



ANNUAL REPORT 2008

RACEC

GROUP LIMITED

EXCELLENCE IN ENGINEERING INFRASTRUCTURE



contents

History

In 1956 John Muller and Colonel Kallie Rood launched a company called Railway and Civil Engineering Construction (Pty) Ltd from which the present day name of RACEC was derived. The activities of the original company concentrated mainly on the construction of railway sidings. In 1966 RACEC was listed on the JSE and in 1976 Metkor Ltd purchased RACEC. A management buyout, supported by Standard Corporate and Merchant Bank, was effected in December 1988 when the head office was relocated to Cape Town. Business activities were expanded nationally as well as further northwards into Africa .

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We provide engineering infrastructure solutions in two focus areas:

Rail AND Electrical



Financial highlights

- o Revenue **up 76%**
- o Operating profit for the year **up 67%**
- o Profit for the year **up 32%**
- o Final dividend at **3,0 cents per share**
- o Headline and diluted headline earnings per share **up 29%** and **84%** respectively
- o Net asset value per share **up 152%**

EXCELLENCE IN ENGINEERING INFRASTRUCTURE

RACEC

GROUP LIMITED

Vision To be a leading provider of engineering infrastructure solutions

We apply our vision in our two focus areas:

Rail and electrical

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

GREENBRO (PTY) (LTD) [80%]

RACEC PLANT HIRE (PTY) LTD [100%]

NORTHERN ELECTRIC (CAPE) (PTY) LTD [70%]

RACEC (PTY) LTD [100%]

RACEC POWER (PTY) LTD [70%]

RACEC RAIL (PTY) LTD [70%]

RACEC ELECTRIFICATION (PTY) LTD [70%]

RACEC EMPLOYEE TRUST



RACEC rail incorporation and history

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

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

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

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

Company overview

The group consists of companies that provide engineering solutions in two main focus areas, namely Rail Construction and Electrical Services.

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

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

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

RACEC has a workforce of 1 200 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 2008 amounted to R383,4 million, with approximately 45% relating to Rail and 55% relating to Electrification.

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



THE RACEC Board

*from left to right Gary Harrod,
Bonita Petersen, Charles Harrod,
Mike Uys, Sean Wilkins and
Colin Goodman.*

insert Winston Ollewagen absent

We are pleased to welcome Bonita Petersen, who joined RACEC Group Ltd as an independent non-executive director. Bonita qualified as a CA in 1996, and then worked at PricewaterhouseCoopers Inc until March 1999, as a public sector consultant.

She joined Metropolitan (one of the larger insurance companies listed on the JSE) in April 1999 and today is the chief internal auditor, an extremely responsible position in terms of present legislation and other professional rules.

We are pleased that Metropolitan has consented for Bonita to be on our board and also for Bonita to undertake a "project" in a totally different industry. Hopefully she gains knowledge from the RACEC experience, which may be of help at Metropolitan!

Agriculture and Non-domestic Construction seem to have been the only two sectors remaining relatively unscathed during the dramatic downturn that has been taking place since the beginning of this year.

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 into the foreseeable future.

I have examined the detailed forecasts on a contract-by-contract basis, and at this stage, after two full months of trading in the new financial year, believe that the pre-listing estimates are realistic and achievable at a minimum. So with a 76% increase in revenue and 32% increase in profit after tax (47% NPBT) we have continued to be a boring but consistently

profitable company for our shareholders to be invested in. If some of the R100 million to R300 million plus tenders that we have submitted recently are awarded to us, we could easily blow the lights out in 2009. Watch this space.

In my first letter to you I said that I would continue to buy RACEC shares. During the small window of opportunity afforded me during open periods, I have managed to acquire further shares and will continue to do so in the belief that RACEC remains an excellent investment through to at least 2015. It remains only for me to say "well done and keep up the good work" to the outstanding management and staff of RACEC Group Ltd!

Mike Uys

Chairman

11 December 2008

Chief executive officer's report

The first full year of trading since listing on the Alternative Exchange (AltX) of the JSE on 18 October 2007 has come to an end.

The financial year started off in an extremely positive vein with buoyant markets and a general air of excitement throughout the country and the financial markets in general, only for the bubble to burst in late January and to deteriorate dramatically throughout the rest of the year.

I am pleased that although I present this my second annual report in this financial climate I can report that RACEC is still in very good shape.

There has been a general slowdown in the market and due to the high interest rates various contracts have been delayed. However, I am pleased to announce that even with all this negativity RACEC has still managed to achieve a year-on-year growth of 78% in turnover and 67% in operating profit.

Although I believe that the world financial turmoil is far from over and that South Africa will not be completely shielded from it, RACEC's fundamentals are in place and we are well positioned to benefit from the infrastructure spend both locally and on the African continent.

Financial highlights

The RACEC Group increased its revenue for the financial year ending September 2008 by 76% (2007: 38%) to R383,4 million (2007: R218,1 million). Headline earnings per share have increased by 29% to 15,0 cents with diluted headline earnings per share increasing by 84% to 16,0 cents. This increase can be attributed mainly to RACEC's decision to concentrate on its core business in the rail and electrical infrastructure arenas and to widen its base of operation through strategic acquisitions in related fields which have dampened the effect of the economic slowdown. I would also like to inform our loyal shareholders that even in this time of financial stress in the marketplace, the RACEC Board has declared a final dividend in line with our policy of 3,0 cents per share.

Operational review

Our decision to focus our energy and resources in the rail and electrification infrastructure engineering fields and to target long-term annuity-type rail contracts has been a major contributing factor to the continued growth of the group. During our 54 years of existence we have built up an extremely well-trained and experienced group of employees in these two focus areas of operation. This places us in a strong position to take advantage of the current climate of expansion in both rail and electrification infrastructure projects. Our view is that the infrastructure spend will continue way beyond 2010. There is a tremendous need to reverse the deterioration of the country's infrastructure resulting from the lack of investment in this area over the past years. We also expect that the current negative sentiment and high interest rates will result in some contracts being delayed or even cancelled. However, we are still confident that RACEC will continue to meet its forecasts.

Acquisitions

During the current year under review RACEC acquired the businesses, including all the staff and assets, of Greenbro cc and Northern Electric (Cape) (Pty) Ltd which are both in related industries and have contributed to widening our base of operations in the electrical field. Greenbro is a manufacturer of power generators and electrical enclosures and Northern Electric is an electrical contracting company operating in the commercial and industrial fields. These entities have now been fully integrated into the group structure while keeping their brand identities. They have both increased our skills base considerably. We are confident that they will continue to make a substantial contribution to the group's results going forward.

RACEC

CJ Harrod | CHIEF EXECUTIVE OFFICER

Individual operations performance

Rail Construction (RAIL)

Rail has benefitted from the decision to target longer-term annuity contracts, the main contributors being Richard Bay Coal Terminal, Highveld Steel and Vanadium and Sasol Synfuels. It has also been involved in a number of rail upgrade projects for Spoornet and Transnet on the Saldanha-Sishen line. On the construction front there have been numerous projects, including the phase 5 rail expansion project at Richards Bay Coal Terminal and the new siding at Blackhill Mine for Exxaro. Although we have noticed a general slowdown in the number of projects being released, RACEC Rail successfully increased its revenue by 61% and net profit before tax by 117%.

Electrical Services (ELECTRIFICATION)

The year under review has been frustrating for the management of Electrification with a number of major contracts being delayed mainly due to the high interest rates. However, I am pleased to report that even in this economic climate and with the effects of Eskom not being able to meet the country's electricity requirements, Electrification was able to increase its turnover by 90% and net profit before tax by 127%.

During the year under review RACEC Power (Pty) Ltd was opened in the Eastern Cape with premises in East London. The Eastern Cape was identified as a growth area for the group and is in line with our stated intent to grow organically into areas where our presence was limited. RACEC Power is mainly focused on the electrical market but also provides a local base for Rail to expand its operations.

This year was focused on establishing and marketing its products and services in the region. Managing director Victor

Mrawu recently secured the first two electrical contracts and a number of exciting prospects are under negotiation. We all look forward to this new business making a major contribution in the years ahead.

In addition, management's strategic decision to broaden the electrical operations in order to negate (or mitigate) the effects of higher interest rates on the housing development sector has been successful and provided us with a more diversified operation, albeit still within our core focus. The acquisition of Greenbro and Northern Electric have contributed in the region of R62,4 million in revenue and R6,0 million profit before tax.

I am confident that even in this time of financial uncertainty the forecast growth reflected in our prelisting statement is achievable. Although reliable crystal balls are hard to find, there are a number of major projects on the horizon and should some of them materialise in the near future this view could change substantially.

All operations have management structures and inherent capacity in place to show solid growth and are ideally positioned to take advantage of the many opportunities, particularly in the infrastructure arena, throughout South Africa as well as the rest of the African continent.



Charles Harrod

Chief executive officer

11 December 2008

Review of operations RACEC RAIL



Winston Ollewagen | EXECUTIVE DIRECTOR

RACEC Rail mainly concentrates 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.



Review of operations

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

- construction, maintenance and upgrading of railway track systems;
- gantry, stacker reclaimer and ship loader trackwork;
- customised trolley tracks;
- thermit and arc butt welding of rails;
- crane tracks for the building industry;
- railway siding design recommendation;
- railway material refurbishment and sales;
- 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:

- Additional rail siding, including the OHTE for the Leeuwpan Mine
- New load-out facilities for Exxaro at Blackhill Station
- 4 km double-line extension of the SARCC track infrastructure commencing at Khayelitsha station
- New rail siding for General Motors in Port Elizabeth
- Extension of seven passing loops on the Saldanha-Sishen line
- New rail infrastructure for Maputo Port Development Company
- New rail infrastructure for Maputo Coal Terminal
- Track deviation for the construction of new roads in George
- New rail infrastructure for Sasol Synfuels Secunda
- The upgrading of more than 1 000 turnouts nationally for Transnet

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



Sishen Expansion Project

We just recently completed the construction on the track extensions to seven of the southern section loops of the heavy haul Sishen Saldanha ore line expansion project, under contract to Lennings DEC.

Review of 2008

This has been an exciting year for the rail division as we have not only seen the full effect of the integration of the Sizabantu acquisition (specialising in track welding) but also the establishment of an internal civils subdivision.

We have managed to exceed our prelisting statement turnover as well as profitability forecasts. This is as a direct result of our efforts to consolidate and focus our contract management team skills on our niche market

RACEC Rail, together with the synergies of RACEC Electrification, has made us one of the only specialists in the country who can offer complete turnkey rail track solutions, from concept design recommendations, through to construction and handover without outsourcing.

RACEC Rail is the first South African company to utilise modern computerised track-measuring technology. We have acquired three Czech Republic manufactured specialised measurement trolleys with which we are conducting a two-year turnout measurement contract for Transnet. These trolleys are also utilised to assess private sidings for our existing clients as part of our comprehensive maintenance evaluation process.

One of the frustrations that we are currently experiencing is the lengthy periods that parastatal companies take with adjudication. Certain contracts can take as long as 18 months to be awarded.

Outlook 2009

In addition to the turnkey solutions, we are aligning ourselves with companies specialising in locomotive shunting operations. Coupled with our rail infrastructure maintenance subdivision, we will be in the position to expand our services to offer "Build, Operate and Transfer (BOT)" type project solutions.

