esorfranki LIMITED

ANNUAL REPORT 2010

QUALITY IS OUR FOUNDATION

Esorfranki Limited
(Registration no.: 1994/000732/06)
JSE Code: ESR
Level 5 B-BBEE
9CE (CIDB)
9GB (CIDB)
ISO9001

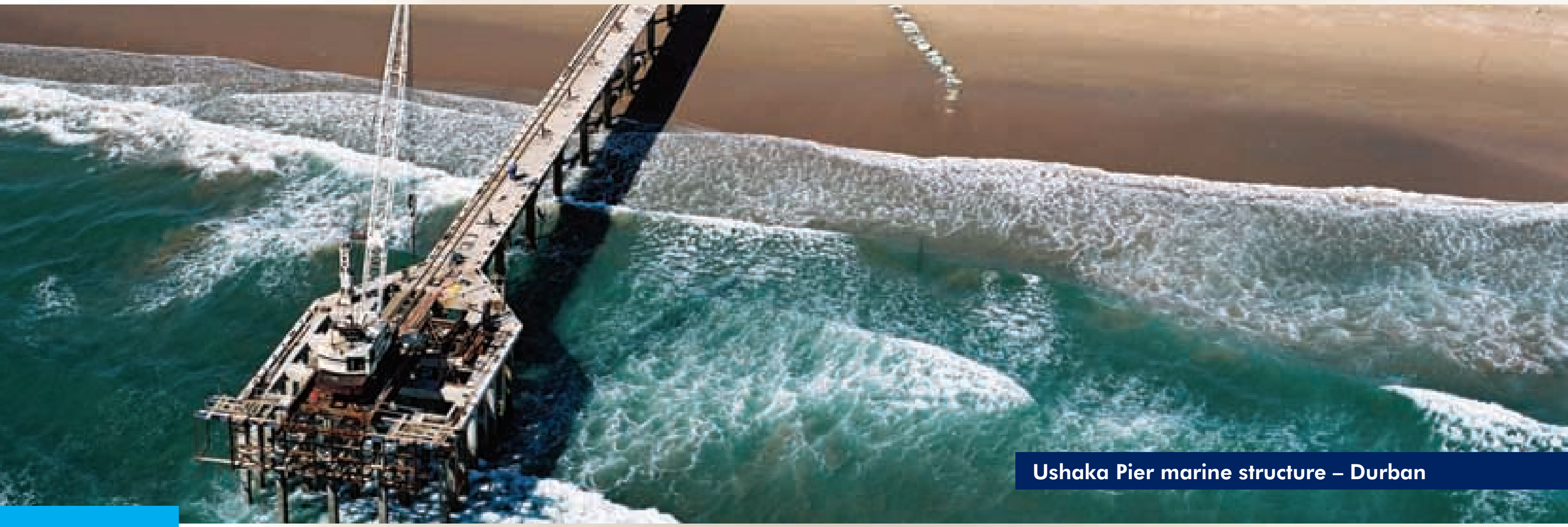
masters of construction

esorfranki LIMITED

Contents

Definitions

"BEE"	Black economic empowerment
"the board"	The board of directors of Esorfranki Limited
"Brookmay"	Brookmay Properties (Pty) Limited
"CEO"	Chief Executive Officer
"CFO"	Chief Financial Officer
"CIDB"	Construction Industry Development Board
"CIO"	Chief Information Officer
"the company" or "Esorfranki"	Esorfranki Limited
"Esorfranki Civils group'	Esorfranki Civils (Pty) Limited, Esorfranki Plant (Pty) Limited and Balekane Construction (Pty) Limited
"DSCR"	In relation to a particular period – free cash flow during such period divided by total debt repayments
"EIA"	Environmental Impact Assessment
"EMP"	Environmental Management Plan
"Esor Africa"	Esor Africa (Pty) Limited
"Esorfranki Civils"	Esorfranki Civils (Pty) Limited (formerly Patula Construction (Pty) Limited)
"Esorfranki Pipelines"	Esorfranki Pipelines (Pty) Limited (formerly Shearwater Plant Hire (Pty) Limited)
"Franki"	Franki Africa (Pty) Limited
"GCD"	Geo Compaction Dynamics, a division of Franki
"the geotechnical business units"	Esor Africa and Franki
"the group"	Esorfranki Limited and its subsidiaries
"IFRS"	International Financial Reporting Standards
"JSE"	JSE Limited
"King III Report"	King Report on Corporate Governance for South Africa 2009
"KPMG"	KPMG Inc.
"LTIFR"	Lost Time Injury Frequency Rate
"the previous year"	The year ended 28 February 2009
"SAFCEC"	South African Federation for Civil Engineering Contractors
"SAICE"	South African Institution of Civil Engineering
"SA"	South Africa
"SENS"	Stock Exchange News Service
"the year" or "the year under review"	The year ended 28 February 2010



Ushaka Pier marine structure – Durban

Financial Highlights

Revenue ▲ 31,3% to R1,858 billion

EBITDA ▲ 19,4% to R389 million

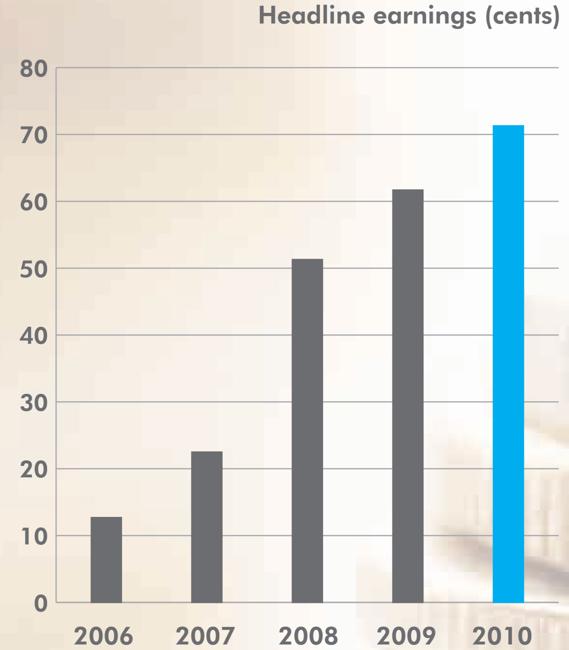
Headline earnings ▲ 30,9% to R203 million

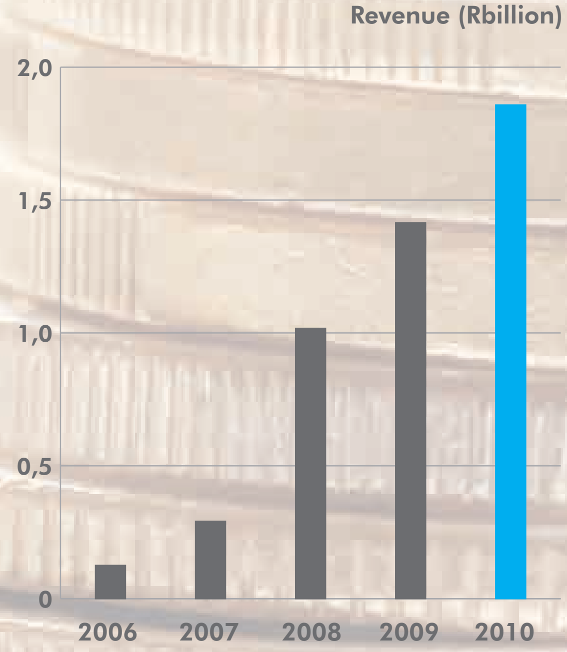
Order book of R1,573 billion

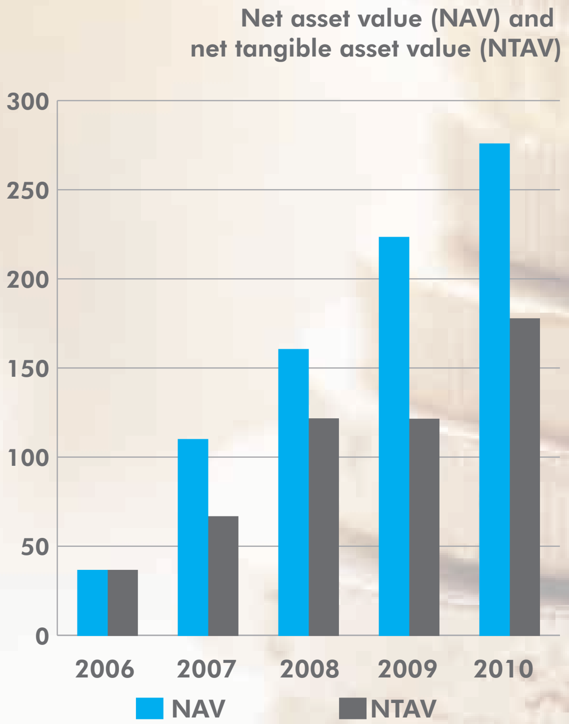
Dividend of 15 cents per share

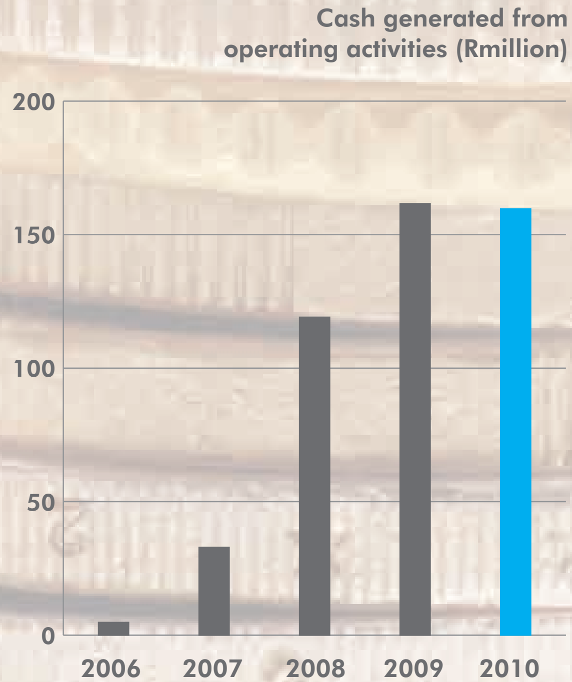
Market capitalisation at year-end R864 million

Closing share price at year-end 2,86 cents









Group Profile

The group is empowered to tender for construction projects of unlimited size and value with the highest possible '9CE' and '9GB' ratings from the CIDB.

The four core business units comprise: Esor Africa, Franki, Esorfranki Civils and Esorfranki Pipelines.

Together they form one of the largest specialist civil and geotechnical contractors in South Africa and one of the most established in the Southern African region.

Geotechnical

Esor Africa (Roy McLintock *Managing Director)* – provides services to the mining, civil engineering and construction industries. Services include:

- Pipejacking
- Bridge jacking
- Culvert jacking
- Auger boring
- Piled foundations
- Lateral support
- Marine structures

Franki (Roy McLintock *Managing Director)* – provides the same industries with the services below on a full 'design and construct', or 'construct-only' basis. Services include:

- Geotechnical investigation
- Technical design and expertise
- Marine works
- Lateral support
- Jet grouting
- Laboratory testing
- Soil improvement
- Piled foundations
- Under pinning

The acquisition of Geo Compaction Dynamics in 2008 further boosted the group's market share in the fields of dynamic compaction, soil improvement, micro piling and lateral support.

Esorfranki Civils (Richard Maynard *Managing Director)* – has provided civil engineering construction services for the past nine years specifically focusing on road building, mining and township infrastructure work, water and sewerage reticulation contracts and concrete projects for government, major mining houses and the private sector. It boasts a comprehensive plant inventory and employs over 1 200 employees ranging from artisan to management level.

Products and services include:

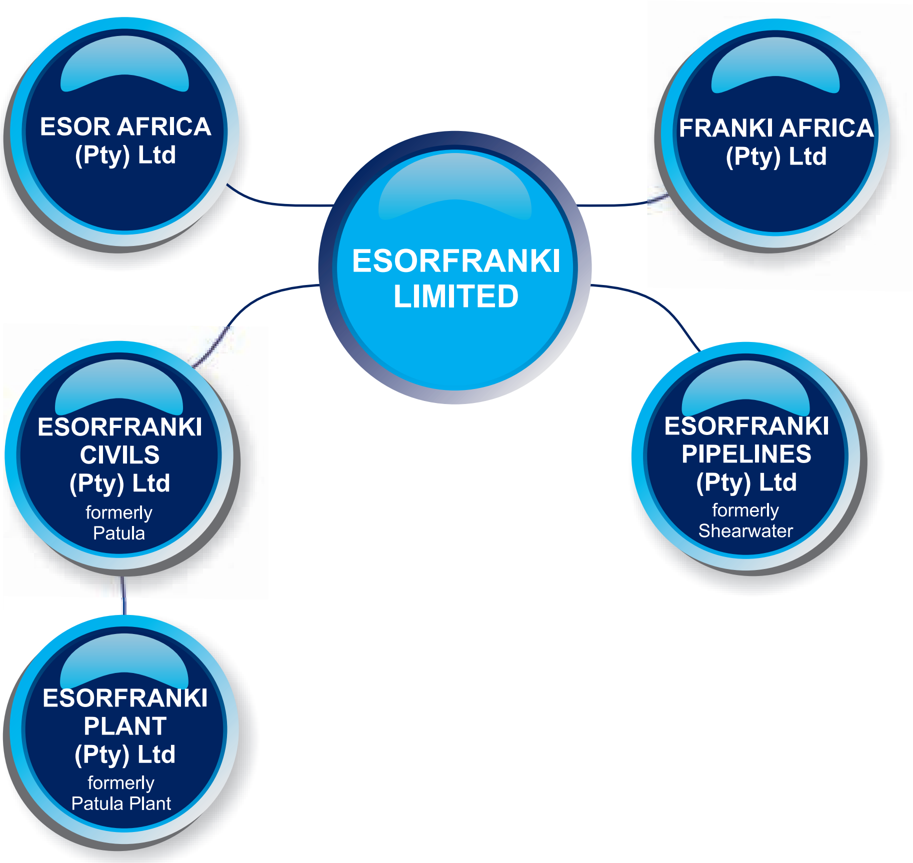
- Road building
- Road rehabilitation
- Construction of bridges and culverts
- Building of reservoirs
- Infrastructure
- Installation of pipelines
- General building
- House building
- Building of oxidation ponds and waste water treatment plants

Esorfranki Pipelines (Andrew Toy *Managing Director)* – has successfully focused for the past six years on the construction and rehabilitation of onshore pipelines and operates mainly in the gas and petrochemical, water, storm water and sewerage sectors. With specialist expertise in laying and welding pipelines (including those made from steel, glass fibre reinforced polyester (GRP), concrete, PVC, ductile iron, HDPE and fibre cement) as well as in pipeline refurbishment including mechanical and linings and coatings, the business unit services both public and private sector clients. To support fleet maintenance a fully-equipped workshop and yard is onsite at the head office.

Products and services include:

- Pipeline earthworks
- Wrapping and coating of completed pipeline sections
- Chambers and other pipeline associated works
- Testing and pigging of completed pipeline sections
- In-situ and stack yard lining of pipelines or pipe lengths
- Control over environmental and safety
- Construction of pump stations
- Installation of piping
- Valves and specials

Group Structure



Vision

To be the benchmark construction group in SA committed to the fulfilment of all our stakeholders' aspirations

Core Values

Unity • Integrity • Commitment • Accountability

Nsezi Pipeline Project - Richards Bay

Our History

- 2010 – Esorfranki achieves R1,9 billion turnover
- 2009
  - Esor transfers to JSE Main Board
  - Esor renamed Esorfranki Limited
  - Esorfranki group revenue jumps to R1,4 billion
  - Esorfranki Limited branded
- 2008
  - Franki acquires Geo Compaction Dynamics and expands its market share
  - Esor acquires the Patula and Shearwater groups, diversifying into civil engineering and pipeline construction
  - Esor wins 'AltX National Business Award'
- 2007 – Esor achieves R1 billion turnover
- 2006
  - Esor lists on AltX
  - Esor acquires Franki
- 2002 – Shearwater group established
- 1998 – Management buy-out at Franki
- 1995 – Patula group established
- 1994 – Esor (Pty) Limited established following restructuring of geotechnical operations and property companies
- 1981 – Esor Ground Engineering (Tvl) (Pty) Limited started in the Transvaal
- 1976 – Esor Ground Engineering (Pty) Limited established in Durban
- 1946 – Franki established in South Africa

Rosebank Station, lateral support Gautrain

Geographic Profile

As one of South Africa's benchmark civil engineering and construction groups, Esorfranki provides specialist geotechnical services, roads, earthworks and pipeline construction.

Since the group debuted on the JSE in 2006 it has topped an almost 35-year track record with strong revenue growth from R1,415 billion last year to R1,858 billion at year-end in February 2010 (in which time it has also successfully moved to the JSE Main Board from AltX). The group's diversification in 2008 into the civil engineering construction sector expanded its services from sub-surface foundation work to include above-surface civil engineering and construction services.

Esorfranki operates throughout South Africa, sub-Saharan Africa and the Indian Ocean Islands.

Five Year Review

Consolidated statements of financial position		2010 R'000	2009 R'000	2008 R'000	2007 R'000	2006 R'000
ASSETS						
Non-current assets		**999 551**	987 520	386 415	238 579	20 463
Property, plant and equipment		**596 429**	588 545	262 741	139 861	20 463
Intangible assets		**93 737**	113 022	94 529	94 529	–
Goodwill		**305 715**	280 173	26 468	–	–
Deferred tax asset		**3 670**	5 780	2 677	4 189	–
Current assets		**648 273**	875 972	398 524	226 817	40 723
Inventories		**14 827**	11 379	7 224	6 877	36
Other investments		**6 762**	14 269	–	–	–
Taxation		**9 952**	4 699	3 527	5 743	–
Trade and other receivables		**499 869**	572 800	271 914	161 549	28 051
Cash and cash equivalents		**116 863**	272 825	115 859	52 648	12 636
Total assets		**1 647 824**	1 863 492	784 939	465 396	61 186
EQUITY AND LIABILITIES						
Share capital and reserves		**808 028**	619 577	389 664	240 020	36 940
Share capital and premium		**396 956**	339 078	213 587	175 352	6 372
Equity compensation reserve		**8 253**	3 917	2 361	658	–
Foreign currency translation reserve		**(14 296)**	14 651	6 683	41	–
Accumulated profits		**417 115**	261 931	167 033	63 969	30 568
Non-current liabilities		**405 711**	470 080	133 791	71 724	4 797
Secured borrowings		**275 031**	370 603	85 169	43 915	2 837
Post-retirement benefits		**1 665**	1 587	8 106	10 507	–
Deferred tax liabilities		**129 015**	97 890	40 516	17 302	1 960
Current liabilities		**434 085**	773 835	261 484	153 652	19 449
Current portion of secured borrowings		**121 677**	147 664	21 304	7 939	1 909
Taxation		**6 644**	84 358	26 781	3 047	3 570
Provisions		**21 087**	31 118	15 559	21 400	–
Trade and other payables		**284 677**	510 695	197 840	121 266	13 970
Total equity and liabilities		**1 647 824**	1 863 492	784 939	465 396	61 186
Number of ordinary shares in issue	('000)	**302 162**	289 496	247 904	243 371	100 000
Weighted average number of ordinary shares	('000)	**284 743**	251 780	224 560	150 771	100 000
Diluted weighted average number of shares	('000)	**288 038**	254 380	228 677	153 466	100 000
Net asset value per share	(cents)	**275,63**	223,2	160,3	109,8	36,4
Net tangible asset value per share	(cents)	**177,52**	121,2	121,4	66,5	36,4

Five Year Review continued

Consolidated statements of income		2010 R'000	2009 R'000	2008 R'000	2007 R'000	2006 R'000
Revenue		**1 857 817**	1 414 722	1 017 480	291 392	125 393
Cost of sales		**(1 361 041)**	(981 829)	(745 546)	(209 465)	(98 772)
Gross profit		**496 776**	432 893	271 934	81 927	26 621
Other operating income		**3 937**	1 631	1 651	1 133	1 057
Operating expenses		**(111 661)**	(108 601)	(90 087)	(29 600)	(7 060)
Profit before interest, depreciation and taxation		**389 052**	325 923	183 498	53 460	20 618
Depreciation, impairments and amortisations		**(83 478)**	(92 473)	(30 391)	(8 654)	(2 650)
Profit before interest and taxation		**305 574**	233 450	153 107	44 806	17 968
Finance costs		**(93 106)**	(78 279)	(28 171)	(15 245)	(489)
Finance income		**63 281**	55 600	32 883	17 420	982
Profit before taxation		**275 749**	210 771	157 819	46 981	18 461
Taxation		**(78 108)**	(67 389)	(41 817)	(12 899)	(5 122)
Profit for the year		**197 641**	143 382	116 002	34 082	13 339
Headline earnings reconciliation:						
Profit for the year		**197 641**	143 382	116 002	34 082	13 339
(Profit)/loss on disposal of property, plant and equipment		**5 396**	(39)	(714)	(184)	(653)
Impairment of intangible assets		**–**	11 944	–	–	–
Headline earnings		**203 037**	155 287	115 288	33 898	12 686
Earnings per share						
Basic earnings per share	(cents)	**69,4**	56,9	51,7	22,6	13,3
Diluted earnings per share	(cents)	**68,6**	54,1	50,7	22,2	13,3
Headline earnings per share	(cents)	**71,3**	61,7	51,3	22,5	12,7
Dividend per share	(cents)	**15,0**	15,0	20,0	6,0	–

K71 road over river concrete bridge – Gauteng

CEO's Report

Bernie Krone

Picking up from last year, Esorfranki has managed to survive the crash-landing brought on by the wayward behaviour of our three maverick pilots: Commander Sub-prime, Captain De Rivatives and First Officer Stock-Futures (single of course). We even found our luggage (well most of it anyway), but what an inhospitable crash site... We have been lashed with excessive rain and subjected to the destructive power of political cyclone JM. We are all praying for a break in the weather so that we can hang our clothes out to dry before the World Cup Soccer starts in June, not to mention keep our heads above water operationally for a sustained period!

The landscape in the construction industry in SA has changed dramatically – competition has intensified, good quality work has been tougher to find and margins have been squeezed. Nonetheless the group has managed quite admirably thus far to keep our heads above water. Esorfranki remains the country's largest geotechnical and specialist contracting company, leveraging the Franki and Esor Africa brands. Our strategic acquisitions in 2008 ensured that we expanded from a mainly niche market player into a broader-based civil engineering company with diverse revenue streams – geographically and in terms of disciplines. These acquisitions have also enabled us to prolong and increase our participation in government's infrastructure spend.

Overall results for the year are definitely good, but I believe they will be remembered for what could have been rather than for what was. We effectively lost R400 million in turnover, of which our *Geotechnical* business shrank by R250 million, due to macro circumstances including:

- Excessive rain in H2 FY2010;
- A recession from which SA began to emerge only tentatively in Q3 2009;
- Contracting demand for construction-related services;
- Increased competition for a smaller pie;
- Depressed margins (and CEOs!); and
- Exchange rate pressures (translation of foreign income).

In *Esorfranki Civils* excessive rain in H2 FY2010 lost us approximately R100 million of potential revenue with production affected on the R21 and N4 SANRAL contracts. *Esorfranki Pipelines* suffered the same lost revenue due to contract delays, subsequently awarded only late in the financial year with positive benefit to flow now. As you know, you can't make profit on absent revenue!

Financial results

Reflecting the positive contributions of the civil engineering and pipelines acquisitions in 2009 we achieved revenue of R1,9 billion – an increase of 31,3% on the previous year. Profit after tax ("PAT") rose to R197,6 million while headline earnings per share ("HEPS") increased 15,6% to 71,3 cents.

We continue to generate healthy cash at an operations level, which together with reduced CAPEX spend has augured well for reducing our debt:equity levels.

Our order book remains promising at R1,6 billion at year-end (*Geotechnical:* R534 million; *Esorfranki Civils:* R726 million; *Esorfranki Pipelines:* R314 million).

Further detail is set out in the annual financial statements and accompanying notes.

Operations

Esorfranki Geotechnical (comprising Esor Africa and Franki)

As a result of the factors mentioned above revenue declined to R944,8 million. However, operating margins improved to 17,4%. Reflecting an increasing focus on Africa, foreign operations accounted for a higher 27,2% of *Geotechnical* revenue.

