

## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action to take in relation to this circular, please consult your Central Securities Depository Participant ("CSDP"), broker, banker, attorney, accountant or other professional adviser immediately.

### Action required

1. If you have disposed of all your shares in Erbacon, please forward this circular to the purchaser of such shares or to the CSDP, broker, banker or other agent through whom the disposal was effected.
2. Erbacon shareholders are referred to page 2 of this circular, which sets out the action required by them.



## ERBACON INVESTMENT HOLDINGS LIMITED

(Formerly Friedshelf 884 Limited)  
(Incorporated in the Republic of South Africa)  
(Registration number 2007/014490/06)  
Share code: ERB ISIN: ZAE000111571  
("Erbacon" or "the company")

## CIRCULAR TO ERBACON SHAREHOLDERS

regarding

- the acquisition by Erbacon of the entire issued share capital of and all claims on shareholders' loan account against Civcon from the Civcon vendors;
- the creation and issue by Erbacon of 67 410 000 fully paid-up convertible redeemable and participating preference shares with a par value of R0.01 each to Medu Capital at an issue price of R1.68 per preference share;
- an increase in the authorised share capital of the company; and
- alteration of the memorandum and articles of association of Erbacon;

and incorporating

- revised listing particulars in respect of the company;
- a notice of general meeting of Erbacon shareholders; and
- a form of proxy (*blue*) only for use by certificated shareholders and dematerialised shareholders with own name registration.

### Corporate adviser



### Auditors and Independent reporting accountants to Erbacon



### Designated Adviser



### Legal adviser to Medu Capital



### Attorneys to Erbacon



### Auditors to Civcon and Independent reporting accountants



MAZARS MOORES ROWLAND  
Corporate Finance (Pty)Ltd

### Legal adviser to Civcon



Date of issue: 28 October 2009

Copies of this circular incorporating the revised listing particulars are available in English only and may be obtained from the registered office of Erbacon, the designated adviser, corporate adviser and transfer secretaries at the addresses set out in the "Corporate information" section of this circular from 28 October 2009 until 19 November 2009, both days inclusive.

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## CORPORATE INFORMATION

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### Company secretary and registered address

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### Designated Adviser

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### Auditors to Civcon and independent reporting accountants to Erbacon

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### Legal adviser to Medu Capital

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## ACTION REQUIRED BY SHAREHOLDERS

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### Please take careful note of the following provisions regarding the action required by Erbacon shareholders

1. If you are in any doubt as to what action to take, please consult your CSDP, broker, banker, attorney, accountant or other professional adviser immediately.
2. If you have disposed of all your shares in Erbacon, please forward this circular to the purchaser of such shares or to the CSDP, broker, banker or other agent through whom the disposal was effected.
3. Shares in companies listed on the JSE can no longer be traded on that exchange unless they have been dematerialised onto the Strate system. It is therefore suggested that certificated shareholders dematerialise their documents of title and replace them with electronic records of ownership. In this regard, shareholders may contact either a CSDP or broker, details of which are available from Strate at [liaisondesk@strate.co.za](mailto:liaisondesk@strate.co.za) or telephone (011) 759 5300 or facsimile (011) 759 5505.

If you wish to dematerialise your shares, you should contact a CSDP or broker as certificated shares may not be traded unless they have been dematerialised, which can take between 1 and 10 days, depending on volume.

1. **If you hold certificated shares or dematerialised shares and have selected own-name registration:**
  - 1.1 You are entitled to attend the general meeting in person and speak, vote or abstain from voting at the general meeting.
  - 1.2 Alternatively, you may appoint a proxy to represent you at the general meeting by completing the attached form of proxy (*blue*) in accordance with the instructions it contains and return it to the transfer secretaries to be received by no later than 10:00 on Friday, 13 November 2009.
2. **If you hold dematerialised shares and have not selected own-name registration:**
  - 2.1 If your CSDP or broker has not contacted you, it would be advisable for you to contact your CSDP or broker and furnish them with your voting instructions. This must be done in terms of the mandate concluded between you and your CSDP or broker in the manner and time stipulated therein.
  - 2.2 If your CSDP or broker does not obtain voting instructions from you, they will be obliged to vote in accordance with the instructions contained in the mandate concluded between you and your CSDP or broker.
  - 2.3 In accordance with the mandate between you and your CSDP or broker, you must advise your CSDP or broker if you wish to attend or be represented by proxy at the general meeting. Your CSDP or broker will issue the necessary authorisation in writing for you to do so.
  - 2.4 **You must *not* complete the attached form of proxy.**

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## SALIENT INFORMATION

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This summary provides an outline of the transaction and should be read in conjunction with this circular as a whole for a full appreciation thereof. The definitions and interpretation commencing on page 11 apply *mutatis mutandis* to the salient information.

### 1. BACKGROUND

- 1.1 In the announcement to Erbacon shareholders, released on SENS on 22 September 2009, shareholders were advised that:
  - 1.1.1 Erbacon had entered into an agreement, on 21 September 2009, with the Civcon vendors in terms of which Erbacon would acquire all the shares in the issued share capital of and all claims on shareholders' loan account against Civcon from the Civcon vendors;
  - 1.1.2 Erbacon had also entered into a share subscription agreement, on 21 September 2009, with Medu Capital in terms of which Medu Capital will subscribe for 67 410 000 fully paid-up convertible, redeemable and participating preference shares at an issue price of R1.68 per preference share. Immediately following the Erbacon preference share issue, Medu Capital as Erbacon's BEE financing partner will have an economic interest of approximately 29.41% in Erbacon, which will enhance Erbacon's overall BEE ownership status.
  - 1.1.3 The preference shares shall, *inter alia*, subject to 2.2.3.3 below, rank *pari passu* with the ordinary shares, will be unlisted and will be entitled to their proportionate share of any ordinary dividends declared by Erbacon. Erbacon preference shareholders shall in respect of the preference shares held by them, be entitled to that proportion of votes in the company which the aggregate par value of the preference shares held by them bears to the aggregate amount of the par value of all shares issued by the company but will be limited to a maximum of 25% less one vote. Each preference share shall further at the election of the preference shareholder, be convertible into the equivalent of one ordinary share of Erbacon at the date of conversion thereof (taking into account any share splits and share consolidations as may have occurred).

### 2. PARTICULARS OF THE TRANSACTION

#### 2.1 The Civcon acquisition

##### 2.1.1 The business of Civcon

Civcon commenced business as a civils contractor in 1980 on the Free State Goldfields. Civcon operates in the mining construction and heavy industrial markets with its client base covering a majority of the mining houses, fertiliser and petro-chemical companies and heavy industry. Civcon's key services include general civil engineering construction, industrial and process plants, mining (surface and underground), mining infrastructure and design and construction of turnkey industrial projects.

##### 2.1.2 Terms of the Civcon acquisition

- 2.1.2.1 On 21 September 2009, Erbacon entered into an agreement with the Civcon vendors in terms of which Erbacon will acquire all the shares in the issued share capital of and all claims on shareholders' loan account against Civcon from the Civcon vendors subject to, *inter alia*, certain suspensive conditions as set out below.
- 2.1.2.2 The purchase price payable by Erbacon in terms of the Civcon acquisition is an aggregate maximum amount of R266 804 410.
- 2.1.2.3 The effective date of the transaction is the 20<sup>th</sup> business day after the fulfilment or waiver, as the case may be, of all the suspensive conditions as stipulated in the Civcon acquisition agreement.

- 2.1.2.4 Prior to the effective date, Civcon shall be entitled to declare and pay dividends, make distributions, make payments in terms of section 90 of the Companies Act, and/or effect repayments of loan accounts to the Civcon vendors out of its cash resources to a maximum aggregate amount of R25 000 000 on the basis that the Civcon vendors are satisfied, acting reasonably, that after such payments Civcon shall be able to meet its future 12-month working capital requirements to enable Civcon to achieve the warranted profits as set out in paragraph 2.1.3 below.
- 2.1.2.5 In terms of the Civcon acquisition agreement, Erbacon shall also be entitled to declare and pay dividends to its shareholders, subject to the fulfilment of all suspensive conditions to the transaction, of a maximum aggregate amount of R30 000 000, provided that Erbacon shall not be entitled to declare any further dividends prior to the issue of Erbacon ordinary shares to the Civcon vendors in terms of paragraph 2.1.3.3 below, which date of issue shall not be later than 10 business days after 31 August 2010.
- 2.1.2.6 The Civcon vendors shall be entitled to appoint two directors to the board of Erbacon, in terms of the Civcon acquisition agreement, until the later of the end of the profit warranty period as set out in the Civcon acquisition agreement; and the earlier of the termination of the tie-in agreement or the date on which the Civcon vendors hold in aggregate less than 10% of the issued ordinary share capital of Erbacon.

### 2.1.3 **Purchase consideration**

- 2.1.3.1 The purchase price payable by Erbacon in terms of the Civcon acquisition is an aggregate maximum amount of R266 804 410, which shall be settled by Erbacon in the following manner:
  - 2.1.3.2 51.5% of the purchase consideration on the effective date against delivery of the Civcon shares and the Civcon claims to Erbacon:
    - 2.1.3.2.1 by payment to the Civcon vendors of an aggregate cash amount of R95 418 260; and
    - 2.1.3.2.2 as to the sum of R42 052 757, by the allotment and issue to the Civcon vendors and Charter Chemicals of an aggregate of 25 020 876 Erbacon ordinary shares at an issue price of R1.6807 per share;
  - 2.1.3.3 as to the sum of R77 600 036 representing approximately 30% of the purchase consideration, on achievement by Civcon of a profit after tax of R64.8 million for the year ended 28 February 2010, by the allotment and issue to the Civcon vendors and Charter Chemicals of an aggregate of a maximum of 46 171 072 Erbacon ordinary shares at an issue price of R1.6807; and
  - 2.1.3.4 as to the sum of R51 733 357 representing the remaining purchase consideration, on achievement by Civcon of a profit after tax of R64.8 million for the year ended 28 February 2011, by the allotment and issue to the Civcon vendors and Charter Chemicals of an aggregate of a maximum of 30 780 714 Erbacon ordinary shares at an issue price of R1.6807 per share.
- 2.1.3.5 Erbacon shall procure the listing of the Erbacon consideration shares to be issued to the Civcon vendors, as set out above, on the Alt<sup>x</sup>.

### 2.1.4 **Civcon vendors**

The vendors of Civcon are Henning (45.55%), the Ramsay Family Trust (45.55%), André de Graaf (1.58%), Johannes Jacobus Looock (1.58%), Innes Louw (2.08%), Geoffrey Norman Sproule (0.60%), Wiebe Top (1.48%) and Burgerd Christiaan van der Merwe (1.58%).

### 2.1.5 **Suspensive conditions to the Civcon acquisition agreement**

The Civcon acquisition agreement is subject, *inter alia*, to the fulfilment of the following remaining suspensive conditions:

- 2.1.5.1 the subscription agreement becoming unconditional in accordance with the terms thereof save for any condition relating to the Civcon acquisition agreement becoming unconditional, on or before 15 December 2009;

- 2.1.5.2 the required approval of the Civcon acquisition (including the approval of the issue of the Erbacon ordinary shares in settlement of the purchase consideration) by the requisite majority of Erbacon shareholders, on or before 15 December 2009;
- 2.1.5.3 the required approval of the Civcon acquisition by the Competition Authorities, on or before 15 December 2009;
- 2.1.5.4 the obtaining of any other regulatory approvals necessary to implement the Civcon acquisition, including but not limited to the necessary approvals from the JSE and the SRP on or before 15 December 2009;
- 2.1.5.5 the Alt\* approves the listing of the Erbacon ordinary shares to be issued to the Civcon Sellers in terms of the provisions of paragraph 2.1.3.2.2 subject to the Civcon acquisition agreement becoming unconditional, on or before 15 December 2009.

The above suspensive conditions shall, to the extent that they have not been fulfilled or waived on or before 15 December 2009, be extended to 31 January 2010, subject to the written consents of Erbacon, Henning and the Ramsay Family Trust, which consents may not be unreasonably withheld or delayed.

## 2.2 The Erbacon preference share issue to Medu Capital

### 2.2.1 The business of Medu Capital

Medu Capital is a professional investment management company with a focus on private equity. Its principal activities include sourcing and evaluation of investment opportunities, execution of investments, active involvement and the realisation of investments. Medu Capital is majority owned and managed by black South Africans and embraces the spirit of a scorecard approach to BEE. The significant outcome of Medu Capital's BEE policies include a 64% direct and indirect black ownership. Medu Capital generally partners established businesses that require equity risk capital and/or BEE partners.

### 2.2.2 The preference share subscription agreement

- 2.2.2.1 On 21 September 2009, Erbacon had entered into a subscription agreement with Medu Capital, as the BEE financing party to the transaction, subject to certain suspensive conditions as set out in paragraph 2.2.5 below.
- 2.2.2.2 In terms of the subscription agreement, Medu Capital will subscribe for 67 410 000 fully paid-up convertible redeemable and participating preference shares with a par value of R0.01 each in Erbacon at a price of R1.68 per preference share.
- 2.2.2.3 The issue of the preference shares will result in the capitalisation of Erbacon to the extent of R113 248 800. R85 368 040 of such subscription amount will specifically be utilised as part of the total cash consideration payable to the Civcon vendors in terms of the Civcon acquisition agreement. The remaining amount may be used as further capital to pursue additional opportunities within the construction sector.

### 2.2.3 Terms of the preference share issue

- 2.2.3.1 The salient terms of the Erbacon preference shares are set out in further detail in Annexure 5 to this circular. A copy of the subscription agreement will be available for inspection as set out in paragraph 16 of this circular.
- 2.2.3.2 Save as otherwise set out in Annexure 5, the preference shares shall rank *pari passu* in all respects with the ordinary shares in Erbacon but shall be unlisted. The preference shareholders shall be repaid the issue price in preference to the repayment of any amounts to Erbacon ordinary shareholders in the event of the de-registration, winding-up or judicial management of Erbacon. The preference shareholders will be entitled to their proportionate share of any ordinary dividends declared by Erbacon but will not be entitled to any specific pre-determined preference share dividend rate.
- 2.2.3.3 In respect of any matter where Erbacon ordinary shareholders are required to vote in terms of the Listings Requirements, each preference shareholder shall, in respect of the preference shares held by it, be entitled to that proportion of votes in the company which the aggregate par value of the preference shares held by it bears to

the aggregate amount of the par value of all shares issued by the company but the votes of all preference shareholders will be limited to a maximum of 25% less one vote.

- 2.2.3.4 Each preference share shall, at the election of the preference shareholder, be convertible into the equivalent of one ordinary share of Erbacon at the date of conversion thereof (taking into account any share splits and share consolidations as may have occurred).
- 2.2.3.5 If the preference shares have not been converted into Erbacon ordinary shares at the end of five years from their date of issue, Erbacon shall be obliged to immediately redeem such preference shares at the issue price thereof.
- 2.2.3.6 In order to protect preference share investor capital, the preference shareholders shall be entitled upon the occurrence of an actionable event, details of which are contained in paragraph 7 of Annexure 5, to procure Erbacon to redeem the preference shares at the redemption amount, or procure the conversion of the preference shares into ordinary shares as set out in paragraph 2.2.3.4 above. All the terms of the subscription agreement are subject to dispute resolution and remedy as set out in terms of such agreement.
- 2.2.3.7 The preference shareholders shall, as provided for in the preference share terms, included as Annexure 5 hereto, be entitled to appoint two directors to the board of Erbacon and remove and/or replace any directors so appointed.
- 2.2.3.8 Further to the subscription agreement, in terms of the tie-in agreement identified shareholders have undertaken that without the prior written consent of the preference shareholder, the identified shareholders will not sell or encumber any of the blocked shares held by them for a period of 5 years from the preference share issue date. The identified shareholders may however dispose of such blocked shares *pro rata* to the preference shares disposed of by the preference shareholders. Each identified shareholder may be entitled to sell any of his blocked shares to a *bona fide* 3<sup>rd</sup> party but only if the Erbacon ordinary share price exceeds R7.00 per share and the 3<sup>rd</sup> party makes an offer to purchase a *pro rata* portion of the ordinary shares (and preference shares which each preference shareholder may be entitled to convert into ordinary shares) held by the preference shareholders. In terms of the tie-in agreement, Medu Capital has also undertaken not to convert the preference shares held by it into ordinary shares within the first 3 years of the issue date, save as result of an actionable event, and also not to dispose of the preference shares held during a period of 3 years from the issue date, unless to a party that does not adversely affect the BEE status of the company, or to a party that is not a competitor of Erbacon.
- 2.2.3.9 The identified shareholders have further provided an undertaking to Erbacon, that in terms of the tie-in agreement they would comply, *inter alia*, with the terms of the tie-in agreement, that they will not amend or cancel the tie-in agreement without the prior written consent of Erbacon, that they will inform Erbacon of any breach by Medu Capital of the terms of the tie-in agreement and the identified shareholders further undertake to Erbacon to enforce their rights and compel Medu Capital to comply with Medu Capital's obligations in terms of the tie-in agreement.

#### 2.2.4 **The effective date of the Erbacon preference share issue**

The effective date of the Erbacon preference share issue is the 15<sup>th</sup> business day after the fulfilment or waiver, as the case may be, of all the suspensive conditions as stipulated in the subscription agreement.

#### 2.2.5 **Suspensive conditions to Erbacon preference share issue**

The subscription of the Erbacon preference shares by Medu Capital is subject, *inter alia*, to the fulfilment of the following remaining suspensive conditions:

- 2.2.5.1 on or before 15 December 2009 (or such later date being not later than 31 January 2010 as may be consented to in writing by all the parties to the subscription agreement, which consent may not be unreasonably withheld or delayed);

- 2.2.5.1.1 the approval by the requisite majority of Erbacon shareholders to create the preference shares, amend the Memorandum of Association of the company to prevent the amendment, variation or alteration of the preference share terms without the approval of at least 75% of the preference shareholders and to conclude and implement the subscription agreement and the tie-in agreement;
- 2.2.5.1.2 all such regulatory approvals as may be necessary in order to conclude and implement the subscription agreement and the tie-in agreement will have been obtained, including the approvals, if necessary, of the Competition Authorities, the JSE and the SRP;
- 2.2.5.2 on or before 31 October 2009, the JSE will have granted its written approval to the preference share terms and to the voting of the Erbacon preference shares in respect of all matters where shareholders of the company are required to vote in terms of the Listings Requirements; and
- 2.2.5.3 confirmation by Erbacon that no unremedied (if possible) breach of any obligation, representation and/or warranty contained in any of the subscription agreement and tie-in agreement, or any material adverse change as defined in the subscription agreement, will have occurred as at the date and time of the last of the other suspensive conditions to be fulfilled.

### **3. RATIONALE FOR THE TRANSACTION**

It has been Erbacon's stated strategic objective to build a sustainable business to participate in South Africa's infrastructural development over the next decade and beyond. The conclusion of the transaction will result in Erbacon diversifying into the private construction (mining) sector, obtaining geographic diversification, obtaining sufficient critical mass to be able to tender and be more competitive for larger and more profitable contracts and to obtain a much-needed strategic BEE financing partner by the introduction of Medu Capital.

### **4. PURPOSE OF THE CIRCULAR AND REVISED LISTING PARTICULARS**

- 4.1 The purpose of this circular is to:
  - 4.1.1 provide Erbacon shareholders with information on the transaction and the manner in which it will be implemented;
  - 4.1.2 convene a general meeting of Erbacon shareholders in order to pass such resolutions as are necessary to authorise and implement the transaction.
- 4.2 In terms of the Listings Requirements, as the total consideration payable for the Civcon acquisition when measured against the market capitalisation of Erbacon, immediately prior to the announcement released on SENS on 22 September 2009, was calculated to be greater than 100%, the Civcon acquisition is deemed to be a reverse take-over and therefore Erbacon is required to prepare revised listing particulars and make an application to the JSE to list on the Alt<sup>x</sup> as though Erbacon, post the implementation of the transaction, was a new applicant. Annexure 7 to this circular contains the revised listing particulars of Erbacon.

### **5. ALTERATION OF AUTHORISED SHARE CAPITAL AND AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION**

- 5.1 At the last practicable date, Erbacon has an authorised ordinary share capital of R3 000 000, consisting of 300 000 000 ordinary shares of R0.01 each of which 136 803 175 ordinary shares are in issue.
- 5.2 In terms of the transaction, post the issue of shares to Civcon vendors as settlement of the purchase consideration in terms of the Civcon acquisition, Erbacon will have insufficient unissued authorised shares to implement the conversion of the preference shares into ordinary shares as set out in paragraph 2.2.3.4 above.

- 5.3 In order to give effect to the subscription agreement, Erbacon shareholders will be required to approve the creation and issue of 67 410 000 convertible redeemable and participating preference shares with a par value of R0.01 each.
- 5.4 A special resolution will be proposed for consideration at the general meeting in order to increase the authorised share capital of Erbacon by the creation of 200 000 000 new ordinary shares with a par value of R0.01 each and the creation of 67 410 000 convertible redeemable and participating preference shares with a par value of R0.01 each and to amend the Articles of Association of Erbacon to incorporate the terms of such Erbacon preference shares.
- 5.5 Save as otherwise set out in Annexure 5 to this circular, all the authorised and unissued preference shares, will rank *pari passu* with ordinary shares in all respects.
- 5.6 A further special resolution will be proposed for consideration at the general meeting in order to amend the Memorandum of Association of the company to prevent the amendment, variation or alteration of the preference share terms without the approval of the holders of at least 75% of the preference shares.
- 5.7 For the special resolutions contemplated in paragraphs 5.4 and 5.6 above to become effective, the Companies Act prescribes the approval of a majority, representing not less than 75% of the votes exercisable by shareholders, entitled to vote thereon, present and voting, either in person or by proxy, at a general meeting and such resolutions being registered by the Registrar of Companies in terms of the Companies Act.

## 6. DECLARATION OF INTERIM DIVIDEND

Pursuant to paragraph 2.1.2.5 above, the board of Erbacon have deemed it appropriate, further to the maiden final dividend of 5.5 cents per share, to declare a further interim dividend of 21.93 cents per share, in order to reward existing Erbacon shareholders on past earnings in Erbacon.

Notice is hereby given that an interim dividend number 2 of 21.93 cents per share was declared on 28 October 2009, payable to ordinary shareholders in terms of the proposed timetable which payment is subject to the fulfilment, as the case may be, of all suspensive conditions:

Action	Date
Finalisation date for Erbacon interim dividend	Fulfilment date
Last day to trade to qualify for Erbacon interim dividend	Fulfilment date plus 5 business days
Shares trade ex-dividend	Fulfilment date plus 6 business days
Record date to be entitled to Erbacon interim dividend	Fulfilment date plus 10 business days
Payment date of Erbacon interim dividend	Fulfilment date plus 11 business days

## 7. PRO FORMA FINANCIAL INFORMATION

The unaudited *pro forma* financial effects of the transaction set out below are the responsibility of the directors of Erbacon. The unaudited *pro forma* financial effects are presented in a manner consistent with the basis on which the historical financial information has been prepared in terms of accounting policies. The unaudited *pro forma* financial effects have been presented for illustrative purposes only and, because of their nature, may not give a fair reflection of Erbacon's financial position nor of the effect on future earnings post the implementation of the transaction.

The unaudited *pro forma* financial effects as set out below should be read in conjunction with the unaudited *pro forma* balance sheet and income statement as set out in Annexure 3, together with the assumptions upon which the financial effects are based, as indicated in the notes thereto in Annexure 3.

The independent reporting accountant's assurance report relating to the unaudited *pro forma* financial information of the transaction is set out as Annexure 4 to this circular.

The table below sets out the unaudited *pro forma* financial effects of the transaction on Erbacon, based on the published results of Erbacon for the year ended 28 February 2009.

	<b>Audited 28 February 2009 (cents)</b>	<b>Unaudited <i>Pro forma</i> after transaction (cents)</b>	<b>Change (%)</b>
Earnings per share	40.64	55.60	36.83
Headline earnings per share	40.11	56.23	40.21
Diluted earnings per share	40.64	37.80	(6.97)
Diluted headline earnings per share	40.11	38.20	(4.75)
Net asset value per share	155.33	226.16	45.60
Net tangible asset value per share	117.11	86.98	(25.73)

#### 8. **GENERAL MEETING**

A general meeting of Erbacon shareholders will be held at 10:00 on Thursday, 19 November 2009 at the registered office of Erbacon, 2 Montreal Road, Glen Anil, 4051 in order to consider and, if deemed fit, pass with or without modification, the ordinary and special resolutions required to give effect to the transaction.

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## SALIENT DATES AND TIMES

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**2009**

Circular posted to Erbacon shareholders on	Wednesday, 28 October
Last day to lodge forms of proxies in respect of the general meeting by 10:00 on	Tuesday, 17 November
General meeting of Erbacon shareholders to be held at 10:00 on	Thursday, 19 November
Results of the general meeting released on SENS on	Thursday, 19 November
Special resolutions lodged at the Registrar of Companies on	Thursday, 19 November
Fulfilment of all conditions precedent and announcement thereof on SENS, including disclosure of finalisation information of interim dividend to Erbacon shareholders <sup>(2)</sup>	Fulfilment date
JSE lists the consideration shares on or about	Monday, 14 December

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**Notes:**

- (1) The above dates and times are subject to amendment. Details of any such amendment will be released on SENS.
- (2) The declaration of the Erbacon interim dividend as set out in paragraph 8 of this circular is subject to the fulfilment of all conditions precedent in terms of the Civcon acquisition agreement. As such an announcement setting out the updated timetable regarding the payment of such dividend will be made to Erbacon shareholders on SENS on fulfilment of all suspensive conditions.

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## DEFINITIONS AND INTERPRETATION

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In this circular, unless the context indicates otherwise, reference to the singular shall include the plural and *vice versa*, words denoting one gender include the others, words and expressions denoting natural persons include juristic persons and associations of persons and the words and expressions in the first column have the meanings stated opposite them in the second column.

<b>“8 Mile”</b>	8 Mile Investments 41 (Proprietary) Limited, registration number 2004/003890/07, a private company incorporated in South Africa which is 100% owned by Hedley and which is, prior to the transaction, in terms of the Listings Requirements, a material shareholder in Erbacon (holding 10.63% of the Erbacon ordinary shares);
<b>“actionable event”</b>	all events as set out in paragraph 7.1 of Annexure 5 (setting out the terms of the preference shares);
<b>“Alt”</b>	the Alternative Exchange of the JSE;
<b>“announcement”</b>	Erbacon’s announcement released on SENS on 22 September 2009 advising shareholders of the transaction;
<b>“Armstrong” or “Dave Armstrong”</b>	David Graham Armstrong with identity number 610712 5040 086;
<b>“Armstrong Construction”</b>	Davgram Construction (Proprietary) Limited, registration number 2007/029962/07, trading as Armstrong Construction, a private company incorporated in South Africa, having been converted from a close corporation with registration number 1993/018614/23 on 13 October 2007, forming the subject matter of the Armstrong Construction acquisition;
<b>“Armstrong Construction acquisition”</b>	the acquisition by Erbacon, effective 29 February 2008, in terms of a partial share-for-share exchange between Erbacon and the Armstrong vendors, whereby Erbacon acquired all of the issued shares in and claims against Armstrong Construction for a purchase consideration settled partly in cash and partly by way of the issue of Erbacon ordinary shares, which resulted in Armstrong Construction becoming a wholly-owned subsidiary of Erbacon;
<b>“Armstrong vendors”</b>	collectively, Armstrong (as to 70%) and Ric-Hansen (as to 30%);
<b>“BEE”</b>	black economic empowerment, as defined in the BBBEE Act;
<b>“BBBEE Act”</b>	Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003), as amended;
<b>“blocked shares”</b>	means, in respect of: <ul style="list-style-type: none"><li>• the Civcon vendors, all the Erbacon ordinary shares which may be issued to that Civcon vendor pursuant to, arising out of or in connection with the Civcon acquisition agreement and the transaction contemplated in that agreement;</li><li>• Charter Chemicals, 70% of all Erbacon ordinary shares which will be issued to Charter Chemicals pursuant to, arising out of or in connection with the Civcon agreement and the transaction contemplated in that agreement;</li><li>• Erskine, 33 920 250 Erbacon ordinary shares;</li><li>• Boraine, 12 537 250 Erbacon ordinary shares;</li><li>• Armstrong, 8 926 667 Erbacon ordinary shares;</li><li>• Ric-Hansen, 3 268 144 Erbacon ordinary shares; and</li><li>• 8 Mile, 14 537 250 Erbacon ordinary shares;</li></ul>

<b>“Boraine” or “Frans Boraine”</b>	Mr Frans Petrus Boraine with identity number 710222 5108 080;
<b>“business day”</b>	any day, other than a Saturday, Sunday or official public holiday in South Africa;
<b>“certificated shareholders”</b>	Erbacon shareholders who hold certificated shares;
<b>“certificated shares”</b>	Erbacon ordinary shares which have not yet been dematerialised, title to which is represented by a share certificate or other document of title;
<b>“Charles Ramsay” or “Ramsay”</b>	Charles Henry Alan Ramsay with identity number 510330 5112 085;
<b>“Charter Chemicals”</b>	Charter Chemicals (Proprietary) Limited, registration number 1991/005919/07, a private company incorporated in South Africa and wholly owned by Hedley, acting through its Charter Equities division;
<b>“circular”</b>	this bound document dated 28 October 2009 to Erbacon shareholders, including all annexures and enclosures hereto;
<b>“Civcon”</b>	Civcontract Civils (Proprietary) Limited, registration number 1972/005850/07, a private company incorporated in South Africa and its subsidiaries;
<b>“Civcon 2010 financial statement completion date”</b>	the 3 <sup>rd</sup> business day after the date on which the audited annual financial statements of Civcon for the financial year ending 28 February 2010 are deemed to be final and binding provided that such date shall not be later than 180 days after 28 February 2010;
<b>“Civcon 2011 financial statement completion date”</b>	the 3 <sup>rd</sup> business day after the date on which the audited annual financial statements of Civcon for the financial year ending 28 February 2011 are deemed to be final and binding provided that such date shall not be later than 180 days after 28 February 2011;
<b>“Civcon acquisition”</b>	the acquisition by Erbacon of the entire issued share capital of and all claims on shareholders’ loan account against Civcon from the Civcon vendors in accordance with the terms of the Civcon acquisition agreement;
<b>“Civcon acquisition agreement” or “acquisition agreement”</b>	the sale of shares agreement, dated 21 September 2009, between Erbacon and the Civcon vendors, and a subsequent addendum thereto, dated 8 October 2009, in terms of which the Civcon acquisition and terms thereof were agreed;
<b>“Civcon claims”</b>	all claims on loan account of the Civcon vendors against Civcon as at the effective date;
<b>“Civcon shares”</b>	the entire issued share capital of Civcon as at the effective date, comprising 100 000 ordinary shares of R0.001 each;
<b>“Civcon vendors” or “vendors”</b>	Henning, the Ramsay Family Trust, André de Graaf (identity number 780619 5143 089), Johannes Jacobus Looek (identity number 760206 5127 082), Geoffrey Norman Sproule (identity number 420411 5065 082), Innes Louw (identity number 700922 5229 081), Wiebe Top (identity number 680212 5122 088) and Burgerd Christiaan van der Merwe (identity number 710505 5120 083);
<b>“civils”</b>	civil engineering;
<b>“Companies Act”</b>	the Companies Act, 1973 (Act 61 of 1973), as amended;
<b>“the common monetary area”</b>	South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland;

<b>“commission shares”</b>	that portion of the consideration shares due to Charter Chemicals, of which Hedley is a sole shareholder and director, by the Civcon vendors as a commission in terms of brokering the transaction and as further set out in paragraph 11.3.4;
<b>“consideration shares”</b>	an aggregate maximum number of 101 972 662 Erbacon ordinary shares to be allotted and issued to the Civcon vendors and Charter Chemicals at an issue price of R1.6807 per share in respect of the Civcon acquisition, subject to achievement of the profit warranties as set out in the Civcon acquisition agreement;
<b>“CSDP”</b>	a central securities depository participant registered in terms of the Securities Services Act, 2004 (Act 36 of 2004), as amended, with whom a beneficial holder of shares holds a dematerialised share account;
<b>“custody agreement”</b>	the agreement which regulates the relationship between the CSDP or broker and each beneficial holder of dematerialised shares;
<b>“dematerialised shares”</b>	Erbacon ordinary shares which have been incorporated into the Strate system and which are no longer evidenced by certificates or other physical documents of title;
<b>“directors” or “board of directors”</b>	the directors of Erbacon, details of whom are set out in paragraph 11.1;
<b>“documents of title”</b>	share certificates, certified transfer deeds, balance receipts or any other documents of title to certificated shares acceptable to Erbacon;
<b>“effective date”</b>	the 20 <sup>th</sup> business day after the fulfilment or waiver, as the case may be, of all the suspensive conditions as stipulated in the Civcon acquisition agreement;
<b>“effective date of Erbacon preference share issue”</b>	the 15 <sup>th</sup> business day after the fulfilment or waiver, as the case may be, of all the suspensive conditions as stipulated in the subscription agreement;
<b>“emigrant”</b>	any emigrant from South Africa whose address is outside South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland;
<b>“the enlarged Erbacon group” “the enlarged group”</b>	collectively, Erbacon and its subsidiaries, including Civcon, post the implementation of the transaction;
<b>“Erbacon” or “company”</b>	Erbacon Investment Holdings Limited, registration number 2007/014490/06, a public company incorporated in South Africa and listed on the Alt*;
<b>“Erbacon Construction”</b>	Erbacon Construction (Proprietary) Limited, registration number 2007/026239/07, a private company incorporated in South Africa, having been converted from a close corporation with registration number 1987/009739/23 on 12 September 2007, a wholly-owned subsidiary of Erbacon;
<b>“the Erbacon disposal”</b>	the disposal entered into between the prior shareholders, Paladin and 8 Mile in terms of an agreement dated 31 October 2007, whereby Erskine (holding 70%) and Boraine (holding 30%) disposed of 50%, in aggregate, of all of the issued shares in and claims against Erbacon to Paladin (as to 35%) and 8 Mile (as to 15%);
<b>“the Erbacon group” or “the group”</b>	collectively, Erbacon and its subsidiaries;
<b>“Erbacon ordinary shares”</b>	ordinary shares with a par value of R0.01 each in the share capital of Erbacon and which shares are listed on the Alt*;
<b>“Erbacon preference shares” or “preference shares”</b>	67 410 000 fully paid-up convertible redeemable and participating preference shares with a par value of R0.01 each in the share capital of Erbacon, the terms of which are set out in Annexure 5 to this circular;

<b>“Erbacon preference share issue”</b>	the issue of 67 410 000 Erbacon preference shares with a par value of R0.01 each to Medu Capital at an issue price of R1.68 per preference share;
<b>“Erbacon Small Plant”</b>	Erbacon Small Plant (Proprietary) Limited, registration number 2007/026441/07, a private company incorporated in South Africa, having been converted from a close corporation with registration number 1988/007849/23 on 13 September 2007, a wholly-owned subsidiary of Erbacon;
<b>“Erbacon Share Incentive Trust”</b>	The Erbacon Investment Holdings Employee Share Incentive Trust, a trust established in South Africa with Master’s reference number IT578/2008, established to incentivise Erbacon employees to promote continued growth in the company;
<b>“Erbacon restructuring”</b>	the restructuring of the Erbacon group prior to its listing on Alt <sup>x</sup> in terms of which the company had undertaken the following: <ul style="list-style-type: none"> <li>• the conversion of Erbacon Construction and Erbacon Small Plant from close corporations to private companies during the course of September 2007;</li> <li>• the conversion of Erbacon from a private company to a public company during the course of September 2007;</li> <li>• the interposition of Erbacon as the new holding company of Erbacon Construction and Erbacon Small Plant in terms of the Erbacon share exchange; and</li> <li>• the Erbacon disposal;</li> </ul>
<b>“Erbacon share exchange”</b>	the acquisition by Erbacon, in terms of a share-for-share exchange, entered into between Erbacon and the vendors of Erbacon Construction and Erbacon Small Plant, being Erskine and Boraine, in terms of an agreement dated 19 October 2007, whereby Erbacon issued, in aggregate, 96 915 000 Erbacon shares at R2.00 per share for an aggregate exchange consideration of R193 830 000 to the aforementioned vendors, in such proportions and on such terms as is more fully disclosed in Annexure 6, in exchange for the transfer by such vendors of all of the issued shares in and claims against Erbacon Construction and Erbacon Small Plant to Erbacon;
<b>“Erskine” or “Dave Erskine”</b>	David Boyd Erskine with identity number 540102 5112 080;
<b>“Exchange Control Regulations”</b>	the Exchange Control Regulations of South Africa;
<b>“excluded parties”</b>	8 Mile, a company controlled by Hedley and his associates, whose votes in Erbacon ordinary shares will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on resolutions contained in the notice of general meeting which forms part of this circular, for the reasons as set out in paragraph 11.3.4 of this circular;
<b>“fulfilment date”</b>	the date on which all suspensive conditions to the Civcon acquisition agreement and the preference share subscription agreement, collectively, have been fulfilled and released on SENS and should such date not fall on a Friday, then the first Friday post the fulfilment date of all suspensive conditions, or if such Friday is a public holiday then the first business day immediately preceding the public holiday;
<b>“FSB”</b>	Financial Services Board;
<b>“general meeting”</b>	the general meeting of shareholders to be held at 10:00 on Thursday, 19 November 2009 at the registered office of Erbacon, 2 Montreal Road, Glen Anil, 4051, convened in terms of the notice of general meeting attached to and forming part of this circular;
<b>“IFRS”</b>	International Financial Reporting Standards;

<b>“issue date”</b>	the date of the allotment and issue of the Erbacon preference shares and the registration thereof in the name of the subscribers;
<b>“issue price”</b>	in respect of each Erbacon preference share, an aggregate issue price of R1.68 per preference share, representing a premium to the Erbacon ordinary share price of R1,40 per share;
<b>“identified shareholders”</b>	collectively, the Civcon vendors, Erskine, Boraine, Armstrong, 8 Mile, Charter Chemicals and Ric-Hansen;
<b>“identified shareholder undertaking”</b>	an undertaking, dated 21 September 2009, given by the identified shareholders to Erbacon, whereby the identified shareholders, <i>inter alia</i> , undertake to Erbacon that they will enforce all terms of the tie-in agreement with Medu Capital;
<b>“JSE”</b>	the JSE Limited, registration number 2005/022939/06, a public company incorporated in South Africa and which is licensed as an exchange in terms of the Securities Services Act, 2004 (Act 36 of 2004);
<b>“last practicable date”</b>	the last practicable date prior to finalisation of this circular, which date was Wednesday, 21 October 2009;
<b>“Lex Henning” or “Henning”</b>	Alexis Hertzog Henning with identity number 530723 5081 084;
<b>“Listings Requirements”</b>	the Listings Requirements of the JSE;
<b>“Hedley” or “Mark Hedley”</b>	Sydney Mark Hedley with identity number 550617 5148 080;
<b>“Medu Capital”</b>	Medu Capital Fund II (Proprietary) Limited, registration number 2005/013847/07, a private company incorporated in South Africa, acting in its capacity as general partner to the Medu Capital Fund II Partnership and in its capacity as corporate trustee of the Medu II Development Fund Trust, and hereinafter referred to, collectively, as the subscriber of the Erbacon preference shares on behalf of the Medu Capital Fund II Partnership and Medu II Development Fund Trust in terms of the Erbacon preference share issue;
<b>“Medu Capital Fund II Partnership” or “Medu Partnership”</b>	Medu Capital Fund II Partnership, an en commandite partnership established in South Africa of which Medu Capital is the general partner and which partnership will subscribe for 50% of the Erbacon preference share issue;
<b>“Medu II Development Fund Trust” or “Medu Trust”</b>	Medu II Development Trust Fund, a trust established in South Africa with Master’s reference number IT1293/07, acting through Medu Capital as its trustee for the time being and which trust will subscribe for 50% of the Erbacon preference share issue;
<b>“non-resident”</b>	a person whose registered address is outside the common monetary area;
<b>“own-name registration”</b>	the registration of shareholders who hold shares that have been dematerialised and are recorded by the CSDP on the sub-register kept by that CSDP in the name of such shareholder;
<b>“Paladin Capital”</b>	Paladin Capital Limited, registration number 2006/011238/06, a public company incorporated in South Africa and listed on the Alt <sup>x</sup> and the preferred investment vehicle and subsidiary of PSG Group, holding 25.51% of the issued share capital of Erbacon prior to the implementation of the transaction;
<b>“preference shareholder”</b>	the holder of Erbacon preference shares;
<b>“preference share terms”</b>	the terms as contained in Schedule C of the subscription agreement and as Annexure 5 to this circular, setting out the terms of the Erbacon preference shares;
<b>“prior shareholders”</b>	collectively, Erskine (as to 70%) and Boraine (as to 30%);

<b>“PSG Capital”</b>	PSG Capital (Proprietary) Limited, registration number 2006/015817/07, a private company incorporated in South Africa and the corporate adviser to Erbacon;
<b>“PSG Group”</b>	PSG Group Limited, registration number 1970/008484/06, a public company incorporated in South Africa and listed on the JSE;
<b>“purchase consideration”</b>	the purchase price payable by Erbacon to the Civcon vendors for the Civcon Shares and the Civcon Claims of an aggregate maximum amount of R266 804 410 and subject to adjustment as set out in paragraph 3.1.5 of this circular;
<b>“PWC” or “independent reporting accountants to Erbacon” or “auditors to Erbacon”</b>	PricewaterhouseCoopers Inc., registration number 1998/012055/21, registered auditors and independent reporting accountants to Erbacon;
<b>“Ramsay Family Trust”</b>	the trustees for the time being of the Ramsay Family Trust, an <i>inter vivos</i> trust duly established in South Africa with Master’s reference number IT1444/98;
<b>“Rand” or “R”</b>	South African Rand;
<b>“redemption amount”</b>	<p>means the amount payable in respect of each Erbacon preference share, being:</p> <ul style="list-style-type: none"> <li>• in the case of redemption upon the occurrence of an actionable event, an amount equal to the greater of: <ul style="list-style-type: none"> <li>– the issue price (taking into account any share consolidations and share splits that may have occurred since the issue date); and</li> <li>– the ninety-day VWAP at which Erbacon ordinary shares have traded (on the securities exchange operated by the JSE on which the Erbacon ordinary shares are listed at the time) immediately prior to the redemption date,</li> </ul> <p>in each case together with interest thereon at the prime rate, calculated from the redemption date to the date of payment of the redemption amount, both days inclusive; save that, notwithstanding the foregoing, if any actionable event as contemplated in 7.1.4.2, 7.1.16 or 7.1.17 of the preference share terms set out in Annexure 5 occurs, the redemption amount shall be the issue price (taking into account any share consolidations and share splits that may have occurred since the issue date), together with interest thereon at the prime rate, calculated from the redemption date to the date of payment of the redemption amount, both days inclusive; or</p> </li> <li>• in the case of redemption in any instance other than upon the occurrence of an actionable event, and amount equal to the issue price plus interest thereon at the prime rate, calculated from the redemption date to the date of payment of the redemption amount, both days inclusive;</li> </ul>
<b>“redemption date”</b>	in respect of any Erbacon preference share, the date on which the preference share is redeemed being the earlier of the 5 <sup>th</sup> anniversary of the issue date; and the date of receipt of written notice from the holder thereof demanding redemption thereof on the occurrence of an actionable event;
<b>“register”</b>	the register of Erbacon shareholders;
<b>“reporting accountants” or “auditors to Civcon”</b>	Mazars Moores Rowland, practice number 900222, registered auditors to Civcon and independent reporting accountants to Erbacon;

<b>“revised listing particulars”</b>	the revised listing particulars of Erbacon, as required by the Listings Requirements and as set out in Annexure 7 to this circular;
<b>“Ric-Hansen”</b>	Wayne Michael Ric-Hansen with identity number 620512 5055 086;
<b>“SENS”</b>	the Securities Exchange News Service of the JSE;
<b>“shareholders” or “Erbacon shareholders”</b>	registered holders of Erbacon shares;
<b>“South Africa”</b>	the Republic of South Africa;
<b>“SRP”</b>	Securities Regulation Panel;
<b>“STC”</b>	Secondary Tax on Companies;
<b>“Strate”</b>	Strate Limited, registration number 1998/022242/06, the settlement and clearing system used by the JSE and which is a registered central securities depository in terms of the Securities Services Act, 2004 (Act 36 of 2004), as amended;
<b>“subsidiaries”</b>	the wholly-owned subsidiaries of Erbacon, further details of which are set out in Appendix 3 of Annexure 7 to this circular;
<b>“subscription agreement” or “preference share subscription agreement”</b>	the preference share subscription agreement, dated 21 September 2009, between Medu Capital and Erbacon, and any subsequent addendums thereto, in terms of which Erbacon will create and issue 67 410 000 fully paid-up convertible redeemable and participating preference shares with a par value of R0.01 each to Medu Capital, at an issue price of R1.68 per preference share and incorporating the preference share terms;
<b>“suspensive conditions”</b>	the suspensive conditions as set out in paragraphs 3.1.4 and 3.2.5 of this circular;
<b>“tie-in agreement”</b>	the tie-in agreement, dated 21 September 2009, entered into by Medu Capital and the identified shareholders regulating, <i>inter alia</i> , the sale and conversion by Medu Capital of their holdings of preference shares and the sale by the identified shareholders of their holdings of ordinary shares;
<b>“transaction”</b>	collectively, the Civcon acquisition, the alteration of the authorised share capital of Erbacon, the creation and issue of the Erbacon preference shares, the amendment to the Memorandum and Articles of Association of Erbacon to incorporate the terms of the preference share issue, and incorporating the proposed dividend payments as set out in paragraphs 3.1.2.4 and 3.1.2.5;
<b>“transfer secretaries”</b>	Computershare Investor Services (Proprietary) Limited, registration number 2004/003647/07, a private company incorporated in South Africa;
<b>“VAT”</b>	Value-Added Taxation; and
<b>“VWAP”</b>	volume weighted average price.



# ERBACON INVESTMENT HOLDINGS LIMITED

(Formerly Friedshel 884 Limited)

(Incorporated in the Republic of South Africa)

(Registration number 2007/014490/06)

Share code: ERB ISIN: ZAE000111571

("Erbacon" or "the company")

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## Directors

A Dawson (*Chairman*)\*

D B Erskine (*CEO*)

D G Armstrong

W M Ric-Hansen

F P Boraine\*

R K Braithwaite (*Financial Director*)

J A Holtzhausen\*

S Totaram\*

S M Hedley\*

\* Non-executive

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## CIRCULAR TO ERBACON SHAREHOLDERS

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### 1. INTRODUCTION

- 1.1 In the announcement to Erbacon shareholders, released on SENS on 22 September 2009, shareholders were advised that:
- 1.1.1 Erbacon had entered into an agreement, on 21 September 2009, with the Civcon vendors in terms of which Erbacon would acquire all the shares in the issued share capital of and all claims on shareholders' loan account against Civcon from the Civcon vendors;
- 1.1.2 Erbacon had also entered into a share subscription agreement, on 21 September 2009, with Medu Capital in terms of which Medu Capital will subscribe for 67 410 000 fully paid-up convertible, redeemable and participating preference shares with a par value of R0.01 per share at an issue price of R1.68 per preference share. Immediately following the Erbacon preference share issue, Medu Capital as the BEE financing partner will have an economic interest of approximately 29.41% in Erbacon that will enhance Erbacon's overall BEE ownership status.
- 1.1.3 The preference shares shall, subject to 3.2.3.3 below, rank *pari passu* with the ordinary shares, will be unlisted and will be entitled to their proportionate share of any ordinary dividends declared by Erbacon. Erbacon preference shareholders shall in respect of the preference shares held by them, be entitled to that proportion of votes in the company which the aggregate par value of the preference shares held by them bears to the aggregate amount of the par value of all shares issued by the company but will be limited to a maximum of 25% less one vote. Each preference share shall further at the election of the preference shareholder, be convertible into the equivalent of one ordinary share of Erbacon at the date of conversion thereof (taking into account any share splits and share consolidations as may have occurred).

### 2. INFORMATION ON ERBACON

Erbacon comprising Erbacon Construction, Erbacon Small Plant and Armstrong Construction, is a medium-to-large sized player in the national construction industry whose comprehensive suite of civil engineering, commercial and industrial building, and construction and plant hire services is already evident in many of the major projects being undertaken throughout South Africa. Erbacon listed on the AltX on 7 December 2007.

### 3. PARTICULARS OF THE TRANSACTION

#### 3.1 The Civcon acquisition

##### 3.1.1 The business of Civcon

Civcon commenced business as a civils contractor in 1980 on the Free State Goldfields. Civcon operates in the mining construction and heavy industrial markets with its client base covering the majority of the mining houses, fertiliser and petro chemical companies and heavy industry. Civcon's key services include general civil engineering construction, industrial and process plants, mining (surface and underground), mining infrastructure and design and construction of turnkey industrial projects.

##### 3.1.2 Terms of the Civcon acquisition

3.1.2.1 On 21 September 2009, Erbacon entered into an agreement with the Civcon vendors in terms of which Erbacon will acquire all the shares in the issued share capital of and all claims on shareholders' loan account against Civcon from the Civcon vendors subject, *inter alia*, to certain suspensive conditions as set out in paragraph 3.1.4 below.

3.1.2.2 The purchase price payable by Erbacon in terms of the Civcon acquisition is an aggregate maximum amount of R266 804 410.

3.1.2.3 The effective date of the transaction is the 20<sup>th</sup> business day after the fulfilment or waiver, as the case may be, of all the suspensive conditions as stipulated in the Civcon acquisition agreement.

3.1.2.4 Prior to the effective date, Civcon shall be entitled to declare and pay dividends, make distributions, make payments in terms of section 90 of the Companies Act, and/or effect repayments of loan accounts to the Civcon vendors out of its cash resources to a maximum aggregate amount of R25 000 000 on the basis that the Civcon vendors are satisfied, acting reasonably, that after such payments Civcon shall be able to meet its future 12-month working capital requirements to enable Civcon to achieve the warranted profits as set out in paragraph 3.1.5 below.

3.1.2.5 In terms of the said agreement, Erbacon shall also be entitled to declare and pay dividends to its shareholders, subject to the fulfilment of all suspensive conditions to the transaction, of a maximum aggregate amount of R30 000 000, provided that Erbacon shall not be entitled to declare, any further dividends prior to the issue of Erbacon ordinary shares to the Civcon vendors in terms of paragraph 3.1.5.3 below, which date of issue shall not be later than 10 business days after 31 August 2010.

3.1.2.6 The Civcon vendors shall be entitled to appoint two directors to the board of Erbacon, in terms of the Civcon acquisition agreement, until the later of the end of the profit warranty period as set out in the Civcon acquisition agreement; and the earlier of the termination of the tie-in agreement or the date on which the Civcon vendors hold in aggregate less than 10% of the issued ordinary share capital of Erbacon.

##### 3.1.3 Civcon vendors

The vendors of Civcon are Henning (45.55%), the Ramsay Family Trust (45.55%), André de Graaf (1.58%), Johannes Jacobus Loock (1.58%), Innes Louw (2.08%), Geoffrey Norman Sproule (0.60%), Wiebe Top (1.48%) and Burgerd Christiaan van der Merwe (1.58%).

##### 3.1.4 Suspensive conditions to the Civcon acquisition agreement

The Civcon acquisition agreement is subject, *inter alia*, to the fulfilment of the following remaining suspensive conditions:

3.1.4.1 the subscription agreement becoming unconditional in accordance with the terms thereof save for any condition relating to the Civcon acquisition agreement becoming unconditional, on or before 15 December 2009;

3.1.4.2 the required approval of the Civcon acquisition (including the issue of the Erbacon ordinary shares in settlement of the purchase consideration) by the requisite majority of Erbacon shareholders, on or before 15 December 2009;

- 3.1.4.3 the required approval of the Civcon acquisition by the Competition Authorities, on or before 15 December 2009;
- 3.1.4.4 the obtaining of any other regulatory approvals necessary to implement the Civcon acquisition, including but not limited to the necessary approvals from the JSE and the SRP, on or before 15 December 2009; and
- 3.1.4.5 the Alt<sup>x</sup> approves the listing of the Erbacon ordinary shares to be issued to the Civcon Sellers in terms of the provisions of paragraph 3.1.5.2.2 subject to the Civcon acquisition agreement becoming unconditional, on or before 15 December 2009.

The above suspensive conditions shall, to the extent that they have not been fulfilled or waived on or before 15 December 2009, be extended to 31 January 2010, subject to the written consent of Erbacon, Henning and the Ramsay Family Trust, which consent may not be unreasonably withheld or delayed.

### 3.1.5 Payment and settlement of purchase consideration

3.1.5.1 The purchase consideration shall be settled by Erbacon in the following manner:

3.1.5.2 on the effective date against delivery of the Civcon Shares and the Civcon Claims to Erbacon:

3.1.5.2.1 by payment to the Civcon vendors and Charter Chemicals of an aggregate cash amount of R95 418 260; and

3.1.5.2.2 as to the sum of R42 052 757, by the allotment and issue to the Civcon vendors and Charter Chemicals of an aggregate of 25 020 876 Erbacon ordinary shares at an issue price of R1.6807 per share;

3.1.5.3 as to the sum of R77 600 036, on the Civcon 2010 financial statements completion date, by the allotment and issue to the Civcon vendors and Charter Chemicals an aggregate of a maximum of 46 171 072 Erbacon ordinary shares at an issue price of R1.6807 per share, provided that if Civcon's profits after tax for its financial year ending 28 February 2010 as reflected in its applicable audited annual financial statements, prepared in accordance with IFRS, adjusted where applicable in terms of the Civcon acquisition agreement ("2010 PAT"), is less than R64 800 000, then the aforementioned number of Erbacon ordinary shares will be adjusted as follows:

Number of Erbacon ordinary shares to be issued =  $[(A * 4.16365) \text{ less } R140\,471\,017] / 1.6807] * 60\%$ .

Where A = 2010 PAT achieved, subject to a maximum of R64 800 000;

3.1.5.4 as to the sum of R51 733 357, on the Civcon 2011 financial statements completion date, by the allotment and issue to the Civcon vendors and Charter Chemicals of an aggregate of a maximum of 30 780 714 Erbacon ordinary shares at an issue price of R1.6807 per share, provided that if Civcon's profits after tax for its financial year ending 28 February 2011 as reflected in its applicable audited annual financial statements, prepared in accordance with IFRS, adjusted where applicable in terms of the Civcon acquisition agreement ("2011 PAT") is less than R64 800 000, then the aforementioned number of Erbacon ordinary shares will be adjusted as follows:

Number of Erbacon ordinary shares to be issued =  $[(A * 4.16365) \text{ less } R218\,071\,053] / 1.6807]$

Where A = 2011 PAT achieved, subject to a maximum of R64 800 000; and

3.1.5.5 Erbacon shall procure the listing of the Erbacon consideration shares to be issued to the Civcon vendors, as set out above, on Alt<sup>x</sup>.