We have been involved in a number of cross-border opportunities and plan to actively expand our footprint into Sub-Saharan Africa, within the next three years. This will

Two large construction teams equipped with a tamper and ballast regulator were employed on the contract which was managed from RACEC's head office in Cape Town.

This project comprises the installation of 5 x 1:20 turnouts, the removal of 4 x 1:12 redundant turnouts and the extension of more than 21 km of new track and ancillary works. Each section of the work has to be completed within very strict time constraints and precise site organisation is consequently critically important.

- The installation of the 1:20 turnouts was carried out during the 10-day annual ore line shutdown and commenced simultaneously from both ends (of the line) at Loops 5 and 11 finishing with the two central Loops 7a and 9. Due to the constricted programme, Thermitrex was contracted, in a supervisory level, to assist and monitor the welding operations.
- The removal of the redundant 4 x 1:12 turnouts, the mainline reinstatement and coupling up of the respective loop extensions was carried out during four eight hour full occupations to bring the loops into operation.
- RACEC's contract which commenced in July 2007 was completed at the end of October 2008 with ballasting work amounting to 37 450 m³ during this period.
- The 300 km extent of the contract has necessitated precise logistical programming and plant utilisation to ensure its success.

counteract the frustrating long lead periods we are experiencing from the parastatal companies and should help compensate for the global economic downturn

Our group's implementation of an ISO 9001 Quality Management System will further assure our clientele of our commitment to "Excellence in Engineering Infrastructure"

Review of operations RACEC ELECTRIFICATION



Gary Harrod | MANAGING DIRECTOR

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.



Review of operations

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
- Overhead transmission lines
- Road and area lighting
- Rail track electrification
- Maintenance of electrical networks and
- Maintenance of rail track electrification systems

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

- V&A Waterfront reticulation and lighting
- Cape Town International Airport runway lighting
- Century City reticulation and lighting
- Grand West Casino electrical distribution
- Welgevonden housing estate
- Parklands reticulation and streetlighting
- 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 2008

Despite difficult trading conditions during 2008, which saw approximately R60 million of prelisting forecasted revenue be delayed into 2009 and 2010, RACEC Electrification has successfully met its prelisting contract profit forecast. This was largely due to excellent contract management, which substantially improved the contract profitability. However, part of this gain was offset by increased finance and overhead expenses incurred, largely due to the JMB Electrical Contractors acquisition.

However, RACEC has successfully integrated the business and assets of JMB Electrical Contractors. This has had a significant positive effect on RACEC's earnings as it increased the volume of the electrification business significantly (despite the difficult trading conditions), particularly in areas where RACEC was not currently active. The complementary fit of JMB Electrical Contractors has ensured increased growth and success, particularly in the overhead-line and Eskom markets, as well as the previously inactive areas of the Overberg and Southern Cape. In order to reduce the increased overhead expenses, the Overberg regional office was closed, whilst still maintaining the key JMB Electrical Contractors. These personnel are now able to operate more cost-effectively out of the Cape Town and George offices. It also anticipated that future finance costs will decrease with the final integration of the acquired projects.

Sheffield Business Park

Following the successful completion of Phase 1, RACEC Electrification is due to complete phase 2 of Sheffield Business Park in December 2008. The 50+ hectare industrial development, which is one of the largest greenfield developments in recent years, was developed by property investment and development company Cavaleros Construction. The development is centrally located alongside Vanguard Drive in the Western Cape, with easy access to the N1, N2, R300 and M3 highways.

Phase 1, part of which involved the provision of electrical supply for the new 40 000 m² Spar Distribution Centre, commenced in October 2006 and involved the following:

- Installation of new 11 kV substation
- Supply and installation of 6 000 m primary and 1 500 m secondary 11 kV cabling, including all associated telemetry and low-voltage cabling
- Streetlighting and other associated electrical supplies

Phase 2, which is essentially the balance of the 50 hectare development, involved the following:

- Installation of two new 11 kV substations
- Supply and installation of 2 000 m primary and 3 000 m secondary 11 kV cabling, including all associated telemetry and low-voltage cabling
- Supply and installation of 20 various local distribution transformers and miniature substations
- Streetlighting and other associated electrical supplies

RACEC Electrification, with the combined resources of JMB Electrical Contractors and the synergies of RACEC Rail, has also mobilised to expand its activities from the Southern Cape to Coega, Eastern Cape, and KwaZulu-Natal. This strategic but controlled expansion will further establish RACEC Electrification as a dominant player in these regions.

Outlook for 2009

Many existing projects that were identified but did not materialise during 2008, are projects which still need to be undertaken in the near future. These projects, along with Government's commitment to infrastructure spend in the future, has enabled RACEC Electrification to be well positioned to take advantage of this work in South Africa.

In addition, the outlook for controlled expansion into Southern Africa is also extremely positive, with demand for experienced contractors in our neighbouring countries increasing. RACEC's increased profile has had a positive effect, as we are experiencing more and more enquiries from further afield.

Our regional expansion into the Eastern Cape and KwaZulu-Natal, and current position in both the local and Southern African market, combined with our highly experienced and competent skills base, will ensure that the electrification operation continues to grow from strength to strength within the RACEC Group.

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.



Review of operations

Greenbro is extremely proficient in two main sectors of the electrical power industry and operates each division from two separate factories. At our Parow Industria factory, we design and manufacture industrial generators ranging from 5 kVA to 10 MVA and above, using only engines and alternators of the highest quality originating from Europe. Our Philippi factory manufactures linear low-density polyethylene metering and distribution kiosks, as well as pole top enclosures. We are the first company in Africa, and one of the few in the world, to use the rotational moulding process and low linear density polyethylene material for this purpose.

Greenbro's strengths are optimised by the fact that the company has a wealth of experienced staff and manufactures most components in-house for both generators and kiosks, making us price competitive, as well as efficient, in our respective fields.

Activities performed at the generator factory in Parow Industria include:

- Metal fabrication of generator canopies, fuel tanks and control panels
- Metal fabrication of road ordinance trailers
- CAD design and drawings
- Electrical wiring of generators and control panels
- Mechanical builds of generators
- Generator synchronising
- Load testing of generators
- Servicing of generators
- On-site installation and commissioning of generators, control panels and cabling

Key generator projects that have been completed in the past by Greenbro include:

- 22 x 20 kVA generators and control panels on the Saldanha-Sishen iron-ore railway line



Ouskip Caravan Park

We supplied and installed generator, electrical components, concrete plinth and all cable work.

- 24 x 250 kVA generators, control panels and soundproofing of the coaches for the long haul passenger trains for Transnet
- 4 x 400 kVA soundproofed synchronised generators for the Island of Tristan da Cunha
- 1 x 550 kVA generator with soundproofing for the Pearl Valley Golf course club house
- 1 x 350 kVA generator with soundproofing for Pearl Valley irrigation pump house
- 1 x 550 kVA generator with soundproofing for the Beacon Island Hotel
- 32 x generators of various sizes, varying from 85 kVA to 409 kVA for a Bidvest company
- 3 x 1 000 kVA generators with AMF panels for Namaqua Cooperative Wineries
- 1 x 1 000 kVA for Angola
- 2 x 85 kVA soundproof generators for the German Consulate

All the above included for turnkey installations.

High-profile clients include:

- The City of Cape Town
- The Public Works Department
- Transnet
- Pearl Valley Golf Estate
- Absa
- RACEC Group Limited
- The German Consulate
- Bidvest

Activities performed at the polyethylene moulding factory in Philippi Industrial include:

- Rotational moulding of various sizes of electrical distribution enclosures
- Customised equipping and wiring of electrical distribution enclosures

1 x 700 kVA standby Volvo 1643 diesel engine close coupled to a Marrelli alternator all mounted in a 6 m shipping container which was sound attenuated to 67 dBA at 7 m. The generator is used as standby power for the sewage pump station at Ouskip caravan park in Melkbos Strand. When there is a power failure the generator automatically starts up and supplies power to run 2 x 185 kW pumps. We supplied the generator as well as the full installation including the concrete plinth and all cable work.

Key electrical distribution projects that have been completed by Greenbro include:

- 120 000 x split meter boxes for Nigeria
- 18 000 x split meter boxes for The Gambia
- 95 x fuse pillar kiosks for Angola
- 300 x metering and distribution kiosks for Namibia
- 132 x metering and distribution kiosks for Nondela golf estate in the Drakensberg mountains
- 400 x distribution kiosks for PN Energy (Eskom) for the upgrading of Khayelitsha
- 90 x metering and distribution kiosks for Val de Vie equestrian estate
- Various enclosures for The City of Cape Town and surrounding municipalities.

High-profile clients include:

- The City of Cape Town
- Eskom
- Conlog
- Actaris
- Landis & Gyr
- RACEC Group Limited
- Adenco Construction
- Various other municipalities

Review of operations

GREENBRO (PTY) LTD *continued*

Review of 2008

Greenbro decided to align with RACEC in order to facilitate growth, as well as provide synergy to the RACEC Group. RACEC has provided professional systems as well as the much needed capital to facilitate growth.

Greenbro has seen a substantial growth in turnover in the 2008 year of about 38%. However, the profits have not enjoyed the same growth. This has been mainly due to the purchase of additional state-of-the-art machinery to streamline the production processes at both factories and the move of the Parow offices and factory to larger premises to accommodate increased production and growth. In addition, Greenbro has installed a new ERP system which monitors the production process and jobs from start to finish. This has resulted in additional hardware, software and training costs, which are of a one-off nature.

Outlook for 2009

With the changes above now successfully implemented, Greenbro has positioned itself for an exciting year ahead. The energy crisis in South Africa has not abated and it is our opinion that it will continue for the next 15 to 20 years. Greenbro, as a leading manufacturer of generators in South Africa, is positioned to meet the demand for the manufacture and installation of its products. We have also started a generator service department in Cape Town and in the new year we will be opening a sales and service office in Gauteng.

We believe that government's commitment to infrastructure spend in the future will not be limited to 2010. The obvious lack of spending in the past cannot be addressed over a two-year period. It will take at least 5 to 10 years to afford all South Africans the right to basic necessities, i.e. housing, electricity and water. Greenbro will focus on Gauteng, Eastern Cape and KwaZulu-Natal for the supply of meter boxes, distribution boards and kiosks.

The export market outlook for 2009 is exciting but volatile. Greenbro has successfully secured the supply of 7 000 split meter boxes to Swaziland and the 20 000 split meter boxes to Nigeria. In the year ahead we will focus on additional export areas such as Angola, Namibia and Tanzania.

By aligning ourselves with the RACEC Group, Greenbro together with the other group subsidiaries is able to supply a complete turnkey solution in the electrical industry.



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.

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.

We also make 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 2008. 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 three 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 two non-executive directors and one executive director. The committee is responsible for establishing the group's remuneration policies and for making recommendations to the board in respect of the remuneration packages of executive directors.

The committee is also responsible for reviewing the terms and conditions of employment of all executive directors as well as 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 two non-executive directors, one of whom is independent.

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

Audit committee

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 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 to the external auditors;
 - 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 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.

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

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

In 2002, Charles was appointed chief executive of RACEC.

