

Rac - Racec Group Limited - Abridged Audited Financial Results For The Year

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RAC - Racec Group Limited - Abridged Audited Financial Results For The Year
Ended 30 September 2008 and dividend

declaration

RACEC Group Limited

Incorporated in the Republic of South Africa

(Registration Number 1998/006153/06)

Share Code: RAC & ISIN: ZAE000105409

("RACEC" or "the Company" or "the Group")

Abridged Audited Financial Results for the year ended 30 September 2008

- Revenue up 78%
- Operating profit up 67%
- Profit for the year up 32%
- Headline and diluted headline earnings per share up 29% and 84% respectively
- Net asset value per share up 152%
- Prospectus forecast for headline earnings per share of 15.9 cents was met

ABRIDGED CONDENSED CONSOLIDATED INCOME STATEMENT

	Audited year ended	Audited Restated year ended
30 September	30 September	
Figures in R`000	2008	2007
Revenue	388 893	218 147
Cost of sales	(307 038)	(180 025)
Gross profit	81 855	38 122
Other income	71	4 999
Other expenses	(55 352)	(27 172)
Net profit before interest received, finance costs and taxation	26 574	15 949
Interest received	3 122	3 033
Finance costs	(5 700)	(2 755)
Profit before taxation	23 996	16 227
Taxation	(7 837)	(3 993)
Profit for the year	16 159	12 234
Attributable to:		
Equity holders of the parent	14 904	12 234
Minority interest	1 255	-
Profit for the year	16 159	12 234
Earnings per share (cents):		
Earnings per share	15.0	17.5
Headline earnings per share	16.0	12.4
Diluted earnings per share (cents):		
Diluted earnings per share	15.0	12.2
Diluted headline earnings per share	16.0	8.7
Weighted average number of shares	99 199 759	70 000 000

ABRIDGED CONDENSED CONSOLIDATED BALANCE SHEET

Audited

Audited

Restated

Figures in R`000	at 30 September 2008	at 30 September 2007
ASSETS		
Non-current assets		
Property, plant and equipment	55 984	26 352
Investment property	351	350
Intangible assets	6 957	1 736
Loans to shareholders	39	-
Loans to related parties	111	9 376
Deferred tax asset	342	161
	63 784	37 975
Current assets		
Inventories	30 234	14 802
Trade and other receivables	83 560	70 093
Cash and cash equivalents	11 994	19 472
	125 788	104 367
Total assets	189 572	142 342
EQUITY AND LIABILITIES		
Capital and reserves	58 266	15 566
Minority interest	4 391	-
Total equity	62 657	15 566
Non-current liabilities		
Other financial liabilities	15 892	8 420
Share based payments	2 875	1 582
Deferred tax	3 657	1 621
	22 424	11 623
Current liabilities		
Loans from shareholders	-	9 152
Loans from related parties	673	676
Trade and other payables	48 679	63 747
Other financial liabilities	6 985	14 738
Taxation	8 611	5 782
Bank overdraft	39 543	21 058
	104 491	115 153
Total liabilities	126 915	126 776
Total equity and liabilities	189 572	142 342
Net asset value per share (cents)	56.0	22.2
Net tangible asset value per share (cents)	49.3	19.8
Number of shares in issue	104 018 088	70 000 000

ABRIDGED CONDENSED STATEMENT OF CHANGES IN EQUITY
Share

Figures in R`000	capital	Share	and share premium	buy back	Revaluation reserve
Balance at 1 October 2006	1			(3 879)	5 473
Changes in equity					
Share buy back	*			-	-
Realised revaluation through depreciation	-			-	(3 337)
Revaluation of property, plant and equipment	-			-	803
Net (expenses)/income recognised directly in equity	-			-	(2 534)
Net profit for the year	-			-	-

