Services in all the fields listed above.

Charles was promoted to the position of senior draughtsman in 1973 and held this position until 1975.

During this time Charles headed up the drawing office for the electrical construction depot in Johannesburg. He was responsible for the design of railway electrification, electrical reticulation and lighting projects as well as the training and supervision of drawing office and engineering staff.

Charles left the employ of the South African Transport Services in 1975 and remained self-employed until 1979. During this period, Charles provided turn-key consulting services specialising in railway electrification projects from design stage through survey, construction supervision and commissioning to various railway electrification contractors.

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

Charles relocated to Cape Town in 1987 to set up RACEC's electrical division 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 the Metkor Group Ltd. At that time, the group had approximately 65 employees. After the management buy-out, Charles became the Managing Director of RACEC Electrification and a board member of the group and all its subsidiaries.

In 2002 Charles became the CEO of RACEC and started a review and rationalisation of the group structure. The main operating companies, rail and electrical were consolidated into RACEC Rail and RACEC Electrification and managing directors with a significant shareholding were appointed.

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%.

Charles has been responsible for reviewing and restructuring all contracts of employment as well as company policies in line with RACEC's commitment to good corporate governance.

Gillian Jacqueline Kleinschmidt – B Comm (UNISA), B Comm (Honours) (University of Natal), CA(SA)

Gillian initially obtained her national diploma as a company secretary from the Cape Town University of Technology (Cape Technikon) (1986 – 1988). Gillian was employed by Old Mutual during her third year of study and assisted in the preparation of divisional costing reports.

Gillian commenced her articles at H J Haak & Co in 1989 and remained there until 1992. Her responsibilities included the audit of a number of diverse clients. Gillian completed her articles at Josman and Seidel from 1993 to 1994. Gillian remained on in an auditing capacity after this. During her auditing career, Gillian's clients included: Coroma Doors (Proprietary) Limited, W Voigt Painters and Renovators (Proprietary) Limited and Snoek Wholesalers (Proprietary) Limited.

From 1995 to 1996 Gillian was a member of Garry Korte Financial CC, a financial consulting business that provided management and taxation advice to various clients. Her responsibilities there as financial manager included preparation of management accounts, costing reports, taxation advice, completion of the annual tax returns, as well as liaison with external auditors for various clients including: RACEC, SPH Kundalila (Proprietary) Limited, Scott Steel Projects (Proprietary) Limited and Cape Brick Company (Proprietary) Limited.

Gillian was employed by RACEC as their financial manager in 1997 and was promoted to financial director in 1999, a position that she currently holds. Her responsibilities include, *inter alia*, the review of monthly management results, liaison with financial institutions regarding the group's facilities, reviewing of daily cash flows, evaluation and review of new projects and investments, arranging finance for new projects, attendance of quarterly board meetings, preparation of annual budgets and variance evaluations, liaison with external auditors, preparation of annual financial statements and submission of tax returns for the group. Gillian also acts as the Company Secretary and Public Officer for the group.

Due to the significant growth of RACEC over the past number of years, RACEC implemented a new ERP system in 2002. Gillian was instrumental in ensuring the roll-out of this system and its successful implementation throughout the group. The strength of the ERP system allows RACEC to report financially on each individual project.

In addition, 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 whilst undertaking his studies at the University of Cape Town. Gary worked and studied under Dura Construction (a then Grinaker subsidiary) in Cape Town until 1994, when he began his career at Grinaker Building Cape as construction site agent, a position he held until 1997. His responsibility at this time was the construction management of large scale construction sites.

Gary was promoted to the position of contracts manager in 1997. His responsibility was the overall management of multiple large scale building and construction contracts.

The large projects that Gary was involved in while at Grinaker Building Cape include: Old Mutual Head Office (Pinelands), Somerset Mall, Tyger Manor Shopping Centre, Bellville Velodrome Multipurpose Stadium and Bantry Place Luxury Apartments.

In 1998 Gary joined RACEC Electrification as a 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 the managing director of RACEC Electrification, a position that he currently holds. His main responsibilities include the overall management and control of all aspects of RACEC Electrification, including reporting to the RACEC's board of directors.

Later in 2002, Gary was also appointed as director of the group, a position he currently 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)

In 1992, Winston received a bursary from Railway Construction (Cape) (Pty) Ltd and in 1994 qualified as a civil engineering technician. He was then appointed full-time as site agent. His responsibilities included: on site costing, programming, setting out of the works and day-to-day management of labour, plant and materials.

In 1996, Winston was promoted to contracts manager for Railway Construction (Cape) (Pty) Ltd. In this position, Winston was responsible for the overall management of contracts and personnel in the Cape and reported directly to the managing director.

In 1999, Winston was promoted to director of Railway Construction (Cape) (Pty) Ltd and was instrumental in changing the name of the company to RACEC Cape (Pty) Ltd. 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. His responsibilities in this role included overall management of the head office based rail division, as well as the management of all international rail projects. Winston was 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 managing director of all rail divisions. Winston undertook to amalgamate all three companies into RACEC Rail which saw the rail division expand and grow further due to synergies.

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

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

Sean Charles Wilkins – B Comm (University of Cape Town), H Dip Acc (University of Natal), CA(SA)

Sean completed his articles with BDO Spencer Steward (Cape) in 1999 and was promoted to the position of audit manager.

In June 2000, Sean left to join Ernst & Young's corporate finance team in the United Kingdom where he was promoted to the position of manager in 2003. Sean returned to Cape Town in 2005, where he rejoined BDO Spencer Steward (Cape) and was responsible for building the corporate finance division.

Through his roles at Ernst & Young and BDO Spencer Steward (Cape) Inc, Sean has gained extensive experience in advisory work in relation to acquisitions and disposals, including:

- the disposal of a food brokerage business (ultimately sold as part of a management buy-out);
- the disposal of the largest independent petrol retailer in the United Kingdom on behalf of administrators; and
- the disposal of an industrial textile and coating operation based in Cape Town.

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 plc and AIM listings while in the United Kingdom and an Alt^x listing while in South Africa.

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

Sean joined RACEC on 1 September 2007.

Key RACEC Electrification senior management

In addition to the directors noted above, the following individuals comprise the senior management of RACEC:

Dieter Daub (57) – Contracts Manager – National Technical Diploma: Electrical Engineering

After completing his matric in 1969, Dieter began his career with Tsumeb Corporation Limited as an apprentice electrician, qualifying as a first class electrician in 1972. He was promoted to charge hand/foreman in 1976. Dieter obtained his National Technical Diploma in electrical engineering in 1987. Dieter worked as a consulting electrical engineer for 15 years with the firm De Villiers & Moore Consulting Engineers. He then became an electrical contracts manager with Adenco Construction in 2003, joining RACEC Electrification in 2006 with his 37 years' experience in the construction, maintenance and fault finding on electrical reticulation systems up to 22 000 volts.

Bill Spiers (62) – Contracts Manager – Professional Construction Manager SACPCMP

Bill joined RACEC Electrification in 2000 bringing with him extensive experience gained over 36 years of tendering, design and management of numerous large scale reticulation and construction projects in the electrification industry. Bill qualified as an installation electrician in 1969 and more recently was appointed as a professional construction manager with the SACPCMP.

Neil Morris (38) – Contracts Manager – Financial Information Systems (Cape Technikon)

Neil has been in the construction industry for over 10 years and fulfilled roles in commercial operations and contracts management. He is qualified in financial information systems and also has a project management qualification from the University of Stellenbosch. Neil has been involved in international projects such as the construction of the New Airport in Hong Kong, as well as large projects based in South Africa. In his career thus far, he has had successful management roles in the three major construction disciplines namely civil, mechanical and the electrical engineering.

Lindsay Lubbe (49) – Commercial Manager – PR C.M. (Cidb)

Lindsay joined RACEC Electrification in 1994 as a construction manager. With more than 25 years' experience in electrical contracting, spanning multiple electrical disciplines, he plays a key role in the competitive use of technology, systems and strategic market information in tendering for work.

Key RACEC Rail senior management

Stanford Velile Mnqwazi (72) – HR Director

Stanford obtained a standard 6 (now grade 8) education. He started working as a labourer in 1955 and worked for several companies, ending up with Murray & Roberts in 1975. At Murray & Roberts he was promoted to site clerk and then to drawing clerk. In 1996 Stanford was promoted to the position of industrial relations officer, a position that he held until his retirement in 2000.

Stanford joined RACEC Rail in the same year as a human resource officer and in 2006 was appointed as Director of Human Resources. Stanford is also the RACEC Rail safety officer.

Francis Knol (53) – Project Manager

Francis obtained a bursary from Murray & Stewart and obtained a degree in civil engineering at the University of Cape Town in 1977. He worked for Murray & Stewart until his bursary obligations were completed and then joined Van Niekerk, Kleyn and Edwards in order to gain design experience.

Francis then decided to pursue a career in construction and project management and worked for several firms, including South African Breweries and Saldanha Steel performing various capital expansion projects. Francis joined M5 Developments in 2000 and started working in the housing industry doing project and construction management on several housing projects, including medium income group housing and several low cost housing projects until 2006. In 2007 Francis joined RACEC Rail as a project manager and is currently responsible for running several large capital and maintenance projects.

Nicolaas Hermanus van Staden (Nick) (43) – Operational Manager – Natal Division

Nick joined Spoornet when he left school in 1982 and was employed as a trainee platelayer and worked his way up to the position of track inspector. He then joined Flint Construction in 1994 as a site manager and during this time studied civil engineering through the Damelin Institute.

In 1998 he started his own company, Highland Track, and was appointed as contractor on several contracts for Spoornet and Anglo Coal. In 2006 Nick decided to re-enter the construction industry and was appointed by RACEC Rail as operations manager for Natal.

Jacobus Johannes Zandberg (Boetie) (50) – Operational Manager – Cape Division

Boetie matriculated in 1974 and joined Spoornet. He worked for Spoornet for 33 years. He joined as a trainee platelayer and worked his way up the ranks until he reached the position of track inspector in 1993. Boetie has completed several courses, including HR, disciplinary hearings, health and safety, and an in-house financial course. Boetie has been responsible for several Spoornet contracts in the Cape region. Boetie resigned from Spoornet and joined RACEC Rail in 2007 as operational manager for several contracts in the Cape. He is also responsible for the head office workshop and stores.

Anthony Robin Trevor-Goode (Bob) (54) – Commercial Manager

Bob started his career with Murray & Stewart and obtained his civil engineering diploma in 1977 at the Cape Technikon. He then joined Schindler Lifts as national construction manager and during this time obtained a higher management diploma in 1984 from Witwatersrand Technikon. After deciding to relocate to Cape Town, Bob joined Faircape Homes in 1987 and then started his own property development company, Construct, in 1988 with a partner until 2003. From 2003, Bob pursued a career in project management as an independent consultant. Bob has been appointed as commercial manager for RACEC Rail from 1 September 2007.

Qualification, appointment, remuneration and borrowing powers of directors

The relevant provisions of the articles of association of RACEC relating to qualification, appointment, remuneration and borrowing powers of directors are set out in Annexure 9. The borrowing powers may only be varied by special resolution and have not been exceeded since RACEC's incorporation.

None of the directors of RACEC have:

- been declared bankrupt, insolvent or have entered into any individual voluntary compromise arrangements;
- entered into any receiverships, compulsory liquidations, creditor voluntary liquidations, administrations, company voluntary arrangements or any compromise or arrangement with creditors generally or any class of creditors of any company where such directors are or were directors with an executive function during the preceding 12 months;
- entered into any compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where such directors are or were partners during the preceding 12 months;
- entered into any receiverships of any asset(s) or of a partnership where such directors are or were partners during the preceding 12 months;
- been publicly criticised by a statutory or regulatory authority, including recognised professional bodies or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company; and/or
- been involved in any offence of dishonesty, fraud or embezzlement.

Remuneration of directors

For the financial year ended 30 September 2006, emoluments paid to the directors of RACEC were as follows:

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

For the six months ended 31 March 2007, emoluments paid to the directors of RACEC were as follows:

	Basic R	Motor vehicle R	Pension R	Medical aid R	Total R
M J Uys	253 792	71 922	44 414	22 176	392 304
C J Harrod	307 054	93 980	53 735	15 129	469 898
G L Harrod	253 485	73 604	25 348	15 582	368 019
G J Kleinschmidt	179 743	56 695	31 455	15 582	283 475
W Ollewagen	241 631	69 515	24 163	12 264	347 573
	1 235 705	365 716	179 115	80 733	1 861 269

There will be no variation in the remuneration receivable by any of the directors as a direct consequence of the private placing and listing. The remuneration of the directors will be determined by the Remuneration Committee.

Other than the loans disclosed in paragraph 19, RACEC has not paid any amounts (whether in cash or in securities), nor given any benefits to any directors or to any company in which directors are beneficially interested, or to any partnership, syndicate or other association of which the directors are members, or to any director as an inducement to become a director or otherwise, or for services rendered by directors, or otherwise for services rendered by directors or by the associate company or associate entity, during the preceding three years.

No fees have been paid or accrued as payable to a third party *in lieu* of directors' fees.

No part of RACEC is managed, or is proposed to be managed, by a third party under a contract or arrangement and, therefore, no consideration has been paid, or will be paid, in respect of this.

Interests of directors

At the last practicable date, the directors, in aggregate, directly and indirectly, held the following RACEC issued shares:

Director	Beneficial		Non-beneficial		Total	Percentage held
	Direct	Indirect	Direct	Indirect		
Pre-listing:						
M J Uys	–	13 860 000	–	–	13 860 000	19.8
C J Harrod	–	17 290 000	–	–	17 290 000	24.7
G L Harrod	–	15 260 000	–	–	15 260 000	21.8
G J Kleinschmidt	7 630 000	–	–	–	7 630 000	10.9
W Ollewagen	–	15 260 000	–	–	15 260 000	21.8
S C Wilkins	700 000	–	–	–	700 000	1.0
	8 330 000	61 670 000	–	–	70 000 000	100.0

S C Wilkins has purchased one percent of the RACEC shareholding subsequent to 31 March 2007. The other directors' interests have been reduced proportionately, based on their percentage shareholding prior to the purchase of 1% by S C Wilkins. The number of issued shares has been increased subsequent to 31 March 2007, based on resolutions passed on 2 August 2007, as noted in paragraph 11 below.

Director	Beneficial		Non-beneficial		Total	Percentage held
	Direct	Indirect	Direct	Indirect		
Post-listing:						
M J Uys	–	13 860 000	–	–	13 860 000	13.8
C J Harrod	–	17 290 000	–	–	17 290 000	17.3
G L Harrod	–	15 260 000	–	–	15 260 000	15.3
G J Kleinschmidt	7 630 000	–	–	–	7 630 000	7.6
W Ollewagen	–	15 260 000	–	–	15 260 000	15.3
S C Wilkins	700 000	–	–	–	700 000	0.7
	8 330 000	61 670 000	–	–	70 000 000	70.0

The change in percentage held, post-listing, is as a result of the dilution of the directors' interests as a consequence of the private placement of 27 500 000 shares and the 2 500 000 advisers' interest shares as noted in paragraph 31.

No director of RACEC has or had any interest, directly or indirectly, in any transaction which is, or was, material to the business of RACEC and which was effected by RACEC during the current financial year or immediately preceding financial year or in respect of any previous financial year which remains in any respect outstanding or unperformed.

RACEC's attorneys will hold in trust 50% of the shareholding of each director and the Designated Advisor ("the relevant securities"). The relevant securities will be held in trust until the publication of the audited results for 30 September 2008, after which 50% may be released and the balance one year thereafter. The shares will not be released before notification to the JSE.

Service contracts of directors

Each of the executive directors has a letter of appointment from RACEC, containing terms that are normal for such contracts. The service contracts allow for a term of office of three years, after which the Nomination Committee will assess the performance of each director and determine if another service contract will be entered into. Further details are provided in Annexure 10.

The contracts do not contain restraint of trade or favourable provisions for the directors.

Other directorships held by the directors

Details of other directorships currently held by the directors of RACEC are as follows:

Director	Directorships	Registration number
M J Uys	CI Merchandising (Pty) Ltd	1979/000494/07
	Cardita Circle (Pty) Ltd	2001/020476/07
	Philippi Rail (Pty) Ltd	1975/003794/07
	RZT Zelpy 4184 (Pty) Ltd	2005/011324/07
	RZT Zelpy 4183 (Pty) Ltd (trading as Aqua Angel)	2005/011225/07
C J Harrod	CI Merchandising (Pty) Ltd	1979/000494/07
	Cardita Circle (Pty) Ltd	2001/020176/07
	RZT Zelpy 4714 (Pty) Ltd	2006/006597/07
G L Harrod	Vestbest Two (Pty) Ltd	1997/021360/07
	Tarsius Agrien (Pty) Ltd	1998/005242/07
G J Kleinschmidt	CI Merchandising (Pty) Ltd	1979/000494/07
	Uphondo Electrical (Pty) Ltd	2001/020453/07
	Cardita Circle (Pty) Ltd	2001/020476/07
	Philippi Rail (Pty) Ltd	1975/003794/07

Details of other directorships held during the past five years prior to the last practicable date but not currently held are as follows:

Director	Directorships	Date of resignation of director or reason for resignation
M J Uys	Zomba Construction (Pty) Ltd	15/10/2000
	No 6 Hawkins Property (Pty) Ltd	Company deregistered
	No 8 Hawkins Property (Pty) Ltd	Company deregistered
	RACEC Electrical Installations (Pty) Ltd	Company deregistered
C J Harrod	No 6 Hawkins Property (Pty) Ltd	Company deregistered
	No 8 Hawkins Property (Pty) Ltd	Company deregistered
	RACEC Electrical Installations (Pty) Ltd	Company deregistered
G J Kleinschmidt	Zomba Construction (Pty) Ltd	15/10/2000
	No 6 Hawkins Property (Pty) Ltd	Company deregistered
	No 8 Hawkins Property (Pty) Ltd	Company deregistered
	RACEC Electrical Installations (Pty) Ltd	Company deregistered
S C Wilkins	BDO Spencer Steward (Cape) Inc	31/08/2007
C R S Gooden	PricewaterhouseCoopers Inc	30/06/2004

Secretarial and technical fees

RACEC has not paid any material amounts to third parties in respect of managerial, secretarial and technical fees over the past three years. Secretarial fees relate to company secretarial work done by various companies for RACEC.