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

Gary Lee Harrod

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

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

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

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

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

Winston Ollewagen

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

Winston began his career in 1995 as a site agent for Railway Construction (Cape) (Pty) Ltd. In 1996, Winston was promoted to the position of contracts manager for Railway Construction (Cape) (Pty) Ltd and became a director in 1999, where he was instrumental in changing the name of the company to RACEC



Cape (Pty) Ltd, where he was responsible for all rail projects on a national scale, including surveying, contract costing and overall management of staff and logistics.

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

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

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

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

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

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

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 2007.

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.

Management *continued*

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) (University of Western Cape), CA(SA)

Bonita Petersen joined PricewaterhouseCoopers (PwC) in 1994 after completing her BCom (Hons) at the University of the Western Cape. Once she completed her articles she stayed at the firm for a further 2 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 acts as a medical scheme trustee and vice-chairperson and 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). She also serves on SAICA's Training and Education Committee as well as the TOPP subcommittee.

Contents to the financial statements

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Statement of responsibility by the board of directors

The directors are required by the Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the group as at 30 September 2008 and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

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

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

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

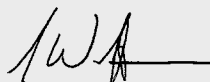
The directors have reviewed the group's cash flow forecast for the year ended 30 September 2008 and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the board is primarily responsible for the financial affairs of the group, they are supported by the group's external auditors. The external auditors are responsible for independently reviewing and reporting on the group's financial statements. The financial statements have been examined by the group's external auditor and their report is presented on page 24.

The financial statements set out on pages 25 to 72, which have been prepared on the going concern basis, were approved by the board on 11 December 2008 and were signed on its behalf by:



Charles Harrod
Chief executive officer



Sean Wilkins
Financial director

Cape Town
11 December 2008

Declaration by secretary

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

A handwritten signature in black ink, appearing to read 'SWA', followed by a horizontal line.

Sean Wilkins
Company secretary (acting)

Cape Town
11 December 2008

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 2008, the income statement, the statement of changes in equity and cash flow statement for the 12 months then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 25 to 72.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

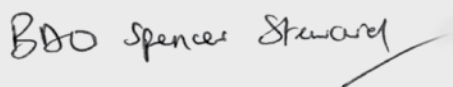
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the group as of 30 September 2008, and of its financial performance and its cash flows for the 12 months then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



BDO Spencer Steward (Cape) Incorporated

Registered auditors

Cape Town

11 December 2008

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 2008.

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 2008 financial year, the RACEC group's revenue increased by R165,7 million (2007: R60,3 million), representing an increase of 76% (2007: 38%), and the group's earnings that attributed to ordinary shareholders increased by R2,7 million (2007: R9,1 million), representing an increase of 22% (2007: 284,4%).

Headline earnings per share increased by 29% (2007: 153,1%) to 16,0 cents per share (2007: 12,4 cents per share) in the 2008 financial year, with diluted headline earnings increasing by 84%.

ACQUISITIONS

During the year under review RACEC acquired the businesses, including all the staff and assets, of Greenbro CC and Northern Electric (Pty) Ltd which are both in related industries and have contributed to widening our base of operations in the electrical field. Greenbro is a manufacturer of power generators and electrical enclosures and Northern Electric is an electrical contracting company operating in the commercial and industrial fields. These entities have now been fully integrated into the group structure while keeping their brand identities. They have both increased our skills base considerably. We are confident that they will continue to make a substantial contribution the group's results going forward.

PROPERTY, PLANT AND EQUIPMENT

During the year, RACEC acquired property, plant and equipment amounting to R28,9 million (2007: R16,8 million), which include the assets acquired via acquisition of Greenbro and Northern Electric totalling R9,1 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 13 and the analysis of shareholders on page 73.

On 18 October 2007, the RACEC Group listed its shares on the AltX, which resulted in 30 000 000 shares with a par value of 0,001 cent each being listed at a price of R1,00.

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

DIVIDENDS

The dividends already declared and paid to shareholders during the financial year ended 30 September 2008 are as reflected in the attached statement of changes in equity.

Directors' report

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.

An interim dividend of 2 cents a share was declared and paid. The board has approved the declaration of a final dividend of 3 cents a share.

DIRECTORS AND SECRETARY

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

EXECUTIVE DIRECTORS

Name	Nationality
GL Harrod	South African
GJ Kleinschmidt	South African (resigned 31/03/2008)
W Ollewagen	South African
CJ Harrod	South African
SC Wilkins	South African

NON-EXECUTIVE DIRECTORS

Name	Nationality
M Uys	South African
CRS Gooden	South African
B Petersen	South African (appointed 01/08/2008)

COMPANY SECRETARY

The secretary of the company and its subsidiaries is Sean Wilkins of:

Business address
8 Hawkins Avenue, Epping 1, 7475
Postal address
PO Box 61, Eppindust, 7460

AUDITOR

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

SUBSIDIARY COMPANIES

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

	Issued capital		Shares at cost		Indebtedness		Net profit after tax	
	Number	Percentage held	2008 R	2007 R	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Direct subsidiaries								
RACEC (Pty) Ltd	300	100	300	300	(1 320)	176	1 157	1 537
RACEC Plant Hire (Pty) Ltd	100	100	100	100	1 274	1 274	1 404	357
RACEC Electrification (Pty) Ltd	100	70	70	70	8 119	8 103	4 702	3 694
RACEC Rail (Pty) Ltd	300	70	210	210	3 226	3 226	5 789	2 724
Greenbro (Pty) Ltd	100	80	80	100	10 191	–	445	–
Northern Electric (Cape) (Pty) Ltd	1 000	70	4 550 978	–	–	–	3 920	–
RACEC Power (Pty) Ltd	100	70	70	100	–	–	(449)	–
			4 551 808	880	21 490	12 779	16 968	8 312

During the 2008 financial year RACEC (Gauteng) (Pty) Ltd changed its name to Greenbro (Pty) Ltd. RACEC Group and all the subsidiary companies are incorporated in South Africa. RACEC Group Limited is the ultimate parent of the group.

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

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

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 2008, 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	13,4
CJ Harrod	–	17 290 000	–	–	17 290 000	16,6
GL Harrod	–	12 260 000	–	–	12 260 000	11,8
W Ollewagen	–	15 260 000	–	–	15 260 000	14,7
SC Wilkins	700 000	–	–	–	700 000	0,7
CRS Gooden	100 000	–	–	–	100 000	0,1
Total	800 000	58 779 840	–	–	59 579 840	57,3

DIRECTORS' REMUNERATION

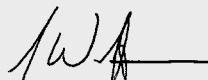
The directors' remuneration is reflected in full in note 42 of this annual report.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements as set out on pages 25 to 72 were approved by the board of directors on 11 December 2008 and signed on their behalf by:



CJ Harrod
Chief executive officer



SC Wilkins
Financial director

Balance sheet

as at 30 September

	Notes	GROUP		COMPANY	
		2008 R	2007 R	2008 R	2007 R
ASSETS					
Non-current assets					
Property, plant and equipment	2	55 983 588	26 352 351	–	–
Investment property	3	350 877	350 000	–	–
Intangible assets	4	6 956 983	1 735 585	–	–
Investments in subsidiaries	5	–	–	27 361 928	13 071 520
Loans to shareholders	6	39 433	–	–	–
Loans to related parties	7	111 376	9 375 632	–	–
Deferred tax assets	8	341 673	161 380	230 613	161 380
		63 783 930	37 974 948	27 592 541	13 232 900
Current assets					
Inventories	9	30 233 708	14 802 635	–	–
Loans to subsidiaries	10	–	–	4 733 595	–
Trade and other receivables	11	83 560 000	70 093 200	1 190 160	3 079 421
Cash and cash equivalents	12	11 994 479	19 471 951	4 944 582	10 724 956
		125 788 187	104 367 786	10 868 337	13 804 377
Total assets		189 572 117	142 342 734	38 460 878	27 037 277
EQUITY AND LIABILITIES					
Equity					
Share capital	13	1 040	700	1 040	700
Share premium	13	30 297 444	–	30 297 444	–
Share buy-back	13	(3 878 805)	(3 878 805)	–	–
Reserves	14	5 284 239	2 939 448	–	–
Retained income		26 561 910	16 504 502	4 953 851	6 935 559
Equity attributable to equity holders of the parent		58 265 828	15 565 845	35 252 335	6 936 259
Minority interest		4 391 474	–	–	–
Total equity		62 657 302	15 565 845	35 252 335	6 936 259
Liabilities					
Non-current liabilities					
Other financial liabilities	15	15 892 362	8 420 083	–	–
Share-based payments	16	2 874 234	1 582 288	–	–
Deferred tax liabilities	17	3 657 439	1 620 603	–	–
		22 424 035	11 622 974	–	–
Current liabilities					
Loans from shareholders	6	–	9 152 251	–	2 918 315
Loans from subsidiaries	10	–	–	1 319 789	–
Loans from related parties	7	672 550	676 492	–	–
Other financial liabilities	15	6 985 188	14 738 005	–	7 492 130
Current tax payable		8 611 034	5 781 784	322 014	87 287
Trade and other payables	18	48 679 030	62 947 228	1 566 672	9 603 286
Provisions	19	–	800 000	–	–
Bank overdraft	12	39 542 978	21 058 155	68	–
		104 490 780	115 153 915	3 208 543	20 101 018
Total liabilities		126 914 815	126 776 889	3 208 543	20 101 018
Total equity and liabilities		189 572 117	142 342 734	38 460 878	27 037 277

Income statement

for the year ended 30 September

	Notes	GROUP		COMPANY	
		2008 R	2007 R	2008 R	2007 R
Revenue	20	383 840 893	218 147 780	–	–
Cost of sales		(301 985 401)	(180 025 630)	–	–
Gross profit		81 855 492	38 122 150	–	–
Other income		70 827	4 999 622	3 301 898	5 774 177
Other expenses	21	(55 352 760)	(27 172 017)	(299 103)	(55)
Net profit before investment revenue, finance costs and taxation		26 573 559	15 949 755	3 002 795	5 774 122
Investment revenue	22	3 121 945	3 032 697	264 554	11
Finance costs	23	(5 699 589)	(2 755 496)	(397 157)	–
Profit before taxation		23 995 915	16 226 956	2 870 192	5 774 133
Taxation	24	(7 836 979)	(3 992 759)	(504 647)	(27 944)
Profit for the period		16 158 936	12 234 197	2 365 545	5 746 187
Attributable to:					
Equity holders of the parent		14 903 834	12 234 197	2 365 545	5 746 187
Minority interest		1 255 102	–	–	–
		16 158 936	12 234 197	2 365 545	5 746 187
Earnings per share					
Basic earnings per share (cents)	39	15,0	17,5	2,4	8,2
Diluted earnings per share (cents)	39	15,0	12,2	2,4	5,7