Disposal of subsidiary			
Distribution to shareholders	-	-	-
Balance at 1 October 2007 as stated previously	*	(3 879)	2 939
Prior year adjustment	-	-	-
Restated balance at 1 October 2007	*	(3 879)	2 939
Changes in equity			
Shares issued	32 528	-	-
Share issue expenses	(2 231)	-	-
Share buy-back	-	-	-
Realised revaluation through depreciation	-	-	(845)
Deferred tax on realised revaluation through depreciation	-	-	236
Revaluation of property, plant and equipment	-	-	4 063
Deferred tax on revaluation of property, plant and equipment	-	-	(1 138)
Effect of tax rate change on revaluation reserve	-	-	29
Net income/(expenses) recognised directly in equity	-	-	2 345
Net profit for the year	-	-	-
Disposal of subsidiary			
Distribution to shareholders	-	-	-
Balance at 1 October 2008	30 297	(3 879)	5 284

Total

Figures in R`000	Retained income	Attributable to equity holders of the group	Minority interest
Balance at 1 October 2006	4 918	6 513	64
Changes in equity			
Share buy back	-	*	-
Realised revaluation through depreciation	3 337	-	-
Revaluation of property, plant and equipment	-	803	-
Net (expenses)/income recognised directly in equity	3 337	803	-
Net profit for the year	12 234	12 234	26
Disposal of subsidiary	-	-	(90)
Distribution to shareholders	(3 181)	(3 181)	-
Balance at 1 October 2007 as stated previously	17 308	16 369	-
Prior year adjustment	(803)	(803)	-
Restated balance at 1 October 2007	16 505	15 566	-
Changes in equity			
Shares issued	-	32 528	-
Share issue expenses	-	(2 231)	-
Share buy-back	-	-	-
Realised revaluation through depreciation	845	-	-
Deferred tax on realised	(236)	-	-

revaluation through depreciation			
Revaluation of property, plant and equipment	-	4 063	-
Deferred tax on revaluation of property, plant and equipment	-	(1 138)	-
Minority interest on business acquisitions	-	-	3 136
Effect of tax rate change on revaluation reserve	-	29	-
Net income/(expenses) recognised directly in equity	609	2 954	3 136
Net profit for the year	14 904	14 904	1 255
Disposal of subsidiary	-	-	-
Distribution to shareholders	(5 455)	(5 455)	-
Balance at 1 October 2008	26 563	58 266	4 391

Total equity

Figures in R`000	
Group	
Balance at 1 October 2006	6 577
Changes in equity	
Share buy-back	*
Realised revaluation through depreciation	-
Revaluation of property, plant and equipment	803
Net (expenses)/income recognised directly in equity	803
Net profit for the year	12 260
Disposal of subsidiary	(90)
Distribution to shareholders	(3 181)
Balance at 1 October 2007 as stated previously	16 369
Prior year adjustment	(803)
Restated balance at 1 October 2007	15 566
Changes in equity	
Shares issued	32 528
Share issue expenses	(2 231)
Share buy-back	-
Realised revaluation through depreciation	-
Deferred tax on realised revaluation through depreciation	-
Revaluation of property, plant and equipment	4 063
Deferred tax on revaluation of property, plant and equipment	(1 138)
Minority interest on business acquisitions	3 136
Effect of tax rate change on revaluation reserve	29
Net income/(expenses) recognised directly in equity	6 090
Net profit for the year	16 159

Disposal of subsidiary -
Distribution to shareholders (5 455)
Balance at 1 October 2008 62 657
(* less than R1 000)

ABRIDGED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Audited	Restated	Audited
		year ended
		30 September
Figures in R`000		2008
		year ended
		30 September
		2007
Cash flows from operating activities		
Cash generated from operations	5 233	15 079
Interest received	3 122	3 032
Finance costs	(5 700)	(2 755)
Taxation paid	(8 968)	(1 167)
Net cash from operating activities	(6 313)	14 189
Cash flows from investing activities		
Purchase of property, plant and equipment	(22 171)	(10 958)
Purchase of business operations	(1 904)	(10 870)
Proceeds from disposal of property, plant and equipment	794	225
Proceeds on disposal of subsidiary	-	86
Net cash used in investing activities	(23 281)	(21 517)
Cash flows from financing activities		
Repayment /(Advance) of loans to related parties	9 260	(3 108)
Repayment of other financial liabilities	(14 998)	(3 501)
Advance of other financial liabilities	8 447	15 568
(Repayment)/Advance of loans from shareholders	(9 192)	4 604
Capital distribution to shareholders	(5 455)	(3 181)
Proceeds for share capital issued	15 569	-
Net cash raised in financing activities	3 631	10 282
Total cash movement for the year	(25 963)	2 954
Cash at the beginning of the year	(1 586)	(4 540)
Cash and cash equivalents at end of the year	(27 548)	(1 586)

