UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL RESULTS

AUSTRO GROUP LIMITED

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2011

AUSTRO GROUP LIMITED (Incorporated in the Republic of South Africa) (Registration number 2001/029771/06) Share code: ASO ISIN: ZAE000090882 ("the Group")

SUMMARY

Revenue	Cash generated	Headline earnings per share	Interim distribution per share
R202,8 million	**R29,1 million**	**1,1 cents**	**2,0 cents**

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited For the six months ended 28 February 2011 R'000	Unaudited For the six months ended 28 February 2010 R'000	Audited For the twelve months ended 31 August 2010 R'000
Revenue	**202 780**	192 219	401 943
Cost of sales	**(128 382)**	(112 655)	(242 655)
Gross profit	**74 398**	79 564	159 288
Other operating income	**1 023**	1 426	6 430
Operating expenses	**(75 523)**	(61 204)	(129 082)
(Loss)/profit from operations	**(102)**	19 786	36 636
Interest received	**4 327**	5 008	8 567
Interest paid	**(2 377)**	(7 537)	(11 546)
Profit before taxation	**1 848**	17 257	33 657
Taxation income/(expense)	**2 727**	(4 944)	(10 527)
Total comprehensive income for the period	**4 575**	12 313	23 130
Number of shares in issue	**429 890 361**	431 413 384	431 413 384
Weighted average number of shares	**431 321 312**	431 413 384	431 413 384
Earnings per share and diluted earnings per share (cents)	**1,1**	2,9	5,4
Headline earnings and diluted headline earnings per share (cents)	**1,1**	2,9	5,2
Dividend per share (cents)	**2,0**	2,0	4,0
Reconciliation of earnings to headline earnings:			
Total comprehensive income for the period	**4 575**	12 313	23 130
Net loss/(profit) on disposal of plant and equipment	**230**	42	(1 047)
Taxation effect thereon	**(32)**	(6)	147
Headline earnings	**4 773**	12 349	22 230

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited As at 28 February 2011 R'000	Unaudited As at 28 February 2010 R'000	Audited As at 31 August 2010 R'000
Assets			
Non-current assets	**272 908**	277 687	273 403
Property, plant and equipment	**39 283**	46 823	43 597
Goodwill and other intangibles	**229 742**	229 742	229 742
Deferred taxation	**3 883**	1 122	64
Current assets	**316 793**	392 941	372 160
Loans receivable	**–**	31 222	–
Inventories	**202 325**	285 756	254 053
Trade and other receivables	**68 219**	71 471	75 160
Taxation receivable	**5**	2 600	557
Cash and cash equivalents	**46 244**	1 892	42 390
Total assets	**589 701**	670 628	645 563
Equity and liabilities			
Capital and reserves	**540 875**	546 492	545 705
Share capital	**4**	4	4
Share premium	**321 326**	322 103	322 103
Accumulated profits	**219 545**	224 385	223 598
Non-current liabilities	**607**	9 550	3 805
Non-interest bearing liability	**–**	6 851	3 426
Deferred taxation	**607**	2 699	379
Current liabilities	**48 219**	114 586	96 053
Current portion of non-interest bearing liability	**3 426**	3 426	3 426
Trade and other payables	**44 152**	41 079	62 730
Taxation payable	**641**	1 139	4 629
Bank overdraft	**–**	68 942	25 268
Total equity and liabilities	**589 701**	670 628	645 563
Net asset value per share (cents)	**125,8**	126,7	126,5
Tangible net asset value per share (cents)	**72,4**	73,4	73,2

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited As at 28 February 2011 R'000	Unaudited As at 28 February 2010 R'000	Audited As at 31 August 2010 R'000
Cash flows from operating activities	**33 662**	64 113	120 894
Cash generated by operations	**44 639**	80 245	150 392
Interest received	**4 327**	5 008	8 559
Interest paid	**(2 377)**	(7 537)	(11 538)
Dividends paid	**(8 628)**	(8 628)	(17 257)
Taxation paid	**(4 299)**	(4 975)	(9 262)
Cash utilised in investing activities	**(338)**	(31 780)	(965)
Cash utilised in financing activities	**(4 202)**	(1 971)	(5 395)
Net increase in cash and cash equivalents	**29 122**	30 362	114 534
Cash and cash equivalents at beginning of period	**17 122**	(97 412)	(97 412)
Cash and cash equivalents at end of period	**46 244**	(67 050)	17 122

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Unaudited As at 28 February 2011 R'000	Unaudited As at 28 February 2010 R'000	Audited As at 31 August 2010 R'000
Share capital and share premium	**321 330**	322 107	322 107
Balance at beginning of period	**322 107**	322 107	322 107
Share premium decrease due to share buy back	**(777)**	–	–
Accumulated profits	**219 545**	224 385	223 598
Balance at beginning of period	**223 598**	220 700	217 725
Total comprehensive income for the period	**4 575**	12 313	23 130
Dividends declared and paid	**(8 628)**	(8 628)	(17 257)
Total capital and reserves	**540 875**	546 492	545 705

