

REVIEWED PROVISIONAL REPORT FOR THE YEAR ENDED 29 FEBRUARY 2008



91%

increase in revenue

154%

increase in profit after tax

33 cents

headline earnings per share exceeds prospectus forecast by 16,4%

CONDENSED GROUP INCOME STATEMENT

Figures in Rand	Reviewed 2008	Unaudited Pro forma 2007
Revenue	224 726 826	117 816 587
Cost of sales	(159 561 739)	(87 644 824)
Gross profit	65 165 087	30 171 763
Other income	285 395	530 736
Administrative and operating expenses	(19 745 819)	(9 864 215)
Operating profit	45 704 663	20 838 284
Finance income	1 355 238	244 247
Finance costs	(2 465 720)	(1 363 389)
Profit before taxation	44 594 181	19 719 142
Taxation	(12 914 020)	(7 227 003)
Net profit for the year attributable to ordinary shareholders	31 680 161	12 492 139
Reconciliation of headline earnings:		
Profit attributable to ordinary shareholders	31 680 161	12 492 139
Adjustments for non-trading items:		
loss/(profit) on disposal of plant and equipment	2 226 296	(530 736)
Headline earnings	33 906 457	11 961 403
Earnings per share (cents)		
Basic	31,12	12,89
Headline	33,31	12,34
Weighted average number of shares in issue (thousands)	101 800	96 945

CONDENSED GROUP CASH FLOW STATEMENT

Figures in Rand	Reviewed 2008	Unaudited Pro forma 2007
Cash receipts from customers	194 722 994	110 488 360
Cash paid to suppliers and employees	(163 085 257)	(87 752 771)
Cash generated from operations	31 637 737	22 735 589
Net finance income/(cost)	(1 110 482)	(1 119 142)
Tax paid	(6 936 181)	(4 203 542)
Net cash from operating activities	23 591 074	17 412 905
Acquisition of subsidiary – net cash acquired	703 962	–
Acquisition of property, plant and equipment	(8 772 249)	(5 405 678)
Acquisition of plant for hire	(30 376 137)	(14 340 789)
Proceeds on disposal of property, plant and equipment	341 584	598 814
Proceeds on disposal of plant for hire	1 759 518	1 413 737
Proceeds on disposal of financial assets	–	29 573
Net cash from investing activities	(36 343 322)	(17 704 343)
Net proceeds on share issue	50 552 860	–
Movement in borrowings	4 347 772	3 997 657
Dividends paid	–	(3 500 000)
Net cash from financing activities	54 900 632	497 657
Net movement in cash and cash equivalents	42 148 384	206 219
Cash and cash equivalents at the beginning of the year	255 274	49 055
Cash and cash equivalents at the end of the year	42 403 658	255 274

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

Figures in Rand	Share capital	Share premium	Total share capital and premium	Common control deficit	Retained earnings	Total equity
Balance as at 1 March 2006	300	–	300	–	16 583 894	16 584 194
Issue of shares	969 150	192 860 850	193 830 000	(177 246 106)	(16 583 894)	–
Profit for the year	–	–	–	–	12 492 139	12 492 139
Dividends	–	–	–	–	(3 500 000)	(3 500 000)
Balance as at 28 February 2007	969 450	192 860 850	193 830 300	(177 246 106)	8 992 139	25 576 333
Profit for the year	–	–	–	–	31 680 161	31 680 161
Issue of shares	194 194	53 268 757	53 462 951	–	–	53 462 951
Share issue expenses	–	(2 910 391)	(2 910 391)	–	–	(2 910 391)
Balance as at 29 February 2008	1 163 644	243 219 216	244 382 860	(177 246 106)	40 672 300	107 809 054

