



AUDITED CONDENSED PROVISIONAL RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2011

ERBACON INVESTMENT HOLDINGS LIMITED

COMMENTARY

OVERVIEW
Erbacon provides a comprehensive suite of heavy civil engineering, commercial and industrial building, general construction and plant hire services.

A combination of adverse market conditions and a number of self-inflicted challenges has resulted in the period under review becoming a watershed year. Although the Group did not predict the severity of second half trading conditions, or the extent of the management issues, it nevertheless took many significant actions during the year to remedy the current situation and to position the Group for the growth prospects that certainly lie ahead.

Most important of these actions was the recruitment of a Chief Executive Officer who was external to the Group, which had the effect of corporatising and rebalancing the owner/manager entrepreneurship culture with a more structured and risk management style discipline. The new Group executive committee attended to the merger of the civil businesses (namely Erbacon Construction, Civicon and Erbacon Roads and Earthworks) and set about restructuring every management team in the company. It is believed that the aforementioned actions taken will address the internal issues.

In terms of the external market challenges, the measures undertaken to date to bulk up the organisation are already targeting project opportunities offering better sustainable earnings growth. In addition, negotiations continue relating to a possible acquisition.

FINANCIAL REVIEW

The Group reported a loss after tax of R68,4 million for the year ended 28 February 2011 (2010: profit after tax of R65,3 million). As a result, basic earnings per share decreased from 45,33 cents per share for the corresponding prior period to a loss of 34,38 cents per share at 28 February 2011. Headline earnings per share also decreased from 45,10 cents per share to a loss of 33,36 cents per share. These earnings are stated after taking into account an increase of 34,2% in the weighted average number of shares in issue.

OPERATIONAL REVIEW

Commercial and Industrial Building
A highly competitive commercial and industrial construction sector resulted in low margin tendering which limited Armstrong Construction's otherwise satisfactory growth.

Civils Construction

The continued low level of project releases from the government's budgeted infrastructure spend program, sites affected by heavy rain and construction delays on several key projects, combined to set back the civil construction companies. Profits were negatively impacted by unresolved claims in the current period where the associated costs had already been

accounted for. Aggressive bidding for scarce public sector work at low margins in Erbacon Construction also resulted in several underperforming contracts, for which appropriate cost accruals were made at year end.

Small Plant and Formwork

The Small Plant and Formwork segment, the smallest in terms of revenue, accounted for the largest operating loss. This segment suffered from the continued weak levels of activity in the general construction sector, and numerous self-inflicted issues.

Group income statement

Group revenue increased to R1,011 billion (2010: R835 million) with Civils Construction contributing a combined R610 million (2010: R604 million), or 60% (2010: 72%) of Group revenue. Had Civicon been consolidated for the full prior period, the comparative 2010 revenue for the combined Coastal and Inland Civils segment would have been R846 million. This illustrates the significant decline in revenue during the period under review, particularly in respect of Erbacon Construction, which experienced a 62% decline in activity following the termination of Soccer World Cup (SWC) related projects in 2010, and to the fact that budgeted infrastructure spend did not materialise to the extent anticipated. In addition, a change in cost estimate, together with extensive rectification work, resulted in a reversal of R15,9 million in profits taken to account on a SWC related contract for Erbacon Construction.

The business of Erbacon Roads and Earthworks made an immaterial contribution to Civils Construction (Coastal) revenue and recorded a loss of R2,5 million (2010: Rnil) after winding down three contracts and redeploying staff.

Erbacon Small Plant incorporated the business of BO's Small Plant Hire cc from 1 October 2010, but produced a disappointing R54 million revenue contribution, down from R77 million in the prior period. This resulted in an operating loss of R37,2 million (2010: profit of R18,2 million), including the further scrapping of plant hire assets and debtor provisions in 2011.

Armstrong Construction had to contend with lower margin work in a very competitive environment, but nevertheless produced a commendable result, increasing revenue for the Commercial and Industrial Building segment to R347 million (2010: R153 million), a 127% increase over the prior year.

Corporate overheads increased due to actions taken to bolster expertise and leadership, and to boost capacity to build a sustainable business and position the Group for anticipated future growth.

The Group therefore recorded a significant loss before interest, depreciation and amortisation (EBITDA) amounting to R42,2 million (2010: EBITDA R123 million) as all operations underperformed the prior year.

The remaining portion of the Civicon contract-based intangible asset amounting to R3,6 million (2010: R5,9 million) was amortised in the income statement during the year under review.

The notional interest expense on the liability portion of the convertible redeemable and participating preference shares amounts to R9,0 million (2010: R1,8 million), which charge is included under finance costs.