The business unit has recently won a number of major cross-border projects with a combined value of R55 million. These include pipejacking for a Gaborone sewer and piling and dynamic compaction for the Jwaneng Cut 8 project. Current contracts for both Gautrain and the new Kusile Power Station remain ongoing in the short term.

Esorfranki Civils

Despite 'what could have been' ruminations, revenue was still up 17,4% to R715 million. The business unit achieved PAT of R100,5 million.

Esorfranki Civils is continuing work on Johannesburg's R21 between OR Tambo International Airport and Pomona Road, and is also progressing with the R174 million contract for the second carriageway from the Modikane interchange to the R512 Brits West interchange on the N4.

Esorfranki Pipelines

Some year-on-year revenue growth of 13,6% was posted, to R229 million. Regardless of being hit by contract delays in the latter part of the year, the business unit achieved PAT of R24,6 million.

Esorfranki Pipelines was recently awarded a R240 million contract from Rand Water for the construction of the BG3 Pipeline.

BEE

Our commitment to transformation saw the group improve our rating to a 'Level 5' contributor (from 'Level 6'). Currently 29,07% of the shareholding is black-owned, of which 5,87% comprises black female representation. 85% of the workforce is black, while 24,6% of senior and middle management in the group and three of the six board members are black.

The Esor Broad Based Share Ownership Scheme provides all permanent staff below executive management level with the opportunity to participate in the equity ownership of the group. The scheme currently holds a 4,4% stake in the company.

LUSIP pipeline project – Swaziland

CEO's Report continued

People

In keeping with our aim of being an 'employer of choice', our continued efforts in upskilling employees and facilitating their advancement has ensured that staff retention remains excellent. Weaker market conditions further provided the opportunity to deepen our skills pool through active recruitment of suitably qualified candidates, and we took advantage with a strict eye on appropriate demographic representation and recruitment practices aimed at increasing our black staff complement.

During the year Mlungisi Hlongwane resigned as an independent non-executive director and Johan van Reenen resigned as alternate director to Franklin Sonn. We thank them for their valuable contribution during their tenure on the board. We continue to sweat the input of our non-executives in the interests of a lean, mean board and haven't as yet replaced Mlungisi.

Appreciation is definitely owed to our management and staff for their tough grit in the face of even tougher trading conditions. I can fully recognise the critical role this played in our sustainability in the economic downcycle.

Prospects

While 2010 looks set to be as rough as 2009 for the construction industry in general, the long-term prospects for the industry still remain positive. We believe that by boxing clever and above our weight division, we will continue to enhance our record as a quality group and a benchmark in the industry.

We will continue to consolidate and integrate the business units within the group. Standard systems and procedures are currently being adopted and a concerted effort is being made to house all Gauteng-based units at a single, central location for optimised efficiencies, convenience and group spirit.

We continue to track a healthy pipeline of work into the remainder of 2010 and beyond.

Africa remains a focus but at this point all cross-border work is solely within the *Geotechnical* business unit. The intention is to significantly escalate the foreign contribution to revenue in *Geotechnical* from 27% to 40%. We are therefore actively re-deploying plant and personnel across the continent including to Angola, Botswana, the DRC and Mozambique. Although we remain confident that Africa will provide additional revenue sources, we will pursue a prudent approach to cross-border work.

Within *Esorfranki Civils* we anticipate continued construction projects, with work phases on the Medupi Power Station expected to come back on-stream following the IMF loan award to Eskom. In addition the business unit is targeting the mining sector with opportunities particularly in the coal and platinum markets.

Pipejacking project – Gauteng

CEO's Report continued

Esorfranki Pipelines is expected to benefit from increasing demand in KwaZulu-Natal, Gauteng and Mpumalanga mainly from municipalities and parastatals including TCTA.

Notwithstanding all our best-laid plans, efforts, hard work and expertise we are still only a cog in the intricate financial engine that drives the world economy, and that engine is still labouring uphill without all cylinders firing. Let's hope that the drivers can nurse it along until the next long downhill and a new set of spark-plugs! We'll do our part wherever we can.

Bernie Krone
Chief Executive Officer

25 May 2010

CFO's Report


Wayne van Houten

The year under review marks yet another milestone for Esorfranki with consolidated revenue of R1,9 billion and commensurate PAT of R197,6 million. This is a reflection of the group's complementary, diversified business model, which has seen Esorfranki move from a niche geotechnical business to a broader based civil engineering operation enhancing growth and success.

Consolidated statement of comprehensive income

Revenue for the year grew by R443,1 million (2009: R397,2 million) to R1,9 billion (2009: R1,4 billion). PAT rose by R54,3 million (2009: R27,4 million) translating into growth of 15,6% (2009: 20,2%) in headline earnings per share ("HEPS").

Earnings before interest, taxation, depreciation, impairments and amortisations ("EBITDA") increased by 19,4% (2009: 77,6%) to R389 million (2009: R325,9 million).

Depreciation, impairments, and amortisations include R19,1 million for amortisation of customer contracts acquired in business combinations, including *Esorfranki Civils* and *Esorfranki Pipelines*. These amortisations have been fully expensed over their useful life.

Taxation includes a secondary taxation on companies charge of R5 million (2009: R4,7 million) relating to the dividend declared and distributed in June 2009, which is mainly attributable to the increased tax rate of 28,3% (2009: 31,9%).

Other comprehensive income reflects a charge of R28,9 million relating to the translation of foreign income into a South African reporting currency. This has occurred as a result of the strength of the South African Rand against the US Dollar and softer African functional currencies.

Esorfranki Geotechnical (comprising Esor Africa and Franki)

Revenue in this business unit declined by 20,6% to R944,8 million (2009: R1 190,1 million). The operating margin improved to 17,4%, up by 3,3% on the previous financial year.

Revenue from sub-Saharan Africa and the Indian Ocean Islands contributed 27,2% (2009: 24%) to the total revenue with R257,7 million (2009: R285,9 million). Foreign operations accounted for R59,1 million (2009: R57,1 million) of PAT.

Financing costs and income include both realised and unrealised exchange gains and losses on funding current intra-group accounts of R58,1 million and R60,8 million, respectively. Financing costs on the acquisition finance raised to acquire the Esor Africa business accounted for R18,4 million and included a fair value adjustment of R1,9 million on an interest rate swap which was settled in March 2009.

There was no impairment of the Franki brand name at 28 February 2010.

Esorfranki Civils

Revenue for the year increased by 17,4% (2009: 104,4%) to R715 million, with PAT of R100,5 million (2009: R115,9 million). The business unit achieved a respectable operating margin of 20,2% (2009: 28,1%).

The deferred contingent arrangement in respect of the group's contractual warranties was met as at 31 August 2009, with payment made to the vendors in shares and cash. This resulted in a further adjustment of R25,7 million to the subsequent measure of goodwill consequent to a fair value adjustment on the shares issued to the vendors at R4,15 per share.

There was no impairment of goodwill as at 28 February 2010.

Esorfranki Pipelines

Revenue grew by 13,6% to R229 million (2009: R201,7 million). The business unit achieved an operating contribution of R31 million (2009: R32 million) amounting to an operating margin of 13,6% (2009: 37,5%) notwithstanding delays in the award of orders to late in the year.

There was no impairment of goodwill as at 28 February 2010. The business unit remains cash-generative.

Consolidated statement of financial position

Property, plant and equipment ("PPE")

Capital expenditure of R96 million (2009: R188,3 million) was incurred for additions to both expand and maintain the operations of the group as tabled below:

Business unit	**2010** **Rm**	2009 Rm
Geotechnical	**42,8**	163,8
Esorfranki Civils	**49,7**	14,4
Esorfranki Pipelines	**3,0**	10,1
Corporate	**0,5**	0
Total	**96,0**	188,3

The board has authorised a capital expenditure programme for the 2011 financial year totalling R72 million. Further details are contained in note 35 to the annual financial statements.

Trade and other receivables

The impairment provision increased to R36,2 million (2009: R32,9 million), accounting for 1,9% of group revenue.

Specialist pipeline welder – Richards Bay

CFO's Report continued

The past due and not impaired trade receivables increased by R56,5 million to R102,9 million (2009: R46,5 million).

Notwithstanding delays in receiving payments on the group's Medupi housing and Gautrans road projects, the directors are confident of the recovery of these amounts.

Cash and cash equivalents

Cash generated by the group remained robust amounting to R358,6 million (2009: R263,2 million) before the significant outflow of cash on taxation of R126,9 million (2009: R30,3 million), due to the change in South African provisional tax payments and finance costs, income and dividends.

Esor Africa has advanced its repayment of revolver facilities on loans B and C from surplus cash reserves by R50 million and has further repaid its secured borrowings, being the acquisition and asset-based facilities, with R71 million. Cash held offshore amounted to R35,1 million (2009: R35,3 million).

Share capital and reserves

The share capital increased by R57,8 million following the issue of 12,7 million shares to the vendors of Esorfranki Civils. This was in accordance with the deferred contingent arrangement and terms of the sale agreement, which were satisfied effective 31 August 2009.

The strength of the Rand against the group's operational sub-Saharan functional currencies negatively impacted the foreign currency translation reserve by R28,9 million.

Non-current liabilities

Secured long-term borrowings decreased by R95,5 million in line with the group's commitment to reduce debt levels and conserve cash. At year-end the debt:equity ratio amounted to 33% (2009: 45%).

Current liabilities

Trade and other payables decreased by R226 million, of which R140,8 million relates to the settlement of the deferred contingent arrangement. Taxation also reduced by R77,7 million as a result of the change in the South African provisional tax legislation which was effective as at 28 February 2010.

Gauteng Freeway Improvement Project – Elands Interchange, Gauteng

CFO's Report continued

Financial covenants

The group is required to maintain certain minimum financial covenants in terms of its loan financing facilities. There were no breaches of the financial covenants for the year.

Dividend

The board approved a dividend of 15 cents per share (2009: 15 cents per share), equating to 4,75 times dividend cover on HEPS.

Wayne van Houten
CFO

25 May 2010

Corporate Governance

Esorfranki's board of directors is committed to applying the principles of the King III Report which became effective 1 March 2010. Focus has intensified on improving and codifying operational and corporate practices to achieve sound corporate governance, transparency, accountability and integrity in full compliance with the King III Report. Going forward the board will continue to monitor compliance to ensure ongoing improvement in this regard.

The board appreciates the inextricable integration of the group's strategy, risk and sustainability of its daily operations and ensures that all three components form part of all strategic decisions, audits and assessments. In accordance with the King III Report's 'apply or explain' approach, the directors will continue stating the extent to which good governance principles have been applied. Esorfranki confirms that for the accounting period under review, it has fully complied with King II and the specific requirements pertaining to corporate governance set out in the JSE Listing Requirements.

The board

At year-end the board comprised a majority of independent non-executive directors, with four of the total six directors holding independent non-executive positions (*). The Chairman is independent non-executive director Dave Thompson. The full board comprises:

- B Krone (CEO)
- EG Dube*
- Dr FA Sonn*
- W van Houten (CFO)
- MB Mathabathe*
- DM Thompson (Chairman)*

The independence of directors continues to be monitored on a quarterly basis through formal mandatory declarations of personal interest/s. Although these directors represent various shareholders based on the recommendations of King III they are regarded as independent, as none of the shareholders hold more than 5% of the issued share capital nor have the ability to control or influence the board. These Holdings are not material to their personal wealth of any of these directors.

During the year two changes were made to the board's composition. Effective 26 February 2010 Jonathan (Mlungisi) Hlongwane resigned as an independent non-executive director while alternate director to Dr FA Sonn, Johan van Reenen, resigned with effect from 30 November 2009.

The board meets quarterly with ad-hoc special meetings convened as necessary. Details of directors' attendance at board and board committee meetings are set out below:

	Years of service	Board	Audit and Risk Committee	Remuneration and Nominations Committee
Executive directors				
B Krone (CEO)	28 years, 3 months	4 (4)	4 (4) >	2 (2) >
W van Houten (CFO)	3 years, 6 months	4 (4)	4 (4) >	2 (2) >
Independent non-executive directors				
EG Dube	3 years, 6 months	3 (4)	4 (4)	–
JM Hlongwane (resigned 26 February 2010)	3 years, 6 months	3 (4)	–	2 (2)
MB Mathabathe	1 year, 1 month	4 (4)	–	–
Dr FA Sonn#*	3 years, 6 months	4 (4)	4 (4)	2 (2) >
DM Thompson (Chairman)	4 years, 2 months	4 (4)	4 (4)	2 (2)

> Attended by invitation *# Audit and Risk Committee chairman* ** Remuneration and Nominations Committee chairman*

Corporate Governance continued

In accordance with the company's articles of association, one-third of the directors of the company (executive and non-executive) retire by rotation after a three-year term of office with their re-appointment subject to shareholders' approval in general meeting. Accordingly Bernie Krone and Dave Thompson will retire at the upcoming annual general meeting and, being eligible, will stand for re-election. In addition all new directors are subject to confirmation of election by shareholders at the annual general meeting at the first opportunity after their initial appointment.

Esorfranki's board subscribes to a policy of actively reviewing and enhancing the group's systems of control and governance on a continual basis to ensure that the business is managed ethically and within prudently determined risk parameters in conformity with South African accepted standards of best practice. It continues to exercise leadership, integrity and judgement, based on fairness, accountability, responsibility and transparency.

The responsibilities of the Chairman and CEO, and likewise the responsibility of executive and non-executive directors, are strictly separated to ensure that no director can exercise unfettered powers of decision-making. The Chairman provides leadership to the board in all deliberations ensuring independent input, and oversees its efficient operation while the CEO is responsible for proposing, updating, implementing and maintaining the strategic direction of Esorfranki as well as ensuring appropriately supervised and controlled day-to-day affairs. The CEO is assisted in these responsibilities by the CFO and Executive Committee ("EXCO"). The independent non-executive directors are high merit individuals who objectively contribute a wide range of industry skills, knowledge and experience to the board's decision-making process and are not involved in the daily operations of the company.

Esorfranki Board Charter

A formal Board Charter, which is currently under review to incorporate improvements recommended by the King III Report, sets out the board's role and the responsibilities of the directors. It is subject to the provisions of the company's articles of association, the South African Companies Act and amendments, the Listings Requirements of the JSE and all other applicable laws and regulatory provisions. It is further formulated in line with "triple-bottom line" practices. The directors' challenge therefore remains to balance broader social objectives with performance in an entrepreneurial market economy within a framework of governance principles. The duties and responsibilities of the board as currently set out in the Charter include:

- Exercising effective leadership, integrity and judgement, based on fairness, accountability, responsibility, transparency and ethical business conduct;
- Acting as the focal point for, and custodian of, corporate governance;
- Ensuring the group's responsible corporate citizenship;
- Determining the group's strategy, purpose, values and stakeholders relevant to its business;
- Evaluating the implementation of its strategies, policies and senior management performance criteria in terms of risk management, delegation of authority to management, equal employment opportunities, occupational health and safety, trading conditions and ethics;
- Establishing and maintaining the structure of the group;

- Reviewing and approving the group's financial objectives, plans and actions;
- Approving all acquisitions, mergers, takeovers, divestments of operating companies, equity investments and new strategic alliances by the company or its subsidiaries;
- Annually setting and approving limits for risk levels;
- Monitoring identified key risk areas and key performance indicators, especially concerning information technology ("IT") governance;
- Overseeing management's implementation and monitoring of the risk management processes in day-to-day activities;
- Reviewing processes and procedures to ensure the effectiveness of the group's internal systems of control, so that its decision-making capability and the accuracy of its reporting are maintained at all times;
- Defining levels of materiality, reserving specific powers to itself and delegating other matters with the necessary written authority to specific directors, and/or to formally constituted sub-committees of the board and/or to management;
- Recording the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead, and if not, then the steps the board will take in this regard;
- Monitoring and evaluating the implementation of business plans making sure not to give rise to un-assessed risks;
- Identifying and monitoring relevant non-financial aspects of group performance;
- Ensuring compliance with all relevant laws, regulations and codes of best business practice, as well as appropriate stakeholder communication;
- Developing a corporate Code of Conduct;
- Considering proposals for executive directors' remuneration from the Remuneration and Nominations Committee;
- Ensuring that the group has an effective and independent Audit and Risk Committee and a risk-based internal audit;
- Endeavouring to do everything necessary to fulfil its role and duties as set out in the Charter; and
- Regularly assessing its own performance and effectiveness.

To assist the board in discharging its responsibilities, an Audit and Risk and a Remuneration and Nominations Committee have been established. The responsibility of monitoring the systems of internal control is assumed by the board with the assistance of the Audit and Risk Committee, while from 1 March 2010 new directors will be recommended by the Remuneration and Nominations Committee for board approval, replacing the previous system where proposals in this regard fell to the board as a whole. The board will also consider looking into the formation of a Social and Ethics Committee. Developments in this regard will be dictated by the progress of the relevant legislation.

All directors have unrestricted access to the advice and services of the Company Secretary and to company records, information, documents and property. Non-executive directors also have unfettered access to management at any time. All directors are entitled to seek independent professional advice on any matters relating to the group in order to perform their responsibilities, at the company's expense.

Board processes

Share dealings

Directors are required to disclose their shareholdings, additional directorships and any potential conflicts of interest as well as any share dealings in the company's securities to the Chairman and Company Secretary for approval. Formal declarations of personal interest/s are mandatory. Non-executive directors are required to authorise the Chairman's share dealings prior to implementation. The Company Secretary, together with the Sponsor, ensures that share dealings are published on SENS.

All directors and senior executives with access to financial and any other price sensitive information are prohibited from dealing in Esorfranki shares during 'closed periods', as defined by the JSE, or while the company is trading under cautionary. The Company Secretary informs all directors by e-mail when the company enters a 'closed period'.

Self-evaluation

A review of the board's mix of skills, the contribution of individual directors, the effectiveness of its sub-committees, its performance and effectiveness as well as corporate governance compliance is mandated to be conducted on an annual basis. The self-evaluation exercise also includes a review of communications between management and the board as well as between the board and stakeholders. During the year the board deferred the evaluation to the next financial year.

Succession planning

The group succession plan was reviewed and documented in a work plan at a forthcoming Remuneration and Nominations Committee meeting. Currently, the plan falls under the responsibility of the Human Resources Manager.

Prior successes in succession planning are evidenced by the advancement in 2009 of internal senior management to replace retired *Geotechnical* business unit directors. In a circumstance where the experience of an identified candidate may be insufficient for the assumption of a management role, steps are taken to formally and informally train the nominated successor. An increasing number of newly-upskilled middle management is coming through the ranks to fill senior management positions.

New appointments

According to the current articles of association, the board as a whole is responsible for new appointments including the appointment of the CEO, and the process is conducted in a formal and transparent manner. As above effective 1 March 2010 this responsibility has been assumed by the Remuneration and Nominations Committee. The board nonetheless still sets the terms of employment for the CEO.

The Company Secretary meets with new appointees to present an overview of the group's financial results, position and operations as well as information on directors' fiduciary duties and responsibilities. Site visits are also arranged for new appointees. In addition all new appointees receive:

- The latest annual report;
- The latest interim and annual financial results announcements;
- Recent circulars to shareholders;
- Minutes of the most recent board meeting;
- Details of the company's budget;
- Details of the company structure;
- Details of board and sub-committee composition; and
- A board pack for the forthcoming board meeting.

Further, new board appointees can elect to attend the four-day AltX Directors' Induction Programme (notwithstanding that Esorfranki is Main Board-listed). The programme is run through the Wits Business School and endorsed by the Institute of Directors, covering pertinent aspects of company law, stock exchange regulations, the roles, responsibilities and liabilities of directors, basic techniques of financial analysis and the importance of investor and media relations. In addition members of the EXCO can also elect to attend the Programme. Where necessary the Company Secretary in consultation with the CFO (as well as with the auditors and/or other advisors including the Sponsor) will arrange specific training or seminars for directors and senior management to keep abreast of new regulatory changes. During the year this training included presentations on the recommendations of the King III Report and the proposed changes to the Companies Act.

Company Secretary

Effective 1 April 2010 Iain Stephen was replaced by iThemba Governance and Statutory Solutions (Pty) Limited as Company Secretary. The role has been outsourced to an independent expert dedicated in the field of corporate practice and governance to ensure enhanced compliance with all legislation, regulations and best practice.

The Company Secretary keeps record of, *inter alia*, shareholder registers, meeting attendance registers, meeting minutes, resolutions, directors' declarations of personal interest/s and all notices and circulars issued by the company. It is also responsible for all statutory returns and lodgements and new board appointee induction programmes, and on a broader basis for advising the board of any relevant regulatory changes and new developments in areas including corporate governance. Further the Company Secretary reviews the rules and procedures applicable to the conduct of the board. To this end the Company Secretary will involve, wherever necessary, the Sponsor and other relevant advisors/experts to ensure that the directors have adequate information to sufficiently discharge their responsibilities.

Board committees

The chairmen of all board committees attend the annual general meetings to answer questions from shareholders pertaining to the relevant matters handled by their respective committees.

The formal Charters of the Audit and Risk Committee and the Remuneration and Nominations Committee were updated during the year to accommodate King III Report recommendations.

Group EXCO

The committee consists of the CEO, CFO and key management from each of the business units, namely Arthur Field and Roy McLintock from the *Geotechnical* business unit, Andy Brookstein and Richard Maynard from *Esorfranki Civils*, Patrick Delamere and Andrew Toy from *Esorfranki Pipelines* and the Group Human Resources Manager William Neuwenhuis. The Group EXCO's responsibilities include assisting with implementation of corporate governance compliance at group and subsidiary levels. The Internal Audit function and Group Risk Manager advise the EXCO on their monitoring of compliance.

Audit and Risk Committee

The updated Audit and Risk Committee Charter was adopted at the May 2010 board meeting, and includes a provision to increase the number of meetings to four per annum. In addition, the committee's scope of responsibility has been refined in the updated Charter to include:

- Financial reporting;
- Internal controls;
- Internal audit and risk management;
- External audit overview, definition of scope and review of independence;
- Compliance with legislation and regulations;
- Liaising with the Company Secretary;
- Self evaluation; and
- Liaising with the board.

In compliance with legislation all members of the committee are independent non-executive directors, and the board is satisfied with their levels of independence in accordance with directors' mandatory quarterly disclosures of personal interest/s. Specifically the committee is chaired by independent non-executive director Dr FA Sonn (who serves on numerous boards of companies in various industries and is the recipient of thirteen honorary doctorates). The composition of the committee was recently revisited by the board to ensure full compliance with the recommendations of the King III report and is currently made up of:

- Dr FA Sonn
- Mr EG Dube
- Mr DM Thompson

Other independent non-executive directors, the CEO, the CFO and representatives of the external auditors may attend by invitation. (Details of directors' attendance at Audit and Risk Committee meetings are set out on page 18.) The external auditors have unrestricted access to the Audit and Risk Committee and its chairman at all times.

Following the resignation of the Chief Internal Audit Executive for Esorfranki, Ms N Nzuza, in March 2010, as an intermediate successor Mr J Francey was appointed from 1 May until December 2010. The audit and risk committee will in due course consider an appropriate structure in this regard.

The committee assists the board in fulfilling its review and control responsibilities but has no executive powers. It only advises and makes recommendations to the board on the matters below, as set out in the Audit and Risk Committee Charter:

- Promoting the overall effectiveness of corporate governance in accordance with the King III Report;
- Reviewing the:
  - integrity of the company's financial reporting process;
  - interim and annual financial statements;
  - internal audit process;
  - systems of internal control; and
  - external audit process;
- Nominating the external auditor and ensuring its independence;
- Identifying and managing business and financial risks and sustainable development issues;
- Monitoring the company's compliance with disclosure requirements, relevant laws and regulations and its own code of conduct; and
- Assisting in matters relating to committee meetings and evaluation, the relationship with the board and the Company Secretary.

The Audit and Risk Committee also sets the principles for recommending to the board the use of the external auditors, KPMG, for non-audit purposes, which includes tax services, corporate restructuring and merger and acquisition advice. Any services or the extent thereof are/is assessed to ascertain whether they/it are/is likely to conflict with or impair the independence of the external auditors. KPMG further have internal processes to prevent them from undertaking conflicting engagements. Other than training, no non-audit services were provided by the external auditors during the year.