### 3.1.6 Warranties and restraints

3.1.6.1 The Civcon vendors and Erbacon have given warranties, which are normal for a transaction of this nature to Erbacon and the Civcon vendors, respectively.

3.1.6.2 Erbacon have provided guarantees in respect of the book debts and other assets of Erbacon that are due prior to the effective date of the Civcon acquisition agreement.

- 3.1.6.3 Civcon have provided guarantees in respect of its book debts prior to the effective date of the transaction, which guarantees have been included in the determination of the profit warranty amounts as set out in terms of formula contained in paragraphs 3.1.5.3 and 3.1.5.4 above.
- 3.1.6.4 Restraints of trade have been entered into by Henning and Ramsay in respect of the Civcon acquisition agreement for a period of five years from the effective date of the Civcon acquisition agreement or until the 2<sup>nd</sup> anniversary of the date on which Henning and/or Ramsay ceases to be employed by Erbacon for any reason.

## 3.2 The Erbacon preference share issue to Medu Capital

### 3.2.1 The business of Medu Capital

Medu Capital is a professional investment management company with a focus on private equity. Its principal activities include sourcing and evaluation of investment opportunities, execution of investments, active involvement and the realisation of investments. Medu Capital is majority owned and managed by black South Africans and embraces the spirit of a scorecard approach to BEE. The significant outcomes of Medu Capital's BEE policies include a 64% direct and indirect black ownership. Medu Capital generally partners established businesses that require equity risk capital and/or BEE partners.

### 3.2.2 The Erbacon preference share issue

- 3.2.2.1 On 21 September 2009, Erbacon had entered into a subscription agreement with Medu Capital, as the BEE financing party to the transaction, subject to, *inter alia*, certain suspensive conditions as set out in paragraph 3.2.5 below.
- 3.2.2.2 In terms of the subscription agreement, Medu Capital will subscribe for 67 410 000 fully paid-up convertible redeemable and participating preference shares with a par value of R0.01 each in Erbacon at a price of R1.68 per preference share.
- 3.2.2.3 The issue of the preference shares will result in the capitalisation of Erbacon to the extent of R113 248 800. R85 368 040 of such subscription amount will specifically be utilised as part of the total cash consideration payable to the Civcon vendors in terms of the Civcon acquisition agreement. The remaining amount may be used as further capital to pursue additional opportunities within the construction sector.

### 3.2.3 Terms of the preference share issue

- 3.2.3.1 The salient terms of the Erbacon preference shares are set out in further detail in Annexure 5 to this circular. A copy of the subscription agreement will be available for inspection as set out in paragraph 16 below.
- 3.2.3.2 Save as otherwise set out in Annexure 5, the preference shares shall rank *pari passu* in all respects with the ordinary shares in Erbacon but shall be unlisted. The preference shareholders shall be repaid the issue price in preference to the repayment of any amounts to Erbacon ordinary shareholders in the event of the de-registration, winding-up or judicial management of Erbacon. The preference shareholders will be entitled to their proportionate share of any ordinary dividends declared by Erbacon but will not be entitled to any specific pre-determined preference share dividend rate.
- 3.2.3.3 In respect of any matter where Erbacon ordinary shareholders are required to vote in terms of the Listings Requirements, each preference shareholder shall, in respect of the preference shares held by it, be entitled to that proportion of votes in the company which the aggregate par value of the preference shares held by it bears to the aggregate amount of the par value of all shares issued by the company but the votes of all preference shareholders will be limited to a maximum of 25% less one vote.
- 3.2.3.4 Each preference share shall, at the election of the preference shareholder, be convertible into the equivalent of one ordinary Erbacon share at the date of conversion thereof (taking into account any share splits and share consolidations as may have occurred).

- 3.2.3.5 If the preference shares have not been converted into Erbacon ordinary shares at the end of five years from their date of issue, Erbacon shall be obliged to immediately redeem such preference shares at the issue price thereof.
- 3.2.3.6 In order to protect preference share investor capital, the preference shareholders shall be entitled upon the occurrence of an actionable event, details of which are contained in paragraph 7 of Annexure 5, to procure Erbacon to redeem the preference shares at the redemption amount, or procure the conversion of the preference shares into ordinary shares as set out in paragraph 3.2.3.4 above. All the terms of the subscription agreement are subject to dispute resolution and remedy as set out in terms of such agreement.
- 3.2.3.7 The preference shareholders shall, as provided for in the preference share terms, included as Annexure 5 hereto, be entitled to appoint two directors to the board of Erbacon and remove and/or replace any directors so appointed.
- 3.2.3.8 Further to the subscription agreement, in terms of the tie-in agreement identified shareholders have undertaken that without the prior written consent of the preference shareholder, the identified shareholders will not sell or encumber any of the blocked shares held by them for a period of 5 years from the preference share issue date. The identified shareholders may however dispose of such blocked shares *pro rata* to the preference shares disposed of by the preference shareholders. Each identified shareholder may be entitled to sell any of his blocked shares to a *bona fide* 3<sup>rd</sup> party but only if the Erbacon ordinary share price exceeds R7.00 per share and the 3<sup>rd</sup> party makes an offer to purchase a *pro rata* portion of the ordinary shares (and preference shares which each preference shareholder may be entitled to convert into ordinary shares) held by preference shareholders. In terms of the tie-in agreement, Medu Capital has also undertaken not to convert the preference shares held by it into ordinary shares within the first 3 years of the issue date, save as result of an actionable event, and also not to dispose of the preference shares held during a period of 3 years from the issue date, unless to a party that does not adversely affect the BEE status of the company, or to a party that is not a competitor of Erbacon.
- 3.2.3.9 The identified shareholders have further provided an undertaking to Erbacon, that in terms of the tie-in agreement they would comply, *inter alia*, with the terms of the tie-in agreement, that they will not amend or cancel the tie-in agreement without the prior written consent of Erbacon, that they will inform Erbacon of any breach by Medu Capital of the terms of the tie-in agreement and the identified shareholders further undertake to Erbacon to enforce their rights and compel Medu Capital to comply with Medu Capital's obligations in terms of the tie-in agreement.

#### 3.2.4 The effective date of the Erbacon preference share issue

The effective date of the Erbacon preference share issue is the 15<sup>th</sup> business day after the fulfilment or waiver, as the case may be, of all the suspensive conditions as stipulated in the subscription agreement.

#### 3.2.5 Suspensive conditions to Erbacon preference share issue

The subscription of the Erbacon preference shares by Medu Capital is subject, *inter alia*, to the fulfilment of the following remaining suspensive conditions:

- 3.2.5.1 on or before 15 December 2009 (or such later date being not later than 31 January 2010 as may be consented to in writing by all the parties to the subscription agreement, which consent may not be unreasonably withheld or delayed):
  - 3.2.5.1.1 the approval of the requisite majority of Erbacon shareholders to create the preference shares, amend the memorandum of association of the company to prevent the amendment, variation or alteration of the preference share terms without the approval of at least 75% of the preference shareholders and to conclude and implement the tie-in agreement and the subscription agreement;

3.2.5.1.2 all such regulatory approvals as may be necessary in order to conclude and implement the subscription agreement and the tie-in agreement will have been obtained, including the approvals, if necessary, of the Competition Authorities, the JSE and the SRP;

3.2.5.2 on or before 31 October 2009, the JSE will have granted its written approval to the preference share terms and to the voting of the preference shares in respect of all matters where shareholders of the company are required to vote in terms of the Listing Requirements; and

3.2.5.3 confirmation by Erbacon that no unremedied (if possible) breach of any obligation, representation and/or warranty contained in the subscription agreement and the tie-in agreement, or any material adverse change, as defined in the subscription agreement, will have occurred as at the date and time of the last of the other suspensive conditions to be fulfilled.

#### 3.2.6 Warranties and restraints

Erbacon has given warranties to Medu Capital, which are normal for a transaction of this nature. Erbacon has provided guarantees in respect of the book debts and other assets of Erbacon, prior to the effective date of the subscription agreement.

### 4. PURPOSE OF THE CIRCULAR AND REVISED LISTING PARTICULARS

4.1 The purpose of this circular is to:

4.1.1 provide Erbacon shareholders with information on the transaction and the manner in which it will be implemented;

4.1.2 convene a general meeting of Erbacon shareholders in order to pass such resolutions as are necessary to authorise and implement the transaction.

4.2 In terms of the Listings Requirements, as the total consideration payable for the Civcon acquisition when measured against the market capitalisation of Erbacon, immediately prior to the announcement, was calculated to be greater than 100%, the Civcon acquisition is deemed to be a reverse take-over and therefore Erbacon is required to prepare revised listing particulars, and make an application to the JSE to list on the AltX, as though Erbacon post the implementation of the transaction was a new applicant. Annexure 7 to this circular contains the revised listing particulars of Erbacon.

### 5. RATIONALE FOR THE TRANSACTION

It has been Erbacon's stated strategic objective to build a sustainable business to participate in South Africa's infrastructural development over the next decade and beyond. The conclusion of the proposed transaction will result in Erbacon diversifying into the private construction (mining) sector, obtaining geographic diversification, obtaining sufficient critical mass to be able to tender and be more competitive for larger and more profitable contracts and to obtain a much-needed strategic BEE shareholder.

### 6. PROSPECTS

The acquisition of Civcon and the introduction of Medu Capital as a BEE financing partner will be beneficial to Erbacon for, *inter alia*, the following reasons:

- the critical mass of Erbacon will be significantly increased enabling the company to tender on and be more competitive on larger and more profitable contracts. It will also enable the group to consider tendering on work outside the borders of South Africa and particularly in Zimbabwe, Angola and Mozambique, which Erbacon views as potential markets in the future;
- Erbacon's geographical diversification outside of KwaZulu-Natal and into the Gauteng key growth area will be enhanced;
- Erbacon's client base will be extended to include mining construction and heavy industry thereby diluting its exposure to its traditional client base;

- Medu Capital will provide Erbacon with funding for the Civcon acquisition and significant BEE status which the company does not currently have;
- Armstrong Construction and Erbacon Small Plant will be able to access the building and plant hire components of Civcon's future tenders; and
- Civcon's prospects include benefiting from Government's R787 billion planned infrastructure spend. Furthermore there are still major mining projects currently under development in South Africa, including: Gold, Iron Ore, Coal (R33 billion) and Platinum (R68 billion), in the industry in which Civcon operates. In addition, Eskom's capital expenditure programme over the next five years is R385 billion. With Civcon's history of having been involved with this type of clientele, they are well-placed to ensure they are invited to tender on these projects.

## **7. ALTERATION OF AUTHORISED SHARE CAPITAL AND AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION**

- 7.1 At the last practicable date, Erbacon has an authorised ordinary share capital of R3 000 000, consisting of 300 000 000 ordinary shares of R0.01 each of which 136 803 175 ordinary shares are in issue.
- 7.2 In terms of the transaction, post the issue of shares to Civcon vendors as settlement of the purchase consideration in terms of the Civcon acquisition, Erbacon will have insufficient unissued authorised shares to implement the conversion of the preference shares into ordinary shares as set out in paragraph 3.2.3.4 above.
- 7.3 In order to give effect to the subscription agreement, Erbacon shareholders will be required to approve the creation and issue of 67 410 000 convertible redeemable and participating preference shares with a par value of R0.01 each.
- 7.4 A special resolution will be proposed for consideration at the general meeting in order to increase the authorised share capital by the creation of 200 000 000 new Erbacon ordinary shares with a par value of R0.01 each and the creation of 67 410 000 convertible redeemable and participating preference shares with a par value of R0.01 each and to amend the articles of association of Erbacon to incorporate the terms of such Erbacon preference shares.
- 7.5 Save as otherwise set out in Annexure 5 to this circular, all the authorised and unissued preference shares, will rank *pari passu* with ordinary shares in all respects.
- 7.6 A further special resolution will be proposed for consideration at the general meeting in order to amend the memorandum of association of the company to prevent the amendment, variation or alteration of the preference share terms without the approval of at least 75% of the preference shareholders.
- 7.7 For the special resolutions contemplated in paragraphs 7.4 and 7.6 to become effective, the Companies Act prescribes the approval of a majority, representing not less than 75% of the votes exercisable by shareholders, entitled to vote thereon, present and voting, either in person or by proxy, at a general meeting and such resolution being registered by the Registrar of Companies in terms of the Companies Act.

## **8. DECLARATION OF INTERIM DIVIDEND**

- 8.1 Pursuant to paragraph 3.1.2.5 above, the board of Erbacon have deemed it appropriate, further to the maiden final dividend of 5.5 cents per share, to declare a further interim dividend of 21.93 cents per share, in order to reward existing Erbacon shareholders on past earnings in Erbacon.
- 8.2 Notice is hereby given that an interim dividend number 2 of 21.93 cents per share was declared on 28 October 2009, payable to ordinary shareholders in terms of the proposed timetable which payment is subject to the fulfilment, as the case may be, of all suspensive conditions:

Action	Date
Finalisation date for Erbacon interim dividend	Fulfilment date
Last day to trade to qualify for Erbacon interim dividend	Fulfilment date plus 5 business days
Shares trade ex-dividend	Fulfilment date plus 6 business days
Record date to be entitled to Erbacon interim dividend	Fulfilment date plus 10 business days
Payment date of Erbacon interim dividend	Fulfilment date plus 11 business days

## 9. FINANCIAL INFORMATION

### 9.1 Historic financial information of Civcon

The audited historical financial information of Civcon for the three financial years ended 28 February 2007, 29 February 2008 and 28 February 2009 are set out in Annexure 1 to this circular. The historical financial information should be read in conjunction with the independent reporting accountants' reports thereon as set out in Annexure 2 to this circular.

### 9.2 Unaudited *pro forma* financial information

9.2.1 The unaudited *pro forma* financial effects on Erbacon and its subsidiaries, before and after the transaction, as set out in the table below, are the responsibility of the company's directors and have been prepared for illustrative purposes to reflect how the transactions may have affected Erbacon's results for the year ended 28 February 2009, based on the assumptions that:

- for the purpose of calculating earnings per share (basic and diluted) and headline earnings per share (basic and diluted), the Civcon acquisition and Erbacon preference share issue were effected on 1 March 2008;
- for the purpose of calculating net asset value and net tangible asset value per ordinary share, the Civcon acquisition and Erbacon preference share issue were effected on 28 February 2009.

Hence, taking the above factors into consideration and because of their nature, the unaudited *pro forma* financial effects may not fairly reflect Erbacon's financial performance and position post the implementation of the transaction.

	<b>Audited<sup>(1)</sup> 28 February 2009 (cents)</b>	<b>Unaudited <i>Pro forma</i> after transaction (cents)</b>	<b>Change (%)</b>
Earnings per share	40.64	55.60	36.83
Headline earnings per share	40.11	56.23	40.21
Diluted earnings per share	40.64	37.80	(6.97)
Diluted headline earnings per share	40.11	38.20	(4.75)
Net asset value per share	155.33	226.16	45.60
Net tangible asset value per share	117.11	86.98	(25.73)

9.2.2 The unaudited *pro forma* balance sheet as 28 February 2009 and income statement for the year then ended, including detailed notes thereto, are set out in Annexure 3 to this circular.

9.2.3 The *pro forma* financial information should be read in conjunction with the independent reporting accountants' report thereon as set out in Annexure 4 to this circular.

## 10. GENERAL MEETING

- 10.1 A general meeting of Erbacon shareholders will be held at 10:00 on Thursday, 19 November 2009 at the registered office of Erbacon, 2 Montreal Road, Glen Anil, 4051, in order to consider and, if deemed fit, pass with or without modification, the ordinary and special resolutions required to give effect to the transaction.
- 10.2 A notice convening the general meeting is attached hereto and forms part of this circular and contains the ordinary and special resolutions to be considered at the general meeting. Full details of the action required by certificated and dematerialised shareholders are set out on page 2 of this circular.
- 10.3 The 14 537 250 Erbacon ordinary shares held by Hedley, a non-executive director of Erbacon, on behalf of 8 Mile, at the last practicable date, who has acted as an agent and representative to Civcon in terms of the Civcon acquisition prior to finalisation of the terms of the Civcon acquisition, will be taken into account in determining whether a quorum is present, but will not be entitled to vote in respect of the resolutions, as set out in the notice of general meeting attached to this circular, as a result of the conflict of interest arising in terms of his capacity as agent for Civcon and as a non-executive director of Erbacon. Hedley has recused himself from resolutions taken by the board of Erbacon in respect of the transaction.
- 10.4 Shares held by the Erbacon Share Incentive Trust will not have their votes taken into account for the purposes of the resolutions contained in the notice of the general meeting attached to this circular.

## 11. DIRECTORS

### 11.1 Details of directors

- 11.1.1 The full names, ages, occupations and business addresses of the directors of Erbacon are outlined below:

<b>Full name</b>	<b>Age</b>	<b>Occupation</b>	<b>Business address</b>
Alan Dawson	66	Non-executive Chairman	7 Sunnyside Avenue, Hillcrest KwaZulu-Natal, 3650
David Boyd Erskine	55	Chief Executive Officer	2 Montreal Road Glen Anil, 4051
Robin Kevin Braithwaite	54	Group Finance Director	2 Montreal Road Glen Anil, 4051
Frans Petrus Boraine	38	Managing Director – Erbacon Small Plant	2 Montreal Road Glen Anil, 4051
David Graham Armstrong	48	Managing Director – Armstrong Construction	1 Commonage Road Hillcrest, 3650
Wayne Michael Ric-Hansen	47	Commercial Director – Armstrong Construction	Commonage Road Hillcrest, 3650
Sydney Mark Hedley	54	Non-executive director	3 Inkala Avenue Kloof, 3610
Johannes Andries Holtzhausen	39	Non-executive director	1st Floor, Ou Kollege Building 35 Kerk Street Stellenbosch, 7600
Samara Totaram	31	Non-executive director	1st Floor, Ou Kollege Building 35 Kerk Street Stellenbosch, 7600

- 11.1.2 All directors are South African citizens.

## 11.2 Directors' service contracts

11.2.1 Save for the contract entered into with R K Braithwaite, each of the remaining existing executive directors has entered into a service agreement with Erbacon, containing terms that are normal for such contracts inclusive, but not limited to, a notice period of one month. Such agreements were subject to an automatic annual increase in salary that have subsequently been amended on 21 September 2009 to be at the discretion of the Remuneration Committee of Erbacon.

11.2.2 In terms of the Civcon acquisition, Henning and Ramsay have entered into service agreements with Erbacon containing terms that are normal for such agreements including, *inter alia*, a notice period of three months, a restraint of trade undertaking as further set out in paragraph 3.1.6 above, and a provision that it cannot be cancelled within 24 months of the effective date of such agreement, the effective date in this instance being the date on which Erbacon becomes the holder of the entire issued share capital of Civcon.

## 11.3 Directors' interests

11.3.1 At the last practicable date, the directors of Erbacon and their associates held in aggregate 57.31% of the ordinary shares of Erbacon. There has been no change in shareholding of the directors between 28 February 2009 and the last practicable date:

Director	Beneficial		Total number of shares	Percentage of issued share capital	Percentage of issued share capital post transaction <sup>(1)</sup>
	Direct	Indirect			
A Dawson	115 000	–	115 000	0.08	0.04
D B Erskine	33 920 250	–	33 920 250	24.79	11.08
R K Braithwaite	399 700	–	399 700	0.29	0.13
F P Boraine	14 537 250	–	14 537 250	10.63	4.75
D G Armstrong	10 425 667	–	10 425 667	7.62	3.41
W M Ric-Hansen	4 468 144	–	4 468 144	3.27	1.46
S M Hedley <sup>(3)</sup>	14 537 250	–	14 537 250	10.63	6.06 <sup>(2)</sup>
J A Holtzhausen	–	–	–	–	–
S Totaram	–	–	–	–	–
	<b>78 403 261</b>	<b>–</b>	<b>78 403 261</b>	<b>57.31</b>	<b>26.93</b>

### Notes:

- (1) Calculated post the implementation of the transaction in its entirety, including the issue of 67 410 000 Erbacon preference shares to Medu Capital which shares rank *pari passu* to Erbacon ordinary shares, save as otherwise set out in Annexure 5, and the issue of a maximum 101 972 662 Erbacon ordinary shares to the Civcon vendors in full settlement of the purchase consideration.
- (2) As set out in paragraph 11.3.4 below Hedley, through Charter Chemicals, is entitled to a commission receivable from the Civcon vendors for brokering the transaction. Hedley, through Charter Chemicals, will be entitled to receive a maximum of 4 013 038 Erbacon shares from the Civcon vendors on achievement of the profit warranties by Civcon as set out in paragraph 3.1.5 of this circular, thereby holding a maximum of 18 550 288 Erbacon ordinary shares post the implementation of the transaction. These shares have been taken into account in determining the interest of Hedley as set out above.
- (3) 8 Mile, a wholly-owned subsidiary of Hedley, owns 14 537 250 Erbacon ordinary shares. Charter Chemicals, a wholly-owned subsidiary of Hedley, will be entitled to receive the commission shares from the Civcon vendors as set out in note 2 above.

11.3.2 Post the implementation of the transaction in its entirety, the existing directors of Erbacon and their associates will hold in aggregate 26.93% of the cumulative Erbacon ordinary and preference shares in issue.

- 11.3.3 Erbacon acquired the business of Armstrong Construction effective 29 February 2008. In terms of such acquisition, 7 819 930 Erbacon ordinary shares were issued to Armstrong and 3 351 399 Erbacon ordinary shares were issued to Ric-Hansen on 18 March 2008 as settlement of the initial purchase consideration in terms of the Armstrong Construction acquisition. A further 6 487 237 Erbacon ordinary shares were issued to Armstrong, and 2 780 245 Erbacon ordinary shares were issued to Ric-Hansen, on 29 August 2008 as final settlement of the deferred purchase consideration in terms of the Armstrong Construction acquisition.
- 11.3.4 Hedley, a non-executive director of Erbacon, is the sole shareholder of Charter Chemicals. Charter Chemicals is engaged in private equity and business broking activities in South Africa. The Civcon vendors were clients of Charter Chemicals prior to the transaction being introduced to Erbacon. Under contracts concluded between Charter Chemicals and the Civcon vendors, Charter Chemicals is entitled to a cash commission of R3 745 480 and a maximum of 4 013 038 commission shares representing in total a 3.9% commission of the total purchase consideration for the acquisition of Civcon. As a result of the conflict of interest in respect of Hedley, as a non-executive director of Erbacon and as a service provider to Civcon, the Erbacon ordinary shares held by 8 Mile, as set out in paragraph 11.3.1 above, will be taken into account in determining whether a quorum is present, but will not be taken into account in approving the resolutions as set out in the notice of the general meeting attached to this circular.
- 11.3.5 Save for the interests as set out paragraphs 11.3.3 to 11.3.4 above, no director of Erbacon has or had any interest, directly or indirectly, in any transaction which is, or was, material to the business of Erbacon and which was effected by Erbacon during the current financial year or immediately preceding financial year or in respect of any previous financial year, which remains in any respect outstanding or unperformed. No director of Erbacon has or had any interest, directly or indirectly, in any property acquired by Erbacon.
- 11.3.6 In terms of the tie-in agreement identified shareholders have undertaken that without the prior written consent of the preference shareholder, the identified shareholders will not sell or encumber any of the blocked shares held by them for a period of 5 years from the preference share issue date. The identified shareholders may however dispose of such blocked shares *pro rata* to the preference shares disposed of by the preference shareholders. Each identified shareholder may be entitled to sell any of his blocked shares to a *bona fide* 3<sup>rd</sup> party but only if the Erbacon ordinary share price exceeds R7.00 per share and the 3<sup>rd</sup> party makes an offer to purchase a *pro rata* portion of the ordinary shares (and preference shares which each preference shareholder may be entitled to convert into ordinary shares) held by the preference shareholders. In terms of the tie-in agreement, Medu Capital has also undertaken not to convert the preference shares held by it into ordinary shares within the first 3 years of the issue date, save as result of an actionable event, and also not to dispose of the preference shares held during a period of 3 years from the issue date, unless to a party that does not adversely affect the BEE status of the company, or to a party that is not a competitor of Erbacon.
- 11.3.7 The following represents the blocked shares held by the identified shareholders as referred to in paragraph 11.3.6 above, and the percentage votes held:

Identified shareholder	Maximum number of blocked shares	Percentage of issued ordinary share capital post transaction <sup>(1)</sup>	Percentage of all shares in issue post implementation of transaction <sup>(2)</sup>
A H Henning	44 620 609	18.69%	14.57%
The Ramsay Family Trust	44 620 609	18.69%	14.57%
André Graaf	1 547 762	0.65%	0.51%
Johannes Jacobus Looek	1 547 762	0.65%	0.51%
Geoffrey Normal Sproule	587 758	0.25%	0.19%
Innes Louw	2 037 560	0.85%	0.67%
Wiebe Top	1 449 802	0.61%	0.47%
Burgerd Christiaan van der Merwe	1 547 762	0.65%	0.51%
Charter Chemicals <sup>(3)</sup>	2 809 127	1.18%	0.92%
D B Erskine	33 920 250	14.21%	11.08%
F P Boraine	12 537 250	5.25%	4.09%
D G Armstrong	8 926 667	3.74%	2.92%
W M Ric-Hansen	3 268 144	1.37%	1.07%
8 Mile <sup>(3)</sup>	14 537 250	6.09%	4.75%
	<b>173 958 312</b>	<b>72.88%</b>	<b>56.83%</b>

**Notes:**

- (1) Percentage calculated based on the additional issue of 101 972 662 Erbacon ordinary shares in settlement of the purchase consideration in respect of the Civcon acquisition.
- (2) Percentage calculated based on the additional issue of 101 972 662 Erbacon ordinary shares in settlement of the purchase consideration in respect of the Civcon acquisition including the issue of 67 410 000 Erbacon preference shares to the preference shareholders.
- (3) Both 8 Mile and Charter Chemicals are owned and controlled by Hedley.

11.3.8 The identified shareholders have further provided an undertaking to Erbacon, that they would comply, *inter alia*, with the terms of the tie-in agreement, that they will not amend or cancel the tie-in agreement without the prior written consent of Erbacon, that they will inform Erbacon of any breach by Medu Capital of the terms of the tie-in agreement and that the identified shareholders further undertake to Erbacon to enforce their rights and compel Medu Capital to comply with Medu Capital's obligations in terms of the tie-in agreement.

#### 11.4 Directors' emoluments

11.4.1 At 28 February 2009, the emoluments paid to the directors of Erbacon were as follows:

Director	Salary (R)	Performance bonus (R)	Benefits (R)	Retirement funding (R)	Directors' fees <sup>(1)</sup> (R)	Total (R)
A Dawson	–	–	–	–	100 000	100 000
D B Erskine	994 800	519 000	174 830	139 272	–	1 827 902
R K Braithwaite	1 205 000	611 000	155 424	168 700	–	2 140 124
F P Boraine	909 688	247 000	141 368	100 212	–	1 398 268
D G Armstrong	855 560	531 000	188 902	–	–	1 575 462
W M Ric-Hansen	791 750	489 000	174 563	–	–	1 455 313
S M Hedley	–	–	–	–	65 000	65 000
J A Holtzhausen <sup>3</sup>	–	–	–	–	75 000 <sup>(3)</sup>	75 000 <sup>(3)</sup>
S Totaram <sup>3</sup>	–	–	–	–	87 000 <sup>(3)</sup>	87 000 <sup>(3)</sup>
	<b>4 756 798</b>	<b>2 397 000</b>	<b>835 087</b>	<b>408 184</b>	<b>327 000</b>	<b>8 724 069</b>

**Notes:**

- (1.) Directors' fees represent fees of non-executive directors that are paid by Erbacon.
- (2.) All other directors' emoluments were paid by subsidiary companies other than R K Braithwaite, whose emoluments were paid by Erbacon.
- (3.) In terms of the financial year ended 28 February 2009, R75 000 and R87 000 were payable to Paladin Capital for the services of J A Holtzhausen and S Totaram, respectively.

11.4.2 At 28 February 2009, the options granted to a director of Erbacon was as follows:

	<b>Share options at 1 March 2008</b>	<b>Options granted during the year</b>	<b>Options at 28 February 2009</b>	<b>Option price</b>	<b>Vesting date</b>	<b>Expiry date</b>
R K Braithwaite	–	2 000 000	2 000 000	193 cents	29/07/2011	29/07/2011

11.4.3 There will be no material variation in the remuneration receivable by any of the existing directors of Erbacon as set out above as a consequence of the transaction.

11.5 Save as set out in paragraph 11.3.3, Erbacon has not paid any amounts (whether in cash or in securities), nor given any benefits to any directors or to any company in which directors are directly or indirectly, beneficially interested, or to any partnership, syndicate or other association of which the directors are members, or to any director as an inducement to become a director or otherwise, or for services rendered by directors, or otherwise for services rendered by directors or by the associate company or associate entity in connection with the promotion or formation of Erbacon, during the preceding three years.

#### 11.6 **Directors' responsibility statement**

The directors of Erbacon, whose names are given in paragraph 11.1 above:

11.6.1 have considered all statements of fact and opinion in this circular;

11.6.2 accept, collectively and individually, full responsibility for the accuracy of such statements;

11.6.3 certify that, to the best of their knowledge and belief, there are no omissions of facts or considerations which would render any statements of fact or opinion contained in this circular false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this circular contains all information required by law, the Companies Act and the Listings Requirements.

## 12. **OPINIONS, RECOMMENDATION AND VOTING**

12.1 Save as set out in paragraph 12.2 below, the directors who own Erbacon ordinary shares in their own right, and are entitled to vote in respect of the proposed resolutions as set out in the notice of general meeting attached to this circular, intend voting in favour of the resolutions to be proposed at the general meeting.

12.2 The shareholding of 8 Mile, controlled by Hedley, in Erbacon ordinary shares as set out in paragraph 11.3.1 above will be taken into account in determining whether a quorum is present in respect of the resolutions to be proposed at the general meeting of shareholders as set out in the notice of general meeting attached to this circular, but will not be taken into account in voting on such resolutions.

12.3 For purposes of the Listings Requirements, the resolution relating to the Civcon acquisition is subject to the approval of a simple majority of votes of shareholders, entitled to vote thereat, present or represented by proxy at the general meeting.

12.4 For purposes of the Listings Requirements, the resolution requiring the specific issue of shares for cash to Medu Capital, contained in the notice of general meeting requires the approval of a majority of votes representing not less than 75% of the votes exercisable by shareholders entitled to vote thereat, and present and voting, either in person or by proxy, at a general meeting.

12.5 All special resolutions contained in the notice of general meeting requires the approval of a majority, representing not less than 75% of the votes exercisable by shareholders entitled to vote thereat, and present and voting, either in person or by proxy, at a general meeting and such resolutions are required to be registered by the Registrar of Companies in terms of the Companies Act.

### 13. EXCHANGE CONTROL REGULATIONS

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

#### 13.1 Non-residents who are emigrants from South Africa

The documents of title to which emigrants are entitled may be sent only to the nominated South African Dealer in foreign exchange controlling their blocked assets. It will be incumbent upon the emigrant concerned to instruct his nominated South African Authorised Dealer in foreign exchange as to how such documents of title are to be dealt with. Such documents of title will be endorsed "non-resident".

#### 13.2 All other non-residents

The documents of title to which non-resident shareholders are entitled will be endorsed "non-resident".

### 14. OTHER RELATED MATTERS

#### 14.1 Material loans

14.1.1 At the last practicable date, no material loans are outstanding and owing by Erbacon or any of its subsidiaries.

14.1.2 At the last practicable date, no material loans are outstanding and owing by Civcon or any of its subsidiaries.

#### 14.2 Litigation

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which Erbacon and Civcon are aware, which may have or have had a material effect on the financial position of Erbacon and its subsidiaries or Civcon and its subsidiaries, within the last twelve months.

#### 14.3 Material changes

Save for the implementation of the transaction, there have been no material changes in the financial or trading position of Erbacon since 28 February 2009 until the last practicable date, other than in the ordinary course of business.

#### 14.4 Material contracts

Save as set out in paragraph 3 above regarding the transaction, the original restructuring of Erbacon and the Armstrong Construction acquisition, no material contracts have been entered into by Erbacon and Civcon, other than in the ordinary course of business, within the preceding two years or at any time that contain an obligation or settlement that is material to Erbacon and Civcon as at the last practicable date.

#### 14.5 Major and controlling shareholders and shareholder spread

14.5.1 The table below sets out the shareholders, at the last practicable date, who are, directly or indirectly, beneficially interested in 5% or more of the issued ordinary and preference share capital of Erbacon, prior to and post the implementation of the transaction:

<b>Name of shareholder</b>	<b>Number of shares prior to transaction</b>	<b>Percentage prior to transaction</b>	<b>Number of share post transaction</b>	<b>Percentage post transaction per class of share</b>	<b>Percentage post transaction including all shares<sup>(3)</sup></b>
<i>Ordinary shares held</i>					
Paladin Capital	34 904 284	25.51	34 904 284	14.62	11.40
D B Erskine <sup>(1)</sup>	33 920 250	24.79	33 920 250	14.21	11.08
8 Mile <sup>(2) (4)</sup>	14 537 250	10.63	14 537 250	6.09	4.75
F P Boraine <sup>(1)</sup>	14 537 250	10.63	14 537 250	6.09	4.75
D G Armstrong <sup>(1)</sup>	10 425 667	7.62	10 425 667	4.37	3.41
A H Henning	–	–	44 620 609 <sup>(4)</sup>	18.69	14.57
Ramsay Family Trust	–	–	44 620 609 <sup>(4)</sup>	18.69	14.57
<b>Total ordinary shares in issue</b>	<b>108 324 701</b>	<b>79.18</b>	<b>197 565 919</b>	<b>82.76</b>	<b>64.53</b>
<i>Preference shares held</i>					
Medu Capital	–	–	67 410 000	100.00	22.02

**Notes:**

- (1) Erskine, Armstrong and Boraine are directors of Erbacon. Accordingly their interests are also reflected in paragraph 11.3.1 above.
- (2) This entity is controlled by Hedley, a non-executive director of Erbacon, as reflected in paragraph 11.3.1 above.
- (3) Calculated based on the assumption that the transaction is implemented in its entirety including the issue of 67 410 000 Erbacon preference shares to Medu Capital and the issue of 101 972 662 Erbacon ordinary shares to the Civcon vendors in terms of settlement of the purchase consideration.
- (4) As set out in paragraph 11.3.4 above, Hedley, represented by Charter Chemicals, is entitled to a commission receivable from the Civcon vendors for brokering the transaction. Hedley, as the sole shareholder of Charter Chemicals will be entitled to receive a maximum of 4 013 038 Erbacon ordinary shares from the Civcon vendors on achievement of the profit warranties by Civcon as set out in paragraph 3.1.5 of this circular. The 4 013 038 shares have been deducted from the maximum number of shares issuable to Civcon and the proportionate shares deducted from the shareholding of Henning and Ramsay as set out above. Post the implementation of the transaction, Hedley through his interests in 8 Mile and Charter Chemicals will own a maximum of 18 550 288 Erbacon ordinary shares, which will result in a shareholding in Erbacon ordinary shares of 7.77% post the issue of the maximum number of ordinary shares to Civcon vendors and a shareholding of 6.06% of the total Erbacon ordinary and preference shares in issue.

14.5.2 No other shareholder will, as far as the board of directors of Erbacon are aware, directly or indirectly, hold 5% or more of the issued share capital of Erbacon, following the implementation of the transaction.

14.5.3 Prior to the Erbacon disposal, the controlling shareholders of Erbacon were Erskine and Paladin Capital. Post the private placing by Erbacon, pursuant to the listing on the Alt<sup>x</sup>, Erbacon did not have a controlling shareholder (as defined in the Listings Requirements). The history of the change in controlling shareholders of Erbacon since its incorporation is set out in paragraph 2.6.3 of Annexure 7 (revised listing particulars), and is as a result of the Erbacon restructuring, and in particular the Erbacon share exchange and Erbacon disposal all pursuant to listing on the Alt<sup>x</sup> in 2007. There will be no controlling shareholder post the implementation of this transaction.

#### 14.6 Vendors

Annexure 6 to the circular sets out details of Erbacon vendors' prior to and post the implementation of the transaction in its entirety.

#### 14.7 Adequacy of working capital

The directors are of the opinion that the working capital available to the enlarged Erbacon group is adequate for the present requirements of Erbacon and its subsidiaries, i.e. for a period of twelve months from the date of issue of this circular.

#### 14.8 Expenses

14.8.1 The estimated expenses of the transaction, exclusive of VAT, are as follows:

	<b>(R)</b>
Printing, publication, distribution and advertising expenses	200 000
Documentation fees – JSE	48 125
Listing fees – JSE	34 716
Competition Commission filing fee	100 000
Exchange Control	2 280
Corporate Adviser – PSG Capital (Pty) Limited	1 100 000
Designated Adviser – Questco Sponsor (Pty) Limited	100 000
Auditors to Civcon and Independent Reporting Accountants – Mazars Moores Rowland	120 000
Auditors to Erbacon and Independent Reporting Accountants – PricewaterhouseCoopers Inc.	365 000
Attorneys – Cliffe Dekker Hofmeyr	580 000
Legal Due Diligence – Cliffe Dekker Hofmeyr	230 000
Financial and Taxation Due Diligence – PricewaterhouseCoopers Inc.	848 844
BEE Due Diligence – Empowerdex	10 500
Other and Contingency	260 535
	4 000 000

14.8.2 It has been estimated that the deal expenses in respect of the transaction is R4 000 000 of which R3 622 499 shall be capitalised as part of the cost of acquisition, R177 501 shall be written off the share premium account incurred in respect of the issue of Erbacon ordinary shares and R200 000 shall be expensed through the income statement.

## 15. ADVISERS' CONSENTS

Each of the advisers, whose names appear on the "Corporate Information" page of this circular, have consented in writing to act in the capacities stated and to the inclusion of their names and, where applicable, to the inclusion of their reports in this circular in the form and context in which they appear and have not withdrawn their consent prior to the publication of this circular.

## 16. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents, or copies thereof, will be available for inspection at the registered office of Erbacon and the PSG Capital office in Johannesburg (details of which are set out in Corporate Information section of this circular), during normal office hours, from the date of issue of this circular up to and including Thursday, 19 November 2009:

- 16.1 the Memoranda and Articles of Association of Erbacon and its subsidiaries;
- 16.2 the audited annual financial statements of Erbacon for the three financial years ended 28 February 2009, 29 February 2008 and 28 February 2007;
- 16.3 the independent reporting accountants' report of PricewaterhouseCoopers Inc. on the audited financial statements of Erbacon for the three financial years ended 28 February 2009, 29 February 2008 and 28 February 2007, as reproduced in Appendix 2 to Annexure 7;
- 16.4 the independent audited annual financial statements of Civcon for the three financial years ended 28 February 2009, 29 February 2008 and 28 February 2007;
- 16.5 the independent reporting accountants' report of Mazars Moores Rowland on the historic financial information of Civcon for the three financial years ended 28 February 2009, 29 February 2008 and 28 February 2007; as reproduced in Annexure 2;
- 16.6 the independent reporting accountants' report of PricewaterhouseCoopers Inc. on the unaudited *pro forma* financial information of Erbacon, as reproduced in Annexure 3;
- 16.7 copies of signed material contracts including:
  - 16.7.1 the Civcon acquisition agreement;

- 16.7.2 the subscription agreement;
- 16.7.3 the tie-in agreement;
- 16.7.4 the identified shareholders' undertaking;
- 16.7.5 the Armstrong Construction acquisition agreement;
- 16.7.6 the Erbacon share exchange agreement; and
- 16.7.7 the Erbacon disposal agreement;
- 16.8 copies of letters of appointment and/or service agreements of Erbacon directors including Henning and Ramsay referred to in paragraph 1.6 of Annexure 7;
- 16.9 the written consent from each of the advisers referred to in paragraph 15 above;
- 16.10 a copy of the Erbacon Share Incentive Scheme Trust Deed; and
- 16.11 a signed copy of this circular.

By order of the board

**R K Braithwaite**

*Company Secretary*

26 October 2009



# ERBACON INVESTMENT HOLDINGS LIMITED

(Formerly Friedshel 884 Limited)

(Incorporated in the Republic of South Africa)

(Registration number 2007/014490/06)

Share code: ERB ISIN: ZAE000111571

("Erbacon" or "the company")

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## Directors

A Dawson (*Chairman*)\*

D B Erskine (CEO)

D G Armstrong

W M Ric-Hansen

F P Boraïne\*

R K Braithwaite (*Financial Director*)

J A Holtzhausen\*

S M Hedley\*

S Totaram\*

\*Non-executive

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## NOTICE OF GENERAL MEETING OF ERBACON SHAREHOLDERS

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Notice is hereby given that a general meeting of Erbacon shareholders will be held at 10:00 on Thursday, 19 November 2009 at the registered office of Erbacon, 2 Montreal Road, Glen Anil, 4051 ("the general meeting"), for the purposes of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions set out below.

All terms defined in the circular to which this notice of general meeting is attached bear the same meanings as set out in this notice of general meeting.

### 1. ORDINARY RESOLUTION NUMBER 1 (ACQUISITION OF CIVCON)

**"RESOLVED AS AN ORDINARY RESOLUTION** that, subject to the adoption of Ordinary Resolutions 2, 3, 4, 5.1 to 5.4 and 6 and Special Resolutions 1, 2, 3 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies, the company acquires from the Civcon vendors all of the issued ordinary shares in and all claims on loan account against Civcon, for a total consideration of R266 804 410, subject to the terms and conditions contained in the Civcon acquisition agreement. The consideration will be settled as follows:

- On the effective date by the issue to the Civcon vendors and Charter Chemicals of 25 020 876 Erbacon ordinary shares at an issue price of R1.6807 per Erbacon ordinary share, and the payment of R95 418 260 in cash; and
- On the finalisation of the audited annual financial statements of Civcon for its 2010 financial year-end, by the issue to the Civcon vendors and Charter Chemicals of a maximum of 46 171 072 Erbacon ordinary shares at an issue price of R1.6807 per Erbacon ordinary share; and
- On the finalisation of the audited annual financial statements of Civcon for its 2011 financial year-end, by the issue to the Civcon vendors and Charter Chemicals of a maximum of 30 780 714 Erbacon ordinary shares at an issue price of R1.6807 per Erbacon ordinary share."

### 2. ORDINARY RESOLUTION NUMBER 2 (AUTHORITY TO ISSUE AND ALLOT SHARES)

**"RESOLVED AS AN ORDINARY RESOLUTION** that, subject to the adoption of Ordinary Resolutions 1, 3, 4, 5.1 to 5.4 and 6 and Special Resolutions 1, 2, 3 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies, the directors of Erbacon be and are hereby authorised

as a specific authority in terms of sections 221(2) and 222(1)(a) of the Companies Act to issue a maximum of 101 972 662 Erbacon ordinary shares at an issue price of R1.6807 per share (taking into account the effects of any sub-division, share split or share consolidation) as part payment in respect of the Civcon acquisition, in terms of the provisions of the Civcon acquisition agreement.”

8 Mile, a company controlled by Hedley and Hedley’s associates, will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on Ordinary Resolutions 1 and 2.

### 3. **SPECIAL RESOLUTION NUMBER 1 (ALTERATION OF SHARE CAPITAL)**

**“RESOLVED AS A SPECIAL RESOLUTION** that, subject to the adoption of Ordinary Resolutions 1, 2, 3, 4, 5.1 to 5.4 and 6 and Special Resolutions 2, 3 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies, in terms of section 75(1)(a) of the Companies Act, the company increase its authorised share capital from R3 000 000, divided into 300 000 000 ordinary shares with a par value of R0.01 each to R5 674 100, divided into 500 000 000 ordinary shares with a par value of R0.01 each and 67 410 000 convertible redeemable and participating preference shares with a par value of R0.01 each by the creation of 200 000 000 ordinary shares with a par value of R0.01 each and by the creation of 67 410 000 convertible redeemable and participating preference shares with a par value of R0.01 each.”

*The reason for and effect of Special Resolution 1 is to create the Erbacon preference shares and increase the authorised share capital of the company required to give effect to the transaction as contained in the circular.*

*It is noted that the salient terms of such preference shares are fully set out in Annexure 5 to the circular.*

*8 Mile, a company controlled by Hedley and Hedley’s associates will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on this Special Resolution 1.*

### 4. **SPECIAL RESOLUTION NUMBER 2 (ALTERATION OF ARTICLES OF ASSOCIATION)**

**“RESOLVED AS A SPECIAL RESOLUTION** that, subject to the adoption of Ordinary Resolutions 1, 2, 3, 4, 5.1 to 5.4 and 6 and Special Resolutions 1, 3 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies, the rights, privileges and conditions referred to in Annexure 5 to the circular, shall attach to the 67 410 000 Erbacon preference shares and that the existing Articles of Association of the Company be and are hereby amended in terms of the provisions of section 62 of the Companies Act, by the addition of the contents of the aforementioned Annexure 5 as the new Article 4.3 thereof.”

*The reason for and effect of Special Resolution 2 is to set out the terms and conditions attaching to the 67 410 000 Erbacon preference shares to be created in the authorised share capital of the company.*

*8 Mile, a company controlled by Hedley and Hedley’s associates will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on this Special Resolution 2.*

### 5. **SPECIAL RESOLUTION NUMBER 3 (ALTERATION OF MEMORANDUM OF ASSOCIATION)**

**“RESOLVED AS A SPECIAL RESOLUTION** that, subject to the adoption of Ordinary Resolutions 1, 2, 3, 4, 5.1 to 5.4 and 6 and Special Resolutions 1, 2 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies, the memorandum of association of the company be and is hereby altered in terms of the provisions of section 56 of the Companies Act, by inserting the following special condition in paragraph 6 of the memorandum of association:

*“The terms and conditions applicable to the convertible redeemable and participating preference shares with a par value of R0.01 each in the share capital of the company as set out in article 4.3 of the articles of association may not be amended, varied or altered in any way without the prior written consent of holders of at least 75% of such shares.”*

*The reason for and effect of Special Resolution 3 is to provide for a special condition in the memorandum of association of the company to the effect that the terms and conditions applicable to the Erbacon preference shares may only be varied or altered with the prior written consent of holders of at least 75% of such shares.*

*8 Mile, a company controlled by Hedley and Hedley's associates will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on this Special Resolution 3.*

**6. ORDINARY RESOLUTION NUMBER 3 (AUTHORITY TO ISSUE AND ALLOT PREFERENCE SHARES)**

**"RESOLVED AS AN ORDINARY RESOLUTION** that, subject to the adoption of Ordinary Resolutions 1, 2, 4, 5.1 to 5.4 and 6 and Special Resolutions 1, 2, 3 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies, all the unissued Erbacon preference shares be and are hereby placed under the control of the directors, who are hereby authorised as a specific authority in terms of section 221(2) of the Companies Act to allot and issue such shares to the relevant subscribers in terms of the provisions of the subscription agreement."

*8 Mile, a company controlled by Hedley and Hedley's associates, will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on this Ordinary Resolution 3.*

*The validity of this resolution is subject to approval by a majority of at least 75% of the votes exercised by Erbacon shareholders present in person or by proxy at the general meeting, other than excluded parties (and their associates).*

**7. ORDINARY RESOLUTION NUMBER 4 (AUTHORITY ON CONVERSION OF PREFERENCE SHARES)**

**"RESOLVED AS AN ORDINARY RESOLUTION** that, subject to the adoption of Ordinary Resolutions 1, 2, 3, 5.1 to 5.4 and 6 and Special Resolutions 1, 2, 3 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies, the directors of the company be and are hereby authorised by way of a specific authority in terms of section 221(2) of the Companies Act, to allot and issue so many of its unissued ordinary shares as are required in order to give effect to the conversion of the Erbacon preference shares in the manner set out in article 4.3 of the articles of association of the company."

*Ordinary Resolution 4 is subject to approval by a 75% majority of Erbacon ordinary shareholders, excluding 8 Mile, a company controlled by Hedley and Hedley's associates (collectively referred to as "excluded parties"), present in person or by proxy at the general meeting to approve such resolution. Excluded parties, will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on this Ordinary Resolution 4.*

**8. SPECIAL RESOLUTION NUMBER 4 (AUTHORITY TO BUY BACK PREFERENCE SHARES)**

**"RESOLVED AS A SPECIAL RESOLUTION** that, subject to the adoption of Ordinary Resolutions 1, 2, 3, 4, 5.1 to 5.4 and 6 and Special Resolutions 1, 2 and 3, and the registration of all the aforementioned special resolutions by the Registrar of Companies, the company be and is hereby authorised, as a specific approval in terms of the provisions of section 85(2) of the Companies Act, to acquire Erbacon preference shares issued by the company from the holders thereof in the circumstances where the company is obliged to redeem such Erbacon preference shares and is for any reason unable to do so, in terms of the provisions of article 4.2 of the articles of association of the company, subject to the provisions of the Companies Act and in particular the provisions of section 85(4) of the Companies Act."

*The reason for and effect of Special Resolution 4 is to grant the company a specific approval to buy back Erbacon preference shares from the holders thereof in the circumstances where the company is obliged to redeem such Erbacon preference shares and is for any reason unable to do so, subject, inter alia, to the company meeting the solvency and liquidity requirements set out in section 85(4) of the Companies Act when the company makes the relevant payment to such holders.*

*8 Mile, a company controlled by Hedley and Hedley's associates, will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on this Special Resolution 4.*

9. **ORDINARY RESOLUTIONS NUMBER 5.1 TO 5.4 (ELECTION OF ADDITIONAL DIRECTORS)**

**“RESOLVED AS ORDINARY RESOLUTIONS** that, subject to the adoption of Ordinary Resolutions 1, 2, 3 and 4 and Special Resolutions 1, 2, 3 and 4, and the registration of all the aforementioned special resolutions by the Registrar of Companies:

- 5.1 Nhlanganiso Phares Mkwanzazi be and is hereby appointed as a non-executive director of the company.”

**Summary curriculum vitae of N P Mkwanzazi (Age: 35) – BCompt, BCompt (Honours), CA(SA), CFA**

Mkwanzazi is a co-founder and director of Medu Capital and is responsible for the strategic development of Medu Capital, investment execution and management.

He has 15 years’ experience in auditing, management consulting and private equity investing. After qualifying with Deloitte, Mkwanzazi joined Gemini Consulting as a consultant in strategy development and business transformation projects for financial services and manufacturing clients. He later joined Brait Private Equity and was appointed a director.

Mkwanzazi serves on various boards of companies and is a South African citizen.

- 5.2 Zeyn Rashid Angamia be and is hereby appointed as a non-executive director of the company.”

**Summary curriculum vitae of Z R Angamia (Age: 30) – BComm, BComm (Honours), CA(SA), CFA**

Angamia is a principal of Medu Capital and is responsible for investment execution and management. He has 8 years’ experience in auditing, corporate finance and private equity investing. After qualifying with PricewaterhouseCoopers, Angamia joined the corporate finance division of PricewaterhouseCoopers where he gained valuable experience in valuation and strategy.

Angamia is a non-executive director of a number of companies and is a South African citizen.

- 5.3 Charles Henry Alan Ramsay be and is hereby appointed as a non-executive director of the company.”

**Summary curriculum vitae of C H A Ramsay (Age: 58) – BSc Civil Engineering, FSAICE**

Ramsay graduated in 1974 and has worked in the construction industry for 35 years. Prior to his current position as an executive director of Civcon, he has been an executive director of Group Five Civils (Pty) Limited as well as the managing director of Goldstein Coastal (Pty) Limited. He also served as managing director of WK Construction (Pty) Limited for 11 years. Ramsay is a former chairman of the KwaZulu-Natal region of the SA Federation of Civil Engineering Contractors. Ramsay is a South African citizen.

- 5.4 Alexis Hertzog Henning be and is hereby appointed as a director of the company.”

**Summary curriculum vitae of A H Henning (Age: 55) – BSc (QS)**

Henning has 30 years of experience in the construction industry and has been managing Civcon since 1994. He is responsible for building the company up from a R10 million revenue a year company, employing 70 staff members, to a R350 million plus multi-facet business employing in excess of 800 employees. Henning is a South African citizen.”

*8 Mile, a company controlled by Hedley and Hedley’s associates, will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on these Ordinary Resolutions 5.1 to 5.4.*

10. **ORDINARY RESOLUTION NUMBER 6 (AUTHORITY OF DIRECTORS)**

**“RESOLVED AS AN ORDINARY RESOLUTION** that, following the adoption of Ordinary Resolutions 1, 2, 3, 4 and 5.1 to 5.4 and Special Resolutions 1, 2, 3 and 4, the board of directors of Erbacon be and are hereby authorised, instructed and empowered to do all such things, sign all such documentation and take all such actions as may be necessary or incidental in order to give effect thereto.”

*8 Mile, a company controlled by Hedley and Hedley’s associates, will be taken into account for the purposes of determining whether a quorum is present, but shall be excluded from voting on this Ordinary Resolution 6.*

## VOTING AND PROXIES

On a show of hands, every shareholder present or represented by proxy shall have 1 vote only. On a poll, every shareholder present or represented by proxy shall have 1 vote for every share held, irrespective of the number of shares he/she holds or represents.

A shareholder entitled to attend and vote at the general meeting is entitled to appoint one or more proxies to attend, speak and vote or abstain from voting in his or her stead. A proxy need not be a shareholder of the company. Duly completed forms of proxy must be returned to the transfer secretaries to be received by no later than 10:00 on Tuesday, 17 November 2009.

Certificated shareholders or dematerialised shareholders who have selected own-name registration who are unable to attend the general meeting but wish to be represented thereat, must complete the attached form of proxy (*blue*) in accordance with the instructions it contains and return it to the transfer secretaries to be received by no later than 10:00 on Tuesday, 17 November 2009.

Dematerialised shareholders who have not selected own-name registration who wish to vote at the general meeting must contact their CSDP or broker and furnish them with their voting instructions. If your CSDP or broker does not obtain voting instructions from you, they will be obliged to vote in accordance with the instructions contained in the mandate concluded between you and your CSDP or broker. In accordance with the mandate between you and your CSDP or broker, you must advise your CSDP or broker if you wish to attend or be represented by proxy at the general meeting. Your CSDP or broker will issue the necessary authorisation in writing for you to do so. You must **not** complete the attached form of proxy.

For and on behalf of the board

**R K Braithwaite**

*Company Secretary*

28 October 2009

### **Registered address**

2 Montreal Road  
Glen Anil, 4051  
(PO Box 40346, Redhill, 4071)

### **Transfer secretaries**

Computershare Investor Services (Pty) Limited  
Ground Floor  
70 Marshall Street  
Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)





# ERBACON INVESTMENT HOLDINGS LIMITED

(Formerly Friedshel 884 Limited)  
(Incorporated in the Republic of South Africa)  
(Registration number 2007/014490/06)  
Share code: ERB ISIN: ZAE000111571  
("Erbacon" or "the company")

## FORM OF PROXY

For completion by Erbacon shareholders who are unable to attend the general meeting of the company to be held at 10:00 on Thursday, 19 November 2009 at the registered office of Erbacon, 2 Montreal Road, Glen Anil, 4051 ("the general meeting").

Only for use by certificated shareholders and dematerialised shareholders of Erbacon who have selected own-name registration.