Secondary tax on companies at 10% was paid during the year on dividend number 3 (being 13,39 cents per share). The effective tax rate, excluding the STC charge, is 27,6 % (2010: 27,6%).

Assessable tax losses upon which a deferred tax asset of R21,6 million (2010: Rnil) has been recognised relate to Civicon, Erbacon Construction, Erbacon Small Plant and the holding company. The assets are recognised on the basis that the assessable losses will be recoverable through future taxable income.

A number of non-recurring and non-operational items have been disclosed under the core headline earnings/(loss) calculation. As a result of these adjustments, the core profit (loss)/earnings for the period under review was a loss of R51 million (2010: headline of R71 million).

Diluted earnings/(loss) per share and diluted headline earnings/(loss) per share is calculated based on the current weighted average number of shares in issue, incorporating the shares issued to the Civicon vendors, contingently issuable shares, and the convertible redeemable preference shares issued to Medu Capital in the prior year. The interest charge on the preference shares and related deferred tax adjustments have been adjusted for in the calculation.

Group balance sheet

The JSE Limited granted approval for the additional allotment and issue of a further 31 999 500 ordinary shares during the year to the vendors in respect of the Civicon acquisition, increasing the issued ordinary share capital to 193 823 551 shares. "Shares to be issued" include a further 1 296 746 ordinary shares to be allocated to the Civicon vendors following a final determination of the 2010 profit warranty. In respect of the payment and settlement of the full purchase consideration, no further ordinary shares will accrue to the Civicon vendors as warranted profits after tax for the Civicon financial year ended 28 February 2011 were not achieved.

Total Group assets decreased to R628,5 million (2010: R634,3 million) as plant purchases for the civil businesses and various tax assets were offset by lower working capital and reduced cash reserves.

Group cash flow

The Group moved into a more geared position at 28 February 2011 (excluding the preference share liability portion). Cash and cash equivalents reduced to R34,6 million (2010: R81,7 million). Disappointing losses at the gross profit line, plus debtor collection difficulties in Erbacon Small Plant contributed to cash being absorbed by operations to the extent of R25,1 million (2010: R94,5 million cash generated).

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. Since the financial year end the board has sought, and received, shareholder loan assistance from certain key shareholders.

The Group also continues to receive the support of its bankers. At year end the debt/equity ratio of the Group fell out of the range as specified in the bank covenant. Following the facilities renewal process, bank facilities have been maintained at current levels and pricing, but with the bank's risk now secured by the execution of debtor cessions from the Group's major operating subsidiaries.

Developments during the period

At the beginning of the period under review, Erbacon Construction purchased plant and equipment for R16,5 million from PSC Civil Contractors (Pty) Limited, a company under judicial management. The final Section 311 application is expected to be sanctioned in June 2011.

The Group acquired the business of BO's Small Plant Hire cc for a consideration of R10 million and a 15% share in Erbacon Small Plant with effect from 1 October 2010, and integrated the business into Erbacon Small Plant.

Post balance sheet event

Certain major shareholders, namely Paladin Capital Limited, the Medu Capital Fund II partnership, the Medu II Development Fund and three executive directors approved a 199 500 Share Buyback on 13 April 2011 to make available to the company a capital sum to a maximum amount of R50 million. All amounts plus interest thereon, must be repaid in full by 1 October 2011 but may be extended to 28 February 2012 with agreement of all parties.

On 9 May 2011, each of the major operating subsidiaries of the Group executed a cession of debtors in favour of First National Bank in support of the banking facilities offered to the Group.

DIVIDEND

In line with the current Group policy, no dividend is proposed for the financial year ended 28 February 2011.

OUTLOOK

It remains uncertain as to when government's planned infrastructural spend will take off. However, by placing lesser reliance on public sector work and seeking opportunities elsewhere, management believes that this will strongly position the Group to meet its targets going forward. The current contracting forward order book is R870 million.

CAUTIONARY ANNOUNCEMENT

Shareholders were advised on 25 February 2011 and 12 April 2011 (renewal) that Erbacon had entered into preliminary negotiations relating to a possible acquisition by the company. Accordingly, shareholders are advised to continue to exercise caution when dealing in the company's securities until a further announcement is made.

AUDIT OPINION

The financial results have been audited by the Group's external auditors, PricewaterhouseCoopers Inc. A copy of their unqualified audit report is available for inspection at the company's registered office.

