
CANCELLATION OF THE LEASE AGREEMENT BETWEEN AUSTRO AND SALAMAX 1987 PROPRIETARY LIMITED ("SALAMAX")

INTRODUCTION

Shareholders are advised that Austro has reached an agreement with Salamax for the termination of the 10 year lease agreement entered into between Salamax and Austro, in respect of Erf 231, Stormill Extension 8, Roodepoort, Gauteng, known as 1127 Leader Avenue, Stormill Extension 4, Roodepoort ("**the transaction**") which property is currently being sub-let to New Clicks South Africa Proprietary Limited ("**the sub-lessee**").

RATIONALE FOR THE TRANSACTION

The 10 year lease agreement, which expires in July 2019, provides for a current monthly rental of approximately R435 000 with a 9% escalation. The sub-lessee pays a monthly rental of R275 000 and this sub-lease agreement expires in August 2013. In the opinion of the board of directors ("**the board**"), the lease agreement constitutes an onerous lease as the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received from it by Austro Proprietary Limited ("**Austro Wood**"), a wholly-owned subsidiary of Austro, particularly as the space is no longer required by Austro Wood. Accordingly, an onerous lease provision was raised in February 2012. As at 31 March 2013 this provision stands at R12.6 million. In addition, should Austro not be able to replace the sub-lessee from September 2013, the monthly burden on Austro would be expected to increase significantly. Salamax has agreed to the cancellation of the lease on the basis of Austro making a termination payment of R10 million excluding VAT ("**the termination payment**").

TERMS OF THE TRANSACTION

The termination payment payable by Austro to Salamax was settled in cash on the termination date, being 31 May 2013. The termination payment was in full and final settlement of all and any claims and or rights of action that Salamax may have against Austro. The termination payment was financed out of existing cash resources of Austro.

Austro and Salamax have agreed that on cancellation of the lease agreement on the termination date, Austro shall remain the sub-lessor in respect of the sub-lease until the termination of the sub-lease on 31 August 2013, provided that from the termination date Austro will no longer act as principal under the sub-lease but as agent on behalf of Salamax.

CATEGORISATION OF THE TRANSACTION

The transaction is not categorisable in terms of the Listings Requirements of the JSE Limited ("**the JSE Listings Requirements**"). However, as The David Brouze Trust is a shareholder of Salamax (such that Salamax is an associate of David Brouze as defined in the JSE Listings Requirements) and David Brouze is a non-executive director and material shareholder of Austro, the transaction constitutes a "related party transaction" in terms of the JSE Listings Requirements. Given the size of the transaction it is regarded as a "small related party transaction" in terms of paragraph 10.7 of the JSE Listings Requirements.

A small related party transaction is not subject to shareholder approval, provided an independent expert has confirmed that the terms of the transaction are fair as far as shareholders of the company are concerned. The board has appointed Grant Thornton Advisory Services Proprietary Limited ("**Grant Thornton**") to provide the board with a fairness opinion regarding the transaction. Grant Thornton has concluded that the transaction is both fair and reasonable and a copy of the fairness opinion is available at the registered office of the company (1125 Leader Avenue, Stormill Extension 4, Roodepoort, 1725) from 19 June 2013 until 19 July 2013.

FINANCIAL EFFECTS

The table below sets out the unaudited *pro forma* financial effects of the transaction on Austro, based on the unaudited results for the 6 months ended 28 February 2013. The unaudited *pro forma* financial effects have been prepared to assist Austro shareholders in assessing the impact of the transaction on the earnings per share, headline earnings per share, net asset value per share and tangible net asset value per share of the company as at 28 February 2013.

	Before the transaction	After the transaction	% change
Earnings and diluted earnings per share (cents)	2.72	3.43	26.1%
Headline earnings and diluted headline earnings per share (cents)	2.83	3.54	25.0%

Notes and assumptions:

1. The unaudited *pro forma* financial effects have been prepared for illustrative purposes and because of their nature, may not fairly present Austro's financial position after the transaction.
2. The financial information shown in the "Before the transaction" column has been extracted from the unaudited interim results for the 6 months ended 28 February 2013.
3. The transaction has been assumed to have been implemented on 1 September 2012 for the purposes of determining the impact of the transaction on Austro's earnings per share and headline earnings per share figures and on 28 February 2013 for the purposes of determining the impact of the transaction on Austro's net asset value per share and net tangible asset value per share figures.
4. Given that the transaction is assumed to have been implemented on 1 September 2012 for the purposes of determining the impact on Austro's earnings per share and headline earnings per share figures, it has been assumed that for the 6 month period ended 28 February 2013:
 - a. no lease payments were made by Austro Wood nor was there any sub-lease income earned by Austro Wood relating to the property;
 - b. the onerous lease provision raised by Austro Wood during the prior financial period has been reversed; and
 - c. interest income has been reduced as a result of R10 million less cash held by Austro for the financial period.
5. The *pro forma* financial effects of the transaction on Austro's net asset value per share and net tangible asset value per share are not significant (less than 3%) and therefore have not been disclosed.
6. The directors of Austro are responsible for the preparation of the financial effects, which have not been reviewed by the company's auditors.

19 June 2013

Sponsor

JAVACAPITAL