Dematerialised shareholders who have not selected own-name registration must contact their CSDP or broker to furnish them with their voting instructions. If your CSDP or broker does not obtain voting instructions from you, they will be obliged to vote in accordance with the instructions contained in the mandate concluded between you and your CSDP or broker.

I/We (Please print full names)

of (address)

being a holder of  ordinary shares in Erbacon hereby appoint:

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

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

3. the chairman of the general meeting,

as my/our proxy to attend and speak for me/us and vote on my/our behalf at the general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at each adjournment thereof and to vote for or against the said resolutions or to abstain from voting in respect of the shares registered in my/our names, in accordance with the following instructions (see note 3 overleaf):

	Number of shares		
	In favour of	Against	Abstain
Ordinary Resolution Number 1 – Acquisition of Civcon			
Ordinary Resolution Number 2 – Authority to issue shares to Civcon vendors and Charter Chemicals			
Special Resolution Number 1 – Alteration of share capital			
Special Resolution Number 2 – Alteration of Articles of Association			
Special Resolution Number 3 – Alteration of Memorandum of Association			
Ordinary Resolution Number 3 – Authority to issue preference shares to Medu Capital for cash			
Ordinary Resolution Number 4 – Specific authority to issue ordinary shares on conversion of preference shares			
Special Resolution Number 4 – Specific authority to buy back preference shares if company is unable to redeem such shares			
Ordinary Resolution Number 5.1 – Election of N P Mkwanzazi as director			
Ordinary Resolution Number 5.2 – Election of Z R Angamia as director			
Ordinary Resolution Number 5.3 – Election of C H A Ramsay as director			
Ordinary Resolution Number 5.4 – Election of A H Henning as director			
Ordinary Resolution Number 6 – Authority of directors			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2009

Signature/s \_\_\_\_\_

Assisted by me \_\_\_\_\_

(if applicable)

**Please read the notes appearing on the reverse hereof.**

**Instructions for signing and lodging this form of proxy:**

1. A shareholder entitled to attend and vote at the general meeting is entitled to appoint one or more proxies to attend, speak, vote or abstain from voting in his or her stead. A proxy need not be a shareholder of the company.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the chairman of the general meeting"; but any such deletion must be initialled by the shareholder concerned. The person whose name appears first on this form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow. In the event that no names are indicated, the proxy shall be exercised by the chairman of the general meeting.
3. Please insert an "X" in the relevant spaces according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of shares than you own, insert the number of shares held in respect of which you desire to vote. Failure to comply with the above will be deemed to authorise the chairman of the general meeting, if the chairman is the authorised proxy, to vote in favour of the resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the general meeting as he/she deems fit in respect of all of the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect whereof abstentions are recorded may not exceed the total of the votes exercisable by the shareholder or by his/her proxy. If the shareholding is not indicated on this form of proxy, the proxy will be deemed to be authorised to vote the total shareholding registered in the shareholders' name.
4. Completed forms of proxy must reach the transfer secretaries by no later than 10:00 on Tuesday, 17 November 2009.
5. The completion and lodging of this form of proxy shall in no way preclude the shareholder from attending, speaking and voting in person at the general meeting to the exclusion of any proxy appointed in terms hereof.
6. Should this form of proxy not be completed and/or received in accordance with these notes, the chairman may accept or reject it, provided that, in respect of its acceptance, the chairman is satisfied as to the manner in which the shareholder wishes to vote.
7. Documentary evidence establishing the authority of the person signing this form of proxy in a representative or other legal capacity (e.g. for a company, close corporation, trust, pension fund, deceased estate, etc.) must be attached to this form of proxy unless previously recorded by Erbacon or the transfer secretaries or waived by the chairman of the general meeting.
8. Where this form of proxy is signed under power of attorney, such power of attorney must accompany this form of proxy, unless it has previously been registered with Erbacon or the transfer secretaries.
9. Where shares are held jointly, all joint holders are required to sign the form of proxy. Where there are joint holders of shares, the vote of the senior joint holder who tenders a vote, as determined by the order in which the names appear in the register of members, will be accepted.
10. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
11. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled. Any alterations must be signed, not initialled.
12. On a show of hands, every shareholder present in person or represented by proxy shall have one vote only, irrespective of the number of shares he/she holds or represents.
13. On a poll, every shareholder present in person or represented by proxy shall have one vote for every share held.

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## REPORT OF HISTORICAL FINANCIAL AND OTHER RELEVANT INFORMATION OF CIVCON

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### ANNUAL FINANCIAL INFORMATION OF CIVCON FOR THE THREE FINANCIAL YEARS ENDED 28 FEBRUARY 2007, 29 FEBRUARY 2008 AND 28 FEBRUARY 2009

#### 1. BASIS OF PREPARATION

- 1.1 The balance sheets, income statements, statements of changes in equity, cash flow statements and notes of Civcon for the three financial years ended 28 February 2007, 29 February 2008 and 28 February 2009 have been extracted, without adjustment, from the audited annual financial statements of Civcon and are the responsibility of directors of Civcon.
- 1.2 The historic financial information of Civcon is the responsibility of the directors of Civcontract Civils and its subsidiary company and Erbacon, and has been audited and reported on without qualification by Mazars Moores Rowland.
- 1.3 The historic financial information of Civcon was prepared in accordance with and by applying the accounting policies of Erbacon for the two financial years ended 28 February 2009 and 29 February 2008. The Civcon financial information for the financial year ending 28 February 2007 was prepared in accordance with South African Statements of Generally Accepted Accounting Practice.
- 1.4 The historic financial information of Civcon should be read in conjunction with the reporting accountants' report thereon as set out in Annexure 2. No material facts or circumstances have occurred between 28 February 2009 and the date of issue of this circular.

#### 2. LACK OF COMPARABILITY OF 2007 INFORMATION

It should be noted that the historic financial information of Civcon for the two financial years ended 29 February 2008 and 28 February 2009 has been prepared in accordance with IFRS and for the financial year ended 28 February 2007 in accordance with South African Statements of Generally Accepted Accounting Practice. Shareholders are warned of the potential lack of comparability of the historic financial information and are advised to review the IFRS conversion note 26 in order to obtain a full understanding of any potential differences.

#### 3. DIRECTORS' COMMENTARY

##### **Directors' report**

The directors submit their report for the year ended 28 February 2009.

##### 1. Review of activities

###### ***Main business and operations***

The company and its subsidiary which was acquired with effect from 1 March 2008 are engaged in the construction industry as civil engineering and plant hire contractors.

The results of the company and the group and the state of their affairs are set out in the attached financial statements.

The profit for the year for the group was R51 341 744 (2008: R28 314 430), after taxation of R24 239 015 (2008: R11 907 065).

The profit for the year for the company was R50 174 936 (2008: profit R28 314 430), after taxation of R24 014 057 (2008: R11 907 065).

## 2. **Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 3. **Post-balance sheet events**

The shareholders of the company are currently in negotiations with a listed entity, regarding the sale of the majority of the company's issued share capital.

## 4. **Directors' interest in contracts**

The directors have no interest in contracts.

## 5. **Accounting policies**

During the year the company has chosen to adopt the International Financial Reporting Standards. The date of transition to these standards is 1 March 2007.

The impact on the results of the group in adopting the above policies is reflected in note 26 to the group annual financial statements.

## 6. **Authorised and issued share capital**

During the year, the authorised and issued share capital was subdivided into shares of R0.001 each from shares of R1.00 each. Consequently, the number of authorised shares became 200 000 (2008: 200) and number of issued shares became 100 000 (2008: 100). There was no change in the value of the authorised and issued share capital.

## 7. **Borrowing limitations**

In terms of the Articles of association of the company, the directors may exercise all the powers of the company to borrow money, as they consider appropriate.

## 8. **Non-current assets**

Details of major changes in the nature of the non-current assets of the company during the year is reflected in note 3 of the annual financial statements.

## 9. **Dividends**

A dividend of R12 000 000 was paid to the shareholders of the company on 1 August 2008. The dividends were paid out of retained income.

## 10. **Directors**

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

A H Henning; and  
C H A Ramsay.

## 11. **Secretary**

The company had no secretary during the year.

## 12. **Interest in subsidiaries**

<b>Name of subsidiary</b>	<b>Total issued share capital</b>	<b>Percentage of issued share capital held</b>
EWT Plant Hire and Construction (Pty) Ltd	100 ordinary shares of R1.00 each	100

The attributable interest of the company in the profits of its wholly owned subsidiary is as follows:

	<b>2009</b>
Profit after taxation	R1 166 808

The loan receivable from the subsidiary amounted to R5 526 791 (2008: nil).

Details of the company's investment in subsidiary is set out in note 4.

### 13. Auditors

Mazars Moores Rowland will continue in office in accordance with section 270(2) of the Companies Act.

## 4. BALANCE SHEETS

	Notes	February 2007 R	February 2008 R	February 2009 R
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3	3 777 872	11 500 358	29 917 754
<b>Current assets</b>				
Financial assets	7	539 503	–	7 684 606
Inventories	5	–	–	1 656 159
Current tax receivable		–	–	2 730 138
Trade and other receivables	8	16 798 396	30 025 437	50 579 092
Cash and cash equivalents	9	3 229 577	48 321 909	50 116 315
		<b>20 567 476</b>	<b>78 347 346</b>	<b>112 766 310</b>
<b>Total assets</b>		<b>24 345 348</b>	<b>89 847 704</b>	<b>142 684 064</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	10	100	100	100
Retained income		8 496 506	34 810 936	74 152 680
		<b>8 496 606</b>	<b>34 811 036</b>	<b>74 152 780</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Financial liabilities	11	1 581 808	6 987 977	6 628 065
Deferred tax	12	740 957	2 659 365	5 988 976
		<b>2 322 765</b>	<b>9 647 342</b>	<b>12 617 041</b>
<b>Current liabilities</b>				
Financial liabilities	11	701 117	4 294 831	10 719 340
Current tax payable		234 876	8 922 581	–
Trade and other payables	13	11 977 045	32 171 914	45 194 903
Provisions		612 939	–	–
		<b>13 525 977</b>	<b>45 389 326</b>	<b>55 914 243</b>
<b>Total liabilities</b>		<b>15 848 742</b>	<b>55 036 668</b>	<b>68 531 284</b>
<b>Total equity and liabilities</b>		<b>24 345 348</b>	<b>89 847 704</b>	<b>142 684 064</b>
NAV per share (cents)		8 496.61	34 811.04	74 152.78
NTAV per share (cents)		8 496.61	34 811.04	74 152.78

## 5. INCOME STATEMENTS

	Notes	February 2007 R	February 2008 R	February 2009 R
Revenue	14	69 083 202	218 919 380	352 348 049
Cost of sales	15	(52 043 850)	(146 588 547)	(210 811 631)
Gross profit		17 039 352	72 330 833	141 536 418
Other income		2 035 129	81 808	114 233
Operating expenses		(14 340 665)	(33 192 206)	(67 688 579)
Operating profit	16	4 733 816	39 220 435	73 962 072
Investment revenue	17	178 621	1 840 409	4 372 331
Finance costs	18	(75 778)	(839 349)	(2 753 644)
Profit before taxation		4 836 659	40 221 495	75 580 759
Taxation	19	(1 143 076)	(11 907 065)	(24 239 015)
Profit for the year		3 693 583	28 314 430	51 341 744
EPS (cents)	6	3 693.58	28 314.43	51 341.74
HEPS (cents)	6	2 664.46	28 255.53	53 025.28
Dividends per share (cents)	23	–	2 000	12 000

## 6. CASH FLOW STATEMENTS

	Notes	February 2007 R	February 2008 R	February 2009 R
<b>Cash flows from operating activities</b>				
Cash receipts from customers		64 185 599	211 369 677	343 150 020
Cash paid to suppliers and employees		(60 821 452)	(162 468 419)	(264 587 642)
Cash generated from operations	21	3 364 147	48 901 258	78 562 378
Interest income		178 621	1 425 003	2 435 649
Dividends received		–	415 406	1 936 682
Finance costs		(75 778)	(839 349)	(2 753 644)
Tax paid	22	(1 109 310)	(1 300 953)	(32 562 122)
<b>Net cash from operating activities</b>		<b>2 357 680</b>	<b>48 601 365</b>	<b>47 618 943</b>
<b>Cash flows used in investing activities</b>				
Purchase of property, plant and equipment	3	(2 411 147)	(11 217 036)	(28 628 361)
Sale of property, plant and equipment		2 839 000	168 617	165 662
Repayment of financial liability		–	–	–
Movement in financial assets		(539 503)	539 503	(7 684 606)
Acquisition of business		–	–	(3 741 829)
<b>Net cash from investing activities</b>		<b>(111 650)</b>	<b>(10 508 916)</b>	<b>(39 889 134)</b>
<b>Cash flows used in financing activities</b>				
Increase in financial liabilities		260 528	8 999 883	6 064 597
Dividends paid	23	–	(2 000 000)	(12 000 000)
<b>Net cash from/(used in) financing activities</b>		<b>260 528</b>	<b>6 999 883</b>	<b>(5 935 403)</b>
<b>Total cash movement for the year</b>		<b>2 506 558</b>	<b>45 092 332</b>	<b>1 794 406</b>
Cash at the beginning of the year		723 019	3 229 577	48 321 909
<b>Total cash at end of the year</b>		<b>3 229 577</b>	<b>48 321 909</b>	<b>50 116 315</b>

7. STATEMENTS OF CHANGES IN EQUITY

	Share capital R	Retained income R	Total equity R
<b>Group</b>			
Opening balance as previously reported	100	7 884 074	7 884 174
<i>Adjustments:</i>			
Prior year adjustments	–	612 432	612 432
<b>Balance at 1 March 2007 as restated</b>	<b>100</b>	<b>8 496 506</b>	<b>8 496 606</b>
Changes in equity			
Profit for the year	–	28 314 430	28 314 430
Dividends	–	(2 000 000)	(2 000 000)
Total changes	–	26 314 430	26 314 430
Opening balance as previously reported	100	35 088 490	35 088 590
<i>Adjustments</i>			
Prior year adjustments	–	(277 554)	(277 554)
<b>Balance at 1 March 2008 as restated</b>	<b>100</b>	<b>34 810 936</b>	<b>34 811 036</b>
Changes in equity			
Profit for the year	–	51 341 744	51 341 744
Dividends	–	(12 000 000)	(12 000 000)
Total changes	–	39 341 744	39 341 744
<b>Balance at 28 February 2009</b>	<b>100</b>	<b>74 152 680</b>	<b>74 152 780</b>
<b>Company</b>			
Opening balance as previously reported	100	7 884 074	7 884 174
<i>Adjustments</i>			
Prior period adjustments	–	612 432	612 432
<b>Balance at 1 March 2007 as restated</b>	<b>100</b>	<b>8 496 506</b>	<b>8 496 606</b>
Changes in equity			
Profit for the year	–	28 314 430	28 314 430
Dividends	–	(2 000 000)	(2 000 000)
Opening balance as previously reported	100	35 088 490	35 088 590
<i>Adjustments</i>			
Prior period adjustments	–	(277 554)	(277 554)
<b>Balance at 1 March 2008 as restated</b>	<b>100</b>	<b>34 810 936</b>	<b>34 811 036</b>
Changes in equity			
Profit for the year	–	50 174 936	50 174 936
Dividends	–	(12 000 000)	(12 000 000)
<b>Balance at 28 February 2009</b>	<b>100</b>	<b>72 985 872</b>	<b>72 985 972</b>

## 8. ACCOUNTING POLICIES

### 1. Presentation of Group Annual Financial Statements

The group annual financial statements have been prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa. The group annual financial statements have been prepared using a combination of the historical cost and fair value bases of accounting. Those categories to which the fair value basis of accounting has been applied are indicated in the individual accounting policy notes below. During the year the company has chosen to adopt the International Financial Reporting Standards. The date of transition to these standards is 1 March 2007. Therefore, the annual financial statements for the year ended 28 February 2007 have been prepared in accordance with South African Statements of Generally Accepted Practice and the Companies Act of South Africa.

The principal accounting policies are set out below. These accounting policies are consistent with the previous year.

#### 1.1 Property, plant and equipment

Property, plant and equipment is initially recognised at cost. The cost of property, plant and equipment includes amounts incurred initially to acquire or construct an item of property, plant and equipment and amounts incurred subsequently to add to or replace part of the asset. Replacement costs include the cost of major inspections. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. Day-to-day servicing costs, such as labour and consumables, are expensed in the income statement.

Property, plant and equipment are subsequently measured at cost less accumulated depreciation and any impairment losses.

Depreciation is provided on all property, plant and equipment to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

<b>Item</b>	<b>Average useful life</b>
Plant and machinery	4 years
Furniture and fixtures	5 years
Motor vehicles	5 years
IT and office equipment	3 years

Where a part of an item of property, plant and equipment is significant in relation to the cost of the item, that part is depreciated separately. The depreciation charge is recognised as an expense in the income statement. The residual values, useful lives and depreciation methods applied to property, plant and equipment are reviewed, and adjusted if necessary, on an annual basis. These changes are accounted for as a change in estimate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the income statement and is calculated as the difference between the net disposal proceeds, if any, and the carrying amount of the item at the date of derecognition.

#### 1.2 Investment in subsidiary

The group annual financial statements comprise the consolidated annual financial statements of the holding company and its subsidiary.

The annual financial statements of the subsidiary is prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full in the consolidated annual financial statements.

The subsidiary is consolidated from the date of acquisition, which is the date on which the group obtains control of the subsidiary, and will continue to be consolidated until the date that control ceases.

The initial accounting of a subsidiary in the consolidated annual financial statements on the date of acquisition follows the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed.

On acquisition the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less costs to sell.

### **Company group annual financial statements**

In the company's separate group annual financial statements, investment in subsidiary are carried at cost. The cost of an investment in subsidiary is the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued and the direct costs attributable to the acquisition of the subsidiary.

## **1.3 Financial instruments**

### ***Initial recognition***

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

### ***Loans and receivables***

These financial assets are initially measured at fair value plus direct transaction costs. At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. The amortised cost method results in the accrual of interest in each period by applying the effective interest rate implicit to the loan to the outstanding balance on the loan. Any repayments made reduce the loans.

### ***Loans to/(from) group companies***

These include loans to subsidiary, and is recognised initially at fair value plus direct transaction costs.

Loan receivables that bear no interest and where there are no determinable terms of repayment are included in non-current assets on the assumption that repayment will only occur after 12 months from the balance sheet date. Any adjustment arising from applying the effective interest rate method over a 12-month period is ignored if it is immaterial and the loan is then recorded at cost.

Loan payables that bear no interest and where there are no determinable terms of repayment are included in current liabilities, unless the company has an unconditional right to defer settlement for at least 12 months from the balance sheet date. If the liability is included in non-current liabilities, it is assumed that repayment will only occur after 12 months from the balance sheet date. Any adjustment arising from applying the effective interest rate method over a 12-month period is ignored if it is immaterial and the loan is then recorded at cost.

### ***Trade and other receivables***

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for estimated irrecoverable amounts is recognised in the income statement when there is objective evidence that the asset is impaired.

Trade receivables where the repayment is deferred beyond normal credit terms are measured initially at fair value. Subsequently, these receivables are measured at amortised cost using the effective interest rate method. This results in interest income being recognised in the income statement over the period of the deferral.

### ***Trade and other payables***

Trade payables are recognised and carried at original invoice amount less repayments.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and other short term deposits. Cash and cash equivalents are 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. These are initially and subsequently recorded at fair value.

For purposes of the cash flow statement, cash and cash equivalents comprise cash and cash equivalents defined above, net of outstanding bank overdrafts.

### ***Bank overdraft and borrowings***

Bank overdrafts and borrowings are initially measured at fair value, which is the cash consideration received less transaction costs. Subsequently, bank overdrafts and borrowings are 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 company's accounting policy for borrowing costs.

## 1.4 **Tax**

### ***Current tax assets and liabilities***

Current tax for current and prior periods is, to the extent unpaid, recognised as a tax payable in the balance sheet. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as a tax receivable in the balance sheet.

Current tax liabilities and current tax assets are measured at the amount expected to be paid to/(recovered from) the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

### ***Deferred tax assets and liabilities***

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither accounting profit/(accounting loss) nor taxable profit/(tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction, affects neither accounting profit (accounting loss) nor taxable profit/(tax loss).

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

Deferred tax assets and liabilities are offset for presentation in the balance sheet where the company has a legally enforceable right to do so and the income taxes relate to the same tax authority.

### ***Tax expenses***

Current and deferred taxes are recognised as income or an expense and included in the income statement. The current tax payable is based on taxable profit. Taxable profit differs from profit reported in the income statement when there are items of income or expense that are taxable or deductible in other years and it also excludes items that are never taxable or deductible under existing tax legislation.

Secondary taxation on companies is provided in respect of declared dividends, net of dividends received or receivable, and is recognised as a taxation charge in the income statement in the year the related dividend is declared.

#### 1.5 **Leases**

Leases of assets where the company assumes substantially all the benefits and risks of ownership are classified as finance leases. Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases.

##### ***Operating leases – lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is not discounted.

Contingent rentals are not accounted for on a straight-line basis, but are expensed in the income statement in the period in which they occur.

#### 1.6 **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and comprises all the costs of purchase, incurred in bringing the inventories to their present location and condition.

Construction equipment and spare parts are classified as inventory and accounted for using the measurement principles in this accounting policy. The costs of these construction equipment and spare parts is recognised in the income statement when consumed.

#### 1.7 **Construction contracts and receivables**

Contract costs comprise the costs that relate directly to the specific contract, costs that are attributable to contract activity in general and can be allocated to the contract and such other costs as are specifically chargeable to the customer under the terms of the contract.

Where the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the completion of a physical proportion of the contract work.

Contract costs incurred during the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within trade and other receivables.

The group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense 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 in the income statement.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

## 1.8 **Share capital and equity**

Share capital and other equity instruments issued by the company are recorded at the proceeds received, net of issue costs.

## 1.9 **Employee benefits**

### ***Short-term employee benefits***

The cost of short-term employee benefits, are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated leave absences is recognised as an expense as the employee render service that increase their entitlement or, in the case of non-accumulating leave absences, when the absents occurs. Accumulating compensated leave absences are measured as the amount that the company expects to pay as a result of unused entitlement that has accumulated at the balance sheet date.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

## 1.10 **Provisions and contingencies**

Contingent assets and contingent liabilities are not recognised, but are disclosed in note 25 to the financial statements.

## 1.11 **Revenue**

Revenue from construction contracts is recognised in accordance with the accounting policy for construction contracts and receivables.

Revenue from construction contracts comprise the initial amount of revenue agreed in the contract and variations in contract work, claims and incentive payments and excludes investment and non-operating income and value-added taxation. Revenue on long term contracts are recognised on contract certificates certified by independent consulting engineers or quantity surveyors on a monthly basis.

The group earns revenue from the hire of plant and construction contracts net of value-added tax.

Interest revenue is recognised in the income statement, using the effective interest rate method.

Dividend revenue is recognised in the income statement when the company's right to receive payment has been established. This normally coincides with the declaration of the dividend.

## 1.12 **Cost of sales**

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

## 1.13 **Borrowing costs**

Borrowing costs arise on the borrowing of funds and are recognised as an expense in the income statement, in the finance costs line item, in the period in which they are incurred.

## 1.14 **Business combinations**

The initial accounting of a business combination on the date of acquisition follows the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed.

The cost of the business combination is the total of the fair values of all assets given, liabilities incurred and equity instruments issued to acquire the business, including directly attributable costs.

## NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

### 2. New standards and interpretations

#### 2.1 Standards and interpretations early adopted

There were no standards early adopted by the group.

#### 2.2 Standards and interpretations not yet effective

The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 01 March 2009 or later periods:

##### **IAS 1 (Revised) Presentation of Financial Statements**

The main revisions to IAS 1 (AC 101):

- Require the presentation of non-owner changes in equity either in a single statement of comprehensive income or in an income statement and statement of comprehensive income.
- Require the presentation of a balance sheet at the beginning of the earliest comparative period whenever a retrospective adjustment is made. This requirement includes related notes.
- Require the disclosure of income tax and reclassification adjustments relating to each component of other comprehensive income. The disclosures may be presented on the face of the statement of comprehensive income or in the notes.
- Allow dividend presentations to be made either in the statement of changes in equity or in the notes only.
- Have changed the titles to some of the financial statement components, where the 'balance sheet' becomes the 'statement of financial position' and the 'cash flow statement' becomes the 'statement of cash flows.' These new titles will be used in International Financial Reporting Standards, but are not mandatory for use in financial statements.

The effective date of the standard is for years beginning on or after 1 January 2009.

The group expects to adopt the standard for the first time in the 2010 group annual financial statements.

The adoption of this standard is not expected to impact on the results of the company, but may result in more disclosure than is currently provided in the group annual financial statements.

##### **IAS 23 (Revised) Borrowing Costs**

The revision requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed.

The effective date of the standard is for years beginning on or after 1 January 2009.

The group expects to adopt the standard for the first time in the 2010 group annual financial statements.

Application of the standard will result in these costs being capitalised.

##### **May 2008 Annual Improvements to IFRS's: Amendments to IAS 10 Events after the Reporting Period**

The amendment clarified that if dividends are declared (appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends may not be recognised as a liability as no obligation exists at the reporting date. Thus clarifying that in such cases a liability cannot be raised even if there is a constructive obligation.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

#### **May 2008 Annual Improvements to IFRS's: Amendments to IAS 16 Property, Plant and Equipment**

The amendment requires entities that routinely sell items of property, plant and equipment that they have previously held for rental to others, to transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. The proceeds from the sale of such assets should be recognised as revenue in accordance with IAS 18 (AC 111) Revenue. IFRS 5 (AC 142) Non-current Assets Held for Sale and Discontinued Operations does not apply in these situations.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

#### **May 2008 Annual Improvements to IFRS's: Amendments to IAS 19 Employee Benefits**

With regards to curtailments and negative past service costs clarification has been made that:

- when a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost;
- negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and
- a curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.

The definition of 'return on plan assets' has also been amended to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.

The term "fall due" in the definition of "short-term employee benefits" has been replaced with "due to be settled"

The standard has been amended to clarify that information about contingent liabilities relating to multi-employer plans should be disclosed, and not "recognised," as the wording of the standard could previously be interpreted.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

#### **May 2008 Annual Improvements to IFRS's: Amendments to IAS 27 Consolidated and Separate Financial Statements**

The amendment requires that investments in subsidiaries, jointly controlled entities and associates accounted for in accordance with IAS 39 (AC 133) Financial Instruments: Recognition and Measurement in the parent's separate financial statements should continue to be measured in accordance with IAS 39 (AC 133) when classified as held for sale (or included in a disposal group classified as held for sale), and not in accordance with IFRS 5 (AC 142) Non-current Assets Held for Sale and Discontinued Operations.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

**May 2008 Annual Improvements to IFRS's: Amendments to IFRS 7 Financial Instruments: Disclosures; IAS 32 Financial Instruments: Presentation; IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures**

The amendment adjusted the disclosure requirements of investments in associates and interests in joint ventures which have been designated as at fair value through profit or loss or are classified as held for trading. The amendment provides that only certain specific disclosure requirements of IAS 28 (AC 110) Investments in Associates and IAS 31 (AC 119) Interests in Joint Ventures are required together with the disclosures of IFRS 7 (AC 144) Financial Instruments: Disclosures; IAS 32 (AC 125) Financial Instruments: Presentation.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

**May 2008 Annual Improvements to IFRS's: Amendments to IAS 28 Investments in Associates**

The amendment clarifies that because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested separately for impairment. Instead the entire carrying amount of the investment is tested for impairment. Any resulting impairment loss is not allocated to any of the assets, including goodwill, that make up the carrying amount of the investment. Therefore any reversal of an impairment loss is reversed to the extent that the recoverable amount of the investment increases. This applies to the full impairment loss, because the impairment was not allocated to goodwill.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

**May 2008 Annual Improvements to IFRS's: Amendments to IAS 36 Impairment of Assets**

The amendment requires disclosures of estimates used to determine the recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives. Specifically, the following disclosures are required when discounted cash flows are used to estimate fair value less costs to sell:

- the period over which management has projected cash flows;
- the growth rate used to extrapolate cash flow projections;
- the discount rate(s) applied to the cash flow projections.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

## **May 2008 Annual Improvements to IFRS's: Amendments to IAS 40 Investment Property and IAS 16 Property, Plant and Equipment**

Property being constructed for use as investment property is now classified as investment property and not property, plant and equipment (as previously required). Even if the entity accounts for investment property at fair value, such property may be measured at cost until the earlier of the date on which fair value is determinable or construction is complete.

Some terminology in the Standard has been amended to be consistent with other Standards and Interpretations.

In determining the carrying amount of investment property held under a lease and accounted for using the fair value model, the amendment clarified that any lease liability should be added back to the valuation to arrive at the carrying amount, rather than the fair value of the investment property.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

### **IAS 18 Revenue: Consequential amendments**

Dividends paid out of pre-acquisition profits are no longer deducted from the cost of the investment.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

### **IAS 36 Impairment of Assets: Consequential amendments**

Under certain circumstances, a dividend received from a subsidiary, associate or joint venture could be an indicator of impairment. This occurs when:

- carrying amount of investment in separate financial statements is greater than carrying amount of investee's net assets including goodwill in consolidated financial statements; or
- dividend exceeds total comprehensive income of investee in period dividend is declared.

The effective date of the amendment is for years beginning on or after 1 January 2009.

The group expects to adopt the amendment for the first time in the 2010 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

### **IFRS 3 (Revised) Business Combinations**

The revisions to IFRS 3 (AC 140) Business combinations require:

- Acquisition costs to be expensed.
- Non-controlling interest to either be calculated at fair value or at their proportionate share of the net identifiable assets of the acquiree.
- Contingent consideration to be included, at fair value, in the cost of the business combination without further adjustment to goodwill, apart from measurement period adjustments.
- All previous interests in the acquiree to be remeasured to fair value at acquisition date when control is achieved in stages, and for the fair value adjustments to be recognised in profit or loss.

- Goodwill to be measured as the difference between the acquisition date fair value of consideration paid, non-controlling interest and fair value of previous shareholding and the fair value of the net identifiable assets of the acquiree.
- The acquirer to reassess, at acquisition date, the classification of the net identifiable assets of the acquiree, except for leases and insurance contracts.
- Contingent liabilities of the acquiree to only be included in the net identifiable assets when there is a present obligation with respect to the contingent liability.
- The requirements have been clarified for how the acquirer accounts for some of the assets and liabilities acquired in a business combination such as replacing the acquiree's share-based payment awards, being indemnified by the seller, embedded derivatives, cash flow hedges and operating leases.
- Business combinations involving only mutual entities and business combinations achieved by contract alone are now within the scope of IFRS 3.
- Requirements have been added regarding re-acquired rights. Where the acquirer and acquiree were parties to a pre-existing relationship (eg. the acquirer had granted the acquiree a right to use its intellectual property where the terms of any contract are not market terms), a gain or loss is recognised and the purchase consideration adjusted to reflect a payment or receipt for the non-market terms, and an intangible asset (being the rights re-acquired) is recognised at fair value and amortised over the contract term.

The effective date of the standard is for years beginning on or after 1 July 2009.

The group expects to adopt the standard for the first time in the 2011 group annual financial statements.

It is unlikely that the standard will have a material impact on the company's group annual financial statements.

### **IAS 27 (Amended) Consolidated and Separate Financial Statements**

The revisions require:

- Losses of the subsidiary to be allocated to non-controlling interest, even if they result in the non-controlling interest being a debit balance.
- Changes in level of control without loss of control to be accounted for as equity transactions, without any gain or loss being recognised or any remeasurement of goodwill.
- When there is a change in the level of control without losing control, the group is prohibited from making reclassification adjustments.
- When control is lost, the net identifiable assets of the subsidiary as well as non-controlling interest and goodwill are to be derecognised. Any remaining investment is remeasured to fair value at the date on which control is lost, and a gain or loss on loss of control is recognised in profit or loss.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group expects to adopt the amendment for the first time in the 2011 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

### **IAS 7 Statement of Cash flows: Consequential amendments due to IAS 27 (Amended) Consolidated and Separate Financial Statements**

Cash flows arising from changes in level of control, where control is not lost, are equity transactions and are therefore accounted for as cash flows from financing transactions.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group expects to adopt the amendment for the first time in the 2011 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

## **IAS 12 Income Taxes – consequential amendments due to IAS 27 (Amended) Consolidated and Separate Financial Statements**

The amendment is as a result of amendments to IAS 27 (AC 132) Consolidate and Separate Financial Statements. The amendment refers to situations where a subsidiary, on acquisition date, did not recognise a deferred tax asset in relation to deductible temporary differences, because, for example, there may not have been sufficient future taxable profits against which to utilise the deductible temporary differences. If the deferred tax asset subsequently becomes recognisable, the amendment now requires that the deferred tax asset should be recognised against goodwill (and profit or loss to the extent that it exceeds goodwill), only if it results from information in the measurement period about circumstances that existed at acquisition date. No adjustment may be made to goodwill for information outside of the measurement period.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group expects to adopt the amendment for the first time in the 2011 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

## **May 2008 Annual Improvements to IFRS's: Amendments to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations**

The amendment clarifies that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.

The effective date of the amendment is for years beginning on or after 1 July 2009.

The group expects to adopt the amendment for the first time in the 2011 group annual financial statements.

It is unlikely that the amendment will have a material impact on the company's group annual financial statements.

### **2.3 Standards and interpretations not yet effective or relevant**

The following standards and interpretations have been published and are mandatory for the group's accounting periods beginning on or after 1 March 2009 or later periods but are not relevant to its operations:

#### **IFRIC 13 Customer Loyalty Programmes**

IFRIC 13 (AC 446) clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values.

The effective date of the interpretation is for years beginning on or after 1 July 2008.

The group does not envisage the adoption of the standard until such time as it becomes applicable to the group's operations.

It is unlikely that the interpretation will have a material impact on the company's group annual financial statements.

#### **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

The interpretation deals with the following issues:

- Presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.
- Any entity or entities within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation. The parent entity holding the net investment in a foreign operation therefore does not also have to hold the hedging instrument.

- How an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment.
- IAS 39 (AC 133) Financial Instruments: Recognition and Measurement, must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, and IAS 21 (AC 112) The Effects of Changes in Foreign Exchange Rates must be applied in respect of the hedged item.

The effective date of the interpretation is for years beginning on or after 1 October 2008.

The group does not envisage the adoption of the standard until such time as it becomes applicable to the group's operations.

It is unlikely that the interpretation will have a material impact on the company's group annual financial statements.

### **IFRIC 15 Agreements for the Construction of Real Estates**

IFRIC 15 (AC 448) specifies whether an agreement for the construction of real estate is within the scope of IAS 11 (AC 109) Construction Contracts or IAS 18 (AC 111) Revenue, and thus impacts the related recognition of revenue. An agreement for the construction of real estate is a construction contract within the scope of IAS 11 (AC 109) only when the buyer is able to specify the major structural elements of the design of the real estate before construction begins and/or specify major structural changes once construction is in progress. Revenue in such cases should be determined in accordance with the percentage of completion of the contract. In all other cases, IAS 18 (AC 111) applies. If IAS 18 (AC 111) applies and the entity is required to provide the materials for the construction as well as carry out the construction activity, the supply represents the sale of goods. In such cases, revenue is recognised on delivery of the constructed asset. If the entity is not required to provide materials, but only to construct the real estate, the supply is the rendering of services, and revenue should be recognised on the percentage of completion basis.

The effective date of the interpretation is for years beginning on or after 1 January 2009.

The group does not envisage the adoption of the standard until such time as it becomes applicable to the group's operations.

It is unlikely that the interpretation will have a material impact on the company's group annual financial statements.

### **IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements Amendment: Puttable Financial Instruments and obligations Arising on Liquidation**

The revision requires that certain puttable financial instruments and other instruments that impose on the entity an obligation to deliver a *pro rata* share of the net assets of the entity on liquidation should be classified as equity if certain conditions are met. Any classifications of such items are to be disclosed in the financial statements, together with information concerning the entity's objectives and policies with regards to managing such obligations.

The effective date of the standard is for years beginning on or after 1 January 2009.

The group does not envisage the adoption of the standard until such time as it becomes applicable to the group's operations.

It is unlikely that the standard will have a material impact on the company's group annual financial statements.

### 3. Property, plant and equipment

	Group 2009			Group and Company 2008		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Plant and machinery	36 810 317	(17 424 496)	19 385 821	8 726 790	(2 882 940)	5 843 850
Furniture and fixtures	697 488	(296 462)	401 026	–	–	–
Motor vehicles	15 913 401	(5 996 551)	9 916 850	8 834 878	(3 636 256)	5 198 622
IT equipment	815 488	(601 431)	214 057	731 486	(273 600)	457 886
Tools and equipment	55 950	(55 950)	–	–	–	–
	<b>54 292 644</b>	<b>(24 374 890)</b>	<b>29 917 754</b>	<b>18 293 154</b>	<b>(6 792 796)</b>	<b>11 500 358</b>

#### Company 2007

	Cost	Accumulated depreciation	Carrying value
Plant and machinery	2 976 102	(1 424 811)	1 551 291
Motor vehicles	4 339 658	(2 204 753)	2 134 905
IT equipment	241 959	(150 283)	91 676
	<b>7 557 719</b>	<b>(3 779 847)</b>	<b>3 777 872</b>

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

	Opening balance	Additions	Additions through business combinations	Disposals	Other changes, movements	Depreciation	Total
Plant and machinery	5 843 850	9 946 827	10 664 099	(36 204)	714 375	(7 747 126)	19 385 821
Furniture and fixtures	–	501 282	30 206	–	–	(130 462)	401 026
Motor vehicles	5 198 622	6 366 231	1 027 262	(15 225)	(1 026 057)	(1 633 983)	9 916 850
IT equipment	457 886	–	92 454	–	–	(336 283)	214 057
	<b>11 500 358</b>	<b>16 814 340</b>	<b>11 814 021</b>	<b>(51 429)</b>	<b>(311 682)</b>	<b>(9 847 854)</b>	<b>29 917 754</b>

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

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Plant and machinery	5 843 850	9 946 827	(36 204)	(143 695)	(3 330 318)	12 280 460
Furniture and fixtures	–	501 282	–	–	(100 256)	401 026
Motor vehicles	5 198 622	6 366 231	(15 225)	(167 987)	(1 915 068)	9 466 573
IT equipment	457 886	–	–	–	(243 829)	214 057
	<b>11 500 358</b>	<b>16 814 340</b>	<b>(51 429)</b>	<b>(311 682)</b>	<b>(5 589 471)</b>	<b>22 362 116</b>

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

	Opening balance	Additions	Disposals	Depreciation	Total
Plant and machinery	1 299 428	5 966 312	(38 162)	(1 383 728)	5 843 850
Motor vehicles	1 774 336	4 761 196	(48 647)	(1 288 263)	5 198 622
IT equipment	91 676	489 528	–	(123 318)	457 886
	<b>3 165 440</b>	<b>11 217 036</b>	<b>(86 809)</b>	<b>(2 795 309)</b>	<b>11 500 358</b>

Certain property, plant and equipment with a book value of R19 310 013 (2008: R9 868 811) are encumbered as referred to in note 11.

## Reconciliation of property, plant and equipment – Company 2007

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Plant and machinery	2 454 702	902 000	(1 373 773)	251 863	(683 501)	1 551 291
Motor vehicles	785 543	1 509 147	(35 895)	360 569	(484 459)	2 134 905
IT equipment	140 069	–	–	–	(48 393)	91 676
	<b>3 380 314</b>	<b>2 411 147</b>	<b>(1 409 668)</b>	<b>612 432</b>	<b>(1 216 353)</b>	<b>3 777 872</b>

### 4. Investment in subsidiary

	Holding 2009	Carrying amount 2009	Carrying amount 2008
EWT Plant Hire and Construction (Proprietary) Limited	100%	2 039 587	–

### 5. Inventories

Construction equipment and spares	–	1 656 159	–
	<b>2007</b>	<b>2008</b>	<b>2009</b>

### 6. Earnings per share

Basic earnings per share	2009	2008	2007
Profit attributable to ordinary shareholders:	51 341 744	28 314 430	3 693 582
Weighted average number of ordinary shares	100 000	100 000	100 000
<b>Total basic earnings per share (cents)</b>	<b>51 342</b>	<b>28 314</b>	<b>3 694</b>

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of R51 341 744 (2008: R28 314 430) (2007: 3 693 582) and a weighted average number of ordinary shares in issue during the year of 100 000 (2008: 100 000) (2007: 100 000), calculated as above.

#### Headline earnings per share

Reconciliation of headline earnings:

Profit attributable to ordinary shareholders	51 341 744	28 314 430	3 693 582
<i>Adjusted for:</i>			
Profit on sale of property, plant and equipment	(114 233)	(81 808)	(1 429 332)
Impairment of goodwill	1 765 788	–	–
Tax effects of adjustments	31 985	22 906	400 212
Headline earnings	53 025 284	28 255 528	2 664 462
<b>Headline earnings per share (cents)</b>	<b>53 025</b>	<b>28 256</b>	<b>2 664</b>

The calculation of headline earnings per share is based on the headline earnings attributable to ordinary shareholders of R53 025 284 (2008: R28 255 528) (2007: R2 664 463) and a weighted average number of ordinary shares in issue during the year of 100 000 (2008: 100 000) (2007: 100 000), calculated as above.

## 7. Financial assets

### Loans and receivables:

Unit 7 and 8 Lakeside (Proprietary) Limited	39 503	–	7 684 606
Machine Cutting Services	500 000		

The loans to Unit 7 and 8 Lakeside (Proprietary) Limited, a company controlled by the major shareholders of Civcontract Civils (Proprietary) Limited is regarded as a current account in respect of the property leased by on Civcontract Civils (Proprietary) Limited, further details of which are set out in note 27.

The loans are unsecured, interest free, have no fixed date of repayment and are repayable by mutual consent. The loans are recorded at cost as there is uncertainty as to the timing of the future cash flows.

### Current assets

Loans and receivables	<b>539 503</b>	–	<b>7 684 606</b>
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The fair value of the loan cannot be reliably determined as there is uncertainty as to the timing of the future cash flows.

## 8. Trade and other receivables

	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>R</b>	<b>R</b>	<b>R</b>
Contract debtors	13 786 213	17 616 240	27 895 298
Retention debtors	2 967 326	11 330 998	20 359 202
VAT	–	750 327	2 311 548
Staff loans	27 757	–	10 000
Deposits and other receivables	17 100	327 872	3 044
	<b>16 798 396</b>	<b>30 025 437</b>	<b>50 579 092</b>

### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired are evaluated by management on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent ratings, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

### Fair value of trade and other receivables

Trade and other receivables	16 798 396	29 275 110	48 267 544
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### Trade and other receivables past due but not impaired

Trade and other receivables which are less than three months past due are not considered to be impaired. At 28 February 2009, R239 623 (2008: R170 849) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Past due not impaired			
> 90 days	2 850	170 849	239 623

### Trade and other receivables impaired

As of 28 February 2009, the group and companies considered that all trade receivables would be recoverable. Therefore the group and company did not impair, nor provide for impairment of trade receivables.

	2007 R	2008 R	2009 R
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### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 895 989	19 507 428	29 148 039
Short-term deposits	296 888	28 777 654	20 912 519
Cash on hand	36 700	36 827	55 757
	<b>3 229 577</b>	<b>48 321 909</b>	<b>50 116 315</b>

The extent of overdraft and guarantee facilities issued by the bank at the financial year end was R nil (2008: R7 000 000). The bank held unlimited suretyship incorporating cessions of loan funds from the directors C H Ramsay and A H Henning.

### Credit quality of cash at bank and short-term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand that are neither past due nor impaired are considered acceptable due to the credit rating of the company's bankers.

	2007 R	2008 R	2009 R
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### 10. Share capital

#### Authorised

200 000 ordinary shares of R0.001 each (2008: 200 ordinary shares of R1.00 each)	200	200	200
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#### Issued

100 000 ordinary shares at R0.001 each (2008: 100 ordinary shares of R1.00 each)	100	100	100
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### 11. Financial liabilities

#### Held at amortised cost:

Unit 7 and 8 Lakeside (Proprietary) Limited	–	776 299	–
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The loan is unsecured, interest free, has no fixed date of repayment and is repayable by mutual consent. The loan is recorded at cost as there is uncertainty as to the timing of the future cash flows further details of which are set out in note 7.

Instalment sale agreements	2 282 925	10 506 509	17 347 405
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Liabilities under installment sale agreements are payable over an average period of three years and are secured by property, plant and equipment with a book value of R19 310 013 (2008: R9 868 811) as referred to in note 2, bearing interest at rates linked to the prime interest rate.

	2007 R	2008 R	2009 R
<b>Non-current liabilities</b>			
At amortised cost	1 581 808	6 987 977	6 628 065
<b>Current liabilities</b>			
At amortised cost	701 117	4 294 831	10 719 340
	<b>2 282 925</b>	<b>11 282 808</b>	<b>17 347 405</b>

The fair values of the financial liabilities were determined as follows:

- The fair value of the instalment sale agreements approximate amortised cost as they bear interest at market-related rates.

## 12. Deferred tax

### Deferred tax liability

Provision for leave pay	–	261 660	376 748
Tangible assets	179 964	233 668	7 532
Retention debtors	(860 525)	(3 385 160)	(5 992 372)
Retention creditors	(60 396)	341 655	677 824
Discounting of debtors and creditors	–	168 813	30 575
Provision – cost accrual	–	(280 000)	(840 000)
Lease accrual	–	–	42 476
Correction to opening balance	–	–	(291 759)
	<b>(740 957)</b>	<b>(2 659 364)</b>	<b>(5 988 976)</b>

### Reconciliation of deferred tax asset (liability)

At beginning of the year	(575 432)	(740 957)	(2 659 365)
Reduction due to rate change	–	25 550	–
Originating temporary difference on tangible fixed assets	(118 581)	236 972	(226 136)
Reversing temporary difference on lease accrual	–	–	42 476
Originating temporary difference on provisions	–	370 037	(115 088)
Originating temporary difference on debtor and creditor retentions	(46 944)	(2 270 967)	(2 268 141)
Originating temporary difference on discounting of creditors	–	–	(1 614 481)
Originating temporary difference on provision for cost accruals	–	(280 000)	560 000
Correction to deferred tax balance	–	–	291 759
	<b>(740 957)</b>	<b>(2 659 365)</b>	<b>(5 988 976)</b>

## 13. Trade and other payables

Trade payables	10 408 120	18 703 039	28 880 795
Accruals	477 238	11 030 825	5 202 534
Subcontract retentions	344 838	1 121 100	2 268 851
Provision for leave pay	–	934 500	1 345 530
Provision for bonus	–	382 450	7 459 171
VAT	746 848	–	38 022
	<b>11 977 044</b>	<b>32 171 914</b>	<b>45 194 903</b>

### Fair value of trade and other payables

Trade payables	11 230 196	32 171 914	45 156 881
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	2007 R	2008 R	2009 R
<b>14. Revenue</b>			
Construction contracts	64 713 187	218 747 673	352 088 937
External Plant Hire	4 370 015	171 707	259 112
	<b>69 083 202</b>	<b>218 919 380</b>	<b>352 348 049</b>
	2007 R	2008 R	2009 R
<b>15. Cost of sales</b>			
<b>Construction contracts:</b>			
Raw materials and consumables	24 413 369	61 697 890	92 749 136
Sub-contractors and other expenses	7 108 169	59 868 735	85 573 443
Plant and transport	1 893 949	4 659 326	240 437
Employee costs	18 628 363	20 362 596	32 248 615
<b>Total</b>	<b>52 043 850</b>	<b>146 588 547</b>	<b>210 811 631</b>
<b>16. Operating profit</b>			
Operating profit for the year is stated after accounting for the following:			
<b>Operating lease charges</b>			
Premises			
• Contractual amounts	–	500 730	190 000
Equipment			
• Contractual amounts	–	–	1 298 803
	<b>–</b>	<b>500 730</b>	<b>1 488 803</b>
Profit on sale of property, plant and equipment	1 429 332	81 808	114 233
Depreciation, amortisation and impairments	1 216 352	3 106 991	9 847 854
Employee costs	4 038 409	16 278 591	24 237 393
Consulting and professional fees	–	–	1 048 582
Impairment of goodwill	–	–	1 765 788
<b>17. Investment revenue</b>			
<b>Dividend revenue</b>			
Financial assets – local	–	415 406	1 936 682
<b>Interest revenue</b>			
Bank	178 621	1 424 227	2 432 561
Loans to employees	–	776	3 088
	178 621	1 425 003	2 435 649
	<b>178 621</b>	<b>1 840 409</b>	<b>4 372 331</b>

	<b>2007 R</b>	<b>2008 R</b>	<b>2009 R</b>
<b>18. Finance costs</b>			
Current borrowings	75 778	839 349	2 753 644
<b>19. Taxation</b>			
Major components of the tax expense			
<b>Current</b>			
Local income tax – current period	977 550	9 788 658	19 747 649
Local income tax – recognised in current tax for prior periods	–	–	56 522
STC	–	200 000	1 105 232
	<b>977 550</b>	<b>9 988 658</b>	<b>20 909 403</b>
<b>Deferred</b>			
Deferred tax	165 526	1 918 407	3 329 612
	<b>1 143 076</b>	<b>11 907 065</b>	<b>24 239 015</b>
<b>Reconciliation of the tax expense:</b>			
Reconciliation between applicable tax rate and average effective tax rate.			
Applicable tax rate	29.00%	28.00%	28.00%
Exempt income	–	(1.19)%	(1.19)%
Non-deductible expense	–	2.79%	5.26%
Correction to deferred tax balance	(5.37%)	–	–
	<b>23.63%</b>	<b>29.60%</b>	<b>32.07%</b>
<b>20. Auditors' remuneration</b>			
Fees – prior year	(38 943)	68 850	118 417
Tax and secretarial services	–	4 041	7 424
	<b>(38 943)</b>	<b>72 891</b>	<b>125 841</b>
<b>21. Cash generated from operations</b>			
Profit before taxation	4 836 659	40 221 495	75 580 759
<b>Adjustments for:</b>			
Depreciation, amortisation and impairments	1 216 352	3 106 991	9 847 854
Profit on sale of assets	(1 429 332)	(81 808)	(114 233)
Dividends received	–	(415 406)	(1 936 682)
Interest received	(178 621)	(1 425 003)	(2 435 649)
Finance costs	75 778	839 349	2 753 644
Impairment loss	–	–	1 765 788
Movements in provisions	274 055	321 560	–
IFRS adjustment and other non-cash item	–	–	2 287 722
<b>Changes in working capital:</b>			
Inventories	–	–	(1 656 159)
Trade and other receivables	(10 167 974)	(13 178 795)	(20 553 655)
Trade and other payables	8 737 230	19 512 875	13 022 989
	<b>3 364 147</b>	<b>48 901 258</b>	<b>78 562 378</b>

	<b>2007 R</b>	<b>2008 R</b>	<b>2009 R</b>
<b>22 Tax paid</b>			
Balance at beginning of the year	(366 636)	(234 876)	(8 922 581)
Current tax for the year recognised in income statement	(977 550)	(9 988 658)	(20 909 403)
Balance at end of the year	234 876	8 922 581	(2 730 138)
	<b>(1 109 310)</b>	<b>(1 300 953)</b>	<b>(32 562 122)</b>

**23. Dividends paid**

Dividends	–	(2 000 000)	(12 000 000)
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Dividends are from retained income.

**24. Commitments**

**Operating leases – as lessee (expense)**

**Minimum lease payments due**

– within one year	–	–	490 000
– in second to fifth year inclusive	–	–	4 638 284
	<b>–</b>	<b>–</b>	<b>5 128 284</b>

Operating lease payments represent rentals payable by the group for certain of its office properties. Leases are negotiated and fixed for an average term of five years. No contingent rent is payable.

**25. Contingencies**

Tax consequences of undistributed reserves			
STC on remaining reserves	876 008	3 164 631	6 741 153

**26. First-time adoption of International Financial Reporting Standards**

The group has applied IFRS 1: First-time Adoption of International Financial Reporting Standards, to provide a starting point for the reporting under International Reporting and Accounting Standards. On principle these standards have been applied retrospectively and the 2008 comparatives contained in these group annual financial statements differ from those published in the group annual financial statements published for the year ended 29 February 2008.

The date of transition was 1 March 2007 and the effect of the transition was as follows:

**Reconciliation of equity at 1 March 2007 (date of transition to the new standards)**

	<b>As reported under previous GAAP</b>	<b>Effects of transition IFRS</b>	<b>IFRS</b>
Property, plant and equipment	3 165 440	612 432	3 777 872
Financial assets	539 503	–	539 503
Trade and other receivables	16 798 396	–	16 798 396
Cash and cash equivalents	3 229 577	–	3 229 577
<b>Total current assets</b>	<b>20 567 476</b>	<b>–</b>	<b>20 567 476</b>
Financial liabilities	2 282 925	–	2 282 925
Trade and other payables	11 977 045	–	11 977 045
Provisions	612 939	–	612 939
Current tax liability	234 876	–	234 876
Deferred tax liability	740 957	–	740 957
<b>Total liabilities</b>	<b>15 848 742</b>	<b>–</b>	<b>15 848 742</b>
<b>Total assets less total liabilities</b>	<b>7 884 174</b>	<b>612 432</b>	<b>8 496 606</b>
Issued capital	100	–	100
Retained earnings	7 884 074	612 432	8 496 506
<b>Total equity</b>	<b>7 884 174</b>	<b>612 432</b>	<b>8 496 606</b>

**Reconciliation of equity at 29 February 2008**

	<b>As reported under previous GAAP</b>	<b>Effects of transition IFRS</b>	<b>IFRS</b>
Property, plant and equipment	11 188 676	311 682	11 500 358
Trade and other receivables	30 880 843	(855 406)	30 025 437
Cash and cash equivalents	48 321 909	–	48 321 909
<b>Total current assets</b>	<b>79 202 752</b>	<b>(855 406)</b>	<b>78 347 346</b>
Loans and borrowings	10 506 509	–	10 506 509
Trade and other payables	32 424 420	(252 506)	32 171 914
Loans from group companies	776 299	–	776 299
Current tax liability	9 212 941	(290 360)	8 922 581
Deferred tax liability	2 382 669	276 696	2 659 365
<b>Total liabilities</b>	<b>55 302 838</b>	<b>(266 170)</b>	<b>55 036 668</b>
<b>Total assets less total liabilities</b>	<b>35 088 590</b>	<b>(277 554)</b>	<b>34 811 036</b>
Issued capital	100	–	100
Retained earnings	35 088 490	(277 554)	34 810 936
<b>Total equity</b>	<b>35 088 590</b>	<b>(277 554)</b>	<b>34 811 036</b>

## Reconciliation of profit or loss for 2008:

	As reported under previous GAAP	Effects of transition IFRS	IFRS
Revenue	219 774 786	(855 406)	218 919 380
Cost of sales	(150 427 287)	3 838 740	(146 588 547)
Gross profit	69 347 499	2 983 334	72 330 833
Other income	81 808	–	81 808
Operating expenses	(29 305 221)	(3 886 985)	(33 192 206)
Investment revenue	1 840 409	–	1 840 409
Finance costs	(839 349)	–	(839 349)
Net profit/(loss) before tax	41 125 146	903 651	40 221 495
Taxation	(11 920 730)	13 665	(11 907 065)
<b>Profit/(Loss) for the year</b>	<b>29 204 416</b>	<b>(889 986)</b>	<b>28 314 430</b>

### 27. Related parties

Company under common directorship	Unit 7 and 8 Lakeside (Proprietary) Limited
Subsidiary	EWT Plant Hire and Construction (Proprietary) Limited

#### Related party balances

##### Amounts owing (to)/by companies under common directorship

The loan is unsecured, interest free, has no fixed date of repayment and is repayable by mutual consent. The loan is recorded at cost as there is uncertainty as to the timing of the future cash flows

2007	2008	2009
39 503	(776 299)	7 684 606

##### Amounts owing to subsidiaries

The loan is unsecured, interest free, has no fixed date of repayment and is repayable by mutual consent. The loan is recorded at cost as there is uncertainty as to the timing of the future cash flows

–	–	5 526 791
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#### Related party transactions

##### Transactions with companies under common directorship

Rental paid	–	174 275	886 700
Revenue	–	–	3 000 000

The transactions are at arm's length.

