

# SALLIES



**SALLIES LIMITED  
INTEGRATED ANNUAL REPORT 2011**

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## Scope and boundaries

Sallies' 2011 integrated annual report covers the group's operations which are all in South Africa. The report covers the financial period from 1 July 2010 to 30 June 2011 and incorporates a limited report on sustainability in accordance with the Global Reporting Initiative Guideline (grade 3), for the first time, in accordance with the King Report on Governance for South Africa, 2009 ("King III"). The previous annual report was limited to financial reporting and covered the period from 1 July 2009 to 30 June 2010.

## Corporate profile

Sallies was incorporated in 1903 as The South African Land and Exploration Company Limited to develop a gold mine on the East Rand. It has been listed since 1904 in the "Mining" sector of what is now known as the JSE Limited ("JSE"). Following the closure of all of its gold mining activities during the 1990s and the acquisition of the Witkop Fluorspar Mine ("Witkop") near Zeerust in the North West Province of South Africa on 1 July 1999, Sallies has been producing and marketing acid grade fluorspar ("acidspar"). The Buffalo fluorspar tailings retreatment facility, situated on the original open-pit Buffalo Fluorspar Mine ("Buffalo") outside Mookgophong in the Limpopo Province of South Africa, was acquired in July 2006.

The bulk of Sallies' acidspar output is exported to produce hydrofluoric acid ("HF"). This product is converted into HFC refrigerant gases, fluoroplastics, aluminium tri-fluoride and products for niche markets.

Acidspar from Witkop is widely sought after due to the low levels of contaminants in its product. The Buffalo product contains a higher level of phosphorous and thus has a more restricted market.

Market circumstances in 2008 and 2009 led to both operations being placed on care and maintenance, but a recovery in the fluorspar market justified the recommissioning of the Witkop plant in March 2011. The mine is now operating profitably but the Buffalo operation remains on care and maintenance.

The major operations managed by Sallies are Witkop and Buffalo, both of which were under care and maintenance for most of the financial year, with Witkop being recommissioned in March 2011. These, and the holding company responsible for management of the operations, form the scope of this report.



## The Board

### **Nicholas Davidoff** (*Non-executive Chairman*) (31)

Nicholas is employed by New York based Firebird Management LLC, the corporation that controls, through two managed funds, over 75% of the issued share capital of Sallies. His career has been spent in various investment management roles. He holds a BSM from Tulane University. Nicholas joined the Board on 22 October 2009.

### **Patrick Cooke** (*Acting CEO, COO and financial director*) (59)

As a chartered accountant, Patrick has worked as a management consultant with one of the large accounting companies as well as working for a merchant bank. He has been an executive director of three companies listed on the JSE and one listed on AIM of the London Stock Exchange and is currently a non-executive director of Great Basin Gold Limited. His industry experience is wide, having been involved in mineral exploration, information technology, wholesale fast moving consumer goods, financial services and professional services companies. Patrick joined the Board on 18 August 2009.

### **Andrew Kamau** (*Non-executive independent Director*) (46)

Andrew is a Kenyan citizen resident in South Africa with considerable experience across the African continent in the last decade, having worked for multinationals in East Africa and major trading organisations in Europe. He is on the board of Kewberg Cables and Braids, a speciality cable manufacturer, and of Khulaco (Pty) Limited, one of the five private companies licensed to import petroleum into South Africa. He is also chairman of Komati Foundation, a non-profit organisation, working specifically with students and young professionals to nurture leadership skills and service ethics. Andrew joined the Board on 22 October 2009.

### **Jürgen Kögl** (*Non-executive Director*) (56)

Jürgen is a director of African Renaissance Holdings Limited, the Black Economic Empowerment Partner of Sallies. He has experience in heavy engineering, financial markets and strategic consultancy. Jürgen holds degrees in civil engineering and economic history from the University of Cape Town. Jürgen joined the Board on 8 August 2008.

### **Stephen Morris** (*Non-executive independent Director*) (46)

Stephen serves as the chairman of Global Geothermal Limited. He is an executive director of Wasabi Energy Limited, a cleantech investment company listed on the Australian Stock Exchange. Stephen is an experienced venture capital investor specialising in companies with a technology focus. He joined the Board on 18 August 2009.

### **Sandile Swana** (*Lead non-executive independent Director*) (44)

Sandile has a BTh (Unisa), BCom (Wits), BCom Hons (Unisa) and an MBA (UP). He has worked for Anglo American, The New York Times, Caltex Oil, The Don Suite Hotels and Sable Data Works, and holds non-executive directorships in several JSE listed companies. He lectures part-time at the Wits Business School. Sandile joined the Board on 14 November 2008.

### **Benedict Phiri** (*Non-executive Director*) (30)

Benedict holds BA and LLB degrees from the University of Cape Town and is an admitted attorney of the High Court of South Africa. He is currently employed by Canadian headquartered international law firm Fasken Martineau – the legal advisor to Fluormin Plc, a substantial shareholder of Sallies – having previously been employed by New York headquartered international law firm, Dewey & LeBoeuf. He is currently a director of the South Africa Washington Internship Programme, a non-profit organisation which aims to prepare, inspire and support a new generation of leaders in South Africa to, amongst other things, successfully address transformation challenges in South Africa's post-conflict society in order to strengthen a sustainable and efficient democracy with active citizens. He was appointed to the Board on 20 September 2011.

## Chairman's statement

### **SYNOPSIS**

Since the acquisition of Witkop by Sallies in 1999, the company has had a volatile business history as a fluorspar producer and the current reporting period has been no different. Concerted efforts by management to build a sound business and deliver value to shareholders were thwarted by the 2008 global financial crisis. As a consequence, operations were suspended at Witkop and at Buffalo in the financial year to 30 June 2009.

The fluorspar market for acid grade material recovered during the second half of the current financial year and in March 2011 Witkop was recommissioned. Buffalo remains on care and maintenance and there is no plan to recommission the plant in the foreseeable future.

In this year's annual report, in line with best practice pursuant to the recommendations of King III, the group reports its sustainability progress using the Global Reporting Initiative's (GRI) G3 Guidelines. The information disclosed is in terms of the GRI Content Index in order to qualify for a GRI Application Level C report.

### **SALE BY FIREBIRD OF ITS CONTROLLING SHAREHOLDINGS IN SALLIES**

On Friday, 9 September 2011, Firebird Global Master Fund Limited and its affiliate, Firebird Global Master Fund II Limited (collectively: "Firebird"), which held about 67% of Sallies' ordinary shares and about 58% of Sallies' convertible debentures, announced that they had sold their holdings to Fluormin Plc, formerly known as Maghreb Minerals Plc ("Fluormin").

As a result of Fluormin's holding of Sallies' ordinary shares and Sallies' convertible debentures surpassing 35% in each case, Fluormin is required, in terms of Section 123 of the Companies Act, No. 71 of 2008 (the "Act"), to extend a mandatory offer to the remaining Sallies Security Holders (the "Offer"). Fluormin has decided to implement the Offer in terms of Section 114 of the Act.

The Offer is to be effected, subject to certain conditions, by way of a scheme of arrangement under the provisions of Section 114 of the Act in respect of Sallies' ordinary shareholders (the "Share Scheme") and Sallies' convertible debenture holders.

Should the Share Scheme be successfully implemented, Sallies will become a wholly-owned subsidiary of Fluormin and the listing of its shares and convertible debentures on the JSE Limited will be terminated. Should the transaction in terms of Section 114 of the Act fail, Fluormin will still be liable to make an unconditional mandatory offer in terms of Section 123 of the Act.

The Offer is classified as an affected transaction in terms of the Act and the Takeover Regulations prescribed in terms of Section 120 of the Act. Accordingly, a committee comprising independent directors of Sallies ("Independent Committee") has appointed an independent expert, as required in terms of Section 114(2) of the Act, read with Regulation 90 (1) and Regulation 110 of the Regulations, for the purposes of providing a fairness opinion on the terms of the Offer. The opinions of the independent expert and the Independent Committee will be included in the circular to be distributed to Sallies Security Holders. The Independent Committee comprises Andrew Kamau, Jürgen Kögl, Stephen Morris and Sandile Swana.

### **NEGOTIATIONS WITH AFRICAN RENAISSANCE HOLDINGS LIMITED ("ARH")**

ARH is Sallies' BEE partner. It is majority-owned and managed by historically disadvantaged South Africans as defined in the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002).

Sallies, Witkop and Buffalo entered into a collection of interrelated agreements in terms of which ARH will become a 26% beneficial shareholder in each of Witkop and Buffalo. ARH will subscribe for shares in Witkop at an aggregate consideration of R83 million. Sallies has subscribed for preference shares in both Witkop and Buffalo which will pay a dividend equal to the after tax interest cost of its loan to those companies. When the loan, including accrued interest, has been fully repaid and Witkop is generating profits, dividends will be declared on the ordinary shares. ARH have undertaken to distribute 31% of funds received by it to the communities from which Witkop draws its employees. ARH will acquire its 26% shareholding in Buffalo at par for cash, with no need for financial assistance. ARH will receive dividends from the profits generated by Buffalo, 31% of which will be distributed to the communities from which the employees are drawn.