Statement of changes in equity

for the year ended 30 September

	Share capital R	Share premium R	Share buy-back R	Revaluation reserve R	Retained income R	Total attributable to equity holders of the group R	Minority interest R	Total equity R
GROUP								
Balance at 1 October 2006	1 000	–	(3 878 805)	5 472 878	4 917 784	6 512 857	64 041	6 576 898
Share capital acquired by the company	(300)	–	–	–	–	(300)	–	(300)
Realised revaluation through depreciation	–	–	–	(3 336 875)	3 336 875	–	–	–
Deferred tax on revaluation through depreciation	–	–	–	803 445	–	803 445	–	803 445
Net (expense)/income recognised directly in equity	–	–	–	(2 533 430)	3 336 875	803 445	–	803 445
Profit for the year	–	–	–	–	12 234 197	12 234 197	26 228	12 260 425
Disposal of subsidiary	–	–	–	–	–	–	(90 269)	(90 269)
Total recognised income and expense for the year	–	–	–	(2 533 430)	15 571 072	13 037 642	(64 041)	12 973 601
Dividends	–	–	–	–	(3 180 909)	(3 180 909)	–	(3 180 909)
Total changes	(300)	–	–	(2 533 430)	12 390 163	9 856 433	(64 041)	9 792 392
Balance at 30 September 2007 as stated previously	700	–	(3 878 805)	2 939 448	17 307 947	16 369 290	–	16 369 290
Prior year adjustment, see note 33	–	–	–	–	(803 445)	(803 445)	–	(803 445)
Restated balance at 30 September 2007	700	–	(3 878 805)	2 939 448	16 504 502	15 565 845	–	15 565 845
Notes	13	13	13	14, 33	33			
Balance at 1 October 2007	700	–	(3 878 805)	2 939 448	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
Balance at 30 September 2008	1 040	30 297 444	(3 878 805)	5 284 239	26 561 910	58 265 828	4 391 474	62 657 302
Notes	13	13	13	14				
COMPANY								
Balance at 1 October 2006	1 000	–	–	–	3 182 075	–	–	3 183 075
Share capital acquired by the company	(300)	–	–	–	–	–	–	(300)
Profit for the year	–	–	–	–	5 746 187	–	–	5 746 187
Total recognised income and expense for the year	–	–	–	–	5 746 187	–	–	5 746 187
Dividends	–	–	–	–	(1 992 703)	–	–	(1 992 703)
Total changes	(300)	–	–	–	3 753 484	–	–	3 753 184
Balance at 30 September 2007	700	–	–	–	6 935 559	–	–	6 936 259
Balance at 1 October 2007	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 and expense 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
Balance at 30 September 2008	1 040	30 297 444	–	–	4 953 851	–	–	35 252 335

Cash flow statement

for the year ended 30 September

	Notes	GROUP		COMPANY	
		2008 R	2007 R	2008 R	2007 R
Cash flows from operating activities					
Cash generated from operations	25	5 232 625	15 079 112	5 287 068	1 935 521
Interest income		3 121 945	3 032 697	264 554	11
Finance costs		(5 699 589)	(2 755 496)	(397 157)	–
Tax paid	26	(8 968 405)	(1 167 313)	(339 154)	–
Net cash (utilised by)/from operating activities		(6 313 424)	14 189 000	4 815 311	1 935 532
Cash flows from investing activities					
Purchase of property, plant and equipment		(22 170 232)	(10 956 858)	–	(8 400 000)
Purchase of business operations	31	(1 904 133)	(10 870 083)	(8 153 687)	–
Sale of property, plant and equipment		794 318	225 040	–	12 238 549
Sale of subsidiary	34	–	85 528	–	–
Net cash (utilised by)/from investing activities		(23 280 047)	(21 516 373)	(8 153 687)	3 838 549
Cash flows from financing activities					
Loans advanced by group companies		–	–	(4 572 672)	(11 913 100)
Repayment of other financial liabilities		(14 998 114)	(3 501 314)	(7 492 130)	–
Advance of other financial liabilities		8 447 134	15 467 897	–	17 390 518
Repayment/(advance) of loans by related parties		9 260 314	(3 108 455)	–	1 466 062
(Repayment)/advance of loans from shareholders		(9 191 692)	4 604 565	(1 598 530)	98
Proceeds on share capital issued		15 568 519	–	15 568 519	–
Dividends paid	27	(5 454 985)	(3 180 907)	(4 347 253)	(1 992 703)
Net cash from/(utilised by) financing activities		3 631 176	10 281 786	(2 442 066)	4 950 875
Total cash movement for the period		(25 962 295)	2 954 413	(5 780 442)	10 724 956
Cash at the beginning of the period		(1 586 204)	(4 540 617)	10 724 956	–
Total cash at end of the period	12	(27 548 499)	(1 586 204)	4 944 514	10 724 956

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 (Act No 61 of 1973), 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 11 December 2008.

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.

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

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

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

Item	Average useful life
Buildings	40 years
Motor vehicles, trucks and caravans	8 years
Containers	12 years
Plant and machinery	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 the income statement 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.

Notes to the financial statements

for the year ended 30 September

1. ACCOUNTING POLICIES (continued)

1.7 Intangible assets (continued)

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 shown at historical cost. Acquired fair value contracts, patents, trademarks, licences and customer lists have a finite useful life and are carried at cost less accumulated amortisation. 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.

1.8 Investment in subsidiaries

Investment in subsidiaries are 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.

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 the income statement.

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 the income statement. The group's investments, if denominated in foreign currencies, are translated at closing rates. Gains or losses resulting from the translation are recognised in the income statement.

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.

Notes to the financial statements

for the year ended 30 September

1. ACCOUNTING POLICIES *(continued)*

1.15 Share capital and equity *(continued)*

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 the income statement 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 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 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 the income statement in the period in which termination takes place.

1.24 Borrowing costs

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

1.25 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.

Notes to the financial statements

for the year ended 30 September

1. ACCOUNTING POLICIES *(continued)*

1.25 Share-based payments *(continued)*

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 (SAR) 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 16).

1.26 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.

1.27 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 the income statement 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.

1.28 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.

1.29 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.

1.30 Construction contracts

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

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

1.31 Employee benefits

Defined-contribution plans

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

1.32 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 2008

The group has considered the following new standards, and interpretations and amendments to existing standards that are not yet effective as at 30 September 2008:

- 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 1: Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures (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)
- IFRIC Interpretation 12: Service Concessions Arrangements (effective for the year ending September 2009)
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective for the year ending September 2010)
- IFRIC Interpretation 14: IAS 19 – The Limit on a Defined-benefit Asset, Minimum Funding Requirements and their Interaction (effective for the year ending September 2009)
- 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)

Notes to the financial statements

for the year ended 30 September

1. ACCOUNTING POLICIES *(continued)*

1.33 Standards, interpretations and amendments that are not yet effective at 30 September 2008 *(continued)*

- IFRIC 16: Hedges of a Net Investment in a Foreign Operation (effective for the year ending September 2010)
- IAS 39 and IFRS 7: Amendments 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)
- IAS1: Presentation of Financial Statements – Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective for the year ending September 2010)
- IAS1: 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)
- IAS19: 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)
- IAS29: 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)

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 16 for critical accounting judgements and key sources of estimate uncertainty relating to share-based payments and note 4 for goodwill impairment calculation estimates.

2. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost/	Accumulated	Carrying	Cost/	Accumulated	Carrying
	Valuation	depreciation		value	Valuation	
R	R	R	R	R	R	
Land and buildings	11 801 674	–	11 801 674	6 404 848	–	6 404 848
Motor vehicles, trucks and caravans	24 960 533	(2 558 635)	22 401 898	13 543 587	(311 441)	13 232 146
Containers	1 445 640	(99 887)	1 345 753	1 019 446	(51 352)	968 094
Plant and machinery	23 363 937	(4 261 150)	19 102 787	6 855 752	(1 777 934)	5 077 818
Office furniture and equipment	821 609	(191 771)	629 838	415 407	(66 617)	348 789
Computer equipment	1 079 101	(377 463)	701 638	449 293	(128 635)	320 658
Total	63 472 494	(7 488 906)	55 983 588	28 688 332	(2 335 979)	26 352 351

Reconciliation of property, plant and equipment – 2008

	Opening	Acquisition	Disposals	Revaluation	Depreciation	Impairment	Closing	
	balance							Additions
	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
Total	26 352 351	22 170 232	9 152 954	(1 206 406)	4 061 965	(4 287 155)	(260 353)	55 983 588

Reconciliation of property, plant and equipment – 2007

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

Depreciation expense of R4 287 155 (2007: R2 650 289) has been charged to Other expenses.

Notes to the financial statements

for the year ended 30 September

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

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

	2008 Carrying value R	2007 Carrying value R
Land and buildings	7 043 306	5 394 406
Motor vehicles, trucks and caravans	20 734 684	13 064 859
Containers	1 153 631	750 752
Plant and machinery	17 824 053	4 907 825
Office furniture and equipment	521 517	218 219
Computer equipment	701 638	296 129
Total	47 978 829	24 632 191

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 15. The carrying values of assets under mortgage bonds are R4 950 000 (2007: R5 404 848) and under hire purchase agreements are R28 665 659 (2007: R14 502 231).

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 Nooitgedacht, Mpumalanga, purchased in 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.

3. INVESTMENT PROPERTY

	Cost/valuation 2008 R	Cost/valuation 2007 R
Land	350 877	350 000
	350 877	350 000

Reconciliation of investment property – 2008

	Opening balance R	Fair value adjustment R	Closing balance R
Land	350 000	877	350 877
	350 000	877	350 877

3. INVESTMENT PROPERTY (continued)
Reconciliation of investment property – 2007

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

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 2008 by the directors to determine the fair value of investment property based on market values.

4. INTANGIBLE ASSETS

	2008			2007		
	Cost/Fair valuation R	Accumulated amortisation R	Carrying value R	Cost/Fair valuation R	Accumulated amortisation R	Carrying value R
Fair value of contracts	1 852 785	(1 058 513)	794 272	1 852 785	(117 200)	1 735 585
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	–	–	–
	8 359 829	(1 402 846)	6 956 983	1 852 785	(117 200)	1 735 585

Reconciliation of intangible assets – 2008

	Opening balance R	Acquisition of business operations R	Amortisation R	Impairment R	Closing balance R
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

Reconciliation of intangible assets – 2007

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

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 customers lists is estimated to be four years. Goodwill has an indefinite life and is measured annually for impairment.

Amortisation expense of R714 890 (2007: R117 200) has been charged to Other expenses.

Notes to the financial statements

for the year ended 30 September

4. INTANGIBLE ASSETS (continued)

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 2008 R	2007 R
Western Cape	3 506 794	–
	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.

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
Gross margin*	36,62%
Growth rate**	9%
Pre-tax discount rate***	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 2008 financial year.