11. SHARE CAPITAL AND DIVIDENDS

Authorised and issued share capital

The authorised and issued share capital of RACEC, taking into account the private placement and listing costs as set out in paragraph 33, which are to be offset against the share premium, are set out below:

	Number of shares	Share capital (R)
Authorised		
Ordinary shares of 0.001 cent	500 000 000	5 000
Issued, before the private placing		
Ordinary shares of 0.001 cent	70 000 000	700
Share premium		–
Issued, after the private placing		
Ordinary shares of 0.001 cent	100 000 000	1 000
Share premium of 99.999 cents		26 268 700

The share premium of RACEC prior to listing was nil and on listing will be R27 500 000, less private placement and listing costs of R1 231 000. The share premium relates to the private placing of 27 500 000 shares and has arisen as a result of the difference between the offer price of 100 cents and the par value of shares of 0.001 cent. No private placing shares will be issued at varying premiums or discounts.

The *pro forma* consolidated balance sheet of RACEC at 31 March 2007 is set out in Annexure 3.

All the authorised and issued RACEC shares, including those to be issued in terms of the private placement, will be of the same class and will rank *pari passu* in every respect.

Save as set out in below, there has been no sub-division or consolidation of shares during the three years prior to the date of this pre-listing statement.

No offer to the public has been made for the subscription or sale of shares during the three-year period preceding the date of issue of this pre-listing statement.

No debentures have been created or issued by RACEC.

Alterations to authorised and issued share capital

RACEC was initially incorporated with an authorised ordinary share capital of 1 000 ordinary shares with a par value of R1.00 each per share. On incorporation, RACEC issued and allotted 1 000 ordinary shares with a par value of R1.00 per share to its founding shareholders.

It was resolved on 2 August 2007 that:

- the existing authorised share capital of RACEC be increased to R5 000 (five thousand Rand), divided into 5 000 ordinary par value shares of R1.00 each by the creation of an additional 4 000 (four thousand) ordinary shares of R1.00 each, such new shares to rank *pari passu* in every respect with the existing ordinary shares of the group;
- the authorised share capital of RACEC, being R5 000 (five thousand Rand), divided into 5 000 ordinary par value shares of R1.00 each, be sub-divided into 500 000 000 ordinary par value shares of R0.00001 each;
- RACEC approve a specific share buy-back, to rationalise the share structure for listing purposes, as contemplated in the Companies Act, and in terms of its articles of association, of 30 000 000 ordinary shares of par value of R0.00001 each in the issued share capital of RACEC and the cancellation of such acquired shares. The share buy-back was on a *pro rata* basis, based on the ordinary shares held by the group's shareholders at an aggregate price of R300 (three hundred Rand).

The issued share capital of RACEC thereafter amounted to R700 (seven hundred Rand), comprising 70 000 000 shares of R0.00001 each.

Unissued shares

At the general meeting of shareholders held on 2 August 2007, the requisite ordinary resolution was passed placing all of the authorised but unissued share capital in the group under the control of the directors to issue and allot such shares in their absolute discretion, subject to the Listings Requirements.

There will be 500 000 000 authorised ordinary shares in the share capital of RACEC, of which 400 000 000 authorised but unissued ordinary shares, after the allotment and issue of the private placing shares, are under the control of the directors of RACEC until its first annual general meeting, subject to the provisions of sections 221 and 222 of the Companies Act and RACEC's articles of association.

Voting, variation and conversion of rights

The provisions of the articles of association of RACEC relating to the voting rights and variation of rights attaching to shares in the share capital of RACEC are set out in Annexure 9.

There are currently no preferential conversion or exchange rights to shares in RACEC.

No other listings

No offer has been made to the public for the subscription or sale of shares during the period from the date of RACEC's incorporation until the date of this pre-listing statement. The issued ordinary shares of RACEC will be listed on Alt^x. No shares of RACEC will be listed on any other stock exchange.

Dividends

Given the strong cash flow generation of the group, it is RACEC's policy to declare a dividend up to a maximum of one-third of annual profits after tax to shareholders, subject to working capital requirements and acquisition activities of the group. The dividend will be declared and paid in the form of a half-year interim dividend, and a final dividend will be declared and paid after the annual financial statements have been finalised. It is the intention of the group to periodically consider this dividend policy and to take into account prevailing market conditions, particular circumstances of the group, and future cash requirements in determining whether it would be appropriate to pay a dividend in respect of any particular financial reporting period.

Should the group resolve to pay dividends, RACEC will only declare and pay dividends in respect of any given financial year, early in the following financial year, subject to any JSE timetable that may be applicable in respect to the declaration and payment of dividends by the group.

In terms of the group's articles of association, any dividend that remains unclaimed for a period of three years after having been declared by the group, shall revert to the group.

There is no arrangement under which future dividends will be waived or have been waived.

12. HISTORICAL AND *PRO FORMA* FINANCIAL INFORMATION

The audited historical financial information for RACEC, the preparation of which is the responsibility of the directors, is presented in Annexure 1. Annexure 2 contains the independent reporting accountants' report on the historical financial information of RACEC.

The unaudited *pro forma* balance sheet of RACEC at 31 March 2007, the preparation of which is the responsibility of the directors, is set out in Annexure 3. The *pro forma* balance sheet should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 4. The *pro forma* information is provided for illustrative purposes only and because of its nature may not give a fair presentation of RACEC's financial position after the acquisition of the net assets of JMB Electrical Contractors and the private placement.

The statement of assets and liabilities for JMB Electrical Contractors, acquired at 1 June 2007, is presented in Annexure 5. This should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 6.

13. FORECAST FINANCIAL INFORMATION

The forecast financial information of RACEC for the financial periods ending 30 September 2007, 2008 and 2009, the preparation of which is the responsibility of the directors, is set out in Annexure 7. The forecast financial information should be read in conjunction with the assumptions set out in Annexure 7 and the independent reporting accountants' report thereon as set out in Annexure 8.

In the opinion of the directors, the above assumptions are significant to the forecasts as being key factors upon which the financial results of the group will depend. However, certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the forecasts being made. Accordingly, the results achieved for the periods referred to above may differ from those forecast.

14. PURPOSE OF THE PRIVATE PLACEMENT AND LISTING

The main purpose of the private placing and listing of RACEC on AltX is to:

- enhance investor and general public awareness of RACEC leading to new business opportunities;
- allow the group to grow its market share through the funding of organic growth and acquisitions;
- allow the funding of working capital requirements of the existing business;
- unlock value for RACEC shareholders and create value for future shareholders.

Those private individuals, corporations and institutions that have been invited to apply should do so by completing the attached private placing application form in accordance with the provisions of this pre-listing statement and the instructions contained in the private placing application form.

No offer will be made to the public in respect of the private placing. The private placing is open to select applicants only.

15. THE PRIVATE PLACING

Salient features

The salient features of the private placing are as follows:

- | | |
|---|-------------------------|
| • Offer price per share | 100 cents |
| • Number of ordinary shares offered in terms of the private placing | 27 500 000 |
| • Issue consideration | R27 500 000 |
| • Opening date of the private placing at 09:00 on | Monday, 1 October 2007 |
| • Closing date of the private placing at 12:00 on | Friday, 12 October 2007 |

Terms, conditions and payment

The following terms and conditions relate to the private placing:

Applications for the private placing can only be made on the private placing application sent to select applicants.

The private placing application may not be ceded, renounced or assigned in favour of anyone else by the applicant to whom it is addressed.

The private placing shares may not be applied for in the name of a minor, deceased estate, partnership or trust. Executors, trustees and individual partners may apply for the private placing shares in their own name or through nominee companies. No documentary evidence of capacity need accompany the private placing application but the directors of RACEC reserve the right to call upon any applicant to furnish evidence of such capacity for noting.

The private placing applications are irrevocable and may not be withdrawn once received by RACEC, the transfer secretaries, CSDP's or broker's.

No receipts will be issued for the application forms, application monies or any supporting documentation.

Payment may only be made by bank guaranteed cheque (crossed "not transferable"), banker's draft or internet transfer (followed by faxed or electronic proof of payment to RACEC in the case of Internet transfers). Postal orders, cash or telegraphic transfers will not be accepted. Cheques must be made payable in favour of "RACEC Group Limited". All cheques and banker's drafts will be deposited by RACEC immediately upon receipt into the designated account under the control of RACEC.

The private placing applications will only be regarded as complete once payment for the total amount of the application has been received. Should any cheque or banker's draft subsequently be dishonoured, the directors of RACEC may, in their sole discretion, and without prejudice to any rights the group may have, regard the private placing application of such applicant as revoked or take such steps in regard thereto as they deem fit.

"Blocked funds" may be used by former residents of the common monetary area who has emigrated to subscribe for shares in terms of the private placing. In this regard, reference should be made to paragraph 29 which deals with Exchange Control Regulations.

Applications must be for a minimum of 100 000 shares.

In respect of those applicants who elect to receive physical share certificates, the share certificates will be posted by registered post on or about Thursday, 18 October 2007 to the address provided in the private placing application. No contrary instructions will be accepted. RACEC and the transfer secretaries accept no liability for share certificates that may be lost in the post. No request for the issue of replacement certificates will be considered before Thursday, 18 October 2007 and thereafter only in writing and accompanied by an acceptable indemnity.

The current risks associated with holding shares in certificated form, including the risk of loss or tainted scrip, remain.

RACEC shares will only be traded on the JSE in electronic form and, as such, all shareholders need to dematerialise their shares should they wish to trade therein. Applicants are advised that it takes between one and 10 days to dematerialise certificated shares, depending on volumes being processed by Strate at the time of dematerialisation.

Application for certificated shares – payment by bank guaranteed cheque or banker’s draft

Applicants who elect to receive their allocated shares in certificated form and who wish to make payment by way of a bank guaranteed cheque or banker’s draft must complete and return the private placing application, together with payment in the form of a bank guaranteed cheque (crossed “not transferable”) or banker’s draft and drawn in favour of “RACEC Group Limited”) to:

<i>if delivered by hand or by courier</i>	<i>or if posted</i>
RACEC	RACEC
8 Hawkins Avenue	PO Box 61
Epping 1	Eppindust
Cape Town, 7460	7475

so as to be received by no later than 12:00 on Friday, 12 October 2007.

No late applications will be accepted.

Application for certificated shares – payment by Internet transfer

Applicants who elect to receive their allocated shares in certificated form and wish to make payment by way of an Internet transfer may do so, in which case the private placing application and proof of such internet transfer must be hand delivered, posted or faxed to:

<i>if delivered by hand</i>	or	<i>if posted</i>	or	<i>if faxed</i>
RACEC		RACEC		RACEC
8 Hawkins Avenue		PO Box 61		Facsimile: (021) 531 8488
Epping 1		Eppindust		
Cape Town, 7460		7475		

so as to be received by no later than 12:00 on Friday, 12 October 2007.

Payment by Internet transfer must be made to the following bank account:

Bank:	The Standard Bank of South Africa Limited
Branch:	Sanlam Centre Parow
Branch code:	03-1110-44
Account name:	RACEC Group (Pty) Ltd
Account number:	271028408

RACEC accepts no responsibility and will not be liable for the correct or any allocation of private placing shares pursuant to payment being made or alleged to have been made by way of an Internet transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or RACEC, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placing shares.

Application for dematerialised shares

Applicants who elect to receive their allocated shares in dematerialised form must complete and return the private placing application to their duly appointed CSDP or broker by the time and date stipulated in the custody agreement governing their relationship with their CSDP or broker, together with the method of payment as stipulated in such agreement.

All brokers and/or CSDP’s will collate all their respective private placing applications and deliver same to:

<i>if delivered by hand</i>	or	<i>if posted</i>	or	<i>if faxed</i>
RACEC		RACEC		RACEC
8 Hawkins Avenue		PO Box 61		Facsimile: (021) 531 8488
Epping 1		Eppindust		
Cape Town, 7460		7475		

so as to be received by no later than 12:00 on Friday, 12 October 2007.

Each applicant must make the necessary arrangements, in accordance with the custody agreement with his CSDP or broker, to ensure that his CSDP or broker is able to make payment for his allocated private placing shares by no later than 12:00 on Friday, 12 October 2007.

The allocated private placing shares will be transferred on a “delivery versus payment basis” to successful qualifying applicants.

In respect of those applicants who elect to receive dematerialised shares, their duly appointed CSDP’s or broker’s account will be updated on Wednesday, 17 October 2007.

Reservation of rights

The directors of RACEC reserve the right to accept or refuse any application(s), either in whole or in part, or to abate any or all application(s) (whether or not received timeously) in such manner as they may, in their sole and absolute discretion, determine.

The directors of RACEC reserve the right to accept or reject, either in whole or in part, any private placing applications should the terms contained in this pre-listing statement and the instructions above not be properly complied with.

The bases of allocation of the private placing shares, based on irrevocable undertakings to subscribe for such shares as received from invited institutional investors, invited retail investors and selected private clients, and RACEC’s acceptance of such undertakings, will be determined by BDO QuestCo (Pty) Ltd in its sole discretion, after consultation with RACEC.

In amplification of the above, the board shall, in its sole discretion, determine an appropriate allocation mechanism, such that the shares will be allocated on a fair and reasonable basis, as far as possible, taking into account JSE shareholder spread requirements, promoting the liquidity of the shares once listed and considering the potential shareholder base that the board wishes to achieve.

In the event of the private placement application being accepted for a lesser number of shares than applied for or rejected, any surplus application monies received, will be refunded by RACEC, inclusive of interest at 7.5% per annum, from the date of receipt of such monies, and posted by ordinary mail at the risk of the applicant concerned, on or about Thursday, 18 October 2007.

Underwriting

The private placing has not been underwritten and is not subject to an underwriting commission. No minimum subscription is set.

Issue of private placing shares

All private placing shares offered will be issued at the expense of RACEC.

Save for the issue of the private placing shares, no simultaneous issue of shares will be made by RACEC.

All private placing shares issued are subject to the provisions of RACEC’s articles of association and will rank *pari passu* in all respects with the existing shares in issue. Annexure 9 contains extracts of RACEC’s articles of association.

16. LISTING ON ALT^x

Subject to the achievement of the required spread of shareholders, the JSE has formally approved the listing of a maximum of 100 000 000 ordinary shares in the share capital of RACEC on Alt^x with effect from the commencement of trading on Thursday, 18 October 2007. The shares will trade under the abbreviated name “RACEC”, with the code “RAC” and ISIN: ZAE000105409.

The main purpose of RACEC’s listing is to raise the group’s profile with its clients and enlarge the group’s capital base to facilitate planned diversification and expansion.

17. MATERIAL CHANGES

RACEC acquired the business of JMB Electrical Contractors, effective 1 June 2007, which will significantly increase the business of RACEC Electrification.

In addition RACEC disposed of its interest in Luxor Electrical (Proprietary) Limited, effective 1 April 2007 for R71 792.

There have been no other material changes in the financial or trading position of the RACEC group for the last five years up until the last practicable date, other than in the ordinary course of business.

In addition, there have been no changes in the controlling shareholders and trading objectives of RACEC, including its subsidiaries for the last five years up until the last practicable date.

18. CAPITAL COMMITMENTS, LEASE PAYMENTS AND CONTINGENT LIABILITIES

The business of JMB Electrical Contractors was purchased, effective 1 June 2007, for an amount of R8.4 million. At the last practicable date, the amount remains unpaid. There are no other capital commitments at the last practicable date.

The group has performance guarantees provided by way of surety for the due and faithful fulfilment of contractual obligations and guarantees in relation to retention amounts on certain contracts of R14.2 million with Lombard Guarantee Insurance Company Limited and R5.4 million with C&G Underwriting Managers (Pty) Ltd outstanding at 31 March 2007. There have been no material changes to these amounts since that date.

Other than those noted in paragraph 22, the group has no material lease payment liabilities at 31 March 2007. There have been no material changes to lease payment liabilities since that date.

19. LOANS RECEIVABLE AND BORROWING POWERS

The following material loans have been advanced to RACEC at 31 July 2007:

Lender	Loan amount R'000	Interest rate	Security	Maturity
Nedbank Limited	10 000	Prime less 2%	Plant and equipment	In full by 2011
WesBank Corporate	5 000	Prime less 2%	Plant and equipment	In full by 2011
Nedbank Limited	1 435	Prime less 1%	Property	In full by 2017
Investec Private Bank	4 500	Prime less 1.25%	Property	In full by 2017

The loans from Nedbank Limited and WesBank Corporate of R10 million and R5 million, respectively, relate to the hire purchase agreements entered into in respect of moveable assets. The Nedbank Limited loan of R1.4 million relates to a bond in respect of the property situated in George, while the Investec Private Bank loan of R4.5 million relates to bonds in respect of the properties situated in Blackheath, Withok Estates and Nooitgedacht. Further details of these properties have been disclosed in paragraph 22.

The following material loans have been advanced from RACEC at 31 July 2007:

Lender	Loan amount R'000	Interest rate	Security	Maturity
Cardita Circle (Pty) Ltd	8 586	8.6% per annum	None	In full by 30 September 2007
CI Merchandising (Pty) Ltd	1 466	No interest	None	No fixed repayment date

The loan to Cardita Circle (Pty) Ltd relates to an amount lent to fund the acquisition of land for a property development project on the west coast of the Western Cape. The current directors own 100% of the share capital of Cardita Circle (Pty) Ltd. Certain of the directors of RACEC are also directors of CI Merchandising (Pty) Ltd.

Details of the directors of Cardita Circle (Pty) Ltd and CI Merchandising (Pty) Ltd have been disclosed in paragraph 10.

Other than the loans referred to in the preceding paragraph, neither RACEC nor any of its subsidiaries have made any loans to or for the benefit of any director, manager or associate of any director or manager of RACEC.

The borrowing powers of the group may only be varied by special resolution and have not been exceeded since incorporation.

The borrowing powers of the directors are set out in Annexure 9.

The following material inter-company loan has been advanced to RACEC at 31 July 2007:

Lender	Loan amount R'000	Interest rate	Security	Maturity
RACEC Company	2 588	None	None	None

The above loan has arisen as a result of transactions in the normal course of business between RACEC and RACEC Company.