##### Compensation to directors and other key management

Salary, bonus and other short-term employee benefits	–	4 061 084	2 973 756
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Directors emoluments are included in the disclosure of key management personnel compensation above. Full disclosure of directors emoluments as required by the Companies Act of South Africa is included in note 28.

## 28. Directors' emoluments

### Executive:

	Salary	Bonus	Travel allowance	Company contributions and other allowances	Total
<b>2009</b>					
For management services	1 629 336	736 000	325 752	282 668	2 973 756
<b>2008</b>					
For management services	1 174 565	1 946 000	305 003	635 516	4 061 084

## 29. Risk management

### Liquidity risk

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the group's financial liabilities and net-settled derivative financial liabilities into 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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

### Group

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>At 28 February 2009</b>				
<b>Borrowings</b>	10 719 340	6 628 065	–	–
Trade and other payables	45 156 881	–	–	–
Lease commitment	490 000	490 000	4 148 284	–
<b>At 29 February 2008</b>				
<b>Borrowings</b>	3 518 532	3 518 532	2 201 634	–
Trade and other payables	13 468 875	–	–	–

### Interest rate risk

The group's interest rate risk arises from cash and cash equivalents and instalment sale agreements, which bear interest at variable rates and expose the group to cash flow interest rate risk. The group's cash and cash equivalents are reviewed on a sufficiently regular basis to ensure that the best possible return is being obtained.

At 28 February 2009, if interest rates on Rand-denominated borrowings had been 2% higher/lower with all other variables held constant, pre-tax profit for the year would have been R393 378 (2008: R119 907) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R393 378 (2008: R119 907) lower/higher mainly as a result of a decrease/increase in the value of amortised financial assets.

### **Capital risk management**

The group's objective of capital management is to enable it to obtain the highest return with an acceptable level of risk.

There were no changes made in the objectives, policies or processed from the prior year.

The group considers its capital to consist of share capital and reserves as detailed below.

The group is not subject to any externally imposed capital requirements.

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Share capital	100	100	100
Retained income	8 496 506	34 810 936	74 152 680
	<b>8 496 606</b>	<b>34 811 036</b>	<b>74 152 780</b>

### **Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents, trade and other receivables. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The maximum exposure to credit risk at the reporting date is the carrying amounts of cash deposits, cash equivalents and trade and other receivables. The company does not hold any collateral as security.

### **30. Financial assets by category**

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

	<b>Loans and receivables</b>	<b>Fair value through profit or loss – held for trading</b>	<b>Fair value through profit or loss – designated</b>	<b>Held to maturity investments</b>	<b>Total</b>
<b>Group 2009</b>					
Financial assets	7 684 606	–	–	–	7 684 606
Trade and other receivables	48 267 544	–	–	–	48 267 544
Cash and cash equivalents	50 116 315	–	–	–	50 116 315
	<b>106 068 465</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>106 068 465</b>
<b>Group – 2008</b>					
Trade and other receivables	29 275 110	–	–	–	29 275 110
Cash and cash equivalents	48 321 909	–	–	–	48 321 909
	<b>77 597 019</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>77 597 019</b>

### 31. Financial liabilities by category

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

	<b>Financial liabilities at amortised cost</b>	<b>Fair value through profit or loss – held for trading</b>	<b>Fair value through profit or loss – designated</b>	<b>Total</b>
<b>Group – 2009</b>				
Financial liabilities	17 347 405	–	–	17 347 405
Trade and other payables	45 156 881	–	–	45 156 881
	<b>62 504 286</b>	<b>–</b>	<b>–</b>	<b>62 504 286</b>
<b>Group – 2008</b>				
Financial liabilities	11 282 808	–	–	11 282 808
Trade and other payables	32 171 914	–	–	32 171 914
	<b>43 454 722</b>	<b>–</b>	<b>–</b>	<b>43 454 722</b>

### 32. Acquisition of business

Fair value and book value of assets acquired:

Property, plant and equipment	11 755 129	–	–	–
Financial assets	6 139	–	–	–
Inventories	121 109	–	–	–
Trade and other receivables	6 676 757	–	–	–
Financial liabilities – non-current	(8 022 386)	–	–	–
Financial liabilities – current	(4 646 243)	–	–	–
Current tax payable	(591 873)	–	–	–
Cash and cash equivalents	63 546	–	–	–
Trade and other payables	(3 322 591)	–	–	–
Total net assets acquired	2 039 587	–	–	–
Net assets acquired	2 039 587	–	–	–
Surplus recognised as goodwill	1 765 788	–	–	–
	<b>3 805 375</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Consideration paid</b>				
Cash	(3 805 375)	–	–	–
<b>Net cash outflow on acquisition</b>				
Cash consideration paid	(3 805 375)	–	–	–
Cash acquired	63 546	–	–	–
	<b>(3 741 829)</b>	<b>–</b>	<b>–</b>	<b>–</b>

Civcontract Civils (Proprietary) Limited acquired the assets and liabilities of EWT Plant Hire and Construction (Proprietary) Limited on 1 March 2008. The cost of the business acquisition and the carrying values of the assets and liabilities acquired are as stated above.

At year end the directors are of the opinion that the goodwill should be impaired fully. The impairment of goodwill has been charged to the income statement during the year.

### 33. Post-balance sheet events

The shareholders of the company are currently in negotiations with a listed entity, regarding the sale of the majority of the company's issued share capital.

#### 34. **Share capital**

##### **Authorised and issued share capital**

34.1 During the year, the authorised and issued share capital was sub-divided into shares of R0.001 each from shares of R1.00 each. Consequently, the number of authorised shares became 200 000 (2008: 200 000) and number of issued shares became 100 000 (2008: 100 000). There was no change in the value of the authorised and issued share capital.

34.2 There has been no offer, issue of shares or repurchase of shares made by Civcon during the preceding three years.

#### 35. **Material changes**

35.1 There have been no material changes in the business of Civcon or its subsidiary during the preceding five years.

35.2 There have been no material changes in the financial or trading position of Civcon or its subsidiary since 28 February 2009 until the last practicable date.

#### 36. **Material contracts**

No material contracts have been entered into by Civcon or its subsidiary, other than in the ordinary course of business, within the preceding two years or at any time that contain an obligation or settlement that is material to Civcon as at the last practicable date, that remain outstanding or unperformed

#### 37. **Material loans**

No material loans have been made to or by Civcon or its subsidiary.

#### 38. **Litigation**

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

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**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF CIVCONTRACT CIVILS (PROPRIETARY) LIMITED AND ITS SUBSIDIARY COMPANY**

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"The Directors  
Erbacon Investment Holdings Limited  
PO Box 40346  
Red Hill  
4071

21 October 2009

Gentlemen,

**INDEPENDENT REPORTING ACCOUNTANTS' REPORT OF THE HISTORICAL FINANCIAL INFORMATION OF CIVCONTRACT CIVILS (PROPRIETARY) LIMITED AND ITS SUBSIDIARY COMPANY****INTRODUCTION**

The definitions contained in the circular have been used in this report. Erbacon Investment Holdings Limited proposes to acquire the entire issued share capital of Civcontract Civils (Proprietary) Limited and its subsidiary company.

**PURPOSE OF THIS REPORT**

At your request, we present our report on the historical financial information of Civcontract Civils (Proprietary) Limited and its subsidiary company, for the purposes of complying with the Listings Requirements and for inclusion in the circular, dated on or about 22 October 2009.

**RESPONSIBILITY**

The directors of Erbacon Investment Holdings Limited are responsible for the compilation, contents and preparation of the circular and for the accuracy of the information contained therein. The directors of Civcontract Civils (Proprietary) Limited and its subsidiary company and Erbacon Investment Holdings Limited are also responsible for the financial information to which both this reporting accountants' report and the report of historical financial information on Civcontract Civils (Proprietary) Limited and its subsidiary company relate and from which such reports have been prepared.

Our responsibility is to express an opinion on the report of historical financial information on Civcontract Civils (Proprietary) Limited and its subsidiary company.

**HISTORICAL FINANCIAL INFORMATION FOR THE YEARS ENDED 28 FEBRUARY 2009, 29 FEBRUARY 2008 AND 28 FEBRUARY 2007**

We have audited the historical financial information of Civcontract Civils (Proprietary) Limited and its subsidiary company relating to the years ended 28 February 2009, 29 February 2008 and 28 February 2007, set out in the report of historical financial information attached as Annexure 1.

**SCOPE OF THE AUDIT**

We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the historical financial information relating to the years ended 28 February 2009, 29 February 2008 and 28 February 2007 is free from material misstatement.

Our audit included the following:

- examining, on a test basis, evidence supporting the amounts and disclosures of the abovementioned historical financial information. The evidence included that previously obtained by us relating to the audit of the annual financial statements underlying the historical financial information;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall historical financial information presentation.

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

## **AUDIT OPINION**

In our opinion, the historical financial information of Civcontract Civils (Proprietary) Limited and its subsidiary company relating to the years ended 28 February 2009 and 29 February 2008, for the purposes of the circular, fairly presents, in all material respects, the financial position of Civcontract Civils (Proprietary) Limited and its subsidiary company at 28 February 2009 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Act and the Listings Requirements.

## **EMPHASIS OF MATTER**

Without qualifying our opinion above, we draw your attention to the fact that:

- the historical information of Civcontract Civils (Proprietary) Limited and its subsidiary company relating to the year ended 28 February 2007 has been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Act and the Listings Requirements.

## **CONSENT**

We consent to the inclusion of this letter and the reference to our opinion in the circular to be issued by Civcontract Civils (Proprietary) Limited and its subsidiary company in the form and context in which it appears.

Yours faithfully

## **MAZARS MOORES ROWLAND**

**Partner: S. Pillay**  
*Registered Auditor*  
21 October 2009  
Durban"

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**UNAUDITED *PRO FORMA* FINANCIAL INFORMATION OF ERBACON**

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**UNAUDITED *PRO FORMA* INCOME STATEMENT AND BALANCE SHEET**

The unaudited consolidated *pro forma* income statement and balance sheet of Erbacon post the implementation of the transaction is set out below. The unaudited *pro forma* income statement and balance sheet have been prepared for illustrative purposes only and because of their nature may not fairly present the financial position of Erbacon post the implementation of the transaction, nor its future results. The unaudited *pro forma* financial information is presented in a manner that is consistent with the accounting policies adopted by Erbacon as set out in Appendix 1 of Annexure 7.

The preparation of the unaudited *pro forma* income statement and balance sheet is the responsibility of the directors of Erbacon. The unaudited *pro forma* consolidated income statement and balance sheet should be read in conjunction with the independent reporting accountants' report thereon set out in Annexure 4.

### Pro forma consolidated income statement

The unaudited *pro forma* income statement presented in the table below has been prepared on the basis that the transaction was effected on 1 March 2008:

### Pro forma financial effects

2009

Income statement	Erbacon <sup>(1)</sup>	Dividend declared in Erbacon <sup>(2)</sup>	Erbacon post-dividend	Medu Capital preference share subscription	Erbacon post preference share subscription	Civcon <sup>(10)</sup>	Civcon dividend <sup>(8)</sup>	Consolidation/ Acquisition adjustments	Total Adjusted
<b>Income statement</b>									
Revenue	720 956 601		720 956 601		720 956 601	352 348 049			1 073 304 650
Cost of sales	(608 133 909)		(608 133 909)		(608 133 909)	(210 811 631)			(818 945 540)
<b>Gross profit</b>	<b>112 822 692</b>	<b>-</b>	<b>112 822 692</b>	<b>-</b>	<b>112 822 692</b>	<b>141 536 418</b>	<b>-</b>	<b>-</b>	<b>254 359 110</b>
Other income	664 694		664 694		664 694	114 232			778 926
Administrative and operating expenses	(40 828 549)		(40 828 549)		(40 828 549)	(67 688 579)		(5 233 652) <sup>(6)(11)</sup>	(113 750 780)
<b>Operating profit/(loss)</b>	<b>72 658 837</b>	<b>-</b>	<b>72 658 837</b>	<b>-</b>	<b>72 658 837</b>	<b>73 962 071</b>	<b>-</b>	<b>(5 233 652)</b>	<b>141 387 256</b>
Finance income	5 403 793	(2 310 000)	3 093 793		3 093 793	4 372 331	(1 925 000)	1 248 138 <sup>(6)</sup>	6 789 262
Interest paid	(3 594 246)		(3 594 246)		(3 594 246)	(2 753 644)			(15 059 887)
<b>Profit/(Loss) before taxation</b>	<b>74 468 384</b>	<b>(2 310 000)</b>	<b>72 158 384</b>	<b>(8 711 997)<sup>(3)</sup></b>	<b>63 446 387</b>	<b>75 580 758</b>	<b>(1 925 000)</b>	<b>(3 985 514)</b>	<b>133 116 631</b>
Taxation	(21 024 940)	(2 353 200)	(23 378 140)		(20 938 781)	(24 239 015)	(1 961 000)	1 059 944 <sup>(6)(11)</sup>	(46 078 852)
<b>Profit/(Loss) for the year</b>	<b>53 443 444</b>	<b>(4 663 200)</b>	<b>48 780 244</b>	<b>(6 272 638)</b>	<b>42 507 606</b>	<b>51 341 743</b>	<b>(3 886 000)</b>	<b>(2 925 570)</b>	<b>87 037 779</b>
<b>Reconciliation of headline earnings</b>									
Profit attributable to ordinary shareholders	53 443 444	(4 663 200)	48 780 244		42 507 606	51 341 743	(3 886 000)	(2 925 570)	87 037 779
- (Profit)/Loss on disposal of plant and equipment	(696 591)		(696 591)		(696 591)	(82 248)			(778 839)
- Impairment of goodwill	-		-		-	1 765 788			1 765 788
<b>Headline earnings</b>	<b>52 746 853</b>	<b>(4 663 200)</b>	<b>48 083 653</b>	<b>(6 272 638)</b>	<b>41 811 015</b>	<b>53 025 283</b>	<b>(3 886 000)</b>	<b>(2 925 570)</b>	<b>88 024 728</b>
Weighted average number of shares in issue	131 517 332							25 020 876	156 538 208
Diluted number of shares in issue	131 517 332							115 324 108 <sup>(9)</sup>	246 841 440
Earnings per share	40.64								55.60
Headline earnings per share	40.11								56.23
Diluted earnings per share	40.64								37.80 <sup>(9)</sup>
Diluted headline earnings per share	40.11								38.20 <sup>(9)</sup>

**Notes and assumptions:**

- (1) Extracted from the consolidated audited financial statements of Erbacon Investment Holdings Limited for the year ended 28 February 2009.
- (2) As set out in paragraph 3.1.2.5 it has been assumed that prior to the implementation of the transaction, Erbacon will declare a special dividend of 21.93 cents per share. STC has been calculated at 10%. The total dividend paid including STC amounted to R33 million. The reduction in interest income (adjustment with continuing effect) arising from the payment of the dividend has been calculated at an average pre-tax rate of 7% per annum for the full year representing the interest that can be earned on a deposit balance. Taxation has been calculated at 28% thereon.
- (3) The convertible redeemable and participating preference shares issued to Medu Capital is a compound financial instrument, which has been split into a liability and an equity portion. The liability portion has been calculated at R52 704 158. The discount rate applied in determining the carrying value of the liability component is 16.53% per annum, representing the market related interest rate for a liability of this nature. The equity portion has been calculated at R43 592 142 after taking account of deferred tax of R16 952 500, calculated at 28% on issue of the preference shares. The interest expense (adjustment with continuing effect) on the liabilities portion of the convertible preference share is calculated at 16.53% per annum.
- (4) As set out in note 3 above, it has been assumed that the deferred tax raised on issue of the convertible redeemable and participating preference share at 1 March 2008 was R16 952 500. At 28 February 2009 the deferred taxation was calculated at R14 513 141 reflecting an income statement adjustment of R2 439 359 (adjustment with continuing effect).
- (5) The total proceeds from the issue of the preference shares to Medu Capital is R113 248 800 of which R85 286 040 will be utilised to settle the initial purchase consideration as set out in paragraph 3.1.5.2.1 of this circular. The balance of the purchase consideration will be settled from Erbacon's existing cash resources. The further capital injection by Medu Capital will result in excess cash in Erbacon of R17 830 540. Pre-tax interest at 7% per annum, representing the current bank deposit rate, will be earned on the excess cash of R17 830 540 not utilised by Erbacon to fund the acquisition. Tax at 28% per annum has been calculated on the interest portion (adjustment with continuing effect).
- (6) It has been estimated that the deal expenses in respect of the transaction is R4 000 000 of which R3 622 499 has been capitalised as part of the cost of acquisition, R177 501 in respect of the issue of Erbacon ordinary shares has been written off against share premium and R200 000 has been expensed (adjustment with no continuing effect).
- (7) No taxation has been raised in respect of the deal expenses as they are deemed to be of a capital nature.
- (8) As set out in paragraph 3.1.2.4 Civcon is entitled to declare a dividend of R25 000 000 plus STC of 10%. For purposes of the *pro forma* financial information it has been assumed that the total dividend and STC amounts to R275 million. The reduction in interest income (adjustment with continuing effect) arising from the payment of the dividend has been calculated at an average pre-tax rate of 7% per annum for the full year, representing the current deposit rate. Taxation has been calculated at 28% thereon.
- (9) The number of shares used in diluted earnings per share and diluted headline earnings per share is based on the current shares in issue of 131 517 332, the 25 020 876 shares issued on the effective date as set out in paragraph 3.1.5.2.2 of the circular, the 22 893 232 contingently issuable shares relating to the profit warranty as set out in paragraphs 3.1.5.3 and 3.1.5.4 of the circular and the preference shares issued to Medu Capital that are convertible into ordinary shares, i.e. 67 410 000 preference shares are convertible into Erbacon ordinary shares on a one-for-one basis. The contingently issuable shares of 22 893 232 is based on Civcon adjusted profit for the year of R49 139 283, included in the *pro forma* income statement above, being applied to the calculations set out in paragraphs 3.1.5.3 and 3.1.5.4 of the circular. The interest on the preference shares and the related deferred tax adjustments set out in notes 3 and 4 above, respectively, has been removed in determining the diluted earnings per share and diluted headline earnings per share.
- (10) Extracted from the consolidated audited financial statements of Civcontract Civilis (Proprietary) Limited for the year ended 28 February 2009.
- (11) A provisional purchase price allocation has been performed resulting in an estimated goodwill value of R191 525 475 arising from the transaction. The value of the contract based intangible assets identified amounts to R5 033 652 which will be amortised over its estimated useful life of one year. Deferred taxation has been calculated at 28% of the intangible assets identified. The purchase price allocation will be revisited in terms of IFRS 3: Business Combinations, within 12 months of the effective date of this transaction. This may result in the amount currently allocated to goodwill being adjusted for the identification and measurement of the assets acquired and liabilities assumed. Any additional intangible assets identified will be amortised over their estimated useful lives.
- (12) The BEE expense, in terms of AC 503: Accounting for Black Economic Empowerment ("BEE") Transactions, to account for the BEE equity credentials introduced by Medu Capital has been calculated at R nil (adjustment with no continuing effect) as there is no difference between the fair value of the preference shares issued and the issue price of R1.6807 per share. This is based on an Erbacon share price of R1.40 per share, being the share price at the date of finalisation of the circular. Should the Erbacon ordinary share price increase to R1.68 per share at the date of issue of the convertible preference share, with all other assumptions remaining unchanged, the BEE expense would amount to R13 952 317.
- (13) Erbacon has not early adopted IFRS 3: Business Combinations (revised). This accounting standard is applicable to all business combinations for which the acquisition date is on or after the first reporting period commencing on or after 1 July 2009. Based on the aforementioned, there will be no impact on Erbacon in respect of the implementation of this transaction when IFRS 3 (revised) becomes applicable, as the latest date for the fulfilment or waiver of the remaining suspensive conditions is 31 January 2010 as set out in paragraph 3.1.4 of the circular.

### Pro forma consolidated balance sheet

The unaudited *pro forma* balance sheet presented in the table below has been prepared on the basis that the transaction had been effected on 28 February 2009:

Balance sheet	Erbacon <sup>(1)</sup>	Dividend declared in Erbacon <sup>(4)</sup>	Erbacon post-dividend	Medu Capital preference share subscription	Erbacon post preference share subscription	Civcon <sup>(5)</sup>	Civcon dividend <sup>(6)</sup>	Consolidation/ Acquisition adjustments	Total Adjusted
<b>ASSETS</b>									
<b>Non-current assets</b>									
Plant for hire	66 986 191	-	66 986 191	-	66 986 191	-	-	-	66 986 191
Property, plant and equipment	36 900 573	-	36 900 573	-	36 900 573	29 917 754	-	-	66 818 327
Goodwill	52 822 314	-	52 822 314	-	52 822 314	-	-	191 525 475 <sup>(8)(9)(10)</sup>	244 347 789
Intangible assets	-	-	-	-	-	-	-	5 033 652 <sup>(8)</sup>	5 033 652
Deferred income tax assets	173 737	-	173 737	-	173 737	-	-	-	173 737
	<b>156 882 815</b>	-	<b>156 882 815</b>	-	<b>156 882 815</b>	<b>29 917 754</b>	-	<b>196 559 127</b>	<b>383 359 696</b>
<b>Current assets</b>									
Financial assets	-	-	-	-	-	7 684 606	-	-	7 684 606
Inventories	31 024 552	-	31 024 552	-	31 024 552	1 656 159	-	-	32 680 711
Trade and other receivables	128 195 106	-	128 195 106	-	128 195 106	50 579 092	-	-	178 774 198
Current taxation receivable	-	-	-	-	-	2 730 138	-	-	2 730 138
Cash and cash equivalents	57 303 643	(33 000 000)	24 303 643	113 248 800 <sup>(2)</sup>	137 552 443	50 116 315	(27 500 000)	(95 618 260) <sup>(7)</sup>	64 550 498
	<b>216 523 301</b>	<b>(33 000 000)</b>	<b>183 523 301</b>	<b>113 248 800</b>	<b>296 772 101</b>	<b>112 766 310</b>	<b>(27 500 000)</b>	<b>(95 618 260)</b>	<b>286 420 151</b>
<b>Total assets</b>	<b>373 406 116</b>	<b>(33 000 000)</b>	<b>340 406 116</b>	<b>113 248 800</b>	<b>453 654 916</b>	<b>142 684 064</b>	<b>(27 500 000)</b>	<b>100 940 867</b>	<b>669 779 847</b>
<b>EQUITY AND LIABILITIES</b>									
<b>Equity</b>									
Share capital and premium	293 919 518	-	293 919 518	-	293 919 518	100	-	34 851 625 <sup>(7)</sup>	328 771 243
Common control deficit	(177 246 106)	-	(177 246 106)	-	(177 246 106)	-	-	-	(177 246 106)
Share-based payment reserve	572 971	-	572 971	-	572 971	-	-	-	572 971
Convertible preference shares-equity reserve	-	-	-	43 592 142 <sup>(3)</sup>	43 592 142	-	-	-	43 592 142
Shares to be issued	-	-	-	- <sup>(12)</sup>	-	-	-	-	-
Retained earnings	94 115 744	(33 000 000)	61 115 744	43 592 142 <sup>(3)</sup>	61 115 744	74 152 680	(27 500 000)	107 732 500 <sup>(7)</sup>	107 732 500
	<b>211 362 127</b>	<b>(33 000 000)</b>	<b>178 362 127</b>	<b>43 592 142 <sup>(3)</sup></b>	<b>221 954 269</b>	<b>74 152 780</b>	<b>(27 500 000)</b>	<b>95 731 445</b>	<b>364 338 494</b>
<b>Liabilities</b>									
<b>Non-current liabilities</b>									
Borrowings	16 558 854	-	16 558 854	-	16 558 854	6 628 065	-	-	23 186 919
Convertible preference share - liability component	-	-	-	52 704 158 <sup>(2)(3)</sup>	52 704 158	-	-	-	52 704 158
Deferred income tax liabilities	986 713	-	986 713	16 952 500 <sup>(3)</sup>	17 939 213	5 988 976	-	1 409 422 <sup>(8)</sup>	25 337 611
	<b>17 545 567</b>	-	<b>17 545 567</b>	<b>69 656 658</b>	<b>87 202 225</b>	<b>12 617 041</b>	-	<b>1 409 422</b>	<b>101 228 688</b>
<b>Current liabilities</b>									
Borrowings	7 312 776	-	7 312 776	-	7 312 776	10 719 340	-	-	18 032 116
Income tax liability	15 840 405	-	15 840 405	-	15 840 405	-	-	-	15 840 405
Trade and other payables	121 345 241	-	121 345 241	-	121 345 241	45 194 903	-	3 800 000 <sup>(10)</sup>	170 340 144
	<b>144 498 422</b>	-	<b>144 498 422</b>	-	<b>144 498 422</b>	<b>55 914 243</b>	-	<b>3 800 000</b>	<b>204 212 665</b>
<b>Total liabilities</b>	<b>162 043 989</b>	-	<b>162 043 989</b>	<b>69 656 658</b>	<b>231 700 647</b>	<b>68 531 284</b>	-	<b>5 209 422</b>	<b>305 441 353</b>
<b>Total equity and liabilities</b>	<b>373 406 116</b>	<b>(33 000 000)</b>	<b>340 406 116</b>	<b>113 248 800</b>	<b>453 654 916</b>	<b>142 684 064</b>	<b>(27 500 000)</b>	<b>100 940 867</b>	<b>669 779 847</b>
Shares in issue ( <i>less</i> treasury shares)	136 073 694	-	136 073 694	-	136 073 694	-	-	25 020 876	161 094 570
Net asset value per share (cents)	155.33	-	155.33	-	155.33	-	-	-	226.16
Net tangible asset value per share (cents)	117.11	-	117.11	-	117.11	-	-	-	86.98

### Notes and assumptions:

- (1) Extracted from the consolidated audited financial statements of Erbacon Investment Holdings Limited for the year ended 28 February 2009.
- (2) In terms of the subscription agreement Medu Capital subscribes for 67 410 000 convertible redeemable and participating preference shares at R1.68 per share thereby capitalising Erbacon to the extent of R113 248 800.
- (3) The convertible redeemable and participating preference shares issued to Medu Capital is a compound financial instrument which has been split into a liability and an equity portion. The liability portion has been calculated at R52 704 158. The discount rate applied in determining the carrying value of the liability component is 16.53% per annum, representing the market-related interest rate for a liability of this nature. The equity portion has been calculated at R43 592 142 after taking account of deferred tax of R16 952 500, calculated at 28%, on issue of the preference shares.
- (4) As set out in paragraph 3.1.2.5 it has been assumed that prior to the implementation of the transaction, Erbacon will declare a special dividend of 21.93 cents per share. STC has been calculated at 10%. The total dividend paid including STC amounted to R33 million.
- (5) Extracted from the consolidated audited financial statements of Civcontract Civis (Proprietary) Limited for the year ended 28 February 2009.
- (6) As set out in paragraph 3.1.2.4 Civcon is entitled to declare a dividend of R 25 000 000 plus STC of 10%. For purposes of the *pro forma* financial information, it has been assumed that the total dividend and STC amounts to R27,5 million. The reduction in interest income (adjustment with continuing effect) arising from the payment of the dividend has been calculated at an average pre-tax rate of 7% per annum for the full year, representing the current deposit rate. Taxation has been calculated at 28% thereon.
- (7) The total purchase consideration calculated in terms of IFRS 3: Business Combinations, is R238 179 986. Details of this are set out below: The initial portion of the purchase consideration has been settled by the payment of R95 418 260 in cash and by the issue of 25 020 876 Erbacon shares at R1.40 per share, being the Erbacon share price at the time of finalisation of this circular. The issue price assumed in terms of the Civcon acquisition agreement is R1.6807 per Erbacon share. The contingent purchase consideration of 76 951 786 shares is valued at R1.40 per share being the Erbacon share price at the time of finalisation of this circular as required in terms of IFRS 3: Business Combinations. The contingent purchase consideration of R107 732 500 is treated as equity to be issued until settled in terms of paragraphs 3.1.5.3 and 3.1.5.4 of this circular. The purchase price as set out in terms of paragraph 3.1.2.2 of the circular is R266 804 410. This is based on the Erbacon share price of R1.6807 per share.
- (8) The acquisition of Civcon for a total purchase consideration of R238 179 986 as set out in note 7 above gives rise to goodwill on acquisition of R191 525 475 after taking account costs of R3 622 499 as set out in note 10 below directly attributable to the business combination.
- (9) A provisional purchase price allocation has been performed resulting in an estimated goodwill value of R191 525 475 arising from the transaction. The value of the contract based intangible assets identified amounts to R5 033 652 which will be amortised over its estimated useful life of one year. Deferred taxation has been calculated at 28% of the intangible assets identified. The purchase price allocation will be revisited in terms of IFRS 3: Business Combinations, within 12 months of the effective date of this transaction. This may result in the amount currently allocated to goodwill being adjusted for the identification and measurement of the assets acquired and liabilities assumed. Any additional intangible assets identified will be amortised over their estimated useful lives.
- (10) It has been estimated that the deal expenses in respect of the transaction is R4 000 000 of which R3 622 499 has been capitalised as part of the cost of acquisition, R177 501 in respect of the issue of Erbacon ordinary shares has been written off against share premium and R200 000 has been expensed (adjustment with no continuing effect).
- (11) Elimination entries on the acquisition and consolidation of Civcon by Erbacon.
- (12) The BEE expense, in terms of AC 503: Accounting for Black Economic Empowerment ("BEE") Transactions, to account for the BEE equity credentials introduced by Medu Capital has been calculated at R nil (adjustment with no continuing effect) as there is no difference between the fair value of the preference shares issued and the issue price of R1.6807 per share. This is based on an Erbacon share price of R1.40 per share, being the share price at the date of finalisation of the circular. Should the Erbacon ordinary share price increase to R1.68 per share at the date of issue of the convertible preference share, with all other assumptions remaining unchanged, the BEE expense would amount to R13 952 317.
- (13) Erbacon has not early adopted IFRS 3: Business Combinations (revised). This accounting standard is applicable to all business combinations for which the acquisition date is on or after the first reporting period commencing on or after 1 July 2009. Based on the aforementioned, there will be no impact on Erbacon in respect of the implementation of this transaction when IFRS 3 (revised) becomes applicable, as the latest date for the fulfilment or waiver of the remaining suspensive conditions is 31 January 2010 as set out in paragraph 3.1.4 of the circular.

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## INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION OF ERBACON INVESTMENT HOLDINGS LIMITED AND ITS SUBSIDIARIES

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26 October 2009

The Directors  
Erbacon Investment Holdings Limited  
PO Box 40346  
Redhill  
4071

Dear Sirs,

### INDEPENDENT REPORTING ACCOUNTANTS' LIMITED ASSURANCE REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION OF ERBACON INVESTMENT HOLDINGS LIMITED AND ITS SUBSIDIARIES ("ERBACON")

We have performed our limited assurance engagement in respect of the *pro forma* financial information of Erbacon set out in Annexure 3 of the circular to Erbacon shareholders to be dated on or about 28 October 2009 ("the circular"), in connection with the proposed acquisition by Erbacon of the entire issued share capital of and all claims on shareholders' loan account against Civcontract Civils (Proprietary) Limited ("Civcon") ("the proposed acquisition"). The *pro forma* financial information has been prepared in accordance with the JSE Limited ("JSE") Listings Requirements, for illustrative purposes only, to provide information about how the proposed acquisition might have affected the reported historical financial information presented, had the corporate actions been undertaken at the commencement of the period or at the date of the *pro forma* balance sheet being reported on.

#### DIRECTORS' RESPONSIBILITY

The directors of Erbacon are responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the circular and for the financial information from which it has been prepared. Their responsibility includes determining that: the *pro forma* financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of Erbacon; and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

#### REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express our limited assurance conclusion on the *pro forma* financial information contained in Annexure 3 of the circular. We conducted our assurance engagement in accordance with ISAE 3000: the International Standard on Assurance Engagements applicable to *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the *Guide on Pro Forma Financial Information* issued by The South African Institute of Chartered Accountants. This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

#### SOURCES OF INFORMATION AND WORK PERFORMED

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Erbacon, considering the evidence supporting the *pro forma* adjustments and discussing the adjusted *pro forma* financial information with the directors and management of the company in respect of the corporate action that is the subject of the circular.

In arriving at our conclusion, we have relied upon financial information prepared by the directors and management of Erbacon and other information from various public, financial and industry sources.

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

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

## **CONCLUSION**

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

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of Erbacon; and
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed in terms of the Sections 8.17 and 8.30 of the JSE Listings Requirements.

Yours faithfully

## **PRICEWATERHOUSECOOPERS INC**

Director: **H Govind**  
*Registered Auditor*  
102 Stephen Dlamini Road  
Durban  
4001"

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## SALIENT PREFERENCE SHARE TERMS TO BE INSERTED AS A NEW ARTICLE 4.3 IN THE ARTICLES OF ASSOCIATION OF ERBACON

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### “RIGHTS, PRIVILEGES AND CONDITIONS ATTACHING TO THE PREFERENCE SHARES

#### 1. INTERPRETATION

In this article 4.3, unless clearly inconsistent with the context:

- 1.1 sub-article headings are for convenience purposes only and shall not be used in its interpretation;
- 1.2 unless the context clearly indicates a contrary intention:
  - 1.2.1 an expression which denotes any gender includes the other genders, a natural person includes an artificial person (whether incorporated or unincorporated) and *vice versa*, and the singular includes the plural and *vice versa*;
  - 1.2.2 where any term is defined within a particular sub-article, other than this interpretation sub-article, that term shall bear the meaning assigned to it in that sub-article wherever it is used in this article 4.3;
- 1.3 the following words and expressions shall bear the following meanings and related words and expressions shall bear corresponding meanings:
  - 1.3.1 “acting as expert” means in the context of any person or persons (“the expert”) determining any matter or dispute in terms of these preference share terms, the expert doing so on the following basis:
    - 1.3.1.1 the expert shall investigate the matter or dispute in such manner as he, in his sole discretion, considers appropriate;
    - 1.3.1.2 the expert shall call on all parties who have a direct interest in the dispute or matter in question, to make written representations in regard thereto, and any party making such representation to the expert shall furnish a copy thereof to all the other parties with a direct interest in the dispute or matter;
    - 1.3.1.3 the expert shall be entitled to consult with all or any of the parties with a direct interest in the dispute or matter, or with any other person and to take advice from any person, provided that all parties shall be entitled to be present at and for the duration of such consultation and shall be entitled to receive copies of any documentation exchanged in this regard;
    - 1.3.1.4 the expert shall endeavour to make his determination as expeditiously as possible;
    - 1.3.1.5 the determination of the expert shall, in the absence of manifest error, be final and binding on the parties to the dispute or matter;
    - 1.3.1.6 the costs and charges of the expert shall be borne by that party to the dispute or matter which, in the sole discretion of the expert, is the appropriate party to bear such charges, provided that the expert shall be entitled to direct that the costs and charges be borne by all or certain of the parties to the dispute or matter, in such ratios as the expert may determine;
  - 1.3.2 “actionable event” means any 1 (one) or more of the events, circumstances or occurrences described as an actionable event in sub-article 7.1;
  - 1.3.3 “articles” means the articles of association or memorandum of incorporation of the company, as the case may be;
  - 1.3.4 “board” means the board of directors of the company for the time being;

- 1.3.5 “business day” means any day other than a Saturday, Sunday and public holiday gazetted by the Government of South Africa from time to time;
- 1.3.6 “conversion date” means the earlier of:
- 1.3.6.1 the date of a written notice from a holder demanding conversion of that holder’s preference shares into conversion shares on the occurrence of an actionable event in terms of sub-article 7.3; and
- 1.3.6.2 the date of a written notice from a holder electing conversion of that holder’s preference shares into conversion shares in terms of sub-article 6.1;
- 1.3.7 “conversion shares” means that number of ordinary shares to be issued to a holder being equal to the number of preference shares held by that holder which are to be converted into ordinary shares (that is, on a 1 (one) for 1 (one) basis), taking into account any share consolidations and share splits that may have occurred since the issue date;
- 1.3.8 “EIH Group” means, collectively or individually as the context may require, the company and its subsidiaries from time to time;
- 1.3.9 “holder” means, in respect of any preference share, the registered holder of that preference share from time to time;
- 1.3.10 “issue date” means the date on which the preference shares are issued;
- 1.3.11 “issue price” means in respect of each preference share, an aggregate issue price of R1.68 (one Rand and sixty-eight cents), comprising the par value of R0.01 (one cent) each and a premium of R1.67 (one Rand and sixty-seven cents) each;
- 1.3.12 “JSE” means the JSE Limited;
- 1.3.13 “Listings Requirements” means the Listings Requirements of the JSE, as amended;
- 1.3.14 “material adverse effect” means, in respect of any entity, an event, circumstance or matter or combination of events, circumstances or matters which would have:
- 1.3.14.1 a material impairment on the ability of that entity to perform any of its obligations under the subscription agreement, any of the transaction documents or to any of its material creditors; or
- 1.3.14.2 any material adverse effect on the validity or enforceability of any of that entity’s obligations in terms of the subscription agreement or any of the transaction documents,
- but excluding any event, circumstance or matter of which any holder (but not any director (in his capacity as a director of the company) nominated by any holder) is the cause;
- 1.3.15 “ordinary shares” means ordinary shares with a par value of R0.01 (one cent) each in the issued share capital of the company;
- 1.3.16 “preference shares” means 67 410 000 (sixty seven million four hundred and ten thousand) convertible redeemable participating preference shares in the share capital of the company with a par value of R0.01 (one cent) each, and which will be issued and allotted to the subscribers pursuant to the subscription agreement;
- 1.3.17 “preference share terms” means the terms and conditions applicable to the preference shares as set out in this article 4.3;
- 1.3.18 “prime rate” means the prime overdraft rate of interest as charged (and calculated) by FirstRand Bank Limited, acting through its First National Bank division, to its most favoured corporate customers in respect of unsecured overdraft facilities from time to time, calculated and compounded monthly in arrear, as certified by any manager of that bank whose appointment, designation or authority it shall not be necessary to prove;

- 1.3.19 “redemption amount” means the amount payable in respect of each preference share, being:
- 1.3.19.1 in the case of redemption upon the occurrence of an actionable event, an amount equal to the greater of:
    - 1.3.19.1.1 the issue price (taking into account any share consolidations and share splits that may have occurred since the issue date); and
    - 1.3.19.1.2 the 90-(ninety) day volume weighted average price at which ordinary shares have traded (on the securities exchange operated by the JSE on which the ordinary shares are listed at the time) immediately prior to the redemption date,

in each case together with interest thereon at the prime rate, calculated from the redemption date to the date of payment of the redemption amount, both days inclusive; save that, notwithstanding the foregoing, if any actionable event as contemplated in sub-articles 7.1.4.2, 7.1.16 or 7.1.17 occurs, the redemption amount shall be the amount provided for in sub-article 1.3.19.1.1, together with interest thereon at the prime rate, calculated from the redemption date to the date of payment of the redemption amount, both days inclusive; or
  - 1.3.19.2 in the case of redemption in any instance other than upon the occurrence of an actionable event, an amount equal to the issue price plus interest thereon at the prime rate, calculated from the redemption date to the date of payment of the redemption amount, both days inclusive;
- 1.3.20 “redemption date” means, in respect of any preference share, the date on which that preference share is redeemed being the earlier of:
- 1.3.20.1 the 5th (fifth) anniversary of the issue date; and
  - 1.3.20.2 the date of receipt a written notice from the holder demanding redemption thereof on the occurrence of an actionable event in terms of sub-article 7.2;
- 1.3.21 “subscribers” means collectively:
- 1.3.21.1 Medu Capital Fund II Partnership, an en commandite partnership duly established in accordance with the laws of the Republic of South Africa, the general partner of which is Medu Capital Fund II (Proprietary) Limited, registration number 2005/013847/07; and
  - 1.3.21.2 Medu II Development Fund Trust, Master’s reference number IT1293/07, an *inter vivos* trust duly established in accordance with the laws of the Republic of South Africa, acting through Medu Capital Fund II (Proprietary) Limited, registration number 2005/013847/07, as its trustee for the time being;
- 1.3.22 “the subscription agreement” means the written preference share subscription agreement entered into between the company and the subscribers on 21 September 2009 in terms of which the subscribers are to subscribe for the preference shares;
- 1.3.23 “transaction documents” means each of the following documents:
- 1.3.23.1 the memorandum of association of the company and the articles; and
  - 1.3.23.2 the subscription agreement;
- 1.4 the terms “subsidiary” and “holding company” have the meanings given to them in the Act;
- 1.5 the word “law/s” shall be interpreted as broadly as possible and shall include all primary legislation, subsidiary and subordinate legislation, regulations, ordinances, the common law and the requirements of any governmental or regulatory authority of competent jurisdiction;
- 1.6 should any provision in a definition be a substantive provision conferring rights or imposing obligations on any party, effect shall be given to that provision as if it were a substantive provision in the body of this article 4.3;

- 1.7 any reference to an enactment, regulation, rule or by-law is to that enactment, regulation, rule or by-law as at 21 September 2009, and as amended or replaced from time to time;
- 1.8 when any number of days is prescribed, such number shall exclude the first and include the last day, unless the last day falls on a day other than a business day, in which case the last day shall be the next succeeding business day;
- 1.9 the words "including"; "include/s" and "in particular" shall not be construed or take effect as limiting the generality of any preceding words;
- 1.10 any reference in this article 4.3 to any agreement or document shall be construed as a reference to such agreement or document as it may have been or may from time to time be, amended, varied, novated, restated, replaced, supplemented or substituted;
- 1.11 records shall be binding on the parties and are not merely for information purposes;
- 1.12 a reference to a time of day is a reference to time in South Africa; and
- 1.13 when the day for performance of any obligation of the company in relation to the preference shares is not a business day, the company shall perform such obligation on the immediately preceding business day on the basis that such early performance shall not affect any calculation required to be made in respect of the preference share.

## 2. **SUBSCRIPTION, ALLOTMENT AND ISSUE**

- 2.1 Each preference share shall have a par value of R0.01 (one cent) and shall be allotted and issued, credited as fully paid-up, at par plus a premium in the aggregate equal to the issue price.
- 2.2 Upon payment of the issue price by the holder, the company shall credit the amount of R1.67 (one Rand and sixty-seven cents) per preference share to its share premium account.

## 3. **PREFERENCE SHARE RIGHTS**

- 3.1 Save as otherwise provided for in these preference share terms, each preference share shall rank *pari passu* in all respects with an ordinary share.
- 3.2 The preference shares shall confer on the holders thereof, the right on the deregistration, winding-up or judicial management of the company (whether provisional or final) in priority to any payment in respect of any other class of shares in the capital of the company then issued, to receive the redemption amount.
- 3.3 In respect of any matter where shareholders of the company are required to vote in terms of the Listings Requirements, each holder shall, unless and until the JSE rules otherwise, in respect of the preference shares held by it:
  - 3.3.1 save as set out in sub-article 3.3.2 below, be entitled to that proportion of votes in the company which the aggregate par value of the preference shares held by it bears to the aggregate amount of the par value of all shares issued by the company;
  - 3.3.2 should the votes of the preference shares as determined in accordance with the provisions of sub-article 3.3.1 above, in aggregate, entitle all holders to votes that exceed 25% (twenty-five percent) less 1 (one) vote, each preference shareholder shall be entitled to that proportion of the votes as results from the application of the following formula:
 
$$[25\% \text{ (twenty-five percent) less 1 (one) vote of the aggregate votes exercisable}] \times [(\text{par value of the preference shares held by the holder in question} / \text{aggregate par value of all the preference shares in issue})]$$

## 4. **REDEMPTION**

- 4.1 The company shall, subject to compliance with all applicable laws, redeem each preference share on the redemption date against the surrender to the company of the share certificate in respect of that preference share (or, if such certificate has been lost or destroyed, such proof of loss or destruction as the company may reasonably require and such indemnity as the company would be entitled to require in terms of sub-article 14.4.1.3), and pay the redemption amount to the holder thereof within 45 (forty-five) days of the redemption date. It is recorded that it shall be competent for the company to utilise the share premium account for the redemption of the preference shares as envisaged in section 76 of the Companies Act.

- 4.2 If the company is obliged in terms of these preference share terms to redeem any of the preference shares and is for any reason unable to do so, the company shall, subject to compliance with the provisions of all applicable laws, purchase those preference shares from the holder at the redemption amount.

## 5. **COMPULSORY REDEMPTION**

If, by the 5th (fifth) anniversary of the issue date, any preference shares have not been converted into conversion shares, the company shall be obliged to immediately redeem such preference shares at the redemption amount.

## 6. **CONVERSION AT THE ELECTION OF THE HOLDER**

6.1 The holders shall be entitled at any time on written notice to the company to require conversion of the preference shares into the conversion shares on the conversion date. Notwithstanding the provisions of sub-article 6.2, the holders shall for all purposes be deemed to be the registered and beneficial holders of the conversion shares on the conversion date:

6.2 If any holder furnishes the company with a written notice contemplated in sub-article 6.1, the company shall by no later than 10 (ten) days after the conversion date:

6.2.1 allot and issue that holder with the conversion shares, against delivery by that holder of the share certificates in respect of that holder's preference shares which are the subject of conversion;

6.2.2 record in the share register of the company the allotment and issue referred to in sub-article 6.2.1;

6.2.3 procure that the conversion shares are listed on the securities exchange operated by the JSE on which the ordinary shares in the company are listed at that time, provided that the conversion occurs in terms of the preference share terms;

6.2.4 deliver to that holder the following:

6.2.4.1 a certified copy of the resolution of the directors of the company approving the issue and allotment of the conversion shares;

6.2.4.2 a certified copy of a duly completed notice of issuance of the conversion shares in form and substance acceptable for filing with the Registrar of Companies and Close Corporations; and

6.2.4.3 a certified copy of the irrevocable instructions issued to the company's transfer secretaries to credit the CSDP account nominated in writing by that holder prior to the conversion date with the conversion shares.

## 7. **REDEMPTION AND CONVERSION ON THE OCCURRENCE OF AN ACTIONABLE EVENT**

7.1 An actionable event shall occur, if, unless the holders of at least 75% (seventy five percent) of the preference shares have given their prior written consent:

7.1.1 the company breaches any of its obligations under any of the transaction documents, and, if applicable, fails to remedy (if remediable) such breach within the time period prescribed by the transaction document in question; or

7.1.2 any material breach of any material warranty given by the company under the subscription agreement occurs; or

7.1.3 any of the prohibitions in sub-article 8 are breached; or

7.1.4 the agreement referred to in sub-article 3.1.1.6 of the subscription agreement is cancelled:

7.1.4.1 as a result of a breach thereof by the company;

7.1.4.2 for any reason other than as a result of a breach thereof by the company; or

- 7.1.5 the company takes any corporate or other action, or other steps are taken or legal proceedings (other than steps or proceedings which the company is able to demonstrate, within 10 (ten) business days of receipt by the company of written notice from such holders requiring it to demonstrate, to the reasonable satisfaction of those holders, are of a vexatious or frivolous nature) are started, for its winding-up (whether provisionally or finally), dissolution, administration or reorganisation or for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar office; or
- 7.1.6 the company breaches any of the restrictions placed on it in its memorandum of association or articles and fails to remedy such breach to the satisfaction of such holders within 10 (ten) business days of receipt by the company from such holders requiring it to do so; or
- 7.1.7 any person (other than any holder) brings an application for the winding-up or judicial management of any material member of the EIH Group, whether provisional or final, compulsorily or voluntarily (other than in circumstances in which the company is able to demonstrate to the reasonable satisfaction of the holders that the application is vexatious or frivolous); or
- 7.1.8 any material member of the EIH Group is placed in liquidation or judicial management, whether provisionally or finally, at the instance of any creditor or otherwise, compulsorily or voluntarily; or
- 7.1.9 any material asset/s of the EIH Group is/are attached under a writ of execution issued out of any court, and the relevant member of the EIH Group fails, within 20 (twenty) days of the date upon which such attachment came to the notice of the relevant member of the EIH Group, to take the steps necessary to have such attachment set aside or thereafter fails to pursue such steps expeditiously and diligently; or
- 7.1.10 any material member of the EIH Group gives any notice, or takes any steps, to convene a meeting of its shareholders to adopt a resolution placing that member of the EIH Group in liquidation or under judicial management, whether provisional or final; or
- 7.1.11 any material member of the EIH Group makes or attempts to make or recommends a general offer of compromise with any or all of its creditors; or
- 7.1.12 the board of any material member of the EIH Group request the appointment of a liquidator or judicial manager for the relevant member of the EIH Group; or
- 7.1.13 any member of the EIH Group has any material judgment or other award (“judgment”) made against it and it fails to:
  - 7.1.13.1 appeal against such judgment (if such judgment is appealable) or to apply for the rescission thereof (if such judgment is a default judgment) within the prescribed time limits or thereafter fails to prosecute such appeal or application expeditiously and diligently or ultimately fails in such appeal or application; or
  - 7.1.13.2 satisfy such judgment within 20 (twenty) days after the date upon which it becomes aware thereof or, if it lodges an appeal or application referred to in sub-article 7.1.13.1 within the prescribed time limits, within 3 (three) days of any other event referred to in article 7.1.13.1; and
  - 7.1.13.3 the satisfaction of such judgment will have a material adverse effect on the company; or
- 7.1.14 any material member of the EIH Group is insolvent or is, or is deemed for the purposes of any applicable law to be unable to pay its debts as they fall due; or
- 7.1.15 any event, circumstance or matter, or series of events, circumstances or matters within the reasonable control of the company occurs which have a material adverse effect on the EIH Group and the position is not rectified to the satisfaction of such holders within 15 (fifteen) days of receipt by the company of written notice from such holders requiring the position to be rectified; or

- 7.1.16 any event, circumstance or matter, or series of events, circumstances or matters outside the reasonable control of the company occurs which have a material adverse effect on the EIH Group and the position is not rectified to the satisfaction of such holders within 15 (fifteen) days of receipt by the company of written notice from such holders requiring the position to be rectified; or
- 7.1.17 there is a change in law which renders, will render or may reasonably have the effect of rendering any transaction document or anything done or to be done pursuant thereto illegal, invalid or unenforceable and the parties in good faith fail to rectify such illegality, invalidity or unenforceability (provided such is capable of remedy) or do not agree (after negotiating in good faith) upon alternative acceptable provisions, within 20 (twenty) business days or such shorter period as may be required by the law, after receipt of notice from such holders advising the company of the relevant change; or
- 7.1.18 the EIH Group:
- 7.1.18.1 in respect of any financial year of the company, incurs any capital expenditure (on a consolidated basis) in an amount that:
- 7.1.18.1.1 exceeds 2 (two) times the value of the depreciation charge of the EIH Group (on a consolidated basis) for the immediately preceding financial year of the company, as reflected in the consolidated annual financial statements of the EIH Group; or
- 7.1.18.1.2 such other value as may be agreed to in writing between the company and the holder/s from time to time; or
- 7.1.18.2 enters into any Category 1 or Category 2 type transaction (in the latter case where the relevant percentage exceeds 10% (ten percent)), as contemplated in the Listings Requirements; or
- 7.1.18.3 undertakes, condones or allows any action or omission which may lead to the suspension or termination of the listing of the company on any securities exchange operated by the JSE; or
- 7.1.18.4 sells or disposes of the whole or a substantial part of its business or assets; or
- 7.1.18.5 incurs interest bearing debt exceeding R100 000 000 (one hundred million Rand) or which results in the net debt/equity ratio of the EIH Group (on a consolidated basis and calculated in accordance with IFRS) exceeding 0.3, whichever is the greater. For the purposes of this sub-article 7.1.18.5:
- 7.1.18.5.1 "net debt" means, as at any particular time, the aggregate interest bearing debt of the EIH Group less the aggregate cash holdings of the EIH Group at that time (for which purpose the preference shares in issue shall be deemed to be equity at their aggregate issue price); and
- 7.1.18.5.2 "equity" means, as at any particular time, the net asset value of the EIH Group (which shall include the preference shares in issue at their aggregate issue price) less the value of the goodwill and intangible assets of the EIH Group; or
- 7.1.18.6 issues any guarantees or suretyships or indemnities in respect of the obligations of third parties (excluding those issued in favour of other EIH Group companies) other than in the ordinary course of business; or
- 7.1.18.7 discontinues or suspends any material part of its business; or
- 7.1.18.8 appoints the EIH Group chief executive officer and/or the EIH Group financial director; provided that, the holders may only withhold their written consent if the appointees concerned are not suitably experienced or qualified for the position concerned; or
- 7.1.18.9 effects any payment, distribution or dividend to shareholders of the company other than *pro rata* to the holders of ordinary shares and preference shares; or

- 7.1.18.10 unless permissible in terms of any of the other provisions of this article 7.1, enters into any agreements outside the ordinary and regular course of business and having an aggregate value exceeding R15 000 000 (fifteen million Rand); or
- 7.1.19 approves any budget or business plan and any material deviations therefrom; provided that, the holders may only withhold their written consent if the budget, business plan or deviation therefrom contemplates performance by the EIH Group which is:
  - 7.1.19.1 not likely to be achievable having regard to prevailing circumstances and the actual financial performance of the EIH Group over the preceding financial year; and
  - 7.1.19.2 is likely to defeat or not achieve the objective of achieving sustainable profit growth; or
- 7.1.20 the issued and authorised share capital of any company in the EIH Group is increased, consolidated, sub-divided, altered or reduced, save that the company shall be entitled to increase its authorised and issued ordinary share capital to the extent necessary to satisfy any obligations it may have to issue any ordinary shares in respect of the 4 255 000 (four million two hundred and fifty-five thousand) unexercised share options granted to employees of the EIH Group under the Erbacon Investment Holdings Limited Employee Share Incentive Scheme as at 21 September 2009; or
- 7.1.21 the memorandum and articles of association of any company in the EIH Group is varied, altered or amended, save for such amendments as are strictly necessary in order to comply with the requirements of the Companies Act, 71 of 2008, as amended; or
- 7.1.22 any resolution of the shareholders of the company is proposed which directly affects any of the rights attaching to the preference shares or the interests of the holders.
- 7.2 For the purpose of sub-article 7.1:
  - 7.2.1 the company shall give the holders at least 10 (ten) business days prior written notice of any proposal by the company regarding any matter contemplated in sub-article 7.1; and
  - 7.2.2 a holder shall be deemed to have given its written consent if, within 14 (fourteen) days after receiving (or being deemed to have received) written notice from the company in accordance with sub-article 13 requesting that holder's written consent in respect of any matter contemplated in sub-article 7.1, that holder fails to notify the company in writing in accordance with sub-article 13 as to whether or not it is prepared to give the requested consent; and
  - 7.2.3 in respect of any matter contemplated in sub-article 7.1.18 to sub-article 7.1.22 inclusive, the company shall consult with the holders in advance of any proposed action in respect thereof in order that the holders may furnish the company their preliminary views as to whether or not they will provide their written consent.
- 7.3 Upon the occurrence of an actionable event, the holder shall be entitled on written notice to the company to require the company to procure, whereupon the company shall be obliged to procure:
  - 7.3.1 the redemption of the preference shares and the payment of the redemption amount; or
  - 7.3.2 the conversion of the preference shares into the conversion shares *mutatis mutandis* in accordance with the provisions of these preference share terms relating to conversion.