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
5. INVESTMENT IN SUBSIDIARIES				
Investment in ordinary shares	-	-	4 551 808	880
Amounts owing by subsidiaries	-	-	22 810 120	13 070 640
	-	-	27 361 928	13 071 520
The above amounts owing by subsidiaries are unsecured, bear interest at prime lending rates and have no fixed terms of repayment.				
6. LOANS TO/(FROM) SHAREHOLDERS				
MJ Uys	-	(2 966 968)	-	-
CJ Harrod	-	(2 366 968)	-	-
GL Harrod	-	(800 000)	-	-
The Mike and Jen Uys Trust	-	(461 071)	-	(461 071)
The Charles and Tertia Harrod Trust	-	(626 637)	-	(626 637)
GJ Kleinschmidt	-	(457 338)	-	(357 338)
The Gary Harrod Family Trust	-	(719 378)	-	(719 378)
The Ollewagen Family Trust	-	(719 379)	-	(719 379)
SC Wilkins	-	(32 912)	-	(32 912)
Victor Mrawu	39 433	-	-	-
	39 433	(9 152 251)	-	(2 918 315)
The loans are unsecured, bear interest at varying rates as agreed from time to time (2008: 14,0 %/2007: 12,5%) and are not subject to any fixed terms of repayment. Rnil (2007: R3 291 168) of the loans has been ceded to SCMB as security for the banking facilities of the group.				
Non-current assets	39 433	-	-	-
Current liabilities	-	(9 152 251)	-	(2 918 315)
	39 433	(9 152 251)	-	(2 918 315)
7. LOANS TO/(FROM) RELATED PARTIES				
CI Merchandising (Pty) Ltd	63 117	40 031	-	-
Cardita Circle (Pty) Ltd	206	9 335 601	-	-
Uphondo Electrical (Pty) Ltd	(668 234)	(676 492)	-	-
Hlanganani Rail Services CC	217	-	-	-
Rotomoc CC	43 520	-	-	-
	(561 174)	8 699 140	-	-
Non-current assets	111 376	9 375 632	-	-
Current liabilities	(672 550)	(676 492)	-	-
	(561 174)	8 699 140	-	-

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

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

Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
8. DEFERRED TAX ASSETS				
Property, plant and equipment	(180)	–	–	–
Intangible assets	(110 367)	–	–	–
Prepayments	(57)	–	–	–
Provisions	104 580	–	–	–
Deferred interest	12 543	–	–	–
Assessed losses	179 338	–	34 132	–
Capital loss on disposal of subsidiary	155 816	161 380	196 481	161 380
	341 673	161 380	230 613	161 380
Reconciliation of deferred tax asset				
Balance at beginning of the year	161 380	182 185	161 380	182 185
Movements during period/year attributable to:				
– Prepayments	(57)	–	–	–
– Provisions	54 715	–	–	–
– Property, plant and equipment	(180)	–	–	–
– Intangible assets	12 833	–	–	–
– Deferred interest	12 543	–	–	–
– Assessed losses	179 338	–	34 132	–
– Capital profit on disposal of subsidiary	–	(20 805)	–	(20 805)
– Capital loss on impairment of investment in subsidiary	–	–	40 665	–
– Deferred tax liability acquired in business combinations	(73 335)	–	–	–
– Rate change recognised in income statement	(5 564)	–	(5 564)	–
Balance at end of the year	341 673	161 380	230 613	161 380
At the balance sheet date, the group has unutilised tax losses of R2 465 214 (2007: R850 963) available for set-off against future profit and a capital loss of approximately R556 485 (2007: R556 484).				
Deferred tax assets to be recovered after more than 12 months	335 953	161 380	230 613	161 380
Deferred tax assets to be recovered within 12 months	5 720	–	–	–
	341 673	161 380	230 613	161 380
9. INVENTORIES				
The cost of inventories recognised as an expense during the period was R201 808 897 (2007: R124 466 068).				
Raw materials	14 515 864	8 279 577	–	–
Work in progress	1 959 247	–	–	–
Contracts in progress	13 758 597	6 523 058	–	–
	30 233 708	14 802 635	–	–
10. LOANS TO/(FROM) SUBSIDIARIES				
Loans to subsidiaries	–	–	4 733 595	–
Loans from subsidiaries	–	–	(1 319 789)	–
	–	–	3 413 806	–

The above loans to/(from) subsidiaries are unsecured, bear interest at prime lending rates and have no fixed terms of repayment.

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
11. TRADE AND OTHER RECEIVABLES				
Trade receivables	80 733 969	65 552 929	-	-
Less: Provision for impairment of receivables	(225 660)	(16 222)	-	-
	80 508 309	65 536 707	-	-
Prepayments	328 960	1 010 445	-	-
Deposits	-	89 950	-	-
VAT	15 712	1 875 721	4 484	-
Sundry debtors	2 707 019	1 580 377	138 476	-
Dividends owing by subsidiaries	-	-	1 047 200	3 079 421
	83 560 000	70 093 200	1 190 160	3 079 421
<p>No interest is charged on the trade receivables. Based on past experiences the group has reviewed all trade receivables at year-end to determine whether a provision against potential bad debts needs to be recognised.</p> <p>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.</p> <p>Movements on the provision for impairment of trade receivables are as follows:</p>				
Opening balance	16 222	94 875	-	-
Provision for impairment acquired in business combination	185 452	-	-	-
Receivables written off during the year as uncollectible	(185 452)	(94 875)	-	-
Unused amounts reversed	-	-	-	-
Increase in provision for impairment of receivables	209 438	16 222	-	-
Closing balance	225 660	16 222	-	-

The creation and release of provision for impaired receivables have been included in Other expenses in the income statement. 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.

12. 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	
	2008 R	2007 R	2008 R	2007 R
12. CASH AND CASH EQUIVALENTS <i>(continued)</i>				
Cash on hand	38 650	31 134	–	–
Bank balances	11 955 829	19 440 817	4 944 582	10 724 956
Bank overdraft	(39 542 978)	(21 058 155)	(68)	–
	(27 548 499)	(1 586 204)	4 944 514	10 724 956
Current assets	11 994 479	19 471 951	4 944 582	10 724 956
Current liabilities	(39 542 978)	(21 058 155)	(68)	–
	(27 548 499)	(1 586 204)	4 944 514	10 724 956

Bank overdraft and guarantee facilities are secured by means of a cession of book debts of the subsidiary companies as well as an unlimited suretyship signed in favour of RACEC (Pty) Ltd, RACEC Plant Hire (Pty) Ltd, RACEC Electrification (Pty) Ltd and RACEC Rail (Pty) Ltd. The shareholders of the group have ceded the first Rnil (2007: R3 291 471) of their loan accounts to Standard Corporate and Merchant Bank as security for banking facilities extended to the group.

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

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
13. SHARE CAPITAL				
Authorised				
500 000 000 (2007: 500 000 000) ordinary shares of 0,001 cent (2007: 0,001 cent) each				
At beginning of year	5 000	1 000	5 000	1 000
Increase in share capital	–	4 000	–	4 000
At end of year	5 000	5 000	5 000	5 000
Issued				
104 018 088 (2007: 70 000 000) ordinary shares of 0,001 cent (2007: 0,001 cent) each				
At beginning of year	700	1 000	700	1 000
Share buy-back	–	(300)	–	(300)
Increase in issued share capital	340	–	340	–
At end of year	1 040	700	1 040	700
Fully paid ordinary shares, which have a par value of 0,001 cent, carry one vote per share and carry the right to dividends.				
Share premium				
At beginning of year	–	–	–	–
Share premium on issued share capital	32 528 712	–	32 528 712	–
Share issue expenses	(2 231 268)	–	(2 231 268)	–
At end of year	30 297 444	–	30 297 444	–
Share buy-back				
At beginning and end of year	(3 878 805)	(3 878 805)	–	–

	GROUP		COMPANY	
	2008	2007	2008	2007
	R	R	R	R
14. REVALUATION RESERVE				
Balance at beginning of the period/year	2 939 448	5 472 878	–	–
Movement during the period/year:				
– Surplus arising from revaluation of property, plant and equipment	4 062 838	–	–	–
– Deferred tax liability arising on revaluation	(1 137 596)	–	–	–
– Transferred to retained earnings	(844 915)	(3 568 211)	–	–
– Deferred tax released on transfer to retained earnings	236 356	1 034 781	–	–
– Tax rate change to deferred tax	28 108	–	–	–
Balance at end of the period/year	5 284 239	2 939 448	–	–
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.				
15. OTHER FINANCIAL LIABILITIES				
Held at amortised cost				
Instalment sale agreements – motor vehicles and equipment	20 995 008	11 511 244	–	–
Liabilities under instalment sale agreements payable over the next year to 5 years bearing interest at market-related rates of prime less 2% (2007: prime less 2%) and are repayable in monthly instalments of R611 166 (2007: R618 611).				
The liabilities are secured by the assets as set out in note 2.				
Mortgage bonds – Property	1 711 464	1 896 599	–	–
Liabilities under mortgage bond, payable over the next 8 years bearing interest at market-related rates of prime less 1% (2007: prime less 1%) and repayable in monthly instalments of R30 403 (2007: R30 195).				
The liabilities are secured by the assets as set out in note 2.				
Operating lease liability	171 078	198 929	–	–
Shareholders for dividends	–	730 016	–	730 016
JMB Electrical Contractors (Pty) Ltd	–	6 762 114	–	6 762 114
The Mike and Jen Uys Trust	–	535 388	–	–
The Charles and Tertia Harrod Trust	–	514 796	–	–
The Ollewagen Family Trust	–	401 541	–	–
The Gary Harrod Family Trust	–	401 541	–	–
GJ Kleinschmidt	–	205 919	–	–
	22 877 550	23 158 088	–	7 492 130

The above loans bear interest at rates linked to the prime lending rate, are unsecured and have no fixed terms of repayment. JMB Electrical Contractors' loan was settled in full on 22 November 2007.

Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
15. OTHER FINANCIAL LIABILITIES <i>(continued)</i>				
Non-current liabilities				
At amortised cost	15 892 362	8 420 083	–	–
Current liabilities				
At amortised cost	6 985 188	14 738 005	–	7 492 130
	22 877 550	23 158 088	–	7 492 130
Finance lease liabilities				
Finance lease liabilities – minimum lease payments:				
No later than 1 year	9 252 596	6 021 869	–	–
Later than 1 year and no later than 5 years	16 857 882	7 741 006	–	–
	26 110 478	13 762 875	–	–
Future finance charges on finance leases	(5 115 470)	(2 251 631)	–	–
Present value of finance lease liabilities	20 995 008	11 511 244	–	–
The present value of finance lease liabilities are as follows:				
No later than 1 year	6 743 619	4 814 339	–	–
Later than 1 year and no later than 5 years	14 251 389	6 696 905	–	–
	20 995 008	11 511 244	–	–
The exposure of the group's borrowings to interest rate changes is as follows:				
Variable interest rates	22 706 472	22 959 159	–	7 492 130

The carrying amounts and fair value of the non-current borrowings are as follows:

	GROUP			
	Carrying amounts		Fair values	
	2008	2007	2008	2007
Instalment sale agreements – motor vehicles and equipment	14 251 389	6 696 905	14 251 389	6 696 905
Mortgage bonds – Property	1 556 951	1 723 178	1 556 951	1 723 178
	15 808 340	8 420 083	15 808 340	8 420 083

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.

	GROUP		COMPANY	
	2008	2007	2008	2007
	R	R	R	R
16. SHARE-BASED PAYMENTS				
Share-based payment liability arising on consolidation of RACEC Employee Share Trust	2 634 149	1 520 206	–	–
Fair value adjustments of options granted to employees	240 085	62 082	–	–
	2 874 234	1 582 288	–	–

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 (SAR) 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 SAR back to the group for cash. The options granted expire on the resignation, death or retrenchment of the employee.

At 30 September 2008, the group has recorded liabilities of R2 874 234 (2007: R1 582 288). The fair value of the SAR is determined using the binomial pricing model using the assumptions noted below. The group recorded total expenses of R240 085 (2007: (R62 082)) during the period/year in respect of SAR. At 30 September 2008, the total intrinsic value of the vested SAR was R359 404 (2007: R119 319).

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

No units have been issued subsequent to 30 September 2006.

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

The weighted average fair value of the share options granted during the financial period is R442,70 (2007: 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.