CONDENSED GROUP SEGMENTAL REPORT

Business Segment	Civils Construction		Small Plant and Formwork		Commercial and Industrial Building		Services		Total Group	
	Reviewed 2008	Unaudited 2007	Reviewed 2008	Unaudited 2007	Reviewed 2008	Unaudited 2007	Reviewed 2008	Unaudited 2007	Reviewed 2008	Unaudited 2007
Segment revenue and result										
Revenue										
Total segment revenue	156 319 290	81 306 713	73 210 402	38 413 874	–	–	–	–	229 529 692	119 720 587
Less: inter-segment revenue	–	–	(4 802 866)	(1 904 000)	–	–	–	–	(4 802 866)	(1 904 000)
Total Revenue	156 319 290	81 306 713	68 407 536	36 509 874	–	–	–	–	224 726 826	117 816 587
Result										
Operating profit	20 327 468	10 704 291	25 299 011	10 133 993	–	–	–	–	45 704 663	20 838 284
Finance income	361 381	241 220	–	3 027	–	–	–	–	1 355 238	244 247
Finance costs	(175 930)	(74 484)	(2 286 020)	(1 288 905)	–	–	–	–	(2 465 720)	(1 363 389)
Profit before taxation	20 512 919	10 871 027	23 012 991	8 848 115	–	–	1 068 271	–	44 594 181	19 719 142
Segment assets and liabilities										
Assets	53 089 996	20 436 096	70 858 378	36 876 488	56 891 879	–	103 114 934	300	283 955 187	57 312 884
Liabilities	29 877 061	11 756 335	27 105 985	19 980 216	40 058 987	–	79 104 100	–	176 146 133	31 736 551
Other information										
Capital additions	4 024 281	875 483	35 124 105	18 870 984	–	–	–	–	39 148 386	19 746 467
Depreciation	1 128 191	542 250	1 899 211	1 136 534	–	–	–	–	3 027 402	1 678 784

NOTES TO THE CONDENSED GROUP FINANCIAL STATEMENTS

1. Overview

Erbacon Investment Holdings Limited ("Erbacon") is the newly formed holding company for Erbacon Construction (Pty) Limited ("Erbacon Construction") and Erbacon Small Plant (Pty) Limited ("Erbacon Small Plant"), which were converted from close corporations into private companies on 12 and 13 September 2007, respectively, and have subsequently become wholly owned subsidiaries of Erbacon in terms of a share-for-share exchange.

Erbacon listed on the AltX of the JSE Limited ("JSE") on 7 December 2007. These consolidated results are published to provide information to the holders of Erbacon shares. For annual reporting purposes, Erbacon is preparing financial statements for the Erbacon group of companies ("the Group") for the year-ended 29 February 2008, which will be posted to shareholders on or about 1 July 2008.

2. Basis of preparation

The financial information has been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards (IFRS), the International Financial Reporting Interpretations Committee (IFRIC) interpretations adopted by the International Accounting Standards Board, the Listing Requirements of the JSE, and the Companies Act of South Africa. The financial information has been prepared under the historical cost convention. The accounting policies have been consistently applied, throughout the Group, to all the years presented, except for the adoption of IFRS 7 Financial Instruments: Disclosure. This is a disclosure standard which has no impact on recognition, measurement and presentation of financial instruments and consequently has no impact on profit or loss or equity for the year.

3. Acquisition

On 28 February 2008, the acquisition of all of the shares in issue and claims against Davgram Construction (Pty) Limited (trading as "Armstrong Construction") was concluded, with the required clearance having been obtained from the Competition Commission authorities. The Armstrong Construction balance sheet has been consolidated in the Group balance sheet on 28 February 2008. As Armstrong Construction was purchased within only two trading days of the financial year-end, it made no contribution to the consolidated Group revenue during the year under review.

Due to time constraints, the purchase price has not yet been allocated to the fair value of the net assets acquired. The excess over the book value of assets acquired amounts to R61,6 million and is reflected as premium to be allocated in the balance sheet.

4. Post balance sheet event

Post the financial year-end, Erbacon paid R20,0 million, from the private placement proceeds, to the vendors of Armstrong Construction, whilst the JSE granted approval on 18 March 2008 for an additional allotment of 11 171 329 ordinary shares at R2,86 per share. This increased the ordinary share capital to 127 535 693 shares out of an authorised share capital of 300 000 000 shares. On the assumption that Armstrong Construction achieves its warranted profit at 29 February 2008, approval will be sought from the JSE for a further, and final, allotment of 9 267 482 shares for this portion of the deferred purchase consideration. This would bring the total purchase price to R78,5 million at an historic price:earnings ratio of 6,5 times.