## 8. PROHIBITIONS

For so long as any preference shares remain in issue, without the prior written approval of all the holders of 75% (seventy-five percent) of the preference shares, these preference share terms may not be amended, varied or altered in any way.

## 9. RIGHTS OFFER

If the company at any time proceeds with a rights offer for ordinary shares, the company shall extend such rights offer to the holders, *mutatis mutandis*, for preference shares.

## 10. MEETINGS, DIRECTORS AND COMMITTEES

10.1 The holders, acting jointly, shall be entitled to:

- 10.1.1 appoint 2 (two) directors to the board and remove and/or replace any directors so appointed;
- 10.1.2 appoint a representative to each of the audit and remuneration committees (or the equivalent) of the company and remove and/or replace any directors so appointed, and if not permissible in terms of the Listings Requirements or any applicable law, appoint an observer on the same terms, *mutatis mutandis*, save that such observer shall be entitled to attend but not vote at any and all meetings of such committees.
- 10.2 Notwithstanding anything to the contrary contained in these preference share terms, unless the contrary intention clearly appears, any matter in terms of these preference share terms which requires:
  - 10.2.1 the holders to act jointly; or
  - 10.2.2 the agreement, approval or consent of the holders,
 shall require a decision or the agreement, approval or consent, as the case may be, of the holders of a majority of the preference shares.
- 10.3 Subject to sub-article 3.3, at any meeting of the company at which the holders are entitled to vote, the provisions of the articles in relation to meetings and the voting of ordinary shareholders of the company shall apply *mutatis mutandis* to such holders.
- 10.4 At any meeting at which only holders of preference shares are entitled to vote:
  - 10.4.1 any holder shall be entitled to propose resolutions and/or to demand a poll, and on a poll, each preference share in issue and represented at the meeting shall confer on the holders thereof 1 (one) vote;
  - 10.4.2 the holder shall be entitled (or if more than 1 (one) holder, those holders holding the majority of preference shares) to nominate and have appointed, the chairman of the meeting.
- 10.5 The company shall be obliged to give the holders notice of any meeting of shareholders.
- 10.6 At every meeting of holders, the provisions of the articles relating to general meetings of ordinary shareholders shall apply *mutatis mutandis*.
- 10.7 Any holder shall, by giving written notice to that effect to the company at any time after an actionable event has occurred, be entitled to require the company, which shall thereupon be obliged, to call a general meeting of its shareholders, or any class of them, to consider any matter (including, without limitation, a resolution requiring the company to comply with its obligations to that holder, and any such resolution adopted at a meeting of all shareholders of the company shall, notwithstanding anything to the contrary contained in the articles, be binding upon and be given effect to by the company and the board).

## 11. UNDERTAKINGS

- 11.1 The company shall:
  - 11.1.1 furnish to each holder:
    - 11.1.1.1 a copy of the EIH Group's audited consolidated financial statements for each of its financial years, which financial statements the company shall use its reasonable endeavours to complete, audit and furnish to each such holder within 90 (ninety) days of the end of the relevant financial year, but which in any event the company shall complete, audit and furnish to each such holder within 180 (one hundred and eighty) days of the end of the relevant financial year;
    - 11.1.1.2 a copy of the EIH Group's monthly consolidated management accounts, in a form consistent with past practice, which management accounts the company shall use its reasonable endeavours to and furnish to each such holder within 30 (thirty) days of the end of each calendar month, but which in any event the company shall complete and furnish to each such holder within 60 (sixty) days of the end of each calendar month; provided that, if the company is unable to comply with its obligations in terms of the foregoing provisions of this sub-article 11.1.1.2 due to circumstances beyond the reasonable control of the company, such obligations shall be suspended until the relevant circumstances no longer exist;
    - 11.1.1.3 within 7 (seven) days of receipt of a written request from any holder, such further information in its possession or under its control regarding the financial condition and affairs of the EIH Group, as each such holder may reasonably require; and

- 11.1.1.4 within 7 (seven) days upon becoming aware of the occurrence thereof, details of any material litigation, income tax dispute, arbitration or administrative proceedings involving it or affecting its interests, which from time to time may arise or be threatened or pending;
- 11.1.2 within 2 (two) days upon becoming aware of the occurrence thereof, notify each holder of:
  - 11.1.2.1 any actionable event; and
  - 11.1.2.2 the existence of any failure, circumstance, occurrence or event which constitutes or would, with the passage of time or the giving of any notice or the making of any determination, constitute an actionable event;
- 11.1.3 obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by any applicable law to enable it lawfully to enter into and perform its obligations under the subscription agreement and the transaction documents; and
- 11.1.4 not (and shall procure that each other member of the EIH Group shall not) conclude and/or implement any transaction with any shareholder or affiliate of any shareholder, officer or director of the EIH Group, or any spouse, ascendant or descendant of any of the foregoing or any created entity in which any of the foregoing has an interest, or conclude any transaction which would be a "related party transaction" under the JSE Listings Requirements, on terms and subject to conditions materially less favourable than those which would be in a comparable arm's length transaction with an independent third party, unless, if applicable and for so long as the issued ordinary shares in the company are listed on the securities exchange operated by the JSE, approved by the shareholders of the company in general meeting in accordance with the JSE Listings Requirements.

## 12. LIABILITY FOR TAX ON REDEMPTION

Any securities transfer tax or similar such tax or duty payable on the redemption or conversion of the preference shares shall be borne and paid by the company. To the extent that the holders become obliged to pay any such securities transfer tax or similar such tax or duty, the company shall immediately upon notice in writing from any holder, pay to the holders an amount equal to the securities transfer tax or similar such tax or duty paid by the holders.

## 13. NOTICES

- 13.1 All notices given by the company or any holder in terms hereof or otherwise in connection with the preference shares shall be in writing and shall, in the case of:
  - 13.1.1 the company, be:
    - 13.1.1.1 delivered by hand to the company's offices at 2 Montreal Road, Glen Anil, KwaZulu-Natal; or
    - 13.1.1.2 sent by fax to 031 569 2872,
 marked for the attention of the Company Secretary and the Chief Executive Officer;
  - 13.1.2 the subscribers, be:
    - 13.1.2.1 delivered by hand to the offices of Medu Capital (Proprietary) Limited at 2 Fricker Road, Illovo Boulevard, Illovo, Sandton, Gauteng;
    - 13.1.2.2 sent by fax to 011 268 9145,
 marked for the attention of the Director;
  - 13.1.3 any other holder, such physical address and fax number as may be notified to the company in writing.
- 13.2 The company, on the one hand, and the holders, on the other hand, shall be entitled from time to time, on written notice to the other, to vary its address and/or fax number to any other physical address or fax number.
- 13.3 Any notice given by the company to any holder, or *vice versa* ("addressee") which is:
  - 13.3.1 delivered by hand during the normal business hours of the addressee at the addressee's address provided or contemplated in this sub-article 13 shall be rebuttably presumed to have been received by the addressee at the time of delivery; and/or

13.3.2 sent by fax to the addressee' fax number provided or contemplated in this sub-article 13 shall be rebuttably presumed to have been received by the addressee on the date of successful transmission thereof.

13.4 A written notice or other communication actually received by a party shall be adequate notice to it notwithstanding that the notice was not delivered to its given *domicilium*.

13.5 Any notice in terms of this article 4.3 will only be validly given if in written or printed paper based form. For the avoidance of doubt, where any provision of this agreement requires any party to perform any act in writing, this requirement will only be satisfied if such performance is made in a written or printed paper base form. The provisions of the Electronic Communications and Transactions Act, 25 of 2002, as amended, are expressly excluded from this agreement in this regard, and data messages (as defined in that Act) are excluded as a valid form of notice in terms hereof.

## 14. GENERAL

14.1 If any dispute arises between the company and any holder in relation to the conversion or redemption of the preference shares or any other provision hereof, such dispute shall in the first instance be referred to the parties to the dispute. Should the parties to the dispute be unable to resolve the dispute within 5 (five) business days after the referral of the dispute to them, the dispute shall, at the request of any party to the dispute, be finally determined, if the dispute in issue is:

14.1.1 an accounting or financial matter only, by an independent auditor agreed upon between the parties to the dispute or, failing such agreement within 5 (five) business days, nominated by the Chairman for the time being of the KwaZulu-Natal Society of Chartered Accountants or his representative at the instance of any of the parties to the dispute;

14.1.2 a legal matter only, by a Senior Counsel of at least 5 (five) years' standing and practising as such at the Society of Advocates of KwaZulu-Natal or a retired judge agreed upon between the parties to the dispute or, failing such agreement within 5 (five) business days, nominated by the President for the time being of the Society of Advocates of KwaZulu-Natal or his representative at the instance of any of the parties to the dispute;

14.1.3 if the matter in issue is any other matter, be an independent person agreed upon between the parties to the dispute or, failing such agreement within 5 (five) business days, nominated by the President for the time being of the Society of Advocates of KwaZulu-Natal,

provided that, if the parties to the dispute cannot agree as to which of the above categories the matter in issue falls, then the arbitrator shall be a Senior Counsel or a retired judge agreed upon or, failing such agreement within 5 (five) business days, nominated as provided in article 14.1.2, acting as expert.

14.2 Any payment due by the company to any holder shall be made without set-off, deduction or any form of withholding whatsoever and shall be made into the bank account nominated by the holder on written notice to the company or in accordance with any written instructions given to the company by that holder.

14.3 The company shall have no right to defer, withhold or adjust any payment due to any holder.

14.4 If any certificate issued in respect of a preference share is defaced, lost or destroyed, it shall be replaced by the company upon receipt by the company of:

14.4.1 either:

14.4.1.1 the defaced certificate; or

14.4.1.2 an affidavit by a director of the holder to the effect that such certificate has been lost or destroyed; and

14.4.1.3 a written undertaking by the holder concerned to indemnify the company against any loss, liability, damage, cost or expense which the company may suffer as a result of issuing such replacement certificate, to the reasonable satisfaction of the company.

14.5 Subject to the provisions of any applicable law, these preference share terms shall supersede any conflicting provisions of the articles in respect of the preference shares."

## VENDORS

The following represents a list of all vendors of material assets acquired/disposed of by Erbacon during the preceding three years (inclusive of the Civcon acquisition):

Name of asset acquired or to be acquired <sup>(1)</sup>	Acquiring company	Date of acquisition	Names of vendors	Addresses of vendor	Percentage held by each vendor	Amount paid/payable to each vendor	Total amount paid to vendors and percentage acquired by Erbacon
<i>Erbacon share exchange</i>							
1. Erbacon Construction	Erbacon	19 October 2007	D B Erskine	2 Montreal Road, Glen Anil	100%	R27 690 000	R27 690 000 in Erbacon ordinary shares <sup>(2)(4)</sup> for 100%
2. Erbacon Small Plant	Erbacon	19 October 2007	D B Erskine	2 Montreal Road, Glen Anil	65%	R107 991 000	R166 140 000 in Erbacon ordinary shares <sup>(3) (4)</sup> for 100%
			F P Boraine	2 Montreal Road, Glen Anil <sup>(2)</sup>	35%	R58 149 000	
<i>Armstrong Construction</i>							
3. 100% of the issued share capital of Armstrong Construction	Erbacon	28 February 2008	D G Armstrong	1 Commonage Road, Hillcrest, 3650	70%	R49 767 923	R71 097 033 with <sup>(5)</sup> the issue of 20 438 811 Erbacon ordinary shares for R51 097 033 and a cash payment of R20 000 000 for 100%
			W M Ric-Hansen	1 Commonage Road, Hillcrest, 3650	30%	R21 329 110	
<i>Civcon acquisition</i>							
4. Civcon	Erbacon	Effective date	A H Henning The Ramsay Family Trust Wiebe Top Andre de Graaf Burt van der Merwe Geoff Sproule Jannie Look Innes Louw	18 Industry Road, Clayville, Olifantsfontein, 1665	45.55%	R121 529 409	R266 804 410 <sup>(6)</sup> for 100% with the issue of a maximum of 101 972 662 Erbacon ordinary shares and a cash payment of R95 418 260
				18 Industry Road, Clayville, Olifantsfontein, 1665	45.55%	R121 529 409	
				18 Industry Road, Clayville, Olifantsfontein, 1665	1.48%	R3 948 705	
				18 Industry Road, Clayville, Olifantsfontein, 1665	1.58%	R4 215 510	
				18 Industry Road, Clayville, Olifantsfontein, 1665	1.58%	R4 215 510	
				18 Industry Road, Clayville, Olifantsfontein, 1665	0.60%	R1 600 826	
				18 Industry Road, Clayville, Olifantsfontein, 1665	1.58%	R4 215 510	
				18 Industry Road, Clayville, Olifantsfontein, 1665	2.08%	R5 549 531	

**Notes:**

- (1) Refer to paragraphs 1.2 of Annexure 7 for the nature of business of such entities.
- (2) 13 845 000 Erbacon shares were issued at R2.00 per share.
- (3) 83 070 000 Erbacon shares were issued at R2.00 per share.
- (4) Erbacon accordingly acquired Erbacon Construction and Erbacon Small Plant for an aggregate purchase consideration of R193 830 000 that was settled by way of the issue of 96 915 000 Erbacon shares at R2.00 per share, in aggregate, to the vendors as set out in the table above, such that after the implementation of the Erbacon share exchange Erskine held 70% of the issued ordinary share capital and Borraine held 30%, such share split having been agreed in writing between such vendors.
- (5) Erbacon acquired Armstrong Construction, effective 29 February 2008, in terms of a share for share exchange between Erbacon and the Armstrong vendors, whereby Erbacon acquired all of the issued shares in and claims against Armstrong Construction for a total purchase consideration of R71 097 033 settled partly in cash amounting to R20 000 000 and partly by way of the issue of 20 438 811 Erbacon ordinary shares with a par value of R0.01 per share at an issue price of R2.50 per Erbacon ordinary share, which resulted in Armstrong Construction becoming a wholly-owned subsidiary of Erbacon.
- (6) In terms of the transaction as set out in this circular Erbacon will acquire the entire issue share capital and claims on shareholders' loan account against Civcon from the Civcon vendors for a purchase consideration of R266 804 410, to be settled partly in cash amounting to R95 418 260 and by the issue of a maximum of 101 972 662 Erbacon ordinary shares at R1.6807 per Erbacon ordinary share. Subject to the fulfilment of all suspensive conditions as set out in paragraphs 3.1.4 and 3.2.5 to this circular, Civcon will become a wholly-owned subsidiary of Erbacon.
- (7) None of the assets in respect of any of the transactions set out in the table above were acquired by any of the respective vendors in the three years prior to their disposal to Erbacon.
- (8) The vendors in respect of the transactions as set out in the table above provided normal warranties for such type of transactions to Erbacon. Civcon vendors have provided guarantees in respect of the book debts prior to the effective date of the transaction, which guarantees have been included in the determination of the profit warranty amount as set out in paragraphs 3.1.5.3 and 3.1.5.4 of the circular.
- (9) Relevant restraints of trade have been agreed to by the vendors to the above transactions, which are agreed as being fair and reasonable in the context of the company's operational environment. The vendors in respect of the Erbacon share exchange are each restrained for five years, from competing with the company, whether directly or indirectly, canvassing customers of the company or lure employees of the company to leave the employment of the company or five years from competing with the company, whether directly or indirectly, canvassing customers of the company or lure employees of the company to leave the employment of the company or furnish confidential information to unauthorised persons. Furthermore in terms of the Civcon acquisition Henning and Ramsay are restrained in terms of Civcon acquisition agreement for a period of five years from the effective date or for a period of two years from the date on which Henning and Ramsay ceases to be employed by the Erbacon group for any reason. The restraint prevents Ramsay and Henning from competing with the company in the territory in which Erbacon operates, or engaging in a territory outside of which Erbacon operates but which may cause prejudice to Erbacon during the restraint period, whether directly or indirectly, by canvassing customers of the company or lure employees of the company to leave the employment of the company or furnishing confidential information to unauthorised persons. Identified shareholders, including Henning and the Ramsay Family Trust, are further restrained in terms of an agreement with Medu Capital, on behalf of its funds under management, such that the Civcon vendors shall not dispose of any blocked shares, comprising their Erbacon ordinary shares received in terms of the purchase consideration as set out above for a period of five years from the date of issue of the Erbacon preference shares, however should the preference shareholder dispose of a portion of the Erbacon preference shares or ordinary shares that have been so converted, then the Civcon vendors will be entitled to sell a *pro rata* portion of their Erbacon ordinary share. The Civcon vendors may also be entitled to dispose of their Erbacon ordinary shares to a 3<sup>rd</sup> party purchaser if the Erbacon ordinary share price exceeds R7 per share and the 3<sup>rd</sup> party purchaser offers to purchase a *pro rata* portion of the ordinary shares already converted by the preference shareholders or preference shares that may be convertible into ordinary shares.
- (10) Accrued taxation liabilities for all companies set out above will be settled by the respective companies on their respective due dates.
- (11) The nature and extent to which any director of Erbacon had any beneficial interest, direct or indirect, in respect of the transaction set out above, is reflected in paragraph 11 of this circular. Save as set out in paragraph 4.5 of Annexure 7 to this circular, no promoter of Erbacon had any beneficial interest, whether direct or indirect, in any of these transactions.
- (12) Save as set out in paragraph 11.5 of this circular no amount of cash or any securities or benefit was given within the three years preceding the date of this circular or is proposed to be paid or given to any promoter not being a director.
- (13) All of the assets acquired, with the exception of the Civcon acquisition, have been transferred into Erbacon's name and none are subject to any cession or pledge. Post the implementation of the Civcon acquisition all of the assets acquired will be transferred into Erbacon's name and will not be subject to any cession or pledge.

(14) The accounting policies of Erbacon as set out in Appendix 1 of Annexure 7 provide details as to how goodwill is accounted for by the company and its subsidiaries. The net asset value at the effective date and goodwill arising in respect of the above acquisitions were as follows:

	<b>Net asset value (R)</b>	<b>Intangible asset (R)</b>
1. Erbacon Construction	5 422 484	Nil
2. Erbacon Plant Hire	11 161 210	Nil
3. Armstrong Construction	18 274 719	52 822 314
4. Civicon	46 652 680†	191 525 475*

† The net asset value of Civicon represents the NAV at 28 February 2009, less the proposed dividend payment of R25 million and STC thereon as set out in the *pro forma* financial information contained in Annexure 3 to the circular.

\* The initial portion purchase consideration will be settled by payment of R95 418 260 in cash and by the issue of 25 020 876 Erbacon ordinary shares at R1.40 per share, being the Erbacon share price at the time of publication of this circular. The issue price assumed in terms of the Civicon acquisition agreement is R1.6807 per Erbacon ordinary share. The contingent purchase consideration of 76 951 786 shares is valued at R1.40 per share being the Erbacon share price at the time of publication of this circular as required in terms of IFRS 3: Business Combinations. The contingent purchase consideration of R107 732 500 is treated as equity to be issued until settled in terms of paragraphs 3.1.5.3 and 3.1.5.4 of this circular. The acquisition of Civicon for a total purchase consideration of R238 179 986, as opposed to R266 804 410 above, gives rise to goodwill on acquisition of R191 525 475 after taking account costs of R3 622 499 directly attributable to the business combination.



## ERBACON INVESTMENT HOLDINGS LIMITED

(Formerly Friedshel 884 Limited)

(Incorporated in the Republic of South Africa)

(Registration number 2007/014490/06)

Share code: ERB ISIN: ZAE000111571

("Erbacon" or "the company")

### REVISED LISTING PARTICULARS

These revised listing particulars have been prepared on the assumption that the ordinary and special resolutions proposed in the notice of general meeting attached to the circular in which these revised listing particulars have been incorporated have been duly passed at the general meeting and, where applicable, registered and that the transactions detailed in the circular have become unconditional by the effective date.

These revised listing particulars are not an invitation to the public to subscribe for shares in Erbacon, but are issued in compliance with the Listings Requirements. These revised listing particulars are issued to provide shareholders with additional information on Erbacon after the implementation of the transaction.

Erbacon has an authorised ordinary share capital of R3 000 000 consisting of 300 000 000 ordinary shares of R0.01 cent each of which 136 803 175 ordinary shares are in issue.

Post the implementation of the transaction in its entirety Erbacon will have an authorised share capital of R 5 674 100 consisting of 500 000 000 ordinary shares of R0.01 each of which 238 775 837 ordinary shares are in issue, and 67 410 000 Erbacon preference shares of R0.01 each of which 67 410 000 preference shares are in issue.

The directors of Erbacon, whose names are set out in paragraph 1.5, accept, collectively and individually, full responsibility for the accuracy of the information contained herein and certify that, to the best of their knowledge and belief, there are no omissions of facts or considerations which would make any statements of fact or opinion contained in these revised listing particulars false or misleading and that all reasonable enquiries to ascertain such facts have been made and that these revised listing particulars contain all information required by law and the Listings Requirements.

#### Corporate adviser



PSG CAPITAL

#### Auditors and independent reporting accountants



PricewaterhouseCoopers Inc  
Chartered Accountants (SA)  
Registered Accountants and Auditors  
(Registration no 1998/012055/21)

#### Designated Adviser



#### Attorneys to Erbacon



#### Auditors to Civcon and independent reporting accountants



MAZARS MOORES ROWLAND  
Corporate Finance (Pty)Ltd

#### Legal adviser to Civcon



Date of issue: 28 October 2009

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The definitions and interpretation commencing on page 11 of the circular to which these revised listing particulars are attached, apply *mutatis mutandis* to these revised listing particulars.

## 1. THE BUSINESS OF ERBACON

### 1.1 Incorporation and history

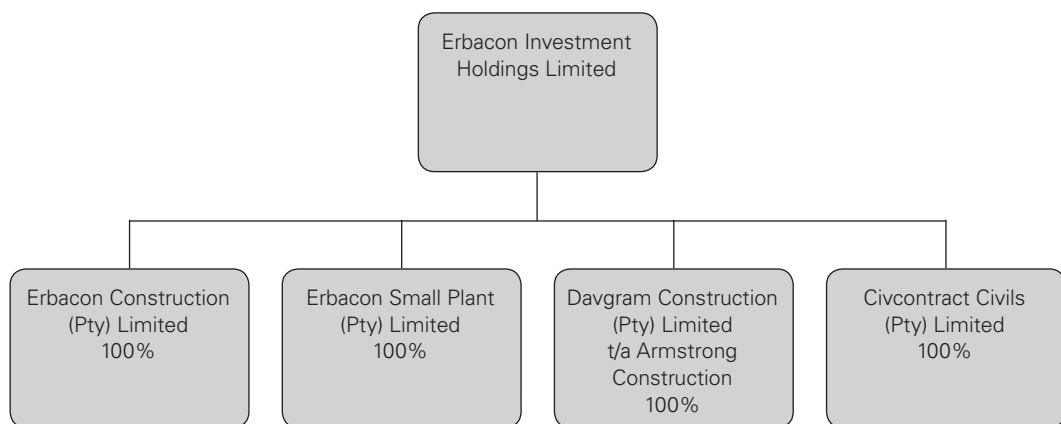
- 1.1.1 Erbacon was incorporated as the then newly formed holding company in terms of the Erbacon restructuring in South Africa under the name “Friedshelf 884 (Proprietary) Limited” on 18 May 2007.
- 1.1.2 The company converted to a public company under registration number 2007/014490/06 and changed its name to “Erbacon Investment Holdings Limited” on 12 September 2007.
- 1.1.3 Erbacon was born out of the initial establishment of Erbacon Construction CC in 1987 by its founding member Erskine. Erbacon Construction initially started as a specialised concrete repair contractor and later evolved into a full-service civil engineering contracting operation, with the capability of taking on major civil engineering contracts.
- 1.1.4 In 1996, a separate plant and scaffolding hire business, Erbacon Plant Hire CC was established by founding members Erskine and Boraine. This business initially arose in servicing the increasing plant hire needs of Erbacon Construction. However, in a fairly short period of time it had developed into a stand-alone operation and major national player in small plant hire.
- 1.1.5 Erbacon Construction CC and Erbacon Plant Hire CC were converted from close corporations into private companies on 12 and 13 September 2007, respectively, and subsequently became wholly-owned subsidiaries in terms of the Erbacon share exchange.
- 1.1.6 Erbacon Construction and Erbacon Small Plant operate from premises situated in Glen Anil, Durban. The company therefore has a considerable and long-standing presence in KwaZulu-Natal and an ever-expanding national footprint.
- 1.1.7 The Erbacon restructuring undertaken during the course of August – October 2007, resulted in the interposition of Erbacon as the holding company and the establishment of Erbacon Small Plant and Erbacon Construction as its two wholly-owned subsidiaries by way of the Erbacon share exchange. Erbacon listed on the Alt<sup>x</sup> in December 2007.
- 1.1.8 On 28 February 2008, Erbacon acquired all of the issued shares of and claims against Armstrong Construction thereby increasing its suite of construction related services in the commercial and industrial building sector. Armstrong Construction is a wholly-owned subsidiary of Erbacon and operates from premises situated in Hillcrest, KwaZulu-Natal.
- 1.1.9 Armstrong Construction was established by its founder Armstrong in 1996. In 2002, Armstrong Construction acquired Collins Contractors, another KwaZulu-Natal based construction company with a formidable track record of in excess of 99 years in the industry. Armstrong Construction’s focus is on commercial and industrial construction.
- 1.1.10 Armstrong Construction converted from a close corporation to a private company on 17 October 2007.

### 1.2 Overview

- 1.2.1 The Erbacon group, comprising Erbacon Construction, Erbacon Small Plant, Armstrong Construction and Civcon, makes for a medium to large-sized player in the national construction industry. Its geographical presence whilst focussed in KwaZulu-Natal in the past is continually expanding; especially with the surge in government’s infrastructure spend which has seen the group secure more contracts further afield, e.g. Erbacon Small Plant’s ever-increasing expansion into Gauteng and the award of several national roads contracts to Erbacon Construction, including a portion of the N1 Freeway upgrade on the perimeter of Johannesburg.
- 1.2.2 Erbacon executes a variety of projects for private clients, parastatals, government departments, municipalities, roads agencies and other provincial bodies, as well as selected private property developers. Large projects are tendered for and undertaken by Erbacon either

as a main contractor or in partnership with larger private or listed multi-national construction companies. The major multinational construction companies will often utilise sub-contractors, such as Erbacon, to execute key elements in respect of certain projects. Such projects span the development of heavy infrastructure, townships, retail and urban developments and the general expansion of existing developments.

- 1.2.3 Erbacon prides itself in its stable and experienced work force. Due to the inherent nature of the construction industry, a number of employees are employed on a limited employment contract basis. However, a large number of employees are permanent staff and have been with the group for a number of years already. In accordance with industry trends, Erbacon offers on-site and off-site training for employees. Retention and training of skilled employees in order to enhance competitiveness, is vital in the light of the prevailing shortage of skills in the construction industry.
- 1.2.4 Most of the executive management of the Erbacon group are also the founding members of the respective subsidiaries, being fully committed to the group and hands on in the group's operations. Management and senior staff members are remunerated according to industry norms in line with staff retention requirements and their respective qualifications.
- 1.2.5 Erbacon's current group structure can be diagrammatically depicted as follows:



All of the above subsidiaries are 100% held by Erbacon Investment Holdings Limited.

- 1.2.6 Over the past three years, the original Erbacon group has experienced an average growth rate in revenue in excess of 118% per annum. The group's order book and the nature of the contracts secured to date, including that of Civcon, bode well for sustaining growth levels over the course of at least the next five to ten years.
- 1.2.7 **Erbacon Construction**

Erbacon Construction has been in the industry for over 20 years and prides itself in providing cost effective civil engineering solutions for a broad spectrum of clients in the construction and infrastructure development sectors.

The company is a member of the South African Federation of Civil Engineering Contractors and therefore adheres to the industry standards as advocated by the federation and stays abreast of all industry developments.

The products and services offered by Erbacon Construction include:

- *Concrete Structures and Buildings*  
This refers to the construction (and reinforcement) of water reservoirs, water retaining structures, water and sewage treatment works, new bridges, industrial warehouses, factories and buildings, marine works, quay walls, concrete hardstands and the like.
- *Concrete and Bridge Rehabilitation*  
The company has traditionally been involved in the concrete and structural repairs of bridges, buildings, concrete roads and generally any concrete or steel structure. The company is acknowledged as one of the leading structural repair companies in the country. Also included in this sector is the company's specialised bridge and structural jacking service.

- *Pipeline Construction*

In KwaZulu-Natal, Erbacon Construction has secured and completed numerous pipeline related contracts for government, domestic and industrial usage in respect of water, sewer and storm water projects. The company therefore assists the efficient conveyance, storage and distribution of water to urban developments. Such clients have included: Umgeni Water, Mhlathuze Water, Siza Water and EtheKwini Water and Waste.

- *Township Services and Developments*

Contracts in this sector of the market entail the full servicing for housing developments as well as insitu-township upgrades for municipalities. This would involve the installation of the necessary facilities for sewerage, water, storm water and electricity, as well as roads (if necessary) for the establishment of new townships, or upgrading of existing ones.

- *Bulk Earthworks and Road Works*

These contracts mostly consist of road rehabilitation and upgrade contracts for municipalities, provincial bodies and road agencies, as well as the construction of landfill sites, housing platforms and terraces for new developments and municipal services. These services would also include the preparation of a construction site as to excavation, clearing and removal of debris as well as other structures.

*Major contracts over the past 2 to 3 years include the following:*

<b>Employer</b>	<b>Contract description</b>	<b>Contract value</b>	<b>Award year</b>
Sanral	Improvements to New England Road	R28 057 108	2007
Biwater	Mthonjaneni water works	R23 262 854	2007
Buffalo City Municipality	Quinera wastewater treatment works	R48 993 653	2008
Sanral	Higginson Highway and Edwin Swales Interchanges	R34 000 000	2008
Sanral	Widening of N1 Road Johannesburg-Gauteng Freeway Package A	R175 000 000	2008
Sanral	Gauteng Freeway Project Package H	R76 567 613	2008
Umgungundlovu District Municipality	Harry Gwala stadium – Pietermaritzburg	R86 000 000	2008
Sanral	Raubex bridges	R20 000 000	2008
EtheKwini Municipality	Moses Mabhida stadium sports precinct	R122 000 000	2009
Sanral	EtheKwini freeway management system	R55 000 000	2009
KZN Department of Transport	Sangoya Pedestrian Bridge	R2 897 880	2009
Mhlathuze Water	Nsezi Water Treatment Plant Upgrade	R55 339 266	2009

### 1.2.8 Erbacon Small Plant

Initially established to service the needs of Erbacon Construction, the company has shown impressive growth over the past few years and continues to command satisfactory margins. Its ever increasing client base now has a geographical emphasis in KZN, Gauteng, the North West and Mpumalanga Provinces, with branch offices in Durban, Richards Bay, Port Elizabeth, Johannesburg (Midrand), Lephalale, Nelspruit and Ellisras.

The company is a member of the Construction Plant Hirers' Association (CPHA) and is kept well informed of trends and demands in the market place.

The business can be broken down into five categories, namely:

- *General Small Plant*

This refers to the hiring and supply of small plant, including compressors, generators, concrete mixers, compaction equipment, through to small hand tools such as electric drills. Small plant is generally described as a construction plant that is not mobile and does not require an operator. Clients include major construction and building companies, municipalities and provincial bodies.

- *Compressed Air Division*

With a fleet of over 100 compressors, Erbacon Small Plant is one of the largest compressed air hire companies in KwaZulu-Natal. The Gauteng branch has also started to supply the mining industry that is seen as a potentially major new client base.

- *Formwork and Scaffolding Division*

This division operates only out of the Durban and Richards Bay branches at present. This has been mainly due to the demand from the existing Erbacon client base in these two regions thereby utilising all of the current stock.

- *Saw Cutting Division*

This involves a “contracting” aspect of the company, whereby, instead of only hiring saw cutting equipment, Erbacon Small Plant provides a full service that also includes concrete and pre-mix saw cutting and joint sealing. The need for this venture has become apparent because of clients not having the requisite know-how to operate the machinery correctly.

- *Property, plant and equipment sales*

Property, plant and equipment sales occurs in all branches, ranging from formwork and general small plant to a full range of generator sets. Clients included the Bombela Consortium (Gautrain project). General small plant included, *inter alia*, jackhammers, welders, watercrafts, water pumps and pumbing equipment, drills and other general construction equipment.

- *Major clients that are serviced on an ongoing basis are as follows:*

M.E. Aqua Civils (Pty) Limited  
Sanyati Holdings Limited  
Readira Projects CC  
Group 5 Limited  
Bombela Civils J.V. (Proprietary) Limited  
Basil Read Holdings Limited  
Formwork Connection CC  
Afriscan Construction (Proprietary) Limited  
Inkosi Plant Hire

### 1.2.9 **Armstrong Construction**

Armstrong Construction has a primary presence within the commercial and industrial construction sectors contributing to Erbacon’s suite of construction services.

The services offered by Armstrong Construction include:

- *General construction of commercial and industrial buildings*

The company specialises in the construction of industrial buildings, including factories, warehouses and commercial buildings, such as office parks, shopping malls, retail developments and residential developments. Its geographical presence in the Durban and Pietermaritzburg area has meant that the company has built up a successful and impressive private client base in the KwaZulu-Natal area.

- *Rural shopping centres*

The company has completed numerous rural projects and has built a solid reputation in respect of these types of projects. The company is well-positioned to tap into the government expansion and private investment initiatives earmarked for such developments.

- *Ancillary services associated with such construction*

The company has a skilled team of contract managers, quantity surveyors and general foremen to ensure that every aspect of any given construction project can be dealt with. In addition, the workshop situated in Pietermaritzburg is fully equipped such that all maintenance of plant and machinery is handled in-house. Such equipment includes: tippers, loaders, concrete mixers, scaffolding and a flat bed crane.

Major contracts over the past 2 to 3 years include the following:

Employer	Contract description	Contract value	Award year
The Collins Property Group	Unilever Distribution Warehouse/ Offices	R255 492 500	2007
The Collins Property Group	Pep Distribution Warehouse	R138 480 754	2007
The Alliance Property Group	Ulundi Shopping Centre	R78 198 554	2007
The Alliance Property Group	Elliotdale Shopping Centre	R21 442 638	2007
Emira Property Fund	Granada Centre Refurbishment	R41 795 091	2008
City Lodge Hotels Limited	Road Lodge Umhlanga	R30 687 450	2008
Schoonies Een (Proprietary) Limited	Mtubatuba Taxi City	R22 137 276	2008
Roger Newman	VCC SSI Newmans Office Block	R20 969 684	2008
Amafa aKwazulu-Natali	Multi-Media Centre – Dingaansat	R19 922 704	2008
Bridgeport Properties	Seth Mokothimi Seminary	R48 121 518	2009
BDO	BDO Offices	R41 908 000	2009
Builders Trade Depot	Builder Trade Depot	R15 531 000	2009
eThekweni Municipality	Dairy Beach Upgrade	R21 931 000	2009
eThekweni Municipality	Addington Beach Upgrade	R21 444 000	2009

#### 1.2.10 Civcon

Civcon is a wholly-owned subsidiary of Erbacon.

Civcon was incorporated on 9 June 1972 as a private company with registration number 1972/005850/07 under the name Benvor Elektriess Dienste (Pty) Limited and changed its name to Civcontract Civils (Pty) Limited on 20 April 2006.

Civcon commenced business as a civils contractor in 1980 on the Free State Goldfields. Henning joined Civcon in 1994. For a number of years Civcon formed part of the WK Construction (Pty) Limited in which Ramsay served as Managing Director until 2005. In 2005 Ramsay together with Henning, agreed to run Civcon as an independent company and Ramsay acquired the outstanding shareholding in Civcon from WK Construction (Pty) Limited. Ramsay and Henning are equal partners in the business of Civcon and have run the business jointly since 2005.

The company currently manages its operations from its Head Office and equipment yard in Clayville, Olifantsfontein, consisting of 3 000 m<sup>2</sup> of buildings and 8 000 m<sup>2</sup> yard area with a workshop facility in Benoni, comprising 3 000 m<sup>2</sup> of buildings and 7 000 m<sup>2</sup> of paved yard area.

Civcon acquired 100% of EWT Plant Hire and Construction (Pty) Limited with effect from 1 March 2008. The company is engaged in plant hire and operates within South Africa, supplying plant within the Civcon group as needed. EWT hires plant to external parties only to the extent the equipment is not required by the Civcon group.

Civcon operates in the mining construction and heavy industrial markets with its client base covering the majority of the mining houses, fertiliser and petro-chemical companies and heavy industry. Civcon's key services include general civil engineering construction, industrial and process plants, mining (surface and underground), mining infrastructure and design, and the construction of turnkey industrial projects.

These activities specifically include:

- Mine infrastructure development, large industrial projects, general civil engineering, building construction, turnkey projects, underground construction, bulk earthworks, tailings management, demolitions, storm and sewage reticulation, environmental rehabilitation, seepage control, plant and haul roads.

Furthermore, Civcon own and operate approximately 150 items of construction plant.

Major contracts over the past 2 years include the following:

<b>Contract for</b>	<b>Contract description</b>	<b>Contract value</b>	<b>Award year</b>
Chemwes (Proprietary) Limited	Chemwes Gold and Uranium Plant	R410 555 938	2009
Anglo Platinum	Paardekraal 2 Fridge Plant	R66 893 056	2009
Anglo Platinum	Waterval WCM Crusher	R14 094 818	2009
Ezulwini Mining Co. (Proprietary) Limited	Chemwes Gold and Uranium Project	R205 723 751	2008
Placer Domer Joint Venture	South Deep Brattice Wall	R65 604 840	2008
XL Projects	Grootgeluk Feedstock Conveyors	R33 293 573	2008

### 1.3 Prospects

The acquisition of Civcon and the introduction of Medu Capital as a BEE financing partner will be beneficial to Erbacon for the following reasons:

- the critical mass of Erbacon will be significantly increased enabling the company to tender on and be more competitive on larger and more profitable contracts. It will also enable the group to consider tendering on work outside the borders of South Africa and in particularly Zimbabwe, Angola and Mozambique, which Erbacon views as potential markets in the future;
- Erbacon's geographical diversification outside of KwaZulu-Natal and into the Gauteng key growth area will be enhanced;
- Erbacon's client base will be extended to include mining construction and heavy industry thereby diluting its exposure to its traditional client base;
- Medu Capital will provide Erbacon with financing for the Civcon acquisition and with a significant BEE status which the company does not currently have; and
- Armstrong Construction and Erbacon Small Plant will be able to access the building and plant hire components of Civcon's future tenders.

### 1.4 Details of subsidiaries

Details of the subsidiary companies of Erbacon are set out in Appendix 3 to these revised listing particulars.

### 1.5 Directors and management

#### 1.5.1 Details of directors

1.5.1.1 The full names, ages, occupations and business address of the directors of Erbacon, post the implementation of the transaction, are outlined below:

<b>Full name</b>	<b>Age</b>	<b>Occupation</b>	<b>Business address</b>
Alan Dawson	66	Non-executive Chairman	7 Sunnyside Avenue, Hillcrest KwaZulu-Natal, 3650
David Boyd Erskine	55	Chief Executive Officer	2 Montreal Road Glen Anil, 4051
Robin Kevin Braithwaite	54	Group Finance Director	2 Montreal Road Glen Anil, 4051
Charles Henry Alan Ramsay	58	Executive Director – Civcon	18 Industry Road, Clayville Olifantsfontein, 1665
Alexis Hertzog Henning	55	Managing Director – Civcon	18 Industry Road, Clayville Olifantsfontein, 1665
Johannes Andries Holtzhausen	39	Non-executive Director	1st Floor, Ou Kollege Building 35 Kerk Street Stellenbosch, 7600
Samara Totaram	31	Non-executive Director	1st Floor, Ou Kollege Building 35 Kerk Street Stellenbosch, 7600
Nhlanganiso Phares Mkwanazi	35	Non-executive Director	2 Fricker Road, Illovo Boulevard Illovo, 2196
Zeyn Rashid Angamia	30	Non-executive Director	2 Fricker Road, Illovo Boulevard Illovo, 2196

- 1.5.2 All directors are South African citizens.
- 1.5.2.1 Mkwanzazi and Angamia are representatives of Medu Capital who, have been elected as directors to the board of Erbacon in terms of the notice contained in the general meeting attached to the circular to which these revised listing particulars are attached.
- 1.5.2.2 Henning and Ramsay have been elected, as Civcon representatives, as directors to the board of Erbacon in terms of the notice contained in the general meeting attached to the circular to which these revised listing particulars are attached.
- 1.5.3 Experience of directors
- 1.5.3.1 Alan Dawson – BSc Civil Engineering, Pr Eng  
Dawson joined Grinaker Construction Natal in 1974, culminating in an executive directorship with Grinaker Holdings Limited, responsible for civil engineering work in Southern Africa. He was also appointed to the board of Aveng Limited in 2000. He retired from these executive positions in 2002. Dawson has been closely involved with the SA Federation of Civil Engineering Contractors for most of his career and was elected national president for 2000 – 2002. Dawson became a director of Erbacon in March 2008.
- 1.5.3.2 David Boyd Erskine – B Sc. Civil Engineering (Natal), Pr Eng  
In 1987 Erskine started Erbacon Construction as one of three founding members, after being employed with the Department of Water Affairs and Grinaker (1981). Operating initially out of his garage, converted to office premises, the company grew rapidly and, in 1991, the current premises were acquired in Glen Anil, Durban. In 1996, Erskine and Boraine started Erbacon Small Plant.
- 1.5.3.3 Robin Kevin Braithwaite – BCom, BAcc, CA(SA)  
Braithwaite qualified as a Chartered Accountant in 1984 and served articles with Ernst & Young. After a two-year term with John Holland Construction in Australia, and then Corobrik in Durban, Braithwaite spent nearly a decade with the contracting and engineering companies of the Dorbyl Limited Group, as financial director. The latter eleven years of his financial career have been in the manufacturing sector, and with the Dunlop Group in particular. Braithwaite joined Erbacon in February 2008.
- 1.5.3.4 Charles Henry Alan Ramsay – BSc Civil Engineering, FSAICE  
Ramsay graduated in 1974 and has worked in the construction industry for 35 years. Prior to his current position as an executive director of Civcon, he has been an executive director of Group Five Civils (Pty) Limited as well as the managing director of Goldstein Coastal (Pty) Limited. He also served as managing director of WK Construction (Pty) Limited for 11 years. Ramsay is a former chairman of the KwaZulu-Natal region of the SA Federation of Civil Engineering Contractors.
- 1.5.3.5 Alexis Hertzog Henning – BSc (QS)  
Henning has 30 years of experience in the construction industry and has been managing Civcon since 1994. He is responsible for building the company up from a R10m revenue a year company, employing 70 staff members, to a R350 million plus multi-facet construction business employing in excess of 800 employees.
- 1.5.3.6 Johannes Andries Holtzhausen – Bluris (*cum laude*) LLB, HDip Tax  
Holtzhausen is the managing director of PSG Capital (Pty) Limited. He is a qualified attorney and has been involved in corporate finance since 1995, having implemented various corporate finance transactions and listings since then. He was also appointed by the Minister of Finance as a chairperson for the Special Income Tax Appeals for Gauteng in 1998. Holtzhausen became a director of Erbacon in October 2008.
- 1.5.3.7 Samara Totaram – BAcc, PG Dip Acc, CA(SA)  
Totaram completed her articles with Deloitte, and then spent 18 months at the Royal Bank of Scotland in London. Totaram has completed Level III of the Chartered Financial Analyst exams. She joined PSG Capital (Pty) Limited in 2007 as an analyst and is primarily involved in new listings, capital raisings, other commercial transactions and general corporate finance consulting. Totaram became a director of Erbacon in October 2008.

1.5.3.8 Nhlanguiso Phares Mkwanzazi – BCompt, BCompt (Honours), CA(SA), CFA

Mkwanzazi is a co-founder and director of Medu Capital and is responsible for the strategic development of Medu Capital, investment execution and management.

He has 15 years' experience in auditing, management consulting and private equity investing. After qualifying with Deloitte, Mkwanzazi joined Gemini Consulting as a consultant in strategy development and business transformation projects. He later joined Brait Private Equity and was appointed a director.

Mkwanzazi serves on various boards of companies.

1.5.3.9 Zeyn Rashid Angamia – BComm, BComm (Honours), CA(SA), CFA

Angamia is a principal of Medu Capital and is responsible for investment execution and management. He has 8 years' experience in auditing, corporate finance and private equity investing. After qualifying with PricewaterhouseCoopers, Angamia joined the corporate finance division of PricewaterhouseCoopers where he gained valuable experience in valuation and strategy.

Angamia is a non-executive director of a number of companies.

1.5.4 Executive Management

Key directors of subsidiary companies and executive members of Erbacon management are:

1.5.4.1 Frans Petrus Boraine (Managing Director, Erbacon Small Plant) – B.Comm

Boraine graduated from Stellenbosch University in 1994, after which he was employed in the accounts department by Erbacon Construction. In 1995, Boraine recognised a need within Erbacon to start a plant hire division to service the requirements within the Group. Under Boraine's management, the division expanded and, in 1996, Erbacon Small Plant was created to service not only Erbacon Construction and its clients, but the open market as well.

1.5.4.2 David Graham Armstrong (Managing Director, Armstrong Construction) – BSc Building Management

Since graduating from the University of KwaZulu-Natal, Armstrong has accumulated over 20 years' experience in the construction and building industry. A spell at Stocks & Stocks was followed by six years of co-ownership of the firm Raylyn Construction, after which Armstrong's entrepreneurial instincts resulted in him going on his own to start Armstrong Construction in 1996.

1.5.4.3 Wayne Michael Ric-Hansen (Commercial Director, Armstrong Construction) – National Higher Diploma in Quantity Surveying

Ric-Hansen has been closely associated with the construction and building industry since 1982, gaining experience as a quantity surveyor with such firms as Stocks & Stocks, Group 5 and Steffanutti and Bressan. He joined Armstrong Construction in 2003 when Armstrong Construction acquired Collins Contractors, another KwaZulu-Natal-based company.

1.5.4.4 Gary Brockwell Flett – BCompt (Accounts) (UNISA)

Flett's career began in the banking sector as a management trainee in Durban. He obtained his B. Compt degree and went on to complete his articles with Ernst & Young. Flett then went into commerce and held senior management positions in finance for 12 years before joining the Erbacon group in 2005. He is currently the public officer of the Erbacon group and its subsidiaries, and is currently financial director of both Erbacon Small Plant and Erbacon Construction.

1.5.4.5 Innes Louw – NDip Civ Eng – Operations Manager

After qualifying in 1993 Louw spent 17 years in the construction sector with companies such as Grinaker, WBHO and May Gurney (UK) before joining Civcon in 2007 as contracts manager. In 2008 Louw was appointed as operations manager of Civcon.

- 1.5.4.6 André de Graaf – BSc Civ Eng (Honours) – Construction Manager  
After graduating de Graaf worked at Concor before joining Civcon in 2007 as a site Agent. In 2008 he was promoted to contracts manager of Civcon.
- 1.5.4.7 Jannie Looock – BTech Civil Engineering – Construction Manager  
Looock joined Civcon as a student in 1997. He has 12 years of experience in the construction sector having been promoted to contracts manager of Civcon in 2001.
- 1.5.4.8 Burt van der Merwe – Construction Manager  
Van der Merwe has 17 years of experience in the construction sector and has been employed at Civcon for 10 years. He has worked himself up through the ranks to the position of contracts manager of Civcon.
- 1.5.4.9 Wiebe Top – Plant Manager  
Top has approximately 20 years of experience in earthworks and plant management. In 2001 he started his own business – EWT Plant Hire and Construction (Pty) Limited. In 2008 the business was acquired by Civcon and Top took over responsibly for all plant and vehicles in the Civcon group.
- 1.5.4.10 Geoff Sproule – CA(SA), HDipTax: Financial Manager of Civcon  
Sproule is a qualified CA with 40 years of commercial experience and has been involved in companies such as JH Isaacs Group Holdings Limited, Alton Limited, Forward Corporation Limited, General Tyre SA Limited and was a partner at Deloitte from 1978 to 1989.

## 1.6 Directors' service contracts

- 1.6.1 Save for R K Braithwaite, each of the remaining existing Erbacon executive directors has entered into a service agreement with Erbacon containing terms that are normal for such contracts, inclusive, but not limited to, a notice period of one month. Such agreements were subject to an amendment regarding the automatic increase in salary that has subsequently been amended, on 21 September 2009, to be at the discretion of the Remuneration Committee of Erbacon.
- 1.6.2 In terms of the Civcon acquisition, Henning and Ramsay have entered into service agreements with Erbacon containing terms that are normal for such agreements including, *inter alia*, a notice period of 3 months, a restraint of trade undertaking and a provision that it cannot be cancelled within 24 months of the effective date of such agreement, which effective date is the date on which Erbacon becomes the holder of the entire issued share capital of Civcon.

## 1.7 Directors' interests

- 1.7.1 At the last practicable date, the directors of Erbacon and their associates held in aggregate 40.39% of the ordinary and preference shares of Erbacon:

Director	Beneficial Direct	Indirect	Total number of shares held	Percentage of issued share capital post transaction <sup>(1)</sup>
A Dawson	115 000	–	115 000	0.04
D B Erskine	33 920 250	–	33 920 250	11.08
R K Braithwaite	399 700	–	399 700	0.13
A H Henning	44 620 609	–	44 620 609	14.57
C H A Ramsay	–	44 620 609	44 620 609	14.57
J A Holtzhausen	–	–	–	–
S Totaram	–	–	–	–
N P Mkwanazi	–	–	–	–
Z R Angamia	–	–	–	–
	<b>79 055 559</b>	<b>44 620 609</b>	<b>123 676 168</b>	<b>40.39</b>

**Note:**

- (1) Calculated post the implementation of the transaction in its entirety, including the issue of 67 410 000 Erbacon preference shares to Medu Capital which shares rank *pari passu* to Erbacon ordinary shares, save as otherwise set out in Annexure 5, and the issue of a maximum of 101 972 662 Erbacon ordinary shares to the Civcon vendors in settlement of the purchase consideration.
- 1.7.2 Erbacon acquired the business of Armstrong Construction effective 28 February 2008. In terms of such acquisition, 7 819 930 Erbacon ordinary shares were issued to Armstrong and 3 351 399 Erbacon ordinary shares were issued to Ric-Hansen on 18 March 2008 as settlement of the initial purchase consideration in terms of the Armstrong Construction acquisition. A further 6 487 237 Erbacon ordinary shares were issued to Armstrong, and 2 780 245 Erbacon ordinary shares were issued to Ric-Hansen, on 29 August 2008 as final settlement of the deferred purchase consideration in terms of the Armstrong Construction acquisition.
- 1.7.3 Hedley, a former non-executive director of Erbacon, is the sole shareholder of Charter Chemicals. Charter Chemicals is engaged in private equity and business broking activities in South Africa. The Civcon vendors were clients of Charter Chemicals prior to the transaction being introduced to Erbacon. Under contracts concluded between Charter Chemicals and the Civcon vendors, Charter Chemicals is entitled to a cash commission of R3 745 480 and a maximum of 4 013 038 commission shares representing in total a 3.9% commission of the total purchase consideration for Civcon.
- 1.7.4 Save for the interests as set out 1.7.2 to 1.7.3 above, no director of Erbacon has or had any interest, directly or indirectly, in any transaction which is, or was, material to the business of Erbacon and which was effected by Erbacon during the current financial year or immediately preceding financial year or in respect of any previous financial year, which remains in any respect outstanding or unperformed. No director of Erbacon has or had any interest, directly or indirectly, in any property acquired by Erbacon.
- 1.7.5 In terms of the tie-in agreement identified shareholders have undertaken that without the prior written consent of the preference shareholder, the identified shareholders will not sell or encumber any of the blocked shares held by them for a period of 5 years from the preference share issue date. The identified shareholders may however dispose of such blocked shares *pro rata* to the preference shares disposed of by the preference shareholders. Each identified shareholder may be entitled to sell any of his blocked shares to a *bona fide* 3<sup>rd</sup> party but only if the Erbacon ordinary share price exceeds R7.00 per share and the 3<sup>rd</sup> party makes an offer to purchase a *pro rata* portion of the ordinary shares (and preference shares which each preference shareholder may be entitled to convert into ordinary shares) of the preference shareholders. In terms of the tie-in agreement, Medu Capital has also undertaken not to convert the preference shares held by it into ordinary shares within the first three years of the issue date, save as result of an actionable event, and also not to dispose of the preference shares held during a period of 3 years from the issue date, unless to a party that does not adversely affect the BEE status of the company, or to a party that is not a competitor of Erbacon.
- 1.7.6 The identified shareholders have further provided an undertaking to Erbacon, that in terms of the tie-in agreement they would comply, *inter alia*, with the terms of the tie-in agreements, that they will not amend or cancel the tie-in agreement without the prior written consent of Erbacon, that they will inform Erbacon of any breach by Medu Capital of the terms of the tie-in agreement and the identified shareholders further undertake to Erbacon to enforce their rights and compel Medu Capital to comply with Medu Capital's obligations in terms of the tie-in agreement.