During the year the committee appointed a Group Risk Officer to independently oversee the risk management processes implemented by management, who reports directly to the committee. His observations since appointment included:

- An absence of comprehensive standard group policies and procedures;
- Inconsistent cost reporting among group business units; and
- A need for commercial training and development in contract management.

Recommendation proposals will be tabled to address these issues.

The results of the Audit and Risk Committee's self-evaluation exercise during the year are currently being assessed by the board. The exercise reviewed the committee's composition and skills-set as well as its performance in relation to financial statements, interaction with management and the external auditors and adherence to the Charter. Where necessary a programme will be developed to address any changes required.

Remuneration and Nominations Committee
The Remuneration and Nominations Committee (formerly Remuneration Committee) comprises independent non-executive group Chairman DM Thompson and independent non-executive director Dr FA Sonn, who chairs the committee. In terms of the updated Charter this minimum composition is mandatory. (Until his resignation as a director on 26 February 2010, independent non-executive director JM Hlongwane also served on the committee.) The CEO (who is not a committee member) recommends salary and wage increases, ad-hoc bonuses and awards in accordance with the Group Share Incentive Scheme to the committee for review and approval, save in respect of himself. Taking this into account the committee is tasked with making recommendations to the board on remuneration packages and group remuneration policies. Effective March 2010 it has further adopted the additional responsibility to recommend new director appointments to the board.

As set out in the Charter other responsibilities of the committee include:

- Reviewing different methods of remunerating senior executives and directors;
- Reviewing current industry practices;
- Reviewing retirement and termination payments;
- Approving the allocation of share options in terms of the Esor Share Incentive Scheme;
- Establishing succession plans, in particular for the Chairman and CEO;
- Identifying high-calibre candidates for positions as they arise; and
- Reviewing the scope and composition of the board and its sub-committees.

Details of directors' attendance at the Remuneration and Nominations Committee meetings are set out on page 18.

Remuneration philosophy
Packages are structured as 'cost-to-company' and include contributions to health care, disability, risk and retirement benefits. Executives are also incentivised for performance against defined 'Weighted Average Cost of Capital' yardsticks and growth parameters on an EVA model. Annual increases are benchmarked against market-related surveys, primarily that of Deloitte. Overall Esorfranki aspires to be an 'employer of choice' on the basis of its remuneration philosophy.

Effective 1 March 2010 non-executives' remuneration has been recommended by the committee to be split into a base fee and an attendance fee on a 50:50 basis. These fees have been determined with reference to comparative JSE construction groups. The committee chairman fee is double the member fee, save for the Remuneration and Nominations Committee chairman where the fee is 1,5 times the member fee. The fee structure is set out in detail in the table below:

Type of fee (per meeting)	Existing fee – 2009 R	Proposed fee – 2010 R
Board		
Chairman	22 000	36 000
Board member	15 000	18 000
Audit and Risk Committee		
Chairman (Audit)	17 500	24 000
Member (Audit)	10 000	12 000
Chairman (Risk)	N/A	15 000
Member (Risk)	N/A	10 000
Remuneration and Nominations Committee		
Chairman	15 000	15 000
Member	10 000	10 000

Accounting and auditing

External audit
The external auditors, KPMG, are responsible for reporting on whether the annual financial statements are fairly presented in compliance with IFRS and the Companies Act in South Africa. The preparation of the annual financial statements remains the responsibility of the directors.

The board, assisted by the Audit and Risk Committee, evaluates the independence and effectiveness of the external auditors and considers whether any non-audit services rendered by such auditors substantively impair their independence. If this is found to be the case, appropriate corrective action will be taken in regard to those services.

Internal audit

The internal audit function falls under the Chief Internal Audit Executive who is responsible for the compilation of work plans, methodologies and risk-based approach audit techniques. With effect from 1 May 2010 the function will be led by the newly-appointed Group Internal Audit Officer to ensure that skills are developed in this area and then retained within the group for long-term sustainability and efficacy. The internal audit function will continue to report directly to the Audit and Risk Committee, and to meet regularly with the committee chairman and other members.

The internalised internal audit function is governed by an Internal Audit Charter, which defines the scope of the function as assisting the board in assessing the group's risk management and governance processes, including assessment of:

- The reliability and integrity of financial and operating information;
- New and existing systems of internal control;
- Means for safeguarding assets; and
- Methods of confirming results are consistent with established objectives.

In addition, the internal audit function will continue to be tasked with keeping abreast of technological and best practice developments in internal auditing and corporate governance. With the appointment of the Group Risk Officer, Esorfranki can now conduct technical civil engineering risk management processes as part of the internal audit and ensure that internal audit focus is directed at the areas most critical to the group.

Internal control and risk management

Internal control

The board is responsible for the group's systems of internal control and risk management and is assisted in this regard by the newly-appointed Group Risk Officer reporting to the Audit and Risk Committee. These systems of internal control are designed to provide reasonable but not absolute assurance as to the integrity and reliability of the annual financial statements, to safeguard and maintain accountability of the group's assets and to identify and minimise significant fraud, potential liability, loss and material misstatement while complying with applicable statutory laws and regulations.

There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. The system is therefore designed to manage rather than eliminate risk.

The latest assessment of the group's systems of internal control during the year focused on the Franki Africa business unit including field audits on its Cape Town, Johannesburg and Mauritius branch offices, as well as on Esor Africa Johannesburg. The feedback report identified weak controls around the segregation of duties, authorisation and review disciplines, and accounting software training and access control. Management has subsequently implemented adequate controls around these areas and introduced the necessary disciplines in response. No other significant findings were reported.

Risk management

Risk management is central to Esorfranki's operational strategy. The Audit and Risk Committee, supported by the Group Risk Officer appointed in 2010, ensures that management adheres to a formal responsibility framework in this area.

Esorfranki considers its people to be key contributors to risk mitigation and ensures that competent and adequate resources are employed as a critical component of the group's strategy to minimise risk exposure. New employees are fully informed of the responsibility framework in order to ensure continuity of risk control.

Corporate Governance continued

The newly-appointed Group Risk Officer, in conjunction with the four business units' Managing Directors, has compiled a detailed risk matrix which sets out the significant business and operational risks faced by the group and strategies to mitigate these:

Description of risk	Mitigation strategies
Strategic	
Operational sustainability: dependency on government infrastructure spending	• Strong BEE rating • Diversity in product and services • Diverse geographical market
Succession planning	• Focus on recruitment of young and developing skills for long-term retention • Career planning • Mentorship programmes • Skills development and training (formal and informal)
B-BBEE	• Promotion from within • Identification of viable new BEE strategic partners • Careful management of the transformation process • Establishing a development enterprise vehicle across the group
Reputational control: crisis management (media, investor community and other stakeholders)	• Development of a formal crisis management policy • Proactive dissemination of stakeholder communications subject to JSE Rules and Regulations • All stakeholder communications to be appropriately supervised and authorised
Unaligned stakeholder management objectives	• Regular communication • Outsourced investor relations function • Regular investor newsletters
Financial	
Debtor recovery (if no payment guarantee)	• Upfront payments, work stoppages etc. – discussed extensively at EXCO meetings • KPAs of business unit MDs to include debtor recovery • Credit insurance • Contract final estimates to be completed before signature
Exchange rate volatility (Africa)	• Ongoing monitoring and management through Group Treasury • Hedging of exposure
Loan covenants	• Management through Group Treasury • Hedging • Tight credit controls
Gearing	• Adherence to board parameters
Under-utilisation of fixed assets	• Ongoing resource assessment and management at business unit and group EXCO levels to ensure optimal allocation • CAPEX management
Oil price volatility	• Escalation clauses in contracts *ab initio* • Diversity of market focus

Description of risk	Mitigation strategies
Project risk	
Non-adherence to the tendering process and authority levels	• Tendering Committee • Adherence to group policies and procedures
Pricing miscalculations	• Supervision by Group Risk Officer • Part of internal audit scope
Overtrading	• Resource management • Adherence to tendering procedures
Material and equipment theft	• Insurance • 'Tip-offs Anonymous' hotline • Regular inventory • Strict and continually enhanced internal controls
Material shortages	• Attention to contract specifications • Proper and adequate planning and controls • Qualification of bids ito of material availability
Quality assurance	• Standard group-wide quality control systems • Established track record as industry quality champion and efforts to retain reputation
Competition (particularly in geotechnical arena – Durban and Cape Town)	• Leverage industry reputation • Strong brand equity • Quality and price competitiveness
Insurance coverage	• Regularly reviewed by independent provider (Alexander Forbes) • Enhancements implemented on recommendation • Accountability and disciplinary action where appropriate
Contract default/failure	• Immediate debriefing to identify weaknesses for future prevention of recurrence • 'Right people in the right jobs'
Working conditions (compliance with legislation)	• Group Safety Officer appointed • Empowerment • Accountability
Technical: designer aspects, execution, change in specifications	• Project management sign-off • Bi-monthly works meeting • Ownership and accountability
Trading in Africa: cash-based model, logistical obstacles, scarcity of operational skills, currency risks, debtor recovery, virtual management, stability of political environments, language, history and culture barriers	• Focus on sustainable markets and economies • Use of local skills wherever possible • Keeping abreast of political and cultural developments • US Dollar-based transactions • Advance payments
Human resources	
Change management	• Focused ongoing internal and stakeholder communication programmes • Question forum • Accountable management resources
Standardisation of conditions of employment	• Adoption of a formal group-wide policy in 2009
Labour integration	• Formal change management process

Description of risk	Mitigation strategies
Human resources continued	
Industry skills (internal and external pools)	• 'On the job' training • Formal external training facilities • Skills development and training focus • Enterprise development initiative in progress
Uniform policies and procedures	• Policies and procedures revised and updated in 2009 • Assistance of external expert
Industrial relations	• Open communication with trade unions • Employment equity fora • Proactive dealings with employee issues • Consistent application of conditions
Legal	
Contracts	• Standardised contracts • Engage group approved commercial claims consultants
Enterprise governance	
Business continuity plan	• System-reliant succession planning • Multi-skilled personnel • Geographical diversification
Adherence to legislative requirements, JSE requirements and other guidelines	• Use of corporate advisors including auditors • Knowledgeable Audit and Risk Committee
Risk management process: identification and monitoring of major risk areas	• Group Risk Officer appointed • Ownership at operational level • Board accountability • Audit and Risk Committee supervision
Inadequate controls due to rapid expansion	• Strict financial directorship in all business units • New and standardised group-wide policies and procedures • Group Risk Officer • Internal audit
IT	
Protection of sensitive data	• Formal IT policy • CIO appointed
Back-up and data recovery	• Formal IT policies and procedures • Standardisation of systems

Further detail on financial risk management, including the group's exposure to interest rate risk, credit risk and liquidity risk, is set out in the notes to the annual financial statements.

IT governance

Esorfranki has compiled a formal IT Governance Charter will be approved in due course. However, extensive IT policies have been formulated (an IT governance framework policy is in progress) and a new IT function was established during the year with the appointment of a Chief Information Officer ("CIO") to apply the strategy to standardise, support and implement compatible business systems and applications. The designate was previously involved in the development of the group's IT systems and is well-placed to oversee their future development. The completion date of the full IT integration process across the group is envisaged to be February 2012.

Corporate Governance continued

The establishment of the IT function in 2009 was a direct consequence of the group's expansion through acquisition and the need to standardise systems and policies to safeguard against IT risk.

The Buildsmart/CCS application has been selected for application across all group entities. This suite offers an integrated solution for all modules including accounting, estimating, measuring, procurement, project management, payroll and plant. To date the group has standardised all e-mail profiles, network security and support and the standard suite has been applied in Esorfranki Pipelines.

The external auditors, together with the Group Risk Officer and internal audit function, will assess the effectiveness of general and application controls once the uniform systems and policies have been implemented.

Stakeholder communication

Esorfranki is committed to timely, consistent and transparent communication with all stakeholders and encourages an open culture of communication.

Communication with employees takes place at regular site meetings with feedback subsequently reverted to employees. In addition, Esorfranki communicates with employees through the following media:

- Ad-hoc mini e-mailers on the intranet (also posted on notice boards);
- Investor newsletters disseminated via the intranet; and
- Quarterly Employment Equity Fora.

Company announcements are released on SENS and posted on the group's website. Financial results announcements are also posted to shareholders who are encouraged to attend the annual general meeting for valuable interaction with directors. The Chairman, CEO and CFO are available to answer queries from stakeholders, including industry analysts, at all times and wherever possible engage with the financial media to ensure transparent and timely reporting.

The group's marketing department follows the advertising guidelines as set out by the Advertising Standards Authority as well as the Printing Industries Federation of South Africa in the case of print advertising. The group-wide Corporate Identity manual put in place in 2009 ensures that the branding strategy is adhered to both internally and externally enabling cohesiveness and professionalism.

Industry associations and accolades

- Regional Master Builders Associations ("MBAs")
- South African Federation of Civil Engineering Contractors ("SAFCEC")
- South African Institute of Civil Engineers ("SAICE")
- South African Bureau of Standards ("SABS")
- South African Society of Trenchless Technologies ("SASTT")

During 2009 Esor Africa was awarded the SAICE 2009 Excellence Award for the Moses Madhiba Stadium Arch foundations, as well as the SAICE Award for Technical Excellence for work on the Umgeni '61 Pipeline pipejack.

Code of Ethics and Conduct ("the Code")

Esorfranki has a formal Code in place committing all employees to the highest standards of business conduct. The Code is reviewed annually and is communicated to employees across the group via newsletters, the intranet and posters at the group's offices and sites. Roadshows were further conducted during the course of the year to reach all of the group's employees.

Compliance with the Code is regarded as a serious objective, and non-compliance is dealt with timeously and if necessary, by disciplinary action. Esorfranki is committed to 'triple-bottom line' reporting and views sustainable development as an integral part of its value proposition and growth strategy.

The group utilises 'Tip-offs Anonymous' and the reporting procedures are further monitored by the Group Risk Officer, internal audit function and the Audit and Risk Committee.

Sustainability Report

Committed to real transformation and striving to act as a responsible citizen, Esorfranki acknowledges the need to conduct its business in a sustainable manner. The group's integrated responsible social and environmental practices form part of the growth strategy of the group and are further an inextricable component of risk assessments and audits. With an eye on the long-term sustainable development of the company, triple-bottom line concerns are integral to all decisions made by the board and management.

Transformation

Due to the finalisation of group processes in line with the Construction Charter during the year, Esorfranki improved its rating to a 'Level 5' contributor (from 'Level 6') in terms of the Department of Trade & Industry's B-BBEE Codes of Good Practice. 80% of spend with the group can therefore be regarded by clients as BEE spend. (EXCO member RP McLintock is Vice President of SAFCEC, and was involved in formulating the Charter.) The group's detailed scorecard is tabled below:

BEE Code	Charter (%)	Scorecard rating (%)
Ownership	25	23,38
Management Control	10	4,27
Employment Equity	10	3,70
Skills Development	15	5,95
Preferential Procurement	20	17,77
Enterprise Development	15	0*
Socio-Economic Development	5	0*

** Under development*

Ownership

Esorfranki is currently 29,07% black-owned, of which 5,87% comprises black female equity participation, including the following BEE shareholders:

Shareholder	Shares
Esor Broad Based Share Ownership Scheme • Implemented in 2006 to benefit all permanent staff below executive management level • Holds a 4,4% stake in the group	13 312 250
Zerovest Investments 18 (Pty) Limited • 100%-owned by black-owned property developers Insolenu Group Holdings • Holds a 4,1% stake in the group • Was represented at board level by independent non-executive director Jonathan Hlongwane prior to his resignation during the year	12 500 000
Vunani Capital (Pty) Limited • A subsidiary of Vunani Limited • Holds a 3,5% stake in the group • Represented at board level by independent non-executive director Ethan Dube	10 695 000
MB Mathabathe • Independent non-executive director on the board	8 600 000
Basfour 2309 (Pty) Limited • Holds 1,3% stake • Represented at board level by independent non-executive director Dr Franklin Sonn	4 000 000

Shareholder	Shares
ASVI (Pty) Limited	
• Holds 1,3% stake	
• Represented at board level by independent non-executive director Dr Franklin Sonn	3 875 000
Total	**52 982 250**

Management control

Currently 85% of the workforce is black, and emphasis is placed on training suitable candidates to accelerate promotion to management level. 24,6% of senior and middle management in the group and three of the six board members are black.

Employment equity

In terms of a formal policy Esorfranki undertakes to be an equal opportunity employer and to this end adopts a zero-tolerance approach to any perceived and/or real discriminatory obstacles and practices impeding equal employment opportunities. The group rewards initiative, effort and merit while at the same time prioritising the advancement of staff from previously disadvantaged groups. Esorfranki is therefore committed to equal employment, training and reimbursement opportunities for all race groups and genders.

When recruiting new employees, as per the formal policy Esorfranki gives precedence to appropriately qualified black candidates from previously disadvantaged groups. With regard to promotion, existing employees are given preference wherever viable. Where no suitable internal candidates can be identified the position is sourced externally.

Staff retention at Esorfranki remains excellent, with each successive year reflecting a net gain of employees and the success of the group's strategy of empowerment, assigning responsibility and engendering a sense of ownership. The group is tangibly benefiting from succession planning as seen in the increasing number of newly-upskilled senior employees coming through the ranks to middle management.

Employment equity goals are communicated to staff through the following channels:

- Employment Equity Fora;
- Regular feedback through Employment Equity Committees;
- Union meetings; and
- Toolbox meetings.

Employment Equity Goals

Category/level	Esor Africa 5 year goal	Franki Africa 5 year goal	Civils 5 year goal	Pipelines 5 year goal
Top management	0	0	1	0
Senior management	2	6	1	0
Professionally qualified	6	12	45	10
Skilled	74	81	375	30
Semi-skilled	93	233	97	50
Unskilled	92		67	378
Total	**267**	**332**	**586**	**468**

Skills development and training

Esorfranki continues striving to be the "employer of choice" in its industry and is achieving pleasing success in this regard.

The group is committed to continually enhancing the skills base and facilitating the advancement of employees, and makes specific efforts to assist the progress of employees from previously disadvantaged groups. Esorfranki recognised the opportunity (arising from the deterioration in market conditions in the wake of the global financial crisis) to eliminate the former skills shortage and to deepen its skills pool, and actively recruited appropriately qualified candidates during the year.

R55 Roadbuilding contract – Gauteng

Formal operational training provided during the year included:

Business Unit	Attendance	% of black attendees	Courses
Esor Africa (Durban)	296	96	• Occupational Health and Safety • Computer Package Training • Operator Training Accreditation • Update Seminars
Esor Africa (Johannesburg)	370	91	• Occupational Health and Safety • Operator Accreditation • Driving School • Job Enhancement i.e. welding • Computer Package Training
Franki Africa	400	71	• Occupational Health and Safety • Operator Training Accreditation • Tertiary Education i.e. BTech, Degrees and Diplomas
Civils	155	89	• Induction • Operator Training Accreditation • Occupational Health and Safety • Computer Package Training
Pipelines	1 103	100	• Occupational Health and Safety • Job enhancement i.e. plumbing, bricklaying, carpentry etc.

Ongoing internal technical skills development is provided through classroom, personal mentoring and 'on-the-job' training as well as through learnerships or apprenticeships.

To promote employee retention the group continues the following incentives:

- Key/critical staff are offered share options under the Esor Share Incentive Scheme;
- All employees, excluding executive level, participate in the Esor Broad Based Share Ownership Scheme allowing them an opportunity to derive financial benefits from the performance of the group; and
- A bonus scheme based on individual and group performance.

Preferential procurement

Esorfranki has allocated significant discretionary procurement spend to preferred suppliers with the highest BEE ratings, and is satisfied with its progress in this regard as reflected in the scorecard rating of 17,7% out of a maximum 20% attributable weighting for this element. A formal policy regarding procurement/suppliers includes initiatives such as supply chain management with particular focus on preferential procurement and targets.

Enterprise development

The group will focus on enterprise development in the immediate future, as identified in the risk matrix, with the aim to establish an enterprise development vehicle across the group.

Safety, Health and Environment

Esorfranki is committed to a safe and healthy working environment and ensures strict compliance with the Occupational Health and Safety Act, 1993, as well as subscribing to a zero-harm policy. To this end, inspection and legal compliance audits are performed regularly, safety policy is reviewed and external audits are performed as required in compliance with ISO 9001. The group achieved a LTIFR of 1,2 during the year. (The industry achieved an LTIFR of 1,8 average for the year.)

The group has also appointed a Group Safety Officer who is supported by divisional/site safety officers and representatives. A detailed risk assessment is undertaken for each product type and specific tasks, which are then rated according to a matrix and mitigated accordingly. Site staff are trained and each site has a health and safety plan including a method statement and risk assessment.

Further, the following measures are in place to prevent casualties and injuries:

- Divisional Safety Committees;
- Toolbox talks;
- Safety alerts;
- Health and safety investigations; and
- Corrective disciplinary action in the event of proven negligence.

In light of the group's recent expansion, it is in the process of standardising health and safety procedures and reporting, which will include setting targets within each business unit.

Extensive health and safety training took place during the year including:

- Health and Safety Representative training;
- Fire Fighting;
- First Aid (Level 1 and 2);
- Dangerous Goods;
- Cutting Torch;
- Lifting Equipment;
- Slings and Rigging;
- Working at Heights;
- Incident and Accident Investigation;
- Diploma in Occupational Health and Safety; and
- Train the Trainer

Esorfranki is committed to prioritising environmental concerns on all projects in line with international best practice. Each of the four business units has strict site-specific EMPs in place on all contracts, which are based on an EIA in compliance with the relevant environmental legislation and regulations and an overarching group Plant/Project Environmental Policy.

Labour relations

The National Union of Mineworkers and the Building Construction and Allied Workers Union are currently the representative unions in the group. There was no internal labour unrest experienced during the year.

HIV/AIDS

Esorfranki has a formal policy ensuring the fair, ethical and equitable treatment of employees living with HIV/AIDS. A proactive HIV/AIDS workplace programme is in place which includes education and awareness projects to address questions ranging across prevention and infection to treatment, voluntary and confidential pre-employment and employment testing and support for infected employees. External supplier HIV/AIDS Managed Care Systems (Pty) Limited (CareWorks) is employed to run these projects.

The group's HIV/AIDS policy demands confidentiality of the employee's status – should an HIV-positive employee volunteer status information, the relevant managers are appropriately briefed and informed to enable them to manage the situation. Employees are encouraged to seek medical treatment, counselling, ongoing testing and assistance from support groups.

Socio-economic development

As another identified focus area, the group has selected beneficiaries going forward using the criteria set out in its Corporate Social Investment Policy. Esorfranki manages the funding of these initiatives at group level with each subsidiary contributing 1% of NPAT towards the funding pool.

Esorfranki currently offers sponsorship and a coaching programme with SAICE for civil engineering students. In addition the group will soon launch a 'train the trainer' campaign where Esorfranki will be identifying suitable candidates from these students to in turn train future students in order to make this 'real world' guidance in the civil engineering industry a sustainable programme. The group also has in place a study scheme for existing employees.

Corporate social responsibility ("CSR")

Esorfranki supports social development and upliftment by assisting community-based organisations. During the year the group was involved in building a crèche at Vlakfontein, near Orange Farm, in conjunction with Bombela Civils. Two containers will add more classroom space at the crèche, after which landscaping services will be provided to improve the school grounds.

Further Esorfranki's 'Siza Wena' or 'Help You' initiative sponsored 100 students, the majority of whom were historically disadvantaged, and recently qualified civil engineering professionals to attend the 'Engineering Planet Future' indaba hosted by SAICE at the CSIR in Pretoria.

Koeberg Interchange – Cape Town

Directorate

Back row: Wayne van Houten (CFO), Ethan Dube, Briss Mathebathe, Bernie Krone (CEO)
Front row: Dave Thompson (Chairman), Dr Franklin Sonn

Executive directors

Bernie Krone (b. 1953)
CEO
BSc Eng (Civil) Pr Eng FSAICE
Bernie was born in Halstead, England and moved to South Africa as a child. After attaining Professional Engineer status, he gained experience in the employ of major geotechnical engineering companies before joining Esor (Pty) Limited, which became Esorfranki. He has over 32 years' experience across all aspects of geotechnical engineering.