## Chairman's statement

*(continued)*

### **MARKETING**

During F2011, Sallies entered into a marketing agreement with FluorOne Trading Limited, B.V.I. ("FluorOne"), under which FluorOne exclusively represents Sallies for sales of Fluorspar outside South Africa. All of calendar year 2011's production is sold out with sales into Europe, North America, India, Japan and China.

### **OPERATIONS**

No fatal accidents occurred at either operation during the review period.

#### **Witkop**

The Witkop mine was placed on care and maintenance in June 2009. During the care and maintenance period, the plant and mining fleet were maintained and were ready for the resumption of mining operations in March 2011. Of significance was the rebuilding of the primary crusher. Redundant piping and electrical cabling was stripped from the production plant and disposed of. The management of the slimes dams was outsourced which contract includes their rehabilitation and the planting of grass to control the dust.

The labour necessary to recommission the Witkop mine was recruited in terms of a recall agreement entered into by Witkop with the two trade unions recognised by the mine. Preference in this process was given to previously employed workers who were medically fit to perform the task for which they were being hired. At 30 June 2011 there were 208 persons employed at Witkop. The recalling of the workers has given Witkop an opportunity to build a healthy workforce where the racial and gender complexion begins to reflect the demographics of the country as required by law and Witkop's mining rights.

Since commencement of operations, Witkop had produced 28 446 wet metric tonnes ("wmt") of acid grade fluorspar by year-end; 11 089 wmt of acid grade were transported to Durban by rail and exported at average prices in excess of US\$387 per dry metric tonne ("dmt").

It is also pleasing to report that since recommencing operations the mine has been inspected by a number of the Department of Mineral Reserves' inspectors who have expressed their satisfaction with the operation.

#### **Buffalo**

The Buffalo operation has been mothballed since October 2008. Empirical test work to reduce phosphorous levels in the fluorspar produced from the tailings dams is not conclusive and the decision to re-open in order to treat material from these tailings dams has not been made.

Test work on extracting fluorspar from the aggregate dumps produced from the heavy medium separation circuits originally in use at the property and owned by the original vendor of Buffalo to Sallies, has proved positive. Negotiations to form a joint venture to process this material are ongoing.

### **FINANCE**

At 30 June 2011 near cash was R10 million (F2010: R25 million). Mining revenue reduced from R60.8 million in 2010 to R55.5 million in 2011. Operating loss from mining for F2011 is R12.8 million compared to R19.7 million in 2010. The loss before taxation is R52.4 million (F2010: R62.6 million).

The Swiss Arbitral Tribunal awarded Honeywell International Inc. ("Honeywell") US\$1 243 824 plus interest at 5% per annum from 19 January 2006 until paid in full in settlement of a dispute concerning a fluorspar supply contract. This award was settled during the current year through the issue by the company of 82 335 700 ordinary shares at an issue price of 13.5 cents per share. This issue was a specific issue of shares for cash and was in terms of the general authority granted by Sallies' shareholders.

The dispute with the South African Revenue Service ("SARS") over Value Added Tax of R3.2 million was resolved and payment received. Witkop was involved in a dispute with SARS over the refund of R6.7 million in income tax. This matter was heard in the Tax Court and judgement given in Witkop's favour following which the refund plus accrued interest was received. The portion of the refund previously not accounted for as a receivable, due to the contingent nature thereof, is shown as a tax credit in the statement of comprehensive income.

## Chairman's statement

*(continued)*

In order to finance the recommissioning of Witkop, the company entered into a Working Capital Funding agreement with Fluormin (via its local subsidiary) for the Rand equivalent of US\$8 million of which the Rand equivalent of US\$5 million had been drawn down at year-end. The facility is unsecured, denominated in Rand, pays interest at 10% per annum and is repayable by December 2012 or earlier at Sallies' discretion.

### **SIGNIFICANT POST YEAR-END EVENT**

On 23 June 2011, Sallies entered into a loan agreement with TSC Investments Limited ("TSC") whereby Sallies borrowed US\$2 800 000, which under certain circumstances, one of which was the announcement of a mandatory offer by Fluormin to acquire the remaining equities in Sallies that it does not own, was convertible into ordinary shares in Sallies. The mandatory offer was announced on 9 September 2011 whereupon the loan was convertible to 183 059 337 ordinary shares in Sallies at 11 cents per share in accordance with the terms of the agreement which had been approved by shareholders on 6 September 2011.

In conclusion I thank all stakeholders in Sallies – customers, shareholders, regulatory bodies, suppliers, my fellow directors and most importantly, managements, employees and their representatives at the operations – for their unstinting and selfless support during the year.

Nicholas Davidoff  
Chairman



Johannesburg  
30 September 2011

## Summary of financial performance

for the five years ended 30 June 2011

<b>FINANCIAL</b>	<b>Unit</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Revenue and profitability</b>						
Mining revenue	R000	<b>56 071</b>	60 815	251 928	168 117	109 315
Profit/(Loss) from mining operations	R000	<b>3 074</b>	(205)	98 263	25 362	(7 233)
Loss before taxation	R000	<b>(51 537)</b>	(62 582)	(53 163)	(42 398)	(47 235)
Taxation – recoupment	R000	<b>5 269</b>	–	–	–	5 600
Loss for the year	R000	<b>(46 268)</b>	(62 582)	(53 163)	(42 398)	(41 635)
Basic loss per share						
Undiluted	cents	<b>(6.6)</b>	(9.8)	(8.3)	(6.7)	(7.8)
Diluted	cents	<b>(6.6)</b>	(9.8)	(8.3)	(6.6)	(7.7)
Headline loss per share						
Undiluted	cents	<b>(6.3)</b>	(8.7)	2.3	(7.0)	(7.8)
Diluted	cents	<b>(6.3)</b>	(8.7)	2.3	(6.9)	(7.8)
Revenue/total assets	%	<b>32.7</b>	34.7	115.1	66.1	53.0
<b>Assets and liabilities</b>						
Non-current assets	R000	<b>96 019</b>	102 561	104 292	161 804	156 616
Current assets	R000	<b>75 511</b>	72 609	114 546	92 561	49 556
Total assets	R000	<b>171 530</b>	175 170	218 838	254 365	206 172
Capital and reserves	R000	<b>611</b>	35 672	99 288	140 785	83 811
Non-current liabilities	R000	<b>148 454</b>	109 053	81 148	87 880	28 899
Current liabilities	R000	<b>22 465</b>	30 445	38 402	25 700	93 462
Total equity and liabilities	R000	<b>171 530</b>	175 170	218 838	254 365	206 172
Net asset value per share	cents	<b>0.1</b>	5.6	15.5	22.2	16.6
Interest-bearing debt excluding debentures	R000	<b>36 034</b>	3 926	7 956	12 552	75 968
Interest-bearing debt including debentures	R000	<b>108 156</b>	76 048	80 078	88 293	75 968
Net current assets	R000	<b>53 046</b>	42 164	76 144	66 861	(43 906)
Current ratio		<b>3.4</b>	2.4	3.0	3.6	0.5
Quick ratio		<b>0.3</b>	0.7	0.5	1.3	4.2
<b>Ordinary shares and convertible debentures</b>						
Issued shares at 30 June	000	<b>724 556</b>	642 220	642 220	634 981	547 876
Undiluted weighted average issued shares	000	<b>704 479</b>	642 220	640 725	631 272	536 580
Diluted weighted average issued shares	000	<b>704 479</b>	642 220	640 725	661 178	541 417
Convertible debentures of 50 cents each	000	<b>144 244</b>	144 244	144 244	151 483	
<b>Cash flows</b>						
Net cash (outflow)/inflow from operations	R000	<b>(36 513)</b>	(2 770)	39 802	(38 561)	(69 435)
Net cash (outflow)/inflow from investment	R000	<b>(10 088)</b>	470	(29 556)	(21 295)	(83 663)
Net cash inflow/(outflow) from financing	R000	<b>32 108</b>	(4 030)	(4 595)	114 090	64 184
Net (decrease)/increase in cash and cash equivalents	R000	<b>(14 493)</b>	(6 330)	5 651	54 234	(88 914)
Cash and cash equivalents at beginning of year	R000	<b>24 701</b>	31 031	25 380	(28 854)	60 060
Cash and cash equivalents at end of year	R000	<b>10 208</b>	24 701	31 031	25 380	(28 854)