CONDENSED SEGMENTAL ANALYSIS

	Unaudited As at 28 February 2011 R'000	Unaudited As at 28 February 2010 R'000	Audited As at 31 August 2010 R'000
Revenue (external)			
Power	**138 803**	121 145	268 426
Gross	**139 041**	122 056	269 800
Intersegment	**(238)**	(911)	(1 374)
Wood	**63 977**	71 074	133 517
Gross	**63 977**	71 074	133 517
Intersegment	**–**	–	–
Total	**202 780**	192 219	401 943
Profit before tax			
Power	**2 639**	12 918	32 102
Gross	**2 877**	13 829	33 476
Intersegment	**(238)**	(911)	(1 374)
Wood	**(791)**	4 339	1 555
Gross	**(791)**	4 339	1 555
Intersegment	**–**	–	–
Total	**1 848**	17 257	33 657
Capital and reserves			
Power	**441 828**	419 525	439 490
Assets	**469 121**	496 094	493 991
Liabilities	**(27 293)**	(76 569)	(54 501)
Wood	**99 047**	126 967	106 215
Assets	**120 579**	160 260	151 572
Liabilities	**(21 532)**	(33 293)	(45 357)
Total	**540 875**	546 492	545 705

COMMENTARY

INTRODUCTION

Austro Group Limited is listed in the Industrial Engineering sector and Industrial Machinery subsector of the JSE Limited. The Group supplies specialised and quality branded industrial equipment to corporate, commercial and infrastructure markets in South Africa and other African markets. The Group services clients ranging from heavy industrial, mining and construction groups to wholesalers, retailers and manufacturers.

The Group has two distinct and focused business offerings:
– the production, supply, installation and rental of generators and related components such as industrial engines, marine engines, alternators, switchgear and components to the market, including the generator manufacture and supply industry; and
– the distribution of professional woodworking equipment and tooling.

Group structure:

New Way Power (Pty) Limited ("Power") housing the energy and power related interests of the Group.

Austro Wood (Pty) Limited ("Wood") housing the woodworking and related interests of the Group.

The core of these businesses has been in existence for over 30 years.

FINANCIAL REVIEW

Summary

While on the face of it the Group's interim result is disappointing, as mentioned in the trading update released earlier this month, there are a number of material incremental and non-recurring costs that have negatively impacted the result (discussed further in the next section). Revenue for the interim period ended 28 February 2011 (R202,8 million) is 5,5% greater than the previous corresponding period (R192,2 million).

Cash generation remains positive, with a net increase in cash resources of R29,1 million in the period in part attributable to a R51,7 million decrease in inventory in the six months and of R83,4 million over twelve months.

The capital distribution of 2,0 cents is appropriate when the influence of material non-recurring costs, strong cash generation, virtually no long term debt, healthy reserves, improved working capital indicators and some early indications of improving prospects are considered in concert.

Consolidated statements of comprehensive income

The improvement in revenue mentioned above is driven by revenue growth in Power. While revenue in Wood contracted there are early indications of some improvement coming out of results subsequent to the period under review.

The major incremental cost is additional rent (primarily resulting from Power's occupation of enlarged and improved premises in Alberton) and the impact of rent straight-lining. The aggregate impact of incremental (over 2010 interim numbers) rent and straight-lining is R7,4 million in the profit from operations line and R5,3 million in total comprehensive income for the period. Management is negotiating an exit from two buildings leased by the Group, together costing R6,5 million per annum at current rates (this excludes the additional impact of straight-lining these leases). The Power business in Gauteng will be consolidated in a modern facility that is well placed to take advantage of demand improvement and revised accommodation in Wood will be more appropriate to current revenue levels, but sufficient to take advantage of demand improvement and to facilitate this division's emerging strategies.

Net interest income has improved as a result of improved gearing and cash generation, discussed below. Taxation is affected by the utilisation of an assessed loss in the holdings company through interest earned on loans outstanding from the subsidiary companies: the resulting interest expense in the subsidiary companies has affected deferred tax balances in the subsidiary companies.

Consolidated statements of financial position

With the Group's only long-term liability of R3,4 million now current and due for payment on 1 March 2012 and cash resources of R46,2 million as opposed to the net overdraft of R67,1 million in the corresponding period, the Group is not geared. The major contributor to the positive cash flow is the reduction in inventory levels. Bringing inventory levels down to more realistic levels has been and remains a priority for management. Group inventory days are down to 288 days from 463 in the corresponding period and 382 for the last financial year.

The decrease in trade and other receivables is primarily a decrease in other receivables, however debtor days in relation to trade debtors have improved by 2,3 days over the corresponding period.

The trade and other payables balance incorporates R7,1 million more in straight-lining provisions than in the corresponding period.