Wayne van Houten (b. 1965)
CFO
BCom BAcc CA(SA)
Wayne qualified as a Chartered Accountant in 1990 after serving articles with KPMG. He left the auditing profession shortly thereafter and has since been involved in the construction industry. He joined Franki (Pty) Limited in early 2005 and has been an executive director since November 2006. Wayne was appointed as group CFO in June 2008.

Independent non-executive directors

Malemadutje (Briss) Mathabathe (b. 1942)
Briss has extensive experience in all aspects of the initiation, structuring, implementation and operation of capital investment projects. He is well-known to government, parastatals, development agencies, export bodies, contractors and financiers and is currently managing director of Imbani Coal (Pty) Limited and serves as a director on a number of boards.

Dr Franklin Sonn (b. 1939)
BA (Hons) STD FIAC
Democratic South Africa's first ambassador to the United States, Franklin is the recipient of thirteen honorary doctorates and has held many distinguished positions. He currently serves on the boards of companies including ABSA Bank Limited, ABSA Group Limited, Metropolitan Holdings Limited, Pioneer Food Group Limited, RGA Reinsurance Co. of SA Limited and SAPPI Limited. Franklin is also chairman of African Star Ventures (Pty) Limited, the Airports Company of SA Limited, Cape Star Investments (Pty) Limited, Ekapa Mining (Pty) Limited, Imalivest (Pty) Limited and Kwezi V3 Engineers (Pty) Limited, and serves on the board of Macsteel Services Centres 2005 (Pty) Limited. He is further a trustee of The Legal Resources Trust World Wide Fund for Nature SA and has been the chancellor of the University of the Free State since 2002. He served formerly as the rector of the Peninsula Technikon from 1978 to 1994.

Dave Thompson (b. 1936)
Chairman
CA(SA)
Dave qualified as a Chartered Accountant in SA and is also a member of the Association of Accountants and Auditors in the United Kingdom. He has further studied for the Advanced Management Programme at Harvard in the USA. Dave has vast experience, having served on a multitude of boards.

Ethan Dube (b. 1959)
MSc (Statistics)
Ethan worked at Standard Chartered Merchant Bank for several years in the Corporate Finance division and then spent six years in asset management, split between Southern Asset Managers and Infinity Asset Management. In 1998 he formed an investment banking division at African Harvest Limited and in 2002 concluded the management buy-out of the operating subsidiaries and strategic assets. Ethan is currently CEO of Vunani Limited (previously African Harvest Capital) and a non-executive director of Hyprop Investments Limited.

Directors' Responsibility Statement

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of Esorfranki, comprising the statements of financial position at 28 February 2010, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the group and company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group annual financial statements and annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The group annual financial statements and annual financial statements of Esorfranki were approved by the board of directors on 25 May 2010 and signed on their behalf by:

B Krone
Chief Executive Officer

W van Houten
Chief Financial Officer

Germiston
25 May 2010

Declaration by Company Secretary

I, ID Stephen, company secretary of Esorfranki for the year, certify that, to the best of my knowledge and belief, all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.

ID Stephen
Company secretary

Germiston
25 May 2010

Audit and Risk Committee Report

In compliance with the Companies Act, an Audit and Risk Committee has been formally appointed by the board of directors.

The independence of each member of the Audit and Risk Committee is monitored and assessed to ensure that the independence criteria as defined in King III are complied with.

During the financial year ended 28 February 2010, in addition to the duties set out in the Audit and Risk Committee's terms of reference, a summary of which is provided in the Corporate Governance Report of this annual report, the Audit and Risk Committee carried out the following:

- Nominating KPMG for re-appointment as the registered independent auditor after satisfying itself, through enquiry, that KPMG is independent;
- Determining the fees to be paid to KPMG and its terms of engagement;
- Ensuring that the appointment of KPMG complies with the Companies Act and any other legislation relating to the appointment of auditors;
- Approving a non-audit services policy, which determines the nature and extent of any non-audit services which KPMG is permitted to perform;
- Reviewing and updating the Internal Audit Charter in line with the King III Report, the Companies Act and other relevant legislation (which was approved at the May 2010 board meeting);
- Reviewing and updating the Audit and Risk Committee Charter to comply with the King III Report, the Companies Act and other relevant legislation (which was approved at the May 2010 board meeting);
- Appointing a Group Risk Officer to independently oversee the risk management processes implemented by management and report directly to the committee; and
- Approving the group risk matrix tabling identified risks the group is facing.

The Audit and Risk Committee has satisfied itself, through enquiry, that KPMG and Mr FHC von Eckardstein, the designated auditor, are independent of the company.

In terms of the JSE Listings Requirements the Audit and Risk Committee has considered and satisfied itself of the appropriateness of the expertise and experience of the CFO, Wayne van Houten.

The Audit and Risk Committee has reviewed the internal financial controls of the group and has established that nothing has come to the attention of the committee to indicate that the internal financial controls were not effectively operating during the year.

The Audit and Risk Committee recommended the annual financial statements for the year ended 28 February 2010, for approval, to the board. The board has subsequently approved the annual financial statements which will be open for discussion at the forthcoming annual general meeting.

F. A. Sonn

Dr FA Sonn
Chairman Audit and Risk Committee

Germiston
25 May 2010

Independent Auditor's Report

To the members of Esorfranki Limited
We have audited the group annual financial statements and the annual financial statements of Esorfranki Limited, which comprise the statements of financial position at 28 February 2010, and the statements of comprehensive income, the statements of changes in equity and statements of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 041 to 104.

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

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

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

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

Opinion
In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Esorfranki Limited at 28 February 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

Per FHC von Eckardstein
Chartered Accountant (SA)
Registered Auditor
Director

25 May 2010

Directors' Report

The directors have pleasure in presenting their annual report which forms part of the annual financial statements of the company and the group for the year ended 28 February 2010.

Nature of business
The nature of the group's business is set out in the group profile on page 004 of the annual report of which this Directors' Report forms part.

Financial results
Consolidated revenue has increased to R1,858 billion from R1,415 billion in the previous year. Earnings before interest, depreciation, impairments, amortisations and taxation ("EBITDA") increased by 19,4% to R389,1 million from R325,9 million. Headline earnings per share ("HEPS") rose 15,6 % to 71,3 cents per share. Net asset value ("NAV") per share increased by 23,5% from 223,2 cents to 275,63 cents based on the number of shares in issue at year-end.

Further comment is set out in the CFO's report and detail is set out in the annual financial statements and accompanying notes.

Property, plant and equipment
During the year, the group acquired property, plant and equipment amounting to R96 million (2009: R188,4 million). The capital expenditure programme is detailed in note 35.

Dividend declaration
In deciding on the dividend, the board has considered a number of factors which include gearing and net external debt on the statement of financial position, future availability of credit and the covenants imposed in terms of the current financing arrangements. Further, the board considers it prudent to first settle debt and conserve cash, which will in turn have a positive effect on future profits.

The board has therefore decided on a dividend of 15 cents per share, which equates to 4,75 times dividend cover on headline earnings per share. It remains the policy of the group to review the dividend annually in light of cash flow, gearing and capital requirements.

The salient dates for the dividend are as follows:

Last day to trade *cum* dividend	Thursday, 10 June 2010
Shares trade *ex* dividend	Friday, 11 June 2010
Record date	Friday, 18 June 2010
Payment date	Monday, 21 June 2010

No share certificates may be dematerialised or re-materialised between 11 June 2010 and 18 June 2010, both dates inclusive.

Share capital
Details of the authorised and issued shares are set out in note 12 to the annual financial statements, and the analysis of shareholders on page 105. There were no changes to the authorised share capital during the year.

All authorised but unissued shares have been placed under the control of the directors until the upcoming annual general meeting, at which the directors propose that the authority granted to them to control the unissued shares be renewed. The directors also propose that the general authority granted to them to repurchase ordinary shares as opportunities present themselves, be renewed at the forthcoming annual general meeting (see Notice of Annual General Meeting).

Share option scheme

Esorfranki has a share option scheme as an incentive for key employees of the group. Since listing in March 2006, 14 250 000 options have been granted (equivalent to 4,7% of the issued share capital). These options are exercisable in 20% tranches over a five-year period from the date of granting the option. 2 859 086 (2009: 1 272 898 options) were exercised during the year.

Details of the options granted but not exercised are:

Date option granted	Expiry date	Number of ordinary shares	Subscription price
14 March 2006	13 March 2012	1 163 532	R1,00
30 November 2006	13 March 2012	1 178 645	R1,60
14 December 2009	13 March 2014	6 660 747	R2,50

Interest in subsidiaries

Details of the company's subsidiaries are shown in notes 34 and 37 to the annual financial statements.

Special resolutions

At the annual general meeting on 26 June 2009, a special resolution was passed by the shareholders to afford the directors of the company or any subsidiary of the company a general authority to effect a buy-back of the company's shares on the JSE. This authority will expire at the forthcoming annual general meeting unless it is renewed at the meeting.

A special resolution relating to the change of the group's name from "Esor Limited" to "Esorfranki Limited" effective 11 May 2009 was registered by CIPRO.

Directors

The directors of the company at the date of this annual report are set out below:

EG Dube (independent non-executive director)
B Krone (Chief Executive Officer)
MB Mathabathe (independent non-executive director)
Dr FA Sonn (independent non-executive director)
DM Thompson (independent non-executive Chairman)
W van Houten (Chief Financial Officer)

The following non-executive directors resigned during the year

JM Hlongwane –26 February 2010
J van Reenen – 30 November 2009 (alternate to Dr FA Sonn)

B Krone and DM Thompson will retire at the upcoming annual general meeting and being eligible, will stand for re-election. In addition all new directors are subject to confirmation of election by shareholders at the first annual general meeting after their initial appointment. There are no new directors who will stand for confirmation of election at the upcoming annual general meeting.

As announced on 7 July 2009 the following revisions at subsidiary board level were made in line with the strategy to streamline reporting structures and realign group operations following the acquisitions of Esorfranki Civils (Pty) Limited and Esorfranki Pipelines (Pty) Limited in late 2008. Roy McLintock (56), Managing Director of Franki Africa for the past ten years, was appointed Managing Director of Esor Africa with effect from 1 May 2009. Bruce Atkinson (32) was appointed to the board of Esor Africa as Financial Director with effect from 31 May 2009.

Richard Maynard (45) was appointed as Managing Director of Esorfranki Civils with effect from 31 May 2009 and succeeds Andrew Brookstein in the role, who will remain as a director on the Esorfranki Civils board. Mark Green (38), Tinus Grobler (47) and Eric Stockter (43) were appointed as directors to the board of Esorfranki Civils with effect from 31 May 2009.

Company Secretary
Effective 1 April 2010 Iain Stephen was replaced by iThemba Governance and Statutory Solutions (Pty) Limited as Company Secretary. The company's business and postal addresses are set out on the inside back cover of this annual report.

Directors' interests
The directors of the company held the following direct and indirect interests in the company.

Directors' shareholding	Direct shareholding		Indirect shareholding		Total	
	2010	2009	**2010**	2009	**2010**	2009
EG Dube			**10 698 600**	10 678 600	**10 698 600**	10 678 600
JM Hlongwane*			**12 500 000**	12 500 000	**12 500 000**	12 500 000
MB Mathabathe	**8 600 000**	4 800 000			**8 600 000**	4 800 000
Dr FA Sonn			**7 875 000**	7 875 000	**7 875 000**	7 875 000
J van Reenen*	**30 000**	–			**30 000**	–
DM Thompson			**70 000**	70 000	**70 000**	70 000
B Krone	**12 509 394**	13 292 728			**12 509 394**	13 292 728
W van Houten	**1 152 908**	1 119 158			**1 152 908**	1 119 158

** Resigned*

There have been no changes in the directors' interest since year-end up until the date of this report.

Directors' emoluments
The remuneration of directors is set out in note 31.

Auditors
KPMG Inc. will continue in office in accordance with section 270(2) of the Companies Act.

Events after reporting date
The board of directors is not aware of any material matters or circumstances arising since year-end and the date of this report.

B Krone
Chief Executive Officer

W van Houten
Chief Financial Officer

25 May 2010

Statements of Financial Position at 28 February 2010

	Note	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Assets					
Non-current assets		**999 551**	987 520	**671 767**	641 578
Property, plant and equipment	4	**596 429**	588 545	**–**	–
Intangible assets	5	**93 737**	113 022	**–**	–
Goodwill	6	**305 715**	280 173	**–**	–
Deferred tax asset	15	**3 670**	5 780	**725**	101
Investments in subsidiaries	7	**–**	–	**671 042**	641 477
Current assets		**648 273**	875 972	**98 430**	213 071
Inventories	8	**14 827**	11 379	**–**	–
Other investments	9	**6 762**	14 269	**–**	–
Unsecured loans	10			**94 602**	209 428
Taxation		**9 952**	4 699	**3 356**	3 348
Trade and other receivables	11	**499 869**	572 800	**118**	–
Cash and cash equivalents	28	**116 863**	272 825	**354**	295
Total assets		**1 647 824**	1 863 492	**770 197**	854 649
Equity and liabilities					
Share capital and reserves		**808 028**	619 577	**768 943**	704 736
Share capital and premium	12	**396 956**	339 078	**417 000**	364 438
Equity compensation reserve		**8 253**	3 917	**8 253**	3 917
Foreign currency translation reserve		**(14 296)**	14 651	**–**	–
Common control reserve				**261 107**	261 107
Retained earnings		**417 115**	261 931	**82 583**	75 274
Non-current liabilities		**405 711**	470 080	**–**	–
Secured borrowings	13	**275 031**	370 603	**–**	–
Post-retirement benefits	14	**1 665**	1 587	**–**	–
Deferred tax liability	15	**129 015**	97 890	**–**	–
Current liabilities		**434 085**	773 835	**1 254**	149 913
Current portion of secured borrowings	13	**121 677**	147 664	**–**	–
Unsecured loans	10	**–**	–	**–**	6 212
Taxation		**6 644**	84 358	**–**	687
Provisions	16	**21 087**	31 118	**–**	–
Trade and other payables	18	**284 677**	510 695	**1 254**	143 014
Total equity and liabilities		**1 647 824**	1 863 492	**770 197**	854 649

Statements of Comprehensive Income for the year ended 28 February 2010

		Group		Company	
		2010	2009	**2010**	2009
	Note	**R'000**	R'000	**R'000**	R'000
Revenue	19	**1 857 817**	1 414 722	**–**	181 204
Cost of sales		**(1 361 041)**	(981 829)	**–**	(152 256)
Gross profit		**496 776**	432 893	**–**	28 948
Other income	20	**3 937**	1 631	**2 039**	689
Operating expenses		**(111 661)**	(108 601)	**(1 867)**	(7 284)
Profit before interest, tax, amortisation, impairments and depreciation		**389 052**	325 923	**172**	22 353
Depreciation, impairments and amortisation		**(83 478)**	(92 473)	**–**	(4 843)
Results from operating activities	21	**305 574**	233 450	**172**	17 510
Dividend received				**50 000**	30 000
Finance costs	32	**(93 106)**	(78 279)	**(193)**	(3 798)
Finance income	32	**63 281**	55 600	**8**	2 408
Profit before income tax		**275 749**	210 771	**49 987**	46 120
Income tax expense	22	**(78 108)**	(67 389)	**1 144**	(7 150)
Profit after tax		**197 641**	143 382	**51 131**	38 970
Other comprehensive income:					
Foreign currency translation differences for foreign operations		**(32 630)**	7 968	**–**	–
Actuarial (loss)/gain on post-retirement benefit		**(28)**	155	**–**	–
Income tax on other comprehensive income		**3 683**	–	**–**	–
Other comprehensive (loss)/income for the period, net of tax		**(28 975)**	8 123	**–**	–
Total comprehensive income for the period		**168 666**	151 505	**51 131**	38 970
Profit attributable to:					
Owners of the Company		**197 641**	143 382	**51 131**	38 970
Total comprehensive income attributable to:					
Owners of the Company		**168 666**	151 505	**51 131**	38 970
Basic earnings per share (cents)	23	**69,4**	56,9	**17,3**	15,1
Diluted earnings per share (cents)		**68,6**	54,1	**17,3**	15,1

Statements of Changes in Equity for the year ended 28 February 2010

Group	Share capital R'000	Share premium R'000	Equity compen-sation reserve R'000	Trans-lation reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 March 2008	248	213 344	2 361	6 683	167 033	389 669
Profit	–	–	–	–	143 382	143 382
Other comprehensive income						
Foreign currency translation differences for foreign operations	–	–	–	7 968	–	7 968
Post-retirement benefit adjustment	–	–	–	–	155	155
Total other comprehensive income	–	–	–	7 968	155	8 123
Total comprehensive income for the year	–	–	–	7 968	143 537	151 505
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares related to business combinations	33	125 800	–	–	–	125 833
Share issue expense	–	(344)	–	–		(344)
Dividends to equity holders	–	–	–	–	(48 639)	(48 639)
Share-based payment transactions	8	–	1 556	–	–	1 564
Treasury shares	(11)	–	–	–	–	(11)
Total contributions by and distributions to owners	30	125 456	1 556	–	(48 639)	78 403
Balance at 28 February 2009	278	338 800	3 917	14 651	261 931	619 577
Profit	–	–	–	–	197 641	197 641
Other comprehensive income						
Foreign currency translation differences for foreign operations	–	–	–	(28 947)	–	(28 947)
Post-retirement benefit adjustment	–	–	–	–	(28)	(28)
Total other comprehensive income	–	–	–	(28 947)	(28)	(28 975)
Total comprehensive income for the year	–	–	–	(28 947)	197 613	168 666
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares related to business combinations	13	57 869	–	–	–	57 882
Share issue expense	–	(5)	–	–	–	(5)
Dividends to equity holders	–	–	–	–	(42 429)	(42 429)
Share-based payment transactions	–	–	4 336	–	–	4 336
Treasury shares	1	–	–	–	–	1
Total contributions by and distributions to owners	14	57 864	4 336	–	(42 429)	19 785
Balance at 28 February 2010	292	396 664	8 253	(14 296)	417 115	808 028

Statements of Changes in Equity for the year ended 28 February 2010

Company	Share capital R'000	Share premium R'000	Equity compen-sation reserve R'000	Common control reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 March 2008	248	219 722	921	–	85 885	306 776
Profit	–	–	–	–	38 970	38 970
Total comprehensive income for the year	–	–	–	–	38 970	38 970
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares related to business combinations	33	144 771	–	–	–	144 804
Share issue expense	–	(344)	–	–	–	(344)
Dividends to equity holders	–	–	–	–	(49 581)	(49 581)
Share-based payment transactions	8	–	2 996	–	–	3 004
Disposal of business	–	–	–	261 107	–	261 107
Total contributions by and distributions to owners	41	144 427	2 996	261 107	(49 581)	358 990
Balance at 28 February 2009	289	364 149	3 917	261 107	75 274	704 736
Profit	–	–	–	–	51 131	51 131
Total comprehensive income for the year	–	–	–	–	51 131	51 131
Transactions with owners, recorded directly in equity						
Issue of ordinary shares related to business combinations	13	52 554	–	–	–	52 567
Share issue expense	–	(5)	–	–	–	(5)
Dividends to equity holders	–	–	–	–	(43 822)	(43 822)
Share-based payment transactions	–	–	4 336	–	–	4 336
Total contributions by and distributions to owners	13	52 549	4 336	–	(43 822)	13 076
Balance at 28 February 2010	302	416 698	8 253	261 107	82 583	768 943

Statements of Cash Flow for the year ended 28 February 2010

	Note	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Cash flows from operating activities		**159 635**	161 628	**(131 552)**	(31 336)
Cash receipts from customers		**1 930 748**	1 066 242	**–**	52 290
Cash paid to suppliers and employees		**(1 572 090)**	(802 960)	**(137 370)**	(54 439)
Cash generated from/(utilised by) operations	24	**358 658**	263 282	**(137 370)**	(2 149)
Dividends received		**–**	–	**50 000**	30 000
Dividends paid		**(42 429)**	(48 639)	**(43 822)**	(49 581)
Finance income		**63 281**	55 600	**8**	2 408
Finance costs		**(92 977)**	(78 279)	**(193)**	(3 798)
Taxation paid	25	**(126 898)**	(30 336)	**(175)**	(8 216)
Cash flows from investing activities		**(199 270)**	(323 846)	**(29 565)**	139 178
Additions to property, plant and equipment		**(96 034)**	(188 355)	**–**	(36 630)
Proceeds on disposal of property, plant and equipment		**3 085**	1 234	**–**	292
Investments disposed/(acquired)		**7 507**	(6 042)	**(29 565)**	(182 280)
Acquisition of businesses, net of cash acquired	26	**(113 828)**	(130 683)	**–**	–
Disposal of business	27	**–**	–	**–**	357 796
Cash flows from financing activities		**(116 327)**	319 184	**161 176**	(152 359)
Decrease/(increase) in unsecured loans		**–**	2 911	**108 614**	(201 157)
(Decrease)/increase in secured borrowings		**(121 559)**	319 646	**–**	26 830
Proceeds from share issue net of issue expenses		**5 311**	2 990	**52 562**	21 968
Post-retirement benefits paid		**(79)**	(6 363)	**–**	–
Net (decrease)/increase in cash and cash equivalents		**(155 962)**	156 966	**59**	(44 517)
Net cash and cash equivalents at beginning of year		**272 825**	115 859	**295**	44 812
Cash and cash equivalents at end of year	28	**116 863**	272 825	**354**	295

1. General information

Esorfranki Limited (the "company") is a company domiciled in the Republic of South Africa. The address of the company's registered office is 30 Activia Road, Activia Park, Germiston. The consolidated financial statements of the company as at and for the year ended 28 February 2010 comprise the company and its subsidiaries (together referred to as the "group" and individually as "group entities") and the group's interest in jointly controlled entities. The group is primarily involved in the specialist geotechnical and civil engineering sector in South Africa and Southern Africa (refer notes 2.22 and 36).

2. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, in the manner required by the Companies Act of South Africa and the JSE Listings Requirements. The annual financial statements have been prepared on the historical cost basis, except for certain financial instruments at fair value and incorporate the principal accounting policies set out below. The accounting policies are consistent with the previous year and applied consistently by group entities. The methods used to measure the fair value of these financial instruments are discussed further in note 32.

2.1 Functional and presentation currency

These consolidated financial statements are presented in Rands, which is the company's functional currency and the group's presentation currency. All financial information presented in Rands has been rounded to the nearest thousand.

2.2 Use of estimates and judgements

The key assumptions and judgements made concerning the future and other sources of estimation uncertainty at the statement of financial position date that could have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are:

Revenue

During the initial stages of a construction contract it is often the case that the contract outcome cannot be estimated reliably. When contract revenue and the costs to complete the contract can be measured reliably, profit is recognised by reference to the stage of completion of the activity of the contract. However, the reliability of current estimates of future revenue and expenses is a critical factor when assessing the profit to be recognised on a yet uncompleted contract (refer notes 11 and 19).

Business combinations

The recognition, measurement and identification of assets acquired, liabilities assumed and goodwill acquired (refer note 26).

Options granted

Management used the Black Scholes model to determine the value of the share options at issue date. Additional details regarding the estimates are included in note 30.

Impairment testing

Management used the value-in-use method to determine the recoverable amount of goodwill. Additional disclosure of these estimates is included in note 6.

Provisions

Provisions raised were determined by management on estimates based on the information available. Additional disclosures of these estimates of provisions are included in note 16.

2. Presentation of annual financial statements (continued)

2.2 Use of estimates and judgements (continued)

Post-retirement benefits

Post-retirement benefits are provided to certain retired employees. Independent actuaries were tasked with calculating the value of the group's obligations. Further information on the significant assumptions are shown in note 14.

Property, plant and equipment

Management has made certain estimations with regard to the determination of estimated useful lives and residual values of items of property, plant and equipment, as discussed further in note 2.3.

Contingent liabilities

Management continually applies its judgement to advice it receives from attorneys, advocates and other advisors in assessing if an obligation is probable, possible, or remote. This judgement application is used to determine if the obligation is recognised as a provision, disclosed as a contingent liability or no disclosure is made.

2.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits associated with the item will flow to the company; and
- The cost of the item can be measured reliably.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of items, other than land, to their residual values, over their estimated useful lives, using a method that reflects the pattern in which the assets' future economic benefits are expected to be consumed.