## Summary of operational and stock market performance

for the five years ended 30 June 2011

<b>OPERATIONAL</b>	<b>Unit</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Mining</b>						
Ore mined	tonnes	<b>471 765</b>	–	1 512 545	1 556 472	1 831 155
Stripping ratio		<b>0.98</b>	–	0.77	0.29	0.31
<b>Milling</b>						
Ore milled	tonnes	<b>470 132</b>	6 609	1 384 955	1 520 579	1 569 361
Head grade	%	<b>9.91</b>	12.5	10.59	10.41	10.38
<b>Fluorspar concentrate produced</b>						
Acid grade	wmt	<b>32 027</b>	–	119 747	136 898	115 964
Metallurgical grade*	wmt	<b>4 501</b>	1 569	5 229	6 959	8 826
Fluorspar all grades	wmt	<b>36 528</b>	1 569	124 976	143 857	124 790
<b>Sales</b>						
Acid grade	dmt	<b>16 884</b>	21 209	96 210	118 479	92 310
Export	dmt	<b>15 076</b>	19 372	93 325	106 194	82 676
Local	dmt	<b>1 808</b>	1 837	2 885	12 285	9 634
Metallurgical grade*	dmt	<b>5 142</b>	4 780	4 110	6 098	6 395
Fluorspar all grades	dmt	<b>22 026</b>	25 989	100 320	124 577	98 705
Agricultural lime*	tonnes	<b>36 650</b>	50 435	22 321	40 000	–
Crushed stone*	tonnes	–	11 225	–	–	–
<i>* by-products</i>						
<b>STAFF</b>						
	Unit	<b>2011</b>	2010	2009	2008	2007
Employees at year-end	persons	<b>208</b>	52	334	446	360
Staff turnover	%	<b>0.0</b>	96.8	46.7	21.0	22.5
<b>STOCK MARKET</b>						
	Unit	<b>2011</b>	2010	2009	2008	2007
<b>Ordinary shares</b>						
Market capitalisation at 30 June	R million	<b>89.9</b>	77.1	134.9	539.8	475.9
Shares in issue at 30 June	millions	<b>724.6</b>	642.2	642.2	635.0	506.3
Number of shares traded in year	millions	<b>31.0</b>	436.5	324.0	683.6	559.6
Highest price traded	cents	<b>29</b>	22	86	98	147
Lowest price traded	cents	<b>11</b>	8	21	36	70
Closing price	cents	<b>14</b>	12	21	85	94
Value of transactions in year	R million	<b>4.3</b>	77.5	141.2	436.8	589.8
Shares traded/shares in issue at year-end	%	<b>4.8</b>	68.0	50.5	107.7	110.5
<b>Convertible debentures ("CDs")</b>						
Market capitalisation at 30 June	R million	<b>53.1</b>	23.1	36.1	128.69	
CDs in issue at 30 June	millions	<b>144.2</b>	144.2	144.2	151.4	
Number of CDs traded in year	millions	<b>15.6</b>	58.8	67.3	5.7	
Highest price traded	cents	<b>35</b>	35	83	94	
Lowest price traded	cents	<b>20</b>	12	24	58	
Closing price	cents	<b>35</b>	16	25	85	
Value of transactions in year	R million	<b>4.0</b>	14.0	34.5	4.4	
CDs traded/CDs in issue at year-end	%	<b>4.3</b>	40.8	46.7	3.8	

## Corporate governance

The extent to which Sallies has complied with the Code of Corporate Practices and Conduct as set out in the King III report is given in the table below:

### KING III INDEX

	Apply	Partially applied	Under review/do not apply
<b>Ethical leadership and corporate citizenship</b>			
Effective leadership based on an ethical foundation	√		
Responsible corporate citizenship	√		
Effective management of company's ethics	√		
Assurance statement on ethics in integrated annual report	√		
<b>Boards and directors</b>			
The Board is the focal point for and custodian of corporate governance	√		
Strategy risk, performance and sustainability are inseparable	√		
Directors act in the best interests of the company	√		
The chairman of the Board is an independent non-executive director			√ 1
Framework for the delegation of authority has been established		√	
The Board comprises a balance of power with a majority of non-executive directors who are independent	√		
Directors are appointed through a formal process		√	
Formal induction and ongoing training of directors is conducted			√ 2
The Board assisted by a competent, suitably qualified and experienced company secretary	√		
Regular performance evaluations of the Board, its committees and the individual directors			√ 3
Appointment of well-structured committees and oversight of key functions		√	
An agreed governance framework between the group and its subsidiary boards is in place			√ 4
Directors and executives are fairly and responsibly remunerated	√		
Remuneration of directors and senior executives is disclosed	√		
The company's remuneration policy is approved by its shareholders		√	
<b>Internal audit</b>			
Effective risk-based internal audit			√ 5
Written assessment of the effectiveness of the company's system of internal controls and risk management			√ 5
Internal audit is strategically positioned to achieve its objectives			√ 5
<b>Audit committee</b>			
Effective and independent	√		
Suitably skilled and experienced independent non-executive directors			√ 6
Chaired by an independent non-executive director	√		
Oversees integrated reporting	√		
A combined assurance model is applied to improve efficiency in assurance activities			√ 7
Satisfies itself of the expertise, resources and experience of the company's finance function	√		
Oversees the internal audit			√ 5
Integral to the risk management process	√		
Reports to the Board and shareholders on how it has discharged its duties	√		
Oversees the external audit process	√		

## Corporate governance

(continued)

	Apply	Partially applied	Under review/do not apply
<b>Compliance with laws, codes, rules and standards</b>			
The Board ensures that the company complies with relevant laws	√		
The Board and directors have a working understanding of the relevance and implications of non-compliance	√		
Compliance risk forms an integral part of the company's risk management process	√		
The Board has delegated to management the implementation of an effective compliance framework and processes	√		
<b>Governing stakeholders' relationships</b>			
Appreciation that stakeholders' perceptions affect a company's reputation	√		
Management proactively deals with stakeholder relationships	√		
There is an appropriate balance between its various stakeholder groupings	√		
Equitable treatment of stakeholders	√		
Transparent and effective communication to stakeholders	√		
Disputes are resolved effectively and timeously			√ 8
<b>The Governance of Information Technology</b>			
The Board is responsible for information technology (IT) governance	√		
IT is aligned with the performance and sustainability objectives of the company	√		
Management is responsible for the implementation of an IT governance framework	√		
The Board monitors and evaluates significant IT investments and expenditure			√ 9
IT is an integral part of the company's risk management	√		
IT assets are managed effectively	√		
The risk management committee and audit committee assist the Board in carrying out its IT responsibilities (Performed by audit committee)	√		
<b>The Governance of risk</b>			
The Board is responsible for the governance of risk and setting levels of risk tolerance	√		
The risk management committee assists the Board in carrying out its risk responsibilities	√		
The Board delegates the process of risk management to management	√		
The Board ensures that risk assessments and monitoring is performed on a continued basis	√		
Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	√		
Management implements appropriate risk responses	√		
The Board receives assurance on the effectiveness of the risk management process	√		
Sufficient risk disclosure to stakeholders	√		
<b>Integrated reporting and disclosure</b>			
Ensures the integrity of the company's integrated annual report	√		
Sustainability reporting and disclosure is integrated with the company's financial reporting	√		
Sustainability reporting and disclosure is independently assured			√ 10

## Corporate governance

(continued)

### NOTES ON NON-COMPLIANCE WITH KING III

Note	Explanation
1	Mr Nicholas Davidoff is an executive of the company's major shareholder and is therefore not considered independent. Sallies has appointed an independent non-executive lead director. Independent non-executive directors comprise the majority of the Board.
2	There were no changes to the Board during the year under review. Formal training of the directors, all of whom have considerable relevant experience, was not considered necessary as it is incumbent on each of them to ensure that they keep themselves well informed.
3	No formal performance reviews have been conducted, justified by the limited level of activity during the year under review, with both operating units being on care and maintenance for most of the period.
4	Governance of subsidiaries is integral with governance of the holding company, with subsidiary boards comprising one director who is a main board executive director.
5	Due to the close supervision of operating company activity and the limited extent of transactions, and the stability of the administrative staff, a separate internal audit function has been deemed unnecessary.
6	One of the audit committee members is not considered independent as he is a director of ARH, destined to become a 26% shareholder in both of the company's operating subsidiaries. A practical consideration justified his appointment in preference to a non-executive director who is unquestionably independent but who is not resident in South Africa.
7	No specific model is employed by the audit committee, but the members' review of Exco minutes and extensive briefings on the group's activities is considered sufficient for them to discharge their duties effectively.
8	No disputes have arisen during the year under review. The main potential for disputes relates to environmental issues with neighbouring farmers and with trade unions representing workers. These stakeholders are regularly engaged to avoid disputes.
9	There has been no significant IT expenditure during the year. The IT system currently employed is considered adequate for the group's requirements.
10	The group has adopted a GRI application level C report which is internally generated, and not independently assured. The cost of obtaining independent assurance is not considered justified by the company's major shareholder.

### PREPARATION OF ANNUAL FINANCIAL STATEMENTS

In terms of the Companies Act, 2008 the directors are responsible for the preparation of annual financial statements which fairly present the financial position of the company and the group as at the end of the financial year, the comprehensive statements of income, cash flow and changes in shareholders' equity for the year under review, in accordance with International Financial Reporting Standards and the AC500 Standards issued by the Accounting Practices Board and its successor.