The following material inter-company loans have been advanced from RACEC at 31 July 2007:

Lender	Loan amount R'000	Interest rate	Security	Maturity
RACEC Electrification	1 197	None	None	None
RACEC Rail	3 226	None	None	None

The above loans arose as a result of a group restructure, which occurred in October 1997, in which shareholders' loans were taken over by RACEC.

20. PROPERTY AND SUBSIDIARIES ACQUIRED OR TO BE ACQUIRED

Details of the acquisition of immovable property during the past three years, is set out in paragraph 22.

Details of material acquisitions made by RACEC in the past three years are as follows:

Nature of asset acquired	Names of vendors	Acquiring company	Address of vendors	Date of acquisition	Amount paid
The assets and liabilities of JMB Electrical Contractors	J M Badenhorst P A Badenhorst J&A Family Trust, Salamax 75 (Pty) Ltd A M K de Waal	RACEC	5 Chavonnes Road Caledon, 7230	01/06/2007	R8.4 million still to be settled in cash

RACEC acquired the net assets of JMB Electrical Contractors, with a value of R12.2 million, for R8.4 million. The excess of the net assets acquired over the purchase price paid has been recognised as other income in the results for the year ended 30 September 2007.

The amount paid of R8.4 million will be paid, collectively, to the vendors (the address of which are noted above), with the contract of sale not breaking down the selling price to each of the respective vendors.

None of the assets acquired from JMB Electrical Contractors have been ceded or pledged. Assets will be transferred into the name of RACEC on payment of the full R8.4 million. Payment will be effected on or before 15 October 2007 by means of cash. JMB Electrical Contractors have not guaranteed book debts or other assets or given any other warranties in respect of assets acquired. The vendors have not entered into restraint of trade agreements.

RACEC has acquired certain VAT liabilities which will be settled (refer to Annexure 5). No other taxation liabilities have been acquired by RACEC.

None of the directors or any promoter had a beneficial interest, direct or indirect, in the above acquisition.

RACEC has made no other business acquisitions or acquisitions of subsidiaries during the past three years.

No property has been disposed of during the preceding three years.

21. SHARES ISSUED, OTHER THAN FOR CASH

Save for the issues as set out in paragraph 11, no shares have been issued or agreed to be issued by RACEC or any of its subsidiaries since incorporation, other than for cash.

22. PRINCIPAL IMMOVABLE PROPERTY OWNED AND LEASED

Principal properties leased by RACEC:

Lessor	Lessee	Property type	Location	Expiry date
Hamilton Enterprises CC	RACEC Company	Offices, workshop and stores	No's 8 and 10 Hawkins Avenue Epping 1 Cape Town	31/05/2008
Hamilton Enterprises CC	RACEC Company	Training centre	6 Hawkins Avenue Epping 1 Cape Town	30/09/2011
J&A Familie Trust	RACEC Electrification	Offices, workshop and stores	5 Chavonnes Road Caledon, 7230	Annual basis

Principal immovable properties owned by RACEC:

Owner	Consideration (R'000)	Valuation (R'000)	Loans/ Facility* (R'000)	Date acquired	Details
RACEC Company	2 050	2 050	1 435	04/04/2007	Erf 8827, Ring Road, George Industria, comprising offices, store and a yard area measuring 4 050 square metres.
RACEC Company	398	1 500	1 000*	01/10/1991	Holding 162, Withok Estates, comprising offices, stores and a yard area measuring 4.0442 hectares.
RACEC Company	3 455	3 455	456/3 000*	01/06/2007	Erf 855, situated in the municipality of Stellenbosch, Township Blackheath, comprising offices, stores and a yard area. (Forms part of the JMB Electrical Contractors acquisition. Refer paragraph 20 above.)
RACEC Company	220	1 200	–	16/07/1998	Erf 871, Arboretum, Richards Bay, comprising residential house and stores, measuring 1 591 square metres.
RACEC Company	500	500	–	31/07/2007	Remaining extent of portion 26, of farm Nooitgedacht 300, registration Div JS, Mpumalanga, comprising residential house, stores and yard area measuring 28.2267 hectares.
RACEC Company	240	350	–	01/06/2007	Erf 3226, Struisbaai, situated in the municipality of Cape Agulhas, township Bredasdorp, Western Cape Province, measuring 836 square metres. (Forms part of the JMB Electrical Contractors acquisition. Refer paragraph 20 above.)

23. DETAILS OF SUBSIDIARIES

Name	Registration number	Date of becoming a subsidiary	Nature of business	Percentage of issued shares owned by RACEC	Issued share capital of subsidiary
RACEC (Pty) Ltd	1964/009444/07	01/10/1997	Financial, investment, administration and HR	100	R300
RACEC Electrification (Pty) Ltd	1979/060034/07	01/10/1997	Electrical reticulation contracting	70	R100
RACEC Rail (Pty) Ltd	1964/001845/07	01/10/1997	Construction/ Maintenance of railway tracks	70	R300
RACEC Plant Hire (Pty) Ltd	1990/000190/07	01/10/1997	Hire of plant and equipment	100	R100
RACEC (Gauteng) (Pty) Ltd	1996/005025/07	01/10/1997	Dormant	100	R100
RACEC Power (Pty) Ltd	2001/025298/07	22/10/2001	Dormant	100	R100

24. ADEQUACY OF WORKING CAPITAL

The directors are of the opinion that the working capital available to RACEC, both prior and subsequent to the private placing, is adequate for the present requirements of the group, i.e. for a period of 12 months from the date of issue of this pre-listing statement.

25. MATERIAL CONTRACTS

Save as set out in paragraph 20, no material contracts have been entered into by the group, other than in the ordinary course of business, within the past two years or at any time that contain an obligation or settlement that is material to the group at the last practicable date.

RACEC is not subject to any royalty agreements.

26. GOVERNMENT PROTECTION AND INVESTMENT ENCOURAGEMENT LAW

There is no Government protection or investment encouragement law affecting RACEC.

27. OPTIONS AND PREFERENTIAL RIGHTS IN RESPECT OF SHARES

There is no contract or arrangement, either actual or proposed, whereby any option or preferential right of any kind has been or will be given to any person to subscribe for any shares in the company or its subsidiaries.

28. LITIGATION

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which the group is aware, which may have or have had, a material effect on the financial position of the group in the last 12 months.

29. EXCHANGE CONTROL REGULATIONS

The following is intended as a guide of the Exchange Control Regulations and is not, therefore, a comprehensive statement. Applicants are advised to consult their professional advisors if they have any doubt as to the effect of these regulations in, or the applicability of them to their particular case.

Non-residents must satisfy themselves as to the full observance of the laws of any relevant territory concerning the private placing application, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due to such territory.

In terms of the Exchange Control Regulations of South Africa:

- a former resident of the common monetary area who has emigrated, may use emigrant blocked funds to subscribe for shares in terms of this pre-listing statement;
- all payments in respect of subscriptions for shares by an emigrant, using blocked funds, must be made through the Authorised Dealer in foreign exchange controlling the blocked funds;
- any shares issued pursuant to the use of emigrant blocked funds, will be credited to their blocked share accounts at the CSDP controlling their blocked portfolios;
- shares subsequently rematerialised and issued in certificated form, will be endorsed “non-resident” and will be sent to the authorised dealer in foreign exchange through whom the payment was made; and
- if applicable, refund monies payable in respect of unsuccessful applications or partly successful applications, as the case may be, for shares in terms of this pre-listing statement, emanating from emigrant blocked accounts, will be returned to the Authorised Dealer in foreign exchange through whom the payments were made, for credit to such applicants’ blocked accounts.

Applicants resident outside the common monetary area should note, where shares are subsequently rematerialised and issued in certificated form, such share certificates will be endorsed “non-resident” in terms of the Exchange Control Regulations.

30. CODE OF CORPORATE PRACTICE AND CONDUCT

RACEC and its directors are committed to the principles of effective corporate governance and application of the highest ethical standards in the conduct of its business and affairs.

The board of directors has appointed the following committees:

- Audit Committee; and
- Remuneration Committee.

Details of RACEC’s Code of Corporate Practice and Conduct are set out in Annexure 10.

31. ADVISORS’ INTERESTS

None of the advisors, whose names are set out on page 3 of this pre-listing statement, hold any shares in RACEC or who have agreed to acquire any shares in RACEC at the date of this pre-listing statement, except as disclosed below:

Name and capacity	Number of shares	Holding in RACEC	Name of beneficial owner
D P van Huyssteen	2 500 000	2.5%	D P van Huyssteen

RACEC’s attorneys will hold in trust 50% of the above shareholding of the advisor (“the relevant securities”). The relevant securities will be held in trust until the publication of the audited results for 30 September 2008, after which 50% may be released and the balance one year thereafter. The shares will not be released before notification to the JSE. The shares will be issued during the private placing process, in addition to the 27 500 000 shares issued in terms of the private placing process, as consideration for services rendered in respect of the Baden Tech acquisition and corporate finance advise in the process leading up to the RACEC listing.

32. ADVISORS’ CONSENTS

Each of the advisors, whose names appear on page 3 of this pre-listing statement, have given and have not, prior to registration of this pre-listing statement, withdrawn their written consent to the inclusion of their names, and acting in the capacities stated and, where applicable, to their reports being included in this pre-listing statement.

33. EXPENSES AND LISTING FEES

The estimated expenses of the private placing and the listing, exclusive of Value-Added Tax, are as follows:

	R'000
Printing, publication, distribution and advertising expenses	180
JSE documentation fees	51
JSE listing fees	15
Share issue expenses, fiscal duties and taxes – Computershare	100
Transfer Secretaries – Computershare	50
Designated Advisor's fees	150
Auditors and reporting accountants' fees	400
Consulting fees	250
Contingency	35
Estimated total	1 231

The abovementioned estimated expenses will be written-off against the share premium account to the extent permissible by the Companies Act.

34. DIRECTORS' RESPONSIBILITY STATEMENT

The directors of RACEC, whose names are given in paragraph 10:

- have considered all statements of fact and opinion in this pre-listing statement;
- accept, collectively and individually, full responsibility for the accuracy of such statements;
- certify that, to the best of their knowledge and belief, there are no omissions of facts or considerations which would make any statements of fact or opinion contained in this pre-listing statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this pre-listing statement contains all information required by law and the Listings Requirements.

35. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents, or copies thereof, will be available for inspection at the registered office of RACEC and at the office of BDO QuestCo (Pty) Ltd in Johannesburg, during normal office hours from the date of issue of this pre-listing statement up to and including Tuesday, 16 October 2007:

- the memorandum and articles of association of RACEC;
- the audited annual financial statements of RACEC for the three years ended 30 September 2004, 30 September 2005 and 30 September 2006 and the interim financial statements for the period ended 31 March 2007;
- written consent from each of the advisors referred to in paragraph 31;
- the reporting accountants' report on the historical financial information of RACEC, as reproduced in Annexure 2;
- the reporting accountants' report on the *pro forma* financial information of RACEC, as reproduced in Annexure 4;
- the reporting accountants' report on the statement of assets and liabilities acquired from JMB Electrical Contractors, as reproduced in Annexure 6;
- the reporting accountants' report on the forecast financial information of RACEC, as reproduced in Annexure 8;
- copies of the letters of appointment of the directors of RACEC;
- copies of material contracts;
- copies of all service agreements, where applicable; and
- a copy of this pre-listing statement.

36. PARAGRAPHS OF SCHEDULE 3 TO THE COMPANIES ACT WHICH ARE NOT APPLICABLE

The numbers of the paragraphs in Schedule 3 to the Companies Act which are not applicable are:

1(b), 2(d), 6(d), 6(e)(ii), 6(f)(ii), 6(f)(iii), 6(g), 6(h), 8(b), 8(d), 9(a), 9(b), 10, 12, 13, 14, 16(b), 17(b), 17(c), 18(b), 20(b), 21(a), 21(b), 24, 25(1)(b), 25(2), 26, 27 and 32 to 48.

SIGNED AT CAPE TOWN ON 28 SEPTEMBER 2007 BY CHARLES HARROD ON BEHALF OF ALL THE DIRECTORS OF RACEC GROUP LIMITED, AS LISTED BELOW, IN TERMS OF POWERS OF ATTORNEYS SIGNED BY SUCH DIRECTORS.

M J Uys

C J Harrod

G L Harrod

G J Kleinschmidt

W Ollewagen

C R S Gooden

S C Wilkins

HISTORICAL FINANCIAL INFORMATION

The following has been extracted from RACEC's audited financial statements for the year ended 30 September 2006 and the six months ended 31 March 2007:

The directors of RACEC are responsible for the compilation, contents and preparation of the pre-listing statement and for the accuracy of the information contained therein. The directors are also responsible for the financial information to which this report on the historical financial information of the group relates and from which the report has been prepared.

The commentary is based on RACEC's audited consolidated financial statements for the year ended 30 September 2006 and the six months to 31 March 2007. These financial statements have been audited by BDO Spencer Steward (Cape) Inc, Registered Auditors, without qualification. The independent reporting accountants' report on the historical financial information is set out in Annexure 2.

In 2006 RACEC comprised a holding company and a number of subsidiaries, out of which the business operations were 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's operations.

RACEC has experienced an increase in trading activities, a trend which is expected to continue due to internal growth and strategic acquisitions, such as JMB Electrical Contractors.

There is an expectation of continuing benefit to shareholders of this trend, which is evidenced by the increase in capital and reserves from R6 576 898 at 30 September 2006 to R8 317 469 at 31 March 2007.

The following consolidated audit financial statements include the financial results of the RACEC employee share trust, which has been consolidated in terms of SIC 12:

Balance sheets

	Notes	31 March 2007 R	30 September 2006 R
ASSETS			
Non-current assets			
Property, plant and equipment	2	16 361 995	13 286 983
Loans to related parties	3	3 635 855	5 590 685
		19 997 850	18 877 668
Current assets			
Inventories	6	9 055 427	9 278 956
Loans to shareholders	4	–	15 000
Trade and other receivables	7	24 467 925	32 589 384
Cash and cash equivalents	8	22 407 195	3 252 602
		55 930 547	45 135 942
Total assets		75 928 397	64 013 610
EQUITY AND LIABILITIES			
Equity:			
Share capital	9	1 000	1 000
Share buy-back		(3 878 805)	(3 878 805)
Reserves	11	4 906 503	5 472 878
Retained income		7 198 501	4 917 784
Equity attributable to equity holders of the parent		8 227 199	6 512 857
Minority interest		90 270	64 041
Total equity		8 317 469	6 576 898
Liabilities:			
Non-current liabilities			
Loans from related parties	3	236 085	–
Other financial liabilities	12	5 263 917	4 781 573
Deferred tax	5	2 675 339	2 930 677
Share-based payments	10	1 498 972	628 284
		9 674 313	8 340 534
Current liabilities			
Loans from shareholders	4	3 291 172	4 562 386
Other financial liabilities	12	8 171 364	4 459 515
Current tax payable		2 060 043	1 572 009
Trade and other payables	13	44 387 299	30 709 049
Bank overdraft	8	26 736	7 793 219
		57 936 614	49 096 178
Total liabilities		67 610 927	57 436 712
Total equity and liabilities		75 928 397	64 013 610
Asset value per share			
Net asset value per share		8 317	6 577
Net tangible asset value per share		8 317	6 577

Income statements

	Notes	6 months ended 31 March 2007 R	12 months ended 30 September 2006 R
Revenue	14	89 535 217	157 797 278
Cost of sales		(74 301 917)	(132 095 523)
Gross profit		15 233 300	25 701 755
Other income		363 038	754 754
Operating expenses		(12 235 670)	(20 859 072)
Operating profit	15	3 360 668	5 597 437
Investment revenue	16	3 031 943	3 669 513
Finance costs	17	(2 427 771)	(3 799 403)
Profit before taxation		3 964 840	5 467 547
Taxation	18	(1 320 202)	(2 267 145)
Profit for period		2 644 638	3 200 402
Attributable to:			
Equity holders of the parent		2 618 410	3 092 529
Minority interest		26 228	107 873
		2 644 638	3 200 402
Earnings per share:			
Basic and diluted earnings	30	2 645	3 200
Basic and diluted headline earnings	30	2 696	3 562

Statements of changes in equity

	Share capital R	Share buy back R	Revaluation reserve R	Retained income R	Total attributable to equity holders of the group/ company R	Minority interest R	Total equity R
Opening balance, as previously reported	1 000	(3 878 805)	3 658 619	5 831 480	5 612 294	10 888	5 623 182
<i>Adjustments:</i>							
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
<i>Changes in equity:</i>							
Realised revaluation through depreciation	–	–	(621 151)	824 601	203 450	–	203 450
Revaluation of property, plant and equipment	–	–	451 376	–	451 376	–	451 376
Net income/(expense) recognised directly in equity	–	–	(169 775)	824 601	654 826	–	654 826
Profit for period	–	–	–	3 092 529	3 092 529	107 873	3 200 402
Total recognised income and expense for 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:	9	9	11				
Balance at 1 October 2006	1 000	(3 878 805)	5 472 878	4 917 784	6 512 857	64 041	6 576 898
<i>Changes in equity</i>							
Realised revaluation through depreciation	–	–	(566 374)	566 374	–	–	–
Net income/(expense recognised directly in equity)	–	–	(566 374)	566 374	–	–	–
Profit for period	–	–	–	2 618 410	2 618 410	26 228	2 644 638
Total recognised income and expense for period	–	–	(566 374)	3 184 784	2 618 410	26 228	2 644 638
Dividends	–	–	–	(904 067)	(904 067)	–	(904 067)
Total changes	–	–	(566 374)	2 280 717	1 714 343	26 228	1 740 571
Balance at 31 March 2007	1 000	(3 878 805)	4 906 503	7 198 501	8 227 199	90 269	8 317 468
Notes:	9	9	11				

Cash flow statements

	Notes	6 months ended 31 March 2007 R	12 months ended 30 September 2006 R
Cash flows from operating activities			
Cash generated from operations	20	27 581 738	3 704 698
Interest income		3 031 943	3 669 513
Finance costs		(2 427 771)	(3 799 403)
Tax paid	21	(1 087 502)	(394 082)
Net cash from operating activities		27 098 408	3 180 726
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(4 604 748)	(3 903 006)
Sale of property, plant and equipment		202 588	380 962
Net cash from investing activities		(4 402 160)	(3 522 044)
Cash flows from financing activities			
Loans repaid by group companies		2 190 916	(4 096 899)
Advance of other financial liabilities		4 194 193	1 382 085
Advance of/(Repayment of) shareholders' loan		(1 256 214)	430 613
Dividends paid	22	(904 067)	(4 434 760)
Net cash from financing activities		4 224 828	(6 718 961)
Total cash movement for period		26 921 076	(7 060 279)
Cash at beginning of period		(4 540 617)	2 519 662
Total cash at end of period	8	22 380 459	(4 540 617)

Accounting policies

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the Companies Act of South Africa. The financial statements have been prepared 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 24.