When an item comprises major components with different useful lives, the components are accounted for as separate items (major components) of property, plant and equipment and depreciated over their estimated useful lives.

Methods of depreciation, useful lives and residual values are reviewed annually at each reporting date. The following methods and estimated useful lives were applied during the current and previous periods:

Item	Method	Useful life
Land	Not depreciated	Indefinite
Buildings	Straight line	50 years
Plant and equipment	Straight line	5 – 15 years
Motor vehicles	Straight line	4 – 8 years
Furniture and fittings	Straight line	5 – 10 years
Computers	Straight line	3 years

The depreciation charge for each period is recognised in profit or loss.

Derecognition occurs when an item of property, plant and equipment is disposed of, or when it is no longer expected to generate any future economic benefits.

2. Presentation of annual financial statements (continued)

2.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item.

When a decision is made by the directors that an item of property, plant and equipment will be disposed of and the requirements of IFRS 5 Non-current Assets Held for Sale and Dis(continued) Operations are met, then those specific assets will be presented separately on the face of the statement of financial position as current assets. The assets will be measured at the lower of their carrying amount and fair value less costs to sell, and depreciation on such assets shall cease.

2.4 Intangible assets

An intangible asset is recognised when:

- It is probable that the expected future economic benefits that are attributable to the asset will flow to the company; and
- The cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost unless acquired as part of a business combination, in which case the cost of the intangible assets is their fair value at the date of acquisition. Research costs are recognised as an expense when they are incurred. Development costs are capitalised when they meet the following criteria:

- It is feasible to complete the asset so that it will be available for use or sale;
- There is an intention to complete and use or sell it;
- There is an ability to use or sell it;
- It will generate probable future economic benefits;
- There are available technical, financial and other resources to complete the development and to use or sell the asset; and
- The expenditure attributable to the asset during its development can be measured reliably.

Internally generated brands and items similar in substance are not recognised as intangible assets.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided on indefinite useful life intangibles. Assets are tested annually for impairment and impaired if necessary.

Finite useful life intangibles are amortised on a straight-line basis over their estimated useful life, from the date that they are available for use. They are only tested for impairment when an indication of impairment exists. Amortisation is recognised in profit or loss.

2.5 Goodwill

Goodwill arises on the acquisitions of subsidiaries and jointly controlled entities and on the separate purchase of assets and liabilities which constitute a business. Goodwill is carried at cost less accumulated impairment losses.

2. Presentation of annual financial statements (continued)

2.5 Goodwill (continued)

Goodwill is measured as the differences between the cost of the combination and the net fair value of the identifiable assets and liabilities acquired.

2.6 Investments in subsidiaries

In the company's annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- The fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- Any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of the investments contingent on future events is included in the cost of the investments if the adjustment is probable and can be measured reliably.

2.7 Basis of consolidation

Investment in subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group.

The non-controlling interest is stated at the non-controlling interest proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interest in excess of the non-controlling interest are allocated against the interests of the parent.

Acquisitions from entities under common control

Business combinations arising from transfers of interest in entities that are under the control of the shareholder that controls the group are accounted for in the period in which the transfer of interest occurs and comparatives are not restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the group controlling shareholder's consolidated financial statements.

Jointly controlled entities

Jointly controlled entities are operations over whose activities the group has joint control. Joint control is the contractually agreed sharing of control over operations, and exists only when the strategic financial and operating decisions relating to the entity require the unanimous consent of the venturers. Jointly controlled entities are accounted for by applying the proportionate consolidation method on a line-by-line basis, applied from the date that joint control commences until the date it ceases.

Special purpose entities

A special purpose entity ("SPE") is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPE's risks and rewards, the group concludes that it controls the SPE. SPEs controlled by the group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

2. **Presentation of annual financial statements (continued)**

2.7 Basis of consolidation (continued)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.8 Impairment of assets

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together in the smallest group of assets that generate cash flows from continuing use that are largely independent of cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

2. Presentation of annual financial statements (continued)

2.8 Impairment of assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

2.9 Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, including retention receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and costs is discussed in note 2.18.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method.

Derivative financial instruments

The group holds derivative financial instruments to economically hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

2. Presentation of annual financial statements (continued)

2.9 Financial instruments (continued)

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

2.10 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

2.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and are not recognised on the group's statement of financial position.

The group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The group as lessee

Assets held under finance leases are recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments discounted using the interest rate implicit in the lease contract. Any initial direct costs incurred are added to the amount recognised as an asset. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognised in profit or loss in accordance with the group's general policy on borrowing costs.

2. Presentation of annual financial statements (continued)

2.11 Leases (continued)

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. Contingent rent is recognised as an expense in the period in which it is incurred.

2.12 Inventories

Inventories are measured at the lower of cost or net realisable value. The cost of inventories comprises all costs of purchase, costs of production or conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of all inventories is assigned using the first-in first-out method, as all inventories have a similar nature and use to the group.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2.13 Financial guarantees

Financial guarantees are contracts that require the company to make specified payments to reimburse the holder for a loss it incurs because a group company fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

2.14 Revenue

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be measured reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

2. Presentation of annual financial statements (continued)

2.15 Income tax

Income tax expense comprises current and deferred tax. An income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their current tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies ("STC") that arises from the distribution of dividends is recognised at the same time that the dividend is declared and the liability to pay is raised.

2.16 Provisions

A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

2. Presentation of annual financial statements (continued)

2.16 Provisions (continued)

Restructuring costs

Provisions for restructuring are made if the group has a formal plan for restructuring identifying:

- The business or part thereof;
- The locations affected;
- The location, function, and approximate number of employees that will be compensated for terminating their services;
- The estimated expenditures;
- When the plan will be implemented; and
- Has raised a valid expectation that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

2.17 Dividend received

Dividend income is recognised in profit or loss on the date that the company's right to receive payment is established.

2.18 Finance income and costs

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and gains on derivative instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial liabilities at fair value through profit or loss and losses on derivative instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

2.19 Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Rands at exchange rates at the reporting date. Foreign currency differences are recognised directly in other comprehensive income, in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

2. Presentation of annual financial statements (continued)

2.19 Foreign currencies (continued)

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in other comprehensive income in the FCTR.

2.20 Share-based payment transactions

Goods or services received or acquired in a share-based payment transaction are recognised when the goods are obtained or as the services are received. A corresponding increase in the equity compensation reserve is recognised if the goods or services were acquired in an equity-settled share-based payment transaction.

When the goods received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received are measured directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly are measured by reference to fair value of the equity instruments granted.

Share-based payment arrangements in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the group.

For equity-settled share-based payment transactions, options issued or granted to employees for services rendered or to be rendered are measured at the fair value of the equity instruments at grant date and recognised in profit or loss over the vesting period. For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

For share-based payment transactions in which the terms of the arrangement provide either the company or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

2.21 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 absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

2. Presentation of annual financial statements (continued)

2.21 Employee benefits (continued)

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 service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Payments made to industry-managed retirement benefit schemes (or state plans) are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Post-retirement medical aid benefits

The group contributes 50% of post-retirement medical aid costs of certain retired employees of Franki. The projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost and, where applicable past service cost.

The group has unfunded obligations to provide these post-retirement benefits. The estimated liability is recognised on an accrual basis over the working life of the eligible employees. Actuarial gains and losses are recognised immediately in other comprehensive income.

2.22 Segment reporting

The segment information has been prepared in accordance with IFRS 8 Operating Segments, which defines requirements for the disclosure of financial information of an entity's operating segments.

Identification of reportable segments

The group discloses its reportable segments according to the group's components that management monitor regularly in making decisions about operating matters. The reportable segments comprise various operating segments primarily located in South Africa based on the group's lines of business.

The revenue and operating assets are further disclosed within the geographical areas in which the group operates. Segment information is prepared in conformity with the basis that is reported to the chief operating decision makers in assessing segment performance and allocating resources to segments. These values have been reconciled to the consolidated financial statements. The basis reported by the group is in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements.

Segment revenue excludes value added taxation and includes intersegment revenue. Net revenue represents segment revenue from which intersegment revenue has been eliminated. Sales between segments are made on a commercial basis.

2. Presentation of annual financial statements (continued)

2.22 Segment reporting (continued)

Segment expenses include direct and allocated expenses. Depreciation and amortisation have been allocated to the segments to which they relate.

The segment assets comprise all assets of the different segments that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis.

Reportable segments

Geotechnical operations

Revenue in this segment is derived from the construction and provision of piling, pipejacking, lateral support and ground improvement for the construction industry, primarily in South Africa. Operations are, however, diversely located throughout Africa.

Civils operations

Revenue in this segment is derived from the construction of roads, township infrastructures, water and sewerage reticulation and concrete projects. Civils operations are solely located in South Africa.

Pipeline operations

Revenue in this segment is derived from the construction and rehabilitation of onshore pipelines. Pipeline operations are primarily located in South Africa.

Geographical information

The group's operations are principally located in South Africa. Operations are also located throughout Africa including Angola, Botswana, Tanzania, Swaziland, Lesotho, Nigeria, Namibia, Mozambique, DRC and the Indian Ocean Islands.

3. New accounting pronouncements

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 28 February 2010, and have not been applied in preparing these consolidated financial statements:

Standard		Effective date
IFRS 2 Share Based Payment	Clarification of scope of IFRS 2 and IFRS 3 revised. Amendments relating to accounting of the group cash-settled share-based payment transactions in the separate financial statements of group entities.	1 July 2009
IFRS 3 Business Combinations	Amendments to accounting for business combinations.	1 July 2009
IFRS 9 Financial Instruments	New standard that forms the first part of a three part project to replace IAS 39 Financial Instruments: Recognition and Measurement of financial assets.	1 January 2013
IAS 7 Statement of Cash Flows	Classification of expenditures incurred with the objective of generating future cash flows.	1 January 2010
IAS 17 Leases	Classification of leases of land.	1 January 2010
IAS 21 The Effects of Changes in Foreign Exchange Rates	Consequential amendments as a result of changes to Business Combinations.	1 July 2009
IAS 24 Related Party Disclosures	Simplification of the disclosure requirements for government-related entities. Clarification of the definition of a related party.	1 January 2011
IAS 27 Consolidated and Separate Financial Statements	Consequential amendments as a result of changes to Business Combinations.	1 July 2009
IAS 31 Interests in Joint Ventures	Consequential amendments as a result of changes to Business Combinations.	1 July 2009
IAS 36 Impairment of Assets	For purpose of impairment testing, the largest unit to which goodwill is allocated is an operating segment before aggregation.	1 January 2010
IAS 38 Intangible Assets	Consequential amendments arising from revised IFRS 3. Guidance on measuring the fair value of an intangible asset acquired in a business combination.	1 July 2009

Assessment of the potential impact of new and revised standards

Management has assessed the impact and concluded that the changes should not significantly impact the group and company annual financial statements.

4. Property, plant and equipment

Group	Cost R'000	Accumulated depreciation and impairment losses R'000	Carrying value R'000
2010			
Land and buildings	**43 931**	**(631)**	**43 300**
Plant and equipment	**735 649**	**(221 330)**	**514 319**
Motor vehicles	**80 856**	**(43 528)**	**37 328**
Furniture and fittings	**2 114**	**(1 415)**	**699**
Computers	**2 802**	**(2 019)**	**783**
	865 352	**(268 923)**	**596 429**
2009			
Land and buildings	35 058	(564)	34 494
Plant and equipment	703 415	(190 000)	513 415
Motor vehicles	76 144	(36 565)	39 579
Furniture and fittings	1 711	(1 253)	458
Computers	2 298	(1 699)	599
	818 626	(230 081)	588 545

The carrying amount of property, plant and equipment can be reconciled as follows:

	Carrying value at beginning of year R'000	Additions R'000	Disposals R'000	Depreciation R'000	Translation adjustments R'000	Carrying value at end of year R'000
2010						
Land and buildings	**34 494**	**11 091**	**(28)**	**(173)**	**(2 084)**	**43 300**
Plant and equipment	**513 415**	**71 444**	**(7 590)**	**(52 338)**	**(10 612)**	**514 316**
Motor vehicles	**39 579**	**12 507**	**(2 947)**	**(11 131)**	**(680)**	**37 328**
Furniture and fittings	**458**	**415**	**–**	**(174)**	**–**	**699**
Computers	**599**	**577**	**(15)**	**(377)**	**(1)**	**783**
	588 545	**96 034**	**(10 580)**	**(64 193)**	**(13 377)**	**596 429**

4. Property, plant and equipment (continued)

	Carrying value at beginning of year R'000	Additions R'000	Acquisitions through business combinations R'000	Disposals R'000	Depreciation R'000	Translation adjustments R'000	Carrying value at end of year R'000
2009							
Land and buildings	22 406	3 246	7 082	–	(178)	1 938	34 494
Plant and equipment	222 921	172 727	184 801	(837)	(64 249)	(1 948)	513 415
Motor vehicles	16 785	11 791	14 681	(343)	(3 771)	436	39 579
Furniture and fittings	418	98	122	–	(182)	2	458
Computers	211	493	136	–	(237)	(4)	599
	262 741	188 355	206 822	(1 180)	(68 617)	424	588 545

Included in the carrying amounts above are items of plant and equipment which have been impaired. The accumulated impairment at year-end was R8,9 million (2009: R8,9 million).

Certain plant and equipment with a carrying value of R300 million (2009: R311 million) is encumbered to secure the borrowings (instalment sale financing) set out in notes 13 and 17. Further to this, special notarial bonds to the value of R320 million (2009: R320 million) have been registered over the movable assets of Esor Africa and Franki, with the carrying value of R230 million (2009: R253 million) as shown in notes 13 and 17 to secure business acquisition financing.

A register containing the details of land and buildings is available for inspection during business hours at the registered office of the company by members or their duly authorised agents.

The carrying amount of property, plant and equipment can be reconciled as follows:

Company	Carrying value at beginning of year R'000	Additions R'000	Disposals R'000	Depre-ciation R'000	Disposal of business R'000	Carrying value at end of year R'000
2010						
Carrying value at beginning and end of the year	–	–	–	–	–	–
2009						
Plant and equipment	53 933	33 211	–	(3 407)	(83 737)	–
Motor vehicles	13 375	3 326	(299)	(1 309)	(15 093)	–
Furniture and fittings	152	10	–	(60)	(102)	–
Computers	208	83	–	(67)	(224)	–
	67 668	36 630	(299)	(4 843)	(99 156)	–

There were no assets with impaired values in the prior year.

5. Intangible assets

Group	Cost R'000	Accumulated amortisation and impairment R'000	Carrying value R'000
2010			
"Franki" brand name	**94 529**	**(2 521)**	**92 008**
"Patula" brand name	**12 662**	**(12 662)**	**–**
"Shearwater" brand name	**4 660**	**(4 660)**	**–**
"GCD" brand name	**2 117**	**(388)**	**1 729**
Customer contracts	**22 910**	**(22 910)**	**–**
	136 878	**(43 141)**	**93 737**
2009			
"Franki" brand name	94 529	(630)	93 899
"Patula" brand name	12 662	(12 662)	–
"Shearwater" brand name	4 660	(4 660)	–
"GCD" brand name	2 117	(176)	1 941
Customer contracts	22 910	(5 728)	17 182
	136 878	(23 856)	113 022

The carrying amount of intangible assets can be reconciled as follows:

	Amortisation period	Carrying value at beginning of year R'000	Additions R'000	Amortisation R'000	Impairment R'000	Carrying value at end of year R'000
2010						
"Franki" brand name	**50 years**	**93 899**	**–**	**(1 891)**	**–**	**92 008**
"GCD" brand name	**10 years**	**1 941**	**–**	**(212)**	**–**	**1 729**
Customer contracts	**16 months**	**17 182**	**–**	**(17 182)**	**–**	**–**
		113 022	**–**	**(19 285)**	**–**	**93 737**
2009						
"Franki" brand name	50 years	94 529	–	(630)	–	93 899
"Patula" brand name	4 months	–	12 662	(422)	(12 240)	–
"Shearwater" brand name	4 months	–	4 660	(310)	(4 350)	–
"GCD" brand name	10 years	–	2 117	(176)	–	1 941
Customer contracts	16 months	–	22 910	(5 728)	–	17 182
		94 529	42 349	(7 266)	(16 590)	113 022

The Patula and Shearwater brand names were impaired in full in the previous year-end as a decision was made to re-brand group companies to all trade under the Esorfranki name.

6. Goodwill

Group	Cost R'000	Accumulated impairment R'000	Carrying value R'000
2010			
Franki	**26 468**	–	**26 468**
Esorfranki Civils	**178 306**	–	**178 306**
Esorfranki Pipelines	**90 837**	–	**90 837**
Brookmay	**557**	–	**557**
GCD	**9 547**	–	**9 547**
	305 715	–	**305 715**
2009			
Franki	26 468	–	26 468
Esorfranki Civils	152 620	–	152 620
Esorfranki Pipelines	90 981	–	90 981
Brookmay	557	–	557
GCD	9 547	–	9 547
	280 173	–	280 173

The carrying amount of goodwill can be reconciled as follows:

	Carrying value at beginning of year R'000	Additions R'000	Adjustment R'000	Carrying value at end of year R'000
2010				
Franki	**26 468**	–	–	**26 468**
Esorfranki Civils	**152 620**	**25 686**	–	**178 306**
Esorfranki Pipelines	**90 981**	–	**(144)**	**90 837**
Brookmay	**557**	–	–	**557**
GCD	**9 547**	–	–	**9 547**
	280 173	**25 686**	**(144)**	**305 715**
2009				
Franki	26 468	–	–	26 468
Esorfranki Civils	–	152 620	–	152 620
Esorfranki Pipelines	–	90 981	–	90 981
Brookmay	–	557	–	557
GCD	–	9 547	–	9 547
	26 468	253 705	–	280 173

6. Goodwill (continued)

Goodwill arising from business combinations has been allocated to individual reporting units or cash-generating units, namely Franki, Esorfranki Civils, Esorfranki Pipelines, Brookmay and GCD.

The recoverable amount of each cash-generating unit was estimated based on its value in use and in all cases the carrying amount was lower than its recoverable amount and no impairment loss was recognised. The recoverable amount was determined with the assistance of independent valuers.

Value in use was determined by discounting the future cash flows generated from the continuing use of the individual entities and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and a forecast period of five years;
- Revenue growth was projected at 6,5% (2009: 8%) per annum for the forecast period, based on past experience;
- Gross margins were aligned downwards to margins expected in the industry over the forecast period based on past experience;
- Operating expenses were not expected to increase significantly but have been increased in line with revenue growth; and
- A pre-tax discount rate of between 22,98% to 24,78% (2009: 23,9% to 25,3%) was applied in determining the recoverable amounts of the cash-generating units. The discount rate was estimated based on weighted average cost of capital and a debt-equity ratio of 20% (2009: 20%).

The values assigned to key assumptions represent management's assessment of future trends in the construction industry and are based on both internal and external sources.

The above estimates are sensitive in the following areas:

- Discount rate applied; and
- Forecasted revenues and margins.

Based on a range of estimates in the above areas, management is confident that no impairment is required.

		Group		Company	
		2010	2009	**2010**	2009
		R'000	R'000	**R'000**	R'000
7.	**Investments in subsidiaries**				
	Shares at cost	**–**	–	**671 042**	641 477
	Details of the investments in subsidiaries are shown in notes 34 and 37.				
8.	**Inventories**				
	Raw materials	**14 457**	10 357	**–**	–
	Consumables	**370**	378	**–**	–
	Other	**–**	644	**–**	–
		14 827	11 379	**–**	–
9.	**Other investments**				
	– contingency policy	**6 762**	5 355	**–**	–
	– endowments	**–**	8 914	**–**	–
		6 762	14 269	**–**	–

The group has a contingency policy contract which is in line with the group's risk management policies. This is a self-insurance plan which affords the group the opportunity to receive a performance bonus at the end of the contract based on favourable claims experience and sound risk management practices during the contract period.

Endowment policies owned by Esorfranki Plant (Pty) Limited were ceded to Standard Bank as security for property, plant and equipment acquired. The fair value of these policies approximated the carrying value as at 28 February 2009. These policies were sold in the current financial year.

	Interest rate %	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
10. Unsecured loans					
Esor Africa (Proprietary) Limited	6,5			**8 605**	117 786
Esor Broad Based Share Ownership Scheme	9,0			**–**	20 625
Esor Share Incentive Trust	–			**24 018**	–
Franki Africa (Proprietary) Limited	6,5			**2 153**	(6 212)
Esorfranki Civils (Proprietary) Limited	–			**–**	11 191
Esorfranki Pipelines (Proprietary) Limited	6,5			**59 826**	59 826
				94 602	203 216
Disclosed as follows:					
Current assets				**94 602**	209 428
Current liabilities				**–**	(6 212)
				94 602	203 216

These loans attract interest at the rates indicated and are repayable on demand.

A subordination agreement has been entered into by Esorfranki Limited and its subsidiaries, subordinating any intra-group debt claims the group companies may have against each other to the preferential debts owed to The Standard Bank of South Africa Limited and ABSA Bank Limited for the duration of the funding arrangements entered into (refer notes 13 and 17).

No impairments have been raised against any of the loans receivable as the fair values of Esor Africa (Pty) Limited's assets and liabilities exceed the shareholder's deficit recorded.

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
11. Trade and other receivables				
Trade receivables	**483 744**	522 504	**–**	–
Sundry debtors and prepayments	**16 125**	50 296	**118**	–
	499 869	572 800	**118**	–
Trade receivables include amounts due from customers. This amount is calculated as follows:				
Costs incurred plus recognised profits, less recognised losses on contracts in progress at year-end	**1 857 817**	1 414 722	**–**	–
Amounts received	**(1 465 266)**	(977 437)	**–**	–
Retentions receivable	**91 193**	85 219	**–**	–
	483 744	522 504	**–**	–
Amounts due from contract customers	**483 744**	522 504	**–**	–
Amounts due to contract customers (refer note 18)	**(85 723)**	(145 993)	**–**	–

The total carrying value of trade receivables have been pledged to secure the borrowing facilities mentioned in notes 13 and 17.

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
12. Share capital and premium				
Authorised				
500 000 000 ordinary shares of R0,001 each	**500**	500	**500**	500
Issued				
302 162 174 (2009: 289 495 507) ordinary shares of R0,001 each	**302**	289	**302**	289
Less: 9 002 924 (2009: 11 862 010) treasury shares held by the Esor Share Incentive Scheme	**(10)**	(11)	**–**	–
	292	278	**302**	289
Share premium	**396 664**	338 800	**416 698**	364 149
Balance at beginning of year	**338 800**	213 344	**364 149**	219 722
Premium on shares issued	**57 869**	125 800	**52 554**	144 771
Share issue expenses written off	**(5)**	(344)	**(5)**	(344)
	396 956	339 078	**417 000**	364 438

Unissued shares

In terms of a resolution passed at the annual general meeting of the company, the directors are authorised to allot or issue unissued shares for cash provided the number of shares issued does not exceed 50% of the issued share capital. This authorisation is subject to the provisions of Section 222(1)(c) of the Companies Act of South Africa and the Listings Requirements of the JSE Limited and is valid until the next annual general meeting.

Share movements

The following changes were made to issued share capital during the year:

Ordinary shares, as tabled below, were issued for R4,15, on 17 August 2009 (1 December 2009: R3,75 per share on the effective date of control) as partial settlement of the purchase price for the acquisition of the following entities:

	2010 Number of shares issued	2010 Fair value R'000	2009 Number of shares issued	2009 Fair value R'000
Acquiree				
Esorfranki Civils	**12 666 667**	**52 567**	15 570 000	58 388
Brookmay	**–**	**–**	430 000	1 612
Esorfranki Pipelines	**–**	**–**	16 666 667	62 500
	12 666 667	**52 567**	32 666 667	122 500

A further 8 250 000 ordinary shares were issued to the Esor Share Incentive Scheme at R2,50 per share. Of this number, 5 250 000 were issued in terms of the agreement of sale concluded with the vendors. The allocation of share options were granted on 14 December 2009.

During the previous year, on 1 December 2008, 675 000 ordinary shares were issued to Vunani Corporate Finance, the transaction advisor, for R2,50 per share as consideration for the services rendered in respect of the acquisition of the entities.

