



ANNUAL REPORT 2009

# RACEC

## GROUP LIMITED

---

EXCELLENCE IN ENGINEERING INFRASTRUCTURE



## contents

Group structure and vision	2	RACEC management	21
Company overview	3	Financial statements	25
Chairman's letter	4	Shareholder analysis	77
Chief executive officer's report	6	Notice of annual general meeting	79
Review of operations	10	Form of proxy	Attached
Social responsibility and BEE	18	Corporate information	IBC
Corporate governance	19		



## History

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

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

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

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

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



# RAIL AND ELECTRICAL

Providing engineering infrastructure solutions in two focus areas

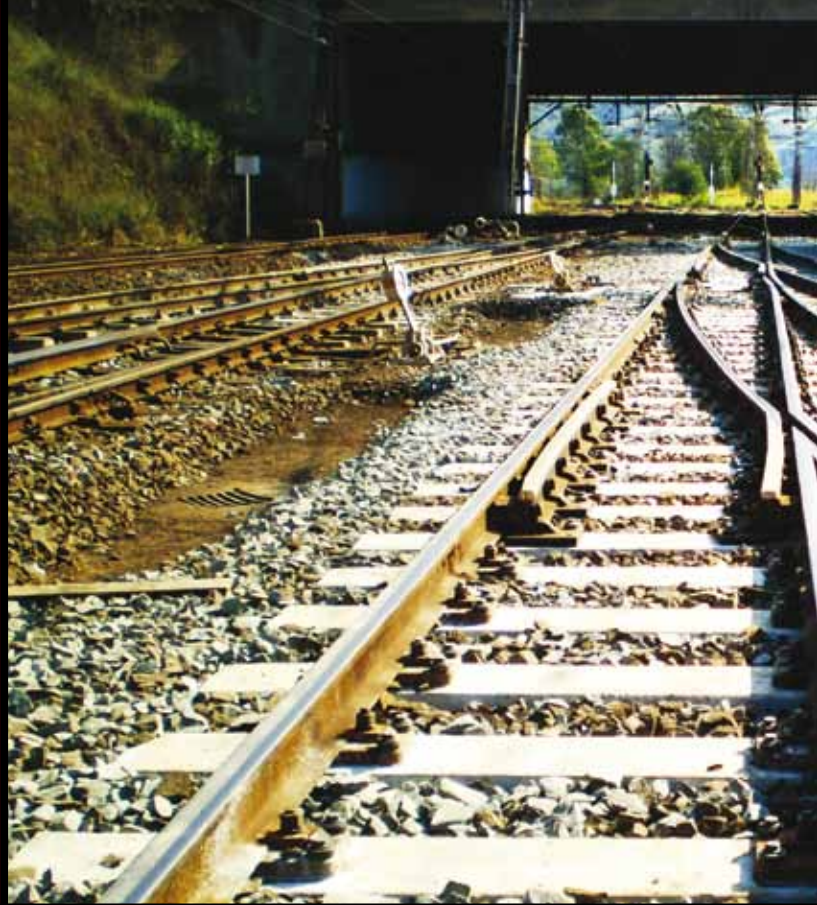


EXCELLENCE IN ENGINEERING INFRASTRUCTURE

# At a glance

## Vision

To be a leading provider of engineering infrastructure solutions



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

### RACEC GROUP LIMITED

**SOLETHU CIVILS (PTY) LTD**  
BEE INVESTOR 25%

<b>GREENBRO (PTY) LTD</b>	<b>100%</b>	
<b>RACEC PLANT HIRE (PTY) LTD</b>	<b>100%</b>	
<b>NORTHERN ELECTRIC (CAPE) (PTY) LTD</b>	<b>100%</b>	
<b>RACEC (PTY) LTD</b>	<b>100%</b>	
<b>RACEC POWER (PTY) LTD</b>	<b>70%</b>	
<b>RACEC AFRICA (PTY) LTD</b>	<b>100%</b>	
<b>RACEC RAIL (PTY) LTD</b>	<b>70%</b>	<b>30%</b>
<b>RACEC ELECTRIFICATION (PTY) LTD</b>	<b>70%</b>	<b>30%</b>

Solethu Investments is an empowerment investment group with specific expertise that complements RACEC's own skill set and which will significantly strengthen RACEC's black economic empowerment ("BEE") credentials. This relationship will allow for the creation of numerous synergies between RACEC and Solethu Investments and will result in additional business opportunities for the entities within the group.

**RACEC EMPLOYEE TRUST**



## Company overview

The group consists of companies that provide engineering solutions in two main focus areas, namely electrical services and rail construction.

### Electrical services ("Electrification") includes:

- RACEC Electrification (Pty) Ltd and RACEC Power (Pty) Ltd, which are 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;
- Greenbro (Pty) Ltd, which supplies industrial generators and electrical enclosures; and
- Northern Electric (Cape) (Pty) Ltd, which is an electrical contractor focused primarily on the industrial and commercial markets.

### Rail construction ("Rail") includes:

- RACEC Rail (Pty) Ltd, which concentrates mainly on the construction and maintenance of railway tracks throughout South and Southern Africa.

RACEC's directors are the major shareholders of the group, with the nine directors having over 100 years service in the group.

RACEC has a workforce of more than 800 permanent staff members, of whom more than 80% are previously disadvantaged. Flexibility is maintained by using temporary contracts of employment to supplement core staff. The sourcing of temporary employees is from communities in the vicinity of the relevant project in order to assist with the upliftment of those communities.

Revenue for the year ended 30 September 2009 amounted to R344,6 million, with approximately 30% relating to rail and 70% relating to electrification, which now has the full-year impact of the revenue from the acquisition of Greenbro and Northern Electric, which were acquired in the 2008 financial year.

## Chairman's letter

**RACEC has performed well and largely to expectation in spite of the constraints on funding emanating from first world countries that have resulted in a slower flow of contract availability. We are uniquely placed in a niche construction environment that will enable us to continue our growth in profit and hence increase dividend declaration in the foreseeable future.**



MJ Uys | CHAIRMAN

Nothing in my time at RACEC, since 1972, had prepared me for the rapidity with which a positive looking contracting scenario could turn around quite as dramatically as it did.

Indeed, the downturn resulted in the first loss made by RACEC since the management buy-out (MBO) in December 1988. In my previous letter to you, non-domestic construction seemed to have been one of the only two sectors remaining relatively unscathed. This happy state of affairs was short lived, as the global recession carved its way through South Africa's economy, proving that we are not shielded from global crises even though none of our banks had any direct exposure.

The cancellation of two contract awards valued at circa R140 million quickly blew a gaping hole in what had seemed to be a strong order book. Some smaller contracts followed this pattern, resulting in a cost-cutting and retrenchment process combined with a foray into the market to fill this gaping hole. This obviously resulted in smaller margins than that which we would have liked, but we were able to retain our excellent and critically important skills base.

As if that was not enough, a large fixed-price lump-sum rail contract, tendered on four years ago, went pear shaped and, despite our best efforts, resulted in a significant loss.

We have reviewed our risk matrix and following a Price-waterhouseCoopers Inc. report on RACEC's tendering and submission process, we have strengthened our systems and processes in order to limit the possibility of this happening again.

The good news is that both these contracts have now been awarded to us and at this time our order book is in excess of 70% of 2009 revenue. At the time of writing, rail contracts to the value of R419 million are pending award. Of these, we are the preferred bidder on two contracts to the value of R182 million. Should even some of these flow through to contract awards, revenues toward year-end will take an upward leap.

We are uniquely placed in a niche construction environment and if current indications of a return to a more positive market are borne out by reality, we will continue our growth and RACEC will be back on track with profit and dividends.

## The RACEC Board



In an initiative to broaden our black economic empowerment profile at group level, 25% of RACEC Group Limited shares were sold to Solethu Civils Holdings (Pty) Ltd.

Solethu and RACEC also have an excellent strategic fit and we welcome Mr Ted Zulu (CEO of Solethu) as non-executive director to the RACEC Group Ltd board and are convinced that his strategic input and knowledge of rail operations will add value to RACEC. We are similarly convinced that his investment will be a lucrative one.

**Mike Uys**  
Chairman

10 December 2009

### *from left*

*Bonita Petersen, Sean Wilkins, Mike Uys, Winston Ollewagen, Gary Harrod, Charles Harrod, Colin Gooden and Stephen Smithyman*

### **THE RACEC BOARD**

#### **Charles Harrod**

Chief Executive Officer

#### **Gary Harrod**

Chief Operating Officer

#### **Winston Ollewagen**

Executive Director (Rail Operations)

#### **Sean Wilkins**

Financial Director

#### **Mike Uys**

Non-executive Chairman

#### **Bonita Petersen**

Independent Non-executive Director

#### **Colin Gooden**

Independent Non-executive Director

#### **Qedukwazi (Ted) Zulu**

Non-executive Director

#### **Stephen Smithyman**

Alternate Non-executive Director to Qedukwazi (Ted) Zulu

## Chief executive officer's report



CJ Harrod | CHIEF EXECUTIVE OFFICER

**The 2009 financial year started out with a good pipeline of opportunities and with positive expectations for RACEC. However, it proved to be significantly more challenging than anticipated.**

Even the most conservative forecasts for the year could not have prepared us for the business challenges imposed by the toughest trading environment we have faced during my 30-year tenure. However, the group's business has become significantly more diversified as a result of the acquisitions facilitated by the listing on AltX in October 2007. Even though we entered this tough period better positioned to withstand the current market conditions, there is no question that the slowdown in general activity levels affected our performance for the year with both revenue and margins coming under pressure. The results were also negatively affected by fair value adjustments associated with our recent black economic empowerment (BEE) transaction and a substantial loss incurred on a rail project, forcing the group to report a loss for the first time since the management buyout in 1988.

Although the economic recovery is likely to be drawn out, there are early indications that activity levels are improving. The recent award of two electrical contracts which the group had been pursuing for at least a year provides evidence that market conditions are starting to turn, albeit at a muted pace.

### Business environment

The global economic downturn significantly dampened the short-term infrastructure investment outlook in South Africa from September 2008 onwards. While on the face of it, the long-term fundamentals for the industry remain positive and



the South African government is committed to its medium-term public infrastructure expenditure budget of R872 billion, the global credit squeeze disrupted its immediate plans. The result was slower deal flow, as a direct result of funding constraints and slower decision making within the rail and electricity utilities as well as the downstream effects which were felt in the private sector, especially in property development and the mining industry.

Despite these challenges, Eskom, Transnet and SANRAL remain committed to their longer-term infrastructure investment plans with a total budget of R441 billion to 2012.

With the stabilisation of commodity prices since the second half of the financial year, the opportunity pipeline in the rail segment is starting to improve, especially in the iron ore and coal sectors. As investment budgets recover, so opportunities materialise albeit with a more conservative underlying infrastructure investment stance among mining companies.

In the electrification segment, Eskom's challenges in upgrading its national infrastructure are dampening the flow of downstream development although the residential sector started showing early indications of recovery towards financial year-end and the commercial development sector has stabilised. In addition, the ongoing upgrade of the national roads infrastructure is providing allied opportunities in electrification.

## Financial highlights

Reported revenue for the year ended 30 September 2009 declined by 10,2% to R344,6 million (2008: R383,8 million), in line with the tighter operating environment. Competitive pressures as well as the loss incurred on the rail construction project led to a decrease in the gross margin to 17,5% (2008:

21,3%). The contract loss has been fully provided for and risk management processes have been revisited to ensure that this does not recur in the future. The BEE transaction resulted in a share-based payment expense being recognised in profit or loss of R6,2 million which contributed to the loss for the year of R13,2 million. Solethu Civis Holdings (Pty) Ltd is considered a special-purposed entity, was therefore consolidated in the group's financial statements, and contributed R654 000 to the loss for the year. Fair value adjusting entries relating to the consolidation of Solethu Civis Holdings (Pty) Ltd resulted in the reversal of R14,7 million profit. Excluding the consolidation of Solethu Civis Holdings (Pty) Ltd, the group would have reported attributable earnings and headline earnings of R1,5 million and R1,9 million respectively, with earnings and headline earnings per share of R1,4 cents and R1,8 cents respectively.

In light of the loss reported for 2009 and given the continued uncertainty in the local economy, the board considered it imprudent to declare a dividend.

## Operational review

### Rail construction (Rail)

Rail was impacted by a marked decrease in project spending in the public sector where funding constraints affected the flow of contracts and among its resource-related clients whose infrastructure investments were impacted by the commodity downturn. Accordingly, revenue declined by 38,4% to R105,7 million (2008: R171,8 million). The division's long-term annuity contracts performed well, showing a stable contribution to the bottomline. The operational cost structure was streamlined in line with lower activity levels to support profitability.

## Chief executive officer's report *continued*



New contract awards during the period include several infrastructure projects associated with the preparations for the 2010 Soccer World Cup and a national contract to replace railway sleepers for Transnet. The newly established presence in Mozambique also concluded several contracts during the year.

### **Electrical services (Electrification)**

Against the negative backdrop the electrification division showed a 12,6% increase in revenue to R238,7 million (2008: from R212,1 million). Heavy competitor activity as a result of the slowdown in market however put pressure on project margins, which resulted in an operating loss of R3,5 million for the year (2008: profit R25,2 million).

New projects awarded during the year include two projects in the Eastern Cape, a contract to electrify 1 700 low-cost houses in Ingquza Hill and a project for the supply and installation of a new 66 kV line from Butterworth to Ncora. The division also won a number of street lighting projects in the Western Cape, including five separate contracts for lighting along the Bus Rapid Transit (BRT) routes stretching over a distance of 13 km.

Electrification's regional and product diversification strategy initiated in 2008 is starting to deliver benefits. RACEC Power, which was established to access the Eastern Cape market, reported pleasing results having secured electrification projects in low-cost housing as well as an Eskom transmission contract. Greenbro, acquired in 2008, delivered a stable performance despite lower demand from the provincial government, commercial and property development sectors in South Africa as well as its clients further afield in Africa. However, by streamlining its cost structure, Greenbro defended profitability and is investigating renewable energy products to ensure its long-term sustainability. Northern

Electric, also acquired in 2008, is proving to be an excellent addition to the RACEC Group. Although its core target markets in the commercial and industrial sectors were affected by the downturn, the company maintained its excellent profit record and is starting to see evidence of improved market conditions.

### **Black economic empowerment**

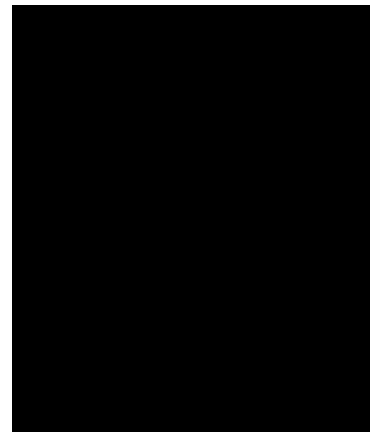
During the year, RACEC concluded the sale of 25% of the issued share capital of the company to Solethu Civil Holdings (Pty) Ltd, a company in which Solethu Investments (Pty) Ltd holds 100% of the ordinary shares and functions as a BEE investment company. Its core investments are focused on road, rail, sea and related industries, with operations that range from manufacturing, repairs and maintenance to logistics services.

Solethu's strategic positioning in the rail logistics industry will enable the group to deliver on its strategic objective of becoming a leading provider of rail and electrification solutions. It has also enhanced RACEC's transformation initiatives by introducing a black shareholder at group level, complementing the multi-faceted approach to broad-based BEE which has been in place for a number of years.

We welcome Mr Qedukwazi (Ted) Zulu, chief executive officer of Solethu Investments, who was appointed as a non-executive director of RACEC with effect from 18 August 2009. His deep understanding of rail operations equips him to contribute strategically to the group.

### **Outlook**

While in the longer term the infrastructure investment outlook in RACEC's core target markets remains intact, there are also



tangible indications that the market has started to turn, although the recovery is likely to take some time. The secured work on hand in both the rail and the electrification divisions exceeds 70% of 2009 revenue, providing evidence that demand is recovering.

In addition to its good order book, the rail division has identified a good pipeline of opportunities within its existing client base, suggesting that it is well positioned to reclaim historic performance levels.

The Electrification division is set to consolidate its growth in 2010, underpinned by the diversity of its offering, the resolution of funding constraints in the public sector and government's renewed focus on eliminating the backlog in low cost housing.

RACEC will continue to focus on its strategy to maximise the profitability of its existing businesses by ensuring full utilisation of resources and driving synergies from its acquisitions. The group will also continue to pursue long-term rail maintenance contracts, and other annuity contracts to support growth.

## Acknowledgements

I wish to express my gratitude to the board of directors and the executive management team for their unfailing support during these highly challenging times.

I also extend my heartfelt thanks to our loyal staff and investors for their commitment and faith in the group during the year. It has only been with your continued support that we have successfully weathered the current challenges and are positioned to benefit now that the market is showing signs of recovery.

**Charles Harrod**  
Chief executive officer

10 December 2009

# Review of operations

## RACEC RAIL (PTY) LTD



Winston Ollewagen | CHIEF EXECUTIVE OFFICER

**RACEC Rail focuses mainly on the construction and maintenance of railway tracks throughout South and Southern Africa. Its activities include 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 reclaimers and ship loader trackwork;
- customised trolley tracks;
- thermit and arc butt welding of rails;
- crane tracks for the building industry;
- railway siding design recommendation;
- railway material refurbishment and sales;
- rail track electrification;
- trackwork encased in concrete;
- track-related civil and ancillary works;
- management of industrial rail networks; and
- manufacture of rail-related precast concrete items for Spoornet.

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

- The upgrading of more than 1 550 turnouts nationally for Transnet
- The measurement and compilation of data of over 4 000 turnouts nationally for Transnet
- New rail infrastructure for Richards Bay Coal Terminal as part of the Phase V expansion project
- The upgrading and re-sleeping of sharp curves on the Kei rail infrastructure from Amabele to Mthatha
- New rail infrastructure at Orlando Station in Nasrec as part of the 2010 FIFA World Cup preparations
- Alterations to rail infrastructure in the Cape Town area associated with the bus rapid transit (BRT) system
- Upgrading and alterations to overhead traction equipment (OHE) at various stations in the Cape Town area associated with the 2010 FIFA World Cup
- Installation of the quay rails in the Port Cape Town associated with Transnet's capital expansion project/budgets

**Annuity-type contracts with blue-chip clients include:**

- Richards Bay Coal Terminal – Rail infrastructure maintenance
- Highveld Steel – Rail infrastructure maintenance, Witbank
- Arcelor Mittal – Rail infrastructure maintenance
- Sasol Synfuels – Rail infrastructure maintenance, Secunda
- Cape Town City Council – Western Cape Rail infrastructure maintenance
- Samancor – Rail infrastructure maintenance

### Review of 2009

The tough business environment, characterised by delays in contract awards and project cancellations, led to a 38% reduction in revenue to R105,7 million (2008: R171,8 million). Spending in the public sector was affected by funding constraints while mining houses curtailed their investments in line with lower demand for commodities. However, the rail division's long-term rail maintenance contracts performed well, offering some support against the effects of the slowdown in the projects environment.

The Rail division's operating profit margin was negatively affected by the lower revenue. However, the division embarked on a process to streamline its cost structure and reduced its headcount by 10% during the period to optimise utilisation levels and defend margins. The results were also impacted by a loss on a rail construction project resulting from stringent contractual obligations. It has been fully provided for in 2009 and will not recur.

RACEC rail established an operating infrastructure in Mozambique during the year, which has already secured a number of small projects and is well positioned to contribute meaningfully to the long-term performance of the division in the future.

During the year, the division also aligned itself with a dominant logistics provider which has operations across the African continent, concluding an agreement to provide services at a strategic port. The potential exists to extend these services throughout its associate's portfolio in Africa.

New contract wins during the year include a one-year maintenance contract to replace concrete sleepers nationally for Transnet as well as a measuring contract on which rail exceeded its client's requirements.



## Case study: Construction of Nasrec slip link ahead of 2010 Soccer World Cup



### Outlook 2010

There are indications that a number of contracts which were put on hold during 2009 will be awarded in the coming year. The rate of enquiries in the project environment has improved since year-end, especially as Transnet secured additional funding lines. Among its commodity clients, RACEC Rail is also experiencing a strong uptick in the number of enquiries. As a result, the Rail division is cautiously optimistic that the bottleneck in contract awards which it experienced in 2009 could be reversed in 2010.

As activity levels recover, so the margins at which work can be tendered for are improving subsequent to the pressure experienced in 2009 due to heightened competition for contracts.

The maintenance segment is also benefiting from increased tender activity while RACEC rail is also engaging with its existing clients to cement long-term engagements.

Having streamlined its operating structure in 2009, RACEC Rail's utilisation levels are high. However, it has the flexibility to speedily ramp up capacity as new anticipated opportunities arise, especially with significant infrastructure projects, including the Gautrain and construction of 2010 FIFA Soccer World Cup infrastructure nearing completion.

Armed with an order book in excess of 70% of 2009 revenue, as well as a significant pipeline of identified opportunities, RACEC Rail is positioned to resume its historic performance levels. The division will continue to pursue qualified opportunities to extend its reach into Africa, with its growth strategy focused on commodity companies in the SADC region funded by the private sector.



RACEC is currently constructing the "Nasrec slip link" which forms part of PRASA's rail network and will form a crucial component of the transport infrastructure carrying fans to Soccer City during the World Cup event in 2010.

The slip link will accelerate the transport of commuters from Langlaagte in the West Rand directly to Nasrec station, particularly during the 2010 FIFA Soccer World Cup and at all future events at Soccer City. Historically, commuter trains had to enter the New Canada Station where the train driver exited the train and walked to the other end in order to proceed to either Nasrec Station or Langlaagte Station.

The EPCM contract was awarded to Group 5 and RACEC was appointed as the subcontractor responsible for the construction of the track and track auxiliary work.

The project included the installation of 18 x 1:12 turnouts, of which eight were on the Crown side and the remaining 10 were on the Langlaagte side of the link, complete with crossovers between the lines and construction of approximately 2 800 m of track between the Crown and Langlaagte lines.

With the kick-off date of the 2010 FIFA Soccer World Cup cast in stone, the project was bound by strict time lines. In addition, construction works had to be carried out without interruptions to the stringent commuter train time tables, as any service disruption due to construction would have left commuters stranded.

The installation of the last turnout was completed at the end of November 2009, with no recordable train delays. The track work is on course to be handed over at the end of February 2010, well ahead of the 15 April deadline set by the client.

The rail network consisted of four parallel lines where the turnouts were installed, of which two lines were inbound and two were out bound. Because all turnouts were installed on operational lines, the applicable lines had to be closed to traffic and commuter trains were deviated onto the open lines. In those instances where turnouts were installed on the centre lines, all material was moved across the operational lines in-between trains. This required precise co-ordination on site to prevent harm to our staff and commuters alike.