Notes to the financial statements

for the year ended 30 September

	2008	2007
16. SHARE-BASED PAYMENTS <i>(continued)</i>		
Exercise price	515	515
Fair value at grant date	571	571
Expected volatility	11,84%	11,84%
Option life	10 years	10 years
Dividend yield	16,08%	16,08%
Risk-free rate	8,16%	8,16%

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

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the period/year	10 580	443	10 580	443
Forfeited	(1 275)	–	–	–
Balance at end of the period/year	9 308	443	10 580	443
Exercisable at end of the period/year	–		–	
	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
17. DEFERRED TAX LIABILITIES				
Property, plant and equipment	3 301 316	1 131 665	–	–
Intangible assets	633 290	–	–	–
Prepayments	117 760	175 973	–	–
Retentions	1 143 323	1 378 542	–	–
Provisions	(710 671)	(673 109)	–	–
Deferred interest	(91 178)	(89 550)	–	–
Assessed losses	(510 922)	(248 669)	–	–
Capital loss on impairment of intangible asset	(79 857)	–	–	–
Share-based payments	(97 720)	(34 624)	–	–
Operating leases	(47 902)	(19 625)	–	–
	3 657 439	1 620 603	–	–

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
17. DEFERRED TAX LIABILITIES (continued)				
Reconciliation of deferred tax liability				
Balance at beginning of the year	1 620 603	3 112 860	–	–
Movements during period/year attributable to:				
– Prepayments	(52 268)	26 655	–	–
– Retentions	(187 684)	8 437	–	–
– Provisions	105 344	(279 571)	–	–
– Property, plant and equipment	852 964	(935 037)	–	–
– Intangible assets	(83 580)	–	–	–
– Deferred interest	(4 716)	24 642	–	–
– Assessed losses	(270 763)	(246 779)	–	–
– Capital loss on impairment of intangible asset	(79 857)	–	–	–
– Revaluation of property, plant and equipment	1 137 596	–	–	–
– Share-based payments	(64 289)	(18 004)	–	–
– Operating leases	(30 272)	(19 624)	–	–
– Subsidiary disposed	–	(52 976)	–	–
– Deferred tax liabilities acquired in business combinations	741 161	–	–	–
– Rate change recognised in income statement	1 302	–	–	–
– Rate change recognised in equity	(28 102)	–	–	–
Balance at end of the year	3 657 439	1 620 603	–	–
Deferred tax assets to be recovered after more than 12 months	3 322 178	851 069	–	–
Deferred tax assets to be recovered within 12 months	335 261	769 534	–	–
	3 657 439	1 620 603	–	–
18. TRADE AND OTHER PAYABLES				
Trade payables	22 277 448	34 705 924	–	–
Income received in advance	–	3 020 416	–	–
VAT	2 903 149	3 851 576	–	–
Amounts due to contract customers	13 829 253	17 186 117	–	–
Accrued expense	1 878 811	460 477	–	–
Amount due on purchase of subsidiary	1 566 672	–	1 566 672	–
Other payables	6 223 697	3 453 724	–	9 603 286
	48 679 030	62 947 228	1 566 672	9 603 286

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

Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
19. PROVISIONS				
Opening balance	800 000	–	–	–
Acquired through acquisitions	–	800 000	–	–
Realised through income statement	(800 000)	–	–	–
Closing balance	–	800 000	–	–
20. REVENUE				
Major classes of revenue comprise				
Contract revenue	339 689 232	218 147 780	–	–
Sale of merchandise	44 151 661	–	–	–
	383 840 893	218 147 780	–	–
21. OPERATING PROFIT				
Operating profit for the period/year is stated after accounting for the following:				
Operating lease charges				
Premises	1 294 726	852 429	–	–
Equipment	340 646	147 517	–	–
	1 635 372	999 946	–	–
Loss on sale of property, plant and equipment	412 088	238 107	–	–
Loss/(profit) on sale of subsidiary	–	67 554	–	(71 740)
Impairment on property, plant and equipment	260 353	–	–	–
Impairment on intangible assets	570 756	–	–	–
Impairment on investment in subsidiary	–	–	290 468	–
Profit on exchange differences	–	(51 637)	–	–
Negative goodwill (JMB Electrical Contractors) (note 31)	–	(3 757 784)	–	(3 757 784)
Insurance recoveries	–	45 161	–	–
Defined-benefit contributions	4 119 555	3 033 942	–	–
Share-based payments	240 085	62 082	–	–
Audit fees	522 975	(2 000)	–	–
Depreciation on property, plant and equipment	4 287 155	2 650 289	–	–
Amortisation on intangible assets	714 890	117 200	–	–
Directors' emoluments	4 910 975	4 102 700	–	–
Employee costs	56 335 684	26 294 906	–	–
Operating expenses				
Administration costs	16 134 581	9 669 699	8 033	55
Operating expenses	39 218 179	17 502 318	291 070	–
	55 352 760	27 172 017	299 103	55

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
22. INVESTMENT REVENUE				
Bank	1 758 527	404 687	264 554	11
Related parties	421 782	761 086	–	–
Deemed interest income	683 014	1 601 679	–	–
RACEC Employee Share Trust unit holders	258 622	265 245	–	–
	3 121 945	3 032 697	264 554	11
23. FINANCE COSTS				
Bank	5 321 786	1 064 465	95 179	–
Shareholders	377 803	1 101 861	301 978	–
Deemed interest expense	–	589 170	–	–
	5 699 589	2 755 496	397 157	–
24. TAXATION				
Major components of the tax expense/(income)				
Current				
Local income tax – current period	7 038 957	4 878 737	–	–
Local income tax – previous year	(15 606)	2 388	–	–
Capital gains tax	2 210	193 936	–	–
Secondary tax on companies	840 628	352 393	573 880	7 140
	7 866 189	5 427 454	–	7 140
Deferred				
Originating and reversing temporary differences	(29 210)	(1 434 693)	(69 233)	20 804
	7 836 979	3 992 759	504 649	27 944
Reconciliation of the tax expense				
Reconciliation between applicable tax rate and average effective tax rate				
Applicable tax rate	28,00%	29,00%	28,00%	29,00%
Exempt income	(0,03%)	(4,80%)	(32,02%)	(28,94%)
RACEC Employee Share Trust not taxable	–	(2,90%)	–	–
Disallowable charges	0,78%	0,35%	–	–
Secondary tax on companies	3,50%	2,00%	19,99%	0,42%
Capital gains tax	0,34%	1,50%	1,42%	–
Tax rate changes	0,03%	–	0,19%	–
Prior year current taxes	0,03%	–	–	–
	32,66%	24,45%	17,58%	0,48%

Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
25. CASH GENERATED FROM OPERATIONS				
Profit before taxation	23 995 915	16 226 956	2 870 192	5 774 133
Adjustments for:				
Depreciation and amortisation	5 002 045	2 767 489	–	–
(Profit)/loss on sale of assets	412 088	238 107	–	(71 740)
Profit on acquisition of business operations	–	(3 757 784)	–	(3 757 784)
Loss on disposal of subsidiary	–	67 462	–	–
Share-based payments	240 085	62 082	–	–
Interest received	(3 121 945)	(3 032 697)	(264 554)	11
Finance costs	5 699 589	2 755 496	397 157	–
Impairment loss on property, plant and equipment	260 353	–	–	–
Impairment loss on intangible asset	570 756	–	–	–
Impairment loss on investment	–	–	290 468	–
Changes in working capital:				
Inventories	(6 866 343)	592 344	–	–
Trade and other receivables	(2 273 937)	(21 552 383)	1 889 262	–
Trade and other payables	(18 685 981)	20 712 040	104 543	–
	5 232 625	15 079 112	5 287 068	1 935 521
26. TAX PAID				
Balance at beginning of the period/year	(5 781 784)	(1 572 009)	(87 288)	(80 147)
Tax liabilities acquired in business combinations	(3 931 466)	–	–	–
Current tax for the period recognised in income statement	(7 866 189)	(5 427 454)	(573 880)	(7 141)
Disposal of subsidiary	–	50 366	–	–
Balance at end of the period/year	8 611 034	5 781 784	322 014	87 288
	(8 968 405)	(1 167 313)	(339 154)	–
27. DIVIDENDS PAID				
Dividends	5 454 985	3 180 902	4 347 253	1 992 703

During the year dividends of 4,3 (2007: 2,8) cents per share (total dividend R4 347 000 (2007: R1 993 000)) were paid to holders of fully paid ordinary shares who were shareholders at the date of declaration.

A dividend in respect of the year ended 30 September 2008 of 3,0 cents per share, amounting to a total dividend of R3 120 543 with related STC of R312 054, has been approved. These financials do not reflect this dividend payable.

	GROUP		COMPANY	
	2008	2007	2008	2007
	R	R	R	R
28. CONTINGENCIES				
Tax consequences of undistributed reserves				
STC on remaining reserves	2 751 865	1 890 636	–	–

There is a contingent liability with respect to outstanding performance guarantees provided by Lombards Insurance Company and C & G Underwriting Managers totalling R32 136 864 (2007: R21 833 622) for work done by the subsidiary companies.

There is also a contingent liability for R1,7 million which relates to invoices received by the group for work performed by a subcontractor. The group is of the view that there is no liability to the subcontractor as there are errors on the billings and the invoices are not valid. The amount is currently under dispute and is being investigated by the subcontractor.

29. COMMITMENTS

Operating leases

Operating leases relate to office and warehouse facilities with lease terms of five years, with an option to extend for a further five years. All operating lease contracts contain market review clauses in the event that the group exercises its option to renew. The group does not have an option to purchase the leased asset at the expiry of the lease period.

	GROUP		COMPANY	
	2008	2007	2008	2007
	R	R	R	R
Payments recognised as an expense				
Minimum lease payments	1 294 726	852 429	–	–
Sublease payments received	(123 712)	(211 164)	–	–
	1 171 014	641 265	–	–
Non-cancellable operating lease commitments				
Not longer than 1 year	2 123 563	928 936	–	–
Between 1 and 5 years	8 681 453	4 939 785	–	–
After 5 years	12 615 648	720 973	–	–
	23 420 664	6 589 694	–	–
Capital commitments				
Authorised by the directors	5 994 212	–	–	–

None of the capital commitments were contracted for (2007: Rnil)

30. RELATED PARTIES

Relationships

Common shareholders	CI Merchandising (Pty) Ltd Uphondo Electrical (Pty) Ltd Hlanganani Rail Services CC Cardita Circle (Pty) Ltd Rotomo CC
Subsidiaries	See below
Shareholders	See notes 7 and 15

Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
30. RELATED PARTIES (continued)				
Related-party balances				
Loan accounts – owing (to)/by related parties				
CI Merchandising (Pty) Ltd	63 117	38 509	–	–
Uphondo Electrical (Pty) Ltd	(668 234)	(676 492)	–	–
Hlanganani Rail Services CC	–	–	–	–
Cardita Circle (Pty) Ltd	206	9 335 601	–	–
Rotomo CC	43 520	–	–	–
Amounts included in trade receivables/(trade payables) regarding related parties				
CI Merchandising (Pty) Ltd	57 815	(8 123)	–	–
Hlanganani Rail Services CC	70 258	–	–	–
Related-party transactions				
Interest paid to/(received from) related parties				
CI Merchandising (Pty) Ltd	–	(45 095)	–	–
Shareholders	377 666	1 101 861	–	–
Cardita Circle (Pty) Ltd	(421 645)	(626 332)	–	–
Sales to related parties				
CI Merchandising (Pty) Ltd	–	28 329	–	–
Uphondo Electrical (Pty) Ltd	–	322 083	–	–
Hlanganani Rail Services CC	–	496 780	–	–
Purchases from related parties				
CI Merchandising (Pty) Ltd	–	70 659	–	–
Uphondo Electrical (Pty) Ltd	–	–	–	–
Rent paid to/(received from) related parties				
CI Merchandising (Pty) Ltd	(120 000)	(142 000)	–	–
Management and administration fees paid to/(received from) related parties				
CI Merchandising (Pty) Ltd	–	(330 000)	–	–
Uphondo Electrical (Pty) Ltd	–	(676 492)	–	–
CI Merchandising (Pty) Ltd	–	40 031	–	–
Dividends owing by subsidiaries	–	–	1 047 200	3 079 421
Compensation to directors and other key management				
directors' emoluments	4 910 975	4 102 700	–	–
Share-based payments				
RACEC Employee Share Trust	240 085	62 082	–	–

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)

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

Subsidiary companies

Direct subsidiaries	Issued capital Number	Percentage held	Shares at cost		Amount owing by/(to)		Net profit/(loss) after tax	
			2008 R	2007 R	2008 R'000	2007 R'000	2008 R'000	2007 R'000
RACEC (Pty) Ltd	300	100	300	300	(1 320)	176	1 157	1 537
RACEC Plant Hire (Pty) Ltd	100	100	100	100	1 274	1 274	1 404	357
RACEC Electrification (Pty) Ltd	100	70	70	70	8 119	8 103	4 702	3 694
RACEC Rail (Pty) Ltd	300	70	210	210	3 226	3 226	5 789	2 724
Greenbro (Pty) Ltd	100	80	80	100	10 191	–	445	–
Luxor Electrical Services (Pty) Ltd	100	–	–	–	–	–	–	50
RACEC Power (Pty) Ltd	100	70	70	100	–	–	(449)	–
Northern Electric (Cape) (Pty) Ltd	1 000	70	4 550 978	–	–	–	3 920	–
			4 551 808	880	21 490	12 779	16 968	8 362

During the 2008 financial year RACEC (Gauteng) (Pty) Ltd's name was changed to Greenbro (Pty) Ltd.

All of the subsidiary companies are incorporated in South Africa.

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

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

Notes to the financial statements

for the year ended 30 September

31. BUSINESS COMBINATIONS

JMB Electrical Contractors

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

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

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

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

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

31. BUSINESS COMBINATIONS (continued)

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	10 202 573	1 547 833	11 750 406
Attributable to minority (20%)			(2 350 081)
Net assets acquired			9 400 325
Goodwill			790 495
Total consideration, satisfied by cash and shares in RACEC Group Ltd			10 190 820
Net cash outflow arising on acquisition:			
Cash consideration paid			6 314 837
Cash and cash equivalents acquired			(401 549)
			5 913 288
Purchase consideration:			
Cash paid			6 314 837
Fair value of shares issued			3 875 983
Total purchase consideration			10 190 820

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.

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for the year ended 30 September

31. BUSINESS COMBINATIONS (continued)

Greenbro CC (continued)

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.

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 is 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 R	Fair value adjustments R	Fair value 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	2 304 170	316 800	2 620 970
Minority interest (30%)			(786 291)
Net assets acquired			1 834 679
Goodwill			2 716 299
Total consideration, satisfied by cash and shares in RACEC Group Ltd			4 550 978
Net cash outflow arising on acquisition:			
Cash consideration paid			1 827 500
Cash and cash equivalents acquired			(5 848 004)
			(4 020 504)
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			1 462 129
Total purchase consideration			4 550 978

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.

Sizabantu Infrastructure Maintenance

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

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

32. POST BALANCE SHEET EVENTS

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

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

There are no post balance sheet events as for the current year.

33. PRIOR PERIOD ERROR

The 2007 financial statements contained an error relating to deferred tax transferred from the deferred tax liability to the revaluation reserve and the amount transferred from the revaluation reserve to retained income for the realised revaluation through depreciation. The impact is that the deferred tax liability was understated and retained earnings were overstated. See below for impact on the prior year:

	Revaluation reserve R	September 2007 Retained income R	Deferred tax liability R
Impact of the error on movements:			
Realised revaluation through depreciation			
As stated previously	(3 336 875)	3 336 875	–
Correction of error	(231 336)	231 336	–
Restated	(3 568 211)	3 568 211	–
Deferred tax on realised revaluation of property, plant and equipment			
As stated previously	803 445	–	803 445
Correction of error	231 336	(1 034 781)	(803 445)
Restated	1 034 781	(1 034 781)	–
Impact of the error on 30 September 2007 balances:			
As stated previously	2 939 446	17 307 947	817 160
Correction of error	–	(803 445)	803 445
Restated	2 939 446	16 504 502	1 620 605

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34. DISPOSAL OF SUBSIDIARY

As referred to in note 30, on 1 April 2007 the group disposed of its investment in Luxor Electrical (Pty) Ltd.

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

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

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

35. 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 fair value 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 its transactions that are denominated in currencies other than its functional currency as all contracts from the beginning of the prior financial year has been negotiated in rands. The existing contracts to which the group has a foreign exchange exposure are immaterial and were completed by the end of the 2007 financial year.

Cash flow and fair value interest rate risk

Interest-bearing borrowings and bank overdrafts of R27 000 000 (2007: R10 000 000), a 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 000 000. 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.

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
35. FINANCIAL RISK MANAGEMENT <i>(continued)</i>				
The impact of change in the South African prime interest rate will be as follows:				
Increase of 100 basis points would have (decreased)/increased profit before tax	(426 508)	(263 591)	26 295	(51 983)
Decrease of 100 basis points would have increased/(decreased) profit before tax	426 508	263 591	(26 295)	51 983

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

- Loans to/(from) related parties: note 7
- Loans to/(from) shareholders: note 6
- Other financial liabilities: note 15

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 11
- 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 by 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.

GROUP At 30 September 2008	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R	Over 5 years R	Total R
	Bank overdrafts	39 542 978	–	–	–
Trade and other payables	31 946 628	–	–	–	31 946 628
Loans from related parties	–	–	–	672 550	672 550
Other financial liabilities	9 645 269	8 365 096	9 972 619	972 982	28 955 966
	81 134 875	8 365 096	9 972 619	1 645 532	101 118 122
At 30 September 2007					
Bank overdrafts	21 058 155	–	–	–	21 058 155
Trade and other payables	38 889 119	–	–	–	38 889 119
Loans from related parties	–	–	–	676 492	676 492
Loans from shareholders	9 152 251	–	–	–	9 152 251
Other financial liabilities	6 405 579	4 088 693	5 223 005	1 274 798	16 992 075
	75 505 104	4 088 693	5 223 005	1 951 280	86 768 092

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for the year ended 30 September

35. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

COMPANY

At 30 September 2008	Less than 1 year R	Between 1 and 2 years R	Between 2 and 5 years R	Over 5 years R	Total R
Bank overdrafts	68	–	–	–	68
Trade and other payables	1 566 672	–	–	–	1 566 672
Loans from subsidiaries	1 319 789	–	–	–	1 319 789
	2 886 529	–	–	–	2 886 529
At 30 September 2007					
Trade and other payables	9 603 286	–	–	–	9 603 286
Loans from shareholders	2 918 315	–	–	–	2 918 315
Other financial liabilities	7 492 130	–	–	–	7 492 130
	20 013 731	–	–	–	20 013 731

Capital risk management

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 1,83% (2007: 6,89%) 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 approximate their fair values. The book value of all other financial instruments approximate the fair values thereof.

Key estimations and uncertainties

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

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Loans and receivables R	Total R
GROUP		
2008		
Financial assets as per balance sheet		
Loans to shareholders	39 433	39 433
Trade and other receivables excluding prepayments and taxes receivable	83 215 328	83 215 328
Loans to related parties	111 376	111 376
Cash and cash equivalents	11 994 479	11 994 479
	95 360 616	95 360 616
2007		
Financial assets as per balance sheet		
Trade and other receivables excluding prepayments and taxes receivable	67 207 034	67 207 034
Loans to related parties	9 375 632	9 375 632
Cash and cash equivalents	19 471 951	19 471 951
	96 054 617	96 054 617

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Loans and receivables R	Total R
COMPANY		
2008		
Financial assets as per balance sheet		
Amounts owing by subsidiaries	12 619 250	12 619 250
Trade and other receivables excluding prepayments and taxes receivable	138 476	138 476
Dividends owing by subsidiaries	1 047 200	1 047 200
Cash and cash equivalents	4 944 582	4 944 582
	18 749 508	18 749 508
2007		
Financial assets as per balance sheet		
Amounts owing by subsidiaries	13 070 640	13 070 640
Dividends owing by subsidiaries	3 079 421	3 079 421
Cash and cash equivalents	10 724 956	10 724 956
	26 875 017	26 875 017
	Financial liabilities	Total
	R	R
GROUP		
2008		
Financial liabilities as per balance sheet		
Loans from related parties	672 550	672 550
Borrowings	22 706 472	22 706 472
Trade and other payables excluding taxes payable and income received in advance	31 946 628	31 946 628
Bank overdraft	39 542 978	39 542 978
	94 868 628	94 868 628
2007		
Financial liabilities as per balance sheet		
Loans from related parties	676 492	676 492
Borrowings	22 229 142	22 229 142
Shareholders for dividends	730 016	730 016
Loans from shareholders	9 152 251	9 152 251
Trade and other payables excluding taxes payable and income received in advance	38 889 119	38 889 119
Bank overdraft	21 058 155	21 058 155
	92 735 175	92 735 175

Notes to the financial statements

for the year ended 30 September

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Financial liabilities R	Total R
COMPANY		
2008		
Financial liabilities as per balance sheet		
Loans from subsidiaries	1 319 789	1 319 789
Trade and other payables excluding taxes payable and income received in advance	1 566 672	1 566 672
Bank overdraft	68	68
	2 886 529	2 886 529
2007		
Financial liabilities as per balance sheet		
Borrowings	6 762 114	6 762 114
Shareholders for dividends	730 016	730 016
Loans from shareholders	2 918 315	2 918 315
Trade and other payables excluding taxes payable and income received in advance	9 603 286	9 603 286
	20 013 731	20 013 731

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
37. CREDIT QUALITY OF FINANCIAL ASSETS				
The major trade debtors for the group at 30 September were as follows:				
Blackhill (exxaro coal) (Pty) Ltd	9 678 913	356 953	-	-
Ukubona Holdings	6 108 313	-	-	-
Spoornet	4 347 964	1 371 222	-	-
Nqandeka (Pty) Ltd	3 310 246	-	-	-
Vestbest Two (Pty) Ltd	2 756 891	4 112 531	-	-
Lennings Rail Services	1 542 984	4 790 686	-	-
Cape Killarney Property	947 416	2 413 961	-	-
Ligit Props 184 (Pty) Ltd	-	2 075 791	-	-
Alpha Civils (Pty) Ltd	-	1 603 177	-	-
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	3 413 417	2 386 360	-	-
90 days	1 336 939	826 453	-	-
120 days +	6 396 538	4 153 954	-	-
	11 146 894	7 366 767	-	-
Ageing of impaired debtors:				
120 days +	225 660	16 222	-	-
	225 660	16 222	-	-

The group has payment terms of 30 days and does not hold collateral for any of the trade debtors. Trade debtors includes retention debtors of R3,7 million (2006: R4,8 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.