SUBSEQUENT EVENTS

Share buy back

The Company bought back 16,685,889 shares in the Company at 48,9 cents per share from Richard Moss (a former director of the Company) and associated parties on 6 April 2011, pursuant to an authority obtained in a general meeting of shareholders on 17 March 2011. The effects of this transaction will be accounted for in the second half of the 2011 financial year.

Other than the abovementioned transaction, there have been no material events subsequent to the end of the interim period that have not been reflected in the financial statements for that period.

OPERATING REVIEW

Power

The relative importance of this division to the Group's revenue has increased to 68,5% of total revenue (2010: 63%).

Within the division Neptune (the generator rental business) contributed 3,4% less to the division's revenue (6,4%) than in 2010 (9,8%). This is due to strong growth coming out of New Way (the supplier and manufacturer of generator sets, industrial diesel engines and related components) and a 25,5% contraction in Neptune's revenue. Neptune faces growing competition in the market.

Consolidation of Quad (which manufactures electrical panels and soundproof enclosures), Quinlec (which specialises in the installation and maintenance of generators as well as compliance certifications) and New Way has continued to the point that Quad and Quinlec have effectively been absorbed into New Way and one of the property leases that management intends to exit results from this synergy.

Profit before tax is affected by an inventory write-off and bad debt provision, as well as an increased rent straight-lining burden and a material warranty payment. These items together amount to R12,3 million before tax.

Wood

The interim 2011 period has been a difficult period for this division and the contribution of the division to Group revenue is 5,4% less than 2010.

A material retrenchment cost, a reduction in foreign exchange gains, the impact of rent straight-lining and increased inventory obsolescence provision together account for R4 million of the R5,1 million negative variance in the profit before tax numbers contrasted year-on-year.

During the interim period this division saw a change in its chief executive officer and a great deal is being done to simplify the business structure and to secure new markets at the time of writing. Also as mentioned there is some indication of top line improvement in March 2011. The division expects the demand for its equipment to increase significantly after the bi-annual international trade show in June.

PROSPECTS

The Group is well positioned to take advantage of a general recovery in the economy when it occurs. In November, New Way officially opened new premises in Alberton. The consolidation of various other premises into the Jacoba Street premises gives the Power division a good base from which to operate and take advantage of improving market conditions as the new facility has greater capacity than previous facilities.

In addition, during the last six months the management team of the Wood division have focused a great deal of attention on building a meaningful strategy for the coming three years. This strategy includes expansion into new and complementary markets as well as expanding product offering into existing markets and deepening the penetration of the tooling and supply business unit into areas not previously covered. A number of new key resources have been recruited during this time.

As mentioned, there are plans to reduce the Group's rent bill through an exit from two leased premises, one in each of the divisions. Management will maintain a focus on the tight control of costs. The wood division has rationalised various administrative functions in the period under review.

Finally, the variances pointed out in the May 2011 trading update and reiterated here serve to demonstrate that the performance of the Group has been impacted by some non-recurring costs and by the application of rent straight-lining. It is hoped that the second half of the year will more realistically reflect true trading and be less hampered by other factors.

CAPITAL DISTRIBUTION

Shareholders are advised that a cash distribution of 2,0 cents per share has been declared and will be paid by way of a capital reduction out of share premium.

The salient dates in respect of the distribution are as follows

Last day to trade *cum* distribution on	Friday, 8 July 2011
Trading *ex* distribution commences on	Monday, 11 July 2011
Record date	Friday, 15 July 2011
Payment of distribution on	Monday, 18 July 2011

Shareholders may not dematerialise or rematerialise their shares between Monday, 11 July 2011 and Friday, 15 July 2011, both dates inclusive

BASIS OF PREPARATION

The unaudited interim results have been prepared in accordance with IAS 34 (Interim Financial Reporting), AC500 series of interpretations. The accounting policies applied in preparing these interim financial statements are consistent with those applied in the prior year and are in accordance with International Financial Reporting Standards. This announcement was prepared in accordance with the Listings Requirements of the JSE Limited and Companies legislation. These interim results have not been audited or reviewed by the company's auditors.

CHANGES TO THE BOARD OF DIRECTORS

Appointments: Philip Sigsworth (24 November 2010) and Charles Jacobs (4 February 2011).

Resignation: Richard Moss (31 December 2010)

By order of the Board

AJ Phillips
Chairman

P Sigsworth
Group Financial Director

Johannesburg
17 May 2011

Non-executive directors: AJ Phillips* (Chairman), DS Brouze, GS Nzalo*, U Schäckermann* (German), (* Independent)
Executive directors: JO Freed, JR Freed (Alt JO Freed), C Jacobs, P Sigsworth
Registration number: 2001/029771/06
Business/registered address: 1125 Leader Road, Stormill Ext 4, Roodepoort, Johannesburg
Business postal address: PO Box 1914, Florida, Johannesburg
Company secretary: Probity Business Services (Proprietary) Limited
Transfer secretaries: Computershare Investor Services (Proprietary) Limited
Sponsor: Java Capital

JAVA CAPITAL