

Austro Group Limited
(Incorporated in the Republic of South Africa)
(Registration number 2001/029771/06)
Share code: ASO ISIN: ZAE000090882
("Austro" or "the group")

ACQUISITION OF THREE NEW BUSINESSES

1. INTRODUCTION

Shareholders are referred to the further cautionary announcement on 10 July 2007 and are advised that Austro has concluded agreements to acquire ("the acquisitions"):

- 1.1. the shares in and claims against Generator and Plant Hire (SA) (Proprietary) Limited ("Generator Hire") which has been in operation since 1990. Generator Hire hires out diesel powered generators to the construction and mining industry, parastatals and local authorities, cell-phone companies, shipping lines and other commercial and industrial customers. Generator Hire has grown to become one of the major operations in the generator hire business and offers long and short term rentals and hires as well as direct sales of generators;
- 1.2. the shares in and claims against Neptune Plant (Proprietary) Limited and Neptune Plant Hire (Proprietary) Limited (collectively the "Neptune Group") which has been in operation since 1997. The Neptune Group hires out industrial generators to commerce and industry primarily in the Western Cape. The dynamic nature of this business has seen Neptune generators travelling to all seven continents; and
- 1.3. the business of Gearing Moss Supplies (Proprietary) Limited ("Gearing Moss") a supplier of mobile sawmills and small log-processing equipment to the sawmilling industry and tooling to the industrial woodworking industry. Gearing Moss has agencies for a number of leading brands including Wood-Mizer, a world leader in portable saw-mills as well as its own range of sawmilling equipment.

2. RATIONALE FOR THE ACQUISITIONS

The strategy of the group is to be the major player in strategic niche markets in the construction and construction related sectors. Each of Generator Hire, Neptune Group and Gearing Moss are long-standing, profitable, owner formed and run businesses which are highly regarded in their respective markets and are complimentary with the group's existing business.

The group currently has two main areas of business. The Austro business supplies a range of woodworking machines, tools, accessories and services (including blade and tool sharpening services). New Way Motor & Diesel Engineering ("New Way"), the acquisition of which is still subject to the securing of Competition Authority approval, which is the leading supplier of commercial generator and diesel engines in South Africa.

The acquisition of Generator Hire and Neptune Group will add an additional lucrative component to the group's generator business in terms of which, in addition to selling generators, it is in a position to hire them out. The hiring out of generators will allow the group to take full advantage of what are often temporary or short-term requirements for generators and further enhances the group's ability to exploit the growing need for back-up power supply to industry and commerce.

The acquisition of Gearing Moss complements Austro's woodworking machinery business by giving the group entry into the sawmilling machinery market. Gearing Moss will prove a significant additional source of revenue for the group both from the supply of sawmilling machines and from ongoing maintenance and tool sharpening. In addition, with logging

rights in many African countries now requiring some form of timber beneficiation, there is potential to provide woodworking machinery and generators alongside mobile sawmilling equipment to allow loggers to meet their beneficiation requirements.

3. THE ACQUISITIONS

3.1. THE GENERATOR HIRE ACQUISITION

Austro will acquire the shares in and claims against Generator Hire from the Anthony Michael Muller Family Trust, the Dave Pretorius Family Trust, the Bill Muller Family Trust and the GJM Family Trust (collectively “the Generator Hire vendors”) with effect from 1 September 2007 for a maximum aggregate purchase consideration of R70 000 000.

The purchase consideration is subject to profit warranties and is payable in three tranches as follows:

- 3.1.1. The first tranche of the purchase price will be R60 000 000 payable in cash on the third business day following the fulfilment of the conditions precedent to the Generator Hire acquisition (the “Generator Hire implementation date”) together with interest at 10% per annum calculated from 1 December 2007 until the Generator Hire implementation date.
- 3.1.2. The second tranche of the purchase price will be R5 000 000, provided that if the PAT for the 12 months ending 31 August 2008 (the “2008 PAT”) is:
 - 3.1.2.1. less than R11 132 800, the second tranche will be Rnil;
 - 3.1.2.2. less than R13 916 000 but greater than R11 132 800, the second tranche will be reduced in terms of an agreed formula.
- 3.1.3. The third tranche of the purchase price will be R5 000 000, provided that if the PAT for the 12 months ending 31 August 2009 (the “2009 PAT”) is:
 - 3.1.3.1. less than R15 585 920, the third tranche will be Rnil;
 - 3.1.3.2. less than R19 482 400 but greater than R15 585 920, the second tranche will be reduced in terms of an agreed formula.

The second and third tranche of the purchase price will be payable 10 business days after the determination of the PAT in question and will be discharged, at the election of the Generation Hire vendors, either in cash (together with interest at 10% per annum calculated from 1 September of the year in question if the second tranche and/or third tranche of the purchase price (as the case may be) has not been paid by 30 November of that year) or in Austro shares issued at a price of R3 per share.