Adoption of new and revised Standards

In the current year, the group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the 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 24).

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.

1.1 Basis of consolidation

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 into 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.

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

1.3 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.

1.4 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; and
- 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;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- 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.

1.5 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.

1.6 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.

1.7 Borrowing costs

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

1.8 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 10.

1.9 Critical accounting judgements and key sources of estimation 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 judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (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:

Share-based payments

See Note 10 for critical accounting judgements and key sources of estimation uncertainty.

Revenue recognition

Contract revenue is recognised by reference to the stage of completion of the contract where revenue can be measured reliably. Under the percentage of completion method, contract revenue is recognised in the income statement in the accounting period in which the work is performed. Contract costs are recognised as an expense in the accounting period in which the work is performed.

Any expected excess of total contract costs over total contract revenue is recognised as an expense immediately.

1.10 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.

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.

1.11 **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.

1.12 **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/(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.

1.13 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.

Contracts in progress are valued at costs incurred to date, *plus* profit taken to date, *less* any provision for losses, *less* amounts invoiced.

1.14 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.

1.15 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.

1.16 Employee benefits

Defined contribution plans

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

1.17 **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 1.7).

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.

1.18 **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 re-acquires 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.

Notes to the financial statements:

2. PROPERTY, PLANT AND EQUIPMENT

Figures in Rand	2007			2006		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Land and buildings	1 900 000	–	1 900 000	1 900 000	–	1 900 000
Motor vehicles, trucks and caravans	10 507 037	(1 161 694)	9 345 343	7 896 670	(675 910)	7 220 760
Containers	1 067 664	(72 112)	995 552	835 957	(38 975)	796 982
Plant and machinery	5 175 504	(1 600 891)	3 574 612	4 057 470	(946 812)	3 110 658
Office furniture and equipment	323 297	(44 075)	279 222	239 912	(29 021)	210 890
Computer equipment	332 446	(65 183)	267 263	83 366	(35 674)	47 692
	19 305 949	(2 943 955)	16 361 995	15 013 375	(1 726 392)	13 286 983

Reconciliation of property, plant and equipment – 2007

Figures in Rand	Opening Balance	Additions	Disposals	Depreciation	Closing Balance
Land and buildings	1 900 000	–	–	–	1 900 000
Motor vehicles, trucks and caravans	7 220 760	2 819 315	(190 749)	(503 983)	9 345 343
Containers	796 982	231 708	–	(33 138)	995 552
Plant and machinery	3 110 658	1 184 403	(53 014)	(667 435)	3 574 612
Office furniture and equipment	210 890	105 982	(18 655)	(18 995)	279 222
Computer equipment	47 692	263 340	(12 759)	(31 009)	267 264
	13 286 983	4 604 748	(275 177)	(1 254 561)	16 361 995

Reconciliation of property, plant and equipment – 2006

Figures in Rand	Opening balance	Additions	Disposals	Revaluations	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	–	128 366	(334 976)	(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)	964 793	(551 856)	(1 262 686)	13 286 983

A register containing the information required by paragraph 22(3) of Schedule 4 to 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 12.

Details of properties

Freehold land and buildings comprise:

- Holding 162 Withok Estates Agricultural Holdings situated in the Transvaal, measuring 4.0442 hectares purchased in 1991.
- Erven 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.
- Erf 871, situated in Richards Bay area, purchased in 1999.

A valuation of the group's property, plant and equipment was performed 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; and
- all other assets have been valued at fair market values.

Figures in Rand	2007	2006
3. LOANS TO/(FROM) RELATED PARTIES		
CI Merchandising (Pty) Ltd	1 450 029	3 479 926
Cardita Circle (Pty) Ltd	2 185 826	2 107 813
Uphondo Electrical (Pty) Ltd	(236 085)	2 946
	3 399 770	5 590 685
Non-current assets	3 635 855	5 590 685
Non-current liabilities	(236 085)	–
	3 399 770	5 590 685

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

4. LOANS TO/(FROM) SHAREHOLDERS

E Scallo	–	15 000
M J Uys	–	(635 607)
C J Harrod	–	(635 607)
The Mike and Jen Uys Trust	(658 234)	(855 705)
The Charles and Tertia Harrod Trust	(822 793)	(822 793)
G J Klienschmidt	(362 029)	(329 117)
The Gary Harrod Family Trust	(724 058)	(641 779)
The Ollewagen Family Trust	(724 058)	(641 778)
	(3 291 172)	(4 547 386)

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 Standard and Corporate Merchant Bank as security for the banking facilities of the group.

Current assets	–	15 000
Current liabilities	(3 291 172)	(4 562 386)
	(3 291 172)	(4 547 386)

5. DEFERRED TAX

Deferred tax asset/(liability)

Property, plant and equipment	(2 282 948)	(2 210 182)
Pre-payments	–	(146 562)
Retentions	(964 087)	(1 414 173)
Provisions	297 509	407 599
Deferred interest	1 727	233 837
Assessed losses	10 612	–
Capital loss on disposal of subsidiary	182 185	182 185
Share-based payments	29 530	16 619
Operating leases	50 133	–
	(2 675 339)	(2 930 677)

Figures in Rand	2007	2006
5. DEFERRED TAX (continued)		
Reconciliation of deferred tax asset/(liability):		
Balance at beginning of period	(2 930 677)	(1 232 919)
<i>Movements during period attributable to:</i>		
– Building allowance	–	(1 323)
– Pre-payments	146 563	(15 201)
– Retentions	450 085	(682 997)
– Provisions	(110 091)	79 350
– Property, plant and equipment	(72 764)	(545 720)
– Deferred interest	(232 110)	233 837
– Assessed losses	10 612	(62 612)
– Revaluation of property, plant and equipment	–	(701 386)
– Share-based payments	12 910	(1 706)
– Operating leases	50 133	–
Balance at end of period	(2 675 339)	(2 930 677)
6. INVENTORIES		
The cost of inventories recognised as an expense during the period was R51 343 708 (2006: R92 154 500).		
Raw materials	6 117 134	3 480 640
Contracts in progress	2 938 293	5 798 316
	9 055 427	9 278 956
7. TRADE AND OTHER RECEIVABLES		
Contract debtors	19 795 659	28 046 130
Pre-payments	223 671	596 432
Deposits	719 366	104 366
VAT	–	52 819
Sundry debtor	20 027	17 167
Other receivable	3 709 202	3 772 470
	24 467 925	32 589 384

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 R272 669 (2006: R94 875). Receivables are stated at their fair values after taking into account the effect of discounting.

Figures in Rand**2007****2006****8. 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	20 921	29 004
Bank balances	22 176 871	3 214 923
Cash advances	209 403	8 675
Bank overdraft	(26 736)	(7 793 219)
	22 380 459	(4 540 617)
Current assets	22 407 195	3 252 602
Current liabilities	(26 736)	(7 793 219)
	22 380 459	(4 540 617)

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 Electrification (Pty) Ltd and RACEC Rail (Pty) Ltd. The shareholders of the group have ceded the first R2 391 168 (2006: R4 116 773) of their loan accounts to Standard Corporate and Merchant Bank as security for banking facilities extended to the group.

9. SHARE CAPITAL**Authorised**

1 000 ordinary shares of R1.00 each	1 000	1 000
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Issued

1 000 ordinary shares of R1.00 each	1 000	1 000
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Fully paid ordinary shares which have a par value of R1.00, carry one vote per share and carry the right to dividends.

10. SHARE-BASED PAYMENTS

Share-based payment liability arising on consolidation of RACEC Employee Share Trust	1 454 455	634 169
Fair value adjustments of options granted to employees	44 517	(5 885)
	1 498 972	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.

10. SHARE-BASED PAYMENTS (continued)

At 31 March 2007, the group has recorded liabilities of R1 498 972 (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 R44 517 (2006: R(5 885)) during the period in respect of SARs. At 31 March 2007, the total intrinsic value of the vested SARs was R101 829 (2006: R57 312).

	Top and senior management	Middle and junior management	Semi-skilled and unskilled labour	Fair value
	Exercise price	Exercise price	Exercise price	Exercise price
	Rand	Rand	Rand	Rand
30 September 2004	478	441	408	387
30 September 2005	515	501	481	428
30 September 2006	551	536	512	421

Grant date

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 R535.71 (2006: R522.20). 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		
	Top and senior management	Middle and junior management	Semi-skilled and unskilled labour
Exercise price (Rand)	420	420	420
Fair value at grant date (Rand)	566	551	525
Expected volatility (%)	23	23	23
Option life (years)	15	10	6
Dividend yield (%)	–	–	–
Risk free rate (%)	7.76	7.76	7.76

	2006		
	Top and senior management	Middle and junior management	Semi-skilled and unskilled labour
Exercise price (Rand)	420	420	420
Fair value at grant date (Rand)	551	536	512
Expected volatility (%)	23	23	23
Option life (years)	15	10	6
Dividend yield (%)	–	–	–
Risk free rate (%)	7.95	7.95	7.95

10. SHARE-BASED PAYMENTS (continued)

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

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	8 350	412	7 900	412
Granted	941		1 460	
Forfeited	650		1 010	
Exercised	–		–	
Expired	–		–	
Balance at end of period	7 700	536	6 890	522
Exercisable at end of period	–		–	

The share options outstanding at end of period had an exercise price of R420 (2006: R420).

Figures in Rand	2007	2006
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11. REVALUATION RESERVE

Balance at beginning of period	5 472 878	5 642 653
<i>Movement during period:</i>		
– Surplus arising from revaluation of property, plant and equipment	–	451 376
– Transferred to retained earnings	(566 375)	(621 151)
Balance at end of period	4 906 503	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.

12. OTHER FINANCIAL LIABILITIES

Held at amortised cost

Instalment sale agreements – motor vehicles	8 322 842	5 446 536
Liabilities under instalment sale agreements payable over the next two to four years bearing interest at market-related rates of prime less 2% and are repayable in monthly instalments of R42 526 (2006: R318 055). The liabilities are secured by the assets as set out in Note 2.		
Operating lease liability	172 874	–
The Mike and Jen Uys Trust	1 328 524	1 035 642
The Charles and Tertia Harrod Trust	1 284 967	970 588
The Ollewagen Family Trust	1 052 161	812 781
The Gary Harrod Family Trust	843 279	644 849
G J Kleinschmidt	430 634	330 692
	13 435 281	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.

Non-current liabilities

At amortised cost	5 263 917	4 781 573
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Current liabilities

At amortised cost	8 171 364	4 459 515
	13 435 281	9 241 088

Figures in Rand	2007	2006
13. TRADE AND OTHER PAYABLES		
Trade payables	17 032 987	15 128 735
Income received in advance	2 282 968	–
Value-Added Tax	3 754 709	840 975
Amounts due to contract customers	18 455 577	8 637 582
Accrued expense	495 018	395 661
Other payables	2 366 040	5 706 096
	44 387 299	30 709 049
<p>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.</p> <p>Payables are stated at their fair values after taking into account the effect of discounting.</p>		
14. REVENUE		
Major classes of revenue comprise:		
Contract revenue	89 535 217	157 797 278
15. OPERATING PROFIT		
Operating profit for period is stated after accounting for the following:		
Operating lease charges		
Premises – contractual amounts	590 436	714 664
Equipment – contractual amounts	65 738	120 825
	656 174	835 489
Loss on sale of property, plant and equipment	(72 582)	(26 197)
Impairment on property, plant and equipment	–	482 799
Loss on exchange differences	(19 183)	(36 943)
Depreciation on property, plant and equipment	1 254 562	1 262 686
Directors' emoluments	1 861 269	2 633 370
Employee costs	12 462 365	21 097 399
16. INVESTMENT REVENUE		
Interest revenue		
Bank	174 031	–
Related parties	45 067	192 120
Deemed interest income	2 696 967	3 208 609
RACEC Employee Share Trust unitholders	115 878	268 784
	3 031 943	3 669 513
17. FINANCE COSTS		
Bank	390 270	896 536
Shareholders	341 417	569 872
Deemed interest expense	1 696 084	2 332 995
	2 427 771	3 799 403

Figures in Rand	2007	2006
18. TAXATION		
Major components of the tax expense/(income)		
Current:		
Local income tax – current period	1 415 142	998 032
Secondary Tax on Companies	160 394	575 906
	1 575 536	1 573 938
Deferred		
Originating and reversing temporary differences	(255 334)	693 207
	1 320 202	2 267 145
Reconciliation of the tax expense		
	%	%
Reconciliation between applicable tax rate and average effective tax rate:		
Applicable tax rate	29.00	29.00
Exempt income	(0.20)	0.45
RACEC Employee Share Trust not taxable	(2.23)	(4.90)
Capital loss not deductible	–	1.54
Outside shareholders	–	(0.49)
Disallowable charges	(0.65)	1.29
Secondary Tax on Companies	3.52	7.76
	29.44	34.65
19. OPERATING LEASES		
Operating leases relate to office and warehouse facilities with lease terms of five years, with an option to extend for a further five 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	590 436	714 664
Sub-lease payments received	(77 082)	(154 164)
	513 354	560 500
Non-cancellable operating lease commitments		
Not longer than one year	1 114 201	–
Between one and five years	3 342 604	–
After five years	3 699 762	–
	8 156 567	–
20. CASH GENERATED FROM OPERATIONS		
Profit before taxation	3 964 840	5 467 547
<i>Adjustments for:</i>		
Depreciation and amortisation	1 254 562	1 262 686
Loss on sale of assets	72 582	26 197
Share-based payments	870 688	307 191
Interest received	(3 031 943)	(3 669 513)
Finance costs	2 427 771	3 799 403
Impairment loss	–	482 799
<i>Changes in working capital:</i>		
Inventories	223 529	(913 958)
Trade and other receivables	8 121 459	758 274
Trade and other payables	13 678 250	(3 815 928)
	27 581 738	3 704 698

Figures in Rand	2007	2006
21. TAX PAID		
Balance at beginning of period	(1 572 009)	(392 154)
Current tax for period recognised in income statement	(1 575 536)	(1 573 938)
Balance at end of period	2 060 043	1 572 009
	<u>(1 087 502)</u>	<u>(394 082)</u>
22. DIVIDENDS PAID		
Dividends	(904 067)	(4 434 670)
23. CONTINGENCIES		
Tax consequences of undistributed reserves		
Secondary Tax on Companies on remaining reserves	799 833	546 420

There is a contingent liability with respect to outstanding performance guarantees provided by Lombards Insurance Company and C & G Underwriting Managers totalling R19 557 767 (2006: R12 285 570) for work done by the subsidiary companies.

24. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first period that the group has presented its financial statements under IFRS. The last 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.

Re-assessment 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 26 for additional information.

24. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of equity at 30 September 2006 – Assets

Figures in Rand	<i>As reported under previous GAAP</i>	Effects of transitions 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

Reconciliation of equity at 30 September 2006 –

EQUITY AND LIABILITIES

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		64 013 610

24. **FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Reconciliation of profit or loss for 2006

Figures in Rand	As reported under previous GAAP	Effects of transition to IFRS	IFRS
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 period	2 957 958	242 444	3 200 402
Figures in Rand		2007	2006

25. **RELATED PARTIES**

Relationships:

Common shareholders	CICI Merchandising (Pty) Ltd Uphondo Electrical (Pty) Ltd Hlanganani Rail Services CC Cardita Circle (Pty) Ltd
Subsidiaries	See below
Shareholders	See Notes 4 and 12

Related party balances:

Loan accounts – owing (to)/by related parties

CI Merchandising (Pty) Ltd	(14 301)	2 015 597
Uphondo Electrical (Pty) Ltd	(239 031)	–
Hlanganani Rail Services CC	(53)	3 068
Cardita Circle (Pty) Ltd	2 185 826	2 107 812

Amounts included in trade receivables regarding related parties

CI Merchandising (Pty) Ltd	–	12 076
Hlanganani Rail Services CC	158 688	674 047

Interest paid to/(received from) related parties

CI Merchandising (Pty) Ltd	(45 067)	(192 120)
Shareholders	341 417	569 872

Sales to related parties

CI Merchandising (Pty) Ltd	(22 476)	(69 931)
Uphondo Electrical (Pty) Ltd	(322 083)	(13 034 616)
Hlanganani Rail Services CC	(438 900)	(1 191 566)

Related party transactions:

Purchases from related parties

CI Merchandising (Pty) Ltd	197 013	78 314
Uphondo Electrical (Pty) Ltd	–	10 372 902
Hlanganani Rail Services CC	–	–

Figures in Rand	2007	2006
25. RELATED PARTIES (continued)		
Rent received from related party		
CI Merchandising (Pty) Ltd	(75 000)	(144 000)
Management and administration fees received from related party		
CI Merchandising (Pty) Ltd	(165 000)	(120 000)
Compensation to directors and other key management		
Short-term employee benefits – directors’ emoluments	1 861 269	2 633 370
Share-based payment – RACEC Employee share Trust	44 517	(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.

Subsidiary companies

Direct subsidiaries:

	Issued capital No.	Percentage held	Shares, at cost		Indebtedness		Net profit after tax	
			2007 R	2006 R	2007 R'000	2006 R'000	2007 R'000	2006 R'000
RACEC (Pty) Ltd	300	100	300	300	(2 587)	(2 937)	(364)	414
RACEC (Natal) (Pty) Ltd	100	100	100	100	–	–	–	–
RACEC Electrification (Pty) Ltd	100	70	70	70	1 197	1 197	1 262	1 966
RACEC Rail (Pty) Ltd	300	70	210	210	3 516	3 516	2 050	944
RACEC (Gauteng) (Pty) Ltd	100	100	100	100	–	–	–	–
Luxor Electrical Services (Pty) Ltd	100	52	52	52	–	–	50	253
RACEC Power (Pty) Ltd	100	100	100	100	–	–	–	–
			932	932	2 126	1 776	2 998	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 IFRS, 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.