# Review of operations

## RACEC ELECTRIFICATION (PTY) LTD

(which includes RACEC POWER (PTY) LTD)



Gary Harrod | GROUP CHIEF OPERATING OFFICER

**RACEC Electrification boasts a solid combination of technical skills, experience and stable management. Projects are undertaken from design stage through to final commissioning either as an individual entity or as a turnkey operation.**

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

**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
- Road and area lighting
- Rail track electrification
- Maintenance of electrical networks and
- Maintenance of rail track electrification systems

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

- V&A Waterfront reticulation and lighting
- Cape Town International Airport runway lighting
- Century City reticulation and lighting
- Grand West Casino electrical distribution
- Welgevonden housing estate
- Parklands reticulation and street lighting
- Bettys Bay and Pringle Bay reticulation
- Val de Vie Lifestyle Estate reticulation
- Sheffield Business Park reticulation
- Firgrove Industrial Development reticulation
- Stonehurst Village electrical reticulation
- Golf estate electrical reticulation at:  
Erinvale, Sunset Beach, Atlantic Beach, De Zalze,  
Pearl Valley, St Francis Links

Due to the quality of customer service, many projects initially tendered for have developed into long-term relationships with repeat work.

### Review of 2009

Trading conditions in 2009 were challenging and frustrating as the division continued to pursue projects that had originally been anticipated to take place in 2009 and which were once again delayed. Despite the negative backdrop, the electrification division successfully penetrated the Eastern Cape which helped prevent a decline in revenue. This region still remains a key growth driver in line with the Government's commitment to addressing the electrical backlog in the rural areas.

General market inactivity resulted in competitors reducing margins to secure contracts and bolster utilisation in the short term. Although year-on-year revenue was flat, these market conditions adversely affected the operating margin, impacting the overall profitability of the electrical operations.

In order to reduce operating costs and improve utilisation of existing resources, RACEC Electrification started restructuring its operations in the second half of 2009. However, the benefits of these increased efficiencies and decreased costs will only be realised during 2010. The division has achieved this more flexible operating structure without compromising its core staff competence. It is therefore positioned to quickly gear up to deliver on new contracts.

Although the public sector was also forced to delay projects during the recessionary market conditions, it supported industry activity levels as the private sector was worse affected by the slowdown. Electrification won five bus rapid transit (BRT) street lighting projects spanning a distance of 13 km from Cape Town to Blaauwberg. These nine-month contracts include the laying of 46 500 m of cable and 24 000 m of trenching and will be completed by April 2010. It was also awarded five high-profile street lighting contracts in the Western Cape valued at a total of more than R20 million.



## Case study: Facilitating electrification of rural areas in the Eastern Cape



### Outlook 2010

RACEC Electrification is optimistic that the market will start to recover in 2010. It is poised to benefit from further infrastructure spend which is showing signs of improving in the year ahead. An increase in public sector activity was catalysed in the fourth quarter of the 2009 financial year as resolution to the funding issues occurred. Following year-end, RACEC Electrification was finally awarded two substantial implementation projects in the public sector which it had been pursuing for more than a year. The value exceeds R150 million on these projects which will be implemented over the next 12 to 20 months.

Infrastructure spending in the private sector however remains muted with no tangible evidence of recovery in the short term. However, the downstream benefits of the lower interest rates could start to filter through into the economy in the second half of 2010 as property development projects which were previously postponed are starting to be revived.

The division will continue to consolidate and improve its position in the Eastern Cape while pursuing its ongoing strategic expansion into KwaZulu-Natal. Furthermore, the outlook for controlled expansion into southern Africa is extremely positive and the division is receiving an increasing number of enquiries from outside South Africa.

RACEC Electrification is also pursuing strategic partnerships to ensure its position to participate in power opportunities, both in the traditional and renewable energy segments.

The recent empowerment transaction which was concluded with Solethu Investments presents RACEC Electrification with potential synergies, and opportunities are continually being evaluated which are expected to materialise in the medium term.

With an order book which exceeds 70% of 2009 revenues, and supported by its broad capability and skills pool, RACEC Electrification is well positioned to benefit from a recovery in the underlying market.



RACEC operations in the Eastern Cape, which were established in 2008, showed substantial growth off a zero base during 2009 as it delivered on several projects to bring electricity to remote rural areas.

- The Ingquza Hill Project started in August 2009 and included three main areas, namely, Tshonya, Bukhazi and Bodweni. The first phase of the project included providing electricity to 1 700 houses. It encompassed the roll-out of the electrification infrastructure as well as house connections. A 22 kV reticulation network was built, linking in to the existing Eskom network and substation and 43 new 32 kVA and 16 kVA transformers were installed. Electrification's team was very well received in the community which is eagerly awaiting the electrification of their homes, clinics and schools.
- RACEC Electrification was also contracted to upgrade the Butterworth-Ncora 66 kV line which is one of the worst performing lines in the southern region. Six major faults were identified on the line as from March 2009 when construction works started.

The existing line was experiencing voltage problems and there was no spare capacity for electrification purposes in the Nqamakwe-Tsomo areas. The Butterworth-Ncora 66 kV Line Replacement project was initiated to address the shortcomings of the existing network, and the replacement will link with Nqamakwe and Qolweni substations improving reliability of supply.

The scope of work on the nine-month project included the supply and installation of the new Butterworth-Ncora 66 kV Line, consisting of three sections spanning 5 km (Qolweni to Ncora), 42 km (Qolweni to Nqamakwe) and 37 km (Nqamakwe to Butterworth) respectively. A total of 84 km of Hare conductor line route was provided and the existing line was decommissioned on completion of the upgrade.

# Review of operations

## NORTHERN ELECTRIC (CAPE) (PTY) LTD



Bill Spiers | MANAGING DIRECTOR

Northern Electric has been in existence since the 1960s and has earned the reputation of always completing projects on time and within budget.

Northern Electric has almost 50 years of experience in electrical contracting and servicing the building industry. Its reputation of always completing projects on time and within budget is underpinned by its dedicated staff and hands-on management team. Due to its very low staff turnover over the years, individual staff members are known to all clients and this familiarity leads to repeat business. Northern Electric is able to offer a complete package for design and construction of projects and prides itself on meeting deadlines and staying within budget.

Northern Electric is a proud alliance partner of NMC and has been recognised as "Co-Contractor of the Year" and "Partner of Distinction" by NMC for the 2008/2009 year.

Projects that have recently been completed by Northern Electric include:

- Bidvest Warehouse, Cape Town International Airport
- Massmart, Cape Town International Airport
- SACD new warehouse in Paarden Eiland
- Grupo factory, Port Elizabeth
- Glenelly Winery
- Waterkloof Winery
- L'Ormarins Winery
- Delaire Winery

### Review of 2009

Tough trading conditions prevailed in 2009 as the worldwide recession led to lack of funding in the private sector. It is pleasing, however, that against this negative backdrop Northern Electric maintained its turnover and profitability. This is attributed largely to its long-standing track record in the industry, supported by its staff and status with its clients as preferred contractor.

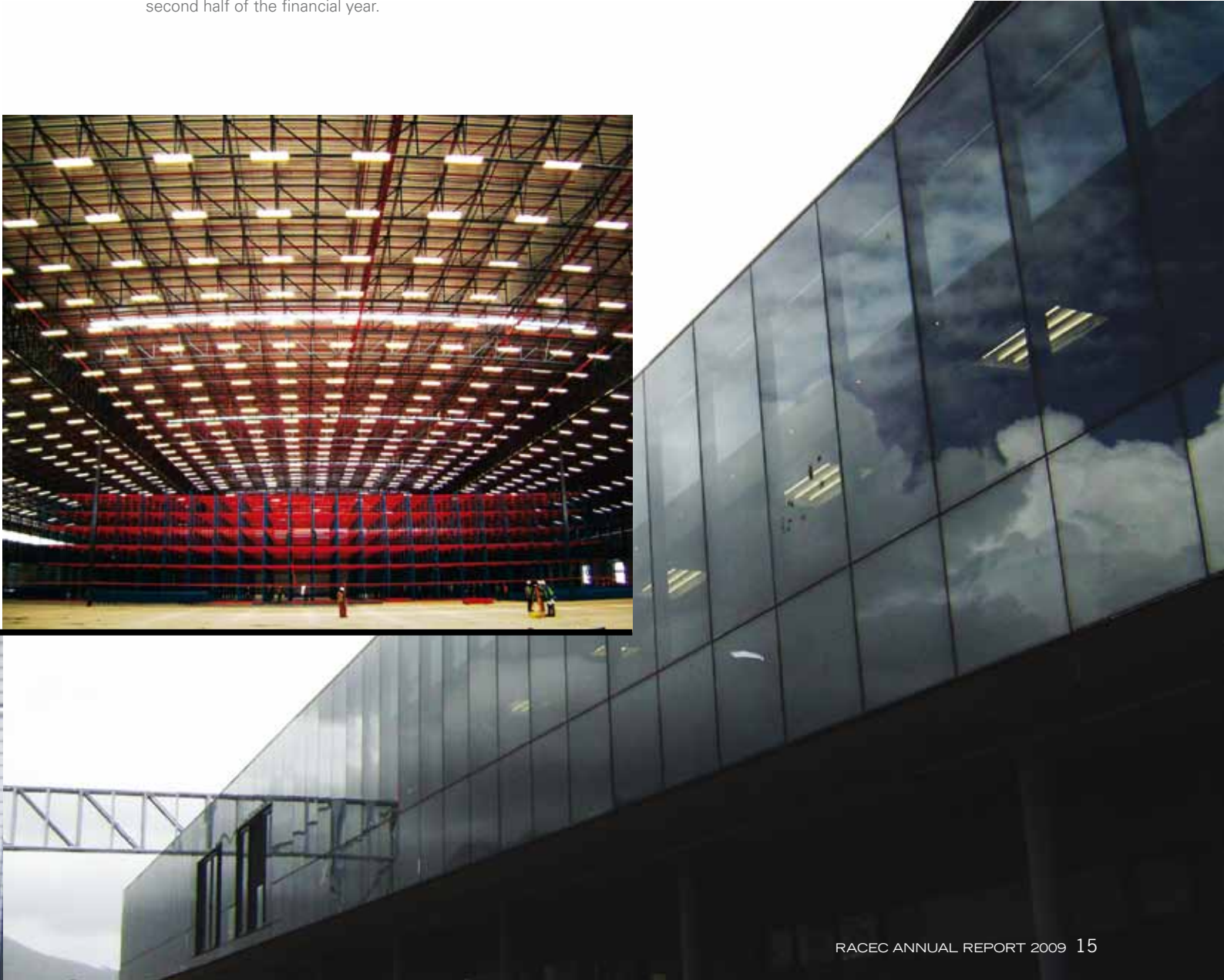


**Northern Electric is an electrical contracting business specialising in electrical installation and maintenance contracts for the Industrial, Commercial and Domestic markets. Northern Electric is a well established business that has been in operation since 1958.**



**Outlook 2010**

Northern Electric has experienced an uptick in the number of opportunities for delivery in the second half of 2010. As such it is confident in its ability to maintain its position in the year ahead, especially in light of its improved expectations for the second half of the financial year.



# Review of operations GREENBRO (PTY) LTD



John Greenlees | MANAGING DIRECTOR

Greenbro specialises in the supply and manufacture of electrical equipment and generators. Greenbro's products and services are well diversified across the production, supply and installation of electrical components.

Greenbro has recently been awarded the bi/triannual contracts for the supply of metering enclosures for the following local municipalities:

The City of Cape Town	Saldanha Bay
Mossel Bay	Swartland
Breede Valley	Witzenberg
Cape Winelands	Sol Plaatjie
Matzikama	Drakenstein

To increase our footprint in South Africa, we have appointed a sales engineer in Gauteng who will handle the sales of all our products in that area as well as the KwaZulu-Natal region. We have also appointed PRK Projects as an agent in the Free State area. They have been exceptionally successful with generators for Harmony Gold mine, having supplied six 160 kVA Greenbro generators for the chair lifts underground.

### Contracts completed for generators during this period are:

- 20 units for the City of Cape Town for various projects varying in size from 18,5 to 1 000 kVA in ISO shipping containers
- 1 x 630 kVA containerised set for Drakenstein Municipality
- 4 x 250 kVA units for Transnet power cars (two per unit)
- 2 x 160 kVA containerised generators for Kei Rail
- Various sets for The Public Works Department
- 100 kVA soundproof generators for Ganzekraal and Grabouw

### Review of 2009

The 2009 financial year was an extremely difficult trading period and Greenbro management took drastic steps, towards the end of the year to reduce overheads, the benefits of which should be seen in 2010. We have definitely seen an upturn in the local market and have recently been tendering on substantial projects which we are very confident of being awarded.





### Operations for the 2009 year

The operations of the company have not changed significantly since the last annual report, with the main activities still being the manufacture of generating sets at our Parow Industrial factory and polyethylene metering and distribution enclosures at our Philippi factory.

The year started well, with sales being better than forecast for the first quarter. We were able to achieve these results mainly because of orders received from Nigeria for split meter boxes and generator orders that we were manufacturing for Transnet and the City of Cape Town. Sales for the polyethylene enclosures for the local South African market had dropped substantially in the previous year, due to the slowdown in the housing sector, which can be attributed to the National Credit Act.

The production at the Philippi factory has historically been 60% export and 40% for the local market. The main export customer for the enclosures is Nigeria and towards the end of 2008 there was a change in personnel at their local electricity supply authority. This resulted in a change of thinking regarding prepayment electricity meters and all existing contracts were put on hold. This situation has subsequently changed and we are hoping to continue with the order in the second quarter of 2010. The unexpected global credit crisis severely affected our traditional African business, with all orders, except for a R6 million contract for Swaziland, coming to an end.

The expected rush for generators was also negatively affected by the global credit crisis, with all the major electricity consumers cutting production, thus ensuring that there was sufficient supply to meet the demand.

Most of the work at our Parow factory during this year has been for provincial and government organisations that are obviously aware of the impending shortfall of electricity, as the local economy recovers in line with the rest of the world. We also experienced a slowdown in orders from Transnet, with whom we have contracts for supplying and installing generators in their long haul passenger trains. Of the 11 orders expected (R14,3 million) we have only received two (R2,6 million). We did, however, receive orders for six generators mounted in 3 m x 12 m containers for Kei Rail. These will only be completed in the new financial year.

## Case study: Union Street Project



**Greenbro has been doing research and development on numerous projects and products during the past year, which will benefit us tremendously in the year ahead once the newly designed products are launched.**

The most noteworthy of the developments are:

Greenbro has designed, patented and produced a full range of modular knockdown metering and distribution polyethylene kiosks. This is going to revolutionise this sector of the market and eliminate any of the existing opposition who have entered the polyethylene enclosure market, initially developed by Greenbro in Africa. Transport of the metering kiosks to far-reaching areas throughout South Africa has been very expensive, making our product non competitive when compared to units of steel or fibreglass produced locally in these areas. Our new kiosks can be delivered in the knockdown state and assembled on site, this will result in vast savings on transport and make our technically advanced product, financially more acceptable to the market.

Greenbro has assisted Global Die Cast, a Port Elizabeth-based company, to develop their patented polyethylene pressurised solar as well as electrical geyser. A test unit is currently at the SABS for compliance testing and we should have product approval before the end of 2009. Greenbro, in return for having developed the unit for Global, will have the full manufacturing rights for these units. With the energy crisis upon us and the government's intention of installing one million solar geysers by the year 2014, it places us in a very good position because of our local content and our 10-year guarantee. We are presently negotiating with a company having some 80 outlets throughout South Africa, for the distribution rights. Sales for these units should start by the second quarter of 2010.

With all reporting and accounting systems now firmly in place and the gradual recovery of the economy, we are in a good position to improve drastically on our last year results.

## Social responsibility and BEE



**A multi-faceted approach to BEE has been adopted which aims to increase the number of previously disadvantaged individuals who manage, own and control RACEC.**

### Chairperson and chief executive officer (CEO)

RACEC is fully committed to the principles of direct control through ownership of an organisation's equity, human resource development, employment equity and indirect empowerment through preferential procurement policies.

BEE shareholding of most of the operating companies in the group exceeds 30%.

The RACEC Employee Share Trust was established in 2004 and has a 30% equity ownership in RACEC Rail and RACEC Electrification. There are approximately 1 000 beneficiaries of the Trust, most of whom are from the previously disadvantaged community. All beneficiaries receive monthly dividends.

In addition, RACEC makes a significant investment in skills development of employees from previously disadvantaged backgrounds who show potential by assisting them in starting their own businesses and providing them with administration, management, mentorship and financial support.

RACEC has established and built long-term relationships with emerging contractors from previously disadvantaged backgrounds. This facilitates emerging contractors' ability to bid for larger contracts and ensures skills transfer. Many major contracts have been successfully completed to the benefit of RACEC, its BEE partners and clients.

RACEC also supports deserving disadvantaged learners in their studies with the aim of equipping them to create a better future for themselves as well as pursuing their careers within the RACEC Group.

### Employment equity/Skills development

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

### Health and safety

Because RACEC places a high value on the health and safety of all our staff we believe that their right to safe working conditions is non-negotiable. We therefore have a group health and safety manager who reports directly to the CEO and carries his authority. Health and safety committees are established at all our branches and all work areas are continuously assessed. There is a training programme in place and all safety representatives are trained and regularly monitored.

### HIV/AIDS

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

# Corporate governance

**The board of directors of RACEC are fully committed to 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. These principles have been applied for the full financial year ended 30 September 2009. Furthermore it is their aim to ensure that these principles are practised consistently throughout the group.**

## Chairperson and chief executive officer (CEO)

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

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

## Board of directors

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

The board is responsible for the appointment of the CEO.

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

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

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

## Independence of the board

The board's independence is maintained by the following:

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

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

## Remuneration committee

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

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

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

## Nomination committee

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

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

# Corporate governance *continued*

## Audit committee

### Introduction

The audit committee has pleasure in submitting this report, as required by section 269A and 270A of the Companies Act, 1973 (Act 61 of 1973) as amended by the Corporate Laws Amendment Act, 2006 (Act 24 of 2006).

### Functions of the audit committee

The functions of the audit committee include:

- Review of the interim (unaudited) and year-end financial statements, culminating with a recommendation to the board;
- Review of the external audit report, after the audit of the year-end financial statements;
- Review of reports for special work on systems and internal controls undertaken by the auditors or consultants at the request of the committee and board, as the company does not have a dedicated internal control department;
- In the course of its review the committee:
  - takes appropriate steps to ensure that financial statements are prepared in accordance with International Financial Reporting Standards (IFRS);
  - considers and, when appropriate, makes recommendations on internal financial controls;
  - verifies the independence of the external auditor and of any nominee for appointment as external auditor;
  - authorises the audit fees in respect of both the interim and year-end audits;
  - specifies guidelines and authorises contract conditions for the award of non-audit services;
  - evaluates the effectiveness of risk management, controls and the governance processes;
  - deals with concerns or complaints relating to the following:
    - Accounting policies
    - The audit or content of annual financial statements
    - Internal financial controls

### Members of the audit committee

- The membership of the audit committee consists of two independent non-executive directors, Mrs B Petersen and Mr C Gooden (chairman)
- The members of the audit committee have at all times acted in an independent manner.
- The designated adviser, Merchantec, is represented in terms of the Listings Requirements of the JSE Limited.

### Frequency of meetings

The audit committee meet twice in respect of the financial year under review. Provision is made for additional meetings to be held, when and if necessary.

### Persons "in attendance" and "by invitation"

The external auditors, in their capacity as auditors to the company, attend and report to all meetings of the audit committee. The financial director and Stephen Smithyman (a director of Solethu Civils Holdings (Pty) Ltd) attends meetings on a "by invitation" basis.

### Independence of the auditor

During the year under review the audit committee conducted a review of the auditor, and confirmed the independence of the auditor.

### Expertise and experience of financial director

As required by JSE Listings Requirement 3.84(h), the audit committee has satisfied itself of the appropriateness of the expertise and the experience of the financial director.

### Company secretary

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

The current management team are all highly regarded in their respective fields, combining technical knowledge with extensive management experience. The management team has proved its ability to deliver, by consistently producing profits since the management buyout in 1988, even during periods of downturn in the economic cycle.

# RACEC Management

**The current management team are all highly regarded in their respective fields, combining technical knowledge with extensive management experience. The management team has proved its ability to deliver, by consistently producing profits since the management buyout in 1988, even during periods of downturn in the economic cycle.**

## Executive directors



### **Charles John Harrod**

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

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

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

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

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

In 2002, Charles was appointed chief executive officer of RACEC, a position that he still holds.

Charles was instrumental in setting up the RACEC Employee Share Trust in 2004, and in 2007 led the successful listing of RACEC Group Limited on the JSE's AltX Board.



### **Gary Lee Harrod**

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

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

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

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

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



### **Winston Ollewagen**

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

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

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

## RACEC Management *continued*

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

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

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

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

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



**Sean Charles Wilkins**  
BComm (University of Cape Town),  
H Dip Acc (University of Natal), CA(SA)

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

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

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

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

Sean is now the financial director of the group and has held this position since April 2008.

## Non-executive 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 its Cape division as an engineer in 1972, operating only in the railway construction and maintenance field.

Mike was promoted to the position of divisional manager in 1984, and in 1986 to

that of divisional general manager of RACEC Construction, a division of Metkor Industries Limited.

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

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

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

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



**Colin Rodney Spry Gooden**  
BComm (University of Cape Town),  
CA(SA)

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

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



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

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

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



**Bonita Petersen**  
BComm (Hons) (UWC) CA(SA)

Bonita Petersen joined PricewaterhouseCoopers (PwC) in 1994 after completing her BComm (Hons) at the University of the Western Cape. Once she completed her articles she stayed at the firm for a further two years focusing mainly on public sector consulting.

In 1999 Bonita joined Metropolitan as an audit manager. She has spent her tenure at Metropolitan in the auditing department, which has evolved considerably over the years. At the beginning of 2008, Bonita became the chief internal auditor.

Besides working full time in group internal audit, Bonita serves on the Metropolitan Medical Scheme as a trustee and was appointed as chairman in 2009. She is also one of the driving forces in the company's finance bursary programme.

In addition, she is also the training officer for the Training Outside of Public Practice Programme (TOPP) and serves on SAICA's training and education committee.

**Ted Zulu**

Ted is the founder and major shareholder of Solethu Investments (Pty) Ltd. He has developed a deep understanding of rail operations during his eight-year tenure at Spoornet where he managed the coal terminals, mining sector and cement sector. He has used this experience in Rail and Logistic-related services to the successful development of RRL Holdings (Pty) Limited. Through Ted's rail expertise he has been heavily involved in helping the Bridge Shipping Group to achieve its objectives of increasing their tonnages and thus helping them achieve their growth in profitability.



**Stephen Smithyman**  
(Alt to Ted Zulu)

Stephen Smithyman completed his articles at Deloitte & Touche where he focused on auditing general corporates and his major clients were on the ALSI Top 40.

He later joined the investment banking arm of Standard Bank where he was involved in the structuring and financing of corporate acquisitions, leveraged buyouts and black empowerment transactions. He was also responsible for the growth in the small cap Mezzanine book for Standard Bank.