The group's independent external auditors are responsible for examining and reporting to shareholders their opinion on the annual financial statements of the company and its subsidiaries and for performing an audit in accordance with International Standards on Auditing.

The directors consider that, in preparing the annual financial statements in accordance with International Financial Reporting Standards, the group has used appropriate accounting policies supported by reasonable and prudent judgement and estimates and that all applicable accounting standards have been followed.

### BOARD AND COMMITTEE STRUCTURE

The composition of the Board is set out below. There were no changes during the financial year. Benjamin Phiri was appointed to the Board with effect from 20 September 2011. The Board is satisfied that Patrick Cooke, as the sole executive director, adequately manages the group with the assistance of the Executive Committee comprising the general manager of the operating unit, the manager of the processing facility and the group financial manager. The Board is satisfied with the independence of the independent non-executive directors.

All directors are subject to retirement by rotation and re-election by the shareholders at least once every three years in accordance with the company's Articles of Association. Furthermore, all directors are subject to re-election by shareholders at the first annual general meeting following their appointment.

## Corporate governance

(continued)

The appointment of Benedict Phiri on 20 September 2011 increases the number of directors to seven, at least one-third of whom must retire at the next annual general meeting. The articles provide that the director appointed by the Board (Benedict Phiri) must retire as must the two longest-serving directors (Patrick Cooke and Stephen Morris).

The Board is in control of the group and held three formal meetings during the year, but hold frequent telephonic conferences to review strategy, planning, funding requirements, operational and financial performance, acquisitions and disposals, stakeholder communication and other material matters. More frequent meetings were considered inappropriate in view of the foreign residence of two of the directors and the lack of operating income during the care and maintenance period. No one director has unfettered powers of decision-making.

Directors have access to the advice of the company secretary, who is responsible to the Board for ensuring compliance with procedures and regulations of a statutory nature. Directors are further entitled to obtain independent professional advice concerning the affairs of the group at the group's expense, should they think it would be in the best interest of the group. No formal nominations committee has been established: the Board as a whole is responsible for new appointments. The process is concluded in a formal and transparent manner.

Board attendance during the year under review:			Meetings attended
Director	Designation	Date appointed	
N Davidoff	Non-executive Chairman	22 October 2009	3/3
PR Cooke	Financial Director	18 August 2009	3/3
J Kögl	Non-executive director	8 August 2008, reappointed 30 November 2010	3/3
SP Morris	Non-executive independent director	18 August 2009	3/3
S Swana	Lead non-executive independent director	14 November 2008	2/3
AN Kamau	Non-executive independent director	22 October 2009	3/3

### EXECUTIVE COMMITTEE

An Executive Committee reviews operational and financial results on a monthly basis. Minutes of the meetings of the Executive Committee are sent to the non-executive directors upon approval.

Members of the committee during the year were:

- GC Clarke (General Manager)
- PR Cooke (Acting CEO, COO and Financial Director; Chairman of Exco)
- J Cronje (Group Financial Manager)
- HN du Plessis (Manager: Buffalo)

### AUDIT AND RISK COMMITTEE

Appointments to the committee have been made by the Board, but in terms of the Companies Act 2008 these appointments became the responsibility of the shareholders. In terms of the Act, the audit committee's report forms a specific section of this annual report.

### RISK MANAGEMENT

The group risk management strategy requires that management focuses on identifying all known forms of risk within the group. These risks are then assessed taking into account the severity of the impact on the group's business if such identified risks were to materialise. Once the impact of such a risk is determined the necessary steps can be taken to mitigate against its occurrence, as well as steps to reduce the impact on the group should such an event occur. The preferred mitigation measure is the provision of adequate insurance cover against either destruction or damage to assets as well as the cumulative effect on revenue.

Management of risk requires a perpetual appraisal of identified risks and the assessment of the business to determine whether any new risks have arisen and whether any risks have been reduced or eliminated. This continual managing and monitoring of risk is undertaken in conjunction with the company's insurance brokers and underwriters. Their independent assessment creates a valid yardstick by which the company is able to determine how well it is managing risk.

Sallies' operations fall under the jurisdiction of South African legislation and are subject to numerous acts and regulations. The operations are subject to standards and internal codes of practice which prescribe in detail the safe and reliable ways in which certain activities must be performed. These codes are regularly updated as necessary to take into account changes in working conditions.

Key policies, systems and procedures have been created to manage operating risk, particularly the risk related to the accurate and timely creation of management information.

### REMUNERATION COMMITTEE

The group has no formal remuneration committee. At present remuneration of the executive director is handled by the non-executive directors.

## Corporate governance

*(continued)*

Directors' fees and share options granted to directors are approved by shareholders in general meeting.

### **SAFETY, HEALTH, ENVIRONMENTAL AND QUALITY MANAGEMENT ("SHEQ")**

The group has an outsourced primary healthcare function, and all employees are members of a medical aid scheme. An occupational health nurse is employed while the function of occupational hygienist is outsourced to a consultant who visits the mine monthly, now that operations have recommenced at Witkop, and who compiles the statutory reports.

The potential impact of HIV/AIDS on the workforce is recognised. The mine's AIDS policy, which was established in 2000, was revived on resumption of operations with awareness campaigns operated on an ongoing basis.

A SHEQ manager is responsible at group level to drive goal setting, strategy development, performance management, reporting and to monitor and review SHEQ performance within the group's integrated SHEQ management system.

The restarting of operations at Witkop provided an opportunity to assess the usage of critical supplies notably water, diesel and electricity in volume and cost. With daily consumption in excess of 3 000kℓ of water, 4 500ℓ of diesel and 100 000kWh of electricity these items are strictly monitored to ensure responsible use.

A joint health and safety committee has oversight of safety, health, environmental and quality performance. Injuries sustained by employees or contractors are investigated thoroughly as are accidents causing even minor damage to plant and equipment to prevent recurrence.

No fatal accidents were reported for the year under review. Safe working practices are pursued as a priority above other operational objectives.

Environmental management is implemented as per the approved Environmental Management Programme and forms part of the SHEQ manager's function.

In August 2008, Witkop re-submitted its application for an Integrated Water Use Licence to the Department of Water Affairs and Forestry ("DWAF"), as prescribed by the National Water Act, 1998 (Act 36 of 1998). Feedback from DWAF is expected shortly.

### **INTERNAL CONTROL**

The directors are responsible for maintaining adequate and appropriate accounting records and have the general responsibility for taking reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

In view of the size of the operation and the close control exercised by senior management, it is not considered appropriate to establish a separate internal audit function.

### **WORKER PARTICIPATION**

Following the recommencement of operations, the management of Witkop meets regularly with representatives of The National Union of Mineworkers and Solidarity, together with shop stewards of these unions, to share information and address matters of mutual interest.

### **RELATIONSHIPS WITH STAKEHOLDERS**

The group is subject to the JSE Listings Requirements regarding confidential information during closed periods, directors' share dealings and SENS reports.

The general manager liaises with the communities from which the Witkop labour is drawn and with the farmers who border the mine's property. Relationships with both groups are positive and regular feedback sessions are held.

The Witkop firefighting team is on call to assist farmers controlling veld fires. Other community projects undertaken by Witkop included the restoration of a borehole and the supply and maintenance of a pump and storage tank to provide a local village with running water, also sponsorship of a pre-examination camp for grade 12 learners at a local secondary school.

The group subscribes to open communications with its stakeholders. Investors and shareholders may direct their comments and questions on issues regarding the group to the management of the company. The company further encourages shareholders to attend its annual general meetings which provide an opportunity for shareholders to address questions to the Board.

No requests for information were made nor refused in terms of the Promotion of Access to Information Act.

### **CODE OF ETHICS**

The group has adopted a code of ethics in terms of which directors and employees are required to maintain the highest ethical standards in order to ensure that the group's business practices are conducted in a manner that is beyond reproach.

## Global reporting initiative

Sallies reports its sustainability progress using the Global Reporting Initiatives' ("GRI") G3 Guidelines to provide stakeholders with consistent and comparable views of the group's sustainability performance. This is the first year of presenting an integrated annual report and the information disclosed is in terms of the GRI G3 Content Index in order to qualify for a GRI application level C report.