- 3.2. The Generator Hire acquisition is subject to the following conditions precedent:
 - 3.2.1. the unconditional approval of the acquisition by the Competition Authorities by no later than 26 October 2007;
 - 3.2.2. the conclusion of new executive service and restraint of trade agreements between Austro (or a member of the Austro group) and certain key employees of Generator Hire by no later than 17 August 2007;
 - 3.2.3. Austro furnishing the vendors with written confirmation that it is satisfied with the outcome of its due diligence exercise by no later than 17 September 2007; and

- 3.2.4. each of Absa Bank Limited and Imperial Bank Limited agreeing that, on the Generator and Plant Hire agreement becoming unconditional in accordance with its terms, Anthony Michael Muller, William Patrick Muller, Glenton James Muller and David Howard Pretorius will be released from any liability which they may have beyond the effective date under the guarantees, suretyships and indemnities in favour of Absa Bank Limited and Imperial Bank Limited by no later than 17 August 2007.
- 3.3. The Generator Hire acquisition is subject to terms and warranties usual for a transaction of the nature contemplated.
- 3.4. Subject to the implementation of the Generator Hire acquisition, Generator Hire's articles of association will be amended to conform with the articles of association of a listed company as required in terms of the JSE Listings Requirements.
4. THE GEARING MOSS AND NEPTUNE GROUP ACQUISITIONS
- 4.1. Austro will acquire the business of Gearing Moss as a going concern with effect from 1 March 2007 for a purchase price of R30 000 000 payable on third business day following the fulfilment of the conditions precedent to the Gearing Moss acquisition (the "Gearing Moss implementation date") as follows:
- 4.1.1. R17 920 000 in cash on the Gearing Moss implementation date;
- 4.1.2. the balance by the issue of 3 733 333 Austro shares (at an issue price of R3.24 per share).
- 4.2. Austro will acquire the shares in and claims against Neptune Plant (Proprietary) Limited ("Neptune Plant"), Neptune Plant Hire (Proprietary) Limited ("Neptune Plant Hire") and from Holger T Heye and the Diesel Share Trust (collectively the "Neptune vendors") respectively with effect from 1 March 2007 (the "Neptune acquisition"):
- 4.2.1. The aggregate maximum purchase price is R30 500 000 (apportioned as to 83% to Neptune Plant and 17% to Neptune Plant Hire) of which:
- 4.2.2. R26 500 000 (the "base purchase price") will be discharged on the third business day following the fulfilment of the conditions precedent to the Neptune Group acquisition (the "Neptune Group implementation date") as follows:
- 4.2.2.1. R13 500 000 in cash, which may be raised (in whole or in part) by way of a vendor placement of Austro shares pursuant to the JSE Listings Requirements; and
- 4.2.2.2. the balance by the issue of 4 193 548 Austro shares at R3.10 per share to the sellers on the Neptune Group implementation date;
- 4.2.3. R4 000 000 is subject to certain profit warranties and is payable in cash as follows:
- 4.2.3.1. R2 000 000 provided that the earnings before interest tax depreciation and amortisation of the Neptune Group ("EBITDA") for the 12 months ending 29 February 2008 ("2008 EBITDA") is at least R6 020 250;
- 4.2.3.2. R2 000 000 provided that the EBITDA for the 12 months ending 29 February 2009 ("2009 EBITDA") is at least R6 923 288;
- 4.2.3.3. if the 2008 EBITDA is less than R6 150 000 but the aggregate 2008 EBITDA and 2009 EBITDA is at least R12 943 538, then the Neptune vendors shall be entitled to the

R4 000 000 deferred price less the aggregate of any amounts paid to the Neptune vendors in terms of 4.2.3.1 and 4.2.3.2 above.

- 4.3. The Gearing Moss and Neptune Group acquisitions are subject to terms, warranties and conditions usual for transactions of the nature contemplated. Conditions include the conclusion of restraint of trade agreements between Austro and the key executives of each of Gearing Moss and the Neptune Group and Austro confirming that it is satisfied with the outcome of the due diligence exercises conducted by it in respect of each of Gearing Moss and Neptune Group.

5. FINANCIAL EFFECTS

Only the Generator Hire acquisition constitutes a categorisable transaction in terms of the JSE Listings Requirements. Accordingly, only the pro forma financial effects of the Generator Hire acquisition on Austro's historical earnings per share ("EPS") and headline earnings per share ("HEPS") for the 6 months ended 28 February 2007, and net asset value ("NAV") per share and net tangible asset value ("NTAV") per share at 28 February 2007, are set out in the table below.