26. COMPARATIVE FIGURES

Comparative amounts for the income statement, changes in equity, cash flows and related notes are not comparable due to the fact that the current period is for the six months ended 31 March 2007, whereas the comparatives relate to the year ended 30 September 2006.

27. POST-BALANCE SHEET EVENTS

On 4 April 2007 the group took transfer of a property described as Erf 8827, Ring Road, George Industria. The purchase price of R2 050 000 was funded by cash of R615 000 and a mortgage bond of R1 435 000.

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.

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 costs that are directly attributable to the acquisition are:

Figures in Rand	At 31 May 2007
ASSETS	
Non-current assets	
Property, plant and equipment	5 475 456
Intangible asset	1 852 785
Investment property	350 000
	7 678 241
Current assets	
Trade and other receivables	16 525 607
Inventories	6 227 755
Cash	419 933
	23 173 295
Total assets	30 851 536
LIABILITIES	
Non-current liabilities	
Bank loans	(1 341 723)
Current liabilities	
Bank overdraft	(2 890 016)
Trade and other payables	(12 805 725)
Current portion of long-term liabilities	(856 288)
Provisions	(800 000)
	(17 352 029)
Total liabilities	(18 693 752)
Net assets acquired	12 157 784

28. 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 principle 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.

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.

Figures in Rand	2007	2006
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29. CONSTRUCTION CONTRACTS

Contracts in progress at the balance sheet date

Construction costs incurred plus recognised profits	86 858 565	157 690 056
<i>Less: Progress billings</i>	<i>(102 375 849)</i>	<i>(160 529 322)</i>
	(15 517 284)	(2 839 266)

Recognised and included in the financial statements as amounts due

From customers under construction contracts (Note 6)	2 938 293	5 798 316
To customers under construction contracts (Note 13)	(18 455 577)	(8 637 582)
	(15 517 284)	(2 839 266)

At 31 March 2007, retentions held by customers for contract work amount to R3 324 440 (2006: R4 876 457). Advances received from customers for contract work amounted to R20 738 546 (2006: R8 637 582).

Interest is charged on the receivables and payables. These are stated at their fair values after taking in to account the effect of sales made.

30. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on net profit attributable to ordinary shareholders of R3 644 638 (2006: R3 200 401) and 1 000 (2006: 1 000) ordinary shares in issue throughout the period.

The calculation of headline earnings per ordinary share is based on net profit attributable to ordinary shareholders of R3 696 171 (2006: R3 561 789) and 1 000 (2006: 1 000) ordinary shares in issue throughout the period.

Figures in Rand	2007	2006
Reconciliation between earnings and headline earnings:		
Profit after tax	2 644 638	3 200 402
Impairment losses	–	482 799
Loss on disposal of property, plant and equipment	72 582	26 197
Tax effect of adjustment	(21 049)	(147 609)
	2 696 171	3 561 789
Headline and diluted headline earnings per share (Rand)	2 696	3 562

There are no dilutory instruments.

31. 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.

32. 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.
- Merchandising.
- 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, crain tracks, thermit welding, railway siding design and railway material sales and track related civil works, such as storm water 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.
- KwaZuluNatal.
- Gauteng.

32. SEGMENT ANALYSIS (continued)

Figures in Rand	Administrative Investment services	Electrical reticulation	Rail construction	Consolidated
Business segments:				
2007				
Revenue				
– external	6 104	38 321 690	64 048 055	102 375 849
– inter-segment	–	840 366	3 150	–
Segment result	3 063 889	2 339 531	4 281 250	3 556 892
Other information				
Segment assets	21 420 300	19 549 693	29 994 050	70 914 043
Segment liabilities	6 970 535	13 479 406	38 100 692	58 550 633
Capital expenditure	152 927	137 192	2 395 127	2 685 246
2006				
Revenue				
– external	237	101 865 126	58 663 959	160 529 322
– inter-segment	–	580 392	19 996	–
Segment result	(3 327 342)	6 171 139	2 523 828	5 367 625
Impairment expense				
– recognised in equity	5 669	57 650	61 700	125 019
– recognised in profit	214 709	172 145	679 485	1 066 339
Other information				
Segment assets	(5 257 037)	27 430 970	26 173 332	48 347 265
Segment liabilities	10 687 102	20 354 782	17 329 756	48 371 640
Capital expenditure	152 927	137 192	2 395 127	2 685 246
	Western Cape	KwaZuluNatal	Gauteng	Consolidated
Geographical segments:				
2007				
Revenue				
– external based on location of customers	44 931 012	5 765 954	51 678 883	102 375 849
– inter-segment	843 516	–	–	–
Segment result	2 336 739	428 880	791 273	3 556 892
Other information				
Segment assets	61 065 599	7 891 453	1 956 991	70 914 043
Segment liabilities	35 812 674	22 454 709	283 250	58 550 633
Capital expenditure	2 685 246	–	2 685 246	–
2006				
Revenue				
– external based on location of customers	117 709 129	7 658 351	35 161 842	160 529 322
– inter-segment	600 388	–	–	–
Segmental results	3 993 143	35 203	1 339 279	5 367 625
Impairment expenses				
Recognised in equity	125 019	–	–	125 019
Recognised in profit	1 066 339	–	–	1 066 339
Other information				
Segment assets	38 650 740	7 161 056	2 535 469	48 347 265
Segment liabilities	41 182 973	6 383 344	805 323	48 371 640
Capital expenditure	2 685 246	–	–	2 685 246

BDO SPENCER STEWARD (CAPE) INC INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION

“The Directors
RACEC Group Limited
8 Hawkins Avenue
Epping 1
Cape Town
7460

18 September 2007

Dear Sirs

REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF RACEC GROUP LIMITED

INTRODUCTION

Annexure 1 sets out the historical financial information of RACEC Group Limited (“RACEC”) for the year ended 30 September 2006 and the six months ended 31 March 2007. The financial information of RACEC is the responsibility of the directors.

PURPOSE OF THIS REPORT

At your request and for the purposes of the pre-listing statement, to be dated on or about 21 September 2007, we present our report on the historical financial information, presented in Annexure 1 to the pre-listing statement, in compliance with the Third Schedule to the Companies Act, 1973, and the JSE Limited (“JSE”) Listings Requirements.

RESPONSIBILITY

The directors of RACEC are responsible for the compilation, contents and preparation of the pre-listing statement and for the accuracy of the information contained therein. The directors are also responsible for the financial information to which this report on the historical financial information of the group relates and from which this report has been prepared.

It is our responsibility to form an opinion on the historical financial information and to report our opinion to you.

HISTORICAL FINANCIAL INFORMATION FOR THE YEAR ENDED 30 SEPTEMBER 2006 AND THE SIX MONTHS ENDED 31 MARCH 2007

We have audited the historical financial information of RACEC relating to the financial year ended 30 September 2006 and the six months ended 31 March 2007 set out in the report of historical information attached as Annexure 1 to the pre-listing statement.

BASIS OF AUDIT OPINION FOR THE YEAR ENDED 30 SEPTEMBER 2006 AND THE SIX MONTHS ENDED 31 MARCH 2007

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the historical financial information for the year ended 30 September 2006 and the six months to 31 March 2007 is free from material misstatement.

An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the historical financial information;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall historical financial information presentation.

We believe that our work provides a reasonable basis for our opinion.

AUDIT OPINIONS FOR THE YEAR ENDED 30 SEPTEMBER 2006 AND THE SIX MONTHS TO 31 MARCH 2007

In our opinion, the financial information of RACEC relating to the year ended 30 September 2006 and the six months ended 31 March 2007 for the purposes of the pre-listing statement, fairly present, in all material respects, the financial position of RACEC and the results of its operations and cash flows for the periods then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, 1973, and the JSE Listings Requirements.

CONSENT

We consent to the inclusion of this letter and the reference to our opinion in the pre-listing statement to be issued to RACEC shareholders in the form and context in which it appears.

Yours faithfully

BDO SPENCER STEWARD (CAPE) INC

Registered Auditors

Cape Town”

PRO FORMA FINANCIAL INFORMATION

Set out below is an extract from the historic balance sheet of RACEC and the *pro forma* balance sheet of RACEC which illustrates the effects of the acquisition of the net assets of JMB Electrical Contractors, effective 1 June 2007, and the private placing on the financial position of RACEC at 31 March 2007, based on the assumption that the acquisition of JMB Electrical Contractors and the private placing had been effective at that date, the preparation of which is the responsibility of the directors. The *pro forma* balance sheets should be read in conjunction with the independent reporting accountants' reports thereon as set out in Annexure 4.

	Actual	Adjustments	Adjustments	Unaudited <i>Pro forma</i> , after acquisition of net assets of JMB Electrical Contractors and the private placement
	RACEC Audited 31 March 2007 R'000	JMB Electrical Contractors ⁽³⁾ 1 June 2007 R'000	The private placement ^{(5)/(6)}	the private placement 1 April 2007 R'000
ASSETS				
Non-current assets	19 998	7 678	–	27 676
Property, plant and equipment	16 362	5 475		21 837
Intangible assets	–	1 853		1 853
Investment property	–	350		350
Loans to related parties	3 636	–		3 636
Current assets	55 930	14 774	26 269	96 973
Inventories	9 055	6 228		15 283
Trade and other receivables	24 468	16 526		40 994
Cash and cash equivalents	22 407	(7 980) ⁽³⁾	26 269	40 696
Total assets	75 928	22 452	26 269	124 649
EQUITY AND LIABILITIES				
Capital and reserves	8 317	3 758	26 269	38 344
Issued capital	1	–	26 269	26 270
Share buy-back	(3 879)	–		(3 879)
Non-distributable reserve	4 907	–		4 907
Retained earnings	7 198	3 758 ⁽⁴⁾		10 956
Minorities interest	90	–		90
Non-current liabilities	9 674	1 342	–	11 016
Loan from related parties	236	–		236
Finance lease obligations	5 264	1 342		6 606
Deferred tax	2 675	–		2 675
Share-based payments	1 499	–		1 499
Current liabilities	57 937	17 352	–	75 289
Loans from shareholders	3 291	–		3 291
Other financial liabilities	8 172	856		9 028
Current tax payable	2 060	–		2 060
Trade and other payables	44 387	13 606		57 993
Bank overdraft	27	2 890		2 917
Total equity and liabilities	75 928	22 452	26 269	124 649
Illustrative shares in issue ⁽²⁾ ('000)	100 000 000	100 000 000	30 000 000	100 000 000
Net asset value per share (cents)	8.3	3.8		38.35
Tangible net asset value per share (cents)	8.3	1.9		36.45

Notes:

1. The unaudited *pro forma* balance sheet was prepared using extracts from the audited financial statements for the six months ended 31 March 2007 and assumes that the private placement and purchase of the net assets of JMB Electrical Contractors was completed on 1 April 2007.
2. The *pro forma* shares in issue at 31 March 2007 is based on the conversion of the original 1 000 shares in issue to 100 000 000 shares and the subsequent buy-back of 30 00 000 shares to rationalise the share structure for listing purposes, as noted in paragraph 11, as well as the 27 500 000 shares issued in terms of the private placement and 2 500 000 shares to advisors.
3. The adjustments relate to the purchase of the trade and net assets of JMB Electrical Contractors on 1 June 2007 for R8.4 million. The purchase price paid has been netted of the cash balance and will be settled on or before 15 October 2007 out of the proceeds of the listing. The cash paid for JMB Electrical Contractors has been set-off against the cash balances acquired.
4. The excess of the fair value of net assets acquired from JMB Electrical Contractors over the purchase price paid of R8.4 million, amounting to R3.8 million, has been credited to retained earnings via the income statement. The fair value of the net assets acquired was determined in accordance with IFRS 3.
5. Share capital and share premium has been adjusted for the 27 500 000 new ordinary shares of 100 cents each issued in terms of the private placement and to advisers. The estimated issue expenses of R1 231 000, as set out in paragraph 33, have been set-off the share premium account in the private placement column.
6. The cash balances forming part of current assets have been adjusted for the cash received in terms of the private placement in the private placement column.
7. Funds raised of R26 269 000 from the private placement will be used to grow the group's market share through the funding of organic growth and acquisitions and to fund the working capital requirements of the existing business.

BDO SPENCER STEWARD (CAPE) INC INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE UNAUDITED *PRO FORMA* FINANCIAL INFORMATION

“The Directors
RACEC Group Limited
8 Hawkins Avenue
Epping 1
Cape Town
7460

18 September 2007

Dear Sirs

REPORT OF THE INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED *PRO FORMA* BALANCE SHEET OF RACEC GROUP LIMITED**INTRODUCTION**

The board of directors of RACEC Group Limited (“RACEC”) has resolved to apply for a listing of its shares on Alt^x (“the proposed listing”).

We have performed our limited assurance engagement in respect of the *pro forma* financial information set out in Annexure 3 to the pre-listing statement, dated on or about 21 September 2007 (“the pre-listing statement”).

The *pro forma* financial information has been prepared in accordance with the Listings Requirements of the JSE Limited (“the JSE Listings Requirements”) for illustrative purposes only, to provide information about how the listing might have affected the reported historical financial information presented had the corporate action been undertaken on 1 April 2007.

Due to its nature, the unaudited *pro forma* balance sheet may not give a fair reflection of RACEC’s financial position, after the proposed listing.

DIRECTORS’ RESPONSIBILITIES

The directors of RACEC are solely responsible for the compilation, contents and presentation of the unaudited *pro forma* financial information to which this independent reporting accountants’ report relates and for the financial statements and financial information from which it has been prepared.

Their responsibilities include determining that: the *pro forma* financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of RACEC and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

REPORTING ACCOUNTANTS’ RESPONSIBILITIES

It is our responsibility to express a limited assurance conclusion on the unaudited *pro forma* financial information included in the pre-listing statement. We conducted our examination in accordance with the International Standards on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and in terms of the Guide on *Pro Forma* Financial Information issued by SAICA, having specific regard to paragraphs 8.15 to 8.34 of the JSE Listings Requirements.

This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion.

SOURCES OF INFORMATION AND WORK PERFORMED

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the *pro forma* adjustments in light of the accounting policies of RACEC, considering the evidence supporting the *pro forma* adjustments and discussing the adjusted *pro forma* financial information with the directors of the company in respect of the corporate actions that are the subject of the pre-listing statement.

While our work performed has involved an analysis of the historical audited financial information and other information provided to us, our assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements and, accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

OPINION

Based on our examination, in our opinion:

- the unaudited *pro forma* balance sheet has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of RACEC;
- the adjustments are appropriate for the purposes of the unabridged *pro forma* balance sheet and in terms of Sections 8.17 and 8.30 of the JSE Listings Requirements.

Yours Faithfully

BDO SPENCER STEWARD (CAPE) INC

Registered Auditors

Cape Town”

STATEMENT OF ASSETS AND LIABILITIES ACQUIRED FROM JMB ELECTRICAL CONTRACTORS

Set out below is the statement of the assets and liabilities that RACEC acquired from JMB Electrical Contractors in terms of the JMB Electrical Contractors' acquisition agreement, dated 31 May 2007. RACEC acquired these assets and liabilities for R8.4 million, payable in cash. The payment of the purchase consideration will be financed through the private placement as set out in this pre-listing statement.

The preparation of this statement of assets and liabilities is the responsibility of the directors of RACEC. BDO Spencer Steward (Cape) Inc has issued a reasonable assurance report on the statement of assets and liabilities acquired. A copy of the report is reproduced in Annexure 6.

Statement of assets and liabilities

Figures in Rand	Notes	31 May 2007
ASSETS		
Non-current assets		
Property, plant and equipment	2	5 475 456
Intangible assets	9	1 852 785
Investment property	3	350 000
		7 678 241
Current assets		
Trade and other receivables	4	16 525 607
Inventories	5	6 227 755
Cash and cash equivalents	6	419 933
		23 173 295
Total assets		30 851 536
LIABILITIES		
Non-current liabilities		
Long-term liabilities	7	1 341 723
Current liabilities		
Current portion of long-term liabilities	7	856 288
Trade and other payables	8	12 805 725
Bank overdraft	6	2 890 016
Provision		800 000
		17 352 029
Total liabilities		18 693 752
Net assets		12 157 784

Accounting policies

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The statement of assets and liabilities (“the financial information”) has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial information has been prepared on the historical cost convention, modified for certain items measured at fair value and incorporated the following principal accounting policies.

As the assets and liabilities represent those acquired with the effect of 31 May 2007, comparative information has not been presented.

1.1 Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost, *less* any subsequent accumulated depreciation and subsequent accumulated impairment loss.

Depreciation is charged to profit and loss.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined are carried at cost, *less* any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group’s accounting policy. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost *less* accumulated depreciation and any accumulated impairment loss.

Depreciation is charged so as to write-off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

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
Vehicles	5 years
Plant	5 years
Office equipment	3 years

Property, plant and equipment is stated at the cost of acquisition, effective 31 May 2007.

1.2 Impairment of assets other than goodwill

At each balance sheet date the carrying amounts of assets are reviewed 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, an estimate of the recoverable amount of the cash-generating unit to which the asset belongs is made.

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.

If the recoverable amount of an asset/(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.

1.3 Inventories

Inventories are valued at the lower of cost or net realisable value.

1.4 Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs 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 of contract costs incurred that is probable will be recovered. Contract costs are recognised as an expense in the period they are incurred.

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

1.5 Financial instruments

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

Trade receivables

Trade receivables are measured at 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.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, *plus* directly attributable costs.

At subsequent reporting dates, debt securities that the group has expressed intention and ability to hold to maturity (held-to-maturity) are measured at amortised cost using the effective interest rate method *less* any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between an investment's carrying amount and the present value of estimated cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments, other than held-to-maturity debt securities, are classified as either investments held for trading or as available-for-sale and are measured at subsequent reporting dates at fair values. Where securities are held for trading purposes, gains or losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains or losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Impairment losses recognised in profit or loss for equity instruments classified as available-for-sale are not subsequently reversed through the profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event after recognition of the impairment.

