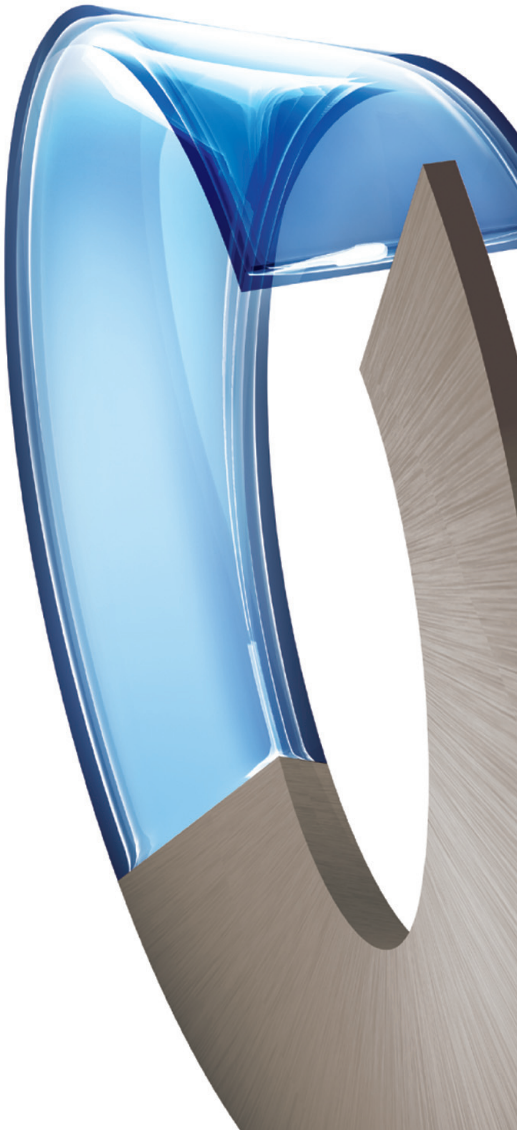
AGI

AG INDUSTRIES LIMITED

glass and aluminium...
infinite innovative applications



Unaudited interim results

for the six months ended

31 December 2008

SALIENT FEATURES

- Revenue increased by 4% to R646 million (2007: R621 million)
- Operating profit increased by 17% to R24 million (2007: R21 million)
- Improved operating margin
- Profit before depreciation improved by 16% to R39 million (2007: R34 million)
- Improved working capital to revenue ratio
- Cash generated from operations positive R6 million compared to an outflow of R60 million in the prior period

commentary

FINANCIAL REVIEW

Income statement

The Group increased its revenue by 4% to R646 million (2007: R621 million), with the Extrusion and International Divisions experiencing volume growth for the six months ended 31 December 2008 ("the period under review").

Pleasingly, profit before depreciation increased by 16% to R39 million (2007: R34 million) and profit from operations increased by 17% to R24 million (2007: R21 million) as a result of improved productivity and overhead reductions in the Group's Southern African businesses. This resulted in operating margins improving to 4% (2007: 3%). This is particularly pleasing given the deflationary effects in revenue of reducing aluminium commodity prices coupled with the inflationary cycle in operating costs experienced in the period under review.

Depreciation increased by 15% to R15 million (2007: R13 million).

Net financing costs decreased by 11% to R23 million (2007: R26 million) as a result of the reduced average borrowings in the period under review.

Associated companies involved in the business of flat and auto-glass fabrication and distribution contributed a decreased share of profit of R1,0 million (2007: R1,4 million) due to the slowdown in the economy in general, which affected both the flat and auto-glass markets.

Given the current economic conditions as well as the current performance of the Aluminium Division and after consideration of the ongoing programme of product range rationalisation in this division, management decided to impair goodwill in the amount of R17 million in this division.

The effective tax rate increased as a result of the non-deductibility of certain capital items namely, the impairment of goodwill and further, management deemed it prudent to defer the raising of a R2,6 million deferred taxation asset in certain trading entities in the Extrusion Division until such time as they return to profitability, which is expected during the 2010 financial year.