For and on behalf of the board

A Dawson **SJ Flanagan** **RK Braithwaite**
Chairman Chief Executive Officer Group Finance Director
Durban

CORPORATE INFORMATION

ERBACON INVESTMENT HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2007/014490/06) JSE code: ERB
ISIN: ZAE00011571 ("Erbacon" or "the company" or "the Group")

Directors: A Dawson (Chairman), SJ Flanagan (CEO), RK Braithwaite (GFO), DB Erskine, AH Henning, CHA Ramsay, ZR Angamia, JA Holtzhausen*, NP Mkwanzisi*, S Totaram*
*Non-executive #Independent non-executive

Company Secretary: D Godfrey

Registered office: 2 Montreal Road, Glen Anil, 4051

Telephone: +27 31 569 2866

Auditor: PricewaterhouseCoopers Inc

Designated and corporate advisor: PSG Capital (Pty) Limited

Website: <http://www.erbacon.co.za>

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

Figures in Rand	Audited 28 February 2011	Restated Audited 28 February 2010
Revenue	1 011 384 415	834 531 633
(Loss)/earnings before interest, depreciation and amortisation	(42 160 636)	123 011 354
Depreciation	(34 940 864)	(22 703 413)
Amortisation of intangibles	(3 604 553)	(5 905 490)
Operating (loss)/profit	(80 706 053)	94 402 451
Finance income	4 662 808	7 108 222
Finance costs	(13 520 884)	(6 112 732)
(Loss)/profit before taxation	(89 564 129)	95 397 941
Taxation	21 180 230	(30 055 330)
Total (loss)/profit and comprehensive (loss)/income for the year	(68 383 899)	65 342 611
Total (loss)/profit and comprehensive (loss)/income for the year attributable to:		
Owners of parent	(66 520 119)	65 342 611
Non-controlling interests	(1 863 780)	-
	(68 383 899)	65 342 611
Figures in Rand	Audited 28 February 2011	Audited 28 February 2010
Reconciliation of headline (loss)/earnings:		
(Loss)/profit attributable to owners of the parent	(66 520 119)	65 342 611
Adjustments for non-trading items net of taxation:		
Profit on disposal and scrapping of property, plant and equipment and plant for hire	1 966 960	(323 965)
Headline (loss)/earnings	(64 553 159)	65 018 646
(Loss)/earnings per share (cents)		
Basic (loss)/earnings per ordinary share	(34,38)	45,33
Diluted (loss)/earnings per ordinary share	(22,94)	37,81
Headline (loss)/earnings per share (cents)		
Basic headline (loss)/earnings per ordinary share	(33,36)	45,10
Diluted headline (loss)/earnings per ordinary share	(22,19)	37,62
Weighted average number of shares in issue	193 494 218	144 151 421
Diluted weighted average number of shares in issue	261 660 653	176 289 287

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

Figures in Rand	Share capital	Share premium	Total share capital and premium	Share-based payment reserve	Common control deficit	Shares to be issued	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 March 2009	1 360 737	292 558 781	293 919 518	572 971	(177 246 106)	-	94 115 744	211 362 127	-	211 362 127
Total profit comprehensive income for the year	-	-	-	-	-	-	65 342 611	65 342 611	-	65 342 611
Issue of shares - acquisition of subsidiary	250 209	39 783 193	40 033 402	-	-	51 199 199	-	91 232 601	-	91 232 601
Treasury shares	(1 346)	(193 781)	(195 127)	-	-	-	(195 127)	(195 127)	-	(195 127)
Convertible redeemable and participating preference shares	674 100	59 870 542	60 544 642	-	-	-	60 544 642	60 544 642	-	60 544 642
Deferred tax on liability component of convertible redeemable and participating preference shares	-	(16 952 500)	(16 952 500)	-	-	-	(16 952 500)	(16 952 500)	-	(16 952 500)
Share issue expenses	-	(116 299)	(116 299)	-	-	-	(116 299)	(116 299)	-	(116 299)
Value of employee services	-	-	-	841 461	-	-	841 461	841 461	-	841 461
Dividends	-	-	-	-	-	-	(37 325 014)	(37 325 014)	-	(37 325 014)
Balance at 28 February 2010	2 283 700	374 949 936	377 233 636	1 414 432	(177 246 106)	51 199 199	122 133 341	374 734 502	(1 863 780)	374 734 502
Total loss and comprehensive expense for the year	-	-	-	-	-	-	(66 520 119)	(66 520 119)	(1 863 780)	(68 383 899)
Issue of shares - acquisition of subsidiary	319 995	50 879 204	51 199 199	-	-	(51 199 199)	-	-	-	-
Treasury shares	(4 082)	(506 245)	(510 327)	-	-	-	(510 327)	(510 327)	-	(510 327)
Issue of shares - acquisition of subsidiary	-	-	-	-	-	2 074 794	-	2 074 794	-	2 074 794
Value of employee services	-	-	-	1 469 350	-	-	1 469 350	1 469 350	-	1 469 350
Dividends	-	-	-	-	-	-	(34 863 474)	(34 863 474)	-	(34 863 474)
Balance at 28 February 2011	2 599 613	425 322 895	427 922 508	2 883 782	(177 246 106)	2 074 794	20 749 748	276 384 726	(1 863 780)	274 520 946