Stephen left Standard Bank after eight years to found Solethu Investments (Pty) Limited with Ted Zulu. His role within Solethu is assisting Solethu in growing its underlying investments and generating new business opportunities. Stephen is a director of RRL Grindrod (Pty) Limited and Bridge Shipping (Pty) Limited. These investments have a number of synergistic opportunities for RACEC to develop. His role is to identify and explore synergies between Solethu's investments to the benefit of all stakeholders.



## Contents to the financial statements

Statement of responsibility by the board of directors	26
Declaration by secretary	27
Report of the independent auditor	28
Directors' report	29
Balance sheet	32
Income statement	33
Statement of changes in equity	34
Cash flow statement	36
Notes to the financial statements	37

## Statement of responsibility by the board of directors

The directors are required by the Companies Act 1973 (Act 61 of 1973) of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the group as at 30 September 2009 and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's cash flow forecast for the year ended 30 September 2010 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the board is primarily responsible for the financial affairs of the group, they are supported by the group's external auditors. The external auditors are responsible for independently reviewing and reporting on the group's financial statements. The financial statements have been examined by the group's external auditor and their report is presented on page 28.

The financial statements set out on pages 29 to 77, which have been prepared on the going concern basis, were approved by the board on 10 December 2009 and were signed on its behalf by:



**Charles Harrod**  
Chief executive officer



**Sean Wilkins**  
Financial director

Cape Town  
10 December 2009

## Declaration by secretary

In my capacity as company secretary, I hereby confirm, in terms of the South African Companies Act 1973 (Act 61 of 1973) ("the Act"), that for the year ended 30 September 2009, RACEC Group Limited has lodged with the Companies and Intellectual Property Registration Office all such returns as are required of a public company in terms of the Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.



**Conrad van Rensburg**  
Company secretary

Cape Town  
10 December 2009

## Report of the independent auditor

To the shareholders of RACEC Group Limited

We have audited the accompanying financial statements of RACEC Group Limited and its subsidiaries, which comprise the directors' report, the balance sheet as at 30 September 2009, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 29 to 77.

### **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### **OPINION**

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the group as of 30 September 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



**BDO Spencer Steward (Cape) Incorporated**

Registered auditors

Per: I Hashim

Cape Town

10 December 2009

## Directors' report

The directors have pleasure in presenting their annual report which forms part of the annual financial statements of the company and the group for the year ended 30 September 2009.

### NATURE OF BUSINESS

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

The RACEC Group comprises a holding company and a number of subsidiaries, out of which the business operations are conducted. The two main focuses of the RACEC Group are the provision of electrical reticulation and electrical solutions and rail track installation and maintenance.

#### Electrical services ("Electrification") includes:

- RACEC Electrification (Pty) Ltd and RACEC Power (Pty) Ltd are 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
- Greenbro (Pty) Ltd, which supplies industrial generators and electrical enclosures
- Northern Electric (Cape) (Pty) Ltd, which is an electrical contractor focused primarily on the industrial and commercial markets

Greenbro and Northern Electric were acquired during the 2008 financial year and are now an integral part of the RACEC Group's operations.

#### Rail construction ("Rail") includes:

- RACEC Rail (Pty) Ltd, which concentrates mainly on the construction and maintenance of railway tracks throughout South and Southern Africa.

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

### FINANCIAL RESULTS

During the 2009 financial year, the RACEC group's revenue decreased by R39,2 million (2008: increased by R165,7 million), representing a decrease of 10,2% (2008: increase of 76%), and the group's (loss)/earnings attributed to ordinary shareholders decreased by R28,1 million (2008: increased by R2,7 million), representing a decrease of 188% (2008: increase of 22%).

Headline earnings per share decreased by 177% (2008: increase by 29%) to a loss of 12,3 cents per share (2008: earnings of 16,0 cents per share) in the 2009 financial year, with diluted headline earnings decreasing by 177%.

The company and group results for the current year include a share issue option expense of R6,2 million which was recognised in profit and loss and a reserve was created which will be carried until exercise or expiry of the option. The option was granted to Solethu Civis Holdings (Pty) Ltd to repurchase RACEC Group Ltd ordinary shares.

The forecasted earnings per share and headline earnings per share of 22.2 cents for the year ended 30 September 2009, as detailed in the pre-listing statement dated 25 September 2007 have not been met due to a combination of:

- The cost of the BEE transaction entered into by RACEC and the reporting requirements of International Financial Reporting Standards, including fair value adjustments associated with the consolidation of Solethu Civis Holdings (Proprietary) Limited in terms of SIC 12;
- The delay in the awarding of several significant contracts which were expected to be awarded and commenced in the second half of this financial year, that are now only starting in the first half of the 2010 financial year. Despite these delays the order book remains strong;
- A significant once-off contract loss which was incurred. This contract has subsequently been completed, and as such, the loss will not reoccur; and
- The general economic down-turn and its related impact on group's business

### PROPERTY, PLANT AND EQUIPMENT

During the year, RACEC acquired property, plant and equipment amounting to R12,5 million (2008: R31,3 million).

### POST BALANCE SHEET EVENTS

The directors are not aware of any material matter or circumstance arising since the end of the financial year and the date of this report.

### AUTHORISED AND ISSUED SHARE CAPITAL

Details of the authorised, issued and changes to the share capital are reflected in note 12 and the analysis of shareholders on page 78.

During the financial year 1 344 555 shares at R1,30 per share was issued to the minority shareholders of Northern Electric as part consideration for their shares in Northern Electric.

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

Solethu Civis Holdings (Pty) Ltd, a company of which 100% of the ordinary shares are held by Solethu Investments (Pty) Ltd, was issued with 34 615 384 ordinary shares at R1,30 per share. A total of 7 692 307 (R10,0 million) of these shares were issued on loan account and is therefore classified as treasury shares in the company's separate financial statements. Solethu Civis Holdings is considered a special-purpose entity and is therefore consolidated in the group's financial statements. Due to the consolidation of Solethu Civis Holdings, the full 34 615 384 (R45,0 million) of the investment held by Solethu Civis Holdings in RACEC Group Ltd is disclosed as treasury shares in the group's financial statements.

## Directors' report

### DIVIDENDS

The dividends already declared and paid to shareholders during the financial year ended 30 September 2009 are as reflected in the attached statement of changes in equity.

It is the policy of the group to declare dividends up to a maximum of one third of annual profits after tax, subject to working capital requirements and acquisition activities. The dividend will be declared in the form of a half-year interim dividend and a final dividend.

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

The board has not declared a dividend for the year ending 30 September 2009.

### DIRECTORS AND SECRETARY

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

#### EXECUTIVE DIRECTORS

##### Name

GL Harrod  
W Ollewagen  
CJ Harrod  
SC Wilkins

##### Nationality

South African  
South African  
South African  
South African

#### NON-EXECUTIVE DIRECTORS

##### Name

M Uys  
CRS Gooden  
BD Petersen  
Q Zulu  
S Smithyman (Alternate to Q Zulu)

##### Nationality

South African  
South African  
South African  
South African (Appointed 19/08/2009)  
South African (Appointed 19/08/2009)

#### COMPANY SECRETARY

The secretary of the company is Conrad van Rensburg of:

##### Business address

8 Hawkins Avenue, Epping 1, 7475

##### Postal address

PO Box 61, Eppindust, 7460

#### AUDITOR

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

#### SUBSIDIARY COMPANIES

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

	Issued capital		Shares at cost		Amounts owing by/(to)		Net (loss)/profit after tax	
	Number	Percentage held	2009 R	2008 R	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Direct subsidiaries								
RACEC (Pty) Ltd	300	100	300	300	34 755	3 414	(92)	1 157
RACEC Plant Hire (Pty) Ltd	100	100	100	100	–	1 274	1 258	1 404
RACEC Electrification (Pty) Ltd	100	70	70	70	–	8 119	(1 816)	4 702
RACEC Rail (Pty) Ltd	300	70	210	210	–	3 226	(4 748)	5 789
Greenbro (Pty) Ltd	100	100	5 217 443	80	10 191	10 191	(4 050)	445
Northern Electric (Cape) (Pty) Ltd	1 000	100	7 289 531	4 550 978	–	–	2 453	3 920
RACEC Power (Pty) Ltd	100	70	70	70	–	–	678	(449)
RACEC Africa (Pty) Ltd	120	100	120	–	–	–	(15)	–
			<b>12 507 844</b>	<b>4 551 808</b>	<b>44 946</b>	<b>26 224</b>	<b>(6 332)</b>	<b>16 968</b>

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

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

In terms of International Financial Reporting Standards, Solethu Civils Holdings (Pty) Ltd is a special-purpose entity and was consolidated in the group's financial statements. Consequently the investment held by Solethu Civils Holdings in RACEC Group Ltd is disclosed as treasury shares.

Further details of the company's subsidiaries are shown in note 30.

## SPECIAL RESOLUTIONS

The following special resolution was resolved on the annual general meeting held on 27 February 2009:

- RACEC Group Ltd and/or any of its subsidiaries be authorised to acquire ordinary shares in the company.

The following special resolutions were resolved on the general meeting held on 5 August 2009:

- RACEC Group Ltd be authorised, by way of specific approval, to provide any financial assistance to Solethu Civils Holdings (Pty) Ltd to purchase 34 615 384 RACEC Group Ltd ordinary shares at a price of R1.30 per share.
- RACEC Group Ltd be authorised, by way of specific approval, to purchase 26 923 077 shares in the issued share capital of the company at a price of R1.30 per share upon the exercise of the put option granted to Solethu Civils Holdings (Pty) Ltd in terms of the written agreement entered into between the company and each of Solethu Civils Holdings (Pty) Ltd and Solethu Investments (Pty) Ltd on 10 June 2009.

## RACEC EMPLOYEE SHARE TRUST

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

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

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

## THE SCHEME

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

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

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

**Obligation to reacquire units** – The trust is obligated to reacquire units if a beneficiary: puts in a put option; and if certain other conditions prevail, which include insolvency, ceasing to be an employee and being in breach of this deed.

The purchase is on the following terms:

With effect on the trigger of the event above.

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

## DIRECTORS' INTEREST

As at 30 September 2009, the present directors of the company held the following direct and indirect beneficial and non-beneficial interests in the company. There have been no changes in the directors' interest up to the date of this report.

Director	Beneficial		Non-beneficial		Total	Percentage held
	Direct	Indirect	Direct	Indirect		
MJ Uys	–	13 969 840	–	–	13 969 840	9,9
CJ Harrod	–	17 290 000	–	–	17 290 000	12,4
GL Harrod	–	12 260 000	–	–	12 260 000	8,8
W Ollewagen	–	15 260 000	–	–	15 260 000	10,9
SC Wilkins	700 000	–	–	–	700 000	0,5
CRS Gooden	100 000	–	–	–	100 000	0,1
Q Zulu*	–	22 153 846	–	–	22 153 846	15,8
S Smithyman*	–	5 192 308	–	–	5 192 308	3,7
Total	800 000	86 125 994	–	–	86 925 994	62,12

\* The shareholding was calculated by the product of percentage shares held in Solethu Investments (Pty) Ltd, multiplied by the percentage of Solethu Investments' shareholding in Solethu Civils Holding (Pty) Ltd, multiplied by 34 615 384.

## DIRECTORS' REMUNERATION

The directors' remuneration is reflected in full in note 40 of this annual financial statements.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements as set out on pages 29 to 77 were approved by the board of directors on 10 December 2009 and signed on their behalf by:



**CJ Harrod**  
Chief executive officer



**SC Wilkins**  
Financial director

## Balance sheet

as at 30 September

Notes	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	2	59 913 997	55 983 588	–
Investment property	3	350 877	350 877	–
Intangible assets	4	10 452 125	6 956 983	–
Investments in subsidiaries	5	–	–	12 507 844
Loans to subsidiaries	5	–	–	44 945 799
Loan to shareholders	6	–	39 433	–
Loans to related parties	7	170 654	111 376	106 612
Deferred tax assets	8	2 597 439	341 673	325 239
		<b>73 485 092</b>	<b>63 783 930</b>	<b>57 885 494</b>
<b>Current assets</b>				
Inventories	9	23 930 780	30 233 708	–
Trade and other receivables	10	63 574 883	83 560 000	86 329
Tax receivable		1 795 767	–	–
Cash and cash equivalents	11	20 725 203	11 994 479	12 014 197
		<b>110 026 633</b>	<b>125 788 187</b>	<b>12 100 526</b>
<b>Total assets</b>		<b>183 511 725</b>	<b>189 572 117</b>	<b>69 986 020</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	12	1 400	1 040	1 131
Share premium	12	76 296 893	30 297 444	41 297 162
Treasury shares	12	(45 000 000)	–	(10 000 000)
Reserves	13	6 878 306	1 405 434	6 230 769
Retained income		10 128 539	26 561 910	11 288 584
<b>Equity attributable to equity holders of the parent</b>		<b>48 305 138</b>	<b>58 265 828</b>	<b>48 817 646</b>
Minority interest		68 625	4 391 474	–
<b>Total equity</b>		<b>48 373 763</b>	<b>62 657 302</b>	<b>48 817 646</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Loans from related parties	7	35 497 875	–	–
Other financial liabilities	14	13 529 920	15 892 362	20 973 011
Share-based payments	15	3 210 065	2 874 234	–
Deferred tax liabilities	16	2 397 932	3 657 439	–
		<b>54 635 792</b>	<b>22 424 035</b>	<b>20 973 011</b>
<b>Current liabilities</b>				
Loans from subsidiaries	5	–	–	1 319 789
Loans from related parties	7	577 276	672 550	–
Other financial liabilities	14	9 124 141	6 985 188	–
Current tax payable		3 030 288	8 611 034	40 542
Trade and other payables	17	38 548 735	48 679 030	154 753
Bank overdraft	11	29 221 730	39 542 978	68
		<b>80 502 170</b>	<b>104 490 780</b>	<b>195 363</b>
<b>Total liabilities</b>		<b>135 137 962</b>	<b>126 914 815</b>	<b>21 168 374</b>
<b>Total equity and liabilities</b>		<b>183 511 725</b>	<b>189 572 117</b>	<b>69 986 020</b>

## Income statement

for the year ended 30 September

	Notes	GROUP		COMPANY	
		2009 R	2008 R	2009 R	2008 R
Revenue	19	344 646 530	383 840 893	–	–
Cost of sales		(284 384 812)	(301 985 401)	–	–
Gross profit		60 261 718	81 855 492	–	–
Other income	20	258 378	70 827	15 755 523	3 301 898
Other expenses	21	(68 936 824)	(55 352 760)	(6 251 117)	(299 103)
Net (loss)/profit before investment revenue, finance costs and taxation		(8 416 728)	26 573 559	9 504 406	3 002 795
Investment revenue	22	1 261 770	3 121 945	192 295	264 554
Finance costs	23	(8 266 982)	(5 699 589)	(617 523)	(397 157)
(Loss)/profit before taxation		(15 421 940)	23 995 915	9 079 178	2 870 192
Taxation	24	2 226 978	(7 836 979)	376 098	(504 647)
(Loss)/profit for the period		(13 194 962)	16 158 936	9 455 276	2 365 545
<b>Attributable to:</b>					
Equity holders of the parent		(13 158 723)	14 903 834	9 455 276	2 365 545
Minority interest		(36 239)	1 255 102	–	–
		(13 194 962)	16 158 936	9 455 276	2 365 545
<b>(Loss)/earnings per share</b>					
Basic (loss)/earnings per share (cents)	37	(12,6)	15,0		
Diluted (loss)/earnings per share (cents)	37	(12,6)	15,0		

## Statement of changes in equity

for the year ended 30 September

	Share capital R	Share premium R	Treasury shares R	Other reserves R	Retained income R	Total attributable to equity holders of the group R	Minority interest R	Total equity R
<b>GROUP</b>								
<b>Balance at 1 October 2007</b>	700	–	–	(939 357)	16 504 502	15 565 845	–	15 565 845
Share capital issued by the company	340	32 528 712	–	–	–	32 529 052	–	32 529 052
Share issue expenses	–	(2 231 268)	–	–	–	(2 231 268)	–	(2 231 268)
Realised revaluation through depreciation	–	–	–	(844 915)	844 915	–	–	–
Deferred tax on revaluation through depreciation	–	–	–	236 356	(236 356)	–	–	–
Revaluation of property, plant and equipment	–	–	–	4 062 838	–	4 062 838	–	4 062 838
Deferred tax on revaluation of property, plant and equipment	–	–	–	(1 137 596)	–	(1 137 596)	–	(1 137 596)
Effect of tax rate charge on revaluation reserve	–	–	–	28 108	–	28 108	–	28 108
Minority interest on business acquisitions	–	–	–	–	–	–	3 136 372	3 136 372
Net income recognised directly in equity	–	–	–	2 344 791	608 559	2 953 350	3 136 372	6 089 722
Profit for the year	–	–	–	–	14 903 834	14 903 834	1 255 102	16 158 936
Total recognised income and expense for the year	–	–	–	2 344 791	15 512 393	17 857 184	4 391 474	22 248 658
Dividends	–	–	–	–	(5 454 985)	(5 454 985)	–	(5 454 985)
Total changes	340	30 297 444	–	2 344 791	10 057 408	42 699 983	4 391 474	47 091 457
<b>Balance at 30 September 2008</b>	<b>1 040</b>	<b>30 297 444</b>	<b>–</b>	<b>1 405 434</b>	<b>26 561 910</b>	<b>58 265 828</b>	<b>4 391 474</b>	<b>62 657 302</b>
<b>Balance at 1 October 2008</b>	<b>1 040</b>	<b>30 297 444</b>	<b>–</b>	<b>1 405 434</b>	<b>26 561 910</b>	<b>58 265 828</b>	<b>4 391 474</b>	<b>62 657 302</b>
Share capital issued by the company	<b>360</b>	<b>46 747 562</b>	–	–	–	<b>46 747 922</b>	–	<b>46 747 922</b>
Share issue expenses	–	<b>(748 113)</b>	–	–	–	<b>(748 113)</b>	–	<b>(748 113)</b>
Reserve from issue of share option	–	–	–	<b>6 230 769</b>	–	<b>6 230 769</b>	–	<b>6 230 769</b>
Shares issued to subsidiary*	–	–	<b>(45 000 000)</b>	–	–	<b>(45 000 000)</b>	–	<b>(45 000 000)</b>
Realised revaluation through depreciation	–	–	–	<b>(650 398)</b>	<b>650 398</b>	–	–	–
Deferred tax on revaluation through depreciation	–	–	–	<b>182 112</b>	<b>(182 112)</b>	–	–	–
Impairment of property, plant and equipment	–	–	–	<b>(402 237)</b>	–	<b>(402 237)</b>	–	<b>(402 237)</b>
Deferred tax on revaluation of property, plant and equipment	–	–	–	<b>112 626</b>	–	<b>112 626</b>	–	<b>112 626</b>
Minority interest on business acquisitions	–	–	–	–	–	–	<b>(3 896 610)</b>	<b>(3 896 610)</b>
Net (loss)/income recognised directly in equity	–	–	–	<b>(757 897)</b>	<b>468 286</b>	<b>(289 611)</b>	<b>(3 896 610)</b>	<b>(4 186 221)</b>
Loss for the year	–	–	–	–	<b>(13 158 723)</b>	<b>(13 158 723)</b>	<b>(36 239)</b>	<b>(13 194 962)</b>
Total recognised expense for the year	–	–	–	<b>(757 897)</b>	<b>(12 690 437)</b>	<b>(13 448 334)</b>	<b>(3 932 849)</b>	<b>(17 381 183)</b>
Dividends	–	–	–	–	<b>(3 742 934)</b>	<b>(3 742 934)</b>	<b>(390 000)</b>	<b>(4 132 934)</b>
Total changes	<b>360</b>	<b>45 999 449</b>	<b>(45 000 000)</b>	<b>5 472 872</b>	<b>(16 433 371)</b>	<b>(9 960 690)</b>	<b>(4 322 849)</b>	<b>(14 283 539)</b>
<b>Balance at 30 September 2009</b>	<b>1 400</b>	<b>76 296 893</b>	<b>(45 000 000)</b>	<b>6 878 306</b>	<b>10 128 539</b>	<b>48 305 138</b>	<b>68 625</b>	<b>48 373 763</b>

### Notes

12 12 12 13

\* The shares were issued to Solethu Civis Holdings (Pty) Ltd, a special purpose entity, which is consolidated as part of the Group.

## Statement of changes in equity (continued)

for the year ended 30 September

	Share capital R	Share premium R	Treasury shares	Other reserves	Retained income R	Total equity R
<b>COMPANY</b>						
<b>Balance at 1 October 2007</b>	700	–	–	–	6 935 559	6 936 259
Share capital issued by the company	340	32 528 712	–	–	–	32 529 052
Share issue expenses	–	(2 231 268)	–	–	–	(2 231 268)
Profit for the year	–	–	–	–	2 365 545	2 365 545
Total recognised income for the year	–	–	–	–	2 365 545	2 365 545
Dividends	–	–	–	–	(4 347 253)	(4 347 253)
Total changes	340	30 297 444	–	–	(1 981 708)	28 316 076
<b>Balance at 30 September 2008</b>	<b>1 040</b>	<b>30 297 444</b>	<b>–</b>	<b>–</b>	<b>4 953 851</b>	<b>35 252 335</b>
<b>Balance at 1 October 2008</b>	<b>1 040</b>	<b>30 297 444</b>	<b>–</b>	<b>–</b>	<b>4 953 851</b>	<b>35 252 335</b>
Share capital issued by the company	<b>360</b>	<b>46 747 562</b>	–	–	–	<b>46 747 922</b>
Issued share capital classified as liabilities	<b>(269)</b>	<b>(34 999 731)</b>	–	–	–	<b>(35 000 000)</b>
Shares issued on loan account	–	–	<b>(10 000 000)</b>	–	–	<b>(10 000 000)</b>
Share issue expenses	–	<b>(748 113)</b>	–	–	–	<b>(748 113)</b>
Reserve from issue of share option	–	–	–	<b>6 230 769</b>	–	<b>6 230 769</b>
Profit for the year	–	–	–	–	<b>9 455 276</b>	<b>9 455 276</b>
Total recognised income and expense for the year	–	–	–	–	<b>9 455 276</b>	<b>9 455 276</b>
Dividends	–	–	–	–	<b>(3 120 543)</b>	<b>(3 120 543)</b>
Total changes	<b>91</b>	<b>10 999 718</b>	<b>(10 000 000)</b>	<b>6 230 769</b>	<b>6 334 733</b>	<b>13 565 311</b>
<b>Balance at 30 September 2009</b>	<b>1 131</b>	<b>41 297 162</b>	<b>(10 000 000)</b>	<b>6 230 769</b>	<b>11 288 584</b>	<b>48 817 646</b>
<b>Notes</b>	12	12	12	13		

## Cash flow statement

for the year ended 30 September

	Notes	GROUP		COMPANY	
		2009 R	2008 R	2009 R	2008 R
<b>Cash flows from operating activities</b>					
Cash generated from operations	25	24 095 517	5 232 625	2 640 988	5 287 068
Interest income		1 155 158	3 121 945	85 683	264 554
Finance costs		(7 610 630)	(5 699 589)	(343 919)	(397 157)
Tax paid	26	(8 552 183)	(8 968 405)	–	(339 154)
<b>Net cash from/(utilised by) operating activities</b>		<b>9 087 862</b>	<b>(6 313 424)</b>	<b>2 382 752</b>	<b>4 815 311</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(12 506 724)	(22 170 232)	–	–
Purchase of business operations	31	(7 722 489)	(1 904 133)	(7 722 559)	(8 153 687)
Sale of property, plant and equipment		652 094	794 318	–	–
Purchase of intangible assets		(359 448)	–	–	–
<b>Net cash utilised by investing activities</b>		<b>(19 936 567)</b>	<b>(23 280 047)</b>	<b>(7 722 559)</b>	<b>(8 153 687)</b>
<b>Cash flows from financing activities</b>					
Loans advanced by group companies		–	–	(18 721 923)	(4 572 672)
Advance of property bond		2 925 000	–	–	–
Repayment of other financial liabilities		(7 048 801)	(14 998 114)	–	(7 492 130)
Advance of other financial liabilities		4 020 143	8 447 134	–	–
Repayment/(advance) of loans by related parties		34 845 948	9 260 314	–	–
Advance/(repayment) of loans from shareholders		39 433	(9 191 692)	–	(1 598 530)
Proceeds on share capital issued		(748 112)	15 568 519	34 251 888	15 568 519
Dividends paid	27	(4 132 934)	(5 454 985)	(3 120 543)	(4 347 253)
<b>Net cash from/(utilised by) financing activities</b>		<b>29 900 677</b>	<b>3 631 176</b>	<b>12 409 422</b>	<b>(2 442 066)</b>
<b>Total cash movement for the period</b>		<b>19 051 972</b>	<b>(25 962 295)</b>	<b>7 069 615</b>	<b>(5 780 442)</b>
Cash at the beginning of the period		(27 548 499)	(1 586 204)	4 944 514	10 724 956
<b>Total cash at end of the period</b>	11	<b>(8 496 527)</b>	<b>(27 548 499)</b>	<b>12 014 129</b>	<b>4 944 514</b>

# Notes to the financial statements

for the year ended 30 September

## 1. ACCOUNTING POLICIES

### 1.1 Statement of compliance and basis of preparation

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

The consolidated Group's and separate Company's financial statements were authorised for issue by the board of directors on 10 December 2009.