NOTES TO THE AUDITED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these condensed financial statements, which are based on reasonable judgments and estimates, are in accordance with International Financial Reporting Standards ("IFRS") and are consistent with those applied in the annual financial statements for the year ended 30 September 2007. These condensed financial statements as set out in this report have been prepared in terms of IAS 34 - Interim Financial

Reporting, the Companies Act (Act 61 of 1973), as amended and the Listings Requirements of JSE Limited.

2. 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 in 2007 by R803 445 and retained earnings were overstated by R803 445.

3. Operating profit

Operating profit includes:

Audited

Figures in R`000	Audited year ended 30 September 2008	Restated year ended 30 September 2007
Operating lease charges	1 635	1 000
Loss on sale of property plant and equipment	412	238
Loss on disposal of subsidiary	-	68
Impairment of property, plant and equipment	260	-
Impairment of intangible assets	571	-
Profit on exchange differences	-	(52)
Negative goodwill (JMB Electrical Contractors)	-	(3 758)
Depreciation and amortisation	5 002	2 767
Directors` emoluments	4 911	4 103
Employee costs	60 455	29 329
Audit fees	522	(2)
Share-based payments	240	62
Insurance recoveries	-	45

4. Share capital

The RACEC Group listed on AltX on 18 October 2007. To facilitate the listing,

the Company passed the necessary resolutions in the prior year to:

- increase the authorised ordinary share capital for 1 000 shares with a par value of R1.00 to 5 000 shares with a par value of R1.00;
- split the authorised ordinary share capital into 500 000 000 shares of 0.001 cent; and
- to buy back 30% of the issued ordinary share capital, which amounted to

30 000 000 shares.

5. Reconciliation between profit and headline earnings

Audited

Figures in R`000	Audited as at 30 September 2008	Restated as at 30 September 2007
Profit for the year	14 904	12 234
Adjustments for:		

- Loss on disposal of property, plant and equipment	412	238
- Negative goodwill (JMB Electrical Contractors)	-	(3 758)
- Loss on disposal of subsidiary	-	68
- Impairment losses	831	-
- Tax effects	(268)	(69)
- Minority interest effect	-	-
Headline earnings	15 879	8 713
Earnings per share (cents)		
- Headline	16.0	12.4
- Basic	15.0	17.5
Weighted average number of shares in issue	99 199 759	70 000 000
Diluted earnings per share (cents)		
Headline	16.0	8.7
Basic	15.0	12.2
Diluted weighted average number of shares in issue (after taking in to account the issue of 30,000,000 shares as part of the private placement in the 2007 calculation)	99 199 759	100 000 000

6. Cash and cash equivalents

Cash and cash equivalents comprise cash balances with banks and bank overdrafts.

7. Acquisitions

During the year, the Group acquired the businesses of Greenbro CC and Northern

Electric (Cape) (Proprietary) Limited ("Northern Electric") for R10.1 million

and R4.5 million respectively. The excess of the purchase price over the net

assets acquired has been recognised as Goodwill.

8. Related party transactions

During the year, the Company and its subsidiaries in the ordinary course of business, entered into various related party sales, purchases and investment

transactions. These transactions were subject to terms that were no less favourable than those arranged with third parties.

9. Corporate governance

The Group complies with the code of Corporate Practice and Conduct published

in the King II report on Corporate Governance.

10. 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.

11. Contingent liabilities

	Audited	Audited
Restated		
	as at	as at
	30 September	30 September
Figures in R`000	2008	2007
STC on remaining reserves	2 752	1 891

Performance guarantees	32 137	21 834
Contingent liability	1 704	-

The performance guarantees are provided by Lombards Insurance Company Limited and C&G Underwriting Managers (Proprietary) Limited for work by subsidiary companies.