13. Secured borrowings

	Monthly instalment		Group		Company	
	Group R'000	Company R'000	**2010 R'000**	2009 R'000	**2010 R'000**	2009 R'000
Instalment sale agreements	5 887	–	**207 432**	266 576	**–**	–
Junonia Investments No 3 (Pty) Limited	4 803	–	**189 117**	251 472	**–**	–
Mortgage bond	7		**159**	219	**–**	–
Total secured borrowings			**396 708**	518 267	**–**	–
Current portion included under current liabilities			**(121 677)**	(147 664)	**–**	–
			275 031	370 603	**–**	–

Instalment sale agreements are secured over plant and equipment referred to in note 4. Interest is levied at rates of between prime minus 1% and prime minus 2%. Instalment sale agreements are for periods not exceeding 60 months. The last final repayment date on the instalment agreements is February 2015.

The Junonia Investments No 3 (Pty) Limited financing comprises two loans given by Junonia Investments to Esor Africa (Pty) Limited. These loans, ultimately provided by The Standard Bank of South Africa Limited and ABSA Bank Limited, are secured by a cession of book debts, proceeds from short- and long-term insurance and a special notarial bond over movable assets (refer note 4). The final date of repayment on these loans is November 2013. Interest is levied at a rate of between JIBAR (three months) plus 220 basis points and JIBAR (one month) plus 250 basis points.

Loan covenants imposed by this financing monitor four specific ratios, namely pre and post dividend debt service cover, debt: EBITDA, and EBITDA: interest payable. There are no breaches of any of the imposed loan covenants as at 28 February 2010 and the directors are confident that the group is able to maintain the ratios above the levels required by the covenants (refer note 10 for details of subordination agreements entered into by group companies as security).

The mortgage bond is secured by a property owned by a group company, with interest levied at the prime lending rate. The carrying value is R1,7 million (2009: R1,7 million).The final repayment date on this bond is October 2012.

At year-end, the prime interest rate was 10,5%.

		Group		Company	
		2010	2009	**2010**	2009
		R'000	R'000	**R'000**	R'000
14. Post-retirement benefits					
Defined benefits					
Prior to 1 July 2005, all medical aid members of Franki who reached the age of 65 years together with employees who were 55 years or older, who accepted early retirement as an alternative to retrenchment, received a subsidy of 50% towards post-retirement medical aid contributions. This obligation is unfunded.					
Balance at 1 March		**1 587**	8 106	**–**	–
Current contributions paid		**(79)**	(1 639)	**–**	–
Settlement of liability		**–**	(5 082)	**–**	–
Actuarial loss/(gain) charged to other comprehensive income		**28**	(155)	**–**	–
Interest cost		**129**	357	**–**	–
Balance at 28 February		**1 665**	1 587	**–**	–
The principal actuarial assumptions applied in the determination of the fair values include:					
Consumer price inflation	(%)	**5,70**	4,75	**–**	–
Discount rate	(%)	**9,25**	8,50	**–**	–
Medical cost trend rate	(%)	**7,25**	6,25	**–**	–
Date of last actuarial valuation: 28 February 2010					
Date of next actuarial valuation: 28 February 2011					
Any changes in the actuarial assumptions are not expected to have a significant impact on the post-retirement obligation.					
Defined contributions					
Contributions to retirement benefit funds		**22 578**	15 263	**–**	763

Retirement benefits are provided for full-time permanently employed staff who are under normal retirement ages by means of a Pension and Provident Fund. The company's contributions are charged to profit or loss in the year that they become due. The funds are governed by the Pension Funds Act 24 of 1956 and are defined contribution funds.

		Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
15.	**Deferred tax**				
	Balance at beginning of year	**92 110**	37 839	**(101)**	4 203
	Movements during the year:				
	Acquisitions through business combinations (refer note 26)	**–**	54 815	**–**	(13 772)
	Translation adjustment	**(942)**	190	**–**	–
	Tax rate change	**–**	(1 223)	**–**	(146)
	Temporary differences	**34 177**	489	**(624)**	9 614
	Balance at end of year	**125 345**	92 110	**(725)**	(101)
	The balance comprises:				
	Leave pay accruals	**(321)**	(851)	**–**	–
	Property, plant and equipment	**60 084**	60 994	**–**	–
	Retentions receivable	**24 949**	23 579	**–**	–
	Provisions/contract accruals	**(24 150)**	(30 346)	**–**	–
	Accrued income	**16 850**	15 702	**–**	–
	Intangible assets	**39 840**	31 646	**–**	–
	Deferred income	**11 203**	5 189	**–**	–
	Assessed loss	**(7 638)**	(8 587)	**(76)**	(101)
	Section 24C allowance	**23 905**	9 995	**–**	–
	Other	**(19 377)**	(15 211)	**(649)**	–
		125 345	92 110	**(725)**	(101)
	Non-current assets	**(3 670)**	(5 780)	**(725)**	(101)
	Non-current liabilities	**129 015**	97 890	**–**	–
		125 345	92 110	**(725)**	(101)
16.	**Provisions**				
	Staff bonuses				
	– opening balance	**21 584**	15 559	**–**	–
	– acquired through business combinations	**–**	12 447	**–**	–
	– utilised	**(29 655)**	(55 218)	**–**	–
	– created	**29 158**	48 796	**–**	–
	Closing balance	**21 087**	21 584	**–**	–
	Other provisions				
	– opening balance	**9 534**	–	**–**	–
	– acquired through business combinations	**–**	7 709	**–**	–
	– utilised	**(9 534)**	–	**–**	–
	– created	**–**	1 825	**–**	–
	Closing balance	**–**	9 534	**–**	–
	Total provisions	**21 087**	31 118	**–**	–

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
17. Borrowing facilities				
Available facilities				
– asset finance	**400 000**	400 000	–	–
– business acquisition financing	**250 000**	350 000	–	–
– contract guarantees	**154 000**	102 672	–	–
– overdraft	**22 899**	29 719	–	–
– forward exchange contracts	**15 000**	15 000	–	–
– mortgage bond	**219**	219	–	–
	842 118	897 610	–	–
Facilities utilised				
– asset finance	**207 432**	266 576	–	–
– business acquisition financing	**189 117**	251 472	–	–
– contract guarantees	**30 718**	46 976	–	–
– mortgage bonds	**159**	219	–	–
	427 426	565 243	–	–
Companies within the group have provided securities and undertaken to adhere to certain financial covenants to secure these facilities (refer note 13).				
In addition, a corporate guarantee by Franki restricted to the Rand equivalent of US$6,5 million in respect of its African and Indian Ocean Island operations has also been issued in this regard.				
Additional unsecured guarantee facilities have been provided by Lombard Insurance Group	**700 000**	500 000	–	–
Amounts utilised	**299 571**	219 616	–	–

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
18. Trade and other payables				
Trade payables	**120 515**	98 362	**–**	–
Accruals	**39 715**	69 599	**764**	1 262
Amounts due to customers (refer note 11)	**85 723**	145 993	**–**	–
Deferred contingent consideration (refer note 26)	**–**	140 853	**–**	140 853
Sundry payables	**38 724**	55 888	**490**	899
	284 677	510 695	**1 254**	143 014
19. Revenue				
Contract revenue	**1 857 817**	1 414 722	**–**	181 204
Revenue comprises the value of work done in respect of contracts, net of value added taxation.				
20. Other income				
Collection commission	**–**	–	**–**	33
Sundry income	**3 937**	1 631	**2 039**	656
	3 937	1 631	**2 039**	689
21. Results from operating activities				
Results from operating activities are stated after taking into account the following items which require separate disclosure:				
Income				
Profit on disposal of property, plant and equipment	**182**	370	**–**	47
Exchange gain on amounts due from subsidiaries and foreign branches	**60 788**	48 394	**–**	–
Expenditure				
Auditor remuneration (Audit Services)	**2 318**	3 234	**561**	723
Depreciation of property, plant and equipment	**64 193**	68 617	**–**	4 843
Amortisation of intangible assets	**19 285**	7 266	**–**	–
Impairment of intangible assets	**–**	16 590	**–**	–
Loss on disposal of property, plant and equipment	**7 677**	316	**–**	54
Exchange loss on amounts due from subsidiaries and foreign branches	**58 100**	32 740	**–**	–
Staff costs	**416 174**	312 468	**–**	32 602
Operating lease charges (refer note 35)	**21 912**	23 947	**–**	17 019
– equipment hire	**14 227**	16 984	**–**	16 179
– motor vehicles	**4 594**	3 167	**–**	–
– property rentals	**3 091**	3 796	**–**	840
Number of employees at year–end	**3 225**	3 336	**–**	–

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
22. Income tax expense				
South African normal taxation				
– current tax	**45 152**	63 919	**–**	–
– prior year overprovision	**(16 732)**	(18 644)	**(520)**	(4 276)
Deferred tax				
– current	**21 390**	(7 953)	**(624)**	9 468
– prior year underprovision	**17 406**	10 361	**–**	–
Secondary tax on companies ("STC")	**5 031**	4 746	**–**	1 958
Foreign taxation				
– current	**13 564**	15 927	**–**	–
– prior year (over)/underprovision	**(3 084)**	2 175	**–**	–
Deferred				
– current	**(2 978)**	(2 032)	**–**	–
– prior year overprovision	**(1 641)**	(1 110)	**–**	–
	78 108	67 389	**(1 144)**	7 150
Reconciliation of tax rates:	**%**	%	**%**	%
Normal rate of taxation	**28,00**	28,00	**28,00**	28,00
Adjusted for:	**0,32**	3,98	**(30,29)**	(12,49)
– exempt income	**0,10**	(0,21)	**(28,00)**	(7,47)
– secondary tax on companies	**1,82**	2,25	**–**	4,25
– prior year overprovision	**(1,47)**	(3,42)	**(1,04)**	(9,27)
– foreign tax rates	**(0,29)**	1,79	**–**	–
– other	**0,16**	3,57	**(1,25)**	–
Effective rate of taxation	**28,32**	31,98	**(2,29)**	15,51

Secondary tax on companies

A potential liability for STC of R8,2 million (2009: R7,5 million) exists should the company declare a dividend.

		Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
23. Earnings per share					
Basic earnings per share	(cents)	**69,4**	56,9	**17,3**	15,1
Diluted earnings per share	(cents)	**68,6**	54,1	**17,3**	15,1
Headline earnings per share	(cents)	**71,3**	61,7	**17,3**	15,1
Diluted headline earnings per share	(cents)	**70,5**	58,5	**17,3**	15,1
Dividend per share	(cents)	**15,0**	15,0	**17,5**	15,0
The calculation of the basic earnings per share attributable to the ordinary equity holders of the parent is based on the following information:					
Reconciliation of headline earnings					
Profit after tax		**197 641**	143 382	**51 131**	38 970
Net loss/(profit) on disposal of property, plant and equipment		**5 396**	(39)	**–**	5
Impairment of intangible assets		**–**	11 944	**–**	–
Headline earnings		**203 037**	155 287	**51 131**	38 975
Weighted average number of ordinary shares					
Issued ordinary shares		**289 495 507**	247 903 840	**289 495 507**	247 903 840
Effect of own shares held		**(10 444 216)**	(6 896 552)	**–**	–
Effect of share options exercised			631 218	**–**	–
Effect of shares issued		**5 691 324**	10 141 530	**5 691 324**	10 141 530
Weighted average number of shares		**284 742 615**	251 780 036	**295 186 831**	258 045 370
Diluted earnings					
The calculation of the diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following information:					
Reconciliation of headline earnings					
Profit after tax		**197 641**	143 382	**51 131**	38 970
Net loss/(profit) on disposal of property, plant and equipment		**5 396**	(39)	**–**	5
Impairment of intangible assets		**–**	11 944	**–**	–
Headline earnings		**203 037**	155 287	**51 131**	38 975
Diluted weighted average number of ordinary shares					
Weighted average number of ordinary shares		**284 742 615**	251 780 036	**295 186 831**	258 045 370
Effect of share options in issue		**3 295 731**	13 369 401	**–**	–
Diluted weighted average number of shares		**288 038 346**	265 149 437	**295 186 831**	258 045 370

The average market value of the company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
24. Reconciliation of profit before taxation to cash generated from/(utilised by) operations				
Profit before taxation	**275 749**	210 771	**49 987**	46 120
Adjusted for:				
– finance income	**(63 281)**	(55 600)	**(8)**	(2 408)
– profit on disposal of property, plant and equipment	**(182)**	(370)	**–**	(47)
– loss on disposal of property, plant and equipment	**7 677**	316	**–**	54
– dividends received	**–**	–	**(50 000)**	(30 000)
– foreign currency translation reserve adjustment	**(16 512)**	7 735	**–**	–
– fair value adjustments	**–**	10 017	**–**	–
– depreciation of property, plant and equipment	**64 193**	68 617	**–**	4 843
– amortisation of intangible assets	**19 285**	7 266	**–**	–
– impairment of intangible assets	**–**	16 590	**–**	–
– share–based payments	**4 336**	1 556	**4 336**	303
– finance costs	**93 106**	78 279	**193**	3 798
Operating profit before working capital changes	**384 371**	345 177	**4 508**	22 663
Working capital changes	**(25 713)**	(81 895)	**(141 878)**	(24 812)
Decrease/(increase) in trade and other receivables	**72 931**	(156 079)	**(118)**	(29 841)
(Increase)/decrease in inventories	**(3 448)**	3 506	**–**	(82)
(Decrease)/increase in trade and other payables	**(85 165)**	65 283	**(141 760)**	751
(Decrease)/increase in provisions	**(10 031)**	5 395	**–**	4 360
Cash generated from/(utilised by) operations	**358 658**	263 282	**(137 370)**	(2 149)

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
25. Taxation paid				
Amounts (owing)/receivable at beginning of year	**(79 659)**	(23 254)	**2 661**	(7 873)
Current tax charged to profit or loss	**(43 931)**	(68 123)	**520**	2 318
Acquisition of business combinations	**–**	(18 618)	**–**	–
Amount (receivable)/owing at end of year	**(3 308)**	79 659	**(3 356)**	(2 661)
	(126 898)	(30 336)	**(175)**	(8 216)

26. Acquisition of businesses

During the prior year the Esorfranki group acquired the following businesses:

- Esorfranki Civils;
- Esorfranki Pipelines;
- Brookmay; and
- GCD.

Esorfranki Civils

On 31 October 2008, the group acquired the entire issued share capital of the Esorfranki Civils Group (comprising Patula Construction (Pty) Limited, Patula Plant Hire (Pty) Limited and Balekane Construction (Pty) Limited) for R145,7 million in cash and R58,4 million in Esorfranki shares. The deal was also subject to a contingent consideration clause which required an additional payment of R114 million in cash and R52,6 million (2009: R26,9 million) in Esorfranki shares. Esorfranki Civils met the required targets on 28 February 2009.

Esorfranki Pipelines (Pty) Limited

On 31 October 2008, the group acquired the entire issued share capital in Esorfranki Pipelines (Pty) Limited, inclusive of Esorfranki Pipelines (Pty) Limited's business operations, for R103,7 million in cash and R62,5 million in shares. The deal was also subject to a contingent consideration, however, Esorfranki Pipelines did not achieve the required target.

Brookmay Properties (Pty) Limited

On 31 October 2008, the group acquired all of the shares in Brookmay Properties (Pty) Limited for R3,9 million in cash and R1,6 million in shares.

Geo Compaction Dynamics

On 1 May 2008, the group acquired the business of Geo Compaction Dynamics (Pty) Limited for R18 million in cash.

26. Acquisition of business combinations (continued)

Additional cash payments during the current year from the business acquisitions were as follows:

2010	Esorfranki Civils Group Recognised fair values on acquisition R'000	Esorfranki Pipelines Recognised fair values on acquisition R'000	Brookmay Properties Recognised fair values on acquisition R'000	GCD Recognised fair values on acquisition R'000	Total Recognised fair values on acquisition R'000
Property, plant and equipment	177 652	12 406	6 544	10 220	206 822
Intangible assets	29 100	11 132	–	2 117	42 349
Inventories	7 534	127	–	–	7 661
Unsecured loans	2 287	625	–	–	2 911
Investments	8 227	–	–	–	8 227
Trade and other receivables	117 434	28 732	–	–	146 166
Cash and cash equivalents	79 518	61 105	35	–	140 658
Secured borrowings	(65 415)	(1 079)	(232)	(1 761)	(68 487)
Deferred taxation	(48 640)	(5 583)	–	(592)	(54 815)
Trade and other payables	(62 328)	(24 255)	–	(1 486)	(88 069)
Current portion of secured borrowings	(21 805)	(492)	(1 364)	–	(23 661)
Unsecured loans	(11 191)	(59 825)	–	–	(71 015)
Taxation	(16 068)	(2 502)	(48)	–	(18 618)
Provisions	(15 160)	(4 996)	–	–	(20 156)
Total net assets	181 145	15 395	4 935	8 498	209 973
Goodwill on acquisition	152 620	90 981	557	9 547	253 705
Goodwill post acquisition adjustments	25 686	(144)	–	–	25 542
Total goodwill	178 306	90 837	557	9 547	279 247
Cash consideration paid	193 490	60 961	35	–	254 486
Total paid to date	370 642	166 057	5 492	18 045	560 236
Previously paid in 2009	(66 197)	(42 596)	(3 845)	(18 045)	(130 683)
Shares issued	(110 955)	(62 500)	(1 612)	–	(175 067)
Cash acquired	(79 518)	(61 105)	(35)	–	(140 658)
Net cash outflow	113 972	(144)	–	–	113 828

26. Acquisition of business combinations (continued)

The acquisitions had the following effect on the group's assets and liabilities on acquisition date:

	Esorfranki Civils Group		Esorfranki Pipelines		Brookmay		GCD		Total
2009	Pre-acquisition carrying amounts R'000	Recognised fair values on acquisition R'000	Pre-acquisition carrying amounts R'000	Recognised fair values on acquisition R'000	Pre-acquisition carrying amounts R'000	Recognised fair values on acquisition R'000	Pre-acquisition carrying amounts R'000	Recognised fair values on acquisition R'000	Recognised fair values on acquisition R'000
Property, plant and equipment	116 439	177 652	8 804	12 406	1 760	6 544	4 452	10 220	206 822
Intangible assets		29 100	–	11 132	–	–	–	2 117	42 349
Inventories	7 535	7 534	127	127	–	–	–	–	7 661
Unsecured loans	2 287	2 287	625	625	–	–	–	–	2 911
Investments	8 227	8 227	–	–	–	–	–	–	8 227
Trade and other receivables	117 434	117 434	28 732	28 732	–	–	–	–	146 166
Cash and cash equivalents	79 517	79 518	61 105	61 105	35	35	–	–	140 658
Secured borrowings	(65 415)	(65 415)	(1 079)	(1 079)	(232)	(232)	(1 761)	(1 761)	(68 487)
Deferred taxation	(23 352)	(48 640)	(1 457)	(5 583)	–	–	–	(592)	(54 815)
Trade and other payables	(62 328)	(62 328)	(24 255)	(24 255)	–	–	(1 486)	(1 486)	(88 069)
Current portion of secured borrowings	(21 805)	(21 805)	(492)	(492)	(1 364)	(1 364)	–	–	(23 661)
Unsecured loans	(11 191)	(11 191)	(59 825)	(59 825)	–	–	–	–	(71 015)
Taxation	(16 068)	(16 068)	(2 502)	(2 502)	(48)	(48)	–	–	(18 618)
Provisions	(15 160)	(15 160)	(4 996)	(4 996)	–	–	–	–	(20 156)
Total net assets	116 120	181 145	4 787	15 395	151	4 935	1 205	8 498	209 973
Goodwill on acquisition		152 620		90 981		557		9 547	253 705
Cash consideration paid		145 715		103 701		3 880		18 045	271 341
Total paid		344 956		166 201		5 492		18 045	534 694
Deferred contingent consideration		(140 853)		–		–		–	(140 853)
Shares issued		(58 388)		(62 500)		(1 612)		–	(122 500)
Cash acquired		(79 518)		(61 105)		(35)		–	(140 658)
Net cash outflow		66 197		42 596		3 845		18 045	130 683

27. Disposal of business

During the prior year, effective 31 August 2008, the company disposed of its operating business to a wholly owned subsidiary, Esor Africa. The effect of the disposal was to transfer the day-to-day operations out of the company to maintain it as an investment holding company. The net assets of the company were as follows on the date of disposal:

	Company	
	2010	2009
	R'000	R'000
Net assets disposed of:		
Property, plant and equipment	–	99 156
Investment property	–	–
Unsecured loans	–	8 574
Inventories	–	216
Trade and other receivables	–	113 336
Cash	–	7 203
Taxation	–	–
Deferred taxation	–	(13 772)
Trade and other payables	–	(28 111)
Secured borrowings	–	(78 350)
Investments	–	–
Provisions	–	(4 360)
Shareholders' loan	–	(365 000)
Common control reserve	–	261 107
Add back shareholders' loan	–	365 000
Subtotal	–	364 999
Less:		
Cash acquired	–	7 203
Net cash received on disposal of business	–	357 796

	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000
28. Cash and cash equivalents				
Cash and cash equivalents included in the cash flow include the following statement of financial position amounts:				
Cash and cash equivalent at bank and on hand	**116 863**	272 825	**354**	295

		Group		Company	
		2010	2009	**2010**	2009
		R'000	R'000	**R'000**	R'000
29. Jointly controlled entities					
The group and company have interests in the following jointly controlled entities:					
Stefanutti Stocks Franki	(%)	**50**	–	**–**	–
GFIP Contractors	(%)	**10**	10	**–**	–
M & R Franki	(%)	**50**	50	**–**	–
Sapref WBHO	(%)	**50**	50	**–**	–
Steelpoort WBHO	(%)	**50**	50	**–**	–
Potties SWC	(%)	**50**	50	**–**	–
The group's interests in the jointly controlled entities have been incorporated into the results, assets and liabilities as follows:					
Statement of financial position					
Current assets		**30 907**	143 461	**–**	–
Current liabilities		**28 109**	60 872	**–**	–
Statement of comprehensive income					
Revenue		**221 068**	93 525	**–**	–
Cost of sales		**(199 529)**	(82 993)	**–**	–
Gross profit		**21 539**	10 532	**–**	–
Other operating income		**334**	148	**–**	–
Other operating expenses		**–**	(2)	**–**	–
Profit before taxation		**21 873**	10 678	**–**	–

30. Share-based payment transactions

The group currently operates three share-based payment arrangements, which are described below:

General employee share options	Plan A	Plan B	Plan C
Grant date	14 March 2006	30 November 2006	14 December 2009
Number of options granted	3 000 000	3 000 000	8 250 000
Option life	Five years	Five years	Five years
Vesting conditions	Options vest in tranches of 20% per annum	Options vest in tranches of 20% per annum	Options vest in tranches of 20% per annum
Method of settlement	Equity	Equity	Equity

The fair values of options granted were calculated using Black Scholes option pricing model. The key inputs into the model were as follows:

General employee share options	Plan A	Plan B	Plan C
Weighted average share price (cents)	237	237	692,5
Weighted average exercise price (cents)	136	136	362
Weighted average volatility (%)	35	35	50
Remaining option life (years)	2	2	4
Risk-free rate (%)	7,4	7,4	7,12

	2010 Number of share options	2009 Number of share options
Opening balance at beginning of year	**3 612 010**	4 884 908
Granted during the year	**8 250 000**	–
Exercised during the year	**(2 859 086)**	(1 272 898)
Outstanding at end of year	**9 002 924**	3 612 010

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Expense arising from share-based payment transaction	**4 336**	1 556	**–**	303

The expected volatility is estimated by considering the historic average share price volatility. The dividend yield assumption was based on a 20 cents per share dividend on a R3,62 share price valuation.