## 1.8 Directors' emoluments

1.8.1 At 28 February 2009, the emoluments paid to the directors of Erbacon were as follows:

<b>Director</b>	<b>Performance Salary (R)</b>	<b>Performance bonus (R)</b>	<b>Benefits (R)</b>	<b>Retirement funding (R)</b>	<b>Directors' fees<sup>(1)</sup> (R)</b>	<b>Total (R)</b>
A Dawson	–	–	–	–	100 000	100 000
D B Erskine	994 800	519 000	174 830	139 272	–	1 827 902
R K Braithwaite	1 205 000	611 000	155 424	168 700	–	2 140 124
F P Boraime	909 688	247 000	141 368	100 212	–	1 398 268
D G Armstrong	855 560	531 000	188 902	–	–	1 575 462
W M Ric-Hansen	791 750	489 000	174 563	–	–	1 455 313
S M Hedley	–	–	–	–	65 000	65 000
J A Holtzhausen <sup>(3)</sup>	–	–	–	–	75 000 <sup>(3)</sup>	75 000 <sup>(3)</sup>
S Totaram <sup>(3)</sup>	–	–	–	–	87 000 <sup>(3)</sup>	87 000 <sup>(3)</sup>
	<b>4 756 798</b>	<b>2 397 000</b>	<b>835 087</b>	<b>408 184</b>	<b>327 000</b>	<b>8 724 069</b>

### Notes:

- Directors' fees represent fees of non-executive directors that are paid by Erbacon.
- All other directors' emoluments were paid by subsidiary companies, other than R K Braithwaite, whose emoluments were paid by Erbacon.
- In terms of the financial year ended 28 February 2009, R75 000 and R87 000 were payable to Paladin Capital for the services of J A Holtzhausen and S Totaram, respectively.

1.8.2 At 28 February 2009, the options granted to a director of Erbacon was as follows:

<b>Director</b>	<b>Share options at 1 March 2008</b>	<b>Options granted during the year</b>	<b>Options at 28 February 2009</b>	<b>Option price</b>	<b>Vesting date</b>	<b>Expiry date</b>
R K Braithwaite	–	2 000 000	2 000 000	193 cents	29/07/2011	29/07/2011

- 1.8.3 Save as set out in 1.8.5 and 1.8.6 below, there will be no material variation in the remuneration receivable by any of the existing directors of Erbacon, as set out above, as a consequence of the transaction.
- 1.8.4 Post the implementation of the transaction Armstrong, Boraime and Ric-Hansen will resign as directors of Erbacon, but will continue as part of the executive management team of Erbacon. Hedley will, post the implementation of the transaction, resign as non-executive director of Erbacon.
- 1.8.5 Post the implementation of the transaction Henning and Ramsay will be appointed to the board of Erbacon as executive directors. The directors' emoluments currently to be paid to each of these directors are R1 300 000.
- 1.8.6 Post the implementation of the transaction Mkwanazi and Angamia will be appointed to the board of Erbacon as non-executive directors. The directors' emoluments proposed to be paid for their services are R75 000 each per annum
- 1.8.7 Save as set out in 4.5, Erbacon has not paid any amounts (whether in cash or in securities), nor given any benefits to any directors or to any company in which directors are directly or indirectly, beneficially interested, or to any partnership, syndicate or other association of which the directors are members, or to any director as an inducement to become a director or otherwise, or for services rendered by directors, or otherwise for services rendered by directors or by the associate company or associate entity in connection with the promotion or formation of Erbacon, during the preceding three years.
- 1.8.8 A list of other directorships held by the directors is set out in Appendix 5 to these revised listing particulars.
- 1.8.9 Post the implementation of the transaction all the directors of Erbacon will have completed and signed directors' declarations in terms of the Listings Requirements.

## 1.9 **Qualification, appointment, remuneration and borrowing powers of directors**

1.9.1 The relevant provisions of the Articles of Association of Erbacon relating to qualification, appointment, remuneration and borrowing powers of directors are set out in Appendix 7. The borrowing powers may only be varied by special resolution and have not been exceeded since Erbacon's incorporation.

1.9.2 None of the directors or management of Erbacon and its subsidiaries have:

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

## 1.10 **Directors' responsibility statement**

The directors of Erbacon, whose names are given in paragraph 1.5 of these revised listing particulars:

1.10.1 have considered all statements of fact and opinion in these revised listing particulars;

1.10.2 accept, collectively and individually, full responsibility for the accuracy of such statements;

1.10.3 certify that, to the best of their knowledge and belief, there are no omissions of facts or considerations which would render any statements of fact or opinion contained in these revised listing particulars false or misleading and that all reasonable enquiries to ascertain such facts have been made and that these revised listing particulars contains all information required by law, the Companies Act and the Listings Requirements.

## 2. **FINANCIAL INFORMATION**

### 2.1 **Historical financial information**

The audited historical financial information of Erbacon for the three financial years ended 28 February 2007, 29 February 2008 and 28 February 2009 are set out in Appendix 1 of Annexure 7 to the circular to which these revised listing particulars are attached. The historical financial information should be read in conjunction with the independent reporting accountants' reports thereon as set out in Appendix 2 to these revised listing particulars. The audited historical financial information of Civcon for the three financial years ended 28 February 2007, 29 February 2008 and 28 February 2009 are set out in Annexure 1 to the circular to which these revised listing particulars are attached.

### 2.2 **Dividends and dividend policy**

2.2.1 Erbacon's prior stated dividend policy, following its listing on the Alt<sup>x</sup> in December 2007, was that dividends would become payable as soon as a predictable and sustainable cash flow trend becomes evident. The integrity of Erbacon group's cash flows did indeed materialise, and Erbacon paid a maiden dividend to shareholders on 26 June 2009, being a final dividend of 5.5 cents per share based on the performance in the financial year ended 28 February 2009. The dividend cover was a conservative 7.4 times and took into account the then prevailing global financial crisis and knock-on effect of banking liquidity constraints, and Erbacon's relative newness as a listed entity.

- 2.2.2 It remains the intention of Erbacon to pay shareholders an annual final dividend. The timing of any dividends to be paid during 2010, excluding the proposed interim dividend of 21.93 cents per share, referred to in 2.2.3 below, will be required to accommodate the assessment of whether the 2010 profit warranty, as set out in paragraph 3.1.5 of the circular has been met or not as well as the subsequent determination of the number of shares to be issued to the vendors. The board will periodically consider the dividend policy, and the dividend cover ratio, to take account of prevailing circumstances and future cash requirements in determining whether it would be appropriate to pay a dividend in respect of a particular financial reporting period or not.
- 2.2.3 As set out in paragraph 3.1.2.5 of the circular to Erbacon shareholders to which these revised listing particulars are attached, Erbacon will, subject to the fulfilment of all suspensive conditions in terms of the transaction, be entitled to declare an interim dividend of 21.93 cents per share to existing Erbacon shareholders prior to the effective date of the transaction.
- 2.2.4 In terms of the company's Articles of Association, any dividend that remains unclaimed for a period of three years after having been declared by the company shall revert to the company.
- 2.2.5 There is no arrangement under which future dividends will be waived or have been waived.
- 2.2.6 Save as otherwise set out in Annexure 5 to the circular to which these revised listing particulars are attached, Erbacon preference shares will rank *pari passu* with Erbacon ordinary shares and will be entitled to dividends thereon in terms of the dividend policy as set out in paragraphs 2.2.1 and 2.2.2 above.

### 2.3 **Material changes**

Save for the implementation of the transaction, there have been no material changes in the financial or trading position of Erbacon and the enlarged Erbacon group since 28 February 2009 until the last practicable date, other than in the ordinary course of business.

### 2.4 **Material commitments, lease payments and contingent liabilities**

- 2.4.1 The enlarged Erbacon group has no authorised capital commitments, not contracted for, and has authorised and contracted capital commitments of R86 693.
- 2.4.2 Future lease payments relating to current lease agreements amount to R11 208 578 for the enlarged Erbacon group.

### 2.5 **Material loans**

- 2.5.1 No individually material loans have been made by the enlarged Erbacon group or any of its subsidiaries.
- 2.5.2 No individually material loans are outstanding and owing by the enlarged Erbacon group or any of its subsidiaries at the last practicable date.
- 2.5.3 The enlarged Erbacon group has not made any loans to or for the benefit of any director, manager or associate of any director or manager of the enlarged Erbacon group.
- 2.5.4 No loan capital is currently outstanding within the enlarged Erbacon group.
- 2.5.5 Details of inter-company balances between Erbacon and its subsidiary companies at 28 February 2009 are set out in Appendix 3.

## 2.6 Major and controlling shareholders and shareholder spread

2.6.1 The table below sets out the shareholders, at the last practicable date, who are, directly or indirectly, beneficially interested in 5% or more of the issued ordinary and preference share capital of Erbacon, post the implementation of the transaction:

Name of shareholder	Number of shares post-transaction	Percentage post transaction per class of share	Percentage post transaction including <sup>(2)</sup> all shares
<b>Ordinary shares held:</b>			
Paladin Capital	34 904 284	14.62	11.40
D B Erskine	33 920 250	14.21	11.08
8 Mile <sup>(1)(3)</sup>	14 537 250	6.09	4.75
F P Boraine	14 537 250	6.09	4.75
A H Henning	44 620 609 <sup>(3)</sup>	18.69	14.57
Ramsay Family Trust	44 620 609 <sup>(3)</sup>	18.69	14.57
<b>Total ordinary shares in issue</b>	<b>187 140 252</b>	<b>78.39</b>	<b>61.12</b>
<b>Preference shares held:</b>			
Medu Capital	67 410 000	100	22.02

### Notes:

- (1) This entity is controlled by Hedley, a non-executive director of Erbacon, as reflected in 1.8.4 above.
- (2) Calculated based on the assumption that the transaction is implemented in its entirety including the issue of 67 410 000 Erbacon preference shares to Medu Capital and the issue of 101 972 662 Erbacon ordinary shares to the Civcon vendors in terms of settlement of the purchase consideration for the Civcon acquisition.
- (3) As set out in 1.7.3 above, Hedley, represented by Charter Chemicals, is entitled to a commission receivable from the Civcon vendors for brokering the transaction. Hedley, as the sole shareholder of Charter Chemicals will be entitled to receive a maximum of 4 013 038 Erbacon ordinary shares from the Civcon vendors on achievement of the profit warranties by Civcon as set out in paragraph 3.1.5 of the circular to which these revised listing particulars are attached. The 4 013 038 shares have been deducted from the maximum number of shares issuable to Civcon and the proportionate shares deducted from the shareholding of Henning and Ramsay as set out above. Post the implementation of the transaction, Hedley through his interests in 8 Mile and Charter Chemicals will own a maximum of 18 550 288 Erbacon ordinary shares, which will result in a shareholding in Erbacon ordinary shares of 7.77% post the issue of the maximum number of Erbacon ordinary shares to the Civcon vendors and a shareholding of 6.06% of the total Erbacon ordinary and preference shares in issue.

2.6.2 Save as set out in 2.6.1 above, no other shareholder will, as far as the board of directors of Erbacon are aware, directly or indirectly, hold 5% or more of the issued share capital of Erbacon, following the implementation of the transaction.

2.6.3 Prior to the Erbacon disposal, the controlling shareholders of Erbacon were Erskine and Paladin Capital. Post the private placing by Erbacon pursuant to the listing on the Alt<sup>x</sup>, Erbacon did not have a controlling shareholder (as defined in the Listings Requirements). The history of the change in controlling shareholders of Erbacon since its incorporation is as a result of the Erbacon restructuring, and in particular the Erbacon share exchange and Erbacon disposal. There is no controlling shareholder in Erbacon post the implementation of this transaction.

2.6.4 As required by the Listings Requirements, Erbacon has a share capital of at least R2 million and will have a public shareholding of at least 100 shareholders holding a minimum of 10% of Erbacon shares in issue post the settlement of the maximum purchase consideration to Civcon vendors.

2.6.5 Annexure 6 to the circular to which these revised listing particulars are attached, sets out the details of Erbacon vendors prior to and post the implementation of this transaction.

## 2.7 Property and subsidiaries acquired or to be acquired or disposed of

Save as set out in Appendix 4 and the acquisition of Civcon resulting from the implementation of this transaction, there were no material disposals or acquisitions by Erbacon and its subsidiaries of properties, subsidiary companies or associate companies during the preceding 3 years.

## 2.8 Principal immovable property owned and leased

Details of owned property and leases by Erbacon prior to and post the implementation of the transaction are set out in Appendix 4.

### 3. SHARE CAPITAL

#### 3.1 Authorised and issued

The authorised and issued share capital of Erbacon, prior to and post the implementation of the transaction, will be as follows:

	<b>Prior to the transaction Number of shares</b>	<b>Prior to the transaction Share capital (R)</b>	<b>Post the transaction Number of shares</b>	<b>Post the transaction Share capital (R)</b>
<b>Authorised share capital prior</b>				
Ordinary shares of 1 cent each	300 000 000	3 000 000	500 000 000	5 000 000
Preference shares of 1 cent each	–	–	67 410 000	674 100
<b>Issued share capital</b>				
<b>Ordinary share capital</b>				
Ordinary shares of 1 cent each	136 803 175	1 368 032	238 775 837	2 387 758
Treasury shares	(729 481)	(1 462 610)	(729 481)	(1 462 610)
Share premium on ordinary shares	–	294 014 096	–	435 756 096 <sup>(1)</sup>
<b>Total ordinary share capital</b>	<b>136 073 694</b>	<b>293 919 518</b>	<b>238 046 356</b>	<b>436 681 244</b>
<b>Preference share capital</b>				
Preference shares of 1 cent each	–	–	67 410 000	43 592 142
<b>Total preference capital</b>	<b>–</b>	<b>–</b>	<b>67 410 000</b>	<b>43 592 142<sup>(2)</sup></b>

**Notes:**

- (1) The share premium post the implementation of the transaction has been adjusted to account for the share premium on the issue of a maximum number of 101 972 662 Erbacon ordinary shares at R1.40 per Erbacon ordinary share in full settlement of the purchase consideration, being the Erbacon share price on finalisation of the circular as further set out in Annexure 3 to the circular. The issue price in terms of the Civcon acquisition agreement is based on an Erbacon share price of R1.6807 per share as set out in paragraph 3.1.5 of the circular to which these revised listing particulars are attached.
- (2) This amount represents the equity component on the issue of preference shares, which has been determined based on an issue price of R1.68 per preference share as set out in paragraph 3.2 of the circular to which these listing particulars are attached. The convertible redeemable and participating Erbacon preference share is a compound financial instrument which has been split into a liability and an equity portion as further set out in Annexure 3 to the circular. The liability portion has been calculated at R52 704 158. The discount rate applied in determining the carrying value of the liability component is 16.53% per annum, representing the market-related interest rate for a liability of this nature. The equity portion has been calculated at R43 592 142 after taking account of deferred tax of R16 952 500, calculated at 28% on issue of the preference shares.

#### 3.2 Alterations to share capital

3.2.1 Erbacon was incorporated with an authorised ordinary share capital of 1 000 ordinary shares with a par value of R1.00 per share.

3.2.2 In terms of the Erbacon restructuring, the company:

- sub-divided its authorised ordinary share capital of 1 000 ordinary shares with a par value of R1.00 per share into 100 000 ordinary shares with a par value of R0.01 per share on 27 August 2007;
- increased its authorised ordinary share capital of R1 000 to R3 000 000 by the creation of 299 900 000 ordinary shares with a par value of R0.01 per share on 27 August 2007.

3.2.3 As set out in paragraph 7.4 of the circular to which these listing particulars are attached, post the fulfilment of all suspensive conditions as set out in paragraphs 3.1.4 and 3.2.5 to the circular, Erbacon will increase its authorised share capital to R5 674 100 by the creation of 200 000 000 new ordinary shares with a par value of R0.01 per share and by the creation of 67 410 000 convertible redeemable and participating preference shares with a par value of R0.01 per share.

- 3.2.4 During the 2009 financial year Civcon sub-divided its authorised share capital of 200 shares with a par value of R1.00 per share into 200 000 shares with a par value of R0.001 per share. The issued share capital of Civcon was thus also sub-divided from an issued share capital of 100 shares with a par value of R1.00 per share to an issued share capital of 100 000 shares at a par value of R0.001 per share.
- 3.2.5 Save as set out in this 3.2, neither Erbacon nor any of its subsidiaries have undertaken any share repurchases, sub-divisions or consolidations.
- 3.2.6 Issues of shares
- 3.2.6.1 On incorporation, Erbacon issued and allotted 300 ordinary shares with a par value of R1.00 per share to the shelf company shareholder. On 27 August 2007, these 300 ordinary shares were divided on a 100-for-1 basis into 30 000 ordinary shares with a par value of R0.01 per share. Such shares were repurchased at their nominal value and cancelled.
- 3.2.6.2 In terms of the Erbacon restructuring, the company has issued:
- 96 915 000 ordinary shares with a par value of R0.01 per share at an issue price of R2.00 per share on 5 November 2007 to the prior shareholders in terms of the Erbacon share exchange;
  - 36 364 Erbacon ordinary shares with a par value of R0.01 per share and at an issue price of R2.75 per share on 12 December 2007 to Mr D van Huyssteen, in his capacity as an authorised executive of the Designated Adviser, *in lieu* of fees as Designated Adviser in terms of Erbacon's listing on the Alt<sup>x</sup> in 2007;
  - in terms of the Armstrong Construction acquisition, 11 171 329 ordinary shares with a par value of R0.01 per share were issued on 18 March 2008 at an issue price of R2.50, and a further 9 267 482 ordinary shares with a par value of R0.01 were issued on 29 August 2008 at an issue price of R2.50 as settlement of the purchase consideration, the latter issue price representing a premium to the trading price at such issue date.
- 3.2.6.3 Upon and post the implementation of the transaction Erbacon will issue shares to the Civcon vendors as follows. Further details pertaining to the acquisition are set out in Annexure 6 to the circular of which these revised listing particulars are attached:
- 3.2.6.3.1 on the effective date the issue of 25 020 876 Erbacon ordinary shares with a par value of R0.01 per share and at an issue price of R1.6807 per share;
- 3.2.6.3.2 on the Civcon 2010 financial statements completion date, a maximum of 46 171 072 Erbacon ordinary shares with a par value of R0.01 per share and at an issue price of R1.6807 per share;
- 3.2.6.3.3 on the Civcon 2011 financial statements completion date, a maximum of 30 780 714 Erbacon ordinary shares with a par value of R0.01 per share and at an issue price of R1.6807 per share.
- 3.2.6.4 Erbacon shall procure the listing of the Erbacon consideration shares to be issued to the Civcon vendors on the Alt<sup>x</sup>.
- 3.2.6.5 Upon the implementation of the transaction Erbacon will issue Erbacon preference shares to Medu Capital as follows:
- 3.2.6.5.1 on the effective date the issue of 67 410 000 Erbacon preference shares with a par value of R0.01 per share and at an issue price of R1.6807 per share. The Erbacon preference shares will be unlisted.
- 3.2.6.6 The proposed Erbacon preference share issue as set out in 3.2.6.5 is subject to the specific approval by shareholders at the general meeting as set out in the notice of general meeting attached to the circular to which these revised listing particulars are attached.
- 3.2.6.7 Save for the issues and proposed issues as set out in 3.2.6 above, no further offers or issues of shares were made or will be made by Erbacon.

3.2.6.8 Erbacon ordinary shares prior to the proposed transaction are listed on the AltX. No classes of Erbacon shares are listed on any other stock exchange. Post the implementation of the transaction Erbacon shall procure the listing of the Erbacon consideration shares as set out in 3.2.6.3 above, to be issued to the Civcon vendors on the AltX. The Erbacon preference shares as set out in 3.2.6.5.1 above will be unlisted.

### 3.2.7 Unissued shares

Post the implementation of the transaction, there will be 261 224 163 authorised but unissued ordinary shares in the share capital of Erbacon which will be under the control of the board of directors of Erbacon until its first annual general meeting, subject to the provisions of sections 221 and 222 of the Companies Act. Post the implementation of the transaction there will be no authorised but unissued preference shares in issue.

## 3.3 Options, preferential rights and voting rights in respect of shares

3.3.1 The company has adopted a share incentive scheme, the salient features of which are set out in Appendix 6.

3.3.2 On 29 July 2008, the Erbacon group granted 4 225 000 options to certain employees in terms of the share incentive scheme. The options have a contractual service term of three years. The exercise price is based on the VWAP calculated for the 30 days before the grant date. The options lapse three years after the grant date. The options are forfeited if not exercised before termination of employment subject to the discretion of the trustees of the share incentive trust:

<b>Date option granted</b>	<b>Exercise price (cents)</b>	<b>Date exercisable</b>	<b>Number of options granted</b>
29 July 2008	193	29 July 2011	4 255 000

3.3.3 Save as set out in 3.3.2, no offers have been made or options granted in terms of such share incentive scheme. The directors of the company were authorised to adopt the share incentive scheme at the general meeting held on 27 August 2007.

3.3.4 The purpose of the share incentive scheme is for the board to be afforded a mechanism to incentivise senior management and staff.

3.3.5 The trust deed has been registered with the Master of the High Court. A copy of the trust deed is available for inspection in terms of paragraph 16 of the circular to which these revised listing particulars are attached.

3.3.6 Save as otherwise set out in Annexure 5 to the circular to which these revised listing particulars are attached, the unlisted Erbacon preference shares shall rank *pari passu* in all respects with the ordinary shares in Erbacon. The preference shareholders shall be repaid the issue price in preference to the repayment of any amounts to Erbacon ordinary shareholders in the event of the de-registration, winding-up or judicial management of Erbacon. The preference shareholders will be entitled to their proportionate share of any ordinary dividends declared by Erbacon but will not be entitled to any specific pre-determined preference share dividend rate.

3.3.7 In respect of any matter where Erbacon ordinary shareholders are required to vote in terms of the Listings Requirements, each preference shareholder shall, be entitled to that proportion of votes in the company which the aggregate par value of the preference shares held by it bears to the aggregate amount of the par value of all shares issued by the company but the number of votes of all preference shareholders shall be limited to a maximum of 25% less one vote.

3.3.8 Each preference share shall, at the election of the preference shareholder, be convertible into the equivalent of one ordinary share of Erbacon at the conversion date thereof (taking into account any share splits and share consolidations as may have occurred).

- 3.3.9 If the preference shares have not been converted into Erbacon ordinary shares at the end of 5 years from their date of issue, Erbacon shall be obliged to immediately redeem such preference shares at the issue price.
- 3.3.10 In order to protect preference share investor capital, the preference shareholders shall be entitled upon the occurrence of an actionable event, details of which are contained in paragraph 7 of Annexure 5, to the circular to which these revised listing particulars are attached, to procure Erbacon to redeem the preference shares at the redemption amount, or procure the conversion of the preference shares into ordinary shares as set out in 3.3.8 above. All the terms of the share subscription agreement are subject to dispute resolution and remedy as set out in terms of such agreement.
- 3.3.11 Save for such scheme as set out in Appendix 6 and as set out in 3.3.5 to 3.3.10 above, there is no contract or arrangement, either actual or proposed, whereby any option or preferential right of any kind has been or will be given to any person to subscribe for any shares in the company or its subsidiaries.
- 3.3.12 Subject to the provisions of the memorandum of association of Erbacon, the variation of the rights attaching to Erbacon ordinary shares and Erbacon preference shares will require the approval by a majority, representing not less than 75% of the issued shares of the class of which the rights are to be varied, or, with the sanction of a resolution passed in the same manner as a special resolution of Erbacon at a separate general meeting of the shareholders of the ordinary and preference shares of that particular class at which a quorum of not less than 3 members holding or represented by proxy or not less than one-third of the nominal account of the issued shares of that class are present.

#### 4. GENERAL INFORMATION

##### 4.1 Material contracts

Save as set out in paragraph 3 of the circular regarding the transaction to which these revised listing particulars are attached, the original restructuring of Erbacon and the Armstrong Construction acquisition, further details of which are set out in Appendix 3 hereto, no material contracts have been entered into by the enlarged Erbacon group, other than in the ordinary course of business, within the preceding two years or at any time that contains an obligation or settlement that is material to the enlarged Erbacon group at the last practicable date.

##### 4.2 Litigation

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which the enlarged Erbacon group is aware, which may have or have had a material effect on the financial position of Erbacon and its subsidiaries within the last twelve months.

##### 4.3 Regulatory environment

The enlarged Erbacon group and its subsidiaries are not subject to any Government protection or any investment encouragement law.

##### 4.4 Code of Corporate Practice and Conduct

4.4.1 The enlarged Erbacon group and its directors are committed to the principles of effective corporate governance and application of the highest ethical standards in the conduct of its business and affairs.

4.4.2 The board of directors has appointed the following committees:

- Audit Committee;
- Remuneration Committee; and
- Nominations Committee.

4.4.3 The Audit Committee has satisfied itself that the Group Finance Director, Mr R K Braithwaite, has appropriate expertise and experience.

4.4.4 Erbacon's Statement of Corporate Practice and Conduct are set out in Appendix 8.

#### 4.5 Promoters' and other interests

- 4.5.1 PSG Capital assisted Erbacon with the placing of Erbacon ordinary shares in terms of the private placing in consideration for a commission of R1 066 500, payable in cash.
- 4.5.2 Save as disclosed in 4.5.1 above and paragraph 11.3.4 of the circular to which these revised listing particulars are attached, no amounts in cash, securities or otherwise, have been paid by Erbacon since its incorporation to any promoter, or director of Erbacon, or associated company or entity of any director of Erbacon, in order to induce the aforementioned person to become a director, or otherwise for services rendered by such person or associated company or entity, in connection with the promotion or formation of Erbacon, or for any property acquired by Erbacon.
- 4.5.3 No commissions, discounts, brokerages or other special terms have been granted by Erbacon since its incorporation in connection with the issue or sale of any shares in Erbacon. No issue of shares by the company has been underwritten.

#### 4.6 Advisers' consents

Each of the advisers, whose names appear on the Corporate Information section of these revised listing particulars, have consented in writing to act in the capacities stated and to the inclusion of their names and, where applicable, to the inclusion of their reports in these revised listing particulars in the form and context in which they appear and have not withdrawn their consent prior to the publication of these revised listing particulars.

#### 4.7 Adequacy of working capital

The directors are of the opinion that the working capital available to Erbacon and its subsidiaries, subsequent to the implementation of the transaction, is adequate for the present requirements of Erbacon and its subsidiaries, i.e. for a period of twelve months from the date of issue of the circular to which these revised listing particulars are attached.

#### 4.8 Directors' responsibility statement

The directors of Erbacon, whose names are given in 1.5 above:

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

#### 4.9 Documents available for inspection

A list of documents available for inspection is set out in paragraph 16 of the circular.

**SIGNED AT DURBAN ON 26 OCTOBER 2009 BY R K BRAITHWAITE ON BEHALF OF ALL THE DIRECTORS AND PROPOSED DIRECTORS OF ERBACON INVESTMENT HOLDINGS LIMITED, AS LISTED BELOW, IN TERMS OF POWERS OF ATTORNEY SIGNED BY SUCH DIRECTORS**

**A DAWSON**

**D B ERSKINE**

**R K BRAITHWAITE**

**J A HOLTZHAUSEN**

**S TOTARAM**

**C H A RAMSAY**

**A H HENNING**

**N P MKWANAZI**

**Z R ANGAMIA**

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**REPORT OF HISTORICAL FINANCIAL INFORMATION OF ERBACON**


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**1. COMMENTARY**

Erbacon group, namely Civils Construction ("Erbacon Construction"), Commercial and Industrial Building ("Armstrong Construction"), Small Plant and Formwork ("Erbacon Small Plant"), and Services ("Erbacon Investment Holdings Limited"), increased its revenue by 221% to reach a record R720,9 million (2008: R224,7 million).

On 28 February 2008, the acquisition of all of the shares in issue and claims against Armstrong Construction was concluded. As Armstrong Construction was purchased within two trading days of the prior financial year-end, it made no contribution to the consolidated group revenue during the prior year.

The Erbacon Construction segment contributed R201,8 million (2008: R156,3 million) or 27,5% (2008: 68,2%) of group revenue, whilst Armstrong Construction brought in a material workload of R444,9 million (2008: nil), with Erbacon Small Plant making up the balance of 11,3% (2008: 31,8%).

At the operating profit level, the acquisition of Armstrong Construction raised the consolidated operating profit to R72,6 million (2008: R45,7 million), a year-on-year increase of 59%. Erbacon Small Plant contributed 25% of the group operating profit, Armstrong Construction accounted for 31%, and Erbacon Construction a significant 46%. Erbacon Investment Holdings Limited operated to a near break-even recovery position before IFRS adjustments, after charging administration and management fees to its subsidiaries.

Although the highest operating profit percentages are earned in Erbacon Small Plant, this segment is also required to fund its plant hire purchases, resulting in a profit before tax margin of 18,9%, compared to 31,4% in the comparative 2008 year. High upfront costs to establish the Nelspruit and Lepahlale branches, costs associated with the closure of the Salt Rock and Hillcrest branches, and bad debt write-offs affected profit in the 2009 year.

Armstrong Construction is generally a higher volume, lower margin business due to the elevated sub-contract content of its revenue. Their profit before tax was a commendable 5,2% (2008: n/a). The secured forward order book for this company is already in excess of R260 million in spite of funding constraints that appear to be affecting the viability of some commercial ventures in this sector.

Erbacon Construction managed its contracts consistently well throughout the year. This segment returned a highly satisfactory profit before tax of 17,9% (2008: 13,1%) and secured an order book of R400 million for the 2010 financial year.

Comparatives with the prior year are distorted without the inclusion of Armstrong Construction. Nevertheless, the group's profit before tax of 10,3% (2008: 19,8%) is commendable given the quantum of revenue skewed to Armstrong Construction in 2009.

The net attributable profit for the 2009 year is R53,4 million (2008: R31,7 million) resulting in headline earnings of 40,1 cents per share compared to 33,3 cents per share in the prior period, an improvement of 20,4%. The earnings per share calculation takes into account an increase of 29,19% in the weighted average number of shares in issue during the reporting period.

The number of shares in issue was increased by 11 171 329 ordinary shares on 18 March 2008, and by a further allotment of 9 267 482 ordinary shares on 29 August 2008, following JSE approval after Armstrong Construction had achieved its warranted profit at 29 February 2008. Details of the authorised and issued shares are shown in note 9 below.

Erbacon declared a dividend of 5,5 cents per share (2008: nil) for the financial year ended 28 February 2009. The return on total shareholders' interest reflected 25,3% (2008: 19,9%).

Total group assets amount to R373,4 million (2008: R276,6 million), an increase of 35,0%. The net asset value per share at 28 February 2009 was 155,33 cents (2008: 136,56 cents) and the net tangible asset value per share at 28 February 2009 was 117,11 cents (2008: 92,26 cents).

The group was in a positive cash position at 28 February 2009, with cash and cash equivalents bulking up substantially to reach R57,3 million at year-end (2008: R42,4 million including listing proceeds).

## 2. BASIS OF PREPARATION

- 2.1 The financial information of Erbacon group presented below has been extracted and compiled, without adjustment, from the audited financial statements of Erbacon group for the years ended 28 February 2007, 29 February 2008 and 28 February 2009 and are the responsibility of the directors of Erbacon.
- 2.2 The annual financial statements of Erbacon group were audited by PricewaterhouseCoopers Inc. and were reported on without qualification.
- 2.3 The financial information as set out below should be read in conjunction with the independent reporting accountants' report thereon as set out in Appendix 2.

## 3. BALANCE SHEETS

at 28 February 2009, 29 February 2008 and 28 February 2007

Figures in Rand	Notes	2009	2008	2007
<b>ASSETS</b>				
<b>Non-current assets</b>				
Plant for hire	2	66 986 191	42 464 956	22 357 548
Property, plant and equipment	3	36 900 573	19 994 378	7 191 680
Goodwill	4	52 822 314	54 264 143	–
Deferred income tax assets	5	173 737	414 679	124 340
		156 882 815	117 138 156	29 673 568
<b>Current assets</b>				
Inventories	6	31 024 552	8 690 192	488 667
Trade and other receivables	7	128 195 106	108 365 214	26 895 375
Cash and cash equivalents	8	57 303 643	42 403 658	255 274
		216 523 301	159 459 064	27 639 316
<b>Total assets</b>		<b>373 406 116</b>	<b>276 597 220</b>	<b>57 312 884</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital and premium	9	293 919 518	244 382 860	193 830 300
Common control deficit	11	(177 246 106)	(177 246 106)	(177 246 106)
Share-based payments reserve	10	572 971	–	–
Shares to be issued		–	51 097 033	–
Retained earnings		94 115 744	40 672 300	8 992 139
		211 362 127	158 906 087	25 576 333
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Borrowings	12	16 558 854	10 968 525	7 444 589
Deferred income tax liabilities	5	986 713	3 128 118	899 253
		17 545 567	14 096 643	8 343 842
<b>Current liabilities</b>				
Borrowings	12	7 312 776	13 222 763	6 133 116
Income tax liability		15 840 405	10 072 786	3 941 621
Trade and other payables	13	121 345 241	80 298 941	13 317 972
		144 498 422	103 594 490	23 392 709
<b>Total liabilities</b>		<b>162 043 989</b>	<b>117 691 133</b>	<b>31 736 551</b>
<b>Total equity and liabilities</b>		<b>373 406 116</b>	<b>276 597 220</b>	<b>57 312 884</b>

#### 4. INCOME STATEMENTS

for the year ended 28 February 2009, 29 February 2008 and 28 February 2007

Figures in Rand	Notes	2009	2008	2007
<b>Revenue</b>	15	720 956 601	224 726 826	117 816 587
Cost of sales	16	(608 133 909)	(159 561 739)	(87 644 824)
<b>Gross profit</b>		112 822 692	65 165 087	30 171 763
Other income		664 694	285 395	530 736
Administrative and operating expenses	17	(40 828 549)	(19 745 819)	(9 864 215)
<b>Operating profit</b>	19	72 658 837	45 704 663	20 838 284
Finance income	20	5 403 793	1 355 238	244 247
Interest paid	21	(3 594 246)	(2 465 720)	(1 363 389)
<b>Profit before taxation</b>		74 468 384	44 594 181	19 719 142
Taxation	22	(21 024 940)	(12 914 020)	(7 227 003)
<b>Profit for the year</b>		53 443 444	31 680 161	12 492 139
<b>Earnings per share (cents)</b>				
<b>Basic</b>	25	40,64	31,12	12,89

#### 5. STATEMENTS OF CHANGES IN EQUITY

for the years ended 28 February 2009, 29 February 2008 and 28 February 2007

Figures in Rand	Share capital	Share premium	Total share capital and premium	Share-based payments reserve	Common control deficit	Shares to be issued	Retained earnings	Total equity
<b>Group</b>								
<b>Balance at 1 March 2006</b>	<b>300</b>	<b>-</b>	<b>300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16 583 894</b>	<b>16 584 194</b>
Changes in equity								
Profit for the year	-	-	-	-	-	-	12 492 139	12 492 139
Dividends	-	-	-	-	-	-	(3 500 000)	(3 500 000)
Issue of shares	969 150	192 860 850	193 830 000	-	(177 246 106)	-	(16 583 894)	-
Total changes	969 150	192 860 850	193 830 000	-	(177 246 106)	-	(7 591 755)	8 992 139
<b>Balance at 1 March 2007</b>	<b>969 450</b>	<b>192 860 850</b>	<b>193 830 300</b>	<b>-</b>	<b>(177 246 106)</b>	<b>-</b>	<b>8 992 139</b>	<b>25 576 333</b>
Changes in equity								
Profit for the year	-	-	-	-	-	-	31 680 161	31 680 161
Issue of shares	194 194	53 268 757	53 462 951	-	-	-	-	53 462 951
Share issue expenses	-	(2 910 391)	(2 910 391)	-	-	-	-	(2 910 391)
Acquisition of subsidiary	-	-	-	-	-	51 097 033	-	51 097 033
Total changes	194 194	50 358 366	50 552 560	-	-	51 097 033	31 680 161	133 329 754
<b>Balance at 1 March 2008</b>	<b>1 163 644</b>	<b>243 219 216</b>	<b>244 382 860</b>	<b>-</b>	<b>(177 246 106)</b>	<b>51 097 033</b>	<b>40 672 300</b>	<b>158 906 087</b>
Changes in equity								
Profit for the year	-	-	-	-	-	-	53 443 444	53 443 444
Issue of shares	204 388	50 892 645	51 097 033	-	-	(51 097 033)	-	-
Treasury shares	(7 295)	(1 455 315)	(1 462 610)	-	-	-	-	(1 462 610)
Share issue expenses	-	(97 765)	(97 765)	-	-	-	-	(97 765)
Value of employee services	-	-	-	572 971	-	-	-	572 971
Total changes	197 093	49 339 565	49 536 658	572 971	-	(51 097 033)	53 443 444	52 456 040
<b>Balance at 28 February 2009</b>	<b>1 360 737</b>	<b>292 558 781</b>	<b>293 919 518</b>	<b>572 971</b>	<b>(177 246 106)</b>	<b>-</b>	<b>94 115 744</b>	<b>211 362 127</b>
Notes	9	9	9		11	28		

## 6. CASH FLOW STATEMENTS

for the years ended 28 February 2009, 29 February 2008 and 28 February 2007

Figures in Rand	Notes	2009	2008	2007
<b>Cash flows from operating activities</b>				
Cash receipts from customers		694 447 373	194 722 994	110 488 360
Cash paid to suppliers and employees		(604 529 633)	(163 085 257)	(87 752 771)
Cash generated by operations	26	89 917 740	31 637 737	22 735 589
Interest received		5 403 793	1 355 238	244 247
Interest paid		(3 594 246)	(2 465 720)	(1 363 389)
Tax paid	27	(17 718 495)	(6 936 181)	(4 203 542)
Other non-cash items		572 971	–	–
<b>Net cash from operating activities</b>		<b>74 581 763</b>	<b>23 591 074</b>	<b>17 412 905</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	3	(25 879 706)	(8 772 249)	(5 405 678)
Proceeds on sale of property, plant and equipment		1 880 359	341 584	598 814
Acquisition of subsidiary – net of cash acquired		–	703 962	–
Proceeds on sale of financial assets		–	–	29 573
Loans advanced to group companies		–	–	–
Purchase of plant for hire	2	(40 369 478)	(30 376 137)	(14 340 789)
Proceeds on sale of plant for hire		5 006 705	1 759 518	1 413 737
<b>Net cash from investing activities</b>		<b>(59 362 120)</b>	<b>(36 343 322)</b>	<b>(17 704 343)</b>
<b>Cash flows from financing activities</b>				
Proceeds on share issue		–	50 552 860	–
Proceeds from borrowings		–	4 347 772	3 997 657
Dividends paid		–	–	(3 500 000)
Repayment of borrowings		(319 658)	–	–
Net cash from financing activities		(319 658)	54 900 632	497 657
<b>Net movement in cash and cash equivalents</b>		<b>14 899 985</b>	<b>42 148 384</b>	<b>206 219</b>
Cash and cash equivalents at the beginning of the year		42 403 658	255 274	49 055
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>57 303 643</b>	<b>42 403 658</b>	<b>255 274</b>

## 7. ACCOUNTING POLICIES

### 1. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the International Accounting Standards Board and the Companies Act of South Africa, 1973. The consolidated financial statements are prepared under the historical cost convention. The policies set out below have been consistently applied to all the years presented unless otherwise stated.

(a) **Standards, amendments and interpretations to published standards effective for the first time this year**

No standards, amendments and interpretations which became effective for the year ended 28 February 2009 have an impact on the Group.

(b) **Standards early adopted by the Group**

There were no standards early adopted by the Group.

(c) **Standards, amendments and interpretations to existing standards effective for the first time this year but not relevant**

IFRIC 12 – Service Concession Arrangements; and

IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

(d) **Standards, amendments to existing standards and interpretations to existing standards that are not yet effective and have not been adopted early by the Group**

The following interpretations to existing standards have been published that are mandatory for the Group's future accounting periods but that the Group has not early adopted:

IAS 1 – Presentation of Financial Statements – revised (effective for periods beginning on or after 1 January 2009)

IAS 1 requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in a Group's equity resulting from transactions with owners in their capacity as owners separately from "non-owner" changes. The revisions include changes in the titles of some of the financial statements to reflect their function more clearly. The new titles are not mandatory for use in financial statements. The standard is applicable to the Group and is expected to result in additional disclosure.

IAS 23 – Borrowing Costs (effective for periods beginning on or after 1 January 2009)

The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense the borrowing costs that relate to assets that take a substantial period of time to become ready for use or sale. The standard is applicable to the Group. In the past, borrowing costs on qualifying assets were expensed. Application of the standard will result in these costs being capitalised.

IAS 27 – Consolidated and Separate Financial Statements – revised (effective for periods beginning on or after 1 July 2009)

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. These transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. The standard is applicable to the Group and will apply to future transactions.

IAS 39 (amendment) – Financial Instruments: Recognition and Measurement and IFRS 7 (amendment), Financial Instruments: Disclosures – Reclassification of Financial Assets (effective for periods beginning on or after 1 July 2008)

The amendments introduce the possibility of reclassifications for certain financial assets previously classified as "held for trading" or "available for sale" to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as "at fair value through profit or loss" under the fair value option are not eligible for this reclassification.

IFRS Amendments Improvements to IFRS (effective for periods beginning on or after 1 January 2009)

This is a collection of amendments to IFRSs. These amendments are the result of conclusions the IASB reached on proposals made in its annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRSs.

The only amendment that is relevant to the Group is the amendment to IAS 16 – Property, Plant and Equipment. The amendment requires entities whose ordinary activities comprise renting and subsequently selling assets to present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.

The Group will apply IAS 16 (revised) from 1 March 2009.

Amendment to IFRS 2 – Share-based Payments: Vesting Conditions and Cancellations (effective for periods beginning on or after 1 January 2009)

The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This standard is applicable to the Group and will apply to its future share-based payments.

IFRS 3 – Business Combinations – revised (effective for periods beginning on or after 1 July 2009)

The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The standard will be applicable to the Group and the Group will apply IFRS 3 (R) to all new business combinations entered into after 1 July 2009.

IFRS 8 – Operating Segments (effective for periods beginning on or after 1 January 2009)

IFRS 8 requires an entity to adopt the “management approach” to reporting on the financial performance of its operating segments. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Group is in the process of assessing the impact of the standard on its financial statements. The standard is expected to result in additional disclosure.

(e) **Standards and interpretations to existing standards that are not yet effective and not relevant to the Group's operations**

Amendment to IAS 32 and IAS 1 – Amendment to IAS 32 – Financial Instruments: Presentation and IAS 1 – Presentation of Financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation (effective for periods beginning on or after 1 January 2009);

Amendments to IAS 39 – Financial Instruments: Recognition and Measurement Exposures Qualifying for Hedge Accounting (effective for periods beginning on or after 1 July 2009);

Amendments to IFRS 1 and IAS 27 – 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 periods beginning on or after 1 January 2009);

Amendments to IFRS 2: Group Cash Settled Share-based Payment Transactions (effective for periods beginning on or after 1 January 2010);

IFRIC 13 – Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008);

IFRIC 15 – Agreements for the Construction of Real Estate (effective for periods beginning on or after 1 January 2009);

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for periods beginning on or after 1 October 2008);

IFRIC 17 – Distributions of Non-cash Assets to Owners (effective for periods beginning on or after 1 January 2009); and

IFRIC 18 – Transfers of Assets from Customers (effective for periods beginning on or after 1 January 2009).

## 1.1 **Consolidation**

### (a) **Investments in subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The investment in subsidiaries is stated at cost less accumulated impairment.

The Group has effective control over the employees' share incentive trust and as such it is considered to be a special purpose entity. The financial results of the trust are therefore consolidated in the Group accounts.

### (b) **Acquisition of subsidiaries under common control**

Common control transactions are business combinations in which all the combining entities (subsidiaries) are ultimately controlled by the same party, before and after the transaction, and the control is not transitory. These transactions are accounted for at predecessor values. Predecessor values are considered to be the book value of assets and liabilities acquired as accounted for in the consolidated financial statements of the highest entity under common control. The cost of an acquisition of a subsidiary under common control is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any costs directly attributable to the acquisition are written off against reserves. The difference between the cost of the acquisition and the predecessor value of the net assets acquired are taken to equity. Comparative information is restated as if the transaction was always in existence. The judgement applied to conclude if control arises is the same as the judgement applied when purchasing an interest in a subsidiary from an entity that is not under common control.

### (c) **Acquisition of other subsidiaries**

The purchase method of accounting is used to account for the acquisition of subsidiaries, unless if a common control transaction, by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Where the cost of an acquisition has not been allocated to the fair value of the net assets of the subsidiary acquired, the difference between the cost of acquisition and the book value of the net assets of the subsidiary is recognised as premium to be allocated.

### (d) **Inter-company transactions**

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

(e) **Transactions and minority interests**

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

1.2 **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

1.3 **Foreign currency translation**

(a) **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 annual financial statements are presented in South African Rand ("R"), which is the Group's functional and presentation currency.

(b) **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in the year in which they arise.

1.4 **Plant for hire**

The cost of an item of plant for hire is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Group;
- the cost of the item can be measured reliably.

Plant for hire consists of construction related small plant and formwork equipment and is stated at cost less depreciation and subsequent impairment.

Costs include expenditure incurred initially to acquire or construct an item of plant for hire and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of plant for hire, the carrying amount of the replaced part is derecognised.

The residual value and the useful life of each asset are reviewed at each financial period end.

Each part of an item of plant for hire with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each period is recognised in the income statement unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of plant for hire is included in the income statement when the item is derecognised. The gain or loss arising from the derecognition of an item of plant for hire is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation is calculated using the straight-line method to reduce the cost amounts of the assets to their residual values over their useful lives as follows:

<b>Item</b>	<b>Average useful life</b>
Formwork	7 years
Small plant	7 years

## 1.5 **Property, plant and equipment**

Property, plant and equipment is recorded at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation is provided on other assets using the straight-line method to write off their cost to their residual values over their estimated useful lives, as follows:

<b>Item</b>	<b>Average useful life</b>
Buildings	20 years
Plant and machinery	5 years
Furniture and fixtures	5 years
Motor vehicles	4 years
Office equipment	5 years
IT equipment	3 years

The residual value and the useful life of each asset are reviewed at each financial period end, and adjusted if appropriate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in the income statement unless it is included in the carrying amount of another asset.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are recognised in the income statement within "administrative and operating expenses".

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

## 1.6 **Intangible assets**

### **(a) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generated units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### **(b) Contract-based intangibles**

Contract-based intangibles acquired in a business combination are recognised at fair value at the acquisition date. These contract-based intangibles have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful life of the intangible.

## 1.7 **Financial instruments**

### **(a) Financial assets**

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are initially measured at fair value plus transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet.

### **(b) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original payment terms of the receivables. 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. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative and operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative and operating expenses in the income statement.

### **(c) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks net of bank overdrafts. These are reflected in the balance sheet and cash flow statement at cost. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. The maturities of the cash and cash equivalents are less than three months from original inception.

Gains or losses arising from changes in the fair value of loans and receivables are presented in the income statement within administrative expenses, in the period in which they arise. Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are recognised in the income statement in the period in which they occur. Impairment testing of trade receivables is described in "trade and other receivables".

### **(d) Financial liabilities**

The Group has the following financial liabilities:

### **(e) Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

### **(f) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the Group becomes party to the contractual provisions. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest received or paid in the income statement

over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

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

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows/(cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 1.9 **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises raw materials and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 1.10 **Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### 1.11 **Current and deferred income tax**

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Current income tax for the current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. Current income tax liabilities or assets for the current and prior periods are measured at amounts that are expected to be paid to or recovered from the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### 1.12 **Employee benefits**

##### (a) **Pension benefits**

The employees of the Group are members of various defined contribution plans. A defined contribution plan is a pension plan under which the entity pays fixed contributions into a separate entity. The entity has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) **Healthcare benefits**

The Group provides healthcare benefits for its employees through contributions to various independent medical aid schemes. Payments to the medical schemes are charged to the income statement as incurred. The Group has no post-retirement obligations to employees.

(c) **Remuneration**

The cost of all short-term employee remuneration is recognised during the year in which the employee renders the related service. An accrual is made for employee entitlement to salary, bonuses and profit-share and leave pay based on contractual obligations at current rates of remuneration.

(d) **Termination benefits**

Termination benefits are payable when employment is terminated by the entity before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(e) **Profit-sharing and bonus plans**

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(f) **Share-based payments**

The Group operates an equity-settled share-based payment compensation plan.

The fair value of share options granted is recognised as an employee expense. The fair value is measured at grant date and expensed over the period during which the employee becomes unconditionally entitled to the equity instruments.

The fair value of the options granted is measured using generally accepted valuation techniques and excludes the impact of any non-market vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity or liabilities. The proceeds received on exercise of the options, net of any directly attributable transaction costs, are credited to equity.

### 1.13 **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the obligation.

#### 1.14 **Revenue**

Revenue comprises the fair value of the consideration received or receivable from construction contracts, short-term hire rentals, sale of plant and sale of services in the ordinary course of business. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and the risks and rewards of ownership have been transferred to the customer. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

##### **(a) Construction contract revenue**

Revenues relating to construction contracts are accounted for using the stage of completion method. The stage of completion is measured by reference to surveys of work performed. The accounting policy for construction contracts is set out in note 1.15.

##### **(b) Short-term hire rentals**

Revenues from the short-term hire of construction related small plant and formwork equipment are recognised as revenue in the period that the small plant and formwork is hired.

##### **(c) Interest income**

Interest income is recognised as it accrues.

##### **(d) Dividend income**

Dividend income is recognised when the right to receive payment is established.

#### 1.15 **Construction contracts**

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and functions, or their ultimate purpose or use. A group of contracts are treated as a single construction contract when the group of contracts are negotiated as a single package; the contracts are so interrelated that they are, in effect, part of a single project with an overall profit margin and the contracts are performed concurrently or in a continuous sequence.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable (i.e. there is a fully enforceable contract and there is no objective evidence that the entity will not be able to collect all amounts due according to the original payment terms) those costs will be recovered. Contract costs on these contracts are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by using the percentage of completion method as set out in note 1.14. Costs are recognised in net profit as incurred. However, costs incurred in the year in connection with future activity on a contract are excluded. They are presented as inventories, prepayments or other assets depending on their nature. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within "trade and other receivables".

Where recognised revenue using the percentage of completion method exceeds billed work, the balance is shown as amounts due from customers for contract work, under "trade and other receivables". Where billed work exceeds recognised revenue using the percentage of completion method, the balance is shown as amounts received in advance, under "trade and other payables".

## 1.16 **Leases**

### (a) **Finance leases**

Leases of property, plant and equipment where the entity assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings.

The interest element of the finance charges is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the shorter of the lease term and useful life of the asset.

### (b) **Operating leases**

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 1.17 **Dividend distribution**

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's board of directors.

Secondary tax on companies is provided for in respect of dividend payments, net of dividends received or receivable and is recognised as a taxation charge for the year.

Figures in Rand	Cost	Accumulated depreciation	Carrying value		
<b>2. PLANT FOR HIRE</b>					
<b>Group 2009</b>					
Formwork	27 837 427	(6 665 708)	21 171 719		
Small plant	58 687 776	(12 873 304)	45 814 472		
<b>Total</b>	<b>86 525 203</b>	<b>(19 539 012)</b>	<b>66 986 191</b>		
<b>Group 2008</b>					
Formwork	19 440 395	(3 502 054)	15 938 341		
Small plant	33 183 349	(6 656 734)	26 526 615		
<b>Total</b>	<b>52 623 744</b>	<b>(10 158 788)</b>	<b>42 464 956</b>		
<b>Group 2007</b>					
Formwork	12 292 143	(2 298 604)	9 993 539		
Small plant	16 037 402	(3 673 393)	12 364 009		
<b>Total</b>	<b>28 329 545</b>	<b>(5 971 997)</b>	<b>22 357 548</b>		
<b>Reconciliation of plant for hire 2009</b>					
Figures in Rand	Opening balance	Additions	Disposals	Depreciation	Total
Formwork	15 938 341	11 353 754	(2 182 120)	(3 938 256)	21 171 719
Small plant	26 526 615	29 015 724	(2 404 107)	(7 323 760)	45 814 472
<b>Total</b>	<b>42 464 956</b>	<b>40 369 478</b>	<b>(4 586 227)</b>	<b>(11 262 016)</b>	<b>66 986 191</b>
<b>Reconciliation of plant for hire 2008</b>					
Figures in Rand	Opening balance	Additions	Disposals	Depreciation	Total
Formwork	9 993 539	10 830 886	(2 605 186)	(2 280 898)	15 938 341
Small plant	12 364 009	19 545 251	(1 616 895)	(3 765 750)	26 526 615
<b>Total</b>	<b>22 357 548</b>	<b>30 376 137</b>	<b>(4 222 081)</b>	<b>(6 046 648)</b>	<b>42 464 956</b>
<b>Reconciliation of plant for hire 2007</b>					
Figures in Rand	Opening balance	Additions	Disposals	Depreciation	Total
Formwork	4 687 362	7 607 018	( 771 518)	(1 529 323)	9 993 539
Small plant	8 059 607	6 733 771	( 207 338)	(2 222 031)	12 364 009
<b>Total</b>	<b>12 746 969</b>	<b>14 340 789</b>	<b>( 978 856)</b>	<b>(3 751 354)</b>	<b>22 357 548</b>

3. **PROPERTY, PLANT AND EQUIPMENT**

<b>Figures in Rand</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
<b>Group 2009</b>			
Land and buildings	16 809 486	(609 029)	16 200 457
Plant and machinery	10 854 763	(3 846 112)	7 008 651
Furniture and fixtures	194 962	(98 936)	96 026
Motor vehicles	23 440 860	(10 840 586)	12 600 274
Office equipment	399 522	(188 117)	211 405
IT equipment	1 432 422	(734 082)	698 340
Computer software	122 950	(37 530)	85 420
<b>Total</b>	<b>53 254 965</b>	<b>(16 354 392)</b>	<b>36 900 573</b>

<b>Figures in Rand</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
<b>Group 2008</b>			
Land and buildings	2 661 598	(201 339)	2 460 259
Plant and machinery	7 666 379	(2 556 100)	5 110 279
Furniture and fixtures	186 367	(70 901)	115 466
Motor vehicles	18 898 806	(7 212 445)	11 686 361
Office equipment	310 690	(152 739)	157 951
IT equipment	873 345	(409 283)	464 062
Computer software	–	–	–
<b>Total</b>	<b>30 597 185</b>	<b>(10 602 807)</b>	<b>19 994 378</b>

<b>Figures in Rand</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Carrying value</b>
<b>Group 2007</b>			
Land and buildings	2 490 398	(110 583)	2 379 815
Plant and machinery	243 735	(206 067)	37 668
Furniture and fixtures	27 282	(9 828)	17 454
Motor vehicles	7 211 840	(2 683 743)	4 528 097
Office equipment	61 017	(42 316)	18 701
IT equipment	535 885	(325 940)	209 945
<b>Total</b>	<b>10 570 157</b>	<b>(3 378 477)</b>	<b>7 191 680</b>

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

<b>Figures in Rand</b>	<b>Opening balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Arising on purchase price allocation</b>	<b>Depreciation</b>	<b>Total</b>
Land and buildings	2 460 259	14 147 888	–	–	(407 690)	16 200 457
Plant and machinery	5 110 279	4 230 075	(281 822)	72 398	(2 122 279)	7 008 651
Furniture and fixtures	115 466	8 595	–	–	(28 035)	96 026
Motor vehicles	11 686 361	6 678 855	(998 544)	420 996	(5 187 394)	12 600 274
Office equipment	157 951	112 757	(350)	–	(58 953)	211 405
IT equipment	464 062	578 586	(6 098)	–	(338 210)	698 340
Computer software	–	122 950	–	–	(37 530)	85 420
	<b>19 994 378</b>	<b>25 879 706</b>	<b>(1 286 814)</b>	<b>493 394</b>	<b>(8 180 091)</b>	<b>36 900 573</b>

## Reconciliation of property, plant and equipment – 2008

Figures in Rand	Opening balance	Additions	Additions through business combinations	Disposals	Depreciation	Total
Land and buildings	2 379 815	171 200	–	–	(90 756)	2 460 259
Plant and machinery	37 668	1 762 249	3 601 334	–	(290 972)	5 110 279
Furniture and fixtures	17 454	38 431	67 718	–	(8 137)	115 466
Motor vehicles	4 528 097	6 450 943	3 282 853	(102 158)	(2 473 374)	11 686 361
Office equipment	18 701	109 375	54 189	(2)	(24 312)	157 951
IT equipment	209 945	240 051	157 372	(3 454)	(139 852)	464 062
	7 191 680	8 772 249	7 163 466	(105 614)	(3 027 403)	19 994 378

## Reconciliation of property, plant and equipment – 2007

Figures in Rand	Opening balance	Additions	Additions through business combinations	Disposals	Depreciation	Total
Land and buildings	402 358	2 034 898	–	–	(57 441)	2 379 815
Plant and machinery	104 126	–	–	–	(66 458)	37 668
Furniture and fixtures	13 193	8 768	–	–	(4 507)	17 454
Motor vehicles	3 256 265	3 175 898	–	(422 596)	(1 481 470)	4 528 097
Office equipment	16 701	10 400	–	–	(8 400)	18 701
IT equipment	94 741	175 714	–	–	(60 510)	209 945
Leasehold improvements	30 363	–	–	(30 363)	–	–
Loose tools	50 000	–	–	(50 000)	–	–
	3 967 747	5 405 678	–	(502 959)	(1 678 786)	7 191 680

### Pledged as security

Carrying value of assets pledged as security for instalment sale agreements amounts to R13 754 463 (2008: R15 747 424) (2007: R3 108 481).