As a result of the steps to improve operational efficiencies, headline earnings per share increased 69% to a loss of 0,8 cents per share (2007: loss of 2,6 cents per share) despite the non-raising of the deferred taxation asset. As a result of the impairment of goodwill and the non-raising of the deferred taxation asset, basic earnings per share decreased by 152% to a loss of 6,8 cents per share (2007: loss of 2,7 cents per share).

Balance sheet and cash flow

Capital expenditure on property, plant and equipment reduced to R13 million (2007: R25 million) during the period under review and consisted predominantly of replacement assets. Capital expenditure is expected to remain at the same levels as the period under review for the remainder of the year.

In terms of a long-standing agreement, dated 25 April 2001, the Group acquired the final 7,3% of West Cape Safety Glass (Pty) Limited ("West Cape") from minority shareholders for a cash consideration of R3,1 million effective 1 November 2008. West Cape is now a wholly owned subsidiary of the Group.

The Group improved its working capital days to 93 days (2007: 94 days) as a result of the improvement in inventory and debtors days. Cash flows from operations increased by 14% to R40 million (2007: R35 million), with cash flows from operating activities improving to an inflow of R6 million (2007: outflow of R60 million) in the period under review. However, the Group's gearing increased from 67% at 30 June 2008 to 71% (2007: 62%) as a result of the decrease in equity due to the impairment of goodwill, the non-raising of deferred taxation assets and the losses sustained during the second half of the 2008 financial year.

Given the high levels of gearing, management is exploring various options to raise capital.

OPERATIONAL REVIEW

Southern African Operations

The Group's domestic businesses contributed 86% (2007: 92%) to the Group revenue and 77% (2007: 77%) to profit from operations. These businesses included the Glass, Extrusion and Finished Goods Divisions.

As outlined to the market during its year-end results in September 2008, the Group implemented a three-year turnaround plan in its South African business to address productivity, overheads and wastage control, as well as improving cash generation and effective working capital management.

At the time, the Group said that the benefits of this programme were expected to flow by the first half of 2010.

To date, the Group is on track and has achieved the following:

- Staff costs reduced by R19 million, after discounting the effects of inflation. The number of people reduced by 340 during the 2008 calendar year.
- General operating costs reduced by R22 million, after discounting the effects of inflation.
- Productivity targets set in the three-year plan were met or exceeded.
- Working capital improvements were achieved through a reduction in inventories of R28 million from 30 June 2008. Furthermore, debtors days improved from 48 to 46 from the corresponding prior period.
- The margin of profit before depreciation to revenue improved from 5% to 8%.

Trading conditions in the South African market became increasingly difficult as the uncertainty surrounding the global financial crisis started having a meaningful impact on the local economy, particularly in the latter part of the second quarter under review. New residential building and renovations contracted further during this period.

Given that 72% of domestic revenues are derived from the residential building sector, domestic revenues were impacted. A severe decrease in the price of aluminium led to weighted average deflation of 13% in selling prices in the Extrusion Division when compared to the six months ended 31 December 2007. This led to pricing pressure in the Aluminium Finished Goods Division. Despite the above factors, the revenue decrease was limited to 2%. This was done through the Group's strategy of successfully focusing on several other channels to market such as retail and non-residential building.

Glass Division

This division consists of local unbeneficiated and value-added glass and contributed around 37% (2007: 38%) to Group revenue and decreased revenues by 2% to R316 million (2007: R322 million).

- ***Unbeneficiated glass***
  Revenue in the Unbeneficiated Glass Division (wholesale distribution of bulk and cut to size glass) decreased marginally to R176 million (2007: R177 million), in line with the Group's strategy of maintaining market share. Despite some price compression during the reporting period, the division maintained operating margins through a reduction in overheads.

- ***Value-added glass***
  Revenue in value-added glass decreased by 3% to R140 million (2007: R145 million) mainly as a result of reduced inter-company revenues. The division grew external revenues by 2% by focusing on the buoyant non-residential market, which resulted in a much improved operating margin in this division.

