Commentary

INTRODUCTION

Protech achieved another year of strong growth against increasingly difficult markets. Noteworthy was the continued strong cash generation, profit and earnings growth and the maintenance of margins above 20% at 22%.

FINANCIAL REVIEW

Income statement

Revenue increased by 91% over the prior year to R702,7 million which includes, for the first time, revenue from the acquired Readymix operations of R108,1 million.

Organic revenue growth, after elimination of inter-group transactions, was 62%. This strong growth was due to the group's ability to quickly shift its focus from market sectors under pressure to growth markets. During the year, the group shifted from a 57% exposure to the private sector at the start of the year to only 27% at the end of the year. The remaining 73% of revenue came from the fast-growing mining, mainly coal, and infrastructure sectors.

Operating profit increased by 61% to R156,0 million (2008: R97,2 million). The group operating profit is largely generated by the contracting division (the combination of Protech Khuthele and Pela Plant). The Readymix operation, acquired in 2008, contributed only R977 000 to operating profit, as this division operates in a severely depressed market. Against these markets, this division managed to contain costs, whilst at the same time shifting its focus away from the residential housing market to the industrial construction sector.

The operating margins remained higher than that of industry peers and are in line with the group's goal of maintaining margins above 20%. Overall operating margin for the year was 22% compared to 26% in 2008. The reduction was mainly due to lower margins from the Readymix operation. Without Readymix, margins would have remained at 26%. Operating margins for the largest contributors to the group, the Contracting divisions, remained unchanged at 26%.

The group's effective tax rate was 27,5% compared to 30,3% in 2008, mainly due to a decrease in the statutory tax rate and deferred tax charges in F2008.

Earnings were R92,9 million compared to R62,1 million in 2008, which translates into earnings per share growth of 47% to 25,6 cents (2008: 17,4 cents). There was no material difference between headline earnings and earnings per share.

Balance sheet

Debt:equity was 99,8% (2008: 97,7%). Although high, the group is comfortable with this level as a high gearing is in line with its plant policy of running new equipment. All long term debt on the balance sheet relates to asset-backed finance and the group generates sufficient cash to comfortably service this debt.

The group invested R162 million in capital expenditure (2008: R179 million). This included R54 million to renew the vehicle and plant fleet in line with the group plant replacement policy, as well as R108 million to expand the fleet to 310 units at the end of the 2009 financial year (2008: 237 units). The fleet of 310 units includes 10 units from Readymix and 15 units from the newly acquired Impact Compaction business.

Net tangible asset value per share increased by 59% to 55,0 cents per share (2008: 34,7 cents per share).

Interest bearing liabilities increased to R274,4 million from R164,5 million in 2008. Included in the interest bearing liabilities is R54,1 million which relates to the financing of the Readymix acquisition. The increase, which relates to capital expenditure incurred to renew and expand the vehicle and plant fleet, was R55,8 million.

Working capital increased to R77,0 million from a net working capital deficit of R17,1 million in 2008. This was mainly as a result of the improved cash position of the group and the increase in accounts receivable in line with the increase in revenue.

The group continued to contain bad debts below 1% of turnover.

Cash flow statement

Cash generated by operations before changes in working capital increased by 40% to R177,4 million (2008: R126,7 million). Cash on hand at 28 February 2009 was R101,6 million (2008: R93,2 million).

OPERATIONAL REVIEW

Contracting (87% of group revenue)

During the year, Contracting contributed 87% to group revenue and 95% to group operating profit. Turnover was up 54% to R770,0 million (2008: R499,1 million) and operating profit was up 55% to R148,8 million (2008: R96,3 million).

Protech Khuthele

Protech Khuthele continued to deliver robust results. Revenue grew by 52% from R382,9 million to R580,1 million on the back of strong roll out of contracts. Operating profit increased by 84% from R36,1 million to R66,6 million. The operating margin increased from 9% to 12%.

Pela Plant and Impact Compaction

Pela Plant and Impact Compaction are reported as one business unit. This unit experienced exceptional revenue growth of 63% from R116,3 million to R189,8 million over the prior year. Operating profit increased by 37% from R60,2 million to R82,2 million, in line with the organic growth experienced. Margins decreased from 52% to a still very healthy 43% due to the normalisation of the contribution split in operating profit between Pela and Protech Khuthele.