CONDENSED GROUP BALANCE SHEET

Figures in Rand	Reviewed 2008	Unaudited Pro forma 2007
ASSETS		
Non-current assets		
Property, plant and equipment	19 994 378	7 191 680
Plant for hire	42 464 956	22 357 548
Premium to be allocated	61 622 110	–
Deferred tax assets	414 679	124 340
	124 496 123	29 673 568
Current assets		
Trade and other receivables	108 365 214	26 895 375
Inventories	8 690 192	488 667
Cash and cash equivalents	42 403 658	255 274
	159 459 064	27 639 316
TOTAL ASSETS	283 955 187	57 312 884
EQUITY AND LIABILITIES		
Equity		
Share capital and share premium	244 382 860	193 830 300
Common control deficit	(177 246 106)	(177 246 106)
Retained earnings	40 672 300	8 992 139
	107 809 054	25 576 333
Non-current liabilities		
Borrowings	10 968 525	7 444 589
Deferred tax liabilities	3 128 118	899 253
	14 096 643	8 343 842
Current liabilities		
Trade and other payables	138 753 941	13 317 972
Borrowings	13 222 763	6 133 116
Income tax liability	10 072 786	3 941 621
	162 049 490	23 392 709
TOTAL EQUITY AND LIABILITIES	283 955 187	57 312 884
Total number of shares in issue (thousands)	116 364	96 945
Net asset value per share (cents)	92,65	26,38
Supplementary information:		
Capital expenditure	39 148 386	19 746 467
Capital commitments		
– authorised by directors and contracted for	6 651 000	–
– authorised by directors not yet contracted for	12 000 000	–

COMMENTARY

OVERVIEW

This provisional report represents the maiden set of results for Erbacon since the company listed on the AltX of the JSE on Friday, 7 December 2007.

The business environment in South Africa remained robust as the construction sector continued to reflect strong civil construction and non-residential building activity. These favourable operating conditions are reflected in the solid set of results produced by each of the companies in the Group.

RESTRUCTURING

The restructuring undertaken during the course of August - October 2007 resulted in the interposition of Erbacon as the holding company, and the establishment of Erbacon Small Plant and Erbacon Construction as its two wholly-owned subsidiaries. Erbacon issued, in aggregate, 96 915 000 ordinary shares, and accounted for this transaction as a common control transaction using predecessor values.

After a private placing by Erbacon of 19 383 000 ordinary shares at R2,75 per share, thereby raising R53,3 million, the issued ordinary share capital of Erbacon comprised 116 364 364 ordinary shares with a par value of R0,01 per share, and a total share premium of R246,1 million, excluding listing expenses.

ACQUISITION

The Armstrong Construction deal, which became unconditional on the 28 February 2008, adds a complementary business to Erbacon, in the Commercial and Industrial building sector, and brings with it an excellent management team and skills base.

FINANCIAL REVIEW

Consolidated Income Statement

Group revenue increased by 91% to reach a record R224,7 million (2007 – R117,8 million) in respect of the two original companies, namely Erbacon Small Plant and Erbacon Construction. Armstrong Construction made no contribution to the consolidated Group revenues during the period under review.

The Civils Construction segment contributed R156,3m (2007 – R81,3 million) or 70% (2007 – 69%) of Group revenue, with Small Plant and Formwork making up the balance of 30% (2007 – 31%).

At the operating profit level, the higher margins generated by the Small Plant and Formwork segment has elevated the consolidated operating profit to R45,7 million (2007 – R20,8 million), a substantial year-on-year increase of 119,3%. Small Plant and Formwork contributed 55,4% of the Group operating profit, and Civils Construction 44,6%. Erbacon Investment Holdings Limited (Services) operated to a near break-even recovery position for the three months since listing, after charging management fees to subsidiaries.

Administrative and operating expenses doubled year-on-year as the jump in activity resulted in increases in depreciation, repairs and maintenance to hired plant, lease rentals, insurance, and administrative control.

The interest charge of R2,5 million for the period (2007 – R1,4 million) is offset by the positive benefit of the investment of the private placement proceeds in anticipation of their release to fund the acquisition of Armstrong Construction, and the establishment of additional branches for Small Plant and Formwork. Although interest neutral, an amount of R10 million was utilised from these proceeds to settle plant and equipment hire purchase loans.

The net profit for the year attributable to ordinary shareholders is R31,7 million (2007 – R12,5 million), resulting in maiden headline earnings per share of 33,31 cps, compared to 28,61 cps forecasted in the pre-listing prospectus, an improvement of 16,4% - a very pleasing performance.

Dividend

No dividend is declared for the financial year ended 2008 (2007 – R3,5 million). As soon as a predictable and sustainable cash flow trend becomes evident, dividends will become payable.