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 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 after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

1.6 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 accounting policy for borrowing costs (refer Note 1.4).

1.7 Trade payables

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

1.8 Equity instruments

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

1.9 Investment property

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

1.10 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset 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.

Re-assessing 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.

2. PROPERTY, PLANT AND EQUIPMENT

A register containing the information required by paragraph 22(3) of Schedule 4 to 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 7.

Figures in Rand	Cost/Valuation 2007
Details of properties	
<i>Freehold land and buildings comprise:</i>	
Fixed property	2 454 848
Plant and machinery	2 933 005
Office equipment	87 603
Total	5 475 456

Erf 855, situated in the Municipality of Stellenbosch, Township Blackheath, Western Cape Province. Size 2 345m². Held under deed No. T121379/2004.

3. INVESTMENT PROPERTY

The investment property comprises Erf 3226, situated in the Municipality of Cape Agulhas, Township Bredasdorp, Western Cape Province. Size 836m². Held under deed No. T46891/2006.

Figures in Rand	2007
------------------------	-------------

4. TRADE AND OTHER RECEIVABLES

Trade receivables	13 654 599
Amounts due from construction contracts	2 831 566
Deposits	13 939
Staff loans	25 503
	16 525 607

Trade receivables are stated net of provision for doubtful debts of R70 000.

5. INVENTORIES

Materials	6 196 014
Fuel	31 741
	6 227 755

6. CASH AND CASH EQUIVALENTS

Cash on hand	9 261
Bank balances	410 672
Bank overdraft	(2 890 016)
	(2 470 083)
Current assets	419 933
Current liabilities	(2 890 016)
	(2 470 083)

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.

Figures in Rand	Cost/Valuation 2007
7. LONG-TERM LIABILITIES	
Mortgage bond, Erf 855, Blackheath	456 194
Instalment sale agreements	1 741 817
	<hr/>
	2 198 011
<i>Less:</i> Current liabilities – short-term portion	(856 288)
	<hr/>
	(1 341 723)

Liabilities under instalment sales agreements payable over the next two to four years bearing interest at market-related rates linked to prime and are repayable in monthly instalments of R81 000. These liabilities are secured by the assets as set out in Note 2.

8. TRADE AND OTHER PAYABLES	
Trade payables	11 924 939
Value-Added Tax	249 708
Accruals and other payables	631 078
	<hr/>
	12 805 725

9. INTANGIBLE ASSETS

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.

BDO SPENCER STEWARD (CAPE) INC INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE STATEMENT OF ASSETS AND LIABILITIES ACQUIRED FROM JMB ELECTRICAL CONTRACTORS

“The Directors
RACEC Group Limited
8 Hawkins Avenue
Epping 1
Cape Town
7460

18 September 2007

Dear Sirs

REPORTING ACCOUNTANTS' REPORT ON THE STATEMENT OF NET ASSETS AND LIABILITIES ACQUIRED BY RACEC FROM JMB ELECTRICAL CONTRACTORS**INTRODUCTION**

We have performed our reasonable assurance engagement for purposes of the Listings Requirements of the JSE Limited with regard to the existence of the net assets acquired by RACEC Group Limited (“RACEC”) in terms of the acquisition and the value at which the assets and liabilities were acquired in terms of the JMB Electrical Contractors purchase agreement.

RESPONSIBILITIES OF THE DIRECTORS

The directors of RACEC are solely responsible for the compilation, contents and presentation of the statement of assets and liabilities as set out in Annexure 5 to the pre-listing and to satisfy themselves that the statement of assets and liabilities have been:

- based on the assets and liabilities acquired in terms of the purchase agreement;
- valued in accordance with RACEC’s accounting policies and the recognition and measurement criteria of International Financial Reporting Standards.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express our reasonable assurance opinion regarding the existence and value of the assets and liabilities acquired, as reflected in Annexure 5, based on our independent assurance engagement, performed in accordance with the *International Standards on Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. This Standard requires us to comply with ethical requirements and to plan and perform the assurance engagement to obtain sufficient appropriate audit evidence to support our reasonable assurance opinion, expressed below.

SCOPE

We have performed the procedures listed below on the statement of assets and liabilities acquired by RACEC from JMB Electrical Contractors to determine whether the statement of assets and liabilities has been prepared based on the JMB Electrical Contractors’ acquisition agreement and the accounting policies as set out in Annexure 5 to the pre-listing statement.

SUMMARY OF WORK PERFORMED

Our procedures included making such inquiries and obtaining such representations from the directors as we considered necessary and in addition we set out the results of the procedures we have performed:

Assets:

We have obtained supporting schedules for all items indicated on the statement of assets and liabilities acquired and agreed these schedules to that statement. We have inspected a selection of physical assets as well as supporting documentation to verify the existence and valuation of these assets. We have also inspected supporting documentation and obtained additional evidence to support the existence and valuation of inventories, trade and other receivables and cash and cash equivalents.

Liabilities:

We have obtained supporting schedules for all items indicated on the statement of assets and liabilities acquired and agreed these schedules to that statement. We have inspected supporting documentation, for a selection of liabilities, to obtain assurance in respect of the existence, completeness and valuation of these liabilities.

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

OPINION

In our opinion, based on the work performed, the information set out in the statement of assets and liabilities acquired contains the assets and liabilities acquired in terms of the JMB Electrical Contractors' purchase agreement and the statement has been prepared in accordance with the accounting policies set out in Annexure 5.

CONSENT

We hereby consent to the inclusion of this letter and references thereto, in the pre-listing statement in the form and context in which they appear. Furthermore, we confirm that we have not withdrawn that consent prior to the issue of the pre-listing statement.

Yours faithfully

BDO SPENCER STEWARD (CAPE) INC

Registered Auditors

Cape Town"

FORECAST FINANCIAL INFORMATION

Set out below is the forecast income statement for the financial periods ending 30 September 2007, 2008 and 2009, the preparation of which is the responsibility of the directors. The results must be read in conjunction with the independent reporting accountant's report thereon reproduced in Annexure 8.

Year ended 30 September	RACEC Forecast 2007 R'000	RACEC Forecast 2008 R'000	RACEC Forecast 2009 R'000
REVENUE	211 915	326 018	393 984
Gross profit	33 703	49 617	61 311
Other income	4 353	–	–
Operating expenses	(20 860)	(26 053)	(28,635)
Earnings before interest, tax, depreciation and amortisation	17 196	23 564	32 676
Depreciation	(3 279)	(2 498)	(2 992)
Profit before interest and taxation	13 197	21 066	29 684
Net interest received	1 219	1 453	1 710
Profit before taxation	15 136	22 519	31 394
Taxation	(3 513)	(6 608)	(9 157)
Profit after taxation	11 623	15 911	22 237
Illustrative shares in issue ('000)	100 000	100 000	100 000
Earnings per share (cents)	11.6	15.9	22.2
Headline earnings per share (cents)	7.9	15.9	22.2
Dividend per share (cents)	3.9	5.0	7.4

Notes:

- Set out above are the forecast income statements for the three years ending 30 September 2009. The RACEC Employee Share Trust has been consolidated in terms of SIC 12.
- The forecast income statement for the period ending 30 September 2007 includes actual trading for the six months ended 31 March 2007.
- Forecast revenue comprises the fair value of the consideration for products and services rendered, net of discounts and rebates to customers, excluding value-added taxes.
- Included in the RACEC forecast for the 12 months ending 30 September 2007 is the financial impact of acquisition of JMB Electrical Contractors, including:
 - a forecast gross revenue of R20 943 865 and net profit before tax of R1.2 million for the four months ending 30 September 2007; and
 - the excess of the net assets acquired over the purchase consideration paid of R3.8 million, which has been included in other income totalling R4.353 million.
- The numbers in the above table have been calculated based on the shares that will be in issue after the private placement.
- The report on the audited historic financial information for the year ended 30 September 2007 and the SIX months ended 31 March 2007 is set out in Annexure 1 to the pre-listing statement. Historically, 1 000 shares were in issue and the earnings per share was R2 645 (R3 000 in 2006) and the headline earnings per share was R2 696 (R3 562 in 2006) for the year ended 30 September 2006 and the six-month period ended 31 March 2007, respectively.

Comments on the forecast financial information

The forecast financial information is based on the assumption that circumstances which affect the group's business, but which are outside the control of the directors, will not materially alter in such a way as to affect the trading of the group. More specifically:

- Other than the point noted below, trading conditions are not expected to be materially different in each of the forecast periods.
- Other income, for the 12 months ended 30 September 2007 includes R3.8 million, being the recognition of the excess of the fair value of the net assets acquired from JMB Electrical Contractors over and above the acquisition price. This, combined with the integration of JMB Electrical Contractors into RACEC Electrification and the resultant synergies, is the reason for the significant increase in profit after tax for the six months ended 30 September 2007 as compared to the six months ended 31 March 2007.

- Forecast revenue is based on existing contracts that have not yet expired and an estimate of revenue for contracts that are in the sales pipeline, including:
 - Racec Electrification, which includes forecast contract revenue for projects which have been awarded totalling some R90 million and which will be delivered over the forecast period to 30 September 2009. The significant increase in revenue for the year ending 30 September 2008 relates to the full year impact of the JMB Electrical Contractors acquisition; and
 - Racec Rail, which includes large long-term contracts with forecast revenue totalling some R60 million, which will be delivered over the forecast period to 30 September 2009. These contracts expire between November 2008 and December 2011.
- The gross margins remain relatively unchanged.
- Costs, which are largely fixed, will increase in line with increased activity, turnover and the expected rate of inflation.
- Finance costs have been reduced in line with the reduction in borrowings due the cash raised on the listing.
- Interest rates and the bases and rates of taxation, both direct and indirect, will not change materially.

In addition, the forecast information is based on the assumptions that:

- there will be continuity in existing management and trading policies;
- there will be no change in the present accounting policies.

No allowance for revenue growth arising from further strategic company acquisitions has been allowed in the forecast and projections.

In the opinion of the directors, the above assumptions are significant to the forecasts as being key factors upon which the financial results of the group will depend. However, certain assumptions may not materialise and/or certain unforeseen events may occur or circumstances may arise subsequent to the forecasts being made. Accordingly, the results achieved for the periods referred to above may differ from those forecast.

BDO SPENCER STEWARD (CAPE) INC INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE FORECAST FINANCIAL INFORMATION

“The Directors
RACEC Group Limited
8 Hawkins Avenue
Epping 1
Cape Town
7460

10 September 2007

Dear Sirs

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE FORECAST INFORMATION OF RACEC GROUP LIMITED**INTRODUCTION**

We have examined the profit forecast and the related assumptions of RACEC Group Limited (“RACEC”) for the six months ending 30 September 2007 and the two years ending 30 September 2009, respectively, as set out in paragraph 13 of the main body of the pre-listing statement, to be dated on or about 21 September 2007.

This report and the conclusion contained herein are provided solely for the benefit of the board of directors and prospective shareholders of RACEC for the purpose of their consideration of the listing of RACEC. This report is not addressed to and may not be relied upon by any other third party for any purpose whatsoever.

DIRECTORS' RESPONSIBILITIES

The directors of RACEC are responsible for the forecast information, including the assumptions set out in the notes to the forecast information on which it is based and for the financial information from which it has been prepared.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to provide limited assurance on the forecast information prepared for the purpose of complying with the JSE Limited Listings Requirements and for inclusion in the pre-listing statement. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements applicable to the Examination of Prospective Financial Information.

This standard requires us to obtain sufficient appropriate evidence as to whether:

- management's estimations and assumptions for their estimations on which the forecast is based are not unreasonable and have been consistently applied;
- the forecast information is properly prepared on the basis of the assumption;
- the forecast information is prepared and presented on a basis consistent with the accounting policies of RACEC; and
- the forecast information is accurately presented and all assumptions, which materially affect the forecast, have been adequately disclosed.

A limited assurance engagement does not provide the same level of assurance as a reasonable assurance engagement and, therefore, the evidence-gathering procedures are limited. We believe our evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

BASIS OF CONCLUSION

We have relied on representations made to us by the directors and management of RACEC.

The principal sources of information used in arriving at our conclusion are as follows:

- the audited historical financial information of RACEC for the year ended 30 September 2006 and the six months ended 31 March 2007;
- management prepared forecasts for the six months ending 30 September 2007 and the two years ending 30 September 2009;
- discussions with the management of RACEC regarding the business, prevailing market and economic conditions;
- a review of and discussions with the management of RACEC regarding the current contract base;
- a review of and discussions with the management of RACEC regarding the current pipeline and supporting tender documentation; and
- a review of and discussions with the management of RACEC regarding the historic and forecast overhead structure.

Application of accounting policies

We ascertained that the accounting policies to be applied by RACEC in the future were applied consistently in arriving at forecast income, and agreed to the disclosed accounting policies and International Financial Reporting Standards for the respective accounting period.

Accuracy of the information

We have relied upon and assumed the accuracy and completeness of the information provided to us in writing, or obtained through discussions with the management of RACEC. While our work has involved an analysis of the historical financial information and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with International Auditing Standards. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided to us in respect of RACEC Group's listing.

CONCLUSION

Based on our examination of the evidence obtained, nothing has come to our attention that causes us to believe that:

- the assumptions, barring unforeseen circumstances, do not provide a reasonable basis for the preparation of the forecast information;
- the forecast information has not been properly compiled on the basis stated;
- the forecast has not been properly presented and all material assumptions are not adequately disclosed;
- the forecast information is not presented on a basis consistent with the accounting policies of RACEC.

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, no assurance is expressed regarding the achievability of the forecast.

Yours faithfully

BDO SPENCER STEWARD (CAPE) INC

Registered Auditors

Cape Town"

EXTRACTS FROM THE ARTICLES OF ASSOCIATION OF RACEC

2. ISSUE OF SHARES AND VARIATION OF RIGHTS

- 2.1 Subject to any relevant provisions of the Memorandum of the company and without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares in the company, any shares whether in the initial or in any increased capital may be issued with such preferred, deferred, or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the company may from time to time determine. Preference shares may be issued and existing shares may be converted into preference shares on the basis that they are, or at the option of the company are liable, to be redeemed on such terms and in such manner as shall be prescribed in these Articles or the resolution authorising or effecting such issue or conversion. The issue of preference shares to non-resident parties will be subject to prior approval from the South African Reserve Bank.
- 2.2 With the prior approval of the company in general meeting, subject to the Statutes and the approval of the Listings Division of the JSE (where necessary) any securities in the company authorised but unissued from time to time may be issued by the directors to such person or persons on such terms and conditions and with such rights or restrictions attached thereto as the directors may determine. Securities in the company which are authorised but unissued shall be offered to the existing members *pro rata* to their shareholding in the company, unless:
- 2.2.1 otherwise empowered by a general meeting of members; or
- 2.2.2 issued for the acquisition of assets or reduction debt.
- 2.3 All or any of the rights, privileges or conditions for the time being attached to any class of shares for the time being forming part of the share capital of the company may (unless otherwise provided by the terms of issue of the shares of that class) whether or not the company is being wound up, be varied in any manner with the consent in writing of the holders of not less than three-fourths of the issued shares of that class, or with the sanction of a resolution passed in the same manner as a special resolution of the company at a separate general meeting of the holders of the shares of that class. The provisions of these Articles relating to a general meeting shall *mutatis mutandis* apply to any such separate general meeting, except that:
- 2.3.1 the necessary quorum shall be a member or members of the class present in person, or represented by proxy and holding at least 51% (fifty-one per cent) of the capital paid or credited as paid on the issued shares of that class;
- 2.3.2 if at any adjourned meeting of such holders a quorum as above defined is not present, those holders who are present shall be a quorum; and
- 2.3.3 any holder of shares of the class present in person or represented by proxy may demand a poll and, on a poll, shall have 1 (one) vote for each share of the class of which he is the holder.
- 2.4 No person shall be recognised by the company as holding any share upon any trust, and no notice of any trust expressed or implied or constructive shall be entered in the register or be receivable by the company, and the company shall not, except only as otherwise provided by these Articles or by the Statutes or by any Order of a Court of competent jurisdiction, be bound by or compelled in any way to recognise any equitable, contingent, future, partial or representative interest in any share or any right in or in respect of any share, other than an absolute right to the entirety thereof in the registered holder and such other rights in case of transmission thereof as are hereinafter mentioned.

11. VOTES OF MEMBERS

- 11.1 Subject to any rights or restrictions attaching to any class or classes of share and to the provisions of Article 6.2, on a show of hands a member of the company present in person or by proxy shall have only 1 (one) vote, irrespective of the number of shares he holds or represents, provided that a proxy shall irrespective of the number of members he represents have only 1 (one) vote. On a poll a member who is present in person or represented by proxy shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by him bears to the aggregate amount of the nominal value of all the shares issued by the company or if the share capital is divided into shares of no par value, shall be entitled to 1 (one) vote in respect of each share he holds. No objection shall be raised to the admissibility of any vote, except at the meeting or adjourned meeting at which the vote objected to is or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the chairperson of the meeting, whose decision shall be final and conclusive.