### G3 CONTENT INDEX

Profile disclosure				
GRI indicators	Description	Reported	Reference	Page reference
1.1	Statement from the most senior decision-maker in the organisation	Fully	Chairman's statement	2
2.1	Name of the organisation	Fully	Front cover	IFC, IBC
2.2	Primary brands, products and/or services	Fully	Corporate profile	IFC
2.3	Operational structure of the organisation, including main divisions, operating companies, divisions and joint ventures	Fully	Note 12 – Interest in subsidiaries	53
2.4	Location of organisation's headquarters	Fully	Corporate information	IBC
2.5	Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Fully	Note 28 – segmental reporting	65
2.6	Nature of ownership and legal form	Fully	Directors' report – share capital	24
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	Fully	Note 28 – segmental reporting	65
2.8	Scale of reporting organisation	Fully	Summary of financial performance	5
2.9	Significant changes during the reporting period regarding size, structure or ownership	Fully	Chairman's statement	2
2.10	Awards received in the reporting period	Not	Not applicable	
3.1	Reporting period (e.g. fiscal/calendar year) for information provided	Fully	Scope and Boundaries	IFC
3.2	Date of most recent previous report	Fully	Scope and Boundaries	IFC
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Scope and Boundaries	IFC
3.4	Contact point for questions regarding the report of its contents	Fully	Corporate information	IBC
3.5	Process for defining report content	Fully	Scope and Boundaries	IFC
3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Fully	Scope and Boundaries	IFC
3.7	State any specific limitations on the scope or boundary of the report	Fully	Scope and Boundaries	IFC
3.8	Basis of reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations	Fully	Significant Accounting policies	34
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods)	Fully	Significant Accounting policies	34

## Global reporting initiative

(continued)

Profile disclosure				
GRI indicators	Description	Reported	Reference	Page reference
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	Fully	Scope and Boundaries	IFC
3.12	Table identifying the location of the Standard Disclosures in the report	Fully	Table of contents	IFC
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	Fully	Corporate Governance	7
4.2	Indicate whether the chair of the highest governance body is also an executive officer	Fully	Corporate Governance	7
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Fully	Corporate Governance	10
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Fully	Corporate Governance – Relationships with stakeholders	11
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments	Fully	Statement of comprehensive income and annual financial statement	28
EC3	Coverage of the organisation's defined benefit plan obligations	Partially	Note 25 – Retirement benefits	58
EN1	Materials used by weight or volume	Partially	Corporate governance – SHEQ	11
EN13	Habitats protected or restored	Partially	Directors' report – Rehabilitation	23
EN14	Strategies, current actions and future plans for managing biodiversity	Fully	Note 19	55
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Partially	Note 19	55
LA1	Total workforce by employment type, employment contract and region	Partially	Summary of operational performance	6
LA2	Total number and rate of employee turnover by age group, gender and region	Partially	Summary of operational performance	6
LA4	Percentage of employees covered by collective bargaining agreements	Partially	Corporate Governance – Worker participation	11
LA7	Rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities by region	Partially	Chairman's statement – operations	3

## Board statement regarding the Integrated Annual Report

The board of directors of the company ("the Board") acknowledges its responsibility to ensure the integrity of the integrated annual report. The Board has applied its mind to the integrated annual report which, to the best of its knowledge and belief, addresses all material issues and represents fairly the integrated performance of the group. The integrated annual report has been prepared in line with the best practice pursuant to the recommendations of the King III code (principle 9.1)

## Approval of financial statements

The annual financial statements have been prepared under the supervision of Mr Patrick Cooke - Financial Director.

The annual financial statements for the company and the group for the year ended 30 June 2011 set out on pages 18 to 71 have been audited in accordance with the applicable requirements of the Companies Act 71 of 2008 by BDO South African Incorporated (Registered Auditors) and were approved by the Board of Directors on 30 September 2011 and are signed on its behalf by:



**Nicholas Davidoff**  
*Chairman*

30 September 2011



**Patrick Cooke**  
*Acting CEO, Financial Director*

## Declaration by company secretary

In my capacity as company secretary, I hereby confirm, in terms of the Companies Act, that for the year ended 30 June 2011, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that such returns are true, correct and up to date.



**Richard O'Callaghan**  
*Company Secretary*

30 September 2011



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South Africa

## Independent Auditor's Report

### To the members of Sallies Limited

We have audited the group annual financial statements and annual financial statements of Sallies Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2011, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 18 to 71.

### Directors' Responsibility for the Annual Financial Statements and Consolidated Annual 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 ("IFRS"), the AC 500 standards as issued by the Accounting Practices Board 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 that 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 principles 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, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Sallies Limited as at 30 June 2011, 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, the AC 500 standards as issued by the Accounting Practices Board and in the manner required by the Companies Act of South Africa.

*BDO South Africa Incorporated*

**BDO South Africa Incorporated**  
Registered Auditors  
Per: J Lemmer

**30 September 2011**  
Johannesburg

BDO South Africa Incorporated  
Registration number: 1995/002310/21  
Practice number: 905526E

Executive: OA Barbeau • AR Edge • GE Levick • JFK Munnik • JHM Spencer (Chief Executive) • ME Stewart • A van der Hoek  
Office Managing Partner: AR Edge

The company's principal place of business is at 13 Wellington Road, Parktown, Johannesburg where a list of directors' names is available for inspection. BDO South Africa Incorporated, a South African personal liability company, is a member of BDO Southern African Co-ordination (Pty) Ltd, a South African company, which in turn is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

## Report of the Audit Committee

This report incorporates the requirements of the statutory responsibilities of audit committees, as contained in Section 270A of the Companies Act, 1973, as amended (the 1973 Act), which was applicable for 10 months of the financial year under review and as contained in Section 94 of the Companies Act, 2008, as amended (the 2008 Act), which came into effect on 1 May 2011.

### COMPOSITION OF THE COMMITTEE

In terms of its terms of reference, the group Audit Committee comprises at least three non-executive independent directors who are required to have the necessary financial expertise in order to properly assist and advise the committee in the execution of its duties.

For the year under review, the committee comprised the following members:

Sandile Swana (Lead independent non-executive director)

Andrew Kamau (Independent non-executive director)

Jurgen Kögl (Non-independent non-executive director)

In terms of Section 94 of the 2008 Act, which requires that a public company must elect an audit committee at each annual general meeting, it is proposed in the notice of meeting for the forthcoming annual general meeting of the company, that the current members be appointed as members of the Audit Committee until the next annual general meeting.

The committee is chaired by Sandile Swana.

The chairman of the committee is available at annual general meetings.

### Meetings

The committee has three regular meetings a year which are also attended by the independent auditors, the two non-executive directors identified above, and appropriate members of executive and senior management. In the past year, three meetings were held with full attendance.

### Terms of reference

The Committee has formal terms of reference approved by the Board. The main objectives of the committee, as incorporated in the terms of reference and applicable for the year ended 30 June 2011, include:

- promoting the overall effectiveness of corporate governance within the group;
- acting as an effective means of communication between the Board and the independent auditors;
- satisfying the Board that adequate internal and financial controls are in place, and that material financial risks have been identified and are being effectively managed and monitored; and
- assessing the impact of the general control environment on the statutory audit, and reporting to management any areas of perceived control weaknesses.

Pursuant to satisfying these objectives, the committee's responsibilities, as also incorporated in the terms of reference, include:

- the review of the level of effectiveness of the independent auditors;
- recommending the appointment of the independent auditors to the Board for approval by the shareholders, and approving their remuneration;
- establishing a policy in respect of and approving the extent of non-audit services undertaken by the independent auditors;
- the review of report from the independent auditors, including management's responses thereto;
- assessing the effectiveness of internal policies and procedures;
- ensuring that all material financial risks are identified, assessed, monitored and managed;
- being satisfied that no material breakdown in internal controls occurs;
- considering the company's accounting policies and reviewing their compliance with International Financial Reporting standards and other relevant regulatory requirements;
- the review of and recording going concern assumptions;
- the review of the company's interim reports, results announcements and annual reports;
- being satisfied that management suitably addresses information technology risks and information security;
- being satisfied that the company complies with the JSE's Listings Requirements; and
- receiving and dealing with any complaints relating to accounting practices, independent and internal audits, and the content or auditing of financial statements or any related matter.

For the year under review, the committee satisfied its responsibilities in compliance with its terms of reference.

#### **Access**

The independent auditors have unrestricted access to the committee and the chairman of the committee.

#### **Statutory duties**

Pursuant to the requirements of Section 270(A) of the 1973 Act, for the year under review, the committee:

- confirmed the appointment of BDO South Africa as the independent auditors and Mr JC Lemmer as the registered auditor responsible for the audit;
- satisfied itself that the independent auditors were independent of the company;
- agreed the terms of engagement of and determined the fees payable to the independent auditors;
- ensured that the appointment of the independent auditors and the registered auditor complied with the provisions of the 1973 Act;
- pre-approved the non-audit services provided by the independent auditors, in terms of a policy in this regard previously adopted by the committee;
- noted that it had not received any complaints, either from within or outside the company, relating to the accounting practices, the independent audits of the company or to the content or auditing of its financial statements or any related matter; and
- performed its other functions as determined by the Board in terms of its terms of reference.

Pursuant to the requirements of Section 61 of the 2008 Act, requiring that shareholders approve the appointment of the independent auditors on an annual basis, the committee has recommended to the Board, which in turn has recommended to the shareholders, for consideration at the forthcoming annual general meeting, that BDO South Africa be appointed as the company's independent registered auditors for the year ending 30 June 2012.

#### **Regulatory requirements**

Pursuant to the provisions of the JSE's Listings Requirements, the committee:

- confirmed that it had previously adopted a policy with regard to non-audit services provided by the independent auditors;
- satisfied itself of the appropriateness of the expertise and experience of the Financial Director, Mr P Cooke; and
- satisfied itself that the appointed independent auditors and registered auditor were duly accredited as such on the JSE's list of auditors.

