

### TO THE MEMBERS OF THE YORK TIMBER ORGANISATION LIMITED

The directors are responsible for the preparation and fair presentation of the group annual financial statements and separate annual financial statements of the parent company, comprising the balance sheets at 31 December 2006, and the income statements, the statements of changes in equity and cash flow statements for the period 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 control 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 as well as the preparation of the supplementary schedules included in these financial statements.

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 separate annual financial statements of the parent company are fairly presented in accordance with the applicable financial reporting framework.

### APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and separate annual financial statements of the parent company as identified in the first paragraph, were approved by the Board of Directors on 26 February 2007 and signed on its behalf by



Lance Cooper  
Chief Executive Officer



John Lehman  
Chief Financial Officer



# REPORT OF THE INDEPENDENT AUDITORS

for the year ended 31 December 2006

## TO THE MEMBERS OF THE YORK TIMBER ORGANISATION LIMITED

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the group annual financial statements and the annual financial statements of The York Timber Organisation Limited, which comprise the balance sheets at 31 December 2006, and the income statements, the statements of changes in equity and cash flow statements 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 31 to 63.

### 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 The York Timber Organisation Limited at 31 December 2006, 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 Shaun van den Boogaard  
Chartered Accountant (SA)  
Registered Auditor  
Director  
26 February 2007

KPMG Forum  
1226 Schoeman Street  
Hatfield  
0028

## BUSINESS OF THE GROUP

The York Timber Organisation Limited ("Yorkcor") is a vertically integrated forest products enterprise. The company was incorporated in 1916 and has been listed on the JSE since 1946.

Yorkcor provides strategic, administrative and technical management to its subsidiaries. Its main operating subsidiary, York Timbers Limited, operates in various markets, domestic and overseas, and in various sectors of the timber trade and industry. The core business of the group is sawmilling. Its log mills convert round softwood into a wide range of sawn lumber and value added wood products as well as wood chips for pulp and paper. Yorkcor markets sawn lumber to the construction, furniture, packaging and other industries, as well as to timber merchants generally, predominantly through its own merchandising division and partly through a network of independent timber agents.

To secure the core business Yorkcor decided to invest in strategically located commercial plantations. In 2005 Yorkcor acquired Taurus Estates, a plantation situated near Barberton. A further plantation near Graskop in Mpumalanga called Goedgeloof, was purchased in December 2006 for R32,3 million. The property and operations were transferred on 22 February 2007. A circular setting out all the salient terms of the purchase will be posted to shareholders during March 2007.

In addition to its core activities, the Yorkcor group has investments in revenue-producing and unimproved realty. Although reported in these financial statements, offers for the sale for the bulk of the investment properties were accepted in late 2006. These transactions will be finalised during the course of 2007.

The group provides financial and technical support to a number of business partners such as Silulu Investment Services (Pty) Limited, a black empowerment enterprise.

## REVIEW OF OPERATIONS AND SALIENT FINANCIAL RESULTS

The directors have pleasure in reporting the best results ever in the Yorkcor group's near one hundred year existence.

|   | <b>2006</b>     | 2005     | % Change |
|---|-----------------|----------|----------|
|   | <b>R000</b>     | R000     |          |
| Revenue   | <b>393 975</b>  | 284 012  | 39%      |
| Gross Profit  | <b>151 494</b>  | 129 483  | 17%      |
| Net Profit before tax and interest and arbitration awards | <b>42 273</b>   | 28 255   | 50%      |
| Arbitration awards  | <b>3 273</b>    | (22 956) | —        |
| Interest expense  | <b>(5 282)</b>  | (1 449)  | 265%     |
| Interest and investment income                            | <b>2 066</b>    | 8 812    | (77)%    |
| Net profit before tax                                     | <b>42 330</b>   | 12 662   | 234%     |
| Taxation  | <b>(11 014)</b> | (6 404)  | 72%      |
| Net profit after tax                                      | <b>31 316</b>   | 6 258    | 400%     |
| Earnings per share  | <b>284</b>      | 57       | 400%     |
| Net asset value per share                                 | <b>941</b>      | 656      | 43%      |



## REPORT OF THE DIRECTORS — continued

for the year ended 31 December 2006

The accompanying financial statements show revenue increasing by 39% from R284 million to R394 million in 2006 and group profit before taxation of R42,3 million compared with R12,6 million for the previous year.