SARTS (1% of group revenue)

SARTS increased revenue by 71% to R11,3 million (2008: R6,6 million). However, operating profit decreased by 11% to R0,8 million from R0,9 million and operating margin decreased from 14% to 7% due to additional investment in human capital, systems and equipment to satisfy the criteria required for industry accreditation. The SANAS accreditation positions the business well to generate additional revenue and earnings from sources outside of the group.

Protech Readymix (12% of group revenue)

The year under review was the first full year of contribution from Protech Readymix. As Readymix has traditionally been very exposed to the housing market, this business was severely impacted by the extreme downturn in this sector. It achieved turnover of R108,1 million. Operating profit was R1,0 million and operating margin 0,9% in line with challenging market conditions.

During the year, Readymix managed to shift away from a 95% exposure to the residential sector upon acquisition in 2008 to that of an average of 80% of revenue now being generated from the commercial and industrial sectors.

PROSPECTS

A great deal of development activity remains on schedule in sub-Saharan Africa. Key infrastructure development projects (both related to and well after the 2010 World Cup) are on track in South Africa, with mining activity in the coal sector still prevalent in South Africa and across its borders.

While the group's operational segmentation is currently weighted towards infrastructure development and mining, it will remain active in all its current markets. The group's business model allows for swift moves from one market to another, depending on where growth is the strongest.

The group remains well positioned, with a solid R735 million of work in progress.

Protech is therefore confident of weathering the market dynamics although the group's high levels of growth will be difficult to maintain in the current unpredictable markets. While the outlook is therefore more challenging than a year ago, the group will continue to proactively manage its own environment.

On behalf of the directors

DA Ackerman	**GD Chapman**	**CJA Wolmarans**
Chairman of the Board	Group Chief Executive	Group Financial Director

Lanseria

8 May 2009

Directors: DA Ackerman* (Chairman), GD Chapman (Group Chief Executive) CJA Wolmarans (Group Financial Director), MSG Mareletse*†, C Nkosi*, V Raseroka*, P van Tonder*, MJ Vuso*† * non-executive † independent

Secretary: A van der Merwe

Registered office: Corner R512 and Elandsdrift Road, Bultfontein, Lanseria (Private Bag X6, Lanseria, 1748) (Website: www.pkh.co.za)

Transfer secretary: Link Market Services South Africa (Proprietary) Limited 11 Diagonal Street, Johannesburg, 2001. (PO Box 4844, Johannesburg, 2000)

Sponsor: Deloitte & Touche Sponsor Services (Proprietary) Limited

PROTECH KHUTHELE
HOLDINGS LIMITED

Protech Khuthele Holdings Limited
Registration number 2000/024352/06 JSE code: PKH ISIN: ZAE000101986
("Protech" or "the Company" or "the Group")

Audited preliminary report

Revenue	Operating profit	Operating margins	Cash generated by operations
62% organic revenue growth		maintained above 20% at	before working capital changes
91% ↑	61% ↑	22%	40% ↑

for the year ended 28 February 2009

Condensed consolidated income statement
for the year ended 28 February 2009

	2009	2008
	R'000	R'000
Revenue	702 745	368 495
Earnings before amortisation, depreciation, and interest	188 172	112 470
Amortisation of intangible assets	(147)	–
Depreciation	(32 038)	(15 278)
Earnings before interest and taxation	155 987	97 192
Net interest expense	(27 869)	(8 093)
Earnings before taxation	128 118	89 099
Taxation	(35 207)	(26 989)
Earnings for the year	92 911	62 110
Attributable to ordinary shareholders	92 911	62 110
– prior to listing	–	26 952
– subsequent to listing	92 911	35 158
Earnings per share (cents)		
Basic earnings per share	25,6	17,4
Diluted earnings per share	25,6	17,4
SUPPLEMENTARY INCOME STATEMENT INFORMATION		
Reconciliation of weighted average number of shares in issue:		
– Weighted average number of shares in issue (thousands)	362 500	357 070
Reconciliation of headline earnings:		
Earnings attributable to shareholders of the holding company	92 911	62 110
Adjusted for loss/(profit) on disposal of plant and equipment (net of tax)	1 457	(2 085)
Headline earnings	94 368	60 025
Headline earnings per share (cents)		
– Basic	26,0	16,8