Aluminium Division

This division contributed around 49% (2007: 53%) of the Group's revenue. It consists of the Finished Goods and Extrusion Divisions (Roodekop and Sheerline). Revenues in this division decreased by 9% to R413 million (2007: R447 million).

- ***Finished Goods***
  Revenues dropped 14% to R171 million (2007: R199 million) on the back of the contraction in the residential building sector. This division derives approximately 95% of its revenues from this sector. Within this sector, 30% of revenues are derived from the retail market with the remaining 70% being derived from the merchant market.

  The establishment of a dedicated retail team and the successful implementation of the retail strategy during the prior financial year has produced a significant turnaround in retail profitability during the period under review with profit from operations exceeding budget.

  Although overheads of R10 million have been taken out during the reporting period, retrenchment costs and product rationalisation costs of R2 million impacted on operating margins. Further cost reductions are planned for the next half of the year to counter the reduction in revenues.

- ***Roodekop***
  Consolidated revenue remained constant year-on-year despite deflation of 13% in selling prices. The presses increased volume throughput by 43% when compared to the prior period. The down time on the presses was 2% against a target of 4% and the scrap rate was marginally higher than targeted at 23% (target: 22%). This improved productivity, along with reduced overheads, resulted in the operating loss in this division reducing from R14 million to R3 million in the period under review.

- ***Sheerline***
  Revenue increased by 24% to R114 million (2007: R91 million) despite the deflation in the aluminium extrusion selling prices of 13% when compared to the prior period. The increase in volumes was due to the expanded geographical footprint established in the prior year, and the successful tendering into the non-residential building market.

  Despite this growth, deflation in selling prices, exacerbated by increased competition impacted gross margin. This together with inflation in the cost base led to a decrease of 3% in operating margins.

International Operations

The Group's international businesses contributed 14% (2007: 8%) to Group revenue and 23% (2007: 23%) to profit from operations. Revenues in this division increased by 74% to R122 million (2007: R70 million). These operations consist of businesses operating in Germany, the UK, South East Asia, Mauritius as well as South African exports.

- ***Germany***
  The German business shrugged off the effects of the European recession by focusing on the expansion linked to the Hamburg waterfront development. As a result, revenues grew by 14% in Euro terms and gross margins also

improved. Overheads have, however, increased in line with increased demand. Operating margins remained constant at 6%.

- ***United Kingdom***
  The UK business has been adversely affected by the current UK recession, which resulted in a decrease in revenue of 12% in GBP terms. This has not been at the expense of gross margin, which has been maintained. However, the gross margin is expected to come under pressure as the business environment becomes more competitive. The decreased revenues together with an increased overhead resulted in a decrease in operating margin from 14% to 10%.

- ***South East Asia***
  During the period under review, the business recorded its maiden operating profit with revenues increasing from a zero base. The business trades in hardware, aluminium billet and glass.

- ***Mauritius***
  The business benefited from a boom in construction on the island mainly from hotels and luxury apartments. Revenue grew by 27% in Mauritian Rupee terms with an increased gross margin due to a more favourable product mix. Overheads have increased in line with local inflation resulting in a much improved operating margin.

- ***Exports***
  Export revenues remained constant with a marginally reduced operating margin due to the inflationary impacts on the local cost base.

PROSPECTS

Southern Africa

In an environment of significant uncertainty, the year ahead will be challenging. The Group will continue to focus on its three-year turnaround plan, in particular on further improving the Group's overall overhead to revenue ratio. This will include increasing productivity, ensuring cost containment, limiting input costs, reinforcing controls over expenses and improving cash flow generation through effective working capital control over both inventory and debtors.

International

Given the deterioration in international markets the focus will be on endeavouring to ensure that the overhead to revenue ratio is maintained and that the division continues to take advantage of the niche markets in which it operates.

POST BALANCE SHEET EVENT

No material events have occurred in the period between 31 December 2008 and the date of this report.