### 1.2 Basis of consolidation

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

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

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

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

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

### 1.3 Business combinations

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

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

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

### 1.4 Foreign currency translation

#### ***Functional and presentation currency***

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in rands, which is RACEC Group Ltd's functional and presentation currency.

#### ***Transactions and balances***

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, unless it relates to an item effecting equity in which case it is recognised directly in equity.

# Notes to the financial statements

for the year ended 30 September

## 1. ACCOUNTING POLICIES *(continued)*

### 1.5 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.

An asset's carry amount is written down immediately to its recoverable amount if the asset's carry amount is greater than its estimated recoverable amount.

Each year the difference between depreciation based on the revalued carrying amount of the assets (the depreciation charged to profit or loss) 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	5 – 30 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.

### 1.6 Investment property

The investment property, which is property held for capital appreciation, is not occupied by the group. Investment property is carried at fair value, representing the open market value determined every year. Fair value is based on active market prices, adjusted, if necessary for any differences in the nature, location or condition of the specific asset. If the information is not available, the group uses alternative valuation methods such as recent prices in less active markets or discounting of cash flow projections. Changes in fair values are recorded in profit or loss as part of other income.

### 1.7 Intangible assets

An intangible asset is recognised when:

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

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

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

#### ***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.

#### ***Fair value contracts, patents, trademarks, licences and customer lists***

Acquired fair value contracts, patents, trademarks, licences or customer lists are recognised at fair value and subsequently carried at amortised cost. Acquired fair value contracts, patents, trademarks, licences and customer lists have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of fair value contracts, trademarks, licences and customer lists over their estimated useful lives (4 – 5 years).

#### ***Computer software***

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (2 – 5 years).

Costs associated with developing (which do not meet the criteria for capitalisation) or maintaining computer software programmes are recognised as an expense as incurred.

#### ***Research and development costs***

Research costs are recognised as an expense in the period in which they are incurred.

Expenditure on development activities is charged to income in the year in which it is incurred, except where a clearly defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalised as an intangible asset and amortised on a straight line basis over the life of the project from the date of commencement of commercial operation.

### **1.8 Investment in subsidiaries**

Investment in subsidiaries is accounted for at cost less accumulated impairment losses in the stand-alone financial statements of the company.

### **1.9 Impairment of non-financial assets**

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

# Notes to the financial statements

for the year ended 30 September

## 1. ACCOUNTING POLICIES *(continued)*

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.

### 1.10 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.

The Group classifies its financial instruments in the following categories: available-for-sale financial assets, loans and receivables, financial liabilities and derivatives at fair value through profit and loss. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates such designations at each balance sheet date. The Group assesses at each balance sheet date whether there is objective evidence that a financial instrument or a group of financial instruments is impaired. Financial instruments carried on the balance sheet include loans receivable, accounts receivable, cash and cash equivalents, shareholders' loans, interest-bearing borrowings and accounts payable. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, i.e. when the contractual obligation is discharged, cancelled or expires.

### 1.11 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. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs and related production overheads. It excludes borrowing costs.

### 1.12 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts written off are credited against Other expenses in profit or loss.

### 1.13 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised at trade date at fair value, including transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective-interest method. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans and receivables carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate applicable to the relevant loans and receivables. The carrying amount will be reduced and the loss recognised in profit and loss. The Group's investments, if denominated in foreign currencies, are translated at closing rates. Gains or losses resulting from the translation are recognised in profit or loss.

### 1.14 Cash and cash equivalents and bank overdrafts

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 carried at amortised costs.

### 1.15 Share capital and equity

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

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

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

### 1.16 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. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### **1.17 Other financial liabilities**

Other financial liabilities are recognised initially at fair value, net of transactions costs incurred. Other financial liabilities are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit and loss over the period of the borrowings using the effective interest method.

#### **1.18 Bank borrowings**

Interest-bearing bank loans are initially measured at fair value, net of transaction costs incurred, 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.

#### **1.19 Trade payables**

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

An accrual is recognised for the estimated liability for leave and bonuses accruing to employees up to balance sheet date.

#### **1.20 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.

#### **1.21 Derivative financial instruments**

The group does not use any derivative financial instruments.

#### **1.22 Revenue**

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

##### ***Sale of goods***

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

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

##### ***Rendering of services***

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

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

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

##### ***Dividend and interest revenue***

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

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

#### **1.23 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.

# Notes to the financial statements

for the year ended 30 September

## 1. ACCOUNTING POLICIES *(continued)*

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that the contract 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.

### 1.24 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.

#### *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.

#### *Operating leases – lessor*

Portions of owner-occupied properties and leased properties are leased or subleased out under operating leases. The owner-occupied properties are included in property, plant and equipment in the balance sheet. Rental income in respect of operating leases with a fixed escalation clause is recognised on a straight-line basis over the lease term. Incentives received to enter into a lease agreement are released to the income statement as operating lease income over the lease term. All other rental income is recognised as it becomes due.

When an operating lease is terminated before the lease period has expired, any payment received from the lessee by way of penalty is recognised as income and any unamortised portion of the fixed escalation lease accrual is recognised in profit or loss in the period in which termination takes place.

### 1.25 Borrowing costs

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

### 1.26 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.

The group has a compensation scheme for all employees of the group which is offered by the RACEC Employee Share Trust. 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 (Note 15).

## 1.27 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 company 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.

## 1.28 Secondary tax on companies

South African resident companies are subject to a dual corporate tax system, one part of the tax being levied on taxable income and the other, a secondary tax (called STC), on distributed income. A company incurs STC charges on the declaration or deemed declaration of dividends (as defined under tax law) to its shareholders. STC is not a withholding tax, but a tax on companies.

The STC consequence of dividends is recognised as a taxation charge in profit or loss in the same period that the related dividend is incurred as a liability. The STC liability is reduced by the dividends received during the dividend cycle. Where dividends declared exceed the dividends received during a cycle, STC is payable at the current STC rate on the net amount. Where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends is carried forward to the next dividend cycle as an STC credit. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that the group will declare future dividends to utilise such STC credits.

## 1.29 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

# Notes to the financial statements

for the year ended 30 September

## 1. ACCOUNTING POLICIES *(continued)*

### 1.30 Earnings per share

Earnings and headline earnings per share are calculated by dividing the profit attributable to equity holders of the Group and headline earnings, respectively, by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares held by the Group as treasury shares. For the diluted earnings per share, the weighted number of ordinary shares in issue is adjusted to assume conversion of all ordinary shares with dilutive potential.

### 1.31 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.

### 1.32 Segments

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

### 1.33 Standards, interpretations and amendments that are not yet effective at 30 September 2009

The group has considered the following new standards, and interpretations and amendments to existing standards that are not yet effective as at 30 September 2009:

- IFRS 8: Operating Segments (effective for the year ending September 2010)
- IAS 23: Amendment to Borrowing Costs (effective for the year ending September 2010)
- IAS 27: Amendment to IAS 27 Consolidated and Separate Financial Statements (effective for the year ending September 2011)
- IFRS 3: Amendment to IFRS 3 Business Combinations (effective for the year ending September 2011)
- IFRS 2: Amendment to IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations (effective for the year ending September 2010)
- IAS 32 and IAS 1: Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentations of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for the year ending September 2010)
- Improvements to Statements of Generally Accepted Accounting Practice (effective for the year ending September 2010 and 2011)
- Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for the year ending September 2010)
- IFRIC 15: Agreements for the Construction of Real Estate (effective for the year ending September 2010)
- IAS 39 and IFRS 7: Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items and IFRS 7 Financial Instruments: Disclosures (effective for the year ending September 2010)
- IFRIC 17: Distributions of Non-cash Assets to Owners (effective for the year ending September 2010)
- IFRS 1: First-time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for the year ending September 2010)
- IFRS 5: Non-current Assets Held for sale and Discontinued Operations – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 1: Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income (effective for the year ending September 2010)
- IAS 1: Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective for the year ending September 2010)
- IAS 1: Presentation of Financial Statements – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 16: Property, Plant and Equipment – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 19: Employee Benefits – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 20: Government Grants and Disclosure of Government Assistance – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)

- IAS 28: Investment in Associates – Consequential amendments arising from amendments to IFRS 3 (effective for the year ending September 2010)
- IAS 28: Investment in Associates – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 29: Financial Reporting in Hyperinflationary Economies – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 31: Interest in Joint Ventures – Consequential amendments arising from amendments to IFRS 3 (effective for the year ending September 2010)
- IAS 31: Interest in Joint Ventures – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 36: Impairment of Assets – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 38: Intangible Assets – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 40: Investment Property – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IAS 41: Agriculture – Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for the year ending September 2010)
- IFRIC 18: Transfer of assets from Customers (effective for the year ending September 2010)
- AC 503: Amendments to AC503 Accounting for Black Economic Empowerment (BEE) Transactions (effective for the year ending September 2010)
- AC 504: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction in the South African pension fund environment (effective for the year ending September 2010)
- IFRS 2: Amendment to IFRS 2 Share-based payment – Group cash-settled share-based payment transactions (effective for the year ending September 2011) Not yet approved by Accounting Practices Board.
- IFRIC 19 and IAS 39: Amendments to IFRIC 9 – Reassessment of Embedded Derivatives and IAS 39 – Financial Instruments: Recognition and Measurement (effective for the year ending September 2010)
- Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards and IAS 27: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for the year ending September 2010)
- IAS 18: Revenue – Consequential amendments (effective for the year ending September 2010)
- IAS 21: The Effects of Changes in Foreign Exchange Rates – Consequential amendments (effective for the year ending September 2010)
- IAS 7: Statement of Cash flows – Consequential amendments due to IAS 27 (AC 132) (Amended) Consolidated and Separate Financial Statements (effective for the year ending September 2010)
- IAS 28: Investments in Associates – Consequential amendments due to IAS 27 (AC 132) (Amended) Consolidated and Separate Financial Statements (effective for the year ending September 2010)
- IAS 12: Income Taxes – consequential amendments due to IAS 27 (AC 132) (Amended) Consolidated and Separate Financial Statements (effective for the year ending September 2010)

The Group has not early adopted any of the above and the application thereof in future financial periods is being assessed for the impact on the Group's reported results, financial position and cash flows. IFRS 8: Operating Segments extends the scope of segmental reporting and will require additional per segment disclosures by the Group.

#### **1.34 Critical accounting judgements and key sources of estimate uncertainty**

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

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

##### ***Critical judgements in applying accounting policies***

The only critical judgements, apart from those involving estimates (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements relate to share-based payments and impairment calculations for Goodwill. See note 15 for critical accounting judgements and key sources of estimate uncertainty relating to share-based payments and note 4 for Goodwill impairment calculation estimates.

## Notes to the financial statements

for the year ended 30 September

### 2. PROPERTY, PLANT AND EQUIPMENT

	2009			2008		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
	R	R	R	R	R	R
Land and buildings	15 790 051	–	15 790 051	11 801 674	–	11 801 674
Motor vehicles, trucks and caravans	25 470 978	(5 218 728)	20 252 250	24 960 533	(2 558 635)	22 401 898
Containers	2 956 414	(194 023)	2 762 391	1 445 640	(99 887)	1 345 753
Plant and machinery	25 432 799	(5 423 120)	20 009 679	23 363 937	(4 261 150)	19 102 787
Office furniture and equipment	966 746	(317 323)	649 423	821 609	(191 771)	629 838
Computer equipment	1 199 814	(749 611)	450 203	1 079 101	(377 463)	701 638
Total	71 816 802	(11 902 805)	59 913 997	63 472 494	(7 488 906)	55 983 588

#### Reconciliation of property, plant and equipment – 2009

	Opening balance	Additions	Disposals	Depreciation	Impairment	Closing balance
	R	R	R	R	R	R
Land and buildings	11 801 674	3 988 377	–	–	–	15 790 051
Motor vehicles, trucks and caravans	22 401 898	1 627 720	(864 089)	(2 465 209)	(448 070)	20 252 250
Containers	1 345 753	1 510 790	(16)	(94 136)	–	2 762 391
Plant and machinery	19 102 787	5 097 861	(265 966)	(3 925 003)	–	20 009 679
Office furniture and equipment	629 838	146 538	(644)	(126 309)	–	649 423
Computer equipment	701 638	135 438	(41)	(386 832)	–	450 203
	55 983 588	12 506 724	(1 130 756)	(6 997 489)	(448 070)	59 913 997

#### Reconciliation of property, plant and equipment – 2008

	Opening balance	Additions	Acquisition of business operations	Disposals	Revaluation surplus	Depreciation	Impairment	Closing balance
	R	R	R	R	R	R	R	R
Land and buildings	6 404 848	4 151 675	–	–	1 245 151	–	–	11 801 674
Motor vehicles, trucks and caravans	13 232 146	8 351 621	1 433 116	(496 007)	1 768 644	(1 683 844)	(203 778)	22 401 898
Containers	968 094	937 550	–	(479 247)	–	(80 644)	–	1 345 753
Plant and machinery	5 077 818	7 928 280	7 493 888	(190 073)	1 048 170	(2 198 721)	(56 575)	19 102 787
Office furniture and equipment	348 788	239 789	118 781	(715)	–	(76 805)	–	629 838
Computer equipment	320 657	561 317	107 169	(40 364)	–	(247 141)	–	701 638
	26 352 351	22 170 232	9 152 954	(1 206 406)	4 061 965	(4 287 155)	(260 353)	55 983 588

Depreciation expense of R6 997 489 (2008: R4 287 155) has been charged to Other expenses.

## 2. PROPERTY, PLANT AND EQUIPMENT (continued)

If the carrying value of property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	<b>2009</b>	2008
	<b>Carrying</b>	Carrying
	<b>value</b>	value
	<b>R</b>	R
Land and buildings	<b>14 164 459</b>	7 043 306
Motor vehicles, trucks and caravans	<b>19 113 507</b>	20 734 684
Containers	<b>2 594 618</b>	1 153 631
Plant and machinery	<b>18 837 268</b>	17 824 053
Office furniture and equipment	<b>575 322</b>	521 517
Computer equipment	<b>450 203</b>	701 638
Total	<b>55 735 376</b>	47 978 829

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

### Pledged as security

Certain assets are encumbered as security for amounts owing under mortgage bonds and hire purchase agreements as set out in note 14. The carrying values of assets under mortgage bonds are R9 974 930 (2008: R4 950 000). The carrying values of assets under hire purchase agreements are disclosed below:

Motor vehicles, trucks and caravans	<b>16 918 073</b>	17 949 975
Containers	<b>1 963 680</b>	529 012
Plant and machinery	<b>8 914 231</b>	10 110 304
Office furniture and equipment	<b>10 107</b>	38 734
Computer equipment	<b>11 069</b>	37 634
	<b>27 817 160</b>	28 665 659

### Details of properties

Freehold land and buildings comprise:

- a) Holding 162 Withok Estates Agricultural Holdings situated in Gauteng measuring 40 442 hectares purchased in 1991.
- b) Erf 152, 153, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 172 and 173 situated at Nyanga held under deed of transfer no. TL63902/1991. It is considered that these properties are irrecoverable and an appropriate diminution in value has been recognised.
- c) Erf 871, situated in Richards Bay area, purchased in 1999.
- d) Erf 855, situated in Blackheath area, purchased on 31 May 2007.
- e) Erf 8827, situated in George industrial area, purchased on 4 April 2007.
- f) Erf 25096, situated in Kraaifontein area, purchased on 30 May 2008.
- g) Farm no. 300, situated in Nootgedacht, Mpumalanga, purchased in 2008.
- h) Erf 417, situated in Philippi, purchased on 3 November 2008.

A valuation of the group's property, plant and equipment was performed on 30 September 2008 by the directors to determine the fair value of property, plant and equipment. The following assumptions have been used

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

## Notes to the financial statements

for the year ended 30 September

### 3. INVESTMENT PROPERTY

	Valuation 2009 R	Valuation 2008 R
Land	350 877	350 877
	<b>350 877</b>	<b>350 877</b>

#### Reconciliation of investment property – 2009

	Opening balance R	Fair value adjustment R	Closing balance R
Land	350 877	–	350 877
	<b>350 877</b>	<b>–</b>	<b>350 877</b>

#### Reconciliation of investment property – 2008

	Opening balance R	Fair value adjustment R	Closing balance R
Land	350 000	877	350 877
	<b>350 000</b>	<b>877</b>	<b>350 877</b>

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

A valuation of the group's investment property was performed on 30 September 2009 by the directors to determine the fair value of investment property based on market values. The fair value is determined by reviewing market values provided by estate agents, considering the location of the property and economic environment.

The property represents land and no rental income is received. No adjustment was made to the fair value in the current year.

### 4. INTANGIBLE ASSETS

	2009			2008		
	Cost/Fair valuation R	Accumulated amortisation R	Carrying value R	Cost/Fair valuation R	Accumulated amortisation R	Carrying value R
<b><i>Purchased</i></b>						
Fair value of contracts	12 419 135	(2 326 458)	10 092 677	8 359 829	(1 402 846)	6 956 983
Patents	1 852 785	(1 275 133)	577 652	1 852 785	(1 058 513)	794 272
Trademarks	914 500	(279 000)	635 500	914 500	(93 000)	821 500
Customer lists	177 000	(54 000)	123 000	177 000	(18 000)	159 000
Goodwill	1 908 750	(718 325)	1 190 425	1 908 750	(233 333)	1 675 417
	<b>7 566 100</b>	<b>–</b>	<b>7 566 100</b>	3 506 794	–	3 506 794
<b><i>Internally generated</i></b>	<b>359 448</b>	<b>–</b>	<b>359 448</b>	–	–	–
Patents	359 448	–	359 448	–	–	–
	<b>12 778 583</b>	<b>(2 326 458)</b>	<b>10 452 125</b>	8 359 829	(1 402 846)	6 956 983

**4. INTANGIBLE ASSETS (continued)**  
**Reconciliation of intangible assets – 2009**

	Opening balance R	Acquisition R	Acquisition of minority interests R	Amortisation R	Closing balance R
<b>Purchased</b>	<b>6 956 983</b>	–	<b>4 059 306</b>	<b>(923 612)</b>	<b>10 092 677</b>
Fair value of contracts	794 272	–	–	(216 620)	577 652
Patents	821 500	–	–	(186 000)	635 500
Trademarks	159 000	–	–	(36 000)	123 000
Customer lists	1 675 417	–	–	(484 992)	1 190 425
Goodwill	3 506 794	–	4 059 306	–	7 566 100
<b>Internally generated</b>					
Patents	–	359 448	–	–	359 448
	–	359 448	–	–	359 448
	<b>6 956 983</b>	<b>359 448</b>	<b>4 059 306</b>	<b>(923 612)</b>	<b>10 452 125</b>

**Reconciliation of intangible assets – 2008**

	Opening balance R	Acquisition of business operations R	Amortisation R	Impairment R	Closing balance R
<b>Purchased</b>					
Fair value of contracts	1 735 585	–	(370 557)	(570 756)	794 272
Patents	–	914 500	(93 000)	–	821 500
Trademarks	–	177 000	(18 000)	–	159 000
Customer lists	–	1 908 750	(233 333)	–	1 675 417
Goodwill	–	3 506 794	–	–	3 506 794
	1 735 585	6 507 044	(714 890)	(570 756)	6 956 983

The intangible asset arises on application of IFRS 3 and represents the fair value of contracts, patents, trademarks, customer lists and goodwill acquired. The useful lives of the fair value contracts, patents and trademarks are estimated to be five years and the useful life of customer lists is estimated to be four years. Goodwill has an indefinite life and is measured annually for impairment.

Amortisation expense of R923 612 (2008: R714 890) has been charged to Other expenses.

**Impairment tests for goodwill**

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to company of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

	Electrical reticulation	
	2009 R	2008 R
Western Cape	<b>7 566 100</b>	3 506 794
	<b>7 566 100</b>	3 506 794

Goodwill resulted from the acquisition of the net assets of Greenbro CC and the acquisition of shares in Northern Electric (Cape) (Pty) Ltd during the 2008 financial year. Both acquisitions form part of the Electrical reticulation business segment and the Western Cape geographical segment. During 2009 additional goodwill was recognised on the buy-out of the minority interests in Greenbro (Pty) Ltd and Northern Electric (Cape) (Pty) Ltd.

## Notes to the financial statements

for the year ended 30 September

### 4. INTANGIBLE ASSETS (continued)

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

	Electrical reticulation Western Cape	
	2009	2008
Gross margin*	30,00%	36,62%
Growth rate**	9%	9%
Pre-tax discount rate***	22,55%	24,11%

\* Budgeted gross margin

\*\* Weighted average growth rate used to extrapolate cash flows beyond the budget period

\*\*\* Pre-tax discount rate applied to the cash flow projections

The assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross margins based on past performance and its expectations of market developments. The discounts rates used are pre-tax and reflect specific risks relating to the relevant segments.

No impairments were made to goodwill for the 2009 or 2008 financial years.