	Share options R'000	Basic salary R'000	Bonus R'000	Directors' fees R'000	Total R'000
31. Directors' emoluments					
2010					
Non-executive directors					
EG Dube	–	–	–	**70**	**70**
JM Hlongwane	–	–	–	**55**	**55**
Dr FA Sonn (including JC van Reenen, alternate)	–	–	–	**105**	**105**
DM Thompson	–	–	–	**121**	**121**
B Mathabathe	–	–	–	**60**	**60**
Executive directors					
B Krone	–	–	–	–	–
W van Houten	–	–	–	–	–
From the company	–	–	–	**411**	**411**
Executive directors					
Esor Africa					
B Krone	–	**1 704**	**918**	–	**2 622**
Franki					
W van Houten	**84**	**1 753**	**959**	–	**2 796**
From subsidiaries	**84**	**3 457**	**1 877**	–	**5 418**
Total emoluments	**84**	**3 457**	**1 877**	**411**	**5 829**

The company allocated limited unrestricted share options through the Esor Share Incentive Trust, as tabled below:

Director	Number of options	Exercise price per share R	Vesting date	Gain made on date of vesting R'000
W van Houten	22 700	1,00	5 June 2009	61
W van Houten	11 050	1,60	5 June 2009	23

	Basic salary R'000	Bonus R'000	Directors' fees R'000	Total R'000
31. Directors' emoluments (continued)				
2009				
Non-executive directors				
EG Dube	–	–	75	75
JM Hlongwane	–	–	70	70
Dr FA Sonn (including JC van Reenen, alternate)	–	–	100	100
DM Thompson	–	–	140	140
Executive directors				
ML Barber	720	400	–	1 120
AM Field	720	100	–	820
B Krone	720	260	–	980
RP McLintock	–	–	–	–
ML Trevisani	720	100	–	820
W van Houten	–	–	–	–
From the company	2 880	860	385	4 125
Executive directors				
Esor Africa				
ML Barber	607	300	–	907
AM Field	629	400	–	1 029
B Krone	720	413	–	1 133
ML Trevisani	629	400	–	1 029
Franki				
RP McLintock	1 328	1 100	–	2 428
W van Houten	1 386	1 100	–	2 486
From subsidiaries	5 299	3 713	–	9 012
Total emoluments	8 179	4 573	385	13 137

No management, consulting, technical or other fees directly or indirectly, including payments to management companies, have been paid to any directors of the company. There is no commission, gain or profit sharing arrangement payable to any of the directors.

32. Risk management

Overview

- Credit risk;
- Liquidity risk; and
- Market risk.

The risk exposure is addressed below and has not changed from the previous reporting period.

This note presents information about the group's and company's exposure to each of the above risks, the group's and company's objectives, policies and processes for measuring and managing risk, and the group's and company's management of capital. Further quantitative disclosures are included throughout these consolidated and separate financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's and company's risk management framework. The risk management policies are established to identify and analyse the risks faced by the group and company, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The group and company aim to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework. The Audit and Risk Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables.

Trade and other receivables

The exposure to credit risk is influenced mainly by the counterparties' individual risk characteristics as an end-user customer. The Tender Committee, established in terms of its risk policies and procedures, is mandated to review new customers and counterparties prior to submission of any bid or tender offers and proposals. This committee directs appropriate risk payment conditions and terms in its review of tender proposals and bids. Contract debtors, by geographical location, are grouped, as a concentration of credit risk, and monitored monthly by the Executive Management Committee. When trading in other African countries, the group addresses the credit risk by mainly trading with existing customers. In addition, large upfront payments and guarantees are requested in order to minimise exposure.

More than 80% of the group's customers have been transacting with the group for a number of years, and losses have occurred infrequently. In monitoring customer credit risk, customers are mainly grouped according to their geographical location, whilst other credit characteristics such as ageing profile, maturity and existence of previous financial difficulties are also considered. Customers classed as "high risk" are placed on a restrictive customer list and future contracts are entered into on an advance payment or payment guaranteed basis with the approval of the Tender Committee. Contracts entered into contain provisions for

32. Risk management (continued)

Credit risk (continued)

Trade and other receivables (continued)

payment defaults and retention of title clauses so that in the event of non-payment the group and company may have secured claims. The group and company may require collateral in respect of trade and other receivables and accrued income.

The group has various cash deposits, forward exchange contracts and financial guarantees which are held with reputable banking institutions which mitigate credit risk.

Liquidity risk

Liquidity risk is the risk that the group and company will not be able to meet their financial obligations as they fall due. The policy to manage liquidity is to ensure, as far as possible, that the group and company will always have sufficient liquidity to meet their liabilities when they are due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The group and company use activity based costing to estimate the tendered cost of its products and services. Cash flow models, especially on larger tender proposals, are reviewed by the Tender Committee. The objective is to ensure that projected cash flows remain positive throughout their estimated duration. Daily and monthly forecast cash flows are monitored to ensure that surplus cash is appropriately invested in optimal treasury call deposits and access finance facilities. Details of the borrowing facilities have been set out in note 17.

The company has issued a financial guarantee contract in respect of a group company's secured borrowings and for which the maximum amount payable by the company, assuming all guarantees are called on, is R396,7 million (2009: R518,2 million).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the group's and company's income or the value of its holdings of financial instruments. The objective is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

The group and company are exposed to currency risk on intra-group transactions, capital asset acquisitions and foreign cash resources that are denominated in a currency other than the respective functional currencies of the group entities, primarily the South African Rand.

The group economically hedges all foreign capital asset additions or imports against foreign currency exposures over the estimated delivery lead times. The company uses forward exchange contracts to hedge its currency risk, mostly with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

The principal amounts of the group's and company's foreign cash balances are managed to ensure that its net exposure is kept to acceptable exposure levels through multiple hard currencies, both on and offshore. Foreign treasury call deposits, denominated in currencies other than the underlying operational functional currency, provide an economic hedge.

Gross intra-group receivables are denominated in the functional currency of the entity funding the transaction. These investment levels are monitored to ensure that the net foreign exchange risk exposure is best economically hedged. Cash flows are monitored to minimise unnecessary foreign exchange risk associated with intra-group transactions. No derivatives are entered into to hedge these positions.

The group's and company's investments in foreign operations are not hedged as those currency positions are considered to be long-term in nature.

32. Risk management (continued)

Market risk (continued)

Interest risk

The group and company are exposed to variable linked interest rate risk on their purchases of capital assets financed through instalment sale agreements. The group and company treasury operates an access finance facility against its exposure on its instalment sale borrowings, thereby economically off-setting its risk to interest rate changes.

One of the group entities entered into a fixed-rate swap agreement in the prior year to economically hedge the variable interest rate risk on the loan finance obtained from The Standard Bank of South Africa Limited and ABSA Bank Limited. This agreement was settled at the beginning of the current year.

Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. The board of directors monitors the return on capital, which the group defines as total capital and reserves, and the level of dividends to ordinary shareholders. The board's target is for employees, through the Esor Broad Based Share Ownership Scheme, to hold more than five percent of the Esorfranki group's ordinary shares. Their holding is currently 4,4% (2009: 6,5%). This shareholding is part of the group's Broad-based Black Economic Empowerment strategy.

The board seeks to maintain a balance between the higher returns with higher levels of borrowings and the security afforded by a sound and conservative capital position. The group's target is to achieve a return on average capital of more than 25%; in 2010 the return was 25% (2009: 28,4%).

There were no changes in the group's approach to capital management during the year. The company and its subsidiaries are subject to externally imposed capital requirements in terms of the loan financing by Esor Africa following the acquisition of the business of Esorfranki Limited in the previous year (refer note 13). Share re-purchase and further facilities are subject to its banker's approval whilst the existing banking facilities are in place.

Recognised in profit or loss

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Finance income				
Interest income on bank deposits	**2 492**	7 206	**8**	2 031
Exchange gain on amounts owing to/from subsidiaries and foreign branches	**60 789**	48 394	**–**	–
Other	**–**	–	**–**	377
	63 281	55 600	**8**	2 408
Finance costs				
Interest expense on financial liabilities measured at amortised cost (other than bank overdrafts)	**32 501**	36 468	**35**	3 511
Interest expense on bank overdrafts	**610**	413	**158**	214
Exchange loss on amounts owing to/from subsidiaries and foreign branches	**58 100**	32 740	**–**	–
Change in fair value of financial liabilities at fair value through profit or loss	**1 895**	8 658	**–**	–
Other	**–**	–	**–**	73
	93 106	78 279	**193**	3 798
The above financial income and expense includes the following in respect of assets/(liabilities) not at fair value through profit or loss:	**(30 619)**	(29 675)	**(185)**	(1 309)
Total finance income on financial assets	**2 492**	7 206	**8**	2 408
Total finance expense on financial liabilities	**(33 111)**	(36 881)	**(193)**	(3 798)

	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
32. Risk management (continued)				
Credit risk				
The maximum credit exposure to credit risk at the reporting date was:				
Contract debtors	**392 551**	437 285	**–**	–
Retention debtors	**91 193**	85 219	**–**	–
Sundry debtors	**16 125**	50 296	**118**	–
Investments	**6 762**	14 269	**–**	–
Unsecured intra–group loans	**–**	–	**94 602**	209 428
Cash and cash equivalents	**116 863**	272 825	**354**	295
	623 494	859 894	**95 074**	209 723
The maximum exposure to credit risk by geographical concentration for financial assets at the reporting date was:				
South Africa	**531 190**	726 275	**95 074**	209 723
Angola	**43 775**	40 403	**–**	–
Other sub–Saharan countries	**200**	264	**–**	–
Common Monetary Area countries (Swaziland, Namibia)	**3 136**	2 576	**–**	–
Mozambique	**17 330**	38 763	**–**	–
Mauritius	**11 342**	29 241	**–**	–
Botswana	**13 366**	9 577	**–**	–
Tanzania	**3 155**	12 795	**–**	–
	623 494	859 894	**95 074**	209 723
Impairment losses				
The ageing of trade receivables at the reporting date was:				
Not past due (less than 90 days)	**380 781**	476 003	**–**	–
Past due (greater than 90 days)	**102 963**	46 501	**–**	–
Past due and impaired	**36 239**	32 910	**–**	–
	519 983	555 414	**–**	–
The movement in the allowance for impairment in respect of contract debtors during the year was as follows:				
Balance beginning of year	**32 910**	–	**–**	–
Impairment loss raised	**3 329**	32 910	**–**	–
Balance at 28 February	**36 239**	32 910	**–**	–

Based on historic default rates, the group believes that no further impairment allowance, as detailed above, is necessary in respect of trade receivables not past due or past due. The ageing of contract debtors is affected directly by the measurement quantities claimed on interim certificates which are subject to re-measurement and interim adjustments by the client or the clients' representative.

The maximum exposure to credit risk of receivables to significant customers at the reporting date was as follows:

Customer	Group 2010 R'000	Group 2009 R'000	Company 2010 R'000	Company 2009 R'000
Bombela JV	**18 426**	17 099	**–**	–
Imbani (Eskom)	**56 000**	26 606	**–**	–

32. Risk management (continued)

Impairment losses (continued)

The group and company may request certain clients to provide independent reputable bank guarantees, or advance payments, as collateral against credit risk, in respect of contracts concluded. The objective of such collateral is to counter effect default risk in the event of non-payment by the group's and company's contract debtors.

The processes described above are followed by the group and company to manage credit risk before credit is granted to the customers on projects.

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Non-derivative financial liabilities				
Secured borrowings				
Carrying amount	**396 708**	518 267	**–**	–
Contractual cash flows	**640 664**	713 256	**–**	–
One year or less	**139 700**	178 314	**–**	–
Two to five years	**500 964**	534 942	**–**	–
Trade and other payables				
Carrying amount	**178 236**	241 027	**1 254**	115 262
Contractual cash flows	**178 236**	241 027	**1 254**	115 262
One year or less	**178 236**	134 747	**1 254**	8 982
Two to five years	**–**	106 280	**–**	106 280
Other financial liabilities (outside scope of IAS 39)				
Carrying amount	**102 491**	180 606	**–**	–
Contractual cash flows	**102 491**	180 606	**–**	–
One year or less	**102 491**	180 606	**–**	–
Total non-derivative financial liabilities				
Carrying amount	**677 435**	939 900	**1 254**	115 262
Contractual cash flows	**921 391**	1 134 889	**1 254**	115 262
One year or less	**420 427**	493 667	**1 254**	8 982
Two to five years	**500 964**	641 222	**–**	106 280
Derivative financial liabilities				
Carrying amount	**–**	35 510	**–**	26 853
Contractual cash flows	**–**	35 510	**–**	26 853
One year or less	**–**	35 510	**–**	26 853
Two to five years	**–**	–	**–**	–

There are no defaults/breaches in respect of long-term loans payable.

32. Risk management (continued)

Currency risk

Exposure to currency risk

The group's and company's exposure to foreign exchange risk was as follows at the reporting date:

	Group		Company	
	2010	2009	**2010**	2009
	R'000	R'000	**R'000**	R'000
Gross exposure in the statement of financial position				
Cash and cash equivalents				
USD	**18 316**	22 022	**–**	–
GBP	**–**	30	**–**	–
BWP	**7 742**	6 041	**–**	–
MUR	**2 351**	2 493	**–**	–
Other	**6 720**	4 740	**–**	–
	35 129	35 326	**–**	–

Amounts owing to subsidiaries and branches are eliminated on consolidation. However, these amounts do impact profit or loss within the group and company's financial statements resulting from changes in foreign exchange rates. Exposure to currency risk occurs when entities in the group owe amounts to other group entities in currencies denominated in other than their functional currency.

Currency code	Description
USD	United States Dollars
GBP	Great British Pounds
BWP	Botswana Pula
MUR	Mauritian Rupee
ZAR	South African Rand
Other	Mozambican Metical/Tanzanian Shillings/Nigerian Naira/Zambian Kwacha/Angolan Kwanza

The following significant exchange rates applied during the year:

	2010	**2010**	2009	2009
Group and company	**Average rate**	**Spot rate**	Average rate	Spot rate
Denomination				
One ZAR =	**1,0000**	**1,0000**	1,0000	1,0000
Tanzanian Shillings	**142,7906**	**171,2660**	141,942	131,5850
United States Dollar	**8,0163**	**7,73480**	8,666	9,9063
Great British Pounds	**12,6889**	**11,80250**	15,073	14,135
Mauritian Rupee	**3,9291**	**3,89720**	3,366	3,4466
Mozambican Metical	**3,4000**	**3,59000**	2,850	2,620
Botswana Pula	**0,8645**	**0,89530**	0,819	0,8005

32. Risk management (continued)

Currency risk

Exposure to currency risk

Sensitivity analysis

A 10% strengthening of the ZAR against foreign currencies at the reporting date would have decreased profit or loss (after tax) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009. The translation of the foreign operations is affected by movements in the exchange rate which directly impacts on the group's and company's statement of comprehensive income.

A 10% weakening of the ZAR against the above currencies at reporting date would have had an equal but opposite effect on profit or loss (after tax) by the amounts shown below.

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Effect on profit/(loss) for all currencies	**8 658**	9 017	**–**	–
Effect on profit/(loss) on significant currencies				
US Dollar	**(425)**	(1 586)	**–**	–
Tanzanian Shillings	**1 939**	1 936	**–**	–
Mozambican Metical	**(770)**	(164)	**–**	–
Botswana Pula	**5 445**	2 622	**–**	–
Mauritian Rupee	**(198)**	3 046	**–**	–
Effect on profit/(loss) on significant currencies	**5 991**	5 854	**–**	–
Interest rate risk				
At the reporting dale the interest rate profile of the group's and company's interest–bearing financial instruments was:				
Fixed rate instruments				
Financial assets	**–**	–	**–**	–
Financial liabilities	**–**	(8 658)	**–**	–
	–	(8 658)	**–**	–
Variable rate instruments				
Financial assets	**116 863**	287 094	**94 956**	295
Financial liabilities	**(396 708)**	(518 267)	**–**	–
	(279 845)	(231 173)	**94 956**	295

32. Risk management (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for fixed and variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss (after tax) by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis was performed on the same basis for 2009. A decrease in interest rates would have an equal but opposite effect on profit or loss.

	Group		Company	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Profit or loss				
Fixed rate instruments	**–**	752	**–**	–
Variable rate instruments	**(2 015)**	(1 664)	**683**	(2)
	(2 015)	(912)	**683**	(2)

Accounting classification and fair values

The table below sets out the group's and company's classification of each class of financial assets and liabilities, and their fair values.

The fair value of all instruments is estimated at its carrying value as these instruments are generally short-term in nature and thus carrying amount approximates fair value.

	Loans and receivables R'000	Liabilities at amortised cost R'000	Financial assets and liabilities at fair value through profit or loss R'000	Other financial assets and liabilities* R'000	Total carrying amount R'000	Fair value R'000
Group 2010						
Financial assets						
Trade and other receivables	**325 143**	**–**	**–**	**158 601**	**483 744**	**483 744**
Investments	**6 762**	**–**	**–**	**–**	**6 762**	**6 762**
Cash and cash equivalents	**116 863**	**–**	**–**	**–**	**116 863**	**116 863**
	448 768	**–**	**–**	**158 601**	**607 369**	**607 369**
Financial liabilities						
Secured borrowings	**–**	**(275 031)**	**–**	**–**	**(275 031)**	**(275 031)**
Trade and other payables	**–**	**(178 236)**	**–**	**(102 491)**	**(280 727)**	**(280 727)**
Current portion of secured borrowings	**–**	**(121 677)**	**–**	**–**	**(121 677)**	**(121 677)**
	–	**(574 944)**	**–**	**(102 491)**	**(677 435)**	**(677 435)**

** Outside the scope of IAS 39.*

32. Risk management (continued)

Accounting classification and fair values (continued)

	Loans and receivables R'000	Liabilities at amortised cost R'000	Financial assets and liabilities at fair value through profit or loss R'000	Other financial assets and liabilities* R'000	Total carrying amount R'000	Fair value R'000
Group 2009						
Financial assets						
Trade and other receivables	363 948	–	–	159 551	523 499	523 499
Investments	14 269	–	–	–	14 269	14 269
Cash and cash equivalents	272 825	–	–	–	272 825	272 825
	651 042	–	–	159 551	810 593	810 593
Financial liabilities						
Secured borrowings	–	(370 603)	–	–	(370 603)	(370 603)
Trade and other payables	–	(241 027)	(35 510)	(180 606)	(457 143)	(457 143)
Current portion of secured borrowings	–	(147 664)	–	–	(147 664)	(147 664)
	–	(759 294)	(35 510)	(180 606)	(975 410)	(975 410)

** Outside the scope of IAS 39.*

Company 2010						
Financial assets						
Unsecured loans	**94 602**	**–**	**–**	**–**	**94 602**	**94 602**
Cash and cash equivalents	**354**	**–**	**–**	**–**	**354**	**354**
	94 956	**–**	**–**	**–**	**94 956**	**94 956**
Financial liabilities						
Trade and other payables	**–**	**(1 254)**	**–**	**–**	**(1 254)**	**(1 254)**
	–	**(1 254)**	**–**	**–**	**(1 254)**	**(1 254)**

** Outside the scope of IAS 39.*

32. Risk management (continued)

Accounting classification and fair values (continued)

	Loans and receivables R'000	Liabilities at amortised cost R'000	Financial assets and liabilities at fair value through profit or loss R'000	Other financial assets and liabilities* R'000	Total carrying amount R'000	Fair value R'000
Company 2009						
Financial assets						
Unsecured loans	209 428	–	–	–	209 428	209 428
Cash and cash equivalents	295	–	–	–	295	295
	209 723	–	–	–	209 723	209 723
Financial liabilities						
Unsecured loans	–	(6 212)	–	–	(6 212)	(6 212)
Trade and other payables	–	(115 262)	(26 853)	–	(142 115)	(142 115)
	–	(121 474)	(26 853)	–	(148 327)	(148 327)

** Outside the scope of IAS 39.*

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments reflected in the table above:

Derivatives

The fair values of derivative instruments are determined with reference to the quoted market prices of the relevant instrument at year-end.

Non-derivative financial liabilities: Secured borrowings, shareholder loans and instalment sale agreements

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Instalment sale agreements are at variable rates linked to the prime rate of interest and thus the carrying value on such instruments would approximate the fair value.

Trade and other receivables

The fair value of third party trade and other receivables is estimated at its carrying value as these instruments are short-term in nature and thus carrying amount approximates fair value.

The fair value of intra-group receivables is estimated at its carrying value as these instruments are short-term in nature and thus approximates its fair value.

Trade and other payables

The fair value of third party trade and other payables is estimated at its carrying value as these instruments are short-term in nature and thus carrying amount approximates fair value.

The fair value of intra-group payables is estimated at its carrying value as these instruments are short-term in nature and thus approximates its fair value.

Investments

The fair value of third party investments is estimated at its carrying value as these instruments are short-term in nature and thus carrying amount approximates fair value.

33. Related parties

During the year the following transactions took place with subsidiaries and related entities. Loan balances with these subsidiaries and related parties are shown in note 10.

		Group		Company	
		2010	2009	**2010**	2009
Party	Name of transaction	**R'000**	R'000	**R'000**	R'000
Esor Africa (Pty) Limited	Rent	–	–	–	282
	Finance cost	–	–	**158**	238
	Collection commission	–	–	–	5
	Administration fee	–	–	–	3
Esor Properties (Pty) Limited	Finance income	–	–	–	79
	Rent	–	–	–	135
	Administration fee	–	–	–	3
	Collection commission	–	–	–	7
Franki Africa (Pty) Limited	Interest	–	–	–	(73)
	Administration costs	–	–	**2 039**	–
	Sales	–	–	–	2 135
	Purchases	–	–	–	2 896
	Dividends received	–	–	**20 000**	30 000
Hammib Properties (Pty) Limited	Rent	–	–	–	108
	Finance income	–	–	-	60
	Collection commission	–	–	–	5
Esorfranki Pipelines (Pty) Limited	Dividends received	–	–	**15 000**	–
Esorfranki Civils (Pty) Limited	Dividends received	–	–	**15 000**	–

Transactions with jointly controlled entities have been disclosed in note 29.

Directors' emoluments are disclosed in note 31.

34. Investments in subsidiaries

	Share capital 2010 R	Share capital 2009 R	Holding 2010 %	Holding 2009 %	Cost 2010 R'000	Cost 2009 R'000
Brookmay Properties (Pty) Limited 100 ordinary shares of R1 each at cost	**100**	100	**100**	100	**5 492**	5 492
EFA Holdings (Pty) Limited Two ordinary shares of 1 Pula each at cost	**–**	2	**–**	100	*****	*
Esor Properties (Pty) Limited 100 ordinary shares of R1 each at cost	**–**	100	**–**	100	**–**	684
Esor Africa (Pty) Limited 102 ordinary shares of R1 each at cost	**102**	102	**100**	100	**7 791**	5 544
Hammib Properties (Pty) Limited 100 ordinary shares of R1 each at cost	**–**	100	**–**	100	**–**	930
Franki Africa (Pty) Limited 300 ordinary shares of R1 each at cost	**300**	300	**100**	100	**190 309**	188 686
Esorfranki Civils (Pty) Limited 100 ordinary shares of R1 each at cost	**100**	100	**100**	100	**360 629**	333 765
Esorfranki Pipelines (Pty) Limited 1 000 ordinary shares of R1 each at cost	**1 000**	1 000	**100**	100	**106 821**	106 376
					671 042	641 477

** Less than R1 000.*

Refer note 37 for further information on subsidiary companies.

35. Commitments

Leases

The group leases certain of its land and buildings, vehicles and office equipment for periods of up to a maximum of 10 years. At year-end, the minimum lease payments due on operating leases were as follows:

Group	2010 Within one year R'000	2010 Within two to five years R'000	2009 Within one year R'000	2009 Within two to five years R'000
Land and buildings	8 348	10 161	3 853	10 613
Vehicles	3 842	1 515	3 128	4 049
Office equipment	457	616	781	1 073
	12 647	12 292	7 762	15 735

Capital commitments

Group

At year-end, the purchase of plant and equipment to the value of R8,3 million (2009: R9,6 million) had been authorised and contracted for. Further capital expenditure to the value of R63,7 million (2009: R57,3 million) had been authorised but was not yet contracted for. These assets will be utilised to expand the operating capacity of the group. The purchase of these assets will be funded through the group's existing borrowing facilities.

Company

The company has not authorised or contracted for any capital expenditure.

36. Segmental analysis

Operating segments

The group has three reportable segments, as described in the accounting policy note 2.22, which are the group's strategic business units.