CHANGES IN DIRECTORATE

Mr HF Brown was appointed as Independent Non-Executive Director, effective from 16 February 2009.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed financial statements for the period ended 31 December 2008 were prepared in accordance with International Accounting Standard 34 (IAS 34: Interim Financial Reporting) and the JSE Limited Listings Requirements. The condensed financial statements are prepared on the historical cost basis except for the revaluation of financial instruments.

The principal accounting policies adopted for the six months ended 31 December 2008 are consistent with those applied for the year ended 30 June 2008 in terms of IFRS.

These interim results have not been audited or reviewed by the Group's auditors.

DISTRIBUTION TO SHAREHOLDERS

The Board has a policy of declaring a dividend once a year. Given the current performance of the Group and in line with this policy, no interim dividend has been declared.

For and on behalf of the Board

AA Barrell
Chief Executive Officer

MJE Geldenhuys
Group Financial Director and Company Secretary

9 March 2009

condensed consolidated income statement

for the six months ended 31 December

	Unaudited six months ended 31 December 2008 R'000	Unaudited six months ended 31 December 2007 R'000	Change %	Audited year ended 30 June 2008 R'000
Revenue	**646 139**	621 023	4	1 222 588
Profit before depreciation	**39 113**	33 671	16	54 842
Depreciation	**(15 012)**	(13 007)		(27 306)
Profit from operations	**24 101**	20 664	17	27 536
Operating margin (%)	**3,7**	3,3		2,3
Non-trading items				
Profit on disposal of investment	**6 314**	–		–
Loss on disposal of property, plant and equipment	**(662)**	(42)		(697)
Loss on disposal of associate	**–**	–		(356)
Impairment of goodwill	**(17 058)**	–		–
Impairment of property, plant and equipment	**–**	–		(962)
Profit before financing costs and associate income	**12 695**	20 622	(38)	25 521
Net financing costs	**(23 318)**	(26 147)		(47 416)
Share of profits of associates	**959**	1 360		2 932
Loss before taxation	**(9 664)**	(4 165)	(132)	(18 963)
Taxation	**(3 869)**	(578)		(13 290)
– normal activities	**(3 041)**	(590)		(13 486)
– headline adjustments	**(828)**	12		196
Loss for the period	**(13 533)**	(4 743)	(185)	(32 253)
Attributable to:				
Equity holders of the holding company	**(13 832)**	(5 413)	(156)	(33 242)
Minority interest	**299**	670		989
	(13 533)	(4 743)		(32 253)
Basic loss per share				
Number of ordinary shares in issue ('000)	**205 626**	205 626		205 626
Weighted average number of ordinary shares in issue ('000)	**204 261**	204 149		204 149
Diluted number of ordinary shares in issue ('000)	**204 261**	207 198		207 198
Basic loss per ordinary share (cents)	**(6,8)**	(2,7)		(16,3)
Diluted basic loss per ordinary share (cents)	**(6,8)**	(2,6)		(16,0)

condensed consolidated balance sheet

as at 31 December

	Unaudited six months ended 31 December 2008 R'000	Unaudited six months ended 31 December 2007 R'000	Audited year ended 30 June 2008 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**191 843**	198 886	196 105
Goodwill	**108 619**	114 889	121 522
Investments and loans	**11 497**	14 372	10 857
Deferred taxation assets	**38 031**	46 399	36 555
	349 990	374 546	365 039
Current assets			
Inventories	**235 818**	235 871	263 360
Trade and other receivables	**232 756**	256 871	238 968
Receivable due from sale of investment	**7 152**	–	–
Other current assets	**15 674**	10 919	15 579
Cash and cash equivalents	**16 943**	48 382	24 101
	508 343	552 043	542 008
Total assets	**858 333**	926 589	907 047
EQUITY AND LIABILITIES			
Total equity			
Equity attributable to equity holders of the parent company	**379 466**	408 151	388 537
Minority interest	**1 396**	5 321	3 145
	380 862	413 472	391 682
Non-current liabilities			
Deferred taxation liabilities	**17 050**	14 134	11 579
Long-term interest-bearing debt	**74 231**	89 671	68 274
Long-term lease accrual	**22 336**	16 998	20 035
Other non-current liabilities	**–**	1 271	–
	113 617	122 074	99 888
Current liabilities			
Trade and other payables	**149 594**	170 035	196 983
Other current liabilities	**1 577**	10 150	2 571
Short-term interest-bearing debt	**212 683**	210 858	215 923
	363 854	391 043	415 477
Total equity and liabilities	**858 333**	926 589	907 047
Net asset value per ordinary share (cents)	**185**	198	189
Net tangible asset value per ordiinary share (cents)	**132**	143	130