The contractor contingency 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 with the subcontractor.

12. Dividends per share

	Audited as at	Audited Restated as at
30 September 30 September		
Figures in R`000	2008	2007
Dividends declared to equity holders of the parent	4 347	1 993
Dividends per share (cents)	4.2	2.8

13. Segmental information

	Audited as at	Audited Restated as at
30 September 30 September		
Figures in R`000	2008	2007
Business segment:		
Revenue		
Administrative and plant hire	-	-
Electrical reticulation	217 124	111 443
Rail construction	171 769	106 705
Profit before tax:		
Administrative and plant hire	(29 161)	(7 763)
Electrical reticulation	25 168	11 111
Rail construction	27 989	12 879

Geographic segment:

Revenue		
Western Cape	253 635	131 386
KwaZulu-Natal	15 170	12 565
Gauteng	120 089	74 198
Profit before tax:		
Western Cape	17 158	6 734
KwaZulu-Natal	(478)	720
Gauteng	7 316	8 773

COMMENTARY ON AUDITED RESULTS

PROFILE AND STRUCTURE

RACEC has been in existence since 1956 and during this time has built an extremely well trained and experienced group of employees. Despite the current economic turmoil being experienced, the Group is in a strong position to take advantage of the infrastructure spend both locally and

on the African continent. There is a tremendous need to reverse the deterioration of South African and other African country's infrastructure as a

result of the lack of investment for over a decade.

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

The Group comprises a holding company and a number of subsidiaries, out of which the business operations are conducted. There are two main focuses to the

Group being the provision of electrical reticulation ("Electrification") and

rail construction which includes both track installation and maintenance ("Rail").

Electrification services are provided by:

- RACEC Electrification (Proprietary) Limited ("RACEC Electrification") and

RACEC Power (Proprietary) Limited, which are both involved in electrical

reticulation and which grew out of RACEC's desire to have a business which complemented its rail track insulation business with the electrification of railway tracks;

- Greenbro (Proprietary) Limited ("Greenbro"), which supplies industrial generators and electrical enclosures; and

- Northern Electric, 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 Group's operations.

Rail services are provided by:

- RACEC Rail (Proprietary) Limited ("RACEC Rail") which concentrates mainly

on the construction and maintenance of railway tracks throughout South and Southern Africa.

In October 2007 the trade, assets and staff of Sizabantu Infrastructure Maintenance CC ("Sizabantu") were acquired by RACEC Rail, but the financial effects of which were not considered material to the Rail operations.

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

FINANCIAL PERFORMANCE

The Group increased its revenue for the financial year ending September 2008

by 78% (2007:38%) to R388.9 million (2007: R218.1 million).

Headline earnings per share increased by 29% to 16.0 cents (2007: 12.4 cents).

This is based on a weighted average number of shares of 99.2 million (2007: 70.0 million). Diluted headline earnings per share, based on a weighted average number of share of 99.2 million (2007:100.0 million) shares in issue,

increased by 84% to 16.0 cents (2007: 8.7 cents).

This increase can be attributed to organic growth due to the increased spending on infrastructure projects which is starting to flow through, the full year inclusion of the JM Badenhorst Group, which was acquired in the 2007

financial year, as well as the acquisition of the business of Greenbro CC and

acquisition of Northern Electric in the current financial year.

Given the nature of the industry and the close down periods over the December

and January months, there is a seasonal bias towards the second half of the year.

ACQUISITIONS

In April 2008 the Group acquired the business, assets and staff of Greenbro

CC. Greenbro specialises in the supply and manufacture of electrical equipment and generators. In May 2008 the Group acquired 70% of the shareholding of Northern Electric. These acquisitions have increased the volume of business of the Group and brought in a pool of well trained, experienced staff. In addition to the above, the Group acquired the business of Sizabantu, operating out of Cato Ridge in Kwazulu Natal, in October 2007. RACEC Rail has now acquired the additional skills of an experienced rail welding business to complement and strengthen its position in the rail engineering sector. The financial contribution of the operations of Sizabantu is not material to the group.