#### **Corporate Governance requirements**

Pursuant to the King Code of Governance for South Africa 2009, and based on specific procedures performed by the independent auditors, the committee satisfied itself with the expertise, resources and experience of the company's finance function.

#### **Annual financial statements**

Having reviewed the audited annual financial statements included in the annual report, particularly to ensure that disclosure was adequate and fair presentation had been achieved, the committee has recommended the approval of the annual financial statements by the Board.

On behalf of the Audit Committee



**Sandile Swana**

30 September 2011

## Directors' report

### BUSINESS ACTIVITIES

The predominant business of the Sallies group is the production and marketing of acid grade fluorspar and the exploration for additional fluorspar resources.

The company was incorporated in 1903 to mine gold on the East Rand. It has been listed since 1904, making it the longest standing listed company on the Johannesburg Stock Exchange. It ceased mining for gold during the 1990s. The original name, The South African Land and Exploration Company Limited, was changed to Sallies Limited in 1999.

On 1 July 1999, the company acquired the Witkop Fluorspar Mine ("Witkop") situated near Zeerust in the North West Province of South Africa. It produces acid grade fluorspar concentrates from opencast mining, predominantly for export. It also produces some metallurgical grade fluorspar and agricultural lime for the local market. This mine was placed on care and maintenance on 26 June 2009, but operations recommenced in March 2011 on receipt of sufficient orders at prices which justified borrowing the funds required for the initial working capital.

On 31 July 2006 the Buffalo tailings retreatment operation, situated at the original open-pit Buffalo Fluorspar Mine ("Buffalo") outside Mookgophong in the Limpopo Province of South Africa, was acquired from Transvaal Mining and Finance Company Limited. This operation produces acid grade fluorspar for the export market but was placed on care and maintenance on 10 October 2008 and there are no plans at present to recommence operations.

### FINANCIAL RESULTS

During the year under review the group made a loss after taxation of R46.3 million (F2010: loss of R62.6 million). The longstanding dispute with SARS was settled in the group's favour with a refund of R5.3 million plus accrued interest of R2.0 million. No taxation was accounted for in 2010.

The operating profit from mining was R3.1 million (2010: loss of R0.2 million)

The loss before providing for the Honeywell International Inc award, interest thereon, notional interest on the convertible debentures, share-based payments and tax was R47.7 million (F2010: loss of R51.3 million).

<b>Composition of results</b>		
<b>R000</b>	<b>F2011</b>	<b>F2010</b>
Witkop	3 530	2 035
Buffalo	319	(1 149)
Foreign exchange	(775)	(1 091)
Operating profit/(loss) from mining activities	3 074	(205)
Administration expenses	(28 835)	(18 539)
Depreciation and amortisation	(15 313)	(19 451)
Finance costs	(6 666)	(13 335)
Loss before Honeywell, share-based payments and Buffalo impairment	(47 740)	(51 530)
Honeywell award and related interest	-	(464)
Notional interest on convertible debentures	(3 797)	(3 204)
Share-based payments	-	(920)
Loss before Buffalo impairment	(51 537)	(56 118)
Buffalo impairment	-	(6 464)
Loss before taxation	(51 537)	(62 582)
Tax recoupment from prior year	5 269	-
Loss after taxation	(46 268)	(62 582)

## Directors' report

(continued)

The operating results for the year under review are fully disclosed in the attached audited financial statements.

### GOING CONCERN

The dump retreatment operation at Buffalo was placed on care and maintenance on 10 October 2008 and remains as such. Witkop suspended mining and processing in June 2009 but following recommissioning in March 2011 has produced 32 027 wmt of acid grade fluorspar of which 11 089 wmt were exported by 30 June 2011. Witkop's forward order book is robust with all production sold until the third quarter of the 2012 financial year.

The cash flow forecasts until 30 June 2012 include 10% interest on the 144 million unsecured unsubordinated convertible debentures of R0.50 each in issue payable at the end of June and December at R3.6 million per payment and, if not converted earlier, the convertible debentures are repayable in an amount of R72 million on 31 December 2012.

Against this background, the directors are of the opinion that the Sallies group is a going concern for the foreseeable future as it has adequate cash resources to meet all its commitments until at least the end of F2012.

### BEE TRANSACTION

During the year shareholders approved the collection of interrelated agreements in terms of which African Renaissance Holdings (ARH) will become a 26% beneficial shareholder in each of Witkop and Buffalo. On conclusion of the final condition precedent (approval by the Department of Mineral Resources ("DMR")), ARH will subscribe for shares in Witkop at an aggregate price of R83 million which funds Witkop will advance to ARH. This funding will be repaid from future dividends which will only be declared once all funds advanced by Sallies to Witkop have been repaid. ARH has undertaken that 31% of any funds received by it from Witkop will be distributed to the community from which Witkop draws its employees.

ARH will acquire from Sallies 26% of its shares in Buffalo at par for cash. Similarly, ARH has undertaken that 31% of any funds received by it from Buffalo will be distributed to the community from which Buffalo draws its employees.

Sallies has subscribed for preference shares in both Witkop and Buffalo which preference shares shall pay a dividend based on the after tax interest costs on the funds lent to Witkop and Buffalo respectively by Sallies with effect from 1 July 2011.

### MINERAL RESOURCES AND MINERAL RESERVES

#### Mineral Resources

The mineral resources estimate for Witkop was undertaken by Mr Jansen, (Pr.Sci.Nat.) (Reg. No 400073/02) an independent Resource Consultant, and classified in accordance with the SAMREC Code. Written representation was obtained from him that the summary below has been defined according to the guidelines of the SAMREC Code and may be published. Mr Jansen has 15 years experience in the fluorspar industry.

The mineral resource is tabulated below:

Summary of Mineral Resources	30 March 2011		30 June 2010	
	Tonnage (Mt)	Grade CaF <sub>2</sub> (%)	Tonnage (Mt)	Grade CaF <sub>2</sub> (%)
Measured resources	20.60	13.10	19.97	11.60
Indicated resources	39.00	13.50	33.11	13.80
Inferred resources	0.77	29.40	2.27	31.50
Total	60.37	13.57	55.35	13.73

Mineral Resources are reported inclusive of mineral reserves.

Note: Mineral resources and reserves are estimates for which uncertainties are conveyed through rounding of the figures presented in the table.

## Directors' report

(continued)

The increase in the measured and indicated resources was a function of the inclusion of the results from 146 exploration holes that were drilled during the 2009 and 2010 drilling campaign on Wintershoek. No additional drilling was done in 2011.

The majority of the decrease in inferred resource was due to the previous interpretation in which assumptions were made regarding the presence of fluorite which does not exist.

The revision of the mineral reserve is part of a process that included a revised mineral resource estimate and mine plan completed in March 2011. In addition the current economic situation and the restart of operations at Witkop have been considered in classifying the mineral reserve as Proved.

Fluorite is present in a wide variety of geological settings and is commonly associated with carbonatites and alkaline complexes, Mississippi Valley type Pb-Zn-F-Ba deposits, F-Ba- (Pb-Zn) veins, hydrothermal Fe ( $\pm$ Au,  $\pm$ Cu) and Rare Earth Elements (REE) deposits, precious metal concentrations, fluorite/metal-bearing skarns, tin (Sn)-polymetallic greissen-type deposits, zeolitic rocks and uranium deposits.

The fluorite at Witkop is considered to be a Mississippi Valley type of deposit.

Fluorspar mineralisation at Witkop and surrounding areas is hosted in the middle Frisco Formation that occurs near the top of the Malmani dolomite sequence of the Chuniespoort Group of the Transvaal Supergroup.

The most important mineralisation type, termed the Main Mineralised Zone, occurs in a distinctive Conophyton stromatolite zone which lies near the base of the Middle Frisco Formation of the Malmani dolomite.

### MINERAL RESERVES

Dr Steven Rupprecht is a registered professional engineer with the Engineering Council of South Africa (ECSA) (Reg. No. 980556), which is a body recognised by SAMREC of which he is a member. Dr Rupprecht is a "Competent Person" as defined by the 2007 edition of the SAMREC Code. Dr Rupprecht has more than 24 years' experience in the South African mining industry and is also familiar with and adheres to the South African MPRDA and the SAMREC and SAMVAL Codes. Dr Rupprecht's offices are at 604 Kudu Street, Allens Nek, 1737, Roodepoort. Dr Rupprecht has given his consent to the public reporting of the mineral reserve statement. Dr Rupprecht is a mining engineer with 24 years experience in the mining industry and has been involved with Independent Technical Reports, and CPRs, including economic valuations, since 1999. Dr. Rupprecht was the primary author of the 2003 and 2006 CPRs on Witkop, 2006 Buffalo Fluorspar CPR and conducted a scoping study of the Doornhoek Fluorspar Project, an adjacent fluorspar project to Witkop, as well as other consulting duties regarding fluorspar projects.