	Geotechnical		Civils		Pipelines		Corporate and eliminations		Consolidated	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000	**2010 R'000**	2009 R'000	**2010 R'000**	2009 R'000	**2010 R'000**	2009 R'000
Segment revenue	**944 862**	1 190 192	**715 033**	148 993	**229 231**	85 361	**(31 309)**	(9 824)	**1 857 817**	1 414 722
Segment result										
Profit before interest and taxation	**164 147**	167 418	**144 520**	61 746	**31 068**	32 027	**(34 161)**	(27 741)	**305 574**	233 450
Finance cost	**(95 345)**	(68 718)	**(8 530)**	(3 743)	**–**	(86)	**10 769**	(5 732)	**(93 106)**	(78 279)
Finance income	**63 956**	56 539	**4 805**	–	**5 404**	1 977	**(10 884)**	(2 916)	**63 281**	55 600
Taxation	**(36 724)**	(49 827)	**(40 278)**	(15 778)	**(11 885)**	(9 493)	**10 779**	7 709	**(78 108)**	(67 389)
Segment profit	**96 034**	105 412	**100 517**	42 225	**24 587**	24 425	**(23 497)**	(28 680)	**197 641**	143 382
Segment assets	**754 541**	994 471	**442 162**	382 169	**167 121**	197 011	**284 000**	289 841	**1 647 824**	1 863 492
Segment liabilities	**717 460**	1 006 706	**197 009**	223 673	**127 733**	167 798	**(202 406)**	(154 262)	**839 796**	1 243 915
Capital and non-cash items										
Additions to property, plant and equipment	**52 844**	163 831	**49 711**	14 435	**3 096**	8 824	**(9 617)**	1 265	**96 034**	188 355
Depreciation	**32 226**	46 887	**19 430**	17 493	**3 120**	384	**9 417**	3 853	**64 193**	68 617
Impairment loss	**–**	–	**–**	–	**–**	–	**–**	16 590	**–**	16 590
Number of employees	**1 562**	1 812	**1 228**	1 170	**427**	354	**8**		**3 225**	3 336

Revenue generated from significant customers includes:

Customer	Business Unit	Revenue 2010	Revenue 2009
Bombela JV	Geotechnical	**137 076**	165 400
Imbani (Eskom)	Civils	**223 503**	23 339
GFI JV	Civils	**122 189**	9 881

36. Segmental analysis

Operating segments

Geographical information	South Africa 2010 R'000	South Africa 2009 R'000	Other regions 2010 R'000	Other regions 2009 R'000	Consolidated 2010 R'000	Consolidated 2009 R'000
Total revenue from external customers	**1 600 070**	1 128 748	**257 747**	285 974	**1 857 817**	1 414 722
Property, plant and equipment	**494 531**	509 069	**101 898**	79 476	**596 429**	588 545

A separate segment report has not been prepared for the company as it had no trading operations.

37. Interest in subsidiaries

The subsidiaries of Esorfranki Limited are involved in the following principal activities:

	Country of incorporation	Nature of business	Percentage held 2010	2009
Directly held				
Brookmay Properties (Pty) Limited*	South Africa	Property investment	**100**	100
Esor Africa (Pty) Limited*	South Africa	Geotechnical	**100**	100
Hammib Properties (Pty) Limited	South Africa	Property investments	**–**	100
Esor Properties (Pty) Limited	South Africa	Property investments	**–**	100
EFA Holdings (Pty) Limited	Botswana	Geotechnical	**–**	100
Franki Africa (Pty) Limited*	South Africa	Geotechnical	**100**	100
Esorfranki Civils (Pty) Limited*	South Africa	Civil engineering – roads	**100**	100
Esorfranki Pipelines (Pty) Limited*	South Africa	Civil engineering – pipelines	**100**	100
Indirectly held				
Frankipile International Projects Limited	Mauritius	Geotechnical	**100**	100
Frankipile Mozambique Limitada	Mozambique	Geotechnical	**100**	100
Frankipile Mauritius International Limited	Mauritius	Geotechnical	**100**	100
Frankipile Botswana (Pty) Limited	Botswana	Geotechnical	**100**	100
GeoFranki (West Africa) Limited	Nigeria	Geotechnical	**60**	60
Frankipile Mauritius (Seychelles) Limited	Seychelles	Geotechnical	**100**	100
Balekane Construction	South Africa	Civil engineering construction	**52**	52
Esor Share Incentive Scheme	South Africa	Employee share scheme	**100**	100
Frankipile Swaziland (Pty) Limited	Swaziland	Geotechnical	**100**	100
Frankipile Lesotho (Pty) Limited	Lesotho	Geotechnical	**100**	100
Frankipile Namibia (Pty) Limited	Namibia	Geotechnical	**100**	100
Esorfranki Plant (Pty) Limited	South Africa	Plant investment	**100**	100
Zimfranki Projects (PVT) Limited	Zimbabwe	Civil engineering, pipelines and geotechnical	**100**	100
Nike Enterprises (PVT) Limited	Zimbabwe	Properties investment	**100**	100

**Further information on these subsidiaries can be found in note 34.*

37. Interest in subsidiaries (continued)

	Company 2010 R'000	2009 R'000
The profit/(loss) after taxation attributable to the subsidiaries		
Brookmay Properties (Pty) Limited	**66**	17
Esor Share Incentive Scheme	**(54)**	775
Esor Africa (Pty) Limited	**6 563**	(9 717)
Esor Properties (Pty) Limited	**(12)**	17
EFA Holdings (Pty) Limited	**–**	(31)
Franki Africa (Pty) Limited	**86 239**	97 483
Hammib Properties (Pty) Limited	**(14)**	1
Esorfranki Civils (Pty) Limited	**100 451**	42 208
Esorfranki Pipelines (Pty) Limited	**24 587**	24 425
	217 826	155 178
Aggregate profits	**217 906**	164 926
Aggregate losses	**(80)**	(9 748)
Loans to/(from) subsidiaries		
Esor Share Incentive Trust	**24 018**	20 625
Esor Africa (Pty) Limited	**8 605**	117 786
Franki Africa (Pty) Limited	**2 153**	(6 212)
Esorfranki Civils (Pty) Limited	**–**	11 191
Esorfranki Pipelines (Pty) Limited	**59 826**	59 826
	94 602	203 216

38. Contingent liabilities

Arising out of Esorfranki Limited's sale of business agreement with Esor Africa (Pty) Limited, the group companies have financial guarantees to The Standard Bank of South Africa Limited and ABSA Bank Limited for the due and punctual performance of its payment and other obligations relating to the funding arrangement entered into by Esor Africa (Pty) Limited to fund the acquisition of the business of Esorfranki Limited by Esor Africa (Pty) Limited. The guarantee binds all Esorfranki Group companies jointly and severally to perform in terms of the funding arrangement should Esor Africa default on its obligations.

Esorfranki Limited has provided a further guarantee to The Standard Bank of South Africa Limited and ABSA Bank Limited for the due and punctual performance of its payment and other obligations relating to its own liabilities and those of any other Esorfranki group companies. The guarantee binds Esorfranki Limited jointly and severally with the other Esorfranki group companies to perform in terms of the group banking facilities should any group company default on its obligations.

The directors are confident that no present obligations exist in terms of these guarantees as the group has sufficient cash resources to service all obligations arising from both the funding arrangement and group banking facilities.

Analysis of Shareholders

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	734	18,82	457 728	0,15
1 001 – 10 000 shares	2 163	55,48	9 565 254	3,17
10 001– 100 000 shares	845	21,67	25 107 288	8,31
100 001 – 1 000 000 shares	113	2,90	32 336 748	10,70
1 000 001 shares and over	44	1,13	234 695 156	77,67
Totals	**3 899**	**100,00**	**302 162 174**	**100,00**
Distribution of shareholders				
Banks	7	0,18	2 783 353	0,92
Close corporations	80	2,05	3 240 671	1,07
Empowerment	6	0,15	40 482 250	13,40
Endowment funds	26	0,67	345 804	0,11
Individuals	3 272	83,92	112 318 429	37,17
Insurance companies	3	0,08	8 774 262	2,90
Investment companies	11	0,28	26 402 623	8,74
Medical scheme	2	0,05	1 111 500	0,37
Mutual funds	30	0,77	41 283 997	13,67
Nominees and trusts	294	7,54	7 543 163	2,50
Other corporations	39	1,00	377 603	0,12
Private companies	93	2,39	33 140 918	10,97
Public companies	6	0,15	98 751	0,03
Retirement funds	29	0,74	14 681 868	4,86
Share trust	1	0,03	9 576 982	3,17
Totals	**3 899**	**100,00**	**302 162 174**	**100,00**
Public/non-public shareholders				
Non-public shareholders	8	0,21	31 912 884	10,56
Directors and Associates of the company holdings	7	0,18	22 335 902	7,39
Share trust	1	0,03	9 576 982	3,17
Public shareholders	3 891	99,79	270 249 290	89,44
Totals	**3 899**	**100,00**	**302 162 174**	**100,00**
Beneficial shareholders holding 5% or more				
Oryx Investment Management			24 434 135	8,09
Investec			17 083 173	5,65
Shearwater Group Holdings (Pty) Limited			16 666 667	5,52

Shareholders' Diary

Financial year-end	February
Condensed consolidated results for the year ended 28 February 2010 announcement	26 May 2010
Annual report posted	May 2010
Annual general meeting	25 June 2010
Interim results announcement	November 2010

Dividend timetable

Last day to trade *cum* dividend	Thursday, 10 June 2010
Shares trade *ex* dividend	Friday, 11 June 2010
Record date	Friday, 18 June 2010
Payment date	Monday, 21 June 2010

Notice of Annual General Meeting

Esorfranki Limited
Incorporated in the Republic of South Africa
Registration number 1994/000732/06
JSE code: ESR ISIN: ZAE000133369
("Esorfranki" or "the company")

Notice is hereby given that the annual general meeting of shareholders of Esorfranki will be held at the offices of the company at 30 Activia Road, Activia Park, Germiston on Friday, 25 June 2010 at 10h00 to conduct the following business:

Ordinary resolution 1
"To receive and adopt the consolidated audited annual financial statements of the company and its subsidiaries, incorporating the reports of the auditors, the Audit and Risk Committee and the directors for the year ended 28 February 2010."

Ordinary resolution 2
"To elect by way of separate resolutions directors in the place of those retiring in accordance with the company's articles of association. The directors retiring are B Krone and DM Thompson, both of whom being eligible offer themselves for re-election."

An abbreviated *curriculum vitae* in respect of each director offering himself for re-election is contained on page 037 of this annual report.

Ordinary resolution 3
"To sanction the proposed remuneration payable to non-executive directors from 1 March 2010 as set out in the table contained in the explanatory notes to this notice."

Ordinary resolution 4
"To re-appoint KPMG Inc as independent auditors of the company for the ensuing year (the designated auditor being Mr FHC von Eckardstein) and to authorise the directors to determine the remuneration of the auditors for the past year's audit as reflected in note 21 to the annual financial statements."

Ordinary resolution 5
"To approve that, subject to the provisions of the Companies Act, 61 of 1973, as amended ("the Act") and the Listings Requirements of the JSE Limited, the directors are authorised to allot and issue at their discretion the unissued but authorised ordinary shares in the share capital of the company for such purposes as they may determine."

Ordinary resolution 6
To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution:

"RESOLVED that, in terms of the Listings Requirements of the JSE Limited ("JSE"), the mandate given to the directors of the company in terms of a general authority to issue securities for cash, as and when suitable opportunities arise, be renewed subject to the following conditions:

– That this authority shall only be valid until the next annual general meeting of the company but shall not extend beyond 15 months from the date of this meeting;
– The allotment and issue of the shares must be made to persons qualifying as public shareholders as defined in the Listings Requirements of the JSE;

- The shares which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such shares or rights that are convertible into a class already in issue;
- That a paid press announcement giving full details, including the impact of the issue on net asset value, net tangible asset value, earnings and headline earnings per share, be published after any issue representing, on a cumulative basis within one financial year, 5% of the number of shares in issue prior to the issue concerned;
- That the issues in aggregate in any one financial year (including the number of any shares that may be issued in future arising out of the issue of options) shall not exceed 15% of the number of shares of the company's issued ordinary share capital; and
- That in determining the price at which an issue of shares for cash will be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE, measured over the 30 business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities."

Special resolution 1

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

"RESOLVED, as a special resolution, that the mandate given to the company in terms of its articles of association (or one of its wholly-owned subsidiaries) providing authorisation, by way of a general approval, to acquire the company's own securities, upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act") and the Listings Requirements of the JSE Limited ("the JSE"), be extended, subject to the following:

- This general authority be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution (whichever period is shorter);
- The repurchase being implemented through the order book operated by the JSE trading system, without prior understanding or arrangement between the company and the counterparty;
- Repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- An announcement being published as soon as the company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the initial number of ordinary shares, and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing full details of such repurchases;
- The number of shares which may be acquired pursuant to this authority in any financial year (which commenced 1 March 2010) may not in the aggregate exceed 20% (twenty percent) of the company's issued share capital as at the date of passing of this special resolution or 10% of the company's issued share capital in the case of an acquisition of shares in the company by a subsidiary of the company;
- The company's sponsor confirming the adequacy of the company's working capital for purposes of undertaking the repurchase of ordinary shares in writing to the JSE prior to the company entering the market to proceed with the repurchase;

– The company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in the JSE Listings Requirements, unless it has in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement published on SENS prior to the commencement of the prohibited period; and
– At any point in time the company only appointing one agent to effect any repurchases on its behalf."

The directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, are of the opinion that for a period of 12 (twelve) months after the date of the notice of the annual general meeting:

– The company and the group will be able, in the ordinary course of business, to pay its debts;
– The working capital of the company and the group will be adequate for ordinary business purposes;
– The assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards, will exceed the liabilities of the company and the group; and
– The company's and the group's ordinary share capital and reserves will be adequate for ordinary business purposes.

Reason for and effect of special resolution number 1

The reason for this special resolution is to grant the directors of the company a general authority in terms of the Act and the Listings Requirements of the JSE for the repurchase by the company (or by a subsidiary of the company) of the company's shares.

The effect of this special resolution is to enable the company to repurchase its shares as and when required within the terms and conditions of this general authority.

Additional information

The following additional information, some of which may appear elsewhere in the annual report, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

– Directors and management – page 037;
– Major shareholders – page 105;
– Directors' interests in ordinary shares – page 043; and
– Share capital of the company – page 071.

Litigation statement

The directors in office, whose names appear on page 037 of the annual report, are not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have, or have had, in the recent past, being at least the previous 12 (twelve) months from the date of this annual report, a material effect on the group's financial position. Esorfranki Geotechnical has been named in a competition commission enquiry into the construction industry and remains committed to full and transparent cooperation with the authority, in the interest of a speedy and beneficial conclusion to the matter.

Notice of Annual General Meeting (continued)

Directors' responsibility statement

The directors in office, whose names appear on page 037 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by law and the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the company's financial year-end and the date of signature of the audit report.

Directors' intention regarding the general authority to repurchase the company's shares

The directors have no specific intention, at present, for the company to repurchase any of its shares but consider that such a general authority should be put in place should an opportunity present itself to do so during the year which is in the best interests of the company and its shareholders.

Ordinary resolution 7

To authorise any one director or the secretary of the company to do all such things and sign all such documents as are deemed necessary to implement the resolutions set out in the notice convening the annual general meeting at which this ordinary resolution will be considered and approved at such meeting.

Proxies

Any shareholder holding shares in certificated form or recorded on the company's sub-register in electronic dematerialised form in "own name" and entitled to attend, speak and vote at the meeting is entitled to appoint a proxy to attend, speak and on a poll vote in his stead. A proxy need not be a member of the company.

Proxy forms must be lodged at the offices of the transfer secretaries, Computershare Investor Services (Proprietary) Limited (70 Marshall Street, Corner Sauer Street, Johannesburg; PO Box 61051, Marshalltown, 2107), by no later than 09h00 on Wednesday, 23 June 2010.

All beneficial owners whose shares have been dematerialised through a Central Securities Depository Participant ("CSDP") or broker other than with "own name" registration, must provide the CSDP or broker with their voting instructions in terms of their custody agreement should they wish to vote at the Annual General Meeting. Alternatively, they may request the CSDP or broker to provide them with a letter of representation, in terms of their custody agreements, should they wish to attend the Annual General Meeting.

By order of the board

Annamarie van der Merwe
For: iThemba Governance and Statutory Solutions (Pty) Limited
Company secretary
Germiston
25 May 2010

Notice of Annual General Meeting – Explanatory Notes

Ordinary resolution 1 – Adoption of annual financial statements
At the Annual General Meeting, the directors must present the annual financial statements for the year ended 28 February 2010 to shareholders, together with the reports of the directors, the Audit and Risk Committee and the auditors. These are contained within the annual report.

Ordinary resolution 2 – Re-election of directors
In accordance with the company's articles of association, one third of the directors (executive and non-executive) are required to retire at each Annual General Meeting and may offer themselves for re-election. In addition, any person appointed to the board of directors following the previous Annual General Meeting is similarly required to retire and is eligible for re-election at the next Annual General Meeting.

The following directors are eligible for re-election:

B Krone
DM Thompson

Brief biographical details of each of the above directors and the remaining members of the board are contained on page 037 of the annual report of which this notice forms part.

Ordinary resolution 3 – Proposed remuneration of non-executive directors payable from 1 March 2010
Shareholders are requested to consider and if deemed appropriate, sanction the proposed remuneration payable to non-executive directors with effect from 1 March 2010 as set out in the table hereunder. Full particulars of all fees and remuneration for the past financial year are contained on page 087 of the annual report.

Type of fee (per meeting)	Existing fee – 2009 R	Proposed fee – 2010 R
Board		
Chairman	22 000	36 000
Board member	15 000	18 000
Audit and Risk Committee		
Chairman (Audit)	17 500	24 000
Member (Audit)	10 000	12 000
Chairman (Risk)	N/A	15 000
Member (Risk)	N/A	10 000
Remuneration and Nomination Committee		
Chairman	15 000	15 000
Member	10 000	10 000

Notes
(1) It is proposed that the non-executive Chairman of the board receives a fee calculated at approximately twice the total annual board fees payable to a board member, in addition to the other committee fees set out above.
(2) The company holds a minimum of four board meetings during any 12 month period.

(3) The Audit and Risk Committee chairman receives a higher fee than the fee payable to non-executive directors who serve on the committees.
(4) The company holds three Audit and Risk Committee meetings during any 12 month period.
(5) The Remuneration and Nomination Committee chairman receives a higher fee than the fee payable to non-executive directors who serve on the committee.
(6) The company holds two Remuneration Committee meetings during any 12 month period.
(7) 50% of the fee is subject to attendance by the non executive director, unless a valid apology is tendered in writing.

Ordinary resolution 4 – Auditors

KPMG Inc has indicated its willingness to continue in office and ordinary resolution 4 proposes the re-appointment of that firm as the company's auditors with effect from 1 March 2010 until the next Annual General Meeting. As required in terms of s274(3) of the Companies Act of 1973, the name of the designated auditor, Mr FHC von Eckardstein, forms part of the resolution. The resolution also gives authority to the directors to fix the auditors' remuneration.

Ordinary resolutions 5 and 6 – Placement and issue of shares

In terms of Sections 221 and 222 of the Companies Act No. 61 of 1973, as amended, shareholders must approve the placement of the unissued shares under the control of the directors. The authority will be subject to the Companies Act 61 of 1973, as amended, and the JSE Listings Requirements.

In terms of the JSE Listings Requirements, the approval of a 75% majority of the votes cast by shareholders present or represented by proxy at this Annual General Meeting is required for ordinary resolution number 6 to become effective.

Special resolution 1

It is envisaged that participants in the company's share option scheme may wish to exercise options and sell the shares immediately thereafter. The board of directors believe that it may be prudent for the company to consider acquiring these and other shares and as a result require shareholders' consent by way of a special resolution for a repurchase of the company's shares, subject to the provisions of the JSE Listings Requirements as set out in the proposed resolution.

Ordinary resolution 7

Authority is required to do all such things and sign all documents and take all such action as necessary to implement the resolutions set out in the notice and approved at the Annual General Meeting. It is proposed that the company secretary and/or director be authorised accordingly.

General

In terms of the Listings Requirements of the JSE, any shares held by the Esor Share Incentive Trust will not have their votes at the annual meeting taken into account in determining the results of voting on special resolution number 1 and ordinary resolution number 6.

Form of Proxy

Esorfranki Limited

Incorporated in the Republic of South Africa
Registration number 1994/000732/06
JSE code: ESR ISIN: ZAE000133369
("Esorfranki" or "the company")

Form of proxy for the annual general meeting of the company to be held on Friday, 25 June 2010 at 10h00 at the company's offices at 30 Activia Road, Activia Park, Germiston ("the annual general meeting").

Only for use by certificated shareholders, nominee companies of Central Securities Depository Participants ("CSDP"), brokers' nominee companies and shareholders who have dematerialised their shares and who have elected own-name registration and who wish to vote on the special and ordinary resolutions per the notice of the annual general meeting to which this form is attached.

Shareholders who have dematerialised their shares through a CSDP or broker must not complete this form of proxy and must provide their CSDP or broker with their voting instructions, except for shareholders who elected own-name registration in the sub-register through a CSDP, which shareholders must complete this form of proxy and lodge it with Computershare Investor Services (Proprietary) Limited.

Holders of dematerialised shares other than with own-name registration who wish to attend the annual general meeting, must inform their CSDP or broker of such intention and request their CSDP or broker to issue them with the necessary letter of representation.

I/We (name in block letters)

of (address)

being the holders of ordinary shares in the company, do hereby appoint

1 or failing him/her

2 or failing him/her

3 The chairperson of the annual general meeting

as my/our proxy to act for me/us and on my/our behalf at the annual general meeting of the company, or any adjournment thereof, which will be held for the purpose of considering and, if deemed fit, of passing, with or without modification, the ordinary and special resolutions as detailed in the notice of annual general meeting, and to vote for and/or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name/s, in accordance with the following instructions:

Number of votes on a poll (one vote per ordinary share)	**In favour**	**Against**	**Abstain**
Ordinary resolution 1: Adoption of annual financial statements for the year ended 28 February 2010			
Ordinary resolution 2.1: Re-election of B Krone as director			
Ordinary resolution 2.2: Re-election of DM Thompson as director			
Ordinary resolution 3: Sanctioning of proposed non-executive directors' remuneration			
Ordinary resolution 4: Re-appointment of KPMG Inc as external auditor			
Ordinary resolution 5: Authority to issue unissued shares			
Ordinary resolution 6: Authority to issue unissued shares for cash			
Special resolution 1: Authority to buy back company equities			
Ordinary resolution 7: Authority to effect the resolutions			

Signature signed at on 2010

Assisted by (if applicable)

Please see notes on reverse.

Notes to the Form of Proxy

1. Each shareholder is entitled to appoint one or more proxies (none of whom need be a shareholder of the company) to attend, speak and vote in place of that shareholder at the annual general meeting.
2. Shareholder(s) that are certificated or own-name dematerialised shareholders may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided, with or without deleting "the chairperson of the meeting", but any such deletion must be initialled by the shareholder(s). The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. If no proxy is named on a lodged form of proxy, the chairperson shall be deemed to be appointed as the proxy.
3. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the shareholder in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy, in the case of any proxy other than the chairperson, to vote or abstain from voting as deemed fit and in the case of the chairperson to vote in favour of the resolution.
4. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast or abstained from may not exceed the total of the votes exercisable in respect of the shares held by the shareholder.
5. Forms of proxy must be lodged at or posted to Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received no later than 09h00 on Wednesday, 23 June 2010
6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so. Where there are joint holders of shares, the vote of the first joint holder who tenders a vote, as determined by the order in which the names stand in the register of members, will be accepted.
7. The chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes, provided that, in respect of acceptances, the chairperson is satisfied as to the manner in which the shareholder concerned wishes to vote.
8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company or Computershare Investor Services (Pty) Limited or waived by the chairperson of the annual general meeting.

Corporate Information

Esorfranki Limited
Registration number: 1994/000732/06
JSE code: ESR
ISIN: ZAE000133369

Registered office
30 Activia Road
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1429
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Telephone: 011 822 3906
Facsimile: 011 822 3112

Company secretary
iThemba Governance and Statutory Solutions (Pty) Limited
Monument Office Park
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79 Steenbok Avenue
Monument Park
PO Box 25 160, Monument Park, 0105
Telephone: 086 111 1010
Facsimile: 086 604 1315

Transfer secretaries
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(Registration number 2004/003647/07)
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Commercial banker
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(Registration number 1962/000738/06)
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QUALITY IS OUR FOUNDATION

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