	GROUP		COMPANY	
	2009	2008	2009	2008
	R	R	R	R
<b>5. INTERESTS IN SUBSIDIARIES</b>				
Investment in ordinary shares	–	–	12 507 844	4 551 808
Investment loans to subsidiaries	–	–	10 190 820	22 810 120
Loans to subsidiaries	–	–	34 754 979	4 733 595
Loans from subsidiaries	–	–	–	(1 319 789)
	–	–	57 453 643	30 775 734
Non-current assets				
Investments in subsidiaries	–	–	12 507 844	4 551 808
Loans to subsidiaries	–	–	44 945 799	27 543 715
Current liabilities	–	–	–	(1 319 789)
	–	–	57 453 643	30 775 734

The loans with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Loans to subsidiaries of R4 733 595 have been reclassified in the prior year from current assets to non-current assets to provide better disclosure.

### 6. LOAN TO SHAREHOLDERS

Victor Mrawu	–	39 433	–	–
	–	39 433	–	–

The loans are unsecured, bear interest at varying rates as agreed from time to time (2009: 10,5%/2008: 14,0%) and are not subject to any fixed terms of repayment.

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>R</b>	R	<b>R</b>	R
<b>7. LOANS TO/(FROM) RELATED PARTIES</b>				
CI Merchandising (Pty) Ltd	<b>74 630</b>	63 117	–	–
Cardita Circle (Pty) Ltd	–	206	–	–
Uphondo Electrical (Pty) Ltd	<b>(577 276)</b>	(668 234)	–	–
Hlanganani Rail Services CC	<b>4 492</b>	217	–	–
Rotomoc CC	–	43 520	–	–
Victor Mrawu	<b>91 532</b>	–	–	–
Solethu Investments (Pty) Ltd	<b>(35 497 875)</b>	–	–	–
Solethu Civils Holdings (Pty) Ltd	–	–	<b>106 612</b>	–
	<b>(35 904 497)</b>	(561 174)	<b>106 612</b>	–
Non-current assets	<b>170 654</b>	111 376	<b>106 612</b>	–
Non-current liabilities	<b>(35 497 875)</b>	–	–	–
Current liabilities	<b>(577 276)</b>	(672 550)	–	–
	<b>(35 904 497)</b>	(561 174)	<b>106 612</b>	–

With the exception of the loan from Solethu Investments (Pty) Ltd, the above loans are unsecured, bear interest at prime lending rates and have no fixed terms of repayment. The loan from Solethu Investments (Pty) Ltd represents redeemable preference shares issued by Solethu Civils Holdings (Pty) Ltd, which is classified as a financial liability per IAS 32. The preference shares are redeemable in three equal instalments of R11 666 667 on 23 August 2012, 2013 and 2014. The dividends are calculated at the prime interest rate, are classified as interest per IFRS and are payable annually on 23 August.

The carrying values of loans to/(from) related parties represent their fair values.

## Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>8. DEFERRED TAX ASSETS</b>				
Property, plant and equipment	(1 133 368)	(180)	–	–
Intangible assets	(545 697)	(110 367)	–	–
Prepayments	(80 845)	(57)	–	–
Retentions	(548 367)	–	–	–
Provisions	1 007 961	104 580	–	–
Deferred interest	31 182	12 543	–	–
Assessed losses	3 622 567	179 338	96 946	34 132
Capital loss on disposal of subsidiary	196 481	155 816	196 481	196 481
Operating leases	15 713	–	–	–
STC credits	31 812	–	31 812	–
	<b>2 597 439</b>	<b>341 673</b>	<b>325 239</b>	<b>230 613</b>
Reconciliation of deferred tax asset				
Balance at beginning of the year	341 673	161 380	230 613	161 380
<b>Movements during year attributable to:</b>				
– Transferred from deferred tax liabilities	(1 130 881)	–	–	–
– Transferred to deferred tax liabilities	(150 745)	–	–	–
– Prepayments	(16 347)	(57)	–	–
– Retentions	(379 105)	–	–	–
– Provisions	495 042	54 715	–	–
– Property, plant and equipment	(470 113)	(180)	–	–
– Intangible assets	197 960	12 833	–	–
– Deferred interest	27 298	12 543	–	–
– Assessed losses	3 588 434	179 338	62 815	34 132
– Capital loss on impairment of investment in subsidiary	–	–	–	40 665
– Impairments on revalued property, plant and equipment	18 000	–	–	–
– Operating leases	24 397	–	–	–
– Deferred tax liability acquired in business combinations	–	(73 335)	–	–
– Rate change recognised in income statement	–	(5 564)	–	(5 564)
– Provision for STC credits	31 811	–	31 812	–
– Prior year deferred taxes	20 015	–	–	–
Balance at end of the year	<b>2 597 439</b>	<b>341 673</b>	<b>325 239</b>	<b>230 613</b>
At the balance sheet date, the group has unutilised tax losses of R16 057 319 (2008: R2 465 214) available for set-off against future profit and a capital loss of approximately R556 485 (2008: R556 485).				
Deferred tax has been raised on R15 950 618 of the unutilised tax losses due to expected taxable profits in future, against which the tax losses will be utilised to reduce current income tax.				
Deferred tax assets to be recovered after more than 12 months	1 487 609	335 953	293 428	230 613
Deferred tax assets to be recovered within 12 months	1 109 830	5 720	31 811	–
	<b>2 597 439</b>	<b>341 673</b>	<b>325 239</b>	<b>230 613</b>

	GROUP		COMPANY	
	2009	2008	2009	2008
	R	R	R	R
<b>9. INVENTORIES</b>				
The cost of inventories recognised as an expense during the period was R174 327 841 (2008: R201 808 897).				
Raw materials	<b>13 826 224</b>	14 515 864	–	–
Work in progress	<b>3 703 567</b>	1 959 247	–	–
Contracts in progress	<b>6 400 989</b>	13 758 597	–	–
	<b>23 930 780</b>	30 233 708	–	–
<b>10. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	<b>59 838 479</b>	80 733 969	–	–
Less: Provision for impairment of receivables	<b>(852 972)</b>	(225 660)	–	–
	<b>58 985 507</b>	80 508 309	–	–
Prepayments	<b>497 856</b>	328 960	–	–
Deposits	<b>463 822</b>	–	–	–
VAT	<b>562 144</b>	15 712	–	4 484
Sundry debtors*	<b>3 065 554</b>	2 707 019	<b>86 329</b>	138 476
Dividends owing by subsidiaries	–	–	–	1 047 200
	<b>63 574 883</b>	83 560 000	<b>86 329</b>	1 190 160

\* Included in sundry debtors is R1 235 741 relating to 3 properties for which title deed transfers have not yet been received.

No interest is charged on the trade receivables. The group has reviewed all trade receivables at year-end to determine whether a provision for potential bad debts needs to be recognise.

Receivables are stated at their fair values after taking into account the effect of discounting. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The group does not hold any collateral as security.

Movements on the provision for impairment of trade receivables are as follows:

Opening balance	<b>225 660</b>	16 222	–	–
Provision for impairment acquired in business combination	–	185 452	–	–
Receivables written off during the year as uncollectable	<b>(174 645)</b>	(185 452)	–	–
Unused amounts reversed	<b>(6 265)</b>	–	–	–
Increase in provision for impairment of receivables	<b>808 222</b>	209 438	–	–
Closing balance	<b>852 972</b>	225 660	–	–

The creation and release of provision for impaired receivables have been included in Other expenses in profit or loss. Amounts charged to the allowance accounts are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

## 11. 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:

## Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>11. CASH AND CASH EQUIVALENTS</b> <i>(continued)</i>				
Cash on hand	18 913	38 650	–	–
Bank balances	20 706 290	11 955 829	12 014 197	4 944 582
Bank overdraft	(29 221 730)	(39 542 978)	(68)	(68)
	<b>(8 496 527)</b>	<b>(27 548 499)</b>	<b>12 014 129</b>	<b>4 944 514</b>
Current assets	20 725 203	11 994 479	12 014 197	4 944 582
Current liabilities	(29 221 730)	(39 542 978)	(68)	(68)
	<b>(8 496 527)</b>	<b>(27 548 499)</b>	<b>12 014 129</b>	<b>4 944 514</b>

Bank overdraft and guarantee facilities with Standard Bank are secured by means of a cession of book debts of the subsidiary companies as well as an unlimited suretyship signed in favour of RACEC (Pty) Ltd, RACEC Plant Hire (Pty) Ltd, RACEC Electrification (Pty) Ltd, Greenbro (Pty) Ltd and RACEC Rail (Pty) Ltd.

At 30 September 2009 RACEC was in the process of transferring the bank overdraft facilities from Standard Bank to Absa. RACEC will have a R32 000 000 overdraft facility with Absa once the securities and suretyships held by Standard Bank has been transferred to Absa and the overdraft facility with Standard Bank will be cancelled. The Absa overdraft and guarantee facilities will be secured by means of a first cession of debtors as well as a limited cross suretyship between RACEC Group (Ltd), RACEC Electrification (Pty) Ltd, RACEC Rail (Pty) Ltd, RACEC Power (Pty) Ltd, Northern Electric (Cape) (Pty) Ltd, Greenbro (Pty) Ltd and Plant Hire (Pty) Ltd and a cession of loan accounts.

The carrying values of cash and cash equivalents approximate their fair values.

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>12. SHARE CAPITAL</b>				
<b>Authorised</b>				
500 000 000 (2008: 500 000 000) ordinary shares of 0,001 cent (2008: 0,001 cent) each				
At beginning and end of year	5 000	5 000	5 000	5 000
<b>Issued</b>				
139 978 027 (2008: 104 018 088) ordinary shares of 0,001 cent (2008: 0,001 cent) each				
At beginning of year	1 040	700	1 040	700
Increase in issued share capital	360	340	360	340
Issued share capital classified as liabilities (refer note 14)	–	–	(269)	–
At end of year	1 400	1 040	1 131	1 040
Fully paid ordinary shares, which have a par value of 0,001 cent, carry one vote per share and carry the right to dividends.				
<b>Number of shares</b>				
At beginning of year	104 018 088	70 000 000	104 018 088	70 000 000
Increase in issued share capital	35 959 939	34 018 088	35 959 939	34 018 088
At end of year	139 978 027	104 018 088	139 978 027	104 018 088
<b>Share premium</b>				
At beginning of year	30 297 444	–	30 297 444	–
Share premium on issued share capital	46 747 562	32 528 712	46 747 562	32 528 712
Share issue expenses	(748 113)	(2 231 268)	(748 113)	(2 231 268)
Issued share premium classified as liabilities (refer note 14)	–	–	(34 999 731)	–
At end of year	76 296 893	30 297 444	41 297 162	30 297 444

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>12. SHARE CAPITAL (continued)</b>				
<b>Treasury shares</b>				
Group: 34 615 384 (2008: nil) ordinary shares; Company: 7 692 307 (2008: nil) ordinary shares				
At beginning of year	-	-	-	-
Shares issued to subsidiary	45 000 000	-	-	-
Shares issued on loan account	-	-	10 000 000	-
At end of year	45 000 000	-	10 000 000	-

The R10 000 000 treasury shares in the company represent 7 692 307 ordinary shares issued to Solethu Civils Holdings (Pty) Ltd on loan account which bears interest at the prime interest rate. The loan is subordinated to Absa until Solethu Civils Holdings (Pty) Ltd and Solethu Investments (Pty) Ltd have no further obligations to Absa. The loan and interest is repayable on 28 February 2014.

The R45 000 000 treasury shares in the group represent 34 615 384 ordinary shares issued to Solethu Civils Holdings (Pty) Ltd. Solethu Civils Holdings (Pty) Ltd is classified as a special-purpose entity and is therefore consolidated into the group's financial statements.

	Share buy-back R	Revaluation reserve R	Share-based payment reverse R	Total R
<b>13. OTHER RESERVES</b>				
<b>Balance at 1 October 2007</b>	(3 878 805)	2 939 448	-	(939 357)
Realised revaluation through depreciation transferred to retained earnings	-	(844 915)	-	(844 915)
Deferred tax on revaluation through depreciation transferred to retained earnings	-	236 356	-	236 356
Surplus arising from revaluation of property, plant and equipment	-	4 062 838	-	4 062 838
Deferred tax liability arising on revaluation	-	(1 137 596)	-	(1 137 596)
Tax rate change to deferred tax	-	28 108	-	28 108
<b>Balance at 30 September 2008</b>	(3 878 805)	5 284 239	-	1 405 434
<b>Balance at 1 October 2008</b>	(3 878 805)	5 284 239	-	1 405 434
Reserve from issue of share option	-	-	6 230 769	6 230 769
Realised revaluation through depreciation transferred to retained earnings	-	(650 398)	-	(650 398)
Deferred tax on revaluation through depreciation transferred to retained earnings	-	182 112	-	182 112
Impairment of property, plant and equipment	-	(402 237)	-	(402 237)
Deferred tax on impairment of property, plant and equipment	-	112 626	-	112 626
<b>Balance at 30 September 2009</b>	(3 878 805)	4 526 342	6 230 769	6 878 306
<b>COMPANY</b>				
Balance as at 1 October 2007	-	-	-	-
Balance at 30 September 2008	-	-	-	-
Balance at 1 October 2008	-	-	-	-
Reserve from issue of share option	-	-	6 230 769	6 230 769
<b>Balance at 30 September 2009</b>	-	-	6 230 769	6 230 769

The buy-back reserve arises on the consolidation of the RACEC Employee share trust due to the trust's investments in RACEC Electrification (Pty) Ltd and RACEC Rail (Pty) Ltd.

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.

The share-based payment reserve arises on the recognition of the share-based option expense relating to the issue of 34 615 384 RACEC Group Ltd ordinary shares to Solethu Civils Holdings (Pty) Ltd.

## Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>14. OTHER FINANCIAL LIABILITIES</b>				
<b>Held at amortised cost</b>				
Instalment sale agreements – motor vehicles and equipment	17 951 188	20 995 008	–	–
Liabilities under instalment sale agreements payable over the next year to five years bearing interest at market-related rates of prime less 2% (2008: prime less 2%) and are repayable in monthly instalments of R746 098 (2008: R611 166).				
The liabilities are secured by the assets as set out in note 2.				
Mortgage bonds – Property	4 379 857	1 711 464	–	–
Liabilities under mortgage bond, payable over the next 10 years bearing interest at market-related rates of prime less 0,9% (2008: prime less 1%) and repayable in monthly instalments of R63 178 (2008: R30 403).				
The liabilities are secured by the assets as set out in note 2.				
Operating lease liability	323 016	171 078	–	–
Share issue liability*	–	–	20 973 011	–
	<b>22 654 061</b>	<b>22 877 550</b>	<b>20 973 011</b>	<b>–</b>
<i>* The share issue liability resulted from the issue of shares with a repurchase option attached. IAS 32 requires share capital issued with a repurchase option attached to be classified as liabilities.</i>				
<i>The share issue liability will accrue interest at 10,5% over five years until the balance amounts to R35 000 000, at which time the liability will be reclassified as equity or repaid to Solethu Civils Holdings (Pty) Ltd if the option is exercised for RACEC Group Ltd to repurchase 26 923 077 ordinary shares.</i>				
<b>Non-current liabilities</b>				
At amortised cost	13 529 920	15 892 362	20 973 011	–
<b>Current liabilities</b>				
At amortised cost	9 124 141	6 985 188	–	–
	<b>22 654 061</b>	<b>22 877 550</b>	<b>20 973 011</b>	<b>–</b>

	2009			2008		
	Future minimum lease payments R	Future finance charges R	Present value of minimum lease charges R	Future minimum leases payments R	Future finance charges R	Present value of minimum lease charges R
<b>Finance lease liabilities – Group</b>						
No later than 1 year	9 993 050	1 276 159	8 716 891	9 252 596	2 508 977	6 743 619
Later than 1 year and no later than 5 years	10 074 630	840 333	9 234 297	16 857 882	2 606 493	14 251 389
	<b>20 067 680</b>	<b>2 116 492</b>	<b>17 951 188</b>	<b>26 110 478</b>	<b>5 115 470</b>	<b>20 995 008</b>
Current portion of finance lease liabilities			<b>8 716 891</b>			<b>6 743 619</b>
Non-current portion of finance lease liabilities			<b>9 234 297</b>			<b>14 251 389</b>

	<b>GROUP</b>			
	Carrying amounts		Fair values	
	<b>2009</b>	2008	<b>2009</b>	2008
<b>14. OTHER FINANCIAL LIABILITIES (continued)</b>				
<b>The carrying amounts and fair value of the non-current borrowings are as follows:</b>				
Instalment sale agreements – Motor vehicles and equipment	<b>9 234 297</b>	14 251 389	<b>9 234 297</b>	14 251 389
Mortgage bonds – Property	<b>3 979 681</b>	1 556 951	<b>3 979 681</b>	1 556 951
	<b>13 213 978</b>	15 808 340	<b>13 213 978</b>	15 808 340

The fair value of current borrowings approximates their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rates.

The articles of association of the company and its subsidiaries has no limit to the level of borrowings.

The carrying amounts of the group's borrowings are denominated in South African rands.

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>R</b>	R	<b>R</b>	R
<b>15. SHARE-BASED PAYMENTS</b>				
Share-based payment liability arising on consolidation of RACEC Employee Share Trust	<b>2 994 065</b>	2 634 149	–	–
Fair value adjustments of options granted to employees	<b>216 000</b>	240 085	–	–
	<b>3 210 065</b>	2 874 234	–	–

The group has a compensation scheme for all employees of the group which is offered by the RACEC Employee Share Trust. 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.

At 30 September 2009, the group has recorded liabilities of R3 210 065 (2008: R2 874 234). The fair value of the SARs is determined using the binomial pricing model using the assumptions noted below. The group recorded total expenses of R216 000 (2008: R240 085) during the year in respect of SARs. At 30 September 2009, the total intrinsic value of the vested SARs was R565 002 (2008: R359 404).

#### Grant date

	Fair value Exercise price R
30 September 2004	387
30 September 2005	428
30 September 2006	421
30 September 2007	515
30 September 2008	515
30 September 2009	362

No units have been issued subsequent to 30 September 2006.

## Notes to the financial statements

for the year ended 30 September

### 15. SHARE-BASED PAYMENTS (continued)

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 year is R436,13 (2008: R442,70). 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.

	2009	2008
Exercise price	314	515
Fair value at grant date	362	571
Expected volatility	40,73%	11,84%
Option life	10 years	10 years
Dividend yield	8,14%	16,08%
Risk-free rate	8,60%	8,16%

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

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the year	9 305	443	10 580	443
Forfeited	(1 315)		(1 275)	
Balance at end of the year	7 990	436	9 305	443
Exercisable at end of the year	-		-	

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>16. DEFERRED TAX LIABILITIES</b>				
Property, plant and equipment	2 979 003	3 301 316	-	-
Intangible assets	-	633 290	-	-
Prepayments	156 586	117 760	-	-
Retentions	1 812 396	1 143 323	-	-
Provisions	(711 123)	(710 671)	-	-
Deferred interest	(136 652)	(91 178)	-	-
Assessed losses	(1 531 977)	(510 922)	-	-
Capital loss on impairment of intangible asset	(79 857)	(79 857)	-	-
Share-based payments	-	(97 720)	-	-
Operating leases	(90 444)	(47 902)	-	-
	<b>2 397 932</b>	<b>3 657 439</b>	<b>-</b>	<b>-</b>

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>16. DEFERRED TAX LIABILITIES (continued)</b>				
Reconciliation of deferred tax liability				
Balance at beginning of the year	<b>3 657 439</b>	1 620 603	–	–
<b>Movements during year attributable to:</b>				
– Transferred to deferred tax assets	<b>(1 130 881)</b>	–	–	–
– Transferred from deferred tax assets	<b>(150 745)</b>	–	–	–
– Prepayments	<b>106 792</b>	(52 268)	–	–
– Retentions	<b>838 336</b>	(187 684)	–	–
– Provisions	<b>(353 727)</b>	105 344	–	–
– Property, plant and equipment	<b>502 318</b>	852 964	–	–
– Intangible assets	–	(83 580)	–	–
– Deferred interest	<b>(49 372)</b>	(4 716)	–	–
– Assessed losses	<b>(877 739)</b>	(270 763)	–	–
– Capital loss on impairment of intangible asset	–	(79 857)	–	–
– Revaluation of property, plant and equipment	–	1 137 596	–	–
– Impairment of revalued property, plant and equipment	<b>(94 626)</b>	–	–	–
– Share-based payments	–	(64 289)	–	–
– Operating leases	<b>(42 543)</b>	(30 272)	–	–
– Deferred tax liabilities acquired in business combinations	–	741 161	–	–
– Rate change recognised in income statement	–	1 302	–	–
– Rate change recognised in equity	–	(28 102)	–	–
– Prior year deferred tax	<b>(7 320)</b>	–	–	–
Balance at end of the year	<b>2 397 932</b>	3 657 439	–	–
Deferred tax liabilities to be recovered after more than 12 months	<b>1 343 867</b>	3 322 178	–	–
Deferred tax liabilities to be recovered within 12 months	<b>1 054 065</b>	335 261	–	–
	<b>2 397 932</b>	3 657 439	–	–
<b>17. TRADE AND OTHER PAYABLES</b>				
Trade payables	<b>14 593 642</b>	22 277 448	–	–
VAT	<b>2 778 501</b>	2 903 149	<b>85 107</b>	–
Amounts due to contract customers	<b>7 525 527</b>	13 829 253	–	–
Accrued expense	<b>3 841 573</b>	1 878 811	–	–
Amount due on purchase of subsidiary	–	1 566 672	–	1 566 672
Other payables*	<b>9 809 492</b>	6 223 697	<b>69 646</b>	–
	<b>38 548 735</b>	48 679 030	<b>154 753</b>	1 566 672

No interest is charged on the trade payables. The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. Payables are stated at their fair values after taking into account the effect of discounting.

\* Other payables relate to payroll and leave and bonus accruals.

## Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>18. PROVISIONS</b>				
Opening balance	–	800 000	–	–
Realised through profit and loss	–	(800 000)	–	–
Closing balance	–	–	–	–
<b>19. REVENUE</b>				
<b>Major classes of revenue comprise</b>				
Contract revenue	<b>272 208 728</b>	339 689 232	–	–
Sale of merchandise	<b>72 437 802</b>	44 151 661	–	–
	<b>344 646 530</b>	383 840 893	–	–
<b>20. OTHER INCOME</b>				
Dividends received	–	–	<b>1 507 293</b>	3 282 563
Profit on no-interest liability*	–	–	<b>14 248 230</b>	–
Other income	<b>258 378</b>	70 827	–	19 335
	<b>258 378</b>	70 827	<b>15 755 523</b>	3 301 898
* The profit on no-interest liability arise on the discounting of R35 000 000 at the prime interest rate to its present value. The R35 000 000 relate to the reclassification of share capital and share premium to liabilities due to a repurchase option being issued to Solethu Civils Holdings (Pty) Ltd with the issue of 26 923 077 RACEC ordinary shares.				
<b>21. OPERATING (LOSS)/PROFIT</b>				
Operating (loss)/profit for the year is stated after accounting for the following:				
<b>Operating lease charges</b>				
Premises	<b>2 693 290</b>	1 294 726	–	–
Equipment	<b>518 008</b>	340 646	–	–
	<b>3 211 298</b>	1 635 372	–	–
Loss on sale of property, plant and equipment	<b>494 479</b>	412 088	–	–
Profit on sale of property, plant and equipment	<b>(23 667)</b>	–	–	–
Operating lease income – premises	<b>(106 951)</b>	(123 712)	–	–
Impairment on property, plant and equipment	<b>45 833</b>	260 353	–	–
Impairment on intangible assets	–	570 756	–	–
Impairment on investment in subsidiary	–	–	–	290 468
Profit on exchange differences	<b>(5 552)</b>	–	–	–
Defined-benefit contributions	<b>8 160 815</b>	4 119 555	–	–
Share-based payments	<b>216 000</b>	240 085	–	–
Share issue option expense*	<b>6 230 769</b>	–	<b>6 230 769</b>	–
Audit fees	<b>768 607</b>	497 201	–	–
Secretarial fees	<b>52 970</b>	25 774	–	–
Depreciation on property, plant and equipment	<b>6 997 489</b>	4 287 155	–	–
Amortisation on intangible assets	<b>923 612</b>	714 890	–	–
Directors' emoluments	<b>4 725 917</b>	4 910 975	–	–
Employee costs	<b>82 508 711</b>	56 335 684	–	–
<b>Other expenses</b>				
Administration costs	<b>34 971 743</b>	16 134 581	<b>20 347</b>	8 033
Operating expenses	<b>33 965 081</b>	39 218 179	<b>6 230 770</b>	291 070
	<b>68 936 824</b>	55 352 760	<b>6 251 117</b>	299 103

\* The share issue option expense of R6 230 769 relates to the BEE transaction concluded with Solethu Civils Holdings (Pty) Ltd and Solethu Investments (Pty) Ltd. The expense has been recognised in a share based payment reserve and the reserve will only be realised on the exercise of the repurchase option issued to Solethu Civils Holdings (Pty) Ltd or the expiration of such option.

	GROUP		COMPANY	
	2009	2008	2009	2008
	R	R	R	R
<b>22. INVESTMENT REVENUE</b>				
Bank	304 173	1 758 527	85 683	264 554
Related parties	8 189	421 782	106 612	–
Deemed interest income	857 789	683 014	–	–
RACEC Employee Share Trust unit holders	91 619	258 622	–	–
	<b>1 261 770</b>	<b>3 121 945</b>	<b>192 295</b>	<b>264 554</b>
<b>23. FINANCE COSTS</b>				
Bank	7 586 119	5 321 786	396 284	95 179
Shareholders	680 863	377 803	–	301 978
Deemed interest expense	–	–	221 239	–
	<b>8 266 982</b>	<b>5 699 589</b>	<b>617 523</b>	<b>397 157</b>
<b>24. TAXATION</b>				
<b>Major components of the tax (income)/expense</b>				
<b>Current</b>				
Local income tax – current year	990 409	7 038 957	–	–
Local income tax – previous year	–	(15 606)	–	–
Capital gains tax – current year	1 688	2 210	–	–
Capital gains tax – prior year	(2 210)	–	–	–
Secondary tax on companies – prior year	(281 472)	–	(281 472)	–
Secondary tax on companies – current year	467 255	840 628	–	573 880
	<b>1 175 670</b>	<b>7 866 189</b>	<b>(281 472)</b>	<b>573 880</b>
<b>Deferred</b>				
Originating and reversing temporary differences	(3 402 648)	(29 210)	(94 626)	(69 233)
	<b>(2 226 978)</b>	<b>7 836 979</b>	<b>(376 098)</b>	<b>504 647</b>
<b>Reconciliation of the tax (income)/expense</b>				
Reconciliation between applicable tax rate and average effective tax rate				
Applicable tax rate	28,00%	28,00%	28,00%	28,00%
Exempt income	0,12%	(0,03%)	(48,59%)	(32,02%)
Share option expense	(11,31%)	0,00%	19,22%	0,00%
Assessed current tax losses for which no deferred tax asset was raised	(0,28%)	0,00%	0,00%	0,00%
Disallowable charges	(1,25%)	0,78%	0,68%	0,00%
Secondary tax on companies	(1,20%)	3,50%	(3,10%)	19,99%
Secondary tax on companies – unused credits	0,21%	0,00%	(0,35%)	0,00%
Capital gains tax – current year	(0,01%)	0,34%	0,00%	1,42%
Capital gains tax – prior year	0,01%	0,00%	0,00%	0,00%
Tax rate changes	0,00%	0,03%	0,00%	0,19%
Prior year deferred taxes	0,16%	0,00%	0,00%	0,00%
Prior year current taxes	0,00%	0,03%	0,00%	0,00%
	<b>14,45%</b>	<b>32,66%</b>	<b>(4,14%)</b>	<b>17,58%</b>

## Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>25. CASH GENERATED FROM OPERATIONS</b>				
(Loss)/profit before taxation	(15 421 940)	23 995 915	9 079 178	2 870 192
<b>Adjustments for:</b>				
Depreciation and amortisation	7 921 101	5 002 045	–	–
Loss on sale of assets	494 479	412 088	–	–
Profit on sale of assets	(15 816)	–	–	–
Share-based payments	216 000	240 085	–	–
Interest received	(1 261 770)	(3 121 945)	(192 295)	(264 554)
Finance costs	8 266 982	5 699 589	617 523	397 157
Impairment loss on property, plant and equipment	45 833	260 353	–	–
Impairment loss on intangible assets	–	570 756	–	–
Impairment loss on investment	–	–	–	290 468
Share issue option expense	6 230 769	–	6 230 769	–
Profit on non-interest liability	–	–	(14 248 228)	–
<b>Changes in working capital:</b>				
Inventories	6 302 928	(6 866 343)	–	–
Trade and other receivables	19 985 117	(2 273 937)	1 103 831	1 889 262
Trade and other payables	(8 668 166)	(18 685 981)	50 210	104 543
	<b>24 095 517</b>	<b>5 232 625</b>	<b>2 640 988</b>	<b>5 287 068</b>
<b>26. TAX PAID</b>				
Balance at beginning of the year	(8 611 034)	(5 781 784)	(322 014)	(87 288)
Tax liabilities acquired in business combinations	–	(3 931 466)	–	–
Current tax for the year recognised in income statement	(1 175 670)	(7 866 189)	281 472	(573 880)
Disposal of subsidiary	–	–	–	–
Balance at end of the year	<b>1 234 521</b>	<b>8 611 034</b>	<b>40 542</b>	<b>322 014</b>
	<b>(8 552 183)</b>	<b>(8 968 405)</b>	<b>–</b>	<b>(339 154)</b>
<b>27. DIVIDENDS PAID</b>				
Dividends to shareholders of RACEC Group Ltd	3 120 543	4 347 253	3 120 543	4 347 253
Dividends paid to minority shareholders	390 000	–	–	–
Distributions made by RACEC employee share trust	622 391	1 107 732	–	–
	<b>4 132 934</b>	<b>5 454 985</b>	<b>3 120 543</b>	<b>4 347 253</b>
During the year dividends of 3,0 (2008: 4,3) cents per share (total dividend R3 120 543 (2008: R4 347 000)) were paid to holders of fully paid ordinary shares who were shareholders at the date of declaration.				
No dividend is proposed for the year ending 30 September 2009.				
<b>28. CONTINGENCIES</b>				
<b>Tax consequences of undistributed reserves</b>				
STC on remaining reserves	1 546 077	2 751 865	1 592 668	450 350

There is a contingent liability with respect to outstanding performance guarantees provided by Lombards Insurance Company and C & G Underwriting Managers totalling R25 176 742 (2008: R32 136 864) for work done by the subsidiary companies.

In the prior year there was a contingent liability for R1,7 million which related to invoices received by the group for work performed by a sub-contractor. The group was of the view that there was no liability to the subcontractor as there were errors on the billings and the invoices were not valid. The amounts were investigated during the current year and a settlement was reached.

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>R</b>	R	<b>R</b>	R
<b>29. COMMITMENTS</b>				
<b>Operating leases</b>				
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.				
<b>Payments recognised as an expense</b>				
Minimum lease payments	<b>2 693 290</b>	1 294 726	–	–
Sublease payments received	–	(123 712)	–	–
	<b>2 693 290</b>	1 171 014	–	–
<b>Non-cancellable operating lease commitments</b>				
Not longer than 1 year	<b>2 426 713</b>	2 123 563	–	–
Between 1 and 5 years	<b>9 784 998</b>	8 681 453	–	–
After 5 years	<b>10 772 385</b>	12 615 648	–	–
	<b>22 984 096</b>	23 420 664	–	–
<b>Capital commitments</b>				
Authorised by the directors	–	5 994 212	–	–

None of the capital commitments were contracted for (2008: Rnil).

#### **Solethu Civils Holdings (Pty) Ltd**

During the financial year 26 923 077 ordinary shares were issued to Solethu Civils Holdings (Pty) Ltd for R35 000 000. RACEC has granted Solethu Civils Holdings (Pty) Ltd the right, on written notice to the company, to require RACEC to purchase from Solethu Civils Holdings (Pty) Ltd, 26 923 077 of the shares issued for R35 000 000. The right can however only be exercised when Solethu Civils Holdings (Pty) Ltd breach certain obligation under a funding agreement, at any time commencing on 28 August 2014 and ending on the ninetieth business day thereafter or on the suspension or termination of the listing of RACEC Group Ltd. In the event that the right is exercised, simultaneously, Solethu Civils Holdings (Pty) Ltd will be deemed to have subscribed for RACEC Group Ltd shares. The consideration for such shares will be based on a formula as agreed upon and on the actual versus budgeted profit before tax for a rolling twelve-month period before the right was exercised. The number of shares will be based on the consideration divided by the 30-day volume weighted average price.

RACEC Group Ltd will advance by way of loan on each of the advance dates, being 31 December of every year, commencing on 31 December 2009 and terminating on 31 December 2013, an amount equal to the aggregate interest that would notionally have accrued on R13 462 000, calculated at the prime interest rate. Such amounts advanced will carry interest at the prime interest rate until repayment of the amounts advanced and interest thereon on 28 February 2014.

RACEC Group Ltd has a possible future obligation to subscribe for a single class "B" ordinary share with a par value of R1 in Solethu Civils Holdings (Pty) Ltd on written demand from Solethu Civils Holdings (Pty) Ltd. The share will have no right to dividends, will not be entitled to a return of share premium, on winding-up of Solethu Civils Holdings (Pty) Ltd will only be entitled to return of the par value and carry votes attached to 1/1000 of an ordinary share. The subscription price will be determined by the following formula: 34 615 385 multiplied by (R1,30 less the normalised earnings per share multiplied by 5), added the notional interest at prime lending rate that would have accrued from 28 August 2009 up to payment date. The normalised earnings is defined per agreement as the 30 September 2010 headline earnings for the RACEC Group, adjusted for the consolidation of Solethu Civils Holdings (Pty) Ltd, and IFRS/fair value adjustments pertaining to the share issue option given to Solethu Civils Holdings (Pty) Ltd and any IFRS/fair value adjustments which will be considered extraordinary.

## Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>30. RELATED PARTIES</b>				
<b>Relationships</b>				
Common shareholders				
Subsidiaries				
Shareholders				
<b>Related-party balances</b>				
<b><i>Loan accounts – owing (to)/by related parties</i></b>				
CI Merchandising (Pty) Ltd	74 630	63 117	–	–
Cardita Circle (Pty) Ltd	–	206	–	–
Uphondo Electrical (Pty) Ltd	(577 276)	(668 234)	–	–
Hlanganani Rail Services CC	4 492	206	–	–
Rotomo CC	–	43 520	–	–
Victor Mrawu	91 532	–	–	–
Solethu Investments (Pty) Ltd	(35 497 875)	–	–	–
<b><i>Amounts included in trade receivables/(trade payables) regarding related parties</i></b>				
CI Merchandising (Pty) Ltd	29 143	57 815	–	–
Hlanganani Rail Services CC	–	70 258	–	–
<b>Related-party transactions</b>				
<b><i>Interest paid to/(received from) related parties</i></b>				
CI Merchandising (Pty) Ltd	67 083	–	–	–
Shareholders	116 405	377 666	–	–
Shareholders	(8 189)	–	–	–
Solethu Investments (Pty) Ltd	497 375	–	–	–
Cardita Circle (Pty) Ltd	–	(421 645)	–	–
<b><i>Rent paid to/(received from) related parties</i></b>				
CI Merchandising (Pty) Ltd	(120 000)	(120 000)	–	–
<b><i>Dividends owing by subsidiaries</i></b>	–	–	–	1 047 200
<b>Compensation to directors and other key management</b>				
Directors' emoluments (refer note 40)	4 725 917	4 910 975	–	–
<b>Share-based payments</b>				
RACEC Employee Share Trust	216 000	240 085	–	–

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. Details of transactions between the group and other related parties are disclosed above.

### 30. RELATED PARTIES (continued)

#### Subsidiary companies

Direct subsidiaries	Issued capital Number	Percentage held	Shares at cost		Amount owing by/(to)		Net (loss)/profit after tax	
			2009 R	2008 R	2009 R'000	2008 R'000	2009 R'000	2008 R'000
RACEC (Pty) Ltd	300	100	300	300	34 755	3 414	(92)	1 157
RACEC Plant Hire (Pty) Ltd	100	100	100	100	–	1 274	1 258	1 404
RACEC Electrification (Pty) Ltd	100	70	70	70	–	8 119	(1 816)	4 702
RACEC Rail (Pty) Ltd	300	70	210	210	–	3 226	(4 748)	5 789
Greenbro (Pty) Ltd	100	100	5 217 443	80	10 191	10 191	(4 050)	445
RACEC Power (Pty) Ltd	100	70	70	70	–	–	678	(449)
Northern Electric (Cape) (Pty) Ltd	1 000	100	7 289 531	4 550 978	–	–	2 453	3 920
RACEC Africa (Pty) Ltd	120	100	120	–	–	–	(15)	–
			<b>12 507 844</b>	<b>4 551 808</b>	<b>44 946</b>	<b>26 224</b>	<b>(6 332)</b>	<b>16 968</b>

Loans to subsidiaries  
Loans from subsidiaries

44 946	27 544
–	(1 320)

All of the subsidiary companies are incorporated in South Africa.

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

Solethu Civils Holdings (Pty) Ltd is considered a special-purpose entity and, in terms of International Financial Reporting Standards, has been consolidated in the group's financial statements.

## Notes to the financial statements

for the year ended 30 September

### 31. BUSINESS COMBINATIONS

#### Greenbro CC

On 1 April 2008 the group bought 80% of the assets and liabilities (and not the shares) of Greenbro CC for R10 190 820. The consideration was payable in cash of R6 314 837 on or before 19 June 2008 and the balance in RACEC Group Ltd shares issued in accordance with the Company's Act of 1973 and the JSE Listings Requirements.

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

	Acquiree's carrying amount before combination R	Fair value adjustments R	Fair value R
Net assets acquired:			
Property, plant and equipment	8 187 460	658 744	8 846 204
Intangible assets	930 000	1 630 250	2 560 250
Inventories	8 176 168	–	8 176 168
Trade and other receivables	4 768 520	–	4 768 520
Cash and cash equivalents	401 549	–	401 549
Other financial liabilities	(1 522 477)	–	(1 522 477)
Deferred tax liabilities	–	(741 161)	(741 161)
Trade and other payables	(8 954 284)	–	(8 954 284)
Current tax payable	(1 784 363)	–	(1 784 363)
Net assets	<u>10 202 573</u>	<u>1 547 833</u>	11 750 406
Attributable to minority (20%)			(2 350 081)
Net assets acquired			<u>9 400 325</u>
Goodwill			<u>790 495</u>
Total consideration, satisfied by cash and shares in RACEC Group Ltd			<u>10 190 820</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			6 314 837
Cash and cash equivalents acquired			<u>(401 549)</u>
			<u>5 913 288</u>
Purchase consideration:			
Cash paid			6 314 837
Fair value of shares issued			<u>3 875 983</u>
Total purchase consideration			<u>10 190 820</u>

---

**31. BUSINESS COMBINATIONS (continued)**

The goodwill arising on the acquisition of the trade and assets of Greenbro CC is attributable to the excess purchase price over the net assets acquired and is attributable to the workforce of the acquired business and the significant synergies expected to arise after the group's acquisition of Greenbro.

2 958 766 of shares issued at R1.31 per share was based on the 30-day volume weighted average price to settle R3 875 983 of the purchase price.

The net assets were acquired in RACEC Gauteng (Pty) Ltd which subsequently had its name changed to Greenbro (Pty) Ltd.

Greenbro specialises in the supply and manufacture of electrical equipment and generators. Greenbro's products and services are well diversified across the production, supply and installation of electrical components including control and switchgear, control boxes and electrical kiosks. In addition, the company manufactures a range of generators for the commercial and industrial sectors.

The operations of Greenbro therefore forms part of the Electrical reticulation business segment and the Western Cape geographical segment.

The operations of Greenbro contributed R44,2 million revenue and R632 000 to the group's profit before tax for the six-month period between the date of acquisition and the balance sheet date. If the acquisition had occurred on 1 October 2007, the operations of Greenbro would have contributed R76,1 million revenue and R1,4 million to the group's profit before tax. These amounts have been calculated using the group's accounting policies and by adjusting the results to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 October 2007.

During the 2009 financial year, RACEC Group Ltd acquired the remaining 20% minority interest in Greenbro (Pty) Ltd for R5 217 363. The amount was fully paid in cash.

A claw-back agreement has been concluded with John Greenlees from whom the 20% was acquired, of which the amount will be determined by the net profit/(loss) after tax for 20 September 2010.

## Notes to the financial statements

for the year ended 30 September

### 31. BUSINESS COMBINATIONS (continued)

#### Northern Electric (Cape) (Pty) Ltd

On 1 May 2008, the group bought 70% of the shares of Northern Electric (Cape) (Pty) Ltd for R4 539 629. The consideration was payable in cash or shares in RACEC Group Ltd.

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

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	R	R	R
Net assets acquired:			
Property, plant and equipment	306 750	–	306 750
Intangible assets	–	440 000	440 000
Inventories	388 551	–	388 551
Trade and other receivables	6 424 340	–	6 424 340
Cash and cash equivalents	5 848 004	–	5 848 004
Other financial liabilities	(5 799 827)	–	(5 799 827)
Deferred tax	49 865	(123 200)	(73 335)
Trade and other payables	(2 766 410)	–	(2 766 410)
Taxation payable	(2 147 103)	–	(2 147 103)
Net assets	<u>2 304 170</u>	<u>316 800</u>	<u>2 620 970</u>
Minority interest (30%)			(786 291)
Net assets acquired			<u>1 834 679</u>
Goodwill			<u>2 716 299</u>
Total consideration, satisfied by cash and shares in RACEC Group Ltd			<u>4 550 978</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			1 827 500
Cash and cash equivalents acquired			<u>(5 848 004)</u>
			<u>(4 020 504)</u>
Purchase consideration:			
Cash paid			1 827 500
Fair value of shares issued			1 250 000
Direct costs relating to the acquisition paid in cash			11 349
Amounts owing to seller			<u>1 462 129</u>
Total purchase consideration			<u>4 550 978</u>

The goodwill arising on the acquisition of the trade and assets of Northern Electric (Cape) (Pty) Ltd is attributable to the excess purchase price over the net assets acquired and is attributable to the workforce of the acquired business and the significant synergies expected to arise after the group's acquisition of Northern Electric (Cape) (Pty) Ltd.

1 059 322 of shares issued at R1,18 per share was based on the 30-day volume weighted average price to settle R1 250 000 of the purchase price.

---

### 31. BUSINESS COMBINATIONS *(continued)*

#### **Northern Electric (Cape) (Pty) Ltd** *(continued)*

Northern Electric (Cape) (Pty) Ltd is an electrical contracting business specialising in electrical installation and maintenance contracts for the industrial, commercial and domestic markets.

The operations of Northern Electric (Cape) Pty Ltd therefore forms part of the Electrical reticulation business segment and the Western Cape geographical segment.

The operations of Northern Electric (Cape) (Pty) Ltd contributed R18,2 million revenue and R5,4 million to the group's profit before tax for the five-month period between the date of acquisition and the balance sheet date. If the acquisition had occurred on 1 October 2007, the operations of Northern Electric (Cape) (Pty) Ltd would have contributed R35,4 million revenue and R11,5 million to the group's profit before tax. These amounts have been calculated using the group's accounting policies and by adjusting the results to reflect the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 October 2007.

During the 2009 financial year, RACEC Group Ltd acquired the remaining 30% minority interest in Northern Electric (Cape) (Pty) Ltd for R2 738 553. The amount was settled as follows:

	<b>2009</b>
	<b>R</b>
Issue of 1 304 274 RACEC Group Ltd ordinary shares at R1,30 per share	<b>1 695 556</b>
Cash paid	<b>1 042 997</b>
	<b>2 738 553</b>
	<b>2009</b>
	<b>R</b>
<i>Cash flow relating to acquisition</i>	
Cash paid relating to amounts owing in 2008	<b>1 462 129</b>
Cash paid relating to additional acquisition of 30% minority interest – 2009	<b>1 042 997</b>
	<b>2 505 126</b>

#### **Solethu Civils Holdings (Pty) Ltd**

Solethu Civils Holdings (Pty) Ltd was incorporated during the financial year and is classified as a special purpose entity with respect to the RACEC group and therefore forms part of the RACEC group consolidated asset, liabilities and results. 100% of the ordinary share of Solethu Civils Holdings (Pty) Ltd is held by Solethu Investments (Pty) Ltd. Solethu Civils Holdings (Pty) Ltd has issued preference shares to Solethu Investments (Pty) Ltd to the amount of R35 000 000 which is classified as a financial liability in the RACEC group financial statements. There is no cash flow impact from the consolidation of Solethu Civils Holdings (Pty) Ltd.

### 32. POST BALANCE SHEET EVENTS

There are no post balance sheet events relating to the current or 2008 financial years.

## Notes to the financial statements

for the year ended 30 September

### 33. FINANCIAL RISK MANAGEMENT

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, cash flow and interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group does not hedge any of the risks.

Risk management is carried out by the board of directors.

#### Market risks

##### Currency risk

The group is exposed to minimal foreign currency risk on transactions that are denominated in currencies other than its functional currency as all contracts from the beginning of the prior financial year have been negotiated in Rands.

##### Cash flow and fair value interest rate risk

Interest-bearing borrowings and bank overdrafts of R27 000 000 (2008: R27 000 000), as well as bank balances, are arranged at variable interest rates and expose the group to cash flow interest rate risk. At 30 September 2008 the company also had a temporary additional overdraft facility of R5 000 0000. There is no exposure to fair value interest rate risk as no borrowings or loans are at fixed interest rates. Weekly cash flows are prepared to evaluate the cash flow position.