Condensed consolidated balance sheet
at 28 February 2009

	2009	2008
	R'000	R'000
ASSETS		
Non-current assets	393 143	279 413
Property, plant and equipment	354 172	256 964
Goodwill	33 549	16 045
Other intangible assets	1 817	–
Other financial assets	3 605	–
Deferred tax	–	6 404
Current assets	298 839	213 339
Inventory	16 946	13 781
Amounts due from contract customers	9 290	11 899
Trade and other receivables	163 088	90 326
Other financial assets	7 927	4 095
Bank balances and cash	101 588	93 238
Total assets	691 982	492 752
EQUITY AND LIABILITIES		
Total equity	234 614	141 703
Share capital and share premium	228 598	228 598
Common control reserve	(122 053)	(122 053)
Retained earnings	128 069	35 158
Total liabilities	457 368	351 049
Non-current liabilities	235 566	120 629
Borrowings	186 517	95 451
Deferred tax	49 049	25 178
Current liabilities	221 802	230 420
Borrowings	87 839	69 092
Trade and other payables	88 629	49 178
Subcontractor liabilities	9 704	8 898
Provisions	5 496	18 312
Vendor liability	–	71 356
Current tax liabilities	30 134	13 584
Total equity and liabilities	691 982	492 752
SUPPLEMENTARY BALANCE SHEET INFORMATION		
Total number of shares in issue (thousands)	362 500	362 500
Net asset value per share (cents)	64,7	39,1
Capital expenditure (R'000)		
– Spent	162 102	179 161
– Commitments – Authorised but unspent	128 302	43 675
Performance guarantees issued (R'000)	49 210	19 894

Condensed consolidated statement of changes in equity
for the year ended 28 February 2009

R'000	Share capital	Share premium	Common control reserve	Retained earnings	Total
Balance at 28 February 2007	–*	–	–	–	–*
Share issues					
23 May 2007 – 20 000 000[3]	–	–			–
– 41 869 362[2]	–*	–			–*
Common control share issues					
28 May 2007 – 288 130 638[1]	1	216 096			216 097
Common control reserve			(149 005)		(149 005)
Reviewed pro forma group	2	216 096	(149 005)	–	67 093
Share issues					
6 August 2007 – 12 500 000[2]	–*	12 500			12 500
Earnings for the year				62 110	62 110
Transfer profit at acquisition date to reserve			26 952	(26 952)	–
Balance at 29 February 2008	2	228 596	(122 053)	35 158	141 703
Earnings for the year				92 911	92 911
Balance at 28 February 2009	2	228 596	(122 053)	128 069	234 614

1 Issued to acquire common control subsidiaries.
2 Issued for cash.
3 Share split of 200 000 to 1.
** Amounts below R1 000.*

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Condensed consolidated cash flow statement
for the year ended 28 February 2009

	2009	2008
	R'000	R'000
Cash flows from operating activities	114 667	81 085
Cash generated by operations	142 930	98 796
Interest received	2 097	654
Interest paid	(29 966)	(8 747)
Income taxes paid	(394)	(9 618)
Cash flows from investing activities	(145 655)	(119 753)
Purchase of property, plant and equipment	(162 102)	(179 161)
Proceeds on disposal of property, plant and equipment	32 768	47 937
Assets acquired through acquisition	(7 000)	–
Cash received from acquisition	–	8 695
(Increase)/decrease in loans granted	(9 321)	2 776
Cash flows from financing activities	39 338	129 462
Share issue	–	12 500
Decrease in net loans from shareholders	–	7 931
Settlement of Vendor liability	(71 356)	–
Increase in bank borrowings	62 200	–
Payments of bank borrowings	(8 146)	–
Increase in borrowings related to instalment sale agreements and finance leases	163 381	191 393
Payments in terms of instalment sale agreements and finance leases	(106 741)	(82 362)
Net increase in cash and cash equivalents	8 350	90 794
Cash and cash equivalents at the beginning of the year	93 238	2 444
Cash and cash equivalents at the end of the year	101 588	93 238
Cash and cash equivalents comprise of:		
Bank balances and cash	101 588	93 238

