

Chairman's statement

Following the recent restructure ELB is an investment holding company owning 85 per cent of ELB Engineering Limited ("ELB Engineering") and 100 per cent of ELB Timber Holdings Limited ("ELB Timbers").

ELB ENGINEERING GROUP

ELB Equipment has a number of locally designed and manufactured products and represents internationally renowned manufacturers whose products are designed to meet industrialised first-world standards. Operating in three specialised divisions, each with responsibility for specific products, it provides a streamlined and professional service, that can offer the industry a wide selection of products.

Construction Equipment

- Ditch Witch Trenching & Directional Drilling Equipment
- Terex/Fermeec (formerly MF Industrial) Backhoe Loaders
- Mitsubishi Motor Graders
- Simesa Compaction Equipment **

Earthmoving Equipment

- Furukawa Wheel Loaders
- Kawasaki Wheel Loaders
- Sumitomo Tracked Excavators
- Terex Rigid & Articulated Dump Trucks

Mining/Quarrying Equipment

- Allu-SM Screener-Crusher Buckets
- Furukawa Drill Rigs
- Furukawa Hydraulic Breakers
- Taurus Heavy Duty Rotary Barrel Screens **
- ELB Static & Mobile Conveyors **

- Terex / Pegson Mobile & Static Crushing Plants
- Oresizer Vertical Shaft Impact Crushers **
- Terex / Powerscreen Mobile & Static Screens
- Simesa Underground Equipment **

**Designed and manufactured by ELB Equipment

In order to service its customer base effectively, ELB Equipment based in Boksburg has branches in Cape Town, Durban, Kimberley and Wolmaransstad as well as a well-established dealer network throughout South Africa and other Southern African states. In addition to offering parts and field service round-the-clock, a large centralised and fully equipped refurbishing facility is available for rebuilding and refurbishing of ELB Equipment products.

Ditch Witch Australia

Ditch Witch Australia is an importer and distributor of Underground and Utility Construction Equipment.

Product Lines include

- Ditch Witch Trenching and Directional Drilling Equipment
- Stanley Hydraulic Packs and Tools
- Trenchmaster Mini Trencher
- Bedmaster Bed Defining Machine
- McLaughlin Case Boring Equipment, Augers and Cutter Heads
- Vacuum Excavation Equipment
- Belle Concrete and Mortar Mixers and Compaction Equipment

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- Soltau Microtunnelling Systems
- Wirth Horizontal Directional Drilling Equipment

Markets served in Australia are gas, water, sewage, electricity, communications, the Defence Force and airports and dock authorities.

Ditch Witch Australia distributes direct through sales and service offices in Sydney, Melbourne, Adelaide, Perth and Brisbane.

ELB Engineering Services has, over the past year, made solid advances since its inception early in 2005. The business focuses on the supply of a total engineered solution to the mining, industrial and power sectors based on its own in house capability as well as technology agreements with world class product and know how companies.

Bulk Materials Handling

Augmenting the in house expertise base, ELB Engineering Services has an exclusive license with KOCH Materials Handling, from Germany. The capability encompasses the supply of turn key packages from run of mine tip to ship loading including all conveyor options, stockyard equipment and simulation modelling.

KONECRANES, a world leader in the supply of port handling equipment is serviced via a technology agreement with ELB Engineering Services for the large part of Africa.

KONECRANES not only provides the engineering of its equipment to ELB Engineering Services but further provides an on going service and maintenance ability, with over 250 000 cranes under its control, globally.

Pneumatic Conveying

ELB Engineering Service's capability for the supply of most types of pneumatic conveying is supported by the world class technology from Claudius Peters. Claudius Peters provide the vast majority of equipment required for the grinding, handling, cooling, mixing, storing and out loading in the Cement, Lime, Ash and Gypsum industry.

Coal Beneficiation

ELB Engineering Services provides the materials handling inputs into the Sedgman coal beneficiation plants. Sedgman is a world renowned provider of total solutions from project assessment to operations, in the field of coal handling and process plants.

ELB TIMBER GROUP

ELB Timbers comprises three operating divisions. These are:

ELB Timber Manufacturing which is based in Lydenburg and manufactures a range of timber products from rotary peeled veneer including plywood board, block board and sugar board.

The Clipbox range of reusable packaging that uses spring steel clips as connectors is produced out of a facility based in Krugersdorp.

Veneercraft which is based in White River in Mpumalanga and produces both rotary peeled and sliced veneer as well as plywood. A veneer upgrading facility also allows it to manufacture full skin veneer layons for the furniture and door markets.

Plycraft which is based in Krugersdorp and manufactures moulded furniture components (interior shells, arms, toe

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caps, etc) out of laminated pine timber, primarily for the South African office chair market.

FINANCIAL RESULTS

The ELB Group saw sales increase from R575 million in 2005 to R 694 million in 2006 and headline earnings from R7,6 million in 2005 to R12,1 million in 2006.

The ELB Engineering Group had another good year with sales increasing from R464 million in 2005 to R591 million in 2006 and headline earnings increasing from R15,7 million in 2005 to R26,7 million in 2006.

The ELB Timber Group on the other hand was not profitable. Sales, including discontinued operations, increased from R87 million in 2005 to R103 million in 2006. The loss from continuing operations in 2006, including a R3 million impairment of plant and equipment, was R12,9 million compared to R2,9 million loss in 2005. The losses for discontinued operations, after closing the board plant in Malelane, were R9,6 million in 2006 compared to R5,8 million in 2005. The losses from continuing operations were attributable largely to costs associated with commissioning a new dryer, rationalising business units, as well as a significant increase in raw material costs, the strong Rand and cheap imports making it difficult to achieve the gross margins necessary to be profitable. The losses of R9,6 million for discontinued operations include shut down costs and asset impairments of R7,6 million.

PROSPECTS

The ELB Engineering Group is well positioned to benefit from both the ongoing infrastructure spend in Southern Africa and Australia as well as the increase in capacities and efficiencies being implemented by the global resources and power industry sectors. Turnover is

expected to grow substantially in real terms. Though the recent restructure and introduction of a BEE Trust which now owns 15 per cent of the ELB Engineering Group will dilute earnings for the coming year ELB Engineering Services is expected to start to make a meaningful contribution for the first time.

The prospects for the ELB Timber Group becoming profitable in the near future are not encouraging due to further significant increases expected in timber input costs while at the same time cheaper imports are expected to further reduce the selling price of plywood products to even less profitable levels. A decision has therefore been made by the ELB Board to support and to further rationalise the business such that timber losses will have ceased by no later than June 2007.

DIVIDENDS

The final dividend has been increased from 5 cents in 2005 to 10 cents in 2006 reflecting the Board's confidence in the prospects for the ELB Engineering Group going forward.

The total dividend for the year is therefore 15 cents per share versus 10 cents per share for the 2005 financial year.

CONCLUSION

I would like to thank all those who have contributed to ELB over the past year.

Each year offers its own challenges which will need dedication and commitment from all those involved.



A G FLETCHER

23 October 2006