The impact of change in the South African prime interest rate will be as follows:

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
(Increase)/decrease of 100 basis points would have (increased)/decreased loss before tax or (decreased)/increased profit before tax	(410 449)	(426 508)	135 326	26 295

For exposure to interest rate risk on monetary items refer to the following:

- Loans to/(from) related parties: note 7
- Loans to shareholders: note 6
- Other financial liabilities: note 14

#### Credit risk

Credit risk is managed on a group basis. Potential concentrations of credit risk consist primarily of 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.

For exposure to credit risk on other monetary items refer to the following:

- Trade and other receivables: note 10
- Loans to shareholders: note 6
- Loans to related parties: note 7

#### Liquidity risk

The risk of liquidity is managed by using cash flow forecasts and maintaining adequate unutilised banking facilities. All unutilised facilities are controlled by the group's accounting department under supervision of the board of directors.

The table below analyses the group's financial liabilities that will be settled on a net basis into the relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity risk (continued)

	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R	Over 5 years R	Total R
<b>GROUP</b>					
<b>At 30 September 2009</b>					
Bank overdrafts	29 221 730	–	–	–	29 221 730
Trade and other payables	28 244 707	–	–	–	28 244 707
Loans from related parties	497 875	–	35 000 000	577 276	36 075 151
Other financial liabilities	10 793 733	7 064 569	6 048 869	2 546 990	26 454 161
	<b>68 758 045</b>	<b>7 064 569</b>	<b>41 048 869</b>	<b>3 124 266</b>	<b>119 995 749</b>
<b>At 30 September 2008</b>					
Bank overdrafts	39 542 978	–	–	–	39 542 978
Trade and other payables	31 946 628	–	–	–	31 946 628
Other financial liabilities	–	–	–	672 550	672 550
	9 645 269	8 365 096	9 972 619	972 982	28 955 966
	<b>81 134 875</b>	<b>8 365 096</b>	<b>9 972 619</b>	<b>1 645 532</b>	<b>101 118 122</b>
<b>COMPANY</b>					
<b>At 30 September 2009</b>					
Bank overdrafts	68	–	–	–	68
Trade and other payables	69 646	–	–	–	69 646
	<b>69 714</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>69 714</b>
<b>At 30 September 2008</b>					
Bank overdrafts	68	–	–	–	68
Trade and other payables	1 566 672	–	–	–	1 566 672
Loans from subsidiaries	1 319 789	–	–	–	1 319 789
	<b>2 886 529</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2 886 529</b>

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is considered to be equity as shown in the balance sheet. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The gearing ratio is calculated as net debt borrowings divided by equity and was 2,37% (2008: 1,83%) on the balance sheet date. The net debt is calculated as total borrowings less cash and cash equivalents.

#### Fair value estimation

The nominal value less estimated credit adjustments of trade and other receivables and payables approximates their fair values. The carrying values of all other financial instruments approximates the fair values thereof.

#### Key estimations and uncertainties

Estimates and judgements are used in the impairment test for goodwill, refer note 4 for more details. Certain judgements and estimates are also used when evaluating contracts in progress and amounts due to contract customers, however, in-depth reviewing is done of the amounts invoiced, engineering certificates and actual costs incurred on a per contract basis. Judgement is applied when making allowances for doubtful debts and all known information is taken into account when making the allowance. The remainder of the business operations do not require any significant estimations, judgements or uncertainties that would result in a material adjustment to the carrying value of the group's assets or liabilities if proved incorrect.

## Notes to the financial statements

for the year ended 30 September

### 34. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	
	2009	2008
	R	R
<b>GROUP</b>		
<b>Financial assets as per balance sheet</b>		
Loans to shareholders	–	39 433
Trade and other receivables excluding prepayments and taxes receivable	<b>62 051 061</b>	83 215 328
Loans to related parties	<b>170 654</b>	111 376
Cash and cash equivalents	<b>20 725 203</b>	11 994 479
	<b>82 946 918</b>	95 360 616
<b>COMPANY</b>		
<b>2009</b>		
<b>Financial assets as per balance sheet</b>		
Investment loans to subsidiaries	<b>10 190 820</b>	12 619 250
Loans to subsidiaries	<b>34 754 979</b>	–
Loans to related parties	<b>106 612</b>	–
Trade and other receivables excluding prepayments and taxes receivable	<b>86 329</b>	138 476
Dividends owing by subsidiaries	–	1 047 200
Cash and cash equivalents	<b>12 014 197</b>	4 944 582
	<b>57 152 937</b>	18 749 508
<b>Financial liabilities</b>		
<b>2009</b>		
<b>R</b>		
<b>R</b>		
<b>GROUP</b>		
<b>Financial liabilities as per balance sheet</b>		
Loans from related parties	<b>577 276</b>	672 550
Borrowings	<b>22 331 045</b>	22 706 472
Trade and other payables excluding taxes payable and income received in advance	<b>28 244 707</b>	31 946 628
Bank overdraft	<b>29 221 730</b>	39 542 978
	<b>80 374 758</b>	94 868 628
<b>COMPANY</b>		
<b>Financial liabilities as per balance sheet</b>		
Loans from subsidiaries	–	1 319 789
Trade and other payables excluding taxes payable and income received in advance	<b>69 646</b>	1 566 672
Bank overdraft	<b>68</b>	68
	<b>69 714</b>	2 886 529

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>35. CREDIT QUALITY OF FINANCIAL ASSETS</b>				
The major trade debtors for the group at 30 September were as follows:				
Eskom Holdings Ltd	6 058 974	–	–	–
Vestbest Two (Pty) Ltd	3 930 832	2 756 891	–	–
Transnet Rail Engineering	3 655 359	–	–	–
Group Five – Civil Engineering	3 160 363	–	–	–
NMC (Pty) Ltd	2 736 000	4 925 086	–	–
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the ageing of the debtors:				
Ageing of debtors past due, but not impaired				
60 days	2 407 870	3 413 417	–	–
90 days	3 547 453	1 336 939	–	–
120 days +	4 832 774	6 396 538	–	–
	<b>10 788 097</b>	<b>11 146 894</b>	–	–
Ageing of impaired debtors:				
120 days +	852 972	225 660	–	–
	<b>852 972</b>	<b>225 660</b>	–	–

The group has payment terms of 30 days and does not hold collateral for any of the trade debtors. Trade debtors include retention debtors of R6,2 million (2008: R3,7 million) which are not considered past due nor impaired. The group purchases performance guarantees which are provided to customers in order to reduce the level of retention debtors and therefore reduce the exposure to credit risk.

#### Cash at bank and short-term bank deposits\*

The table below shows the cash invested at the balance sheet date at financial institutions grouped per Moody's short-term credit rating of the financial institutions:

Bank	Rating	30 September 2009		30 September 2008	
		Credit limit	Utilised	Credit limit	Utilised
Standard Bank	P-2	20 000 000	6 196 543	25 000 000	21 498 517
Absa	P-1	7 000 000	3 964 600	7 000 000	5 964 179
Nedbank	P-1	–	–	–	–
		<b>27 000 000</b>	<b>10 161 143</b>	<b>32 000 000</b>	<b>27 462 696</b>

\* The rest of the balance sheet item "Cash and cash equivalents" is cash on hand. Refer to note 11 for more details on overdraft facilities, guarantees and suretyships.

## Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2009 R	2008 R	2009 R	2008 R
<b>36. CONSTRUCTION CONTRACTS</b>				
<b>Contracts in progress at the balance sheet date:</b>				
Construction costs incurred plus recognised profits	271 084 190	339 618 576	–	–
Less: Progress billings	(272 208 728)	(339 689 232)	–	–
	<b>(1 124 538)</b>	<b>(70 656)</b>	–	–
<b>Recognised and included in the financial statements as amounts due:</b>				
From customers under construction contracts (note 9)	6 400 989	13 758 597	–	–
To customers under construction contracts (note 17)	(7 525 527)	(13 829 253)	–	–
	<b>(1 124 538)</b>	<b>(70 656)</b>	–	–
At 30 September 2009, retentions held by customers for contract work amount to R5 508 840 (2008: R3 723 387). Advances received from customers for contract work amounted to R7 525 527 (2008: R13 829 253).				
The average credit period in respect of construction contracts is 30 days. No interest is charged on the receivables from the date of invoice.				
<b>37. (LOSS)/EARNINGS PER ORDINARY SHARE</b>				
The calculation of (loss)/earnings per ordinary share is based on net (loss)/profit attributable to ordinary shareholders and a weighted number of 104 128 599 (2008: 99 199 759) ordinary shares in issue.				
The calculation of headline earnings per ordinary share is based on net (loss)/profit attributable to ordinary shareholders and a weighted number of 104 128 599 (2008: 99 199 759) ordinary shares in issue, taking into account the following adjustments:				
Reconciliation between (loss)/earnings and headline (loss)/earnings:				
(Loss)/profit after tax	<b>(13 158 723)</b>	14 903 834		
Impairment losses on property, plant and equipment	<b>45 833</b>	260 353		
Impairment loss on intangible assets	–	570 756		
Loss on disposal of property, plant and equipment	<b>494 479</b>	412 088		
Profit on disposal of property, plant and equipment	<b>(23 667)</b>	–		
Tax effect of adjustments	<b>(144 661)</b>	(268 189)		
	<b>(12 786 739)</b>	15 878 842		
(Loss)/earnings per share (cents)				
Basic (loss)/earnings per share	<b>(12,6)</b>	15,0		
Headline (loss)/earnings per share	<b>(12,3)</b>	16,0		
Diluted (loss)/earnings per share (cents)				
Diluted basic (loss)/earnings per share	<b>(12,6)</b>	15,0		
Diluted headline (loss)/earnings per share	<b>(12,3)</b>	16,0		

### 38. 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.

### 39. SEGMENT ANALYSIS

#### Business segments

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

- Administrative and investment services
- Electrical reticulation
- Rail construction

Principal activities are as follows:

#### **Administration and investment services**

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

#### **Electrical reticulation**

Electrical reticulation services are rendered by RACEC Electrification (Pty) Ltd and RACEC Power (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. This segment also includes the operations of Greenbro (Pty) Ltd who specialises in the supply and manufacture of electrical equipment and generators and the operations of Northern Electric (Cape) (Pty) Ltd specialising in electrical installation and maintenance contracts for the industrial, commercial and domestic markets.

#### **Rail construction**

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

#### Geographical segments

For management purposes, the group is currently organised into two divisions (2008: three divisions). These divisions are the basis on which the group reports its secondary segment information.

- Western Cape
- Gauteng

The KwaZulu-Natal division is included in the Gauteng division in the current year due to not meeting criteria for separate disclosure.

#### Business segments

	Administrative investment and plant hire services R	Electrical services R	Rail construction R	Consolidated R
<b>2009</b>				
<b>Revenue</b>				
– external	188 991	238 715 193	105 742 346	344 646 530
– intersegment	22 195 633	25 281 003	1 524	47 478 160
Segment result	(5 505 892)	(3 485 674)	(6 430 374)	(15 421 940)
<b>Other information</b>				
Segment assets	65 373 830	81 082 339	37 055 556	183 511 725
Segment liabilities	83 781 676	41 095 849	10 260 437	135 137 962
Capital expenditure	10 017 176	2 068 247	4 840 055	16 925 478

## Notes to the financial statements

for the year ended 30 September

	Administrative investment and plant hire services R	Electrical services R	Rail construction R	Consolidated R
<b>39. SEGMENT ANALYSIS (continued)</b>				
2008				
<b>Revenue</b>				
– external	–	212 071 725	171 769 168	383 840 893
– intersegment	18 292 583	723 598	3 475	19 019 656
Segment result	(29 160 915)	25 167 892	27 988 938	23 995 915
<b>Other information</b>				
Segment assets	49 731 162	87 498 100	52 342 855	189 572 117
Segment liabilities	48 983 870	49 180 907	28 750 038	126 914 815
Capital expenditure	16 857 695	18 436 846	2 535 689	37 830 230
<b>Geographical segments</b>				
2009				
<b>Revenue</b>				
– external	<b>263 416 324</b>		<b>81 230 206</b>	<b>344 646 530</b>
– intersegment	<b>47 478 160</b>		–	<b>47 478 160</b>
Segmental result	<b>(6 079 368)</b>		<b>(9 342 572)</b>	<b>(15 421 940)</b>
<b>Other information</b>				
Segment assets	<b>160 591 052</b>		<b>22 920 673</b>	<b>183 511 725</b>
Segment liabilities	<b>132 008 204</b>		<b>3 129 758</b>	<b>135 137 962</b>
Capital expenditure	<b>12 085 423</b>		<b>4 840 055</b>	<b>16 925 478</b>
2008				
<b>Revenue</b>				
– external	248 582 468	15 169 822	120 088 603	383 840 893
– intersegment	19 019 656	–	–	19 019 656
Segmental result	17 158 340	(478 375)	7 315 950	23 995 915
<b>Other information</b>				
Segment assets	161 525 160	2 158 404	25 888 553	189 572 117
Segment liabilities	122 001 171	1 318 111	3 595 533	126 914 815
Capital expenditure	37 830 230	–	–	37 830 230

#### 40. DIRECTORS' REMUNERATION

For the year ended 30 September 2009, remuneration paid to the directors was as follows:

	Basic R	Motor vehicle R	Pension R	Medical aid R	Total R
MJ Uys	218 629	75 883	38 260	46 644	379 417
CJ Harrod	886 408	214 091	155 121	19 380	1 275 000
GL Harrod	734 160	210 000	73 416	32 424	1 050 000
W Ollewagen	694 629	197 500	69 463	25 908	987 500
SC Wilkins	690 909	190 000	69 091	–	950 000
CRS Gooden	40 500	1 500	–	–	42 000
BD Petersen	42 000	–	–	–	42 000
Total	3 307 235	888 974	405 351	124 356	4 725 917

For the year ended 30 September 2009, remuneration paid to the directors was as follows:

	Basic R	Motor vehicle R	Pension R	Medical aid R	Total R
MJ Uys	334 430	109 900	58 525	46 644	549 499
CJ Harrod	698 400	210 000	122 220	19 380	1 050 000
GL Harrod	640 305	184 193	64 030	32 424	920 952
GJ Kleinschmidt (resigned 31/3/2008)	489 858	140 000	78 575	32 424	740 857
W Ollewagen	588 071	175 299	61 390	25 908	850 668
SC Wilkins	563 636	155 000	56 363	–	774 999
CRS Gooden	18 000	–	–	–	18 000
B Petersen	6 000	–	–	–	6 000
Total	3 338 700	974 392	441 103	156 780	4 910 975

## Shareholder analysis

The following tables set out an analysis of shareholding as at 30 September 2009. The number of shares held by the shareholders as at 30 September 2009 is as reflected in the directors' report on page 29. At 30 September 2009, the 139 978 027 shares related to 100% of the shares in issue.

	Number of shareholders	%	Number of shares	%
<b>DISTRIBUTION OF SHAREHOLDERS</b>				
Trusts	70	7,0	66 786 348	47,7
Private companies	25	2,5	36 367 859	26,0
Retail shareholders	853	85,4	26 755 376	19,1
Unit trusts/mutual funds	2	0,2	5 340 001	3,8
Assurance companies	1	0,1	2 700 000	1,9
Close corporations	23	2,3	1 264 161	0,9
Investment partnerships	19	1,9	401 150	0,3
Custodians	1	0,1	243 075	0,2
Foundations and charitable funds	3	0,3	94 800	0,1
Hedge funds	1	0,1	18 500	0,0
Pension and provident funds	1	0,1	6 757	0,0
	999	100,0	139 978 027	100,0

### SHAREHOLDER SPREAD

1 – 1 000 shares	172	17,2	145 047	0,1
1001 – 10 000 shares	441	44,2	2 320 211	1,7
10 001 – 100 000 shares	326	32,6	11 308 593	8,1
100 001 – 1 000 000 shares	45	4,5	10 072 022	7,1
1 000 001 shares and over	15	1,5	116 132 154	83,0
	999	100,0	139 978 027	100,0

	2009				2008			
<b>PUBLIC/NON-PUBLIC SHAREHOLDERS</b>								
Non-public shareholders:	<b>7</b>	<b>0,7%</b>	<b>94 195 224</b>	<b>67,3%</b>	6	0,6%	59 579 840	57,3%
Directors and associates (indirect holding)	<b>4</b>	<b>0,4%</b>	<b>58 779 840</b>	<b>42,0%</b>	4	0,4%	58 779 840	56,5%
Directors and associates (direct holding)	<b>2</b>	<b>0,2%</b>	<b>800 000</b>	<b>0,6%</b>	2	0,2%	800 000	0,8%
Holders holding more than 10% (excluding directors' holdings)	<b>1</b>	<b>0,1%</b>	<b>34 615 384</b>	<b>24,7%</b>	–	0,0%	–	0,0%
Public shareholders	<b>992</b>	<b>99,3%</b>	<b>45 782 803</b>	<b>32,7%</b>	966	99,4%	44 438 248	42,7%
	<b>999</b>	<b>100,0%</b>	<b>139 978 027</b>	<b>100,0%</b>	972	100,0%	104 018 088	100,0%

	2009		2008	
	Number of shares	%	Number of shares	%
<b>BENEFICIAL SHAREHOLDERS' HOLDING OF 5% OR MORE</b>				
Solethu Civil Holdings (Pty) Ltd	34 615 384	24,73	–	0,00
The Charles & Tertia Harrod Trust	17 290 000	12,35	17 290 000	16,62
The Ollewagen Family Trust	15 260 000	10,90	15 260 000	14,67
The Mike & Jen Uys Trust	13 969 840	9,98	13 969 840	13,43
The Gary Harrod Family Trust	12 260 000	8,76	12 260 000	11,79
Mrs GJ Kleinschmidt	7 568 842	5,41	7 568 842	7,28
	<b>100 964 066</b>	<b>72,1</b>	<b>66 348 682</b>	<b>63,8</b>

#### **BREAKDOWN OF NON-PUBLIC HOLDINGS**

##### **Directors**

<b>MJ Uys</b>	<b>13 969 840</b>	<b>9,98</b>	13 969 840	13,43
The Mike & Jen Uys Trust	13 969 840		13 969 840	

<b>CRS Gooden</b>	<b>100 000</b>	<b>0,07</b>	100 000	0,10
-------------------	----------------	-------------	---------	------

<b>CJ Harrod</b>	<b>17 290 000</b>	<b>12,35</b>	17 290 000	16,62
The Charles & Tertia Harrod Trust	17 290 000		17 290 000	

<b>GL Harrod</b>	<b>12 260 000</b>	<b>8,76</b>	12 260 000	11,79
The Gary Harrod Family Trust	12 260 000		12 260 000	

<b>W Ollewagen</b>	<b>15 260 000</b>	<b>10,90</b>	15 260 000	14,67
The Ollewagen Family Trust	15 260 000		15 260 000	

<b>SC Wilkins</b>	<b>700 000</b>	<b>0,50</b>	700 000	0,67
-------------------	----------------	-------------	---------	------

<b>Q Zulu*</b>	<b>22 153 846</b>	<b>15,80</b>	–	0,00
Solethu Civils Holdings (Pty) Ltd	22 153 846		–	

<b>S Smithyman*</b>	<b>5 192 308</b>	<b>3,70</b>	–	0,00
Solethu Civils Holdings (Pty) Ltd	5 192 308		–	

\* The shareholding was calculated by the product of the percentage shareholding in Solethu Investments (Pty) Ltd, multiplied by Solethu Investments' shareholding in Solethu Civils Holdings (Pty) Ltd, multiplied by 34 615 384 RACEC Group Ltd shares.

#### **SHARE PRICE PERFORMANCE**

Opening price 1 October 2008	R1,20
Closing price 30 September 2009	R0,60
Intraday High for the period (1-2 October 2008)	R1,20
Intraday Low for the period (7-8 January 2009)	R0,59

Number of shares in issue	139 978 027
Volume traded during period	10 182 462
Ratio of volume traded to shares issued (%)	7,3%

## Notice of annual general meeting

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

**If you are in any doubt as to what action you should take in respect of the following resolutions, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, attorney, accountant or other professional adviser immediately.**

Notice is hereby given that the third annual general meeting of shareholders of the company will be held at Kelvin Grove, Newlands, Cape Town, at 10:00 on Tuesday 23 February 2010 to conduct the following business:

1. To receive, consider and adopt the annual financial statements of the company and the group for the financial year ended 30 September 2009, including the directors' report and the report of the auditors therein.
2. To re-elect Qedukwazi Zulu, who, in terms of article 15 of the company's articles of association, retires by rotation at this annual general meeting but, being eligible to do so, offers himself for re-election.
3. To re-elect Bonita Deidre Petersen, who, in terms of article 15 of the company's articles of association, retires by rotation at this annual general meeting but, being eligible to do so, offers herself for re-election.
4. To re-elect Michael John Uys, who, in terms of article 15 of the company's articles of association, retires by rotation at this annual general meeting but, being eligible to do so, offers himself for re-election.  
An abbreviated curriculum vitae in respect of each director offering himself or herself for re-election appears on page 22 and page 23 of the annual report to which this notice is attached.
5. To confirm the re-appointment of BDO Spencer Steward (Cape) Inc. as independent auditors of the company, with Imtiaaz Hashim, being the individual registered auditor who has undertaken the audit of the company for the ensuing financial year and to authorise the directors to determine the auditors' remuneration.
6. To ratify the non-executive directors' remuneration for the year ended 30 September 2009 as reflected in note 40 to the annual financial statements

As special business, to consider and, if deemed fit, to pass, with or without modification, the following resolutions:

### **ORDINARY RESOLUTION NUMBER 1**

#### **Control of authorised but unissued ordinary shares**

7. "**Resolved** by way of a general authority that the authorised but unissued ordinary shares in the capital of RACEC Group Limited ("the company") be and are hereby placed under the control and authority of the directors of the company ("directors") and that the directors be and are hereby authorised and empowered to allot and issue all or any of such ordinary shares, or to issue any options in respect of all or any of such ordinary shares, to such person/s on such terms and conditions and at such times as the directors may from time to time and in their discretion deem fit, subject to the provisions of sections 221 and 222 of the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and the Listings Requirements of JSE Limited from time to time."

### **ORDINARY RESOLUTION NUMBER 2**

#### **Approval to issue ordinary shares, and to sell treasury shares, for cash**

8. "**Resolved** the directors of RACEC Group Limited ("the company") and/or any of its subsidiaries from time to time be and are hereby authorised, by way of a general authority, to –
  - allot and issue, or to issue any options in respect of, all or any of the authorised but unissued ordinary shares in the capital of the company; and/or
  - sell or otherwise dispose of or transfer, or issue any options in respect of, ordinary shares in the capital of the company purchased by subsidiaries of the company,for cash, to such person/s on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit, subject to the Companies Act, 1973 (Act 61 of 1973), as amended, the articles of association of the company and its subsidiaries and the Listings Requirements of JSE Limited ("the JSE Listings Requirements") from time to time.