GROUP SEGMENTAL REPORT

The segment information set out below is based on the requirements of IFRS 8: Segment Reporting. For management purposes the Group is split into five distinctive operating segments. The Board of directors has determined the operating segments based on the reports reviewed that are used to make strategic decisions. The Board assesses the performance of the operating segments based on a measure of profit before taxation. This measurement is consistent with the recognition and measurement principles applied within the statement of comprehensive income. Sales amongst segments are carried out at arm's length. The revenue from external customers reported to the Board is measured in a manner consistent with that in the statement of comprehensive income. In the prior year, 29,9% of total external revenue arose from transactions with two customers, each of which exceeded 10% of total external revenue. The revenue was included in the Civils Construction (Coastal), R22,7 million and Commercial and Industrial Building, R22,2 million.

Business segment	Civils Construction (Coastal) 2011	Civils Construction (Coastal) 2010	Civils Construction (Inland) 2011	Civils Construction (Inland) 2010	Small Plant and Formwork 2011	Small Plant and Formwork 2010	Commercial and Industrial Building 2011	Commercial and Industrial Building 2010	Services 2011	Services 2010	Total Group 2011	Total Group 2010
SEGMENT REVENUE AND RESULT												
Revenue												
Total segment sales	205 499 984	531 039 381	411 884 994	77 400 623	64 917 084	86 675 676	352 807 953	299 610 157	8 752 307	5 976 000	1 043 862 322	1 000 701 837
Less: Inter-segment sales	(6 057 639)	(3 947 510)	(924 466)	-	(11 331 030)	(9 832 107)	(5 412 465)	(146 414 587)	(8 752 307)	(5 976 000)	(32 477 907)	(166 170 204)
Total external revenue	199 442 345	527 091 871	410 960 528	77 400 623	53 586 054	76 843 569	347 395 488	153 195 570	-	-	1 011 384 415	834 531 633
Result												
Operating (loss)/profit	(29 419 386)	56 433 553	(9 498 425)	10 816 487	(37 207 025)	18 229 960	10 388 909	16 310 690	(14 970 126)	(7 388 239)	(80 706 053)	94 402 451
Finance income	482 268	2 717 225	1 815 382	899 260	-	80 356	638 263	2 042 893	1 726 895	1 368 488	4 662 808	7 108 222
Finance costs	(246 026)	(179 392)	(888 670)	(704 098)	(3 230 211)	(3 331 375)	(116 541)	(82 590)	(9 039 436)	(1 815 272)	(13 520 884)	(6 112 732)
(Loss)/profit before taxation	(29 183 144)	58 971 386	(8 571 713)	11 011 649	(40 437 236)	14 978 941	10 910 631	18 270 993	(22 282 667)	(7 835 028)	(89 564 129)	95 397 941
Taxation	10 301 134	(15 892 648)	4 490 154	(2 672 407)	8 563 080	(3 771 617)	(2 050 620)	(4 581 769)	(123 518)	(3 136 889)	21 180 230	(30 055 330)
Total (loss)/profit and comprehensive (loss)/profit for the year	(18 882 010)	43 078 738	(4 081 559)	8 339 242	(31 874 156)	11 207 324	8 860 011	13 689 224	(22 406 185)	(10 971 917)	(68 383 899)	65 342 611
SEGMENT ASSETS AND LIABILITIES												
Assets	90 385 037	116 366 526	315 241 952	254 724 102	114 139 200	120 888 686	108 369 956	126 189 842	393 509	16 170 648	628 529 654	634 339 804
Plant for hire	-	-	-	-	67 026 878	72 215 117	-	-	-	-	67 026 878	72 215 117
Property, plant and equipment	19 745 025	6 774 218	62 305 221	56 679 390	20 992 172	22 234 804	6 909 274	7 829 417	47 648	53 083	109 999 340	93 570 912
Goodwill	-	-	75 812 429	73 737 635	2 422 365	-	52 822 314	52 822 314	-	-	131 057 108	126 559 949
Deferred income tax assets	12 291 372	1 990 238	1 408 569	-	7 704 777	-	-	-	-	-	21 404 718	1 990 238
Intangible assets	240 324	-	-	3 577 019	655 221	-	563 279	-	-	-	1 458 824	3 577 019
Inventories	9 858 709	3 422 342	16 836 888	5 952 849	1 972 998	4 266 918	4 387 553	10 806 596	-	-	33 056 148	24 448 705
Investments	-	-	-	41 858 077	-	-	-	-	-	-	41 858 077	-
Trade and other receivables	41 264 559	82 953 165	135 367									