The pro forma financial effects have been prepared for illustrative purposes only, to provide information on how the Generator Hire acquisition may have impacted on the historical results and financial position of Austro, before and after incorporating the financial effects of the New Way acquisition. Because of their nature, they may not give a fair reflection of Austro's financial position after the acquisition of Generator Hire on Austro's future earnings. The pro forma financial effects are the responsibility of the directors of Austro.

	Historical before the Generator Hire acquisition (cents)	Pro forma after the Generator Hire acquisition (cents)	Change after the Generator Hire acquisition (%)	Pro forma after the New Way acquisition (cents)	Pro forma after the Generator Hire and New Way acquisitions (cents)	Change after the Generator Hire and New Way acquisitions (%)
EPS and diluted EPS	4.2	3.7	(11.9)	6.9	6.4	52.3
HEPS and diluted HEPS	3.9	3.4	(12.8)	6.6	6.1	56.4
NAV per share	16.4	16.9	3.0	50.4	50.9	210.3
NTAV per share	13.1	(4.9)	(137.4)	2.2	(13.8)	(205.3)
Weighted average shares in issue ('000)	309 928	309 928	-	350 428	350 428	40 500
Weighted average shares in issue used for diluted EPS and HEPS calculations (‘000)	309 928	310 249	321	350 428	350 749	40 821
Shares in issue at 28 February 2007(‘000)	328 261	328 261	-	368 761	368 761	40 500

Notes and assumptions:

1. The amounts set out in the “Historical before the Generator Hire acquisition” column have been extracted from the unaudited financial statements of Austro for the 6 months ended 28 February 2007.
2. EPS and HEPS, as set out in the “Pro forma after the Generator Hire acquisition” column, reflect the effects of the Generator Hire acquisition on EPS and HEPS for the 6 months ended 28 February 2007 based on the following assumptions:
 - 2.1. the acquisition was effective 1 September 2006 and control of Generator Hire passed to Austro on the same date for earnings purposes;
 - 2.2. the inclusion of Generator Hire’s results for a 6-month period based on the audited results of Generator Hire for the year ended 31 August 2006 on the assumption that the profit was earned evenly over the 12-month period;
 - 2.3. interest-bearing funding of R60 000 000 had been secured and utilised on 1 September 2006 for settlement of the first tranche payment. The funding is assumed

to be subject to a variable before taxation interest rate commencing at 11.0% per annum; and

- 2.4. interest has been recognised on the second and third tranche payments (“the deferred payments”), calculated using the third party funding rate of 11% per annum.
3. Diluted EPS and HEPS, as set out in the “Pro forma after the Generator Hire acquisition” column, have been calculated according to the assumptions referred to above, save for the adjustment to the weighted average shares in issue. Weighted average shares in issue has been increased by the number of shares that would need to be issued to account for the value of the difference between the current market value, according to the 30-day volume weighted average price of an Austro share at 13 July 2007 of R3.32, and issue price of R3.00, multiplied by the number of shares to be issued in terms of the deferred payment.
4. NAV per share and NTAV per share, as set out in the “Pro forma after the Generator Hire acquisition” column, reflect the effect of the Generator Hire acquisition on NAV per share and NTAV per share at 28 February 2007 based on the following assumptions:
 - 4.1. the acquisition was effective 28 February 2007;
 - 4.2. the inclusion of Generator Hire’s NAV based on Generator Hire’s audited balance sheet at 31 August 2006;
 - 4.3. a cost of acquisition of R71 121 000 based on:
 - 4.3.1. the first tranche payment of R60 000 000;
 - 4.3.2. the present value of the deferred payments of R9 404 000, which has been calculated as the greater of the cash option and the value of the share option using the 30-day volume weighted average price of an Austro share at 13 July 2007 of R3.32, discounted at the third party funding rate of 11% per annum; and
 - 4.3.3. the value of the option awarded to the vendors to elect to receive the deferred payments either in cash or in shares, which has been calculated using the Black-Scholes option pricing model, of R1 717 000;
 - 4.4. a purchase price allocation exercise will need to be performed at the effective date in terms of IFRS3 (Business Combinations). For the purposes of the pro forma financial effects, the difference between the cost of acquisition and the carrying value of the assets and liabilities acquired of approximately R59 585 000 has been allocated to goodwill; and
 - 4.5. costs relating to the Generator and Plant Hire acquisition of approximately R200 000 were capitalised to the cost of the investment and results in further goodwill of such amount on consolidation.
5. The amounts set out in the “Pro forma after the New Way acquisition” column have been extracted from the circular to Austro shareholders relating to the New Way acquisition dated 11 July 2007.
6. The amounts set out in the “Pro forma after the Generator Hire and New Way acquisitions” column reflect the effects of the Generator Hire and New Way acquisitions on EPS, HEPS, diluted EPS and diluted HEPS for the 6 months ended 28 February 2007 and NAV per share and NTAV per share at 28 February 2007, based on the assumptions as set out in notes 2 to 4 above.

Johannesburg
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