condensed consolidated cash flow statement

for the six months ended 31 December

	Unaudited six months ended 31 December 2008 R'000	Unaudited six months ended 31 December 2007 R'000	Audited year ended 30 June 2008 R'000
Cash flows from operations	39 936	35 042	59 292
Working capital changes	(8 358)	(56 880)	(38 175)
Net financing costs and taxation paid	(25 218)	(38 174)	(74 059)
Net cash inflow/(outflow) from operating activities	6 360	(60 012)	(52 942)
Additions to property, plant and equipment	(12 570)	(20 724)	(34 263)
Proceeds on disposal of property, plant and equipment	1 527	164 536	165 321
Dividend received from associate	–	–	585
Decrease in investments and loans	–	1 711	1 813
Increase in investments in subsidiaries	(1 000)	(4 341)	(5 844)
Net cash (outflow)/inflow from investing activities	(12 043)	141 182	127 612
Other financing activities	(9 482)	(14 115)	(56 394)
Net cash outflow from financing activities	(9 482)	(14 115)	(56 394)
Net (decrease)/increase in cash equivalents and bank borrowings	(15 165)	67 055	18 276
Cash equivalents and bank borowings at beginning of the period	(161 901)	(183 386)	(183 386)
Movements resulting from FCTR	(2 432)	1 331	3 209
Cash equivalents and bank borrowings at end of the period	(179 498)	(115 000)	(161 901)
Cash and cash equivalents	16 943	48 382	24 101
Bank borrowings	(196 441)	(163 382)	(186 002)
Cash equivalents and bank borrowings at end of the period	(179 498)	(115 000)	(161 901)

condensed consolidated statement of changes in equity

for the six months ended 31 December

	Share capital and premium R'000	Other reserves R'000	Retained earnings R'000	**Attributable to equity holders of the parent company R'000**	Minority interest R'000	**Total equity R'000**
Balance at 30 June 2007	**81 491**	**3 343**	**327 540**	**412 374**	**4 511**	**416 885**
Movement in treasury shares	904	–	–	904	–	904
Movement in reserves	–	1 038	(966)	72	–	72
Transfer to share-based compensation reserve	–	214	–	214	–	214
Investment by minorities	–	–	–	–	140	140
Loss for the period	–	–	(5 413)	(5 413)	670	(4 743)
Balance at 31 December 2007	**82 395**	**4 595**	**321 161**	**408 151**	**5 321**	**413 472**
Movement in reserves	–	6 797	1 106	7 903	–	7 903
Transfer to share-based compensation reserve	–	312	–	312	–	312
Minority interest acquired	–	–	–	–	(2 369)	(2 369)
Dividend paid	–	–	–	–	(185)	(185)
Investment by minorities	–	–	–	–	59	59
Loss for the period	–	–	(27 829)	(27 829)	319	(27 510)
Balance at 30 June 2008	**82 395**	**11 704**	**294 438**	**388 537**	**3 145**	**391 682**
Movement in reserves	–	7 187	(948)	6 239	–	6 239
Transfer from share-based compensation reserve	–	(1 478)	–	(1 478)	–	(1 478)
Minority interest acquired	–	–	–	–	(2 048)	(2 048)
Loss for the period	–	–	(13 832)	(13 832)	299	(13 533)
Balance at 31 December 2008	**82 395**	**17 413**	**279 658**	**379 466**	**1 396**	**380 862**