With all litigious matters out of the way the 2006 group profit attributable to operations amounted to a record of R42, 2 million compared to the previous year of R28,2 million.

Earnings per share increased fourfold from 57 cents in 2005 to 284 cents in 2006.

Interest bearing debt increased from R20,151 million to R44,807 million and gearing amounted to 2,9% compared with 13,6% in 2005. Finance costs were covered 8 times (2005 : 19,5 times).

The current ratio for the group stood at 1.8 times compared with 1.2 times a year ago. Net cash flow from operating activities during 2006 amounted to R2,5 million which is compared with a negative of R22,6 million in the prior period. Bank balances and cash at the end of the year totalled R41,7 million compared with R8,7 million in the previous year.

The net asset value of the group at the year's end increased from 656 cents per share at the end of 2005 to 941 cents in 2006.

### LITIGATION

Neither Yorkcor nor its subsidiaries are involved in any litigation other than the routine collection of recalcitrant trade receivables. Amounts impaired in relation to bad debt accounted for less than 0.3% of revenue.

As stated in the letter to shareholders, Yorkcor and Safcol have settled the last outstanding item in the long-standing dispute between the companies.

### SUBSIDIARIES

The attributable interest of the company in the aggregate profit after taxation of its subsidiaries for the year was R28,2 million compared with a loss of R18,9 in 2005. Further details of the company's subsidiaries are set out in note 24 to these financial statements.

### TAXATION

In terms of the arbitration award received from the Department of Water Affairs and Forestry in 2004, any taxes arising from the award would be for the account of the Department. During the year the SA Revenue Service revised the assessment for 2004 with an additional R12,6 million as payable. This was recovered from the Department. An objection against this assessment has been lodged.

The recovery of the taxation from the Department has been excluded from net income. In the event that the SA Revenue Service seeks to tax this amount, there is a contingent liability of R3,6 million taxation payable which in turn is recoverable from the Department.

## ACCOUNTS

The accompanying financial statements have been charged to take account of realistic eventualities.

## BORROWING POWERS

Group borrowings are not limited by the applicable Articles of Association. Borrowings decreased gearing to 2,9% from 13,6% in the previous period. The decrease is due to the strong cash flows generated by the Company. Borrowings are expressed net of cash balances.

## CORPORATE GOVERNANCE

The directors endorse the principles enshrined in the King Report II on Corporate Governance. In line with its long-standing policy of transparency, the disclosures in this annual report substantially comply with the recommendations in Code of Corporate Practices and Conduct. Detailed group statements on Corporate Governance compliance are set out on pages 12 to 17.

## POST BALANCE SHEET EVENTS

### *Change in controlling shareholders and resulting Black Economic Empowerment*

The Tucker family will dispose of its entire 84,75% interest in Yorkcor to Blackstar Investors plc. Blackstar and Yorkcor will make a joint cash offer to acquire 100% of Yorkcor's issued capital at R9,83 a share, with Yorkcor undertaking to acquire 26% of this on behalf of new BEE shareholders and Blackstar the balance.

Integrated into this transaction is the creation of two special purpose vehicles through which the new BEE shareholders will acquire their shares held in a Staff Trust and a Community Trust. Blackstar has agreed to provide funding to the BEE trusts to facilitate acquisition of the shares.

On completion of the offer, Blackstar will issue cumulative, convertible, voting preference shares to the BEE trusts, carrying 26% of the combined ordinary and preference share votes, effectively to replace the 26% ordinary shares repurchased in terms of the joint offer. These preference shares are convertible into ordinary shares on a one-for-one basis after three-and-a-half years, and will carry a coupon rate of 1,25% below prime.

Details of the transaction were communicated in the circular dated 22 January 2007.

## BID FOR GLOBAL FOREST PRODUCTS (PTY) LIMITED

At year-end Yorkcor was in a tender process to acquire a 70% stake in Global Forest Products ("GFP"). GFP is a company that consists of a valuable forestry asset of some 57 000 ha of plantations, as well as three sawmills and one plywood mill.