Consolidated Balance Sheet and Cash Flow

Most categories of the trading and operating balance sheet increased on the back of heightened activity levels, in particular plant for hire assets, and trade debtors and creditors.

Trade payables include the full outstanding purchase price of the Armstrong Construction acquisition of R78,5 million, whilst trade receivables include a contract debtor which is overdue. The overdue amount in Erbacon Construction in respect of the aforementioned debtor is R19,2 million, and is as a result of unresolved issues between the developer and the Land Bank. The company is of the opinion that the debt remains fully recoverable.

The Group was ungeared at 29 February 2008, and operating cash flows for the financial year amounted to R23,6 million (2007 – R17,4 million) before the receipt of proceeds from the private placing of R53 million.

Capital expenditure on property, plant and equipment in the period amounted to R13,8 million (2007 – R9,1 million) of which the majority was allocated to transport. Plant-for-hire purchases increased by 112% to R30,4 million (2007 – R14,3 million), more or less in line with revenue growth in the period.

OPERATIONAL REVIEW

Civils Construction

This business segment executes a variety of projects for private clients, parastatals, government departments, municipalities, roads agencies and other provincial bodies, as well as private property developers. The products and services offered include concrete structures and buildings, concrete and bridge rehabilitation, pipeline construction, township services and developments, bulk earthworks and roadworks.

Erbacon Construction had another solid year of trading, as operating profit margins were maintained on a significantly higher revenue base. Whilst most activity in the year was centred around the KwaZulu-Natal province, covering bridges, roads, water treatment and pipeline contracts, projects are now commencing in the Eastern Cape and Mpumalanga.

Small Plant and Formwork

Initially established to service the needs of Erbacon Construction, the company has shown impressive growth over the past few years and manages to complement the civil and commercial construction businesses with a steady flow of shorter-term contract revenue flows, at higher margins. Its ever-increasing client base extends throughout the country, with a geographical emphasis in Gauteng.

Revenue increased by 90,6% year-on-year, and was only constrained by availability of plant to hire. Operating profit margins at 34,6% (2007 – 26,4%) reflected countrywide demand, although these margins are required to cover the cost of equipment replacement and funding. The two new branches to be funded from the proceeds of the private placing will give impetus to an already committed order book for the following trading period. Authorised capital expenditure carried forward from 2008, amounting to R18,7 million, provides working capital, premises and transport facilities for these branches.

Commercial and Industrial Building

This business segment is now represented by Armstrong Construction, a company that was established by its founder, Dave Armstrong, in 1996. In 2002, Armstrong Construction acquired Collins Contractors, another KwaZulu-Natal-based construction company with a formidable track record of nearly 100 years in the industry.

Although not a contributor to the consolidated income statement in 2008, the company recorded revenue of R292,4 million at 29 February 2008 (2007 – R144,7 million), with an operating profit margin of 6,2% (2007 – 4,9%). Completed contracts included shopping centres, office blocks and industrial complexes, mainly in KwaZulu-Natal and the Eastern Cape.

Services

The holding company, Erbacon Investment Holdings Limited, executes management oversight and governance functions in respect of subsidiary companies, in addition to the normal centralised functions of strategy and budgetary methodologies, finance, treasury, tax, secretarial and other support services.

OUTLOOK

The Erbacon Group is looking forward to the new financial year with much anticipation, especially as the intended utilisation of the private placement proceeds has materialised in the form of:

- the finalisation of the Armstrong Construction acquisition; and
- the investment in new branches for Erbacon Small Plant, evidenced by authorised capital expenditure of R18,7 million carried forward to 2008.

All companies in the Group are well positioned to carry out their contribution to the secured forward order book of more than R500m, which is anticipated to result in another year of exceptional growth. Tender activity remains strong in Erbacon's target areas, and the Group is equipped and resourced to execute the available workload at respectable margins. Although the Group intends to consolidate its position in the short term, there is also capacity within the expanded Group to take on more contracts. Erbacon has, subject to market conditions continuing to remain buoyant, budgeted for increased earnings per share year-on-year.

REVIEW OPINION

The financial information has been reviewed by PricewaterhouseCoopers Inc., the Group's external auditors. A copy of their review report is available for inspection at the company's registered office. For and on behalf of the board

A Dawson

Chairman