The carrying value of land and buildings pledged as security for bond borrowings amounts to R16 200 457 (2008: R2 460 259).

The cost and carrying value of land included in land and buildings is R5 192 976 (2008: R800 000) (2007: R800 000).

## 4. GOODWILL

	2009 Accumulated Cost	2009 Accumulated impairment	Carrying value	2008 Accumulated Cost	2008 Accumulated impairment	Carrying value
<b>Group</b>						
Arising through business combinations	52 822 314	–	52 822 314	54 264 143	–	54 264 143

### Reconciliation of goodwill 2009

	Opening balance at 1 March 2008	Allocated to underlying assets in business combination	Closing balance at 28 February 2009
Arising through business combinations	54 264 143	(1 441 829)	52 822 314

The initial accounting for the business combination in respect of the acquisition of Davgram Construction (Proprietary) Limited that was effected in the prior year was determined provisionally at the end of the 2008 financial year. The purchase price allocation exercise was completed during the year. This resulted in a fair value adjustment to assets acquired of R1 441 829 and a corresponding reduction in goodwill.

The fair value adjustment is summarised as follows:

	<b>R</b>
– Contract-based intangible	1 509 146
– Motor vehicles, plant and machinery	493 394
– Deferred taxation	(560 711)
	1 441 829

The contract-based intangible is in respect of short-term construction contracts and has been fully amortised in the current year.

The carrying value of goodwill is subject to annual impairment testing using the value in use method.

Operating budgets approved by the board of directors formed the basis of projected cash flows that covered a five-year period.

Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 5,2%. A discount rate of 14,86% was applied. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are post-tax and reflect specific risks relating to the entity.

On this basis, the value in use calculation indicated that no impairment was required.

The variables listed above were adversely amended to assess the impact on the cash flow projections. The amendments did not result in the conclusion above being changed.

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>5. DEFERRED INCOME TAX</b>			
Deferred income tax asset	173 737	414 679	124 340
Deferred income tax liability	(986 713)	(3 128 118)	(899 253)
	(812 976)	(2 713 439)	(774 913)
<b>Reconciliation of deferred tax liability</b>			
At beginning of the year	(2 713 439)	(774 913)	(512 916)
Reduction due to rate change	–	26 721	–
Davgram Construction (Proprietary) Limited acquired	–	(1 956 158)	–
Arising on purchase price allocation	(560 711)	–	–
Income statement charge	2 461 174	(9 089)	(261 997)
	(812 976)	(2 713 439)	(774 913)
<b>Analysis of deferred tax liability</b>			
Accelerated capital allowances for tax purposes	(607 259)	(308 055)	–
Other provisions	62 440	224 000	–
Share-based payments	160 431	–	–
Provision for doubtful debts	601 755	548 979	73 727
Accrual for leave pay and bonuses	990 756	511 565	149 864
Income received in advance	8 126 705	319 781	87 000
Work in progress	(5 889 611)	–	–
Allowance for future expenditure	(1 520 758)	–	–
Retentions debtors	(9 018 789)	(4 009 709)	(1085 504)
Retention creditors	6 281 354	–	–
	(812 976)	(2 713 439)	(774 913)

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>6. INVENTORIES</b>			
Plant for sale	5 098 293	1 362 650	–
Construction work in progress (note 34)	25 926 259	7 327 542	488 667
	31 024 552	8 690 192	488 667
The cost of inventories recognised as an expense and included in cost of sales amounted to R104 335 616 (2008: R35 057 134) (2007: R30 356 063).			
<b>7. TRADE AND OTHER RECEIVABLES</b>			
Trade receivables	95 153 039	86 159 866	21 582 991
Less: Provision for impairment of receivables	(2 865 496)	(2 614 185)	(338 975)
Trade receivables – net	92 287 543	83 545 681	21 244 016
Deposits and prepayments	1 001 958	3 304 956	759 425
Accrued income	646 715	–	–
Loans to related parties	–	6 128 134	844 131
Other receivables	2 048 931	692 538	304 687
Retentions	32 209 959	14 693 905	3 743 116
	128 195 106	108 365 214	26 895 375
<b>Trade receivables</b>			
Counterparties without external credit rating:			
Current receivables	81 892 027	64 534 126	27 965 114
Trade and other receivables past due but not impaired:			
60 days to 90 days	1 012 350	10 755 949	1 370 259
90 days to 120 days	3 071 501	4 730 088	382 057
Greater than 120 days	5 302 873	2 344 257	976 220
	9 386 724	17 830 294	2 728 536
Trade and other receivables impaired: As of 28 February 2009, trade and other receivables of R3 874 288 (2008: R3 795 446) (2007: R338 975) were impaired and provided for.			
The amount of the provision was R2 865 496 as of 28 February 2009 (2008: R2 614 185) (2007: R338 975). The ageing of these loans is as follows:			
Current	684 273	–	–
30 to 60 days	179 425	–	–
60 to 120 days	–	2 075 528	2 843
Greater than 120 days	3 010 590	1 719 918	336 132
	3 874 288	3 795 446	338 975
<b>Reconciliation of provision for impairment of trade and other receivables:</b>			
Opening balance	2 614 185	338 975	219 739
Provision for impairment	2 384 501	2 325 210	119 236
Amounts written off as uncollectible	(2 133 190)	(50 000)	–
	2 865 496	2 614 185	338 975

The creation and release of provision for impaired receivables have been included in administrative and operating expenses in the income statement. The other classes within trade and other receivables do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security. There is no significant concentration of credit risk in respect of any particular customer or industry segment.

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>8. CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents consist of:			
Cash on hand	279 136	172 373	86 811
Bank balances	57 024 507	42 231 285	168 463
	<b>57 303 643</b>	<b>42 403 658</b>	<b>255 274</b>

The effective interest rate on short-term bank deposits was 10,25% (2008: 8,64%) (2007: 6,24%) These deposits are receivable on demand.

**Credit rating**

First National Bank Limited "C" rating (2008: "C" rating) (2007: "C" rating)	53 668 622	42 231 285	168 463
Nedbank Limited "C" rating	3 355 885	–	–
	<b>57 024 507</b>	<b>42 231 285</b>	<b>168 463</b>

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
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**9. SHARE CAPITAL AND PREMIUM**

**Authorised**

300 000 000 ordinary shares of R0.01 each	3 000 000	3 000 000	3 000 000
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**Reconciliation of number of shares issued:**

Reported as at 1 March 2008/2007	116 364 364	96 945 000	300
Issue of shares – ordinary shares	20 438 811	19 419 364	96 944 700
	<b>136 803 175</b>	<b>116 364 364</b>	<b>96 945 000</b>

The 19 419 364 shares were issued in terms of the private placement at the time of listing of Erbacon.

The Group acquired Davgram Construction (Pty) Limited on 29 February 2008.

The 20 438 811 shares issued to the vendors of Davgram Construction (Pty) Limited, at R2,50 per share: this represented the portion of the purchase consideration settled with shares.

In 2009, 163 196 825 unissued ordinary shares are under the control of the directors until the forthcoming Annual General Meeting.

In 2008, 183 635 636 unissued ordinary shares are under the control of the directors in terms of a resolution. This authority remains in force until the next Annual General Meeting.

**Issued**

Ordinary	1 368 032	1 163 644	969 450
Share premium	294 014 096	243 219 216	192 860 850
	<b>295 382 128</b>	<b>244 382 860</b>	<b>193 830 300</b>

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
729 481 shares acquired by The Erbacon Investment Holdings Employee Share Incentive Trust	(1 462 610)	–	–
	293 919 518	244 382 860	193 830 300

In 2009, share issue costs of R97 765 were written off against share premium.

729 481 (2008: nil) ordinary shares are held by the employee share incentive trust at year-end. This trust is consolidated and thus the shareholding is eliminated on consolidation.

## 10. SHARE-BASED PAYMENTS RESERVE

### (a) Information on options granted during the year

<b>Date options granted</b>	<b>Exercise price (cents)</b>	<b>Date exercisable</b>	<b>Number of options granted</b>
29 July 2008	193	29 July 2011	4 255 000

The Group has an equity-settled share option scheme for certain employees. The options have a contractual service term of three years. The exercise price is based on the volume weighted average price calculated for the 30 days before the grant date. The options lapse three years after the grant date. The options are forfeited if not exercised before termination of employment subject to the discretion of the trustees.

### (b) Movements in the number of share options granted and outstanding are as follows:

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Outstanding at the beginning of the year	–	–	–
Granted during the year	4 255 000	–	–
Outstanding at the end of the year	4 255 000	–	–

### (c) Fair value of options

The fair value of options granted during the year was calculated at 69 cents per share. This was determined using the Black-Scholes valuation model and included the following inputs:

- Weighted average share price at grant date R1,93
- Option life 3 years
- Annual risk-free rate 11,54%
- Expected volatility 43,09%
- Expected dividend yield 2,68%

Expected volatility has been measured as the standard deviation of the compounded rates of return based on share prices of industry competitors over the last two years.

The total cost of the options, as reflected by the model, is R2 946 707, which is charged to the income statement as follows:

2009	572 971
2010	982 236
2011	982 236
2012	409 264
	2 946 707

<b>Date options granted</b>	<b>Exercise price (cents)</b>	<b>Date exercisable</b>	<b>Number of options granted</b>
<b>(d) Reconciliation of share-based payments reserve:</b>			
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Opening balance	–	–	–
Equity-settled share-based-payments charged as “administrative and operating expenses”	572 971	–	–
Equity-settled share-based payments capitalised to the investment in subsidiaries	–	–	–
	<b>572 971</b>	<b>–</b>	<b>–</b>

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
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#### 11. COMMON CONTROL DEFICIT

The restructuring undertaken during the course of August – October 2007 resulted in the interposition of Erbacon as the holding company, and the establishment of Erbacon Small Plant and Erbacon Construction as its two wholly owned subsidiaries by way of the Erbacon Share Exchange. Erbacon issued, in aggregate, 96 915 000 ordinary shares, and accounted for this transaction as a common control transaction using predecessor values.

Common control deficit (note 28)	(177 246 106)	(177 246 106)	(177 246 106)
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#### 12. BORROWINGS

##### Held at amortised cost

Instalment sale agreements	11 149 927	15 810 943	10 828 691
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The instalment sale borrowings are secured by vehicles with a net book amount of R13 754 463 (2008: R15 747 424) (2007: R3 108 481).

The instalment sale borrowings bear interest at prime related interest rates and are repayable in equal instalments of R818 756 (2008: R767 554) (2007: R529 718) per month including finance charges.

The last payment date for the instalment sale borrowings is 1 December 2012 (2008: 1 March 2012) (2007: 15 December 2009).

Shareholder loan	–	–	223 905
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The loan is unsecured, bears no interest and has no fixed terms of repayment.

Bank overdraft	–	6 511 717	614 667
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Trade and other receivables has not been pledged as security for any facilities. In the prior year, trade and other receivables were pledged as security for overdraft facilities of R10 500 000 (2007: R3 000 000) of the Group.

At year-end the overdraft amounted to nil (2008: R6 511 717). The Group has access to an overdraft facility of R25 000 000 (2008: R10 500 000) (2007: R3 000 000) property finance facility of R10 158 511 and settlement facility of R700 000.

The Group companies provide unlimited suretyships against these facilities.

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>12. BORROWINGS (continued)</b>			
Mortgage bond Rand Merchant Bank	183 622	271 191	353 091
The Rand Merchant Bank Mortgage Bond is secured by property with a net book amount of R334 033 (2008: R356 808) (2007:R379 853).			
The Rand Merchant Bank mortgage bond bears interest at prime less 0,75% and is repayable in equal instalments of R10 000 (2008: R10 000) (2007: R10 000) per month including finance charges.			
The last payment date for the Rand Merchant Bank mortgage bond is 31 October 2010 (2008: 30 November 2023) (2007: 30 November 2023).			
Mortgage bond First National Bank	11 090 329	1 466 475	1 557 351
The First National Bank mortgage bond is secured by property with a net book amount of R13 980 946 (2008: R2 103 451) (2007: R2 000 232).			
The First National Bank mortgage bond bears interest at prime less 0.5% and is repayable in equal instalments of R180 888 (2008: R24 683) (2007: R22 522) per month including finance charges.			
The last payment date for the First National Bank mortgage bond is 1 August 2028 (2008: 1 November 2016) (2007: 1 December 2016)			
Mortgage bond Nedbank Corporate	1 447 752	–	–
The Nedbank Limited Mortgage Bond is secured by property with a net book amount of R1 885 478 (2008: nil).			
The Nedbank Mortgage Bond bears interest at prime less 1% and is repayable in equal instalments of R22 481 (2008: nil) per month including finance charges.			
The last payment date for the Nedbank Mortgage Bond is 28 May 2018.			
Other borrowings	–	130 962	–
The loans are unsecured, bear no interest and have no fixed terms of repayment.			
	23 871 630	24 191 288	13 577 705
The fair value of the borrowings approximates their carrying values.			
<b>Non-current liabilities</b>			
At amortised cost	16 558 854	10 968 525	7 444 589
<b>Current liabilities</b>			
At amortised cost	7 312 776	13 222 763	6 133 116
	23 871 630	24 191 288	13 577 705

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>13. TRADE AND OTHER PAYABLES</b>			
Trade payables	50 347 081	41 011 272	11 074 953
Amounts received in advance	38 158 817	6 561 162	300 000
Other payables and sundry accruals	5 634 692	3 507 744	1 272 773
Retention sub-contractors	14 974 746	5 772 800	–
Accrued leave pay	4 126 782	1 827 023	516 772
Accrued bonus	1 186 632	405 000	–
Accrued expenses	6 916 491	1 213 940	153 474
Deferred purchase consideration – cash portion	–	20 000 000	–
	<b>121 345 241</b>	<b>80 298 941</b>	<b>13 317 972</b>

**14. FINANCIAL INSTRUMENTS BY CATEGORY**

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

**Group 2009**

<b>Liabilities as per balance sheet</b>	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Trade and other payables	116 031 827	116 031 827
Borrowings	23 871 630	23 871 630
	<b>139 903 457</b>	<b>139 903 457</b>

<b>Assets as per balance sheet</b>	<b>Loans and receivables</b>	<b>Total</b>
Trade and other receivables	128 195 106	128 195 106
Cash and cash equivalents	57 303 643	57 303 643
	<b>185 498 749</b>	<b>185 498 749</b>

**Group 2008**

<b>Liabilities as per balance sheet</b>	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Trade and other payables	78 066 918	78 066 918
Borrowings	24 191 288	24 191 288
	<b>102 258 206</b>	<b>102 258 206</b>

<b>Assets as per balance sheet</b>	<b>Loans and receivables</b>	<b>Total</b>
Trade and other receivables	108 365 214	108 365 214
Cash and cash equivalents	42 403 658	42 403 658
	<b>150 768 872</b>	<b>150 768 872</b>

14. **FINANCIAL INSTRUMENTS BY CATEGORY (continued)**

**Group 2007**

<b>Liabilities as per balance sheet</b>	<b>Financial liabilities at amortised cost</b>	<b>Total</b>	
Trade and other payables	12 801 200	12 801 200	
Borrowings	13 577 705	13 577 705	
	26 378 905	26 378 905	
<b>Assets as per balance sheet</b>	<b>Loans and receivables</b>	<b>Total</b>	
Trade and other receivables	26 895 375	26 895 375	
Cash and cash equivalents	255 274	255 274	
	27 150 649	27 150 649	
<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>

15. **REVENUE**

Rendering of services			
Construction contracts	643 977 632	156 319 290	81 306 713
Short-term hire	76 978 969	68 407 536	36 509 874
	720 956 601	224 726 826	117 816 587

16. **COST OF SALES**

Raw materials and consumables	104 335 616	35 057 134	30 356 063
Labour	84 511 971	29 064 425	18 290 560
Plant and transport	42 142 180	24 093 430	14 604 446
Sub-contractors and general expenses	377 144 142	71 346 750	24 393 755
	608 133 909	159 561 739	87 644 824

17. **EXPENSES BY NATURE**

Raw materials and consumables	104 335 616	35 057 134	30 356 063
Sub-contractors and general expenses	377 144 142	71 346 750	24 393 756
Employee costs	101 264 173	33 568 476	22 939 455
Plant and transport	42 142 180	24 093 430	14 604 446
Depreciation	8 180 091	3 027 402	1 678 785
Operating lease rentals – premises	2 072 374	1 346 697	540 000
Repairs and maintenance	278 459	233 538	131 093
Other expenses	13 545 423	10 634 132	2 865 444
Total cost of sales and administrative and operating expenses	648 962 458	179 307 559	97 509 039

18. **EMPLOYEE COSTS**

Salaries and wages	90 727 164	28 830 793	20 442 062
Contributions to defined contribution plans	1 566 969	1 167 951	945 098
Shared-based payment	572 971	–	–
Directors' emoluments	8 397 069	3 569 732	1 552 295
	101 264 173	33 568 476	22 939 455

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>19. OPERATING PROFIT</b>			
Operating profit for the year is stated after accounting for the following:			
Profit on sale of property, plant and equipment	593 545	236 267	(530 736)
Amortisation of contract-based intangible	(1 509 146)	–	–
Profit on exchange differences	70 558	–	–
Profit/(Loss) on sale of plant for hire	373 943	(2 462 563)	–
<b>20. FINANCE INCOME</b>			
<b>Interest received</b>			
Bank	4 964 974	1 355 238	131 766
Related parties	–	–	112 481-
Other interest	153 578	–	–
Interest charged on trade and other receivables	285 241	–	–
	5 403 793	1 355 238	244 247
<b>21. FINANCE COSTS</b>			
Non-current borrowings	502 561		
Late payment of tax	31 769	–	203 858
Bank overdraft	1 511 069	528 854	194 843
Instalment sale borrowings	1 548 847	1 936 866	964 688
	3 594 246	2 465 720	1 363 389
<b>22. TAXATION</b>			
<b>Current</b>			
Local income tax – current period	22 046 504	12 931 652	5 527 075
Local income tax – recognised in current tax for prior periods	1 439 610	–	1 000 431
STC	–	–	437 500
	23 486 114	12 931 652	6 965 006
<b>Deferred</b>			
Originating and reversing temporary differences	(1 125 403)	(17 632)	344 940
Arising from prior period adjustments	(1 335 771)	–	(82 943)
	(2 461 174)	(17 632)	261 997
	21 024 940	12 914 020	7 227 003
<b>Reconciliation of the tax expense</b>			
Reconciliation between accounting profit and tax expense:			
Accounting profit	74 468 384	44 594 181	19 719 144
Tax at the applicable tax rate of 28% (2008: 29%, 2007: 29%)	20 851 148	12 932 312	5 718 552
<b>Tax effect of adjustments on taxable income</b>			
Permanent differences	157 197	–	–
Prior period underprovision	98 702	–	1 000 431
Secondary Tax on Companies	–	–	437 500
Capital gains on sale of assets	(110 954)	–	–
Tax losses carried forward	17 410	–	–
Other	11 437	(18 292)	70 520
	21 024 940	12 914 020	7 227 003

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>23. AUDITORS' REMUNERATION</b>			
Fees			
– current year	1 193 000	794 000	–
– prior year	91 488	780 298	–
Fees for other services	96 880	74 034	10 750
	<b>1 381 368</b>	<b>1 648 332</b>	<b>10 750</b>
<b>24. RETIREMENT BENEFITS</b>			
<b>Defined contribution plan</b>			
It is the policy of the Group to provide retirement benefits to its employees.			
A number of defined contribution provident funds, all of which are subject to the Pension Funds Act, 1956, exist for this purpose.			
<b>25. EARNINGS PER SHARE</b>			
Basic earnings per share (cents)	40,64	31,12	12,89
Headline earnings per share (cents)	40,11	33,31	12,34
The basic and headline earnings per share has been calculated using a weighted average number of 131 517 332 (2008: 101 790 624, 2007: 96 945 000) shares.			
<b>Reconciliation of headline earnings:</b>			
Profit attributable to ordinary shareholders	53 443 444	31 680 161	12 492 139
– (Profit)/Loss on disposal of plant and equipment	(696 591)	2 226 296	(530 736)
<b>Headline earnings</b>	<b>52 746 853</b>	<b>33 906 457</b>	<b>11 961 403</b>
<b>26. CASH GENERATED FROM/(USED IN) OPERATIONS</b>			
<b>Figures in Rand</b>			
Profit before taxation	74 468 384	44 594 181	19 719 142
<i>Adjustments for:</i>			
Depreciation and amortisation	19 442 107	9 074 050	5 430 140
(Profit)/Loss on sale of assets	(967 488)	2 226 296	(530 736)
Interest received	(5 403 793)	(1 355 238)	(244 247)
Interest paid	3 594 246	2 465 720	1 363 389
Share issue expense charged to share premium	(97 765)	–	–
Changes in working capital:			
Inventories	(22 334 360)	(3 893 127)	(152 510)
Trade and other receivables	(19 829 891)	(36 753 788)	(7 350 828)
Trade and other payables	41 046 300	15 279 643	4 501 239
	<b>89 917 740</b>	<b>31 637 737</b>	<b>22 735 589</b>

	2009	2008	2007
<b>27. TAX PAID</b>			
Balance at beginning of the year	(10 072 786)	(3 941 621)	(1 180 157)
Current tax for the year recognised in income statement	(23 486 114)	(12 931 652)	(6 965 006)
Balance at end of the year	15 840 405	9 937 092	3 941 621
	(17 718 495)	(6 936 181)	(4 203 542)

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
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**28. ACQUISITION OF BUSINESSES**

**COMMON CONTROL TRANSACTIONS**

**Fair value of assets acquired**

Common control deficit	–	177 246 306	–
Erbacon Construction (Proprietary) Limited	–	5 422 484	–
Erbacon Small Plant (Proprietary) Limited	–	11 161 210	–
	–	193 830 000	–

**Purchase consideration**

96 915 000 ordinary shares in Erbacon Investment Holdings Limited	–	(193 830 000)	–
	–	(193 830 000)	–

**BUSINESS COMBINATIONS**

**Fair value of assets acquired**

Premium to be allocated	–	54 264 143	–
Goodwill	52 822 314	–	–
Davgram Construction (Proprietary) Limited – fair value of assets	18 274 719	16 832 890	–
	71 097 033	71 097 033	–

**Purchase consideration**

Consideration paid in cash	(20 000 000)	(20 000 000)	–
11 171 329 ordinary shares in Erbacon Investment Holdings Limited	(27 928 327)	(27 928 327)	–
9 267 482 ordinary shares in Erbacon Investment Holdings Limited – deferred purchase consideration	(23 168 706)	(23 168 706)	–
	(71 097 033)	(71 097 033)	–

On 29 February 2008, the acquisition of all of the shares in issue and claims against Davgram Construction (Pty) Limited (trading as “Armstrong Construction”) was concluded, with the required clearance having been obtained from the Competition Commission authorities.

At this date Erbacon effectively obtained control over Armstrong in terms of IFRS 3. The Armstrong Construction balance sheet has been consolidated in the Group balance sheet on 29 February 2008. As Armstrong Construction was purchased within only two trading days of the financial year end, it made no contribution to the consolidated Group revenue during the year under review.

At 29 February 2008, due to time constraints, the purchase price of R71,1 million determined in terms of IFRS 3 – Business Combinations, had not been allocated to the fair value of the net assets acquired. The excess over the book value of assets acquired amounted to R54,2 million and was reflected as premium to be allocated on the balance sheet.

During the 2009 financial year, the purchase price allocation was completed. The excess over the fair value of assets acquired amounted to R52,8 million and is allocated to goodwill. Refer to note 4 for further information.

The goodwill is attributable to the expected synergies and economies of scale from combining the operations of the group and Armstrong Construction, and the highly skilled workforce.

Post the 2008 financial year-end, Erbacon paid R20,0 million, from the private placement proceeds, to the vendors of Armstrong Construction, whilst the JSE granted approval on 18 March 2008 for an additional allotment of 11 171 329 ordinary shares. Armstrong Construction achieved its warranted profit at 29 February 2008 and the final 9 267 482 shares were issued to settle this portion of the contingent purchase consideration. In terms of IFRS 3:Business Combinations, the portion of the purchase consideration settled with shares is measured at the fair value of the shares at the acquisition date.

The revenue and profit for the 2008 financial year would have increased by R292 423 168 and R12 151 251, respectively, had the business combination been effective from the beginning of the year.

The assets and liabilities as of 29 February 2008 arising from the acquisition are as follows:

	<b>Fair value</b>	<b>Acquiree's carrying amount</b>
Property, plant and equipment	7 656 860	7 163 466
Inventories	4 308 398	4 308 398
Trade and other receivables	44 716 051	44 716 051
Cash and cash equivalents	703 962	703 962
Contract based intangibles	1 509 146	–
Borrowings	(6 265 811)	(6 265 811)
Deferred taxation liability	(2 516 869)	(1 956 158)
Income tax liability	(135 694)	(135 694)
Trade and other payables	(31 701 324)	(31 701 324)
<b>Fair value of assets</b>	<b>18 274 719</b>	<b>16 832 890</b>
Goodwill	52 822 314	
Total purchase consideration	71 097 033	

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
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## 29. COMMITMENTS

### Authorised capital expenditure

Contracted but not provided for:

Property, plant and equipment	86 693	6 651 000	–
Not yet contracted for	–	12 000 000	–

This committed expenditure relates to plant and equipment and software and financed by a combination of instalment will be sale agreements and cash on hand.

### Operating lease commitments

Minimum lease payments due

– within one year	1 513 150	1 473 540	906 000
– in second to fifth year inclusive	4 567 144	5 223 454	4 082 520
	6 080 294	6 696 994	4 988 520

Operating lease payments represent rentals payable by the Group for certain of its office properties.

30. **RELATED PARTIES**

**Relationships**

Subsidiaries	Erbacon Construction (Pty) Limited Erbacon Small Plant (Pty) Limited Davgram Construction (Pty) Limited
Shareholders with significant influence	David Boyd Erskine Paladin Capital Limited
Membership of key management to other entities	Erbacon Plant Hire CC of D B Erskine INIC Computers CC of D B Erskine Real Property Holdings CC of D B Erskine Sasswood Trust of D B Erskine Armrlic Trust of D G Armstrong and W M Ric-Hansen Robdav Trust of D G Armstrong DGA Construction CC of D G Armstrong Hillclimb 17754 Investments CC of D G Armstrong Lot 22 VCCE (Pty) Limited of D G Armstrong
Members of key management	David Boyd Erskine Frans Petrus Boraine Gary Brockwell Flett Robin Kevin Braithwaite David Graham Armstrong Wayne Michael Ric-Hansen

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Related party balances</b>			
<b>Group</b>			
<b>Loan accounts – owing (to)/by related parties</b>			
Erbacon Plant Hire CC	–	–	796 445
INIC Computers CC	–	–	47 686
David Graham Armstrong	–	5 125 648	–
Wayne Michael Ric-Hansen	–	1 002 486	–
The loans were unsecured, interest free and had no fixed terms of repayment.			
These loans were repaid in terms of the Armstrong Acquisition agreement.			
<b>Amounts included in trade receivables/ (trade payables) regarding related parties</b>			
Erbacon Construction (Pty) Limited	456 000	–	–
Erbacon Construction (Pty) Limited	(338 844)	–	–
Erbacon Small Plant (Pty) Limited	456 000	–	–
Davgram Construction (Pty) Limited	456 000	–	–
<b>Related party transactions</b>			
<b>Group</b>			
<b>Purchases from related parties</b>			
INIC Computers CC	953 812	659 811	372 947
Rent paid to related parties			
Real Property Holdings CC	522 000	522 000	300 000
Sasswood Trust	384 000	384 000	240 000
Armrlic Trust	570 816	–	–

31. **DIRECTORS' EMOLUMENTS**

<b>Figures in Rand</b>	<b>Salary</b>	<b>Performance bonus</b>	<b>Benefits</b>	<b>Retirement funding</b>	<b>Total</b>
Directors' emoluments were paid to the directors during the year as follows:					
<b>Executive</b>					
<b>2009</b>					
D G Armstrong	855 560	531 000	188 902	–	1 575 462
F P Boraine	909 688	247 000	141 368	100 212	1 398 268
R K Braithwaite	1 205 000	611 000	155 424	168 700	2 140 124
D B Erskine	994 800	519 000	174 830	139 272	1 827 902
W M Ric-Hansen	791 750	489 000	174 563	–	1 455 313
	4 756 798	2 397 000	835 087	408 184	8 397 069

<b>Figures in Rand</b>	<b>Salary</b>	<b>Performance bonus</b>	<b>Benefits</b>	<b>Retirement funding</b>	<b>Total</b>
<b>Executive</b>					
<b>2008</b>					
D G Armstrong	–	–	–	–	–
F P Boraine	728 308	350 000	146 120	97 769	1 322 197
R K Braithwaite	–	–	–	–	–
G B Flett	584 020	150 000	76 480	26 000	836 500
D B Erskine	815 250	331 710	149 940	114 135	1 411 035
W M Ric-Hansen	–	–	–	–	–
	2 127 578	831 710	372 540	237 904	3 569 732

All directors' emoluments are paid by subsidiary companies other than R K Braithwaite, whose emoluments are paid by the holding company.

	<b>2009 Directors' fees</b>	<b>2008 Directors' fees</b>
<b>Non-executive</b>		
A Dawson	100 000	–
S M Hedley	65 000	–
	165 000	–

All non-executive directors' fees are paid by the holding company.

As all directors of the Group were elected in 2008 only, there are no comparatives shown for 2007.

**Details of service contracts**

Service contracts are applicable to three executive directors, Messrs Erskine, Boraine and Braithwaite, but these do not exceed two years, and are now in their final year.

**Directors' share options**

Information on options granted during the year (2008: nil) are set out below:

<b>2009 Director</b>	<b>Share options at 1 March 2008</b>	<b>Options granted during the year</b>	<b>Options at 28 February 2009</b>	<b>Option price (cents)</b>	<b>Vesting dates</b>	<b>Expiry dates</b>
R K Braithwaite	–	2 000 000	2 000 000	193	29/07/2011	29/07/2011

## 32. RISK MANAGEMENT

### Financial risk factors

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Chief Executive Officer and Financial Director. They identify, evaluate and hedge financial risks.

### Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits of other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

### Fair value estimation

The nominal value less impairment of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

The Group's risk to liquidity is a result of the funds available to cover future commitments. The Group manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. Repayments of borrowings are structured so as to match the expected cash flows from the operations to which they relate.

The expected maturity of all significant financial liabilities is disclosed in the relevant notes to the financial statements. In terms of its Articles of Association the Company has unlimited borrowing powers.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Figures in Rand	Less than one year	Between one and two years	Between two and five years	Over five years
<b>Group</b>				
<b>At 28 February 2009</b>				
Instalment sale agreements	9 511 446	10 620 843	441 811	–
Mortgage bonds	2 560 436	4 960 872	7 321 308	9 068 106
Trade and other payables	121 345 241	–	–	–
<b>At 29 February 2008</b>				
Instalment sale agreements	6 431 741	6 061 488	3 480 748	–
Mortgage bonds	98 805	207 631	494 113	837 116
Trade and other payables	80 298 941	–	–	–
Bank overdraft	6 511 717	–	–	–
<b>At 28 February 2007</b>				
Instalment sale agreements	4 904 277	5 924 414	–	–
Mortgage bonds	172 777	198 806	543 029	995 830
Shareholder loan	223 905	–	–	–
Trade and other payables	13 317 972	–	–	–
Bank overdraft	614 667	–	–	–

### Interest rate risk

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on pre-tax profit of a 2% shift would be a maximum increase of R36 191 (2008: R360 800) or decrease of R36 191 (2008: R360 800), respectively. The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by management.

### Credit risk

The Company's credit risk lies principally in its trade receivables. These comprise a small number of customers with significant balances. Management has a credit policy in place and the exposure to risk is monitored on an ongoing basis. Ongoing evaluations are performed on the financial position of these debtors by monitoring monthly receipts. The Company's trade receivables have been ceded to the bank as security for the bank overdrafts.

Cash and cash equivalents are placed only with substantial and reputable financial institutions.

## 33. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Recognition of expected losses

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense in the income statement immediately. The amount of such expected loss is determined irrespective of whether work has commenced on the contract, the stage of completion of contract activity or the amount of profits expected to arise on other contracts. The amount of the loss is calculated as the excess of estimated total contract costs over total estimated contract revenue.

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.6. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates (refer to note 4).

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>34. CONTRACTS IN PROGRESS</b>			
Aggregate contract costs incurred to date	852 744 375	505 695 445	120 552 131
Recognised profits/(losses) to date	130 343 095	64 582 504	20 502 456
	983 087 470	570 277 949	141 054 587
<i>Less: Progress billings to date</i>	<i>(957 161 211)</i>	<i>(562 950 407)</i>	<i>(140 565 920)</i>
	25 926 259	7 327 542	488 667

<b>Figures in Rand</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>35. DIVIDENDS PAID</b>			
Dividends	–	–	(3 500 000)

**36. MATERIAL CHANGES**

A dividend of 5.5 cents per ordinary share (2008: Nil) was declared on 28 May 2009. There were no other material facts or circumstances that occurred between the 28 February 2009 and the date of this circular.

**GROUP SEGMENTAL REPORT**

The segment information set out below is based on the requirements of IAS 14 – Segment Reporting. For management purposes the Group is split into four distinctive business segments.

<b>Figures in Rand</b>	<b>Civils Construction</b>	<b>Small Plant and Formwork</b>	<b>Commercial and Industrial Building</b>	<b>Services</b>	<b>Total Group</b>
<b>Business segment 2009</b>					
<b>Segment revenue</b>					
Total segment revenue	201 867 066	83 063 650	444 855 103	5 400 000	735 185 819
<i>Less:</i>					
Inter-segmental revenue	–	(6 084 681)	( 2 744 537)	(5 400 000)	(14 229 218)
<b>Total revenue</b>	<b>201 867 066</b>	<b>76 978 969</b>	<b>442 110 566</b>	<b>–</b>	<b>720 956 601</b>
Segment result					
Operating profit	33 420 757	18 007 814	22 353 471	(1 123 205)	72 658 837
Finance income	3 030 248	341 543	1 415 952	616 050	5 403 793
Finance costs	(399 707)	(2 642 485)	(524 657)	(27 397)	(3 594 246)
<b>Profit before taxation</b>	<b>36 051 298</b>	<b>15 706 872</b>	<b>23 244 766</b>	<b>(534 552)</b>	<b>74 468 384</b>
<b>Segment net assets</b>	<b>38 623 750</b>	<b>88 593 426</b>	<b>83 900 097</b>	<b>244 854</b>	<b>211 362 127</b>
<b>Total segment assets</b>	<b>107 438 093</b>	<b>115 667 846</b>	<b>148 853 187</b>	<b>1 446 990</b>	<b>373 406 116</b>
Property, plant and equipment	5 238 634	22 936 126	8 640 393	85 420	36 900 573
Plant for hire	–	66 986 191	–	–	66 986 191
Goodwill	–	–	52 822 314	–	52 822 314
Deferred taxation asset	–	67 379	–	106 358	173 737
Inventories	21 379 504	5 098 293	4 546 755	–	31 024 552
Trade and other receivables	54 260 996	18 916 469	54 877 851	139 790	128 195 106
Cash and cash equivalents	26 558 959	1 663 388	27 965 874	1 115 422	57 303 643
<b>Total segment liabilities</b>	<b>68 814 343</b>	<b>27 074 420</b>	<b>64 953 090</b>	<b>1 202 136</b>	<b>162 043 989</b>
Borrowings	1 088 240	19 289 198	3 494 192	–	23 871 630
Deferred taxation liability	672 152	–	314 561	–	986 713
Income tax liability	7 721 466	1 489 140	6 629 799	–	15 840 405
Trade and other payables	59 332 485	6 296 082	54 514 538	1 202 136	121 345 241
<b>Other information</b>					
Capital additions	2 965 261	58 653 474	4 507 499	122 950	66 249 184
Depreciation	1 746 003	14 571 631	3 086 943	37 530	19 442 107

<b>Figures in Rand</b>	<b>Civils Construction</b>	<b>Small Plant and Formwork</b>	<b>Commercial and Industrial Building</b>	<b>Services</b>	<b>Total Group</b>
<b>Business segment 2008</b>					
<b>Segment revenue</b>					
Total segment revenue	156 319 290	73 210 402	–	–	229 529 692
Less: Inter-segmental revenue	–	(4 802 866)	–	–	(4 802 866)
<b>Total revenue</b>	<b>156 319 290</b>	<b>68 407 536</b>	<b>–</b>	<b>–</b>	<b>224 726 826</b>
<b>Segment result</b>					
Operating profit	20 327 467	25 299 011	–	78 185	45 704 663
Finance income	361 381	–	–	993 857	1 355 238
Finance costs	(175 930)	(2 286 020)	–	(3 770)	(2 465 720)
<b>Profit before taxation</b>	<b>20 512 918</b>	<b>23 012 991</b>	<b>–</b>	<b>1 068 272</b>	<b>44 594 181</b>
<b>Segment net assets</b>	<b>23 212 934</b>	<b>46 752 393</b>	<b>71 097 033</b>	<b>20 843 727</b>	<b>158 906 087</b>
<b>Total segment assets</b>	<b>53 089 996</b>	<b>70 858 378</b>	<b>111 156 020</b>	<b>41 492 826</b>	<b>276 597 220</b>
Property, plant and equipment	4 224 069	8 606 843	7 163 466	–	19 994 378
Plant for hire	–	42 464 956	–	–	42 464 956
Goodwill	–	–	54 264 143	–	54 264 143
Deferred taxation asset	–	414 679	–	–	414 679
Inventories	3 019 144	1 362 650	4 308 398	–	8 690 192
Trade and other receivables	45 704 513	17 944 650	44 716 051	–	108 365 214
Cash and cash equivalents	142 270	64 600	703 962	41 492 826	42 403 658
<b>Total segment liabilities</b>	<b>29 877 062</b>	<b>27 105 985</b>	<b>40 058 987</b>	<b>20 649 099</b>	<b>117 691 133</b>
Borrowings	1 915 360	16 010 117	6 265 811	–	24 191 288
Deferred taxation liability	1 171 960	–	1 956 158	–	3 128 118
Income tax liability	4 173 363	5 452 938	135 694	310 791	10 072 786
Trade and other payables	22 616 379	5 642 930	31 701 324	20 338 308	80 298 941
<b>Other information</b>					
Capital additions	4 024 281	35 124 105	–	–	39 148 386
Depreciation	1 128 191	7 945 859	–	–	9 074 050

<b>Figures in Rand</b>	<b>Civil Construction</b>	<b>Small Plant and Formwork</b>	<b>Commercial and Industrial buildings</b>	<b>Services</b>	<b>Total Group</b>
<b>Business segment 2007</b>					
<b>Segment revenue</b>					
Total segment revenue	81 306 713	38 413 874	–	–	119 720 587
Less:					
Inter-segmental revenue	–	(1 904 000)	–	–	(1 904 000)
<b>Total revenue</b>	<b>81 306 713</b>	<b>36 509 874</b>	<b>–</b>	<b>–</b>	<b>117 816 587</b>
<b>Segment result</b>					
Operating profit	10 704 291	10 133 993	–	–	20 838 284
Finance income	241 220	3 027	–	–	244 247
Finance costs	(74 484)	(1 288 905)	–	–	(1 363 389)
<b>Profit before taxation</b>	<b>10 871 027</b>	<b>8 848 115</b>	<b>–</b>	<b>–</b>	<b>19 719 142</b>
<b>Segment net assets</b>	<b>8 679 761</b>	<b>16 896 272</b>	<b>–</b>	<b>300</b>	<b>25 576 333</b>
<b>Total segment assets</b>	<b>20 436 096</b>	<b>36 876 488</b>	<b>–</b>	<b>300</b>	<b>57 312 884</b>
Property, plant and equipment	1 433 584	5 758 095	–	–	7 191 679
Plant for hire	–	22 357 548	–	–	22 357 548
Goodwill	–	–	–	–	–
Deferred taxation asset	–	124 340	–	–	124 340
Inventories	488 667	–	–	–	488 667
Trade and other receivables	18 279 971	8 615 405	–	–	26 895 376
Cash and cash equivalents	233 874	21 100	–	300	255 274
<b>Total segment liabilities</b>	<b>11 756 335</b>	<b>19 980 216</b>	<b>–</b>	<b>–</b>	<b>31 736 551</b>
Borrowings	671 670	12 906 035	–	–	13 577 705
Deferred taxation liability	899 253	–	–	–	899 253
Income tax liability	890 521	3 051 100	–	–	3 941 621
Trade and other payables	9 294 891	4 023 081	–	–	13 317 972
<b>Other information</b>					
Capital additions	875 483	18 870 984	–	–	19 746 467
Depreciation	542 250	1 136 534	–	–	1 678 784

## SHARE ANALYSIS

Register date: 27 February 2009

Issued share capital: 136 803 175

### SHAREHOLDER SPREAD

	Number of shareholdings	Percentage	Number of shares	Percentage
1 – 1 000 shares	38	9,94	24 536	0,02
1 001 – 10 000 shares	191	50,02	934 223	0,68
10 001 – 100 000 shares	100	26,17	3 854 458	2,82
100 001 – 1 000 000 shares	45	11,78	12 108 836	8,85
1 000 001 shares and over	8	2,09	119 881 122	87,63
<b>Total</b>	<b>382</b>	<b>100,00</b>	<b>136 803 175</b>	<b>100,00</b>

### DISTRIBUTION OF SHAREHOLDERS

Close corporations	13	3,40	341 100	0,25
Endowment funds	2	0,52	7 500	0,01
Individuals	326	85,37	74 688 562	54,59
Mutual funds	5	1,30	7 848 029	5,74
Nominees and trusts	23	6,02	1 011 528	0,74
Private companies	11	2,87	17 272 691	12,63
Public companies	1	0,26	34 904 284	25,51
Share trust	1	0,26	729 481	0,53
<b>Total</b>	<b>382</b>	<b>100,00</b>	<b>136 803 175</b>	<b>100,00</b>

### PUBLIC/NON-PUBLIC SHAREHOLDERS

Non-public shareholders	12	3,13	114 106 026	83,41
Directors and associates of the Company holdings	10	2,61	78 472 261	57,37
Strategic holdings (more than 10%)	1	0,26	34 904 284	25,51
Share Trust	1	0,26	729 481	0,53
<b>Public shareholders</b>	<b>370</b>	<b>96,87</b>	<b>22 697 149</b>	<b>16,59</b>
<b>Total</b>	<b>382</b>	<b>100,00</b>	<b>136 803 175</b>	<b>100,00</b>

### BENEFICIAL SHAREHOLDERS HOLDING 5% OR MORE

Paladin Capital Limited			34 904 284	25,51
D B Erskine			33 920 250	24,79
F P Boraine			14 537 250	10,63
S M Hedley			14 537 250	10,63
D G Armstrong			10 425 667	7,62
<b>Total</b>			<b>108 324 701</b>	<b>79,18</b>

### INFORMATION ON SUBSIDIARIES

Name of subsidiary	Held by	Issued share capital	% holding held 2009	% holding held 2008	Share of net profit 2009
Erbacon Construction (Pty) Limited	Erbacon Investment Holdings Limited	100 ordinary shares	100,00	100,00	25 940 894
Erbacon Small Plant (Pty) Limited	Erbacon Investment Holdings Limited	100 ordinary shares	100,00	100,00	10 999 081
Davgram Construction (Pty) Limited	Erbacon Investment Holdings Limited	100 ordinary shares	100,00	100,00	18 107 058
					55 047 033

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## INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF ERBACON INVESTMENT HOLDINGS LIMITED AND ITS SUBSIDIARIES

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26 October 2009

The Directors  
Erbacon Investment Holdings Limited  
PO Box 40346  
Redhill  
4071

Dear Sirs,

### INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF ERBACON INVESTMENT HOLDINGS LIMITED AND ITS SUBSIDIARIES ("ERBACON")

#### Introduction

At your request and for the purpose of the circular of Erbacon dealing with the proposed acquisition by Erbacon of the entire issued share capital of and all claims on shareholders' loan account against Civcontract Civils (Proprietary) Limited ("Civcon") ("the proposed acquisition") to be dated on or about 28 October 2009 ("the circular"), we present our report on the historical financial information of Erbacon presented in the Report of Historical Financial Information ("the financial information") relating to Erbacon for the financial years ended 28 February 2007, 29 February 2008 and 28 February 2009, as presented in Appendix 1 of Annexure 7 to the circular, in compliance with the JSE Limited Listings Requirements.

#### Responsibility

##### *Directors' responsibility*

The directors of Erbacon are responsible for the preparation, contents and presentation of the circular and the fair presentation of the financial information in accordance with International Financial Reporting Standards and in the manner required by the JSE Limited Listings Requirements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial information that is 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.

##### *Reporting accountants' responsibility*

Our responsibility is to express an opinion on the financial information 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 information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial information, 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 information 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 management, as well as evaluating the overall presentation of the financial information.

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

## **Opinion**

In our opinion, the financial information of Erbacon as set out in Appendix 1 of Annexure 7 to the circular, presents fairly, in all material respects, for the purposes of the circular, the financial position of Erbacon at 28 February 2007, 29 February 2008 and 28 February 2009, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards and in the manner required by the JSE Limited Listings Requirements.

Yours faithfully

**PricewaterhouseCoopers Inc.**

**Director: H Govind**

*Registered Auditor*

102 Stephen Dlamini Road

Durban

4001

## SUBSIDIARY COMPANIES

Name of company	Date and place of incorporation	Registration number	Issued share capital	Percentage held by Erbacon	Inter-company loan (R'000)	Nature of business	Date of becoming a subsidiary	Directors
1. Erbacon Construction <sup>(3)</sup>	12 September 2007 Pretoria	2007/026239/07	100 shares of R1 each	100%	(4 766)	Civil engineering and construction	19 October 2007	D B Erskine G B Flett R K Braithwaite
2. Erbacon Small Plant <sup>(3)</sup>	13 September 2007 Pretoria	2007/026441/07	100 shares of R1 each	100%	32 686	Hire of small plant and scaffolding	19 October 2007	F P Boraine D B Erskine G B Flett R K Braithwaite
3. Armstrong Construction	17 October 2007 Pretoria	2007/029962/07	100 shares of R1 each	100%	400	Commercial and industrial building	28 February 2008	D G Armstrong W Ric-Hansen D B Erskine R K Braithwaite
4. Civcon	9 June 1972 Pretoria	1972/005850/07	100 000 shares of R0.001 each	100%	-	Civil engineering and construction	Effective date	A H Henning C H A Ramsay D B Erskine R K Braithwaite

### Notes:

- (1) All subsidiaries are incorporated in South Africa.
- (2) None of the above companies or businesses or any part thereof is managed by a third party under a contract or arrangement
- (3) These companies were formerly close corporations that were converted to private companies in terms of the Erbacon restructuring on the dates indicated above.

**ERBACON IMMOVABLE PROPERTY OWNED AND LEASED**

**OWNED IMMOVABLE PROPERTY**

Save as set out in the table below, Erbacon does not own any immovable property.

<b>Acquiring company</b>	<b>Vendor</b>	<b>Property description</b>	<b>Extent</b>	<b>Date of acquisition</b>	<b>Amount paid to vendor <sup>(1)</sup></b>
Erbacon Small Plant	Hubert W Dedekind and Penelope Dedekind	Erf 62 (154 Pitzer Road) Glen Austin, Gauteng	8 566m <sup>2</sup>	31 October 2006	R1 800 000
Erbacon Small Plant	Bluewater Bay 908 CC	ERF 908 Skiathos (42 Bluewater Drive) Port Elizabeth	109m <sup>2</sup>	20 October 2003	R440 000
Erbacon Small Plant	Lowveld Passion Fruit CC	ERF 9 Rocky Drift (9 Jan Street) Nelspruit	1412m <sup>2</sup>	26 May 2008	R2 166 000
Erbacon Small Plant	Paul J Lombard and Maria E Lombard	ERF 796 Ellisras (12 Pieter Grobbelaar Street) Ellisras	3 120m <sup>2</sup>	2 June 2008	R3 600 000
Erbacon Small Plant	Thykot Investments CC	ERF 581 Wells Estate (1 Aston Martin) Port Elizabeth	2 654m <sup>2</sup>	8 July 2008	R3 000 000
Erbacon Small Plant	Markus Mcdonald and Christelle Mcdonald	ERF 2586 Ellisras Extention 16 (21 Fontein Crescent) Lephalele	1 120m <sup>2</sup>	31 July 2008	R885 000
Erbacon Small Plant	Dusty Moon Investments 10 (Pty) Ltd	ERF 158 Glen Anil (4 Montreal Road) Durban North	4 444m <sup>2</sup>	18 September 2008	R4 500 000

**Note:**

(1) The amounts payable to vendors are exclusive of VAT.

**LEASED IMMOVABLE PROPERTY**

Erbacon and its subsidiaries lease the following immovable property:

<b>Lessee</b>	<b>Lessor</b>	<b>Property</b>	<b>Extent</b>	<b>Lease details</b>	<b>Rental amount (excl VAT)</b>
Erbacon Small Plant	Exec Properties	Lot 8970 Alton North 17 Ceramic Curve Alton	2 600m <sup>2</sup>	Commenced 1 April 2008 Expiry date 31 March 2010 (2-year lease)	R12 100 per month
Erbacon Small Plant	Real Property Holdings CC	Lot 157, Glen Anil 2 Montreal Road Glen Anil	2 240m <sup>2</sup>	Commenced 2001 No expiry date	R23 500 per month
Erbacon Small Plant	Sasswood Trust	Lot 156 Glen Anil 111 Main Road Glen Anil	3 600m <sup>2</sup>	Commenced 2001 No expiry date	R32 000 per month
Erbacon Small Plant	Kenneth Henry Smith Family Trust	10 Jan Street, Rocky Drift, Nelspruit	1 415m <sup>2</sup>	Commenced on 01 May 2009 Expiry 30 April 2012 (3-year lease)	R9 000 per month
Erbacon Small Plant	Jared Dozetaz (CSI Rentals)	173 Village Two, 1 Lark Street, Meredale	63m <sup>2</sup>	Commenced on 01 May 2009 Expiry date 30 November 2009	R3 859.64 per month
Erbacon Small Plant	John K Hatfield (Robow Investments 148 (Pty) Ltd)	Lot 71 no. 1542 FU 154 Old Fort Road, Foxhill, Salt Rock	2 933m <sup>2</sup>	Commenced on 01 October 2007 Expiry date 31 September 2012	R22 161 per month
Erbacon Construction	Real Property Holdings CC	Lot 157, Glen Anil 2 Montreal Road Glen Anil	975m <sup>2</sup>	Commenced 2001 No expiry date	R17 100 per month
Erbacon Construction	National Excavation CC	1 Glen Anil, Glen Anil	2 000m <sup>2</sup>	Commenced July 2009 No expiry date	R19 000 per month
Armstrong Construction	Armric Trust	1 Commonage Road Hilcrest (Rem of portion 128 (of 6) of Farm Albinia No. 957	3 517m <sup>2</sup>	Commenced July 2007. No expiry date	R33 696 per month
Armstrong Construction	Armric Trust	77 Murry Road, Mkondeni Pietermaritzburg (Portion 9 of Erf 1006 PMB)	2 522m <sup>2</sup> warehouses/ offices abluitions	Commenced July 2007 No expiry date	R14 256 per month
Civcon	Units 7 and 8 Lakeside (Pty) Ltd	18 Industry Road, Clayville (Erf 59 , portion 11 of 508 and rem of portion 12 of Clayville Ext. 4)	12 931m <sup>2</sup> Offices, Workshop, Stores and yard space	Commenced September 2008 Expiry August 2013	R77 000 per month
Civcon	Singita Properties 12 cc	192 Peenz Street, Petit Benoni (Erf 192 of portion 336 Farm Putfontein)	12 754m <sup>2</sup> Offices, Workshop, Stores and yard space	Commenced March 2008. Expiry February 2011	R35 000 per month

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**OTHER DIRECTORSHIPS HELD BY ERBACON DIRECTORS**


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Other directorships and memberships held by the directors of Erbacon are as follows:

<b>Name</b>	<b>Company</b>	<b>Nature of business</b>
A Dawson	<b>Current</b> None	None
	<b>Past</b> None	None
D B Erskine	<b>Current</b> Erbacon Construction Erbacon Small Plant Real Property Holdings CC Armstrong Construction	Construction Company Plant Hire Company Property Holding entity Construction Company
	<b>Past</b> Sasswood and Creak Trust	Plant Hire Company
R K Braithwaite	<b>Current</b> Secprop 182 Investments (Pty) Limited Erbacon Construction Erbacon Small Plant Armstrong Construction Main Street 63 (Pty) Limited	Investment Holding Company Construction Company Plant Hire Company Construction Company Investment Holding Company
	<b>Past</b> Dunlop Tyres International (Pty) Limited and various subsidiaries AG Industries Limited	Manufacturing Manufacturing
A H Henning	<b>Current</b> Civcontract Civils (Pty) Limited Units 7 and 8 Lakeside (Pty) Limited	Construction Property Holding Company
	<b>Past</b> None	None
C H A Ramsay	<b>Current</b> Civcontract Civils (Pty) Limited Units 7 and 8 Lakeside (Pty) Limited Robow Investments No. 14 (Pty) Limited Ramsay Family Trust (beneficiary)	Construction Property Holding Company Investment Holding Company Trust
	<b>Past</b> None	None
J A Holtzhausen	<b>Current</b> Axiam Holdings Limited Babylon's Vineyard (Pty) Limited CIC Holdings Limited Greymatter Finch (Pty) Limited Hemel-En-Aarde Winegrowers' Association Lesotho Milling Company (Pty) Limited Paladin Capital Limited PSG Capital (Pty) Limited Waterval Vineyards (Pty) Limited	Investment Holding Company Wine producers FMCG Distributors Publishers and Printers Section 21 company Milling Investment Holding Company Corporate Finance Services Wine Producers
	<b>Past</b> None	None

<b>Name</b>	<b>Company</b>	<b>Nature of business</b>
S Totaram	<b>Current</b>	
	Iquad Group Limited	Investment Holding Company
	Kumani Holdings (Pty) Limited	Investment Holding Company
	<b>Past</b>	
	None	None
N P Mkwanzazi	<b>Current</b>	
	Ampaglas Holdings (Pty) Limited	Manufacturing
	NCS Resins (Pty) Limited	Manufacturing
	Zest Electrical Motors (Pty) Limited	Engineering Services
	Copper Tubing Africa (Pty) Limited	
	South African Roll Company (Pty) Limited	
	ICAS Employee and Organisation	Employee well-being
	Enhancement Services Southern Africa (Pty) Limited	
	Medu Holdings (Pty) Limited	Investment Holdings Company
	Medu Capital (Pty) Limited	Investment Management
	Martinho Investments (Pty) Limited	Investment Management
	Santolina Invesments (Pty) Limited	Investment Management
	Medu Capital Fund II (Pty) Limited	Investment Management
	Medu Team Partnership GP (Pty) Limited	
	<b>Past</b>	
	Micawber (Pty) Ltd	Services
	Industrial Cable Suppliers (Pty) Limited	Distribution
VitalAire (Continuous Oxygen Suppliers) (Pty) Limited	Health Services	
Usizo Investment Holdings (Pty) Limited	Investment Holding Company	
Capital Outsourcing Group (Pty) Limited	Services	
Z R Angamia	<b>Current</b>	
	Copper Tubing Africa (Pty) Limited	Manufacturing
	Elite Truck Hire (Leopard Transport) (Pty) Limited	Transport
	South African Roll Company (Pty) Limited	Manufacturing
	KSB Pumps and Valves (Pty) Limited	Manufacturing
	Connemara Consulting (Pty) Limited	Training
	<b>Past</b>	
	ICAS Employee and Organisation	Employee well-being
Enhancement Services		
Southern Africa (Pty) Limited		
Usizo Investment Holdings (Pty) Limited	Investment Holding Company	

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## SALIENT FEATURES OF THE ERBACON SHARE INCENTIVE SCHEME

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The following are the salient features of The Erbacon Investment Holdings Employee Share Incentive Scheme ("the scheme"):

### 1. NATURE OF SCHEME

- 1.1 The scheme is introduced for the purposes of incentivising senior employees of the company and its subsidiaries by giving them an opportunity to acquire shares ("scheme shares") in the capital of the company through the grant of options and/or the offer of shares, so that such employees may promote the continued growth of the company, advance the company's interests, and to enable the company to retain and attract key personnel.
- 1.2 The scheme shall either take the form of an offer of scheme shares or a grant of options for scheme shares to employees, the determination of which shall be in the sole discretion of the directors but subject to the provisions of the Companies Act.