group segmental analysis

for the six months ended 31 December

	Southern Africa R'000	International R'000	Intersegment sales eliminated R'000	Total R'000
Geographical				
Revenue:				
Unaudited period ended 31 December 2008	**729 393**	**122 104**	**(205 358)**	**646 139**
% to total	**86**	**14**		
Unaudited period ended 31 December 2007	768 973	70 166	(218 116)	621 023
% to total	92	8		
Audited year ended 30 June 2008	1 459 569	173 900	(410 881)	1 222 588
% to total	89	11		
Result:				
Profit from operations				
Unaudited period ended 31 December 2008	**18 605**	**5 496**	**–**	**24 101**
% to total	**77**	**23**		
Unaudited period ended 31 December 2007	15 932	4 732	–	20 664
% to total	77	23		
Audited year ended 30 June 2008	15 670	11 866	–	27 536
% to total	57	43		

	Unaudited six months ended 31 December 2008 R'000	**%**	Unaudited six months ended 31 December 2007 R'000	%	Audited year ended 30 June 2008 R'000	%
Business segment						
Revenue:						
Unbeneficiated products	**287 620**	**34**	240 986	29	483 885	30
Value added glass	**140 439**	**16**	145 262	17	266 308	16
Finished goods	**170 831**	**20**	198 835	24	385 032	24
Extrusions	**252 607**	**30**	254 056	30	498 244	30
	851 497	**100**	839 139	100	1 633 469	100
Intersegment sales eliminated	**(205 358)**		(218 116)		(410 881)	
	646 139		621 023		1 222 588	

additional information

for the six months ended 31 December

	Unaudited six months ended 31 December 2008 R'000	Unaudited six months ended 31 December 2007 R'000	Change %	Audited year ended 30 June 2008 R'000
Headline loss per share				
Reconciliation:				
Loss for the period attributable to equity holders of the holding company	**(13 832)**	(5 413)		(33 242)
Profit on disposal of investment	**(6 314)**	–		–
Loss on disposal of property, plant and equipment	**662**	42		697
Loss on disposal of associate	**–**	–		356
Impairment of property, plant and equipment	**–**	–		962
Impairment of goodwill	**17 058**	–		–
Tax effect of headline adjustments	**828**	(12)		(196)
Headline loss	**(1 598)**	(5 383)	70	(31 423)
Headline loss per ordinary share (cents)	**(0,8)**	(2,6)		(15,4)
Diluted headline loss per ordinary share (cents)	**(0,8)**	(2,6)		(15,2)
Earnings before interest, tax, depreciation and amortisation (excluding goodwill impaired)				
Reconciliation:				
Profit before depreciation	**39 113**	33 671		54 842
Profit on disposal of investment	**6 314**	–		–
Loss on disposal of property, plant and equipment	**(662)**	(42)		(697)
Loss on disposal of associate	**–**	–		(356)
	44 765	33 629	33	53 789
Cents per ordinary share	**21,9**	16,5	33	26,3
TAXATION RECONCILIATION				
South African normal taxation at 28% (2007: 29%)	**(2 706)**	(1 208)		(5 310)
Deferred taxation asset not raised	**2 667**	–		15 303
Capital profits	**(1 407)**	–		(349)
Change in tax rate	**–**	–		841
Other items	**279**	1 619		1 821
Non deductable expenditure	**5 036**	167		984
Taxation per income statement	**3 869**	578		13 290
OTHER INFORMATION				
Capital expenditure for the period	**15 659**	25 065		48 373
Capital expenditure committed or authorised	**8 220**	13 156		23 879
Directors' valuation of investments and loans	**11 497**	14 372		10 857
Finance and operating lease commitments	**442 544**	518 929		496 028
Contingent liabilities	**6 235**	5 545		2 124
Cost of sales	**372 613**	358 943		698 934

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AG INDUSTRIES LIMITED ("AGI" or "the Group")
Registration number: 1980/004051/06
Share code: AGI
ISIN: ZAE000039467

DIRECTORS

AA Barrell *(CEO)*, MJE Geldenhuys *(Financial)*, CP Kalil, J Martingano,
JC Saville, HR Levin* *(Non-executive Chairman)*,
BE Danoher*‡†, HF Brown*†
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