37. CREDIT QUALITY OF FINANCIAL ASSETS (continued)

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 2008		30 September 2007	
		Credit limit	Utilised	Credit limit	Utilised
Standard bank	P-2	25 000 000	21 498 517	10 000 000	7 708 880
Absa	P-1	7 000 000	5 964 179	–	–
Nedbank	P-1	–	–	3 500 000	3 403 204
		32 000 000	27 462 696	13 500 000	11 112 084

* The rest of the balance sheet item "Cash and cash equivalents" is cash on hand.

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
38. CONSTRUCTION CONTRACTS				
Contracts in progress at the balance sheet date:				
Construction costs incurred plus recognised profits	339 618 576	207 484 721	–	–
Less: Progress billings	(339 689 232)	(218 147 780)	–	–
	(70 656)	(10 663 059)	–	–
Recognised and included in the financial statements as amounts due:				
From customers under construction contracts (note 9)	13 758 597	6 523 058	–	–
To customers under construction contracts (note 18)	(13 829 253)	(17 186 117)	–	–
	(70 656)	(10 663 059)	–	–

At 30 September 2008, retentions held by customers for contract work amount to R3 723 387 (2007: R4 753 592). Advances received from customers for contract work amounted to R13 829 253 (2007: R17 186 117).

The average credit period in respect of construction contracts is 30 days. No interest is charged on the receivables from the date of invoice.

39. EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on net profit attributable to ordinary shareholders and a weighted number of 99 199 759 (2007: 70 000 000) ordinary shares in issue.

The calculation of headline earnings per ordinary share is based on net profit attributable to ordinary shareholders and a weighted number of 99 199 759 (2007: 70 000 000) ordinary shares in issue, taking into account the following adjustments:

Notes to the financial statements

for the year ended 30 September

	GROUP		COMPANY	
	2008 R	2007 R	2008 R	2007 R
39. EARNINGS PER ORDINARY SHARE				
<i>(continued)</i>				
Reconciliation between earnings and headline earnings:				
Profit after tax	14 903 834	12 234 197	2 365 545	5 746 187
Impairment losses on property, plant and equipment	260 353	–	–	–
Negative goodwill (JMB Electrical Contractors) (note 31)	–	(3 757 784)	–	(3 757 784)
Impairment loss on intangible asset	570 756	–	–	–
Impairment loss on investment	–	–	290 468	–
Loss on disposal of property, plant and equipment	412 088	238 107	–	–
(Profit)/loss on disposal of subsidiary	–	67 554	–	(71 740)
Tax effect of adjustment	(268 189)	(69 051)	(40 666)	20 805
Minority interest on adjustments	–	–	–	–
	15 878 842	8 713 023	2 615 347	1 937 468
Earnings per share (cents)				
Basic earnings per share	15,0	17,5	2,4	8,2
Headline earnings per share	16,0	12,4	2,6	2,8
Diluted earnings per share (cents)				
Diluted basic earnings per share	15,0	12,2	2,4	5,7
Diluted headline earnings per share	16,0	8,7	2,6	1,9

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

40. 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.

41. SEGMENT ANALYSIS

Business segments

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

- Administrative and investment services
- Electrical reticulation
- Rail construction

Principal activities are as follows:

Administration and investment services

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

Electrical reticulation

Electrical reticulation services are rendered by RACEC Electrification (Pty) Ltd 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 who specialises in electrical installation and maintenance contracts for the industrial, commercial and domestic markets.

41. SEGMENT ANALYSIS (continued)

Business segments (continued)

Rail construction

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

Geographical segments

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

- Western Cape
- KwaZulu-Natal
- Gauteng

Business segments

	Administrative investment and plant hire services R	Electrical services R	Rail construction R	Consolidated R
2008				
Revenue				
– 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
Other information				
Segment assets	49 731 162	87 498 100	52 342 855	189 572 117
Segment liabilities	48 983 870	49 180 987	28 750 038	126 914 815
Capital expenditure	16 857 695	18 436 846	2 535 689	37 830 230
2007				
Revenue				
– external	–	111 443 160	106 704 620	218 147 780
– intersegment	3 029 431	430 674	15 872	3 475 977
Segment result	(7 763 028)	11 110 943	12 879 041	16 226 956
Other information				
Segment assets	58 880 096	57 164 703	26 136 555	142 181 354
Segment liabilities	55 579 646	44 618 340	25 614 080	125 812 066
Capital expenditure	23 236 765	643 890	6 693 348	30 574 003
Geographical segments	Western Cape R	KwaZulu-Natal R	Gauteng R	Consolidated R
2008				
Revenue				
– 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
Other information				
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	32 830 230	–	–	37 830 230

Notes to the financial statements

for the year ended 30 September

41. SEGMENT ANALYSIS (continued)

Geographical segments (continued)

	Western Cape R	KwaZulu-Natal R	Gauteng R	Consolidated R
2007				
Revenue				
– external	131 385 636	12 564 605	74 197 539	218 147 780
– intersegment	3 475 977	–	–	3 475 977
Segmental result	6 733 508	720 397	8 773 051	16 226 956
Other information				
Segment assets	130 595 802	1 591 816	9 993 736	142 181 354
Segment liabilities	122 196 735	158 379	3 456 953	125 812 066
Capital expenditure	30 574 003	–	–	30 574 003

42. DIRECTORS' REMUNERATION

For the year ended 30 September 2008, 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	489 858	140 000	78 575	32 424	740 857
W Ollewagen	588 071	175 299	61 390	25 908	850 668
S 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

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

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

Shareholder analysis

The following tables set out an analysis of shareholding as at 30 September 2008. The number of shares held by the shareholders as at 30 September 2008 is as reflected in the directors' report on page 25. At 30 September 2008, the 104 018 088 shares related to 100% of the shares in issue.

	Number of shareholders	%	Number of shares	%
DISTRIBUTION OF SHAREHOLDERS				
Close Corporations	24	2,5%	561 800	0,5%
Custodians	1	0,1%	583 660	0,6%
Foundations and charitable funds	2	0,2%	42 000	0,0%
Investment partnerships	19	2,0%	333 900	0,3%
Managed funds	1	0,1%	4 500	0,0%
Nominees	4	0,4%	978 357	0,9%
Pension and provident funds	1	0,1%	6 757	0,0%
Private companies	27	2,8%	1 346 700	1,3%
Retail shareholders	820	84,4%	24 745 380	23,8%
Trusts	69	7,1%	67 384 176	64,8%
Unclaimed scrip	1	0,1%	5 700	0,0%
Unit trusts	3	0,3%	8 025 158	7,7%
	972	100,0%	104 018 088	100,0%

PUBLIC/NON-PUBLIC SHAREHOLDERS

Non-public shareholders		
Directors' holdings	59 579 840	57,3%
Public shareholders	44 438 248	42,7%
	104 018 088	100,0%

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
The Charles & Tertia Harrod Trust	17 290 000	16,62
The Gary Harrod Family Trust	12 260 000	11,79
The Ollewagen Family Trust	15 260 000	14,67
The Mike & Jen Uys Trust	13 969 840	13,43
Gillian Kleinschmidt	7 568 842	7,28

Shareholder analysis

	Number of shares	Percentage of shares
BREAKDOWN OF NON-PUBLIC HOLDINGS		
Directors		
MJ Uys	13 969 840	13,43
The Mike & Jen Uys Trust	13 969 840	
CRS Gooden	100 000	0,10
Mr Colin Rodney Spry Gooden	100 000	
CJ Harrod	17 290 000	16,62
The Charles & Tertia Harrod Trust	17 290 000	
GL Harrod	12 260 000	11,79
The Gary Harrod Family Trust	12 260 000	
W Ollewagen	15 260 000	14,67
The Ollewagen Family Trust	15 260 000	
SC Wilkins	700 000	0,67

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")

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 second annual general meeting of shareholders of the company will be held at Kelvin Grove, Newlands, Cape Town, at 10:00 on Friday 27 February 2009 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 2008, including the directors' report and the report of the auditors therein.
2. To re-elect, Charles Harrod, 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, Winston Ollewagen, 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 for re-election appears on page 18 to page 20 of the annual report to which this notice is attached.
4. To confirm the reappointment of BDO Spencer Steward (Cape Town) Inc. as independent auditors of the company for the ensuing financial year and to authorise the directors to determine the auditors' remuneration.
5. To approve the non-executive directors' remuneration for the year ended 30 September 2008 as reflected in note 42 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

6. "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

7. "Resolved that 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

Notice of annual general meeting

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

SPECIAL RESOLUTION NUMBER 1

General approval to acquire shares

8. "Resolved, by way of a 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 counter party;
- 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;
- 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 per cent) 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 per cent) 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 per cent) of the number of the ordinary shares in issue at the time this general authority is granted ("initial number"), and for each 3% (three per cent) 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."

8.1 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.

8.2 Other disclosure in terms of Section 11.26 of the JSE Listings Requirements

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

- directors and management – page 26;
- major shareholders of RACEC – page 73;
- directors' interests in securities – page 27;
- share capital of the company – page 48.

8.3 Litigation statement

The directors, whose names appear on page 26 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.

8.4 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.

8.5 Directors' responsibility statement

The directors, whose names are given on page 26 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.

8.6 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 after the date of this notice of annual general meeting:

- 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.

Notice of annual general meeting

ORDINARY RESOLUTION NUMBER 3

Signature of documents

9. “**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 (formerly the Registrar of Companies), in the case of special resolutions.”
10. **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.

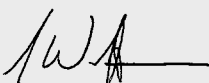
The attached form of proxy is only to be completed by those ordinary shareholders who:

- 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



S Wilkins

Company secretary

11 December 2008

Cape Town

Form of proxy



RACEC GROUP LIMITED

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

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 second annual general meeting of ordinary shareholders of the company to be held at Kelvin Grove, Newlands, Cape Town, at 10:00 on 27 February 2009, 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 2008			
2. To approve the re-election as director of Charles Harrod who retires by rotation			
3. To approve the re-election as director of Winston Ollewagen who retires by rotation			
4. To confirm the reappointment of BDO Spencer Steward (Cape Town) Inc. as auditors of the company for the ensuing financial year			
5. To approve the non-executive directors' remuneration for the financial year ended 30 September 2008			
6. Ordinary resolution number 1 Control of authorised but unissued ordinary shares			
7. Ordinary resolution number 2 Approval to issue ordinary shares, and to sell treasury shares, for cash			
8. Special resolution number 1 General approval to acquire shares			
9. Ordinary resolution number 3 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

2009

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
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to be received by no later than 10:00 on Wednesday 25 February 2009 (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

1988/006153/06

DIRECTORS

Executive directors

CJ Harrod (Chief executive officer)

GL Harrod

W Ollewagen

SC Wilkins (Financial director)

Non-executive directors

MJ Uys (Chairman)

CRS Gooden

B Petersen

COMPANY SECRETARY AND REGISTERED ADDRESS

Mr Sean Wilkins 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

Shareholders' diary

Financial year-end

Preliminary announcement

Annual general meeting

Interim results announcement

30 September 2008

11 December 2008

27 February 2009

on or about 17 June 2009



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