Operational segmental reporting
for the year ended 28 February 2009

Services within each business segment

The group's segmental reporting is currently broken into four major operating divisions – earthworks, plant hire, geotechnical laboratories and readymix. However, operationally, the group runs its business along three main areas: contracting that encompasses earthworks and plant hire, geotechnical laboratories and readymix. The principal services and products of each of these business areas are as follows:

EARTHWORKS – bulk earthworks and roads and civil engineering

PLANT HIRE – plant hire, impact compaction and logistical services

GEOTECHNICAL LABORATORY – geotechnical laboratory and surveying services

READYMIX – supplier of readymix concrete and concrete pumping services

The group acquired Impact Compaction on 1 June 2008 and the assets and liabilities of the business are included in the plant hire segment's assets and liabilities, as reported below.

Segment revenue and segment result

	Segment revenue		Segment result	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Earthworks	580 122	382 870	66 607	36 086
Plant hire	189 845	116 265	82 227	60 219
Geotechnical laboratory	11 347	6 639	754	893
Readymix	108 127	–	977	–
	889 441	505 774	150 565	97 198
Corporate*	13 460	600	(5)	(6)
Eliminations	(200 156)	(137 879)	5 427	–
	702 745	368 495		
Earnings before interest and taxation			155 987	97 192
Net interest paid			(27 869)	(8 093)
Earnings before taxation			128 118	89 099
Taxation			(35 207)	(26 989)
Earnings for the year			92 911	62 110

Segment assets and liabilities

	Segment assets		Segment liabilities	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Earthworks	211 411	138 872	119 206	85 384
Plant hire	413 734	289 575	302 231	215 880
Geotechnical laboratory	5 102	4 921	2 649	3 012
Readymix	82 629	100 103	86 326	100 103
	712 876	533 471	510 412	404 379
Corporate*	357 719	84 312	112 009	71 701
Eliminations	(378 613)	(125 031)	(165 053)	(125 031)
	691 982	492 752	457 368	351 049

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2009	2008	2009	2008
	R'000	R'000	R'000	R'000
Earthworks	1 380	726	1 880	1 833
Plant hire	25 777	14 253	164 087	176 172
Geotechnical laboratory	521	299	1 482	1 156
Readymix	4 507	–	1 577	39 235
	32 185	15 278	169 026	218 396

** Corporate includes the transactions of the holding company.*

Segment revenue reported above represents revenue generated from external customers. Intersegment sales amounted to R200,2 million (2008: R137,9 million). Segment result reported above represents operating profit per segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Notes to the condensed consolidated financial statements
for the year ended 28 February 2009

1. **Basis of preparation and accounting policies**
   This preliminary report complies with International Accounting Standard 34 – Interim Financial Reporting as well as with Schedule 4 of the South African Companies Act and the disclosure requirements of the JSE Limited's Listings Requirements. The preliminary report has been prepared using accounting policies that comply with International Financial Reporting Standards. The accounting policies are consistent with those applied in the prior financial year.
2. **Acquisitions**
   Protech acquired the business of Impact Compaction (Pty) Ltd on 1 June 2008. The company specialises in impaction compaction services. The purchase price of the acquisition was R7 million and was settled in cash. A portion of the purchase price was allocated to intangible assets which relates to technical drawings and designs. Certain patents over impact rollers are in the process of being registered. On the completion of the registration process an additional amount of R3 million will be paid to the vendors.
3. **Post balance sheet events**
   No material events have occurred subsequent to 28 February 2009 which may have an impact on the group's reported financial position at this date.
4. **Audit opinion**
   The auditors, Deloitte & Touche, have issued their unmodified audit opinion on the Group's financial statements for the year ended 28 February 2009. The audit was conducted in accordance with International Standards on Auditing. A copy of their audit report is available for inspection at the company's registered office. These abridged financial statements have been derived from the Group financial statements and are consistent in all material respects, with the Group financial statements.