OPERATIONAL PERFORMANCE AND PROSPECTS

Rail

In 2008 the revenue of Rail amounted to R171.8 million (2007: R106.7 million),

this represents an increase of 61% (2007:89%) year on year.

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 sub division.

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

One of the challenges 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.

In addition to the turnkey solutions, the Group is aligning itself with companies specialising in locomotive shunting operations. Coupled with its rail infrastructure maintenance subdivision, the Group will be in the position

to expand its services to offer "Build, Operate and Transfer (BOT)" type project solutions.

The Company has been involved in a number of cross border opportunities and plans to actively expand its footprint into Sub Saharan Africa, within the next three years. This will counteract the frustrating long lead periods being

experienced from the parastatal companies and should help compensate for the

effects of the global economic downturn on the local market.

The Group's implementation of a ISO 9001 Quality Management System will further assure our clientele of our commitment to "Excellence in Engineering

Infrastructure".

Electrical Reticulation ("Electrification")

In 2008 the revenue of Electrification amounted to R217.1 million (2007: R111.4 million), representing an increase of 95% (2007:10%) year on year.

Electrification includes the operations of Greenbro and Northern Electric.

Greenbro contributed R44.2 million in revenue and R632 000 to the Group's profit before tax for the 6-month period between acquisition and the balance

sheet date. The operations of Northern Electric contributed R18.2 million in

revenue and R5.4 million to the Group's profit before tax for the 5-month period between acquisition and the balance sheet date.

The merger of the two businesses has now been completed and it is anticipated that strong growth will be achieved during this current year. Virtually all of the Greenbro and Northern Electric employees have remained in our employ, which has gone a long way in overcoming our skills shortage. Many of the projects identified in 2008 that 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 continued infrastructure spend in the future, positions Electrification to achieve growth in the next year.

BEE

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

RACEC is fully committed to the principals of direct control through ownership of the organisation's equity, human resource development, employment equity and indirect empowerment through preferential procurement policies. The BEE shareholding of most of the operating companies in the Group exceeds 30%.

The RACEC Employee Share Trust ("the 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.

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

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

transfer. Many major contracts have been successfully completed to the benefit of RACEC, its BEE partners and clients.

RACEC also supports deserving disadvantage 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.

SOCIAL RESPONSIBILITY

Employment equity/Skills development

RACEC has a dedicated manager responsible for handling all issues related to employment equity and training. As a group, RACEC is committed to creating opportunities for its staff through training and promotion from within, wherever possible.

Health and safety

The Group has a dedicated 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.

CASH DIVIDEND TO SHAREHOLDERS

Subject to working capital requirements and acquisition activities, it is the

policy of the Group to declare up to a maximum of one third of annual profits

after tax to shareholders.

A final cash dividend of 3 cents per share is hereby declared and will be financed out of free cash flow.

The salient dates for the dividend are as follows:

Last day to trade shares cum dividend	Friday, 23 January 2009
Shares trade ex dividend	Monday, 26 January 2009
Record date	Friday, 30 January 2009
Payment date	Monday, 02 February 2009

No share certificates may be dematerialised or rematerialised between Monday,

26 January 2009 and Friday, 30 January 2009, both dates inclusive.

Audit opinion

The annual financial statements for the year have been audited by RACEC's auditors, BDO Spencer Steward (Cape) Inc. Their unqualified audit report is available for inspection at the Company's registered office.

M Uys

C Harrod

Non-Executive Chairman

Chief Executive Officer

11 December 2008

Directors:

M Uys* (Chairman), C Harrod (Chief Executive Officer), G Harrod, C Gooden*, W

Ollewagen, S Wilkins (Financial Director), B Petersen*

* Non-executive

Company secretary:

S Wilkins

Registered office:

8 Hawkins Avenue, Epping 1, 7460 (PO Box 61, Eppindust, 7475)

Transfer secretaries:

Computershare Investor Services (Proprietary) Limited (PO Box 61051, Marshalltown, 2107)

Designated Adviser:

Merchantec (Proprietary) Limited (PO Box 41480, Craighall, 2024)

Auditors:

BDO Spencer Steward (Cape) Inc. (Docex 158, Cape Town)

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