- 11.2 When there are joint registered holders of any shares any one of such persons may vote at any meeting in respect of such shares as if he were solely entitled thereto; but if more than 1 (one) of such joint holders be present or represented at any meeting, that 1 (one) of the said persons whose name stands first in the register in respect of such shares or his proxy, as the case may be, shall alone be entitled to vote in respect thereof.
- 11.3 Any person entitled to a share in terms of Article 6.2 may vote at any meeting in respect thereof in the same manner as if he were the registered holder of that share: Provided that (except where the directors have previously accepted his right to vote in respect of that share) 24 (twenty-four) hours at least before the time of holding the meeting at which he proposes to vote, he shall have satisfied the directors that he is entitled to exercise the right referred to in Article 6.2. Several executors of a deceased member in whose name shares stand in the register shall, for the purposes of this Article, be deemed joint holders of those shares.
- 11.4 Any member shall be entitled to appoint a proxy. A proxy need not be a member of the company.
- 11.5 The form appointing a proxy shall be in writing under the hand of the appointer or of his agent duly authorised in writing, or, if the appointer is a corporate body, under the hand of an officer or agent authorised by that body. The holder of a general or special power of attorney given by a member shall be entitled to vote, if duly authorised under that power to attend and take part in the meetings and proceedings of the company or companies generally, whether or not he be himself a member of the company. The form appointing a proxy shall be deemed to confer authority to demand a poll.
- 11.6 The form appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notorially certified copy of such power or authority shall be deposited at the registered office of the company, or such other address in the Republic as the directors may from time to time in their discretion appoint, not less than 48 (forty-eight) hours (or such lesser period as the directors may determine in relation to any particular meeting), excluding Saturdays, Sundays and public holidays, before the time for holding the meeting (including an adjourned meeting) at which the person named in the form proposes to vote, or in the case of a poll not less than 24 (twenty-four) hours (or such lesser period determined as aforesaid in relation to the particular poll) before the time appointed for the taking of the poll, and in default the form of proxy shall not be treated as valid. No form appointing a proxy shall be valid after the expiration of 6 (six) months from the date when it was signed, except at an adjourned meeting or on a poll demanded at a meeting or adjourned meeting in cases where the meeting was originally held within 6 (six) months from the said date, unless so specifically stated in the proxy itself. A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the death or mental disorder of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no intimation in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the company at the office before the commencement of the meeting or adjourned meeting at which the proxy is used.
- 11.7 Subject to the provisions of the Companies Act, a form appointing a proxy may be in any usual or common form.

12. BORROWING POWERS

- 12.1 The directors may exercise all the powers of the company to borrow money and to mortgage or encumber its undertaking and property or any part thereof and to issue debentures or debenture stock (whether secured or unsecured) and other securities (with such special privileges, if any, as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise as may be sanctioned by a general meeting) whether outright or as security for any debt, liability or obligation of the company or of any third party.
- 12.2 For the purpose of the provisions of Article 12.1 the borrowing powers of the company shall be unlimited.

13. DIRECTORS

- 13.1 Until otherwise determined by a meeting of members, the number of directors shall not be less than 5 (five).
- 13.2 The directors shall have power at any time and from time to time to appoint any person as a director, either to fill a casual vacancy or as an addition to the board, but so that the total number of the directors shall not at any time exceed the maximum number fixed. Subject to the provisions of Article 16.2, any person appointed to fill a casual vacancy or as an addition to the board shall retain office only until the next following annual general meeting of the company and shall then retire and be eligible for re-election.
- 13.3 The appointment of a director shall take effect upon compliance with the requirements of the Statutes.
- 13.4 The shareholding qualification for directors and alternate directors may be fixed, and from time to time varied, by the company at any meeting of members and unless and until so fixed no qualification shall be required.

- 13.5 The remuneration of the executive directors shall from time to time be determined by in sub-committee by an appointed quorum of non-executive directors, when appropriate assisted by independent advisers. The remuneration of non-executive directors shall be approved by the company in general meeting.
- 13.6 The directors shall be paid all their travelling and other expenses properly and necessarily incurred by them in and about the business of the company, and in attending meetings of the directors or of committees thereof, and if any director shall be required to perform extra services or to go or to reside abroad or otherwise shall be specially occupied about the company's business, he shall be entitled to receive a remuneration to be fixed by a disinterested quorum of the directors which may be either in addition to or in substitution for the remuneration provided for in Article 13.5.
- 13.7 The continuing directors may act, notwithstanding any casual vacancy in their body, so long as there remain in office not less than the prescribed minimum number of directors duly qualified to act; but if the number falls below the prescribed minimum, the remaining directors shall not act except for the purpose of filling such vacancy or calling general meetings of shareholders.
- 13.8 A director shall cease to hold office as such:
- 13.8.1 if he becomes insolvent, or assigns his estate for the benefit of his creditors, or suspends payment or files a petition for the liquidation of his affairs, or compounds generally with his creditors; or
 - 13.8.2 if he becomes of unsound mind; or
 - 13.8.3 if (unless he is not required to hold a share qualification) he has not duly qualified himself within 2 (two) months of his appointment or if he ceases to hold the required number of shares to qualify him for office; or
 - 13.8.4 if he is absent from meetings of the directors for 6 (six) consecutive months without leave of the directors and is not represented at any such meetings during such 6 (six) consecutive months by an alternate director and the directors resolve that the office be vacated, provided that the directors shall have power to grant any director leave of absence for any or an indefinite period; or
 - 13.8.5 if he is removed under Article 13.6; or
 - 13.8.6 1 (one) month or, with the permission of the directors earlier, after he has given notice in writing of his intention to resign; or
 - 13.8.7 if he shall pursuant to the provisions of the Statutes be disqualified or cease to hold office or be prohibited from acting as director.
- 13.9 The company and the directors shall comply with the provisions of the Statutes with regard to the disclosure of the interests of directors in contracts or proposed contracts; subject thereto, no director or intending director shall be disqualified by his office from contracting with the company, either with regard to such office or as vendor, purchaser or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf of the company, in which any director shall be in any way interested, be or be liable to be avoided, nor shall any directors so contracting or being so interested be liable to account to the company for any profit realised by any such contract or arrangement by reason of such director holding that office or of the fiduciary relationship thereby established.
- 13.10 No director shall, as a director, vote in respect of any contract or arrangement in which he is so interested as aforesaid, and if he does so vote, his vote shall not be counted, nor shall he be counted for the purpose of any resolution regarding the same in the quorum present at the meeting, but these prohibitions shall not apply to:
- 13.10.1 any contract or dealing with a company or partnership or corporation of which the directors of the company or any of them may be directors, members, managers, officials or employees or otherwise interested;
 - 13.10.2 any contract by or on behalf of the company to give to the directors or any of them any security by way of indemnity or in respect of advances made by them or any of them;
 - 13.10.3 any contract to subscribe for or to underwrite or sub-underwrite any shares in or debentures or obligations of the company or any company in which the company may in any way be interested;
 - 13.10.4 any resolution to allot shares in or debentures or obligations of the company to any director of the company or to any matter arising out of or consequent upon any such resolution;
 - 13.10.5 any contract for the payment of commission in respect of the subscription for such shares, debentures or obligations.

The above prohibitions may at any time or times be suspended or relaxed to any extent by the company in general meeting.

- 13.11 A director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat any other director is appointed to hold any office or place of profit under the company or whereat the terms of any such appointment are arranged, and he may vote on any such appointment or arrangement, notwithstanding that at such meeting his own appointment or an arrangement in connection therewith is a matter before the board of directors.
- 13.12 Any general notice given to the directors of the company by a director to the effect that he is a member of a specified company or firm shall comply with the provisions of the Statutes.
- 13.13 For the purpose of this Article an alternate director shall not be deemed to be interested in any contract or arrangement merely because the director for whom he is an alternate is so interested.
- 13.14 Nothing in this Article contained shall be construed so as to prevent any director as a member from taking part in and voting upon all questions submitted to a general meeting whether or not such director shall be personally interested or concerned in such questions.
- 13.15 A director may be employed by or hold any office of profit under the company or under any subsidiary company in conjunction with the office of director, other than that of auditor of the company or of any subsidiary company, and upon such terms as to appointment, remuneration and otherwise as the directors may determine, and any remuneration so paid may be in addition to the remuneration payable in terms of Article 13.5 or 13.6: Provided that the appointment of a director in any other capacity in the company and his remuneration must be determined by a disinterested quorum of directors.
- 13.16 Subject to the provisions of the Statutes, a majority of directors may remove a director at a directors' meeting before the expiration of his period of office and by an ordinary resolution elect another person in his stead. The person so elected shall hold office until the next following annual general meeting of the company and shall then retire and be eligible for re-election.

14. REGISTER AND SUB-REGISTER

- 14.1 The directors shall cause a register of members of the company to be maintained. The register of members shall be kept up to date by recording therein any change of particulars of any member forthwith after receipt of written notice from the member of such change.
- 14.2 The company shall cause to be entered into its register of members in respect of each of the holders of securities held in certificated form:
- 14.2.1 such holder's full names and address;
- 14.2.2 a record of securities held with reference to the class of securities, amounts paid and the numbers of the certificates in respect thereof;
- 14.2.3 the date(s) upon which the name of a person has been entered in the register as member; and
- 14.2.4 the date upon which a person has ceased to be a member.
- 14.3 The company shall cause to be entered in its register of members in respect of every class of securities, the total number of securities held in uncertificated form.
- 14.4 Subject to the provisions of the Act, the company may request the participant concerned to furnish it with such details of uncertificated securities in the company as are reflected in the sub-register maintained by that participant.
- 14.5 A member who wishes to inspect a sub-register may do so only through the company in terms of section 113 of the Companies Act. On inspection, the company shall be required to cause the sub-register to be produced, which reflects at least the details referred to in sections 105 and 133 of the Companies Act.
- 14.6 Subject to such restrictions as may be prescribed by the directors from time to time, the register of members shall be available for inspection by the members.
- 14.7 With the exception of sub-registers, which shall not be closed for any period of time, if the company is not listed on the JSE, the register of members may, upon notice given by advertisement in the gazette, and such other notice in a local newspaper as the company may determine, be closed during such period as the company may determine not exceeding in the whole 60 (sixty) days in each year. If the company is listed on the JSE, the company shall comply with the JSE Listings Requirements in regard to the closing of the transfer books and register of members and any branch register.

15. ROTATION OF DIRECTORS

- 15.1 At the first annual general meeting all of the directors shall retire, and at the annual general meeting held in each year thereafter 1/3 (one-third) of the directors, or if their number is not a multiple of 3 (three), then the number nearest to, but not less than 1/3 (one-third) shall retire from office, provided that in determining the number of directors to retire no account shall be taken of any director who by reason of the provisions of Article 16.2 is not subject to retirement. The directors so to retire at each annual general meeting shall be firstly those retiring in terms of Article 13.2 and secondly those referred to in terms of Article 13.16 and lastly those who have been longest in office since their last election or appointment. As between directors of equal seniority, the directors to retire shall, in the absence of agreement, be selected from among them by lot: Provided that, notwithstanding anything herein contained, if, at the date of any annual general meeting any director will have held office for a period of 3 (three) years since his last election or appointment he shall retire at such meeting, either as one of the directors to retire in pursuance of the foregoing or additionally thereto. A retiring director shall act as a director throughout the meeting at which he retires. The length of time a director has been in office shall, save in respect of directors appointed or elected in terms of the provisions of Articles 13.2 and 13.16, be computed from the date of his last election or appointment.
- 15.2 Retiring directors shall be eligible for re-election. No person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election to the office of director at any general meeting unless, not less than 7 (seven) days nor more than 14 (fourteen) days before the day appointed for the meeting, there shall have been given to the company secretary notice in writing by some member duly qualified to be present and vote at the meeting for which such notice is given of the intention of such member to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.
- 15.3 Subject to Article 15.2 the company in general meeting may fill the vacated offices by electing a like number of persons to be directors and may fill any other vacancies. In electing directors the provisions of the Statutes shall be complied with.
- 15.4 If at any general meeting at which an election of directors ought to take place, the place of any retiring director is not filled, he shall if willing continue in office until the dissolution of the annual general meeting in the next year, and so on from year to year until his place is filled, unless it shall be determined at such meeting not to fill such vacancy.
- 15.5 For the purposes of this Article 15, “director” shall mean a non-executive director.

16. MANAGING DIRECTORS

- 16.1 The directors may from time to time appoint one or more of their number to be managing director or joint managing directors of the company or to be the holder of any other executive office in the company, including for the purposes of these Articles the offices of chairperson (subject to the JSE Listings Requirements) and may, subject to any contract between him or them and the company, from time to time terminate his or their appointment and appoint another or others in his or their place or places.
- 16.2 A managing director may be appointed by contract for a maximum period of 3 (three) years at any one time and he shall be subject to retirement by rotation and be taken into account in determining the rotation of retirement of directors, except during the period of any such contract. The managing director shall be eligible for re-appointment at the expiry of any period of appointment. Subject to the terms of his contract, he shall be subject to the same provisions as to removal as the other directors and if he ceases to hold the office of director from any cause he shall *ipso facto* cease to be a managing director.
- 16.3 A director appointed in terms of the provisions of Article 16.1 to the office of managing director of the company, or to any other executive office in the company, may be paid in addition to the remuneration payable in terms of Article 13.5 or 13.6, such remuneration – not exceeding a reasonable maximum in each year – in respect of such office as may be determined by a disinterested quorum of the directors.
- 16.4 The directors may from time to time entrust and confer upon a managing director or other executive officer for the time being such of the powers and authorities vested in them as they think fit, and may confer such powers and authorities for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions as they may think expedient and they may confer such powers and authorities either collaterally with, or to the exclusion of, and in substitution for, all or any of the powers and authorities of the directors in that behalf and may from time to time revoke, withdraw, alter or vary all or any of such powers and authorities. A managing director appointed pursuant to the provisions hereof shall not be regarded as an agent or delegate of the directors and, after powers have been conferred upon him by the directors in terms hereof, he shall be deemed to derive such powers directly from this Article.

17. PROCEEDINGS OF DIRECTORS

- 17.1 The directors may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, and may determine the quorum necessary for the transaction of business. Until otherwise determined 5 (five) directors shall form a quorum. A director may at any time and the company secretary upon the request of a director shall convene a meeting of the directors. The directors may determine what period of notice shall be given of meetings of directors and may determine the medium of giving such notice which may include telephone, telegram, telex, e-mail (electronic mail) or telefax. A director who is not within the Republic shall not be entitled to notice of any such meeting, but notice shall be given to all duly appointed alternate directors who may at the time be within the Republic.
- 17.2 Questions arising at any meeting shall be decided by a majority of votes and in case of an equality of votes, the chairperson shall not have a second or casting vote.
- 17.3 The directors may elect a chairperson of their meetings and one or more deputy chairmen to preside in the absence of the chairperson, and may determine a period, not exceeding 1 (one) year, for which they are to hold office, but if no such chairperson or deputy chairperson is elected or if at any meeting neither the chairperson nor a deputy chairperson is present at the time appointed for holding the same, the directors shall choose 1 (one) of their number to be chairperson of such meeting.
- 17.4 A meeting of the directors at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions by or under these Articles or the regulations of the company for the time being vested in or exercisable by the directors generally.
- 17.5 Subject to the Statutes:
- 17.5.1 a resolution in writing, signed by all the directors, including through the medium of telefax or other form of electronic transmission where the directors' consent thereto can be verified, shall be as valid and effectual as if it had been passed at a meeting of the directors duly called and constituted;
- 17.5.2 in the case of matters requiring urgent resolution or, if for any reason it is impracticable to meet or pass a resolution as contemplated in Article 17.1,
- proceedings may be conducted by utilising video conference or telephone conference facilities, provided that the required quorum is met. A resolution agreed to by a majority of the directors participating during the course of such proceedings shall be as valid and effectual as if it had been passed at a meeting of the directors duly called and constituted. The company secretary shall as soon as is reasonably possible after such meeting by video or telephone conference has been held, be notified thereof by the relevant parties to the meeting, and the company secretary shall prepare a written minute thereof.
- 17.6 Any resolution referred to in Article 17.5.1 may consist of several documents, each signed by one or more directors or their alternates in terms of these Articles.
- 17.7 Any resolution referred to in Article 17.5.1 shall be deemed (unless the contrary is stated therein) to have been passed on the date upon which it was signed by the last director or alternate required to sign it and where it states a date as being the date of its signature by any director or alternate that document shall be prima facie evidence that it was signed by that director or alternate on that date.

18. COMMITTEES

- 18.1 The directors may delegate or allocate any of their powers to an executive or other committee consisting of such member or members of their body or any other person or persons as they think fit. Any committee so formed shall in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed on it by the directors.
- 18.2 Any director who serves on an executive or other committee, or who devotes special attention to the business of the company, or who otherwise performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director, may be paid such extra remuneration (in addition to the remuneration he may be entitled to as a director) by way of salary and/or by way of an amount equal to a percentage of the dividends declared, provided that such amount shall be limited to a reasonable maximum to be fixed by a disinterested quorum of the directors.
- 18.3 The meetings and proceedings of any such committee consisting of 2 (two) or more members shall be governed by the provisions herein contained for regulating the meetings and proceedings of the directors so far as the same are applicable thereto and are not superseded by any regulations made by the directors under Article 18.

- 18.4 All acts done at any meeting of the directors or of any executive or other committee of the directors, or by any person acting as a director shall, notwithstanding that it shall afterwards be discovered that there was some defect in the appointment of the directors or persons acting as aforesaid, or that they or any of them were disqualified or had vacated office or were not qualified to vote be as valid as if every such person had been duly appointed and was qualified to be and to act and vote as a director.

19. ALTERNATE DIRECTORS

- 19.1 Any director shall have the power to nominate another person approved by the board to act as alternate director in his place during his absence or inability to act as such director, and on such appointment being made, the alternate director shall, in all respects, be subject to the terms and conditions existing with reference to the other directors of the company. A person may be appointed as alternate to more than one director. Where a person is alternate to more than one director or where an alternate director is a director, he shall have a separate vote, on behalf of each director he is representing in addition to his own vote, if any, provided that the alternate director so acting will only be counted as one for purposes of establishing a quorum.
- 19.2 The alternate directors, whilst acting in the place of the directors who appointed them, shall exercise and discharge all the duties and functions of the directors they represent. The appointment of an alternate director shall cease on the happening of any event which, if he were a director, would cause him to cease to hold office in terms of these Articles or if the director who appointed him ceases to be a director, or gives notice to the company secretary of the company that the alternate director representing him shall have ceased to do so. An alternate director shall look to the director who appointed him for his remuneration.