**REPORT OF THE DIRECTORS** — continued  
for the year ended 31 December 2006

**DIRECTORS' SHAREHOLDINGS**

Direct and indirect allocations are split as follows for 2006 and 2005:

|                                     | <b>2006</b>       |                       | 2005              |                       |              |                   |
|-------------------------------------|-------------------|-----------------------|-------------------|-----------------------|--------------|-------------------|
| <b>Direct shareholdings</b>         |                   |                       |                   |                       |              |                   |
| A C de Villiers                     | <b>40 214</b>     |                       | 40 214            |                       |              |                   |
| S Motlana                           | <b>5 275</b>      |                       | 5 275             |                       |              |                   |
| I S D Tucker                        | <b>154 602</b>    |                       | 154 602           |                       |              |                   |
| L S Cooper                          | <b>78 603</b>     |                       | 78 603            |                       |              |                   |
| MJC van Vuuren                      | —                 |                       | —                 |                       |              |                   |
| G Mokoena                           | —                 |                       | —                 |                       |              |                   |
| J Kopp                              | —                 |                       | —                 |                       |              |                   |
| J Lehman                            | —                 |                       | —                 |                       |              |                   |
| <b>Indirect shareholdings †</b>     |                   |                       |                   |                       |              |                   |
| (a) Max Tucker & Sons (Pty) Ltd     | <b>4 939 430</b>  |                       | 4 939 430         |                       |              |                   |
| (b) Stonemax Investments (Pty) Ltd  | <b>2 600 422</b>  |                       | 2 600 422         |                       |              |                   |
| (c) Nineteen Syndicate (Pty) Ltd    | <b>1 621 500</b>  |                       | 1 621 500         |                       |              |                   |
| (d) Fountains Valley Investments cc | <b>144 667</b>    |                       | 144 667           |                       |              |                   |
| (e) Little Roseneath Hotel          | <b>50 572</b>     |                       | 50 572            |                       |              |                   |
|                                     | <b>Direct</b>     |                       | <b>Indirect</b>   |                       | <b>Total</b> | <b>Percentage</b> |
|                                     | <b>Beneficial</b> | <b>Non-beneficial</b> | <b>Beneficial</b> | <b>Non-beneficial</b> |              |                   |
| ISD Tucker                          | 154 602           | —                     | 4 418 254         | —                     | 4 572 856    | 41,42             |
| AC de Villiers                      | 40 214            | —                     | —                 | —                     | 40 214       | 0,4               |
| LS Cooper                           | 78 603            | —                     | —                 | —                     | 78 603       | 0,7               |
| S Motlana                           | 5 275             | —                     | —                 | —                     | 5 275        | 0,05              |
| NT Motlana                          | 9 117             | —                     | —                 | —                     | 9 117        | 0,08              |

The beneficial interests of the directors in the share capital of the company were as follows:

† ISD Tucker has a 50% interest in (a), (c), (d) and (e); and 40% in (b). There has been no change in the directors' interest in the share capital of the company since year-end.

**SHARE CAPITAL**

The authorised share capital remained unchanged during the period under review. The un-issued share capital has been placed under the control of the directors until the next annual general meeting. The number of shares issued at 31 December was 11 040 597 compared to 11 040 497 in 2005 after the issue of an additional 100 shares at R12,50 per share.

## DIVIDENDS

Taking into consideration the acquisition of forests and other growth plans, no dividend was declared during the year under review, compared to a total dividend of 250 cps in 2005.

## DIRECTORATE

The year under review saw the retirement of Solly Tucker (8 March 2006) and the resignation of Nthato Motlana (15 June 2006) who took up an executive position elsewhere. John Lehman was appointed financial director on 1 January 2006 and Gay Mokoena took up office as non-executive director on 13 September 2006.

Following the special general meeting on 20 February 2007 at which the Blackstar and BEE transactions were ratified, the board was reconstituted as follows: Jurgen Kopp, Poenkie de Villiers and non-executive chairman, Dr Tienie van Vuuren resigned from the Board. Jim Myers, Andrew Bonamour and William Marshall-Smith, all from Blackstar were appointed as non-executive directors. Ivor Tucker is to retire as CEO after the Blackstar offer closes on 15 March 2007 and becomes the non-executive chairman of the board. Lance Cooper, currently Chief Operating Officer will be appointed the new CEO.

Upon finalisation of the Yorkcor-Blackstar transaction, the Yorkcor Board will comprise eight directors, six of whom will be non-executive directors: Jim Myers, Andrew Bonamour, William Marshall-Smith, Sally Motlana, Gay Mokoena and Ivor Tucker (non-executive chairman), with two executive directors: CEO Lance Cooper and Chief Financial Officer John Lehman.

For and on behalf of the Board



Ivor Tucker  
Non-executive Chairman



Lance Cooper  
Chief Executive Officer