### 2. OPERATION OF THE SCHEME

- 2.1 The board of directors, in their discretion, but subject to the provisions of the Companies Act and the relevant provisions of the trust deed, shall from time to time direct the trustees to offer scheme shares or grant options in respect of scheme shares to specific employees or to categories of employees and the trustees shall immediately offer such scheme shares or such options in respect of such scheme shares, to the relevant offerees.
- 2.2 Employees shall be eligible to participate in the scheme only if and to the extent that offers are made to and are accepted by them or that the options are granted to them.

### 3. EXTENT OF THE SCHEME

The maximum number of ordinary shares that will be subject to the scheme shall be a number of shares in the company's ordinary share capital that is equal to 5% of the company's issued ordinary share capital from time to time and thereafter such other percentage as may be determined by the company in general meeting from time to time ("scheme allocation").

### 4. PARTICIPANTS

- 4.1 Only persons employed in a full-time capacity by the company or any of its subsidiaries, as executive directors, executive managers or any other senior employees and who are entitled to purchase shares from a trust in terms of the provisions of the Companies Act ("employee") and the trustees nomine officio of a trust, established primarily for the benefit of the employee and/or one or more of his immediate relations, namely the employee's spouse or his descendants (including an adopted descendant) (including a company controlled by such trust), may participate in the scheme.
- 4.2 The maximum number of scheme shares in respect whereof any one participant shall be entitled to accept an offer or offers and/or exercise an option or options pursuant to the scheme shall not exceed 10% of the scheme allocation referred to in 3 above, or such greater number as may be determined unanimously by the Trustees provided that such allocation by the Trustees shall not exceed 1.5%, or if the JSE Listings Requirements so provide, in conjunction or such greater number as may be determined by the shareholders of the company, subject to the provisions of the JSE Listings Requirements.

### 5. TRUSTEES

- 5.1 There shall at all times be at least three Trustees in office, who may not be participants under the scheme. The current trustees are Messrs J A Holtzhausen and A Dawson, and Ms S Totaram.

5.2 Subject to the provisions of the JSE Listings Requirements, and to the provisions of the trust deed, the trustees shall have the powers to enable them to carry out and give effect to the intent, purpose and provisions of the trust deed, which shall include the power to acquire shares in the company, either by original subscription or purchase, for the purpose of the scheme.

## 6. **PRICING**

The purchase price of a scheme share shall be determined as follows:

- 6.1 should the company's shares be listed on the JSE, the market value of the share being the weighted average value per share determined over a period of 30 (thirty) trading days on the JSE (as evidenced by a certificate issued by the company's designated adviser or sponsor, as the case may be) immediately preceding the offer date or the option date, as the case may be; or
- 6.2 if the company should be delisted from the JSE at any point in time, such amount per share as the directors may determine from time to time.

## 7. **PAYMENT**

- 7.1 Ownership of the scheme shares shall pass to an offeree who has accepted the offer on the date of acceptance. In respect of a grant of option, the risk and benefit to scheme shares will pass to a participant on the implementation of the sale, this being the date that such participant pays the purchase price and the trustee delivers such shares; provided the implementation date shall not be less than one year from the date that the participant acquired his shares.
- 7.2 Should payment of the purchase price not be made on acceptance of the offer or on the date of exercise of the option, the scheme shares shall be pledged to the trustees, until full payment of the purchase price and stamp duty have been made, provided that such participant shall enjoy all beneficial rights of ownership but not the right to vote.
- 7.3 An option shall expire, to the extent that it has not been exercised, on the third anniversary of the date that the option was granted.

## 8. **RIGHTS ATTACHING TO SCHEME SHARES**

Scheme shares shall rank *pari passu* with ordinary shares that are already in issue.

## 9. **ANNUAL DISCLOSURE**

The company in its annual financial statement shall summarise all information in relation to the scheme as may be from time to time prescribed by the JSE and the Companies Act.

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## EXTRACTS FROM THE ARTICLES OF ASSOCIATION

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### PART II – SHARES AND MEMBERS

#### 3. SHARES

- 3.1 Subject to what may be authorised by the Act or by the company in general meeting, any new shares that may be issued shall first be offered to existing shareholders in proportion to their shareholdings.
- 3.2 Subject to the provisions of the Act, the Articles, and the Listings Requirements of the JSE, to the extent applicable, where the company in general meeting has granted a general authority to the directors, the directors may in their discretion allot, issue, grant options over or otherwise deal with or dispose of any unissued shares to such persons at such times and on such terms and conditions and for such consideration, whether payable in cash or otherwise, as the directors may think fit.
- 3.3 Subject to the provisions, if any, of the memorandum, and without prejudice to any special rights previously conferred on the holders of existing shares, any share may be issued with:
  - 3.3.1 such preferred, deferred or other special rights or subject to such restrictions, whether in regard to dividend, return of share capital or otherwise;
  - 3.3.2 such limited or suspended rights to voting,  
as the company may from time to time determine.
- 3.4 The company may direct that shares may be issued by the directors on such terms and conditions, and with such rights, privileges or restrictions attached thereto as the directors may determine.
- 3.5 No further shares ranking in priority to or *pari passu* with any preference shares in issue may be created without the consent in writing of the holders of 75% of the said preference shares or the sanction of a resolution of the holders of such preference shares passed at a separate meeting of such holders, and the provisions of section 199 of the Act shall apply to such resolution as if it were a special resolution.

#### 14. CONSOLIDATION, CONVERSION AND SUB-DIVISION OF CAPITAL

- 14.1 The company may from time to time by special resolution:
  - 14.1.1 consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares or consolidate and reduce the number of the issued shares of no par value;
  - 14.1.2 increase the number of its issued no par value shares without an increase of its stated capital;
  - 14.1.3 sub-divide its existing shares or any of them into shares of a smaller amount than is fixed by the memorandum provided that, subject to the provisions of the Act, the resolution whereby any share is sub-divided may determine that as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, or may have such qualified or deferred rights or may be subject to such restriction as the company may attach to unissued or to new shares;
  - 14.1.4 convert all of its ordinary or preference share capital consisting of shares having a par value into stated capital constituted by shares of no par value;
  - 14.1.5 convert its stated capital constituted either by ordinary or preference shares of no par value into share capital consisting of shares having a par value;
  - 14.1.6 convert any of its shares, whether issued or not, into shares of another class;
  - 14.1.7 amend any rights attaching to any shares, whether issued or not, subject, in the case of any shares which have been issued, to the consent required from the holders of that class of shares;
  - 14.1.8 convert any of its ordinary share capital into redeemable preference share capital;
  - 14.1.9 cancel any of its securities.

- 14.2.1 Anything done in pursuance of the preceding article shall be done subject to:
- 14.2.1.1 the provisions of the Act; and/or
  - 14.2.1.2 the terms of the special resolution authorising the same; and/or
  - 14.2.1.3 insofar as Article 14.2.1.1 or 14.2.1.2 is not applicable, such manner as the directors may direct.
- 14.2.2 When, as the result of any consolidation a fraction of a share is created, the directors may arrange for the consolidation of that share or fraction with any other share or fraction, or the directors shall round up or down such fraction, based on a standard rounding conversion, such that on allocations will be rounded down to the nearest whole number if less than 0.5 and will be rounded up to the nearest whole number if equal to or greater than 0.5, resulting in allocations of whole shares and no fractional entitlements (“fraction conversion mechanism”).

## 15. REDUCTION OF CAPITAL

- 15.1 The company may from time to time reduce its share capital, stated capital, any capital redemption fund or any share premium account in any manner permitted by law, and with, and subject to, the consent required by law. Without limiting the generality of the foregoing, the company may by special resolution acquire shares issued by the company, acquire shares in its holding company (if any), and subsidiaries of the company (if any) may acquire shares in the company.
- 15.2 Anything done in pursuance of the preceding article shall be done subject to and in accordance with:
- 15.2.1 the provisions of the Act; and/or
  - 15.2.2 the terms of the special resolution authorising the same; and/or
  - 15.2.3 the restrictions and procedures imposed by a stock exchange on which the company’s shares may be listed; and/or
  - 15.2.4 the restrictions and procedures imposed by any other regulatory body other than that referred to in Article 15.2.3; and/or
  - 15.2.5 insofar as Articles 15.2.1, 15.2.2, 15.2.3 or 15.2.4 are not applicable, such manner as the directors may direct.

## 16. MODIFICATION OF RIGHTS

- 16.1.1 If at any time the share capital is divided into different classes of shares, all or any of the special rights or privileges attached to any class of shares may:
- 16.1.1.1 only be varied or cancelled by special resolution and with:
    - the prior written consent of 75 % of the holders of the issued shares of that class; or
    - the prior sanction of a resolution passed by 75 % of the holders of the shares of that class at a separate general meeting;
  - 16.1.1.2 be varied or cancelled as provided for in Article 16.1.1.1, whether or not the company is being wound-up or a winding-up is contemplated.
- 16.1.2 Any shares not ranking *pari passu* in all respects with any other shares (both as regards rate of dividend and any other term of issue) shall, for the purpose of this article, be deemed to constitute a separate class of shares.
- 16.1.3 To any such separate general meeting, the provisions of these articles relating to general meetings of the company shall *mutatis mutandis* apply, excepting that:
- 16.1.3.1 the necessary quorum shall be two persons (unless all the shares of that class are held by one person, in which case the quorum shall be one person) holding or representing by proxy not less than one-third of the issued shares of the class, provided that if at any adjourned meeting of such holders a quorum as above defined is not present, those members who are present in person or by proxy shall be a quorum;

- 16.1.3.2 any holder of shares of that class present in person or by proxy may demand a poll, and, on a poll, shall have one vote for each share of the class of which he is the holder.
- 16.2 The special rights attached to the shares of any class shall not, unless otherwise expressly provided by the conditions of issue of such shares, be deemed to be varied by the creation or issue of further shares:
- 16.2.1 ranking *pari passu* there with; or
- 16.2.2 enjoying lesser rights,
- and which do not have preference over the first mentioned shares.

## 20. VOTES OF MEMBERS

- 20.1.1 Subject to the provisions of the articles and to any special terms as to voting rights upon which any share may be issued or which may from time to time attach to a share, every member shall:
- 20.1.1.1 if the share capital is divided into shares of par value, be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by him bears to the aggregate amount of the nominal value of all the shares issued by the company;
- 20.1.1.2 if the share capital is divided into shares of no par value, be entitled to one vote in respect of each share he holds.
- 20.1.2 Notwithstanding the provisions of Article 20.1.1, a member of the company present in person or, if the member is a body corporate, represented, at any meeting of the company shall on a show of hands have only one vote, irrespective of the number of shares he holds or represents.
- 20.2.1 Any body corporate holding shares conferring the right to vote may, by resolution of its directors or other governing body, appoint a person to act as its representative at any general meeting of the company or at any meeting of holders of any class of shares of the company.
- 20.2.2 Such representative shall be entitled to exercise the same rights on behalf of the body corporate that he represents as that body corporate could exercise if it were a natural person.
- 20.2.3 The directors may, but shall not be obliged to require proof to their satisfaction of the appointment or authority of such representative.
- 20.3 A person who is entitled to more than one vote need not cast all his votes, or cast them in the same manner.
- 20.4.1 Where two or more persons are registered as joint holders of a share, any one of them, whether in person or by proxy, may vote as if he is the sole holder thereof.
- 20.4.2 If more than one of such joint holders are present at a general meeting in person or by proxy, only that holder who is present whose name appears first in the register in respect of the share, may vote.
- 20.4.3 Where several persons are entitled to a share by transmission, they shall be deemed to be joint holders of the share.
- 20.5.1 The parent or guardian of a minor, and the curator bonis of a lunatic member, and also any person entitled under the transmission clause to transfer any shares, may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of those shares, provided that at least 48 hours before the time of holding the meeting at which he proposes to vote, he shall satisfy the directors that he is such parent, guardian or curator or that he is entitled under the transmission clause to transfer those shares, or that the directors have previously admitted his right to vote in respect of those shares.
- 20.5.2 Co-executors of a deceased member in whose name shares stand in the register shall, for the purposes of this article, be deemed to be joint holders of those shares.

## PART IV – DIRECTORS

### 22. COMPOSITION

- 22.1.1 The number of the directors shall not be less than four.
- 22.1.2 A director shall not be required to hold any qualifying shares.
- 22.2.1 The directors shall be entitled to such remuneration as the company in general meeting may from time to time determine, which remuneration shall be divided among the directors in such proportions as they may agree, or in default of such agreement, equally, except that in such event any director holding office for less than a year shall only rank in such division in proportion to the period during which he has actually held office.
- 22.2.2 Such remuneration shall accrue to the directors from day-to-day.
- 22.2.3 Any director who:
  - 22.2.3.1 serves on any executive or other committee; or
  - 22.2.3.2 devotes special attention to the business of the company; or
  - 22.2.3.3 goes or resides outside South Africa for the purpose of the company; or
  - 22.2.3.4 otherwise performs or binds himself to perform services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director,may be paid such extra remuneration or allowance in addition to or in substitution of the remuneration to which he may be entitled as a director, as a disinterested quorum of the directors may from time to time determine.
- 22.2.4 The directors shall also be paid all their travelling and other expenses necessarily expended by them in connection with:
  - 22.2.4.1 the business of the company; and
  - 22.2.4.2 attending meetings of the directors or of committees of the directors or of the company.
- 22.3.1 Without prejudice to any contrary provisions in the articles, a director shall vacate his office if:
  - 22.3.1.1 his estate is sequestrated or he surrenders his estate or enters into a general compromise with his creditors;
  - 22.3.1.2 he is found to be or becomes of unsound mind;
  - 22.3.1.3 a majority of his co-directors sign and deposit at the office a written notice wherein he is requested to vacate his office (which shall become operative on deposit at the office) but without prejudice to any claim for damages;
  - 22.3.1.4 he be removed by a resolution of the company of which proper notice has been given in terms of the Act (but without prejudice to any claim for damages);
  - 22.3.1.5 he shall, pursuant to the provisions of the Act or any order made thereunder, be prohibited from acting as a director;
  - 22.3.1.6 he resigns his office by notice in writing to the company;
    - 22.3.1.7.1 he is absent from meetings of the directors for three consecutive months without leave of the directors while not engaged in the business of the company;
    - 22.3.1.7.2 he is not represented at any such meetings during such three consecutive months by an alternate director; and
    - 22.3.1.7.3 the directors resolve that his office be, by reason of such absence, vacated,provided that the directors shall have power to grant to any director leave of absence for a definite or indefinite period.

- 22.3.2 Notwithstanding any contrary provisions contained in this articles, a director shall vacate his office at the close of the annual general meeting of the company relating to the financial year in which the director reaches the age of 70 years.
- 22.4 A director may hold any other office or place of profit under the company (except that of auditor) or any subsidiary of the company in conjunction with his office of director, for such period and on such terms as to remuneration (in addition to the remuneration to which he may be entitled as a director) and otherwise as a disinterested quorum of the directors may determine.
- 22.5 A director of the company may be or become a director or other officer of, or otherwise interested in, any company promoted by the company or in which the company may be interested as shareholder or otherwise and (except insofar as otherwise decided by the directors) he shall not be accountable for any remuneration or other benefits received by him as a director or officer of or from his interest in such other company.
- 22.6 Any director may act personally or through his firm in a professional capacity for the company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services rendered as if he were not a director.
- 22.7 A director who is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the company, shall declare the nature of his interest in accordance with the Act.
- 22.8.1 No director or intending director shall be disqualified by his office from contracting with the company with regard to:
- 22.8.1.1 his tenure of any other office or place of profit under the company or in any company promoted by the company or in which the company is interested;
  - 22.8.1.2 professional services rendered or to be rendered by such director;
  - 22.8.1.3 any sale or other transaction.
- 22.8.2 No such contract or arrangement entered into by or on behalf of the company in which any director is in any way interested is voidable solely by reason of such interest.
- 22.8.3 No director so contracting or being so interested shall be liable to account to the company for any profit realised by any such appointment, contract or arrangement by reason of his office as director or of the fiduciary relationship created thereby.
- 22.9 A director may not vote nor be counted in the quorum (and if he shall do so his vote shall not be counted) on any resolution for his own appointment to any other office or place of profit under the company or in respect of any contract or arrangement in which he is interested, provided that this prohibition shall not apply to:
- 22.9.1 any arrangement for giving to any director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the company; or
  - 22.9.2 any arrangement for the giving by the company of any security to a third party in respect of a debt or obligation of the company which the director has himself guaranteed or secured; or
  - 22.9.3 any contract by a director to subscribe for or underwrite shares or debentures of the company; or
  - 22.9.4 any contract or arrangement with a legal person in which he is interested by reason only of being a director, officer, creditor or member of such legal person,
- and these provisos may at any time be suspended or relaxed either generally, or in respect of any particular contract or arrangement, by the company in general meeting.
- 22.10.1 A contract which violates the terms of Article 22.9 can be ratified by the company in general meeting.
- 22.11.1 The terms of Article 22.9 shall not prevent a director from voting as a member at a general meeting at which a resolution in which he has a personal interest is tabled.

22.11.2 The directors may exercise the voting powers conferred by the shares held or owned by the company in any other company in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing themselves or any of them to be directors or officers of such other company or for determining any payment of or remuneration to the directors or officers of such other company.

22.11.2 A director may vote in favour of a resolution referred to in Article 22.11.1 for the exercise of the voting rights in the manner described in Article 22.11.1, notwithstanding that he may be, or is about to become, a director or other officer of such other company and for that or any other reason may be interested in the exercise of such voting rights in the manner aforesaid.

## 23. ALTERNATE DIRECTORS

23.1 A director may:

23.1.1 appoint another director or any person approved for that purpose by a resolution of the directors to act as alternate director in his place and during his absence;

23.1.2 remove such alternate director.

23.2 A person so appointed shall, except as regards authority to appoint an alternate director and remuneration, be subject in all respects to the terms and conditions existing in respect of the other directors of the company.

23.3 Each alternate director, whilst so acting, shall be entitled to:

23.3.1 receive notices of all meetings of the directors or of any committee of the directors of which his appointer is a member;

23.3.2 attend and vote at any such meeting at which his appointer is not personally present;

23.3.3 generally exercise and discharge all the functions, powers and duties of his appointer in such appointer's absence as if he were a director.

23.4 Any director acting as alternate director shall in addition to his own vote have a vote for each director for whom he acts as alternate.

23.5 An alternate director shall *ipso facto* cease to be an alternate director if his appointer ceases for any reason to be a director, provided that if any director retires by rotation or otherwise, but is re-elected at the same meeting, any appointment made by him pursuant to this article which was in force immediately before his retirement shall remain in force as though he had not retired.

23.6 In the event of the disqualification or resignation of any alternate director during the absence or inability to act of the director whom he represents, the vacancy so arising shall be filled by the chairperson of the directors who shall nominate a person to fill such vacancy, subject to the approval of the board.

23.7 Any appointment or removal of an alternate director shall be effected by written notice delivered at the office and signed by the appointer.

23.8 The remuneration of an alternate director shall be payable only out of the remuneration payable to the director whose alternate he is and he shall have no claim against the company for any remuneration.

23.9 An alternate director shall not be required to hold any qualifying shares.

## 24. RETIREMENT OF DIRECTORS BY ROTATION

24.1.1 Subject to Article 29 hereof, at every annual general meeting, one-third of the directors for the time being or if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office.

24.1.2 The directors so to retire shall be those who have been longest in office since their last election, but in the case of persons who became directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

- 24.1.3 Notwithstanding anything herein contained, if at the date of any annual general meeting any director shall have held office for a period of three years since his last election or appointment, he shall retire at such meeting either as one of the directors to retire by rotation or additionally thereto.
- 24.1.4 The length of time a director has been in office shall be computed from his last election, appointment or date upon which he was deemed re-elected.
- 24.1.5 A director retiring at a meeting shall retain office until the election of directors at that meeting has been completed.
- 24.2.1 Retiring directors shall be eligible for re-election.
  - 24.2.2 No person, other than a director retiring at the meeting shall, unless recommended by the directors, be eligible for election to the office of a director at any general meeting, unless:
    - 24.2.2.1 not more than fourteen, but at least seven clear days before the day appointed for the meeting, there shall have been delivered at the office of the company a notice in writing by a member (who may also be the proposed director) duly qualified to be present and to vote at the meeting for which such notice is given;
    - 24.2.2.2 such notice sets out the member's intention to propose a specific person for election as director; and
    - 24.2.2.3 notice in writing by the proposed person of his willingness to be elected is attached thereto (except where the proposer is the same person as the proposed).
- 24.3 Subject to the preceding article, the company may at the meeting at which a director retires, fill the vacated office by electing a person thereto and in default the retiring director, if willing to continue to act, shall be deemed to have been re-elected, unless:
  - 24.3.1 it is expressly resolved at such meeting not to fill such vacated office; or
  - 24.3.2 a resolution for the re-election of such director was put to the meeting and rejected.
- 24.4.1 The company in general meeting or the directors may appoint any person as director either to fill a casual vacancy or as an additional director, but the total number of directors shall not at any time exceed the maximum number fixed by or in accordance with the articles.
- 24.4.2 A person appointed by the directors as a director in terms of Article 24.4.1:
  - 24.4.2.1 shall retire at the following annual general meeting;
  - 24.4.2.2 shall not be considered in determining the directors to retire by rotation;
  - 24.4.2.3 shall be eligible for re-election.
- 24.4.3 If the number of directors should become less than the permissible minimum in terms of the articles, the remaining directors may only act:
  - 24.4.3.1 to fill any vacancies on the board of directors; or
  - 24.4.3.2 to convene general meetings.
- 24.4.4 If the company in general meeting increases or reduces the number of directors, it may also determine in what rotation such increased or reduced number is to retire.

## 25. POWERS OF DIRECTORS

- 25.1.1 The management and control of the business of the company shall be vested in the directors who, in addition to the powers and authorities expressly conferred upon them by the articles, may exercise all powers and authorities and perform all acts which may be exercised or done by the company, and are not hereby or by the Act expressly reserved to the company in general meeting.
- 25.1.2 Such management and control may not be inconsistent with the articles nor with the provisions of the Act.

- 25.1.3 The general powers granted in terms of this article shall not be limited or restricted by any special authority or power given to the directors by any other article.
- 25.2 The directors may:
- 25.2.1 in their discretion arrange that any branch of the business carried on by the company or any other business in which the company may be interested, shall be carried on by or through one or more subsidiary companies;
- 25.2.2 make such arrangements on behalf of the company as they think advisable:
- 25.2.2.1 for taking the profits or bearing the losses of any such branch or business; or
- 25.2.2.2 for financing, assisting or subsidising any such subsidiary company; or
- 25.2.2.3 for guaranteeing its contracts, obligations or liabilities.
- 25.3 The directors may:
- 25.3.1 establish any contributory or non-contributory pension, retirement, provident, medical or other funds for the benefit of; and
- 25.3.2 pay on behalf of the company a gratuity or pension or allowance on retirement or other benefit to,
- any director or ex-director or other officer or employee of the company, its holding or subsidiary company (if any), whether or not he has held any other salaried office with the company, or to his widow or dependants, and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance or life assurance or other benefits, subject to the provisions of the Act.
- 25.4 The directors may:
- 25.4.1 take all steps that may be necessary or expedient and incur any liability in order to enable the shares, debentures or other securities of the company to be:
- 25.4.1.1 negotiable in South Africa or elsewhere;
- 25.4.1.2 recognised by and quoted on any stock exchange in South Africa or elsewhere;
- 25.4.2 pay all taxes, duties, fees, expenses or other amounts which may be payable in relation to the matters referred to in Article 25.4.1.
- 25.5 Save as otherwise expressly provided by the articles, all cheques, dividends, promissory notes, bills of exchange and other negotiable or transferable instruments and all documents to be executed by the company, shall be signed, drawn, accepted, endorsed or executed, as the case may be, in such manner as the directors shall from time to time determine.

## 26. **BORROWING POWERS**

- 26.1 Subject to the provisions of Article 26.3 the directors may, from time to time:
- 26.1.1 borrow for the purpose of the company such sums as they think fit;
- 26.1.2 secure the payment or repayment of any such sums or any other sum, as they think fit, whether by the creation and issue of debentures, mortgage or charge upon all or any of the property or assets of the company, including its uncalled or unpaid capital;
- 26.1.3 make such regulations regarding the transfer of debentures, the issue of certificates therefore (subject to Article 7 hereof) and all such other matters incidental to debentures as the directors think fit.
- 26.2 No special privileges as to:
- 26.2.1 allotment of shares in the company; or
- 26.2.2 the attending and voting at general meetings; or
- 26.2.3 the appointment of directors,
- or otherwise, shall be given to the holders of debentures of the company save with the sanction of the company in general meeting.

26.3 The directors shall procure (but as regards subsidiaries of the company only insofar as by the exercise of voting and other rights or powers of control exercisable by the company they can procure) that the aggregate principal amount at any one time outstanding in respect of moneys so borrowed or raised by:

26.3.1 the company; and

26.3.2 all the subsidiaries for the time being of the company (excluding moneys borrowed or raised by any of such companies from any other of such companies but including the principal amount secured by any outstanding guarantees or suretyships given by the company or any of its subsidiaries for the time being for the share capital or indebtedness of any other company or companies whatsoever and not already included in the aggregate amount of the moneys so borrowed or raised),

shall not exceed the aggregate amount at that time authorised to be borrowed or secured by the directors of the company's holding company (if any) in respect of that holding company and all the then subsidiaries of that holding company, provided that no such sanction shall be required to the borrowing of any moneys intended to be applied and actually applied within 90 days in the repayment (with or without any premium) of any moneys then already borrowed and outstanding and notwithstanding that new borrowing may result in the abovementioned limit being exceeded.

## **27. LOCAL BOARDS, DIVISIONAL DIRECTORS, AGENTS AND COMMITTEES OF THE BOARD**

27.1 The directors may:

27.1.1 establish any local boards or agencies in South Africa or elsewhere for managing any of the affairs of the company;

27.1.2 appoint persons to be members of such local boards, managers or agents;

27.1.3 fix the remuneration of such persons;

27.1.4 fix the designation of such persons as divisional directors, branch directors or nomenclature as the directors may determine;

27.1.5 delegate to any local board, manager or agent any of the powers, authorities and discretions vested in the directors with power to sub-delegate;

27.1.6 authorise the members of any local board or any of them to fill any vacancies and to act despite any vacancy;

27.1.7 remove any person so appointed and annul or vary any such delegation, but no person dealing in good faith and without notice of such annulment or variation shall be affected thereby,

subject to such terms and conditions as the directors may think fit, provided that, however, that the appointee or delegate:

27.1.8 shall not be, and shall be deemed not to be, a director or any committee of the directors of the company;

27.1.9 shall not attend any meetings of directors of the company, except at the invitation of the directors;

27.1.10 when present at a meeting of the directors by invitation, shall not be entitled to vote thereat;

27.1.11 shall not have the authority to:

27.1.11.1 acquire or dispose of immovable property on behalf of the company;

27.1.11.2 acquire or dispose of businesses, firms and companies, or make investments of any nature whatsoever on behalf of the company;

27.1.11.3 incur any capital loan transaction on behalf of the company, but his powers may include the authority and power on behalf of the company to open, maintain and operate current cheque accounts with commercial banks, and in particular to appoint persons with authority to operate said accounts;

- 27.1.11.4 to conclude on behalf of the company any oral or written arrangements, agreement or contracts in respect of which the duration exceeds one year, or the aggregate or capitalised value of the obligations or commitments or liability of the division concerned under such arrangement, agreements or contracts exceeds R100 000;
- 27.1.12 shall further be limited in regard to his power or authority, to activities concerning the particular business of a division, branch, locality or particular sphere of activities of the company only;
- 27.1.13 shall cease to hold such appointment on written advice by or on behalf of the directors of the company to him to that effect.
- 27.2.1 The directors shall determine that the quorum necessary for the transaction of the business of a divisional board shall be the appointees to the divisional board who are designated divisional chairman, divisional managing director and a majority of the remaining appointees designated as divisional directors.
- 27.2.2 The resolution of a divisional board shall be passed by the affirmative votes of the divisional chairman, the divisional managing director and a majority of the remaining divisional directors. The resolutions passed by a divisional board shall constitute and be deemed to be resolutions of the company insofar as it relates to the day-to-day activities and affairs of the division concerned and, provided that the resolution does not relate to the activities excluded from the powers that may be delegated to divisional directors.
- 27.2.3 Divisional directors shall not have the authority to appoint or nominate alternate divisional directors in their place, but the directors shall be authorised to appoint any person as an acting divisional director who can hold office in the event that a vacancy has arisen on the divisional board until a new divisional director is appointed.
- 27.2.4 The divisional directors shall only have those powers, duties and responsibilities as determined and delegated to them by the directors and shall be responsible to the directors and the managing director with regard to the fulfilling of their functions.
- 27.2.5 Divisional directors will, from time to time, meet with the directors as the directors may deem fit, to consider and discuss certain affairs as the directors would want to discuss, but any decisions that are made by them will only be of an advisory nature unless specifically considered and agreed to by the directors.
- 27.2.6 The remuneration of any divisional director may at any time be determined by the directors, but no divisional director will be entitled to receive any remuneration above the specific payment received as an employee of the company except as the directors may otherwise determine.
- 27.2.7 The directors may by power of attorney appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the directors, to be the attorney or agent of the company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors in terms of the articles) and for such period and subject to such terms and conditions as they may think fit.
- 27.3.1 Any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such agent as the directors may think fit.
- 27.3.2 The directors may also authorise any such agent to sub-delegate any of his powers, authorities and discretions.
- 27.4.1 The directors may delegate any of their powers to an executive or other committee, whether consisting of a member or members of their body or not as they think fit.
- 27.4.2 Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations authorising the appointment of sub-committees that may from time to time be prescribed by the directors.

## 29. EXECUTIVE DIRECTORS

29.1.1 The directors may from time to time appoint:

29.1.1.1 managing and other executive directors (with or without specific designation) of the company;

29.1.1.2 any director to any other executive office with the company,

as the directors shall think fit, for a period as the directors shall think fit, and may from time to time remove or dismiss such persons from office and appoint another or others in his or their place or places.

29.2.1 Any director appointed in terms of Article 29.1:

29.2.1.1 shall not (subject to the provisions of the contract under which he is appointed) whilst he continues to hold that position or office, be subject to retirement by rotation; and

29.2.1.2 shall not, during the currency of such appointment, be taken into account in determining the directors to retire by rotation; and

29.2.1.3 shall be subject to the same provisions as to removal as the other directors of the company, and if he ceases to hold office as a director, his appointment to such position or executive office shall *ipso facto* terminate, without prejudice to any claims for damages which may accrue to him as a result of such termination.

29.2.2 If the provisions regarding the retirement of directors by rotation apply, only a minority of the directors may be so appointed on the basis that they shall not be subject to retirement by rotation.

29.3 The remuneration of a director appointed to any position or executive office in terms of Article 29.1:

29.3.1 shall be determined by a disinterested quorum of the directors;

29.3.2 shall be in addition to or in substitution of any ordinary remuneration as a director of the company, as the directors may determine;

29.3.3 may consist of a salary or a commission on profits or dividends or both, as the directors may direct.

29.4 The directors may:

29.4.1 from time to time confer upon a director appointed to any position or executive office in terms of Article 29.1 any or all powers exercisable under the articles by the directors;

29.4.2 confer such powers for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions, as they think expedient;

29.4.3 confer such powers with or to the exclusion of or in substitution for any powers of the directors;

29.4.4 from time to time revoke, withdraw or vary such powers.

## PART V – PROFIT

### 32. DIVIDENDS

32.1 Subject to the provisions of the Act, the company in general meeting or the directors may from time to time declare a dividend.

32.2.1 No dividend shall be declared or paid except out of the profits of the company and no dividend shall bear interest against the company except as otherwise provided under the conditions of issue of the shares in respect of which such dividend is payable.

32.2.2 Dividends may be declared either free of or subject to the deduction of income tax and any other tax or duty in respect of which the company may be chargeable.

32.3.1 The directors may from time to time declare and pay to the members such interim dividends as the directors consider to be justified by the profits of the company.

32.3.2 The directors may also pay the fixed dividend payable on any share of the company bearing a fixed dividend half-yearly or on fixed dates, as the directors may deem fit.

32.4 Unless otherwise determined by the directors, dividends shall be declared payable to members registered as such on a date at least fourteen days after the date of the declaration of the dividend.

32.5 No larger dividend shall be declared by the company in general meeting than is recommended by the directors, but the company in general meeting may declare a smaller dividend.

32.6 All unclaimed dividends may be invested or otherwise made use of by the directors for the benefit of the company until claimed, provided that dividends unclaimed for a period of three years from the date on which they were declared may be declared forfeited by the directors for the benefit of the company.

32.7.1 Any dividend, interest or other sum payable in cash to the holder of a share may be paid by cheque or warrant sent by post, addressed to:

32.7.2.1 the holder at his registered address; or

32.7.2.2 in the case of joint holders, the holder whose name stands first in the register in respect of the share, at his registered address,

or addressed to such person and at such address as the holder or joint holders may in writing direct.

32.7.2 Every such cheque or warrant shall:

32.7.1.1 be made payable to the order of the person to whom it is addressed;

32.7.1.2 be sent at the risk of the holder or joint holders.

32.7.3 The company shall not be responsible for the loss in transmission of any cheque or warrant or of any document (whether similar to a cheque or warrant or not) sent by post as aforesaid.

32.7.4 A holder or any one of two or more joint holders, or his or their agent duly appointed in writing, may give valid receipts for any dividends or other moneys paid in respect of a share held by such holder or joint holders.

32.7.5 When such cheque or warrant is paid, it shall discharge the company of any further liability in respect of the amount concerned.

32.7.6 A dividend may also be paid in any other way determined by the directors, and if the directives of the directors in that regard are complied with, the company shall not be liable for any loss or damage which a member may suffer as a result thereof.

32.8.1 Any dividend may be paid wholly or in part:

32.8.1.1 by the distribution of specific assets; or

32.8.1.2 by the issue of paid-up shares, debentures or securities of the company or of any other company; or

32.8.1.3 in cash,

or in any other way which the directors or the company in general meeting may at the time of declaring the dividend determine.

32.8.2 Where any difficulty arises in regard to such payment or distribution, the directors may settle that difficulty as they think expedient and in particular may fix the value which shall be placed on such specific assets on distribution.

32.8.3 The directors may:

32.8.3.1 determine that cash payments shall be made to any member on the basis of the value so fixed in order to secure equality of distribution;

32.8.3.2 vest any such assets in trustees upon such trusts for the benefit of the persons entitled to the dividend as the directors deem expedient.

32.9.1 The directors may from time to time make such regulations as they may think fit regarding the payment of dividends to members having registered addresses outside South Africa.

32.9.2 Such regulations may provide for the payment of such dividends in any foreign currency and the rate of exchange at which such payment shall be made and any other similar matters.

### 33. **PAYMENTS TO MEMBERS**

- 33.1 The company may make payments of whatever nature to its members, subject to the provisions of the Act.
- 33.2 The provisions of Article 32 regarding methods of payment shall apply *mutatis mutandis* to any payments made in terms of this Article 33.

### 34. **RESERVES**

- 34.1 The directors may, before recommending any dividend, whether preferential or otherwise, set aside out of the profits of the company such sums as reserves as they think proper.
- 34.2 Such reserves may at the discretion of the directors be applied for any permissible purpose and until so applied, may, at the like discretion:
- 34.2.1 be employed in the business of the company without being separated from the other assets of the company; or
- 34.2.2 be invested.
- 34.3 The directors may in their sole discretion carry forward any profits that they may think prudent not to distribute, without placing the same to reserve.
- 34.4 The directors may:
- 34.4.1 divide any such reserve into any such funds as they may deem fit;
- 34.4.2 consolidate such funds or any part thereof in one fund.

### 35. **CAPITALISATION**

The company in general meeting may upon the recommendation of the directors:

- 35.1 at any time resolve that it is desirable to capitalise all or any part of the amount then standing to the credit of:
- 35.1.1 any of the company's reserves; or
- 35.1.2 any share premium account or capital redemption reserve fund; or
- 35.1.3 the income statement,  
otherwise available for distribution and not required for the payment of the fixed dividends on any preference shares of the company;
- 35.2 resolve that such amount be appropriated for distribution among the members or any class of members in the same ratio as they would be entitled thereto if distributed by way of dividend on the basis that it shall not be paid in cash but shall be applied in paying up in full unissued shares, debentures or securities then to be allotted and issued, credited as fully paid-up to such members (to which resolution the directors shall give effect).

### 36. **DIRECTORS' POWERS ON CAPITALISATION OR DISTRIBUTION OF PROFITS**

- 36.1 If any difficulty arises in regard to any distribution under either of the two preceding articles, the directors may settle the same as they deem fit.
- 36.2 The directors may make all appropriations and applications of the undivided profits or the sum capitalised and all allotments and issues of fully paid-up shares or debentures, if any, and are generally authorised to do all acts and things required to give effect thereto, whether by:
- 36.2.1 providing that fractions shall be ignored altogether; or
- 36.2.2 payment in cash or otherwise, as the directors think fit, in the case of shares or debentures distributable in fractions.
- 36.3 The directors may also appoint any person to enter, on behalf of all members entitled to the benefit of such appropriations and applications or to participate in such distributions, into any contract requisite for giving effect thereto, and such appointment and contract shall be binding on all such members.

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## STATEMENT OF CORPORATE PRACTICE AND CONDUCT

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### COMPLIANCE WITH KING II

The Group is committed to the principles established in the Code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance in South Africa ("the King II Report"). Erbacon recognises that its recent heritage is grounded on a "close corporation" foundation and that it is now a company with its securities listed on the Alternative Exchange of the JSE Limited. Erbacon also acknowledges that it is incumbent on the leadership of the holding company to assure the shareholders, and other stakeholders, of its responsibility and intention to elevate this newly listed entity to ever higher levels of compliance and "best practice".

Where it has not been possible to comply with the King II Report in any material way, this has been disclosed.

### GOVERNANCE DEVELOPMENTS

The Companies Bill, 2008 (once enacted) will replace the Companies Act, 1973 and is expected to take effect from July 2010. In addition, the King Committee issued the third King Report on Governance for South Africa on 1 September 2009. The King III Report will be effective from 1 March 2010.

Committee effectiveness reviews have already been undertaken for the Audit and Risk Committee, and for the Remuneration and Nominations Committee. The Audit and Risk Committee has also presided over a "competency" examination of the Group finance director, a JSE Listings Requirement. The Audit and Risk Committee agenda has been expanded to accommodate risk analysis and IT, whilst methodologies have been established within Internal Audit to assist the board of directors to further assess the effectiveness of internal financial controls in the Group.

### THE BOARD OF DIRECTORS

The "Charter of the Board of Directors" was adopted by the Board at its meeting on 28 February 2008 and states that the Board shall assume ultimate accountability and responsibility for the performance and affairs of the company. The board is responsible for giving strategic direction to the company, and for monitoring its performance. Although guided by similar charters for the Audit and Risk Committee, and the Remuneration and Nominations Committee, where matters relating to finance, risk, human resources and statutory issues can be dealt with in detail, the delegation to such committees does not absolve the Board from the responsibility for full control of the Group.

The requirement to balance entrepreneurial leeway and conformance with governance constraints is also a function of the Board. In this context, the Board has delegated an appropriate level of authority to the executive directors in such a manner that normal matters in the ordinary course of business can be effectively dealt with – namely, in an unbureaucratic and expeditious style, in order to retain the current nimbleness that attracts a competitive advantage. Those issues that are clearly "not in the ordinary course of business" are well defined in the delegation of authority resolution. To close the loop, the Board has unrestricted access to all information, records, documents and property.

The Group has a unitary board of directors and the Chairman is an independent, non-executive director. The roles of the Chairman and CEO are separated and each has a clear definition of responsibility. Post the implementation of the transaction the Board will have five non-executive directors and four executive directors.

The composition of the Board is required to comprise of a balance of executive and non-executive directors, with a majority of non-executive directors. The King III Report also recommends that the majority of non-executive directors should preferably be independent. Accordingly, the Remuneration and Nominations Committee will be tasked with identifying such candidates, who may also be nominated to populate the Audit and Risk Committee as well. It is therefore anticipated that such appointments will be given effect to in 2010, or sooner if such candidates are available, and that these appointments will furthermore be required to dovetail with the Group's BEE aspirations and the likely appointments that would flow from such an initiative.

## **BOARD COMMITTEES**

The Remuneration and Nominations Committee presides over, and recommends, the composition of other committees required in terms of best practice and/or JSE Listings Requirements.

During the year the Board approved and/or reconfirmed charters for: (a) the Audit and Risk Committee; (b) the Remuneration and Nominations Committee and (c) the policy relating to appointments to the Board. A charter was also adopted for the Executive Committee by the members of this committee in 2008.

## **BOARD APPOINTMENTS POLICY**

Once a decision is taken at a Board meeting to either fill a casual vacancy on the board or to appoint additional directors, the Chairman will then request the Remuneration and Nominations Committee to nominate a suitable candidate(s) provided that such appointment shall not exceed the maximum number of directors permitted in terms of the company's Articles of Association. Directors so appointed will remain in office only until the next Annual General Meeting, at which time their appointment will be confirmed by shareholders.

The chairman of the Remuneration and Nominations Committee is required to convene a meeting of the Committee for the purpose of identifying a suitable candidate(s) with the requisite strategic, analytical, communications and knowledge competence. Once identified and suitably verified, the Committee will submit a proposal of nomination of the appropriate candidate for appointment to the Board.

## **AUDIT AND RISK COMMITTEE**

The chairman is S Totaram (independent non-executive director) and she is joined by A Dawson (independent non-executive director). The former replaced P Mouton (non-executive director). A representative of the Designated Adviser, QuestCo Sponsors (Pty) Limited, is an invitee in terms of JSE Listings Requirements.

The external auditors, internal audit and Messrs Erskine (CEO) and Braithwaite (Group Finance Director/ Company Secretary) are invited participants.

This committee is required to assist the Board in discharging its duties relating to the preparation of accurate and compliant financial reporting, the operation of adequate systems and control processes, the safeguarding of assets, and general issues relating to risk, risk analysis and control.

During the year under review, the Committee approved the Internal Audit Charter and the subsequent establishment of an internal audit department. In addition, the committee also established a monitoring and oversight function for the Group's risk management approach, which included the implementation of a more comprehensive insurance cover programme for 2009/2010.

In compliance with the JSE Listings Requirements, the Audit and Risk Committee obtained assurance that the auditors are registered with the JSE and have the required IFRS specialists with knowledge of the Listings Requirements. In addition, executive management met with the auditors prior to the approval of the annual financial statements.

## **REMUNERATION AND NOMINATIONS COMMITTEE**

The chairman is A Dawson (independent non-executive director) and he is joined by J A Holtzhausen (non-executive director) and D B Erskine (CEO). The Company Secretary is also in attendance for administrative support. P Malan resigned from this committee on 20 October 2008.

This committee is required to assist the Board in discharging its duties relating to the Group's general policy on executive and senior management remuneration, performance-based incentives and bonuses, employee share trust allocations, retirement fund and other benefits, and criteria necessary to measure the performance of executive directors in discharging their functions and responsibilities. Succession planning, and the nomination of candidates for the position of director, where vacancies occur, are also a function of this committee.

Key achievements during the course of the year were the introduction of a provident fund management committee; the implementation of an executive bonus scheme policy that is aligned to shareholders' targets (ROE), internal budgets and individual Key Performance Indicators; and a phased rollout of HR policies and procedures.

## **REMUNERATION**

The Remuneration and Nominations Committee ensures that executive directors and senior management are adequately rewarded for their performance, taking into account industry and available market benchmarks. The retention of key staff is a major consideration, especially under the current circumstances of skills shortages prevailing across the global construction sector.

Non-executive directors enjoy no benefits from the company for their services as directors, other than their fees and potential gains and dividends on their interests in ordinary shares. In line with the recommendation of King II, no share options are granted to non-executive directors. Non-executive directors are also paid for their attendance at Audit and Risk and Remuneration and Nominations Committee meetings.

## **OTHER COMMITTEES**

An Executive Committee, made up of executive directors and other selected senior managers in the Group, became formally operative from 19 March 2008, under the chairmanship of the CEO.

This committee is required to implement the strategies and policies of the Group, to submit relevant information to the Board, to manage the affairs and business of the various entities, to prioritise the allocation of capital and human resources, to establish best management practices and functional standards, and to attend to staff appointments and performance monitoring.

During the year under review risk committees were established to further entrench oversight functions for site and work-related issues such as health and safety monitoring, environment awareness, compliance with audit observations, and the broader risk management methodologies for reducing insurance costs.

An IT Steering Committee has been operative during the year and is currently preoccupied with researching alternative information systems for each of the three operating companies.

## **INTERNAL CONTROL**

In line with the commitment of the Company to be accountable to the Board of directors and shareholders, an internal audit department has been established.

Accordingly, the internal audit department intends to:

- (a) operate initially as a part-time function under the finance division (until the Group reaches a practical critical mass) with direct access to the Audit and Risk Committee;
- (b) assist the board and the Audit and Risk Committee to layer an appropriate control blanket across the Group;
- (c) heighten awareness of an appropriate control environment;
- (d) employ its limited resources in a cost effective manner to encourage compliance and adherence to best practice;
- (e) make use of self-assessment tools and other methodologies to increase ground coverage;
- (f) employ outsourced audit resources and/or other external capabilities.

## **SUSTAINABILITY REPORTING**

### **Transformation responsibilities**

Erbacon is committed to an employment equity culture and to the advancement of its previously disadvantaged employees. The Group acknowledges that these disadvantaged groupings have experienced difficulty in realising their full potential. It is an objective of Erbacon to facilitate the implementation of strategies, targets, and review mechanisms on all elements of the BEE scorecard.

### **Ethics**

Erbacon's employees are required to maintain the highest ethical standards and to behave in an honest fashion in their dealings within the Group, and with external parties.

### **CORPORATE SOCIAL RESPONSIBILITY (CSR)**

Erbacon's Corporate Social Responsibility objective is to contribute to the country's social development agenda and to nurture a reputation amongst its stakeholders as a responsible corporate citizen. In this context the Group believes that sound sustainability practices equate to responsible business practices.

## **HEALTH AND SAFETY**

Erbacon endeavours to diligently pursue sound health and safety practices at all of its construction and building sites, and other operating locations. Construction sites are continuously monitored by Health and Safety officials. The Group's Health and Safety Officers review all current practices, policies and procedures. A risk management committee, chaired by the CEO, provides an oversight function in this regard.

## **EQUALITY, HUMAN DIGNITY AND RIGHTS**

In concert with our Constitution, Erbacon recognises that all individuals, regardless of race, gender or social position, have equal standing before the Law. A non-sexist, non-racist environment is fostered at all business units. Non-compliance is handled in line with the Group's Disciplinary Code.

## **BLACK ECONOMIC EMPOWERMENT**

Erbacon supports and recognises Government's initiatives towards the transformation of the construction industry by way of the Department of Trade and Industry's Codes of Good Practice and the Construction Sector Charter.

## **EMPLOYMENT EQUITY**

Erbacon is committed to the advancement and development of its employees in accordance with the prevailing legislation. The lack of skills is a national concern shared by all construction sector firms in South Africa and across the globe, and career planning and training are essential to mitigate this growing concern.

Through Erbacon's Safcec affiliation, the induction of scholars into this field is being promoted.

## **TRAINING AND DEVELOPMENT**

In conjunction with the employment equity drive, Erbacon is active in the pursuance of equipping employees and the community, via the acquisition of knowledge and related skills by means of:

- (a) the nomination and training of staff in numerous skills development programmes necessary for the enhancement of their tasks; and
- (b) the funding of registered learnerships for employed staff, and unemployed persons, in the interests of not only skills, but fully-fledged qualifications.

Erbacon has also been involved in the training and development of staff, outside the learnership arena, in various other scholarships for previously disadvantaged groups. Erbacon has registered six new learnerships ranging from carpentry to supervisory learnership.

These are all done in accordance with the provisions of the Skills Development Act. An approved Workplace Skills Plan and Annual Training Report are submitted annually and have been approved by the relative Construction Seta.

Erbacon has also provided bursary funding for an employee to further his studies at University.

## **CORPORATE ETHICS**

An approved disciplinary code and grievance procedures are further instruments to enhance and maintain a disciplined and harmonious environment.

## **ENVIRONMENT**

Erbacon recognises that the nature of its activities could impact upon the environment. In response to this awareness, the Company has undertaken to:

- (a) identify possible impacts that may arise from its activities;
- (b) implement mitigation measures to prevent, reduce, and minimise these impacts;
- (c) create awareness amongst all employees and sub-contractors;
- (d) incorporate environmental issues into business strategy.

## **HR POLICIES AND PROCEDURES**

To further the aims of corporate governance and control, standardised Human Resource Policies for the Group have been developed. These policies and procedures are being screened and implemented systematically.

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**SHARE TRADING HISTORY OF ERBACON**


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Set out below are the market prices and volumes of Erbacon ordinary shares as traded on the JSE for the indicated periods:

**Quarterly:**

<b>Date</b>	<b>High (cents)</b>	<b>Low (cents)</b>	<b>Close (cents)</b>	<b>Volume</b>
30 September 2008	200	180	198	87 722
30 June 2008	270	180	180	1 136 458
31 March 2008	270	210	250	1 982 689
31 December 2007	290	270	270	1 604 059

**Monthly:**

<b>Date</b>	<b>High (cents)</b>	<b>Low (cents)</b>	<b>Close (cents)</b>	<b>Volume</b>
21 September 2009	145	130	140	116 000
31 August 2009	149	130	135	38 255
31 July 2009	175	130	149	85 598
30 June 2009	175	155	175	154 422
29 May 2009	150	134	150	100 811
30 April 2009	138	138	138	0
31 March 2009	138	138	138	500
27 February 2009	150	150	150	91 527
30 January 2009	160	145	150	237 000
31 December 2008	145	145	145	31 000
28 November 2008	150	150	150	324 867
31 October 2008	190	150	150	403 640

**Daily:**

<b>Date</b>	<b>High (cents)</b>	<b>Low (cents)</b>	<b>Close (cents)</b>	<b>Volume</b>
21 October 2009	145	145	145	0
20 October 2009	145	145	145	0
19 October 2009	145	145	145	0
16 October 2009	145	145	145	0
15 October 2009	145	145	145	19 768
14 October 2009	145	135	145	44 182
13 October 2009	140	140	140	17 200
12 October 2009	139	135	139	15 800
9 October 2009	140	140	140	0
8 October 2009	140	138	140	10 000
7 October 2009	140	130	139	6 071
6 October 2009	140	140	140	0

**Daily:**

<b>Date</b>	<b>High (cents)</b>	<b>Low (cents)</b>	<b>Close (cents)</b>	<b>Volume</b>
5 October 2009	140	140	140	0
2 October 2009	140	139	140	21 500
1 October 200	140	130	140	7 000
30 September 2009	140	140	140	0
29 September 2009	140	140	140	0
28 September 2009	140	130	140	44 100
25 September 2009	140	130	130	40 050
23 September 2009	141	135	135	37 000
22 September 2009	140	140	140	0
21 September 2009	140	135	140	25 700
18 September 2009	140	140	140	0
17 September 2009	140	135	140	7 500
16 September 2009	140	140	135	5 000
15 September 2009	135	135	135	5 000
14 September 2009	140	140	140	0
11 September 2009	140	140	140	0
10 September 2009	140	140	140	0
9 September 2009	140	130	140	1 600