The JSE Listings Requirements currently provide, *inter alia*, that:

- the securities which are the subject of the issue for cash must be of a class already in issue or, where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- any such issue may only be made to “public shareholders” as defined in the JSE Listings Requirements and not to related parties;
- the number of ordinary shares issued for cash shall not in any one financial year in the aggregate exceed 50% (fifty percent) of the number of issued ordinary shares. The number of ordinary shares which may be issued shall be based, *inter alia*, on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year; plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and is fully underwritten, or an acquisition which has had final terms announced;
- this general authority will be valid until the earlier of the company’s next annual general meeting or the expiry of a period of 15 (fifteen) months from the date that this authority is given;
- an announcement giving full details, including the impact on net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share and, if applicable, diluted earnings and headline earnings per share, will be published when the company has issued ordinary shares representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of ordinary shares in issue prior to the issue;
- in determining the price at which an issue of ordinary shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE Limited of the ordinary shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the issuer and the party subscribing for the securities; and
- whenever the company wishes to use ordinary shares, held as treasury stock by a subsidiary of the company, such use must comply with the JSE Listings Requirements as if such use was a fresh issue of ordinary shares.”

Under the JSE Listings Requirements, ordinary resolution number 2 must be passed by a 75% (seventy-five percent) majority of the votes cast in favour of the resolution by all members present or represented by proxy at the annual general meeting.

### **ORDINARY RESOLUTION NUMBER 3**

#### **Adoption of the RACEC Share Purchase Scheme**

9. “**Resolved that** the RACEC Share Purchase Scheme, the salient features of which are set out in Annexure 1 to this notice of annual general meeting, and the terms of which, in compliance with Schedule 14 of the Listings Requirements of the JSE Limited are set out in the trust deed, which is available for inspection on request, and a copy of which has been initialled by the Chairperson of the annual general meeting for the purposes of identification, be and is hereby approved and adopted by the company.”

In terms of the Listings Requirements of the JSE Limited, ordinary resolution number 3 requires approval of a 75% (seventy-five percent) majority of votes cast in favour thereof by all shareholders present or represented by proxy. Furthermore, any shares held by existing participants may not participate in the vote.

### **SPECIAL RESOLUTION NUMBER 1**

#### **General approval to acquire shares**

10. “**Resolved**, by way of general approval that RACEC Group Limited (“the company”) and/or any of its subsidiaries from time to time be and are hereby authorised to acquire ordinary shares in the company in terms of sections 85 to 89 of the Companies Act 1973 (Act 61 of 1973), as amended, the articles of association of the company and its subsidiaries and the Listings Requirements of JSE Limited (“the JSE) from time to time.”

The JSE Listings Requirements currently provide, *inter alia*, that:

- the acquisition of the ordinary shares must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- this general authority shall only be valid until the earlier of the company’s next annual general meeting or the expiry of a period of 15 (fifteen) months from the date of passing of this special resolution;

## Notice of annual general meeting

- in determining the price at which the company's ordinary shares are acquired in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten percent) of the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the 5 (five) business days immediately preceding the date on which the transaction is effected;
- the acquisitions of ordinary shares in the aggregate in any one financial year may not exceed 20% (twenty percent) of the company's issued ordinary share capital;
- the company or its subsidiaries may not acquire ordinary shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- the repurchase of ordinary shares may only be undertaken if, after such repurchase, the company will still comply with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread;
- an announcement will be published once the company has cumulatively repurchased 3% (three percent) of the number of the ordinary shares in issue at the time this general authority is granted ("initial number"), and for each 3% (three percent) in aggregate of the initial number acquired thereafter; and
- at any point in time, the company may only appoint one agent to effect any acquisition/s on its behalf."

### **10.1 Reason for and effect of special resolution number 1**

The reason for and effect of this special resolution number 1 is to obtain an authority for, and to authorise, the company and the company's subsidiaries, by way of a general authority, to acquire the company's issued ordinary shares.

It is the intention of the directors of the company to use such authority should prevailing circumstances (including tax dispensations and market conditions) in their opinion warrant it.

### **10.2 Other disclosures in terms of Section 11.26 of the JSE Listings Requirements**

The JSE Listings Requirements require the following disclosures, which are contained in the annual report of which this notice forms part:

- directors and management – pages 21 to 23;
- major shareholders of RACEC Group Limited – page 79;
- directors' interests in securities – page 31; and
- share capital of the company – page 54.

### **10.3 Litigation statement**

The directors, whose names appear on page 21 and 23 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past (being at least the previous 12 (twelve) months) a material effect on the group's financial position.

### **10.4 Material change**

There have been no material changes in the affairs or financial position of RACEC and its subsidiaries since RACEC's financial year-end and the date of this notice.

### **10.5 Directors' responsibility statement**

The directors, whose names are given on page 30 of the annual report of which this notice forms part, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 1 and certify that to the best of their knowledge and belief there are no facts in relation to special resolution number 1 that have been omitted which would make any statement in relation to special resolution number 1 false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that special resolution number 1 together with this notice contains all information required by law and the JSE Listings Requirements in relation to special resolution number 1.

### **10.6 Adequacy of working capital**

At the time that the contemplated repurchase is to take place, the directors will ensure that, after considering the effect of the maximum repurchase and for a period of twelve months thereafter:

- the company and its subsidiaries will be able to pay their debts as they become due in the ordinary course of business;
- the consolidated assets of the company and its subsidiaries, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the consolidated liabilities of the company and its subsidiaries;

- the issued share capital and reserves of the company and its subsidiaries will be adequate for the purpose of the ordinary business of the company and its subsidiaries; and
- the working capital available to the company and its subsidiaries will be sufficient for the group's requirements.

The company may not enter the market to proceed with the repurchase until its Designated Adviser, Merchantec (Proprietary) Limited, has discharged of all of its responsibilities in terms of the JSE Listings Requirements insofar as they apply to working capital statements for the purposes of undertaking an acquisition of its issued ordinary shares.

#### **ORDINARY RESOLUTION NUMBER 4**

##### **Signature of documents**

- 11. "Resolved that** each director of RACEC Group Limited ("the company") be and is hereby individually authorised to sign all such documents and do all such things as may be necessary for or incidental to the implementation of those resolutions to be proposed at the annual general meeting convened to consider the resolutions which are passed, in the case of ordinary resolutions, or are passed and registered by the Companies and Intellectual Property Registration Office, in the case of special resolutions."
- 12. Other business**  
To transact such other business as may be transacted at the annual general meeting of the company.

##### **VOTING AND PROXIES**

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend and act in his/her stead. A proxy need not be a member of the company. For the convenience of registered members of the company, a form of proxy is attached hereto.

The attached form of proxy is only to be completed by those ordinary shareholders who:

- hold ordinary shares in certificated form; or
- are recorded on the subregister in "own name" dematerialised form.

Ordinary shareholders who have dematerialised their ordinary shares through a CSDP or broker without "own name" registration and who wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the relevant Letter of Representation to attend the meeting in person or by proxy and vote. If they do not wish to attend in person or by proxy, they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

Proxy forms should be forwarded to reach the transfer secretaries, Computershare Investor Services (Proprietary) Limited, at least 48 hours, excluding Saturdays, Sundays and public holidays, before the time of the meeting.

By order of the board



**Conrad van Rensburg**  
Company secretary

10 December 2009  
Cape Town

## Annexure 1

### RACEC GROUP LIMITED

(Registration number 1998/006153/06)  
("RACEC" or "the company" or "the Group")

---

#### SALIENT FEATURES OF THE PROPOSED RACEC SHARE PURCHASE SCHEME ("RSPS")

---

##### 1. DEFINITIONS

"Acceptance Date"	the date of acceptance by a Participant of an offer for the purchase of Scheme Shares;
"AltX"	the Alternative Exchange of JSE Limited;
"Auditors"	the auditors of the Trust from time to time and for the time being, presently BDO Spencer Steward (Cape) Inc. (Practice Number: 905461E);
"Board"	the board of directors of the RACEC Group Limited acting either itself or through any committee constituted by it for the purpose of administering this Scheme, and "Directors" shall have a similar meaning;
"Eligible Applicant"	a person eligible for participation in this Scheme, namely, any Employee of the Group who has not less than 12 (twelve) months uninterrupted service with the Group and who is recommended for participation from time to time by the Board;
"Employee"	an employee of the Group, being at management-level, and supervisory staff, including an executive director of the Group, to whom an offer shall have been made to acquire Shares;
"JSE"	JSE Limited (registration number 2005/022939/06), a company duly registered and incorporated with limited liability under the company laws of the Republic of South Africa, licensed as an exchange under the Securities Services Act, 2004;
"Participants"	an Eligible Applicant who has accepted the offer made to him/her in terms of the Scheme to purchase Scheme Shares or who has accepted a Right and Option in terms of the Scheme, including his heirs, executors and administrators;
"Scheme"	the scheme to enable Employees to acquire and/or fund the acquisition of Shares, the details of which are embodied in these salient features of the Trust Deed;
"Scheme Shares"	shares purchased by a Participant under this Scheme;
"Shares"	ordinary shares in the capital of the Group;
"Trust"	The RACEC Share Purchase Scheme constituted in terms of the Trust Deed; and
"Trust Deed"	the trust deed of The RACEC Share Purchase Scheme; the full details of which are available for inspection at the registered offices of the Group.

##### 2. PURPOSE

The purpose of the RACEC Share Purchase Scheme ("RSPS") is to enhance the ability of the Company to attract, retain and reward key staff. The Board is of the opinion that the RSPS is required to permit the issue of awards as a retention mechanism and particularly under present circumstances where the Group faces significant retention risks with respect to key talent. The RSPS will also encourage Participants to build up a shareholding in the Company and thus increase their alignment with the interests of shareholders.

##### 3. OPERATION

- The RSPS will be controlled by a Trustees Committee ("the Committee") consisting of a minimum of three members approved by the Group's nomination committee and must consist of non-executive members only and be chaired by the non-executive Chairman of the nomination committee. Members of the nomination committee are also eligible for election.
- Members of the Committee may not be participants of the scheme.
- The Company's Board shall from time to time make recommendations to the Committee as to which Employees, based on the performance of the Employee, they recommend to incentivise by means of the RSPS. The Committee will approve the directors' recommendations provided that the conditions and intentions of the RSPS are adhered to.
- Each Employee who has been approved shall be notified in writing of his/her participation in the RSPS and be required to accept or reject the offer in writing within a period of 14 days of the offer being made.
- The committee may sell shares on credit to Participants, or grant options to Participants to purchase shares at a future date (at the current price).

- f. The Committee is responsible for the governance pertaining to the RSPS and will therefore, have the final authority to decide on who will participate in the RSPS, the aggregate quantum of awards to be made to all Employees and all other issues relating to the governance of the RSPS.

### **3. ELIGIBILITY**

- a. Employees and executive directors of RACEC and all of its subsidiaries will be eligible to participate in the RSPS and only if and to the extent that offers are made to them (“Participants”). The Committee is the final decision making entity in this process.
- b. The overriding consideration in the selection of Participants is to attract, retain and reward key staff and may not be used as an alternative to the performance bonus system.

### **4. LIMITS**

- a. The aggregate number of unissued shares that may be reserved for the RSPS, together with the shares under option, may not exceed 20 996 704 Shares of the company’s issued share capital.
- b. The maximum number of shares which may be allocated to any Participant in terms of this RSPS shall not exceed 1 399 780 Shares of the company’s issued share capital.

### **5. SHARE ISSUE**

- a. The Company shall issue new shares as it sees fit for the purpose of the RSPS, subject to the approval of the shareholders and in compliance with the rules of the Listings Requirements of JSE Limited.
- b. Dividends can be used, inter alia, to buy shares up to the limits set out above.

### **6. PRICE**

- a. The price at which the shares may be sold or the options may be exercised will be equal to the JSE AltX closing 30-day volume weighted average price of the Shares on the date of the offer (“Purchase Price”) being made to the Participant. Payment will be effected simultaneously with the vesting of the shares.

### **7. PERIOD**

#### **7A Options**

- 7A1) Each option granted will remain in force for a period of 6 years and three months from the date of granting of the option.
- 7A2) Each option granted will only be exercised on the following basis:
  - After a 4 year period has elapsed from the date of granting of the option, not more than 20% of the shares which are the subject of that option;
  - After a 5 year period has elapsed from the date of granting of the option, not more than 20% of the shares which are the subject of that option; and
  - After a 6 year period has elapsed from the date of granting of the option, not more than 60% of the shares which are the subject of that option.
- 7A3) All options not exercised by the expiry of a period of three months after the 6 year period from the date of the offer being made will be cancelled and no financial benefit will accrue to the Participant.
- 7A4) The directors may, if they consider that the circumstances warrant such action, and with the consent of the Participant, cancel an option or offer to exercise an option with no cost to the Participant, or extend the period for exercise.
- 7A5) The Participant has all shareholder rights, namely the right to dividends and voting in respect of the options from the date the shares have vested.

#### **7B Sales**

Participants offered the opportunity to purchase Scheme Shares on credit will:

- 7B1) Have three years to pay the Purchase Price back to the Trust, with interest.
- 7B2) Have their shares released to them, after payment by them of the Purchase Price, in three instalments of 33 1/3% each annually from one year after the Acceptance Date.

- 7C** Periods may be extended in special circumstances, at the Committees discretion.

## **8. DISCLOSURE**

The Company shall disclose in its financial statements the number of shares that may be utilised for purpose of the RSPS at the beginning of the accounting period and changes in such number during the accounting period and the balance of shares available for utilisation for the purpose of the RSPS at the end of the accounting period.

## **9. CESSATION**

- a. If a Participant's employment with an Employer Company terminates by reason of his resignation or dismissal on grounds legally justifying summary dismissal, such as dishonesty, (whether such cessation occurs as a result of notice given by him or otherwise or where he resigns to avoid dismissal before the Vesting Date, all his unexercised options will be forfeited.
- b. If a Participant ceases to be an Employee the Company by reason of retrenchment, retirement, death, disability, or if the Employer Company ceases to be a subsidiary of the Company or if there is another reason for cessation of employment other than resignation or dismissal on legal grounds or retirement, then the date for the exercising of the remaining unexercised options will be forwarded to a date as soon as practical after the date of termination of employment. The Participant or his/her executor as the case may be will have the right to, exercise or cancel the remaining options, within two years.
- c. In the event of a change of control of the Company or Reconstruction or takeover occurring before the vesting date, the purchase price or number of shares or rights of the Participant shall, in consultation with the auditors, who will determine fair value, be adjusted to ensure that the Participant receives fair value for his rights. The committee has a discretion to make these adjustments.
- d. If there is an internal reconstruction or other event which does not involve any change in the ultimate Control of the Company, and therefor is not a Reconstruction or Takeover, or if any other event happens which may affect the RSPS, including the shares ceasing to be listed on the JSE, the Committee may take such action as it considers appropriate to protect the interests of Participants, including converting options into share awards in respect of shares in one or more other companies.
- e. Where necessary, in respect of any such adjustments, the Auditor or an Independent Third Party, acting as experts and not as arbitrators and whose decision shall be final and binding on all persons affected thereby, shall confirm to the Board and JSE in writing that these are calculated on a non-prejudicial basis.
- f. Any adjustments made in terms of the rules of the RSPS will be reported on in the Company's annual financial statement in the year during which the adjustment is made.

## **10. AMENDING THE RSPS**

- a. Amendments to the RSPS will be subject to approval by ordinary resolution of 75% of the shareholders in a general/annual general meeting as well as the approval of the JSE.
- b. Voting rights attached to securities which have been acquired in terms of the scheme are excluded from voting in respect of any amendments to the RSPS.

## **11. CAPITALISATION ISSUES AND RIGHTS ISSUES IN RESPECT OF A PARTICIPANT WHO HAS EXERCISED AN OPTION**

- a. A Participant who has exercised an option shall be entitled to participate in any rights issue by the Company in accordance with the terms thereof in respect of the shares acquired by such Participant pursuant to the exercise of such option. The provisions of the RSPS shall apply mutatis mutandis to such rights issue shares as if they were shares acquired pursuant to the exercise of an option. If a Participant elects not to participate in any rights issue, any letter of allocation arising therefrom may be sold by the Committee of the RSPS for the Participant's benefit and the net proceeds remitted to such Participant. A Participant shall not participate in any rights issue in respect of shares to which an option relates, until such time as the option to which such shares relate has been exercised.
- b. A Participant shall participate in any capitalisation issue in respect of all shares acquired by such Participant pursuant to the exercise of an option. A Participant shall not be entitled to renounce his rights to any capitalisation shares, or dispose thereof in any other way and all such shares shall be allotted and issued subject to the restrictions and provisions of the RSPS. A Participant shall not participate in any capitalisation issue in respect of shares to which an option relates, until such time as the option to which such shares relate has been exercised.



**RACEC GROUP LIMITED**

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

## Form of proxy

For use only by ordinary shareholders who:

- hold ordinary shares in certificated form ("certificated ordinary shareholders"); or
- have dematerialised their ordinary shares ("dematerialised ordinary shareholders") and are registered with "own name" registration,

at the third annual general meeting of ordinary shareholders of the company to be held at Kelvin Grove, Newlands, Cape Town, at 10:00 on 23 February 2010, and any adjournment thereof.

Dematerialised ordinary shareholders holding ordinary shares other than with "own-name" registration who wish to attend the annual general meeting must inform their Central Securities Depository Participant ("CSDP") or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the relevant Letter of Representation to attend the annual general meeting in person or by proxy and vote. If they do not wish to attend the annual general meeting in person or by proxy, they must provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. **These ordinary shareholders must not use this form of proxy.**

I/We (name in block letters)

Of (address)

Telephone work

Telephone home

Being the holder/custodian of

ordinary shares in the company, do hereby appoint

1. \_\_\_\_\_ or failing him/her

2. \_\_\_\_\_ or failing him/her

3. the Chairperson of the annual general meeting,

as my/our proxy to attend and act for me/us on my/our behalf at the annual general meeting of the company convened for purpose of considering and, if deemed fit, passing, with or without modification, the special and ordinary resolutions to be proposed thereat ("resolutions") and at each postponement or adjournment thereof and to vote for and/or against such resolutions, and/or abstain from voting, in respect of the ordinary shares in the issued share capital of the company registered in my/our name/s in accordance with the following instructions:

	Number of votes on a poll (one vote per ordinary share)		
	For	Against	Abstain
1. To receive, consider and adopt the annual financial statements of the company and group for the financial year ended 30 September 2009			
2. To approve the re-election as director of Qedukwazi Zulu who retires by rotation			
3. To approve the re-election as director of Bonita Deidre Petersen who retires by rotation			
4. To approve the re-election as director of Michael John Uys who retires by rotation			
5. To confirm the re-appointment of BDO Spencer Steward (Cape) Inc. as independent auditors of the company with Imtiaaz Hashim, being the individual registered auditor who has undertaken the audit of the company for the ensuing financial year and to authorise the directors to determine the auditors' remuneration.			
6. To ratify the non-executive directors remuneration for the financial year ended 30 September 2009.			
7. <b>Ordinary resolution number 1</b> Control of authorised but unissued ordinary shares			
8. <b>Ordinary resolution number 2</b> Approval to issue ordinary shares, and to sell treasury shares, for cash			
9. <b>Ordinary resolution number 3</b> Adoption of the RACEC Share Purchase Scheme			
10. <b>Special resolution number 1</b> General approval to acquire shares			
11. <b>Ordinary resolution number 4</b> Signature of documents			

Please indicate instructions to proxy in the space provided above by the insertion therein of the relevant number of votes exercisable.

A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and act in his stead. A proxy so appointed need not be a member of the company.

Signature

Signed at:

on

2010

Assisted by (if applicable)

## Notes

1. The form of proxy must only be completed by shareholders who hold shares in certificated form or who are recorded on the sub-register in electronic form in "own name".
  2. All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the annual general meeting must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.
  3. A shareholder entitled to attend and vote at the annual general meeting may insert the name of a proxy or the names of two alternate proxies of the shareholder's choice in the space provided, with or without deleting "the Chairperson of the meeting". The person whose name stands first on this form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those proxy(ies) whose names follow.
  4. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. If an "X" has been inserted in one of the blocks to a particular resolution, it will indicate the voting of all the shares held by the shareholder concerned. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
  5. A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the ordinary shares in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the transfer secretaries not less than forty eight hours before the commencement of the annual general meeting.
  6. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the annual general meeting be proposed, such proxy shall be entitled to vote as he/she thinks fit.
  7. The Chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
  8. A shareholder's authorisation to the proxy, including the Chairperson of the annual general meeting, to vote on such shareholder's behalf, shall be deemed to include the authority to vote on procedural matters at the annual general meeting.
  9. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
  10. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company's transfer secretaries or waived by the Chairperson of the annual general meeting.
  11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the transfer secretaries of the company.
  12. Where there are joint holders of ordinary shares:
    - any one holder may sign the form of proxy;
    - the vote(s) of the senior ordinary shareholders (for that purpose seniority will be determined by the order in which the names of ordinary shareholders appear in the company's register of ordinary shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
  13. Forms of proxy should be lodged with or mailed to Computershare Investor Services (Proprietary) Limited:

Hand deliveries to: Computershare Investor Services (Proprietary) Limited Ground Floor, 70 Marshall Street Johannesburg, 2001	Postal deliveries to: Computershare Investor Services (Proprietary) Limited PO Box 61051 Marshalltown, 2107
--	--
- to be received by no later than 10:00 on Friday 19, February 2010 (or 48 hours before any adjournment of the annual general meeting which date, if necessary, will be notified on SENS).
14. A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.

# Corporate information

Company registration number  
1998/006153/06

## DIRECTORS

### Executive directors

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

### Non-executive directors

MJ Uys (Chairman)  
CRS Gooden  
B Petersen  
Q Zulu  
S Smithyman

## COMPANY SECRETARY AND REGISTERED ADDRESS

Mr Conrad van Rensburg CA(SA)  
8 Hawkins Avenue  
Epping 1  
Cape Town, 7460  
(PO Box 61, Eppindust, 7475)  
Telephone: 021 531 7540  
Facsimile: 021 531 8488

## TRANSFER SECRETARIES

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

## DESIGNATED ADVISER

Merchantec (Pty) Limited  
Registration number 2008/014219/07  
2nd Floor, North Block  
Hyde Park Office Tower,  
Cnr 6th Road and Jan Smuts Avenue  
Hyde Park, 2196  
(PO Box 41480, Craighall, 2024)  
Telephone: 011 325 6363  
Facsimile: 011 325 6362

## ATTORNEYS

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

## AUDITOR AND REPORTING ACCOUNTANTS

BDO Spencer Steward (Cape) Inc.  
Chartered Accountants (SA)  
Registration number 1999/018618/21  
BDO House  
119 Hertzog Boulevard  
Foreshore  
Cape Town, 8001  
(Docex 158, Cape Town)  
  
Telephone: 021 417 8800  
Facsimile: 021 417 8700

## COMMERCIAL BANKERS

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

ABSA Bank Limited  
Corporate and Business banking  
1st Floor, Tijger Park 4  
Tygervalley  
7536  
(PO Box 4453, Tygervalley, 7536)  
Telephone: 021 915 5300  
Facsimile: 021 914 7600

## Shareholders' diary

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

30 September 2009  
18 December 2009  
23 February 2010  
on or about 15 June 2010



[www.racec.co.za](http://www.racec.co.za)