Summary of Mineral Reserves	30 March 2011		30 June 2010	
	Tonnage (Mt)	Grade CaF <sub>2</sub> (%)	Tonnage (Mt)	Grade CaF <sub>2</sub> (%)
Proved reserves	14.8	11.80	16.10	10.30
Probable reserves	–	–	–	–
Total	14.8	11.80	16.10	10.30

The modifying factors as applied to the mineral resources were determined from historical results and the FY2011 business plan. The following parameters (modifying factors) were used:

- A mining and geological loss of 5% has been applied; this is mainly due to mineralised material being either lost during drilling and blasting operations, loading and hauling, or for material left behind.
- A dilution is estimated at 16% at a grade of between 3.2% and 5.6% CaF<sub>2</sub> based on geological information.
- Overall plant recovery of 77%.

## Directors' report

*(continued)*

### **MINING**

A Life of Mine (LOM) plan has been conducted for the mine based on sourcing ore from Witkop and Buffelshoek pits. Witkop plans to mine at a production rate an average of 123 500 Run-of-Mine (ROM) tonnes per month at a head grade of 11.8% CaF<sub>2</sub>. The control of planned grades is critical to the success of the LOM plan and it is vital that sub-economic material below the mine's cut-off grade of 9% CaF<sub>2</sub> is not introduced to the plant.

Mining is conducted utilising a typical drill and blast operation utilising excavators and articulated dump trucks (ADTs). An average stripping ratio of 0.8:1 (waste:ore) is planned and will coincide with ore production utilising a roll over methodology.

### **METALLURGY AND PROCESSING**

Prior to restarting on 22 March 2011, the process plant last operated on a continuous basis in June 2009 when operations were placed on care and maintenance due to market conditions. Subsequent to the June 2009 shutdown, the plant was operated for a limited period in 2010 to rebuild stock of metallurgical grade spar for sales into the local market and to fulfil an order for 5 500t of acid grade fluorspar product. The plant functioned adequately and the data for this period indicated recoveries up to 72%, which are considered satisfactory. Following this the crusher plant was completely refurbished and was recommissioned in February 2011 and the milling and flotation circuits were overhauled and upgraded and then re-started on 22 March 2011. This work included modifying the feed to the primary mill, the installation of float level controls and pH controls in the flotation plant, and refurbishment of the two drum filters.

The current plant circuit comprises conventional processing units for treating mined material to produce an acid grade product namely, a material receiving facility, crushing, screening, milling, froth flotation, thickening and filtration mainly of 1970s vintage. The bulk of the plant equipment is currently in reasonable condition and some maintenance in areas such as flotation is ongoing while the plant is operational. Prior to start up, the appointment of new plant management coupled to an aggressive maintenance and clean-up programme has resulted in a functional facility that is currently operating well mechanically and at acceptable availability and utilisation levels. Since recommissioning, the plant has operated continuously for about two months and an acid grade recovery of 60% was achieved in April 2011. Judging by the plant performance to date, recovery of acid grade product at 77% should be readily achievable once steady state production has been achieved. Improved plant control has already resulted in some reduced reagent addition which is a significant portion of operating costs.

The risk associated with metallurgy and processing is deemed to be low.

Other considerations for Metallurgy and Processing.

As part of future plant management, several areas are receiving attention and being investigated. These are:

- Potential treatment of crusher washings, currently discarded, for fluorspar recovery;
- Improvements in the pre-flotation circuit to reduce fluorspar losses and establish base metal potential;
- Modifications to the rod mill circuits to increase the effective mill capacity by screening out the undersize material from the mill feed; and
- Refining the reagent mix to reduce the operating cost.

Future work is aimed at increasing plant throughput tonnages and recovery as well as attempts to reduce operating costs.

Directors' report  
(continued)

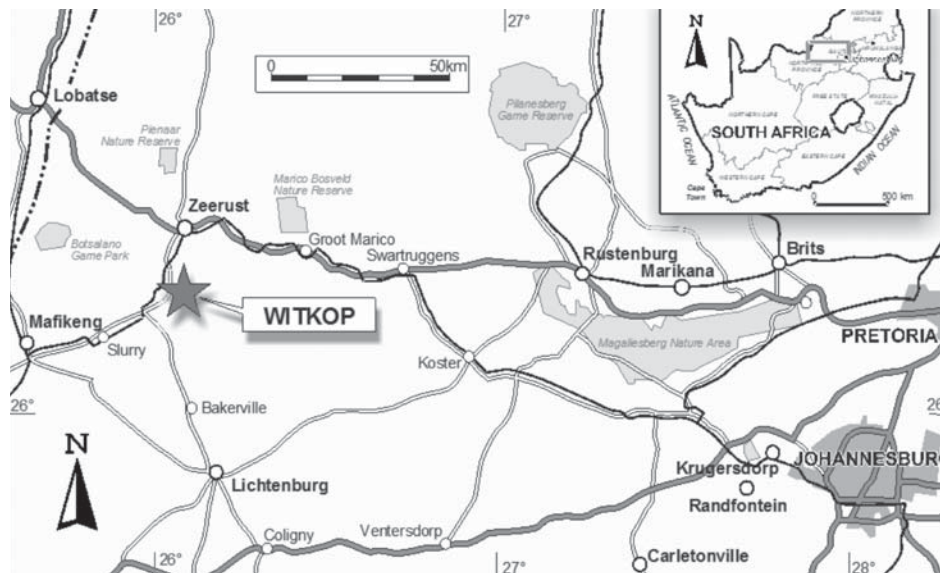
**INFRASTRUCTURE**

No material risks associated with surface infrastructure and installations were identified.

**ENVIRONMENTAL AND TAILING DISPOSAL**

There are a number of environmental issues that are material to the future of Witkop. These risks would include surface and groundwater contamination associated with the mine and associated infrastructure, the urgent need for the creation of additional tailings storage capacity to rehabilitate their current tailings storage facility ("TSF"), and the possibility that the cost of rehabilitation, closure and aftercare of the mine may exceed current estimates, in light of the lack of information on surface and ground water quality. Witkop has contracted the skills of Envirosolve, a specialist tailings management company, to manage the TSF and sign-off on the structural competency of the TSF, Coffey Mining is of the opinion that a low to moderate risk is associated with the environmental issues.

**Location of Witkop**



**Buffalo Fluorspar**

Buffalo operations were suspended on 10 October 2008. Since no processing of tailings dumps 5 and 6 has taken place, the figures shown below have been extracted from the Competent Person's Report of RSG Global dated August 2006. The Competent Person for this mineral resource estimate is Mr Ken Lomborg.

	Tonnage (mt)	CaF <sub>2</sub> (%)
Summary of Mineral Reserves at August 2006		
Probable reserves	5.7	7.3

Directors' report  
(continued)

**Location of Buffalo**



**REHABILITATION AND MINE CLOSURE**

As of 30 June 2011, the environmental and decommissioning liability (rehabilitation, pollution controls and mine closure) for Witkop is estimated at R25.0 million with the decommissioning obligation estimated at a further R2.8 million. The total rehabilitation and decommissioning obligation costs of R7.5 million have been estimated by Digby Wells and Associates using guidelines for the calculation of rehabilitation and closure costs published by the DMR.

The DMR has approved the rehabilitation plan used as the basis of the calculation. The mine has made financial provision in the form of a restricted investment valued at R4.1 million (refer note 13) ceded to Lombard Insurance Co Limited who have in turn issued a R2.2 million guarantee to the DMR on behalf of Witkop in respect of the mine's rehabilitation obligations. This guarantee expired on 31 July 2011. Currently a further R50 000 is invested monthly. Negotiations are in progress to establish a replacement guarantee acceptable to the DMR.

Rehabilitation is an ongoing process whereby worked out areas are rehabilitated as part of the normal production process, the costs of which are accounted for as production costs. The estimated cost of rehabilitation and decommissioning is reviewed annually and adjusted as appropriate. Rehabilitation costs are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure, in view of the uncertainty of estimating the potential future proceeds.

**PROPERTY, PLANT AND EQUIPMENT**

There has been no change in the nature of property, plant and equipment, nor any change in policy relating to the use thereof.

## Directors' report

(continued)

### SHARE CAPITAL

The table below shows the movement of share capital during the year:

Share capital movement	Number of shares (000)	2011 Share capital (R000)	Share premium (R000)	Number of shares (000)	2010 Share capital (R000)	Share premium (R000)
Issued						
Balance at beginning of year	642 220	642	284 145	642 220	642	284 145
Shares issued*	82 336	83	11 003	–	–	–
Balance at end of year	724 556	725	295 148	642 220	642	284 145

Ordinary shareholders	Number of shareholders	Shares held (millions)	(%)	Number of shareholders	Shares held (millions)	(%)
Public	2 679	73.8	10.2	2 835	156.7	24.4
Non-public	5	650.8	89.8	4	485.5	75.6
Directors	2	0.5	0.1	2	0.5	0.1
Strategic holdings (more than 10%)	3	650.3	89.7	2	485.0	75.5
Total	2 684	724.6	100.0	2 839	642.2	100.0

\* 82 335 700 new ordinary shares were allotted and issued to Honeywell on 27 September 2010 at an issue price of 13.5 cents per share, in terms of an award as determined by the International Court of Arbitration at the International Chamber of Commerce, in place of a cash settlement of USD1 243 824 plus interest at 5% per annum from 19 January 2006 until full payment.