20. POWERS OF DIRECTORS

- 20.1 The management of the company shall be vested in the directors who, in addition to the powers and authorities by these Articles expressly conferred upon them, may exercise all such powers, and do all such acts and things, as may be exercised or done by the company and are not hereby or by the Statutes expressly directed or required to be exercised or done by the company in general meeting (including without derogating from the generality of the foregoing or from the rights of the members, the power to resolve that the company be wound up), but subject nevertheless to such management and control not being inconsistent with these Articles or with any resolution passed at any general meeting of the members in accordance therewith; but no resolution passed by the company in general meeting shall invalidate any prior act of the directors which would have been valid if such resolution had not been passed. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the directors by any other Article.
- 20.2 It is hereby declared pursuant to the provisions of the Statutes that although the directors shall have power to enter into a provisional contract for the sale or alienation of the undertaking of the company, or the whole or the greater part of the assets of the company, such provisional contract shall become binding on the company only in the event of the specific transaction proposed by the directors being approved by a resolution passed by the company in general meeting.
- 20.3 The directors shall have the power to delegate to any person or persons any of their powers and discretions and to give to any such person or persons power of sub-delegation.
- 20.4 Without in any way limiting or restricting the general powers of the directors to grant pensions, allowances, gratuities and bonuses to officers or ex-officers, employees or ex-employees of the company or the dependants of such persons, it is hereby expressly declared that the directors may from time to time without any further sanction or consent of the company in general meeting, but subject to the Statutes, grant pensions, gratuities or other allowances to any person or to the widow or dependants of any deceased person in respect of services rendered by him to the company as managing director, executive director, general manager or manager, or in any other office or employment under the company, notwithstanding that he may continue to be or be elected a director or may have been a director of the company, of such amounts, for such period, whether for life or for a definite period or for a period terminable on the happening of any contingency or event, and generally upon such terms and conditions as the directors in their discretion may from time to time think fit. For the purpose of this Article, the expression "executive director" shall mean a director appointed to an executive office in the company and receiving in addition to his fees as a director salary or remuneration for additional services whether under a service agreement or otherwise. The directors may authorise the payment of such donations by the company to such religious, charitable, public or other bodies, clubs, funds or associations or persons as may seem to them advisable or desirable in the discretion of the directors.

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 CEO

The board will be chaired by the non-executive chairman who will be 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 shall be distinct and independent from each other.

Board of directors

The board of directors shall comprise five executive directors and two non-executive directors, one of whom will be 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 will be 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 will be able to bring an independent view to the board's decision-making process.

The board is scheduled to meet quarterly on a formal basis with an agenda being distributed on a timely basis to ensure that decisions can be made on a reasonable and informed basis.

Independence of the board

The board's independence will be 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; and
- 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 will be formed comprising the two non-executive directors and one executive director. The committee will be 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 incentive schemes. Full disclosure of the director's remuneration shall be provided in the annual report on an individual basis.

Nomination Committee

A Nomination Committee will be formed comprising two non-executive directors, one of whom is independent. The Nomination Committee will be 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 will be chaired by the independent non-executive director and attended by the group's Designated Advisor. 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;
- compliance with applicable legislation and requirements of regulatory authorities.

The Audit Committee will meet bi-annually 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 will be appointed by the board and acts as advisor 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.

SALIENT FEATURES OF THE SHARE INCENTIVE SCHEME ON SUBSIDIARY LEVEL

1. CREATION AND ADMINISTRATION OF THE SHARE INCENTIVE SCHEME

The RACEC Employee Trust was created on 1 April 2004, for the following reasons:

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

The trustees shall administer the Trust and shall be elected from the ranks of the employees of RACEC.

The trustees shall meet quarterly to discuss any administration matters regarding the Trust and shall review the report from the independent accountant.

An independent accountant shall be appointed by the trustees to administer the books of the Trust.

2. OBJECT AND PURPOSE OF THE TRUST

The sole purpose of the Trust is to administer and control the plan which, in turn, is intended to incentivise employees by giving them an opportunity to acquire units in the Trust.

Trustee shall not engage in any other purpose other than those directly linked to the above.

No prohibitive activities allowed, including loans, funeral schemes and investments.

3. THE SCHEME

3.1 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 are eligible to participate as beneficiaries of the Trust.

3.2 Initial offer of the units

The Trust purchased an initial 30% interest in the each of the two operating companies, i.e. 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 a number of units equal to the employees category weighting (see weighting categories below).

The initial offer price is R387.88 per unit.

Purchasers of the units shall be entitled to dividends accruing from 1 October 2004.

Any units not sold shall become unreserved units and shall be under the control of the trustees.

3.3 Sale after initial offer

Trustees shall offer (but not be obliged) all unreserved units under its control, since the last action date to all eligible employees in the following order:

- offer to new employees (who have qualified based on their term of employment);
- offer to employees who have increased their category weighting;
- offer existing beneficiaries; and
- offer price shall be based on annual share price at the action date.

3.4 **Action dates and offer price**

The action date shall be the financial year-end date of 30 September each year.

The offer price shall be based on the share price per unit, calculated by using the adjusted net asset value of the company each year and the number of units in issue in the Trust.

3.5 **Rights and obligations afforded by the units**

The units available for issue represent 30% of the investment in RACEC Rail and RACEC Electrification. The Trust consequently has 30% of the voting rights of the abovementioned companies.

Each unit shall have a unique serial number.

Units and hence rights may not be ceded to a third party.

Each beneficiary shall be entitled to one vote regardless of number of units held.

All dividends received by the Trust shall be paid to the owners of the units after deductions of taxes, duties, etc.

Units may only be owned in the beneficiary's personal name.

3.6 **Obligations by beneficiary**

The beneficiary must ensure that the payment of the sale price is made punctually on the due date.

3.7 **Payment of the sale/offer price**

The sale price plus interest owing shall be paid to the Trust in instalments on the first pay day following the date of the acceptance of the offer.

Payments shall be made by periodic deduction by the group, from the employee's gross pay at a rate of 3% per month.

The outstanding balance shall bear interest as determined by financiers on the loan amounts; however, the initial offer will only attract interest from 1 October 2005.

Any dividends or awards made shall first be applied towards the repayment of the outstanding balance and debited to the beneficiary account.

All payments shall be allocated as follows: costs, interest and then capital and shall be apportioned equally to related units.

3.8 **Obligation to re-acquire units**

The Trust is obligated to re-acquire units if a beneficiary:

- puts in a put option;
- becomes insolvent;
- ceases to be an employee;
- attempts to transfer his units, other than in accordance with the Share Trust Deed;
- is in breach of this deed and fails to remedy such breach within seven days.

The purchase shall be on following terms:

- with effect on the trigger of the event above;
- the buy-back price shall be in accordance with Appendix 1 to the Trust Deed (see below);
- the buy-back price shall be payable as soon as possible after the next action date;
- the trustees may determine terms of repayments of outstanding balances with beneficiary.

3.9 **When an employee ceases to be employed**

Beneficiaries may cease to be employees of RACEC due to death, retirement, retrenchment, dismissal and resignation.

3.10 Put option by beneficiaries

Beneficiaries shall be entitled to put such number of units as permitted in writing to the trustees not longer than 20 days before an action date.

Beneficiary must identify unique serial number of units he wishes to sell.

Maximum number of units which may be sold is as per Appendix 1 (see below).

3.11 Cancellation of the sale

If beneficiaries fail to pay any outstanding amount in respect of the sale price within 14 days of written notice of the Trust, the sale shall be cancelled

4. APPOINTMENT OF TRUSTEES

Trustees shall be appointed by the beneficiaries from the employees of RACEC.

There shall be no less than five and no more than eight appointed trustees.

No trustee may be appointed who are involved with any other conflicting business.

The trustees shall hold office until first annual general meeting, where they may be eligible for re-election.

The elected trustees are to hold a two-year term of office.

Retiring trustees may make themselves available for re-election.

The trustees shall attend the quarterly board meetings of the two operating companies.

The assets of the Trust vest in the trustees in their official capacities as trustees in order that they may deal with them in terms of the Trust Deed. At no time shall the trustees be deemed to acquire for themselves or for their personal accounts any vested right or interest in the assets of the Trust.

5. GENERAL MEETINGS OF BENEFICIARIES

Annual general meeting must be held no later than 31 May each year.

21 days' notice must be given to beneficiaries of the meetings.

At least 33% presence at meetings shall constitute a quorum.

A beneficiary may vote if present and not be in arrears with any debts.

APPENDIX 1 to the Trust Deed

1. EMPLOYEE CATEGORY WEIGHTING:

Category	Employee description (as per Employment Equity Act)	Weighting
F	Top management	70
E	Senior management	65
D	Middle management	60
C	Junior (skilled) employee	55
B	Semi-skilled employee	50
A	Unskilled employee	45

2. PAYMENT OF THE SALE/OFFER PRICE

Minimum instalment amounts payable:

- Wage employees: 3% of gross earnings deducted weekly from wages by the group.
- Salaried employees: 3% of gross earnings deducted monthly from salary by the group.

Fixed amounts in excess of the minimum earnings may be paid on instruction by the employee.

3. BUY-BACK PRICE

Buy-back price in terms of the trust deed

Period	Voluntary leavers (resignation and dismissals)	Involuntary leavers (retrenchment, retirement and death)	Current employees
Up to 5 years after unit acquisition	Refund acquisition price, <i>less</i> any capital loss. No capital gain paid.	Refund acquisition price: • <i>less</i> any capital loss; or • <i>plus</i> full capital gain.	Not entitled to sell.
From 6 until 10 years after unit acquisition	Refund acquisition price: • <i>less</i> any capital loss; or • <i>plus</i> 20% capital gain for each year from years six to 10.	Refund acquisition price: • <i>less</i> any capital loss; or • <i>plus</i> full capital gain.	Refund acquisition price: • <i>less</i> any capital loss; or • <i>plus</i> 20% capital gain for each year from years 6 to 10.
From 10 years after unit acquisition	Refund acquisition price: • <i>less</i> any capital loss; or • <i>plus</i> full capital gain.	Refund acquisition price: • <i>less</i> any capital loss; or • <i>plus</i> full capital gain.	Refund acquisition price: • <i>less</i> any capital loss; or • <i>plus</i> full capital gain.



RACEC GROUP LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1998/006153/06)

Share code: RAC ISIN: ZAE000105409

("RACEC" or "the group")

PRIVATE PLACING APPLICATION FORM

**In respect of the private placing by way of subscription of 27 500 000 RACEC ordinary shares
at an issue price of 100 cents per share,
registered in terms of the pre-listing statement issued on 28 September 2007 ("the pre-listing statement")**

Please refer to the instructions overleaf before completing this private placing application form.

Certificated shares – payment by bank guaranteed cheque or banker's draft

Applicants who elect to receive their allocated shares in certificated form and who wish to pay by way of **bank guaranteed cheque or banker's draft** must complete and return this private placing application form, together with their payment in the form of a bank guaranteed cheque or banker's draft (crossed "not transferable" with "or bearer" deleted and drawn in favour of "RACEC Group Limited") in an envelope marked "RACEC Private Placing" to:

<i>if delivered by hand or by courier:</i>	<i>If posted:</i>
Charles Harrod	Charles Harrod
RACEC Group Limited	RACEC Group Limited
8 Hawkins Avenue	PO Box 61
Epping 1	Eppindust
Cape Town	7475
7460	

Certificated shares – payment by electronic transfer

Applicants who elect to receive their allocated shares in certificated form and who wish to pay by way of **electronic transfer** may do so, in which case the **private placing application and proof of such payment by electronic transfer must be hand delivered, posted or faxed to RACEC (and not the transfer secretaries):**

<i>if delivered by hand:</i>	<i>if posted:</i>	<i>if faxed:</i>
Charles Harrod	Charles Harrod	RACEC Group Limited
RACEC Group Limited	RACEC Group Limited	(021) 531 8488
8 Hawkins Avenue	PO Box 61	
Epping 1	Eppindust	
Cape Town	7475	
7460		

so as to be received by no later than 12:00 on Friday, 12 October 2007.

Payment by electronic transfer must be made into the following bank account:

Bank:	The Standard Bank of South Africa Limited
Branch:	Sanlam Centre Parow
Branch code:	03-1110-44
Account name:	RACEC Group (Pty) Ltd
Account number:	271028408

RACEC accepts no responsibility and will not be liable for the correct or any allocation of private placing shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or RACEC, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placing shares.

Dematerialised shares – payment by electronic transfer or through Central Securities Depository Participant ("CSDP") or broker:

Applicants who elect to receive their allocated shares in dematerialised form and who wish to pay by way of **electronic transfer** must do so, in which case the **private placing application and the section on their CSDP or broker must be completed and stamped or signed by the relevant CSDP or broker and proof of such payment by electronic transfer must be hand delivered, posted or faxed to:**

<i>if delivered by hand:</i>	<i>if posted:</i>	<i>if faxed:</i>
Charles Harrod	Charles Harrod	RACEC Group Limited
RACEC Group Limited	RACEC Group Limited	(021) 531 8488
8 Hawkins Avenue	PO Box 61	
Epping 1	Eppindust	
Cape Town	7475	
7460		

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Payment by electronic transfer must be made into the following bank account:

Bank:	The Standard Bank of South Africa Limited
Branch:	Sanlam Centre Parow
Branch code:	03-1110-44
Account name:	RACEC Group (Pty) Ltd
Account number:	271028408

RACEC accepts no responsibility and will not be liable for the correctness of any allocation of private placing shares pursuant to payment being made or alleged to have been made by way of electronic transfer due to proof of such payment not being received or purported proof of such payment being insufficient or defective or RACEC, for any reason, not being able to reconcile a payment or purported payment with a particular application for private placing shares.

An applicant who wishes to receive his allocated shares in dematerialised form, can also complete and return this private placing application form to the duly appointed CSDP or broker by the time and date stipulated in the agreement governing their relationship with the CSDP or broker, together with the method of payment as stipulated in such agreement.

NO LATE APPLICATIONS WILL BE ACCEPTED.

Reservation of rights

The directors of RACEC reserve the right to accept or refuse any application(s), either in whole or in part, or to *pro rate* any or all application(s) (whether or not received timeously) in such manner as they may, in their sole and absolute discretion, determine.

The directors of RACEC reserve the right to accept or reject, either in whole or in part, any private placing applications should the terms contained in the pre-listing statement of which this private placing application form forms part and the instructions herein not be complied with.

Applications must be for a minimum of 100 000 shares.

To the directors

RACEC Group Limited

1. I/We, the undersigned, confirm that I/we have full legal capacity to contract and, having read the pre-listing statement, hereby irrevocably apply for and request you to accept my/our application for the undermentioned number of shares in RACEC at 100 cents per share or any lesser number that may, in your absolute discretion, be allotted to me/us, subject to the articles of association of RACEC.
2. I/We wish to receive our allocated shares in dematerialised form and will hand this private placing application form to our appointed CSDP or broker. I/We accept that payment in respect of these applications will be, in terms of the custody agreement entered into between me/us and our CSDP or broker, on a delivery versus payment basis. (Delete if not applicable.)
3. I/We wish to receive our allocated shares in certificated form and commit to accept the physical share certificate. Accordingly, I/we hereby enclose a crossed cheque/banker's draft in favour of "RACEC Group Limited" for the appropriate amount due in terms of this application. (Delete if not applicable.)
4. I/We understand that the subscription for or purchase of shares in terms of the pre-listing statement is conditional on the granting of a listing of the shares of RACEC by Thursday, 18 October 2007 or such later date as the directors may determine, on the Alternative Exchange (Alt^x) of the JSE Limited.

Dated _____ 2007 Telephone number (_____)

Signature _____

Assisted by (where applicable) _____

Surname of individual or Name of entity	Mr, Mrs, Ms, Other title
First names (in full)	
To be completed by all applicants: Postal address (Preferably PO Box address) Refund cheque and/or share certificate, if applicable, will be sent to this address	
Telephone number (_____)	
Total number of ordinary shares applied for Note: Minimum number of 100 000 shares	(Enter figures only. not words)
Total amount of cheque or banker's draft to cover ordinary shares applied for herein at 100 cents per share	R (Enter figures only, not words)

Section must be completed if shares required in dematerialised form. Required information must be obtained or completed by CSDP or broker.

CSDP name
CSDP contact person
CSDP contact telephone number (_____)
CSA or bank CSD account number
Scrip account number
Settlement bank account number
CSDP signature or stamp

This application will constitute a legal contract between RACEC and the applicant. The issuer of the shares is RACEC. This private placing application form for certificated or uncertificated shares will **not** be accepted unless the above information has been furnished.

Instructions:

1. Applications may be made on this private placing application form only. Copies or reproductions of this private placing application form will be accepted.
2. Applications are irrevocable and may not be withdrawn once submitted to RACEC, transfer secretaries, CSDP's or brokers.
3. All CSDP's and brokers will be required to retain the private placing application form for presentation to the directors if required.
4. Please refer to the terms, conditions and payment of the private placing set out in paragraph 15 of the pre-listing statement. An applicant should consult his broker, banker or other professional advisor in case of doubt as to the correct completion of this private placing application form.
5. Applications must be for a minimum of 100 000 shares.
6. Applicants who wish to receive their shares in uncertificated form and who do have a CSDP or broker must do so in terms of the custody agreement entered into between them and their CSDP or broker.
7. Applicants who wish to receive their shares in certificated form must submit only one private placing application form and one bank guaranteed cheque or banker's draft in respect of each application. Payment may also be by way of electronic transfer as set out above. To the extent that more than one application is submitted, the first private placing application form received will be the one in respect of which RACEC shares will be allocated in terms of the pre-listing statement and further application form(s) will be ignored. The application monies applicable thereto will be held by the transfer secretaries and returned without interest to the applicants concerned with all other returned cheques in terms of the pre-listing statement at the applicants' risk. Postal orders, cash or telegraphic transfers will **not** be accepted.
8. No receipts will be issued for private placing application forms, application monies or any supporting documentation and applications will only be regarded as complete when the relevant cheque/banker's draft has been paid. All monies will be deposited immediately for payment. If a receipt is required, shareholders or lodging agents are required to prepare special transaction receipts for private placing application forms lodged.
9. If any cheque or banker's draft is dishonoured, the group may, in its sole discretion, regard the relevant application as invalid or take such other steps in regard thereto as it may deem fit.
10. All alterations on this private placing application form must be authenticated by full signature.
11. RACEC will use the "certified transfer deeds" and other temporary "documents of title" procedure approved by the JSE Limited and therefore will issue only a "block" certificate for the shares allotted in terms of this application for the applicant who requests a share certificate.
12. Blocked Rand may be used by emigrants and non-residents of the common monetary area (comprising the Republics of South Africa and Namibia and the Kingdoms of Swaziland and Lesotho) for payment in terms of private placing application and reference should be made to paragraph 29 of the pre-listing statement, which deals with Exchange Control Regulations.