Convertible debentures	Number of holders	Debentures held (millions)	(%)	Number of holders	Debentures held (millions)	(%)
Public	668	60.8	42.2	736	60.8	42.2
Non-public**	2	83.4	57.8	2	83.4	57.8
Total	670	144.2	100.0	738	144.2	100.0

\*\* Strategic holdings (more than 10%)

### MAJOR SHAREHOLDERS

According to the company's share register and declarations made by directors and nominees at 30 June 2011, the following beneficial shareholders held shares in excess of 5% of the ordinary share capital and convertible debentures of the company:

Beneficial holder	2011		2010	
	Holding (millions)	% of issued shares/debentures	Holding (millions)	% of issued shares/debentures
<b>Ordinary shares</b>				
Firebird Global Master Fund together with Firebird Global Master Fund II (together: "Firebird")	485.0	66.9	485.0	75.5
Fluormin plc	82.3	11.4	–	–
<b>Convertible debentures</b>				
Firebird Global Master Fund together with Firebird Global Master Fund II	83.4	57.8	83.4	57.8

### DIRECTORS' INTEREST IN SHARE CAPITAL

At 30 June 2011 and at the date of this report, the directors' interest in the share capital was as follows and there have been no subsequent changes.

## Directors' report

(continued)

Indirect beneficial (000)	2011		2010	
	Shares	Debentures	Shares	Debentures
N Davidoff	200	–	200	–
S Morris	345	–	345	–
<b>Total</b>	<b>545</b>	<b>–</b>	<b>545</b>	<b>–</b>

### DIRECTORS' INTEREST IN TRANSACTIONS

None of the directors has any interest in any transaction, direct or indirect, which is material to the business of Sallies Limited and which was effected by Sallies Limited or its subsidiaries:

- during the current or immediately preceding financial year; and there have been no subsequent changes;
- during an earlier financial year that remains in any respect outstanding or unperformed.

### DIRECTORS' EMOLUMENTS

The following emoluments were paid and accrued to directors and key managers during the year:

(R000)	Salary	Other benefits	Fees	Total
<b>2011</b>				
Executive				
□ PR Cooke	1 200	–	–	1 200
Key managers				
□ GD Clarke	1 313	217	–	1 530
□ N Bleeker	819	140	–	959
□ J Cronje	677	118	–	795
Non-executive				
□ N Davidoff	–	–	250	250
□ A Kamau	–	–	120	120
□ J Kögl	–	–	120	120
□ SP Morris	–	–	120	120
□ S Swana	–	–	120	120
	<b>4 009</b>	<b>475</b>	<b>730</b>	<b>5 214</b>
<b>2010</b>				
Executive				
□ PR Cooke	500	–	54	554
□ J Blersch	1 547	–	–	1 547
□ TG Dale	500	–	–	500
Non-executive				
□ N Davidoff	–	–	173	173
□ BC Esterhuizen	–	–	37	37
□ DGJ Kerrison	–	–	37	37
□ A Kamau	–	–	83	83
□ J Kögl	–	–	120	120
□ SP Morris	–	–	104	104
□ FJP Roux	–	–	77	77
□ S Swana	–	–	120	120
	<b>2 547</b>	<b>–</b>	<b>805</b>	<b>3 352</b>

## Directors' report

(continued)

### SHARE OPTIONS

#### Share incentive scheme

The Sallies Limited Share Incentive Scheme was adopted on 10 November 1999 and The Sallies Limited Share Incentive Scheme Trust was established during December 1999 to implement the scheme. At all times the number of shares and options under the control of the trust shall not exceed 10% of the number of ordinary shares in issue and the maximum granted to a single participant shall be limited to 1% of the number of ordinary shares in issue.

Number of options (000)	2011	2010
Balance at beginning of year	3 400	10 369
Cancelled during the year	(500)	(6 969)
Balance at end of year	2 900	3 400
Maximum number of options that may be issued	69 556	60 822

#### Options granted to Messrs Dale and Blersch (not in terms of the share incentive scheme)

Options over 18 768 774 ordinary shares at a strike price of 60 cents were granted to each of TG Dale and J Blersch, former CEO and financial director respectively, in F2008 and approved by shareholders on 27 February 2008. These options became exercisable in July 2009 as a result of the change in control of the company. They remain exercisable until the second anniversary of termination of service, being 22 October 2011 (Dale) and 31 January 2012 (Blersch).

### DIRECTORS

The directors in office during the year under review were:

N Davidoff* (Chairman)	Appointed 22 October 2009
J Kögl*	Appointed 8 August 2008, reappointed 30 November 2010
S Swana*†	Appointed 14 November 2008, lead independent director from 22 October 2009
SP Morris*†	Appointed 18 August 2009
PR Cooke	Non-executive, independent from date of appointment (18 August 2009) until appointment as financial director on 31 January 2010
A Kamau*†	Appointed 22 October 2009

\*Non-executive † Independent

Subsequent to the year-end but prior to the date of this report Mr Benedict Phiri was appointed as a non-executive independent director on 20 September 2011.

### SECRETARY

The company secretary is RS O'Callaghan.

**Postal address:** PO Box 2889, Saxonwold, 2132

**Physical address:** 86, 8th Avenue, Parktown North, 2193

### BORROWINGS

Borrowings comprise convertible debentures and finance leases and the Rubio Investments 391 (Pty) Ltd ("Rubio") loan as described in notes 18, 20 and 21 to the financial statements.

The company's Articles of Association place no restriction on the directors' borrowing powers.

## Directors' report

*(continued)*

### **DIVIDENDS**

No dividends were declared or are proposed in respect of the company's financial year ended 30 June 2011 (30 June 2010: Nil).

### **SUBSEQUENT EVENTS**

On 9 September 2011, Fluormin plc (previously Maghreb Minerals plc ("Fluormin")) purchased from Firebird its total equity stake in Sallies of approximately 485 million ordinary shares and 83 million convertible debentures, increasing Fluormin's stake to 567 million shares (78.3% of the issued share capital and 57.8% of the convertible debentures).

As a result of this acquisition, Fluormin's stake in both Sallies ordinary shares and convertible debentures surpasses 35% which, in terms of Section 123 of the Companies Act ("the Act"), requires Fluormin to offer to acquire all the issued shares and convertible debentures in Sallies Ltd that it does not already own. On the same day Fluormin announced on SENS that it would be making such an offer in terms of Section 114 of the Act. Under the terms of the offer Sallies shareholders may receive 0.0277 Fluormin ordinary shares for every one Sallies share held or a cash consideration of 14 cents per Sallies share. Sallies convertible debenture holders may receive 0.0646 Fluormin ordinary shares for every one Sallies convertible debenture held or a cash consideration of 50 cents per debenture. A circular containing details of the offer and the terms and timing thereof, as well as a notice of a general meeting, will be posted to Sallies' security holders in due course.

On 6 September 2011 Sallies' shareholders approved the acceptance of a loan from TSC Investments Ltd ("TSC") of the Rand equivalent of USD 2.8 million, convertible into ordinary shares on various conditions inter alia receipt of the mandatory offer by Fluormin as referred to above. The loan was received on 13 July 2011.

On 9 September 2011 the loan from TSC was converted into 183 059 337 ordinary shares of 0.1 cent each ranking pari passu with the other issued shares of Sallies.

On 6 September 2011 Sallies' shareholders approved, by special resolution, the authority of the directors to authorise the company to provide direct or indirect financial assistance to related or inter-related companies as required in terms of section 45 of the Companies Act.

No other special resolutions were passed during the year nor subsequently prior to the date of this report.

## Statement of comprehensive income

for the year ended 30 June 2011

R000	Note	Group		Company	
		2011	2010	2011	2010
Revenue	3	56 071	60 815	16 558	73 707
Net foreign exchange losses		(775)	(1 091)	-	-
Cost of sales		(52 222)	(59 929)	-	-
<b>Profit/(Loss) from mining activities</b>		<b>3 074</b>	<b>(205)</b>	<b>16 558</b>	<b>73 707</b>
Less: Depreciation and amortisation	11	(15 769)	(19 454)	(2)	(2)
<b>Operating (loss)/profit from mining activities</b>		<b>(12 695)</b>	<b>(19 659)</b>	<b>16 556</b>	<b>73 705</b>
(Loss) on disposal of plant and equipment		-	(611)	-	-
Administrative expenses		(29 095)	(18 171)	(8 865)	(6 966)
Investment income	3	2 017	320	-	-
Finance costs on borrowings	4	(1 467)	(6 432)	982	(2 190)
Interest on convertible debentures		(7 216)	(7 224)	(7 216)	(7 224)
Restricted investment fair value adjustment	13	716	247	716	247
<b>(Loss)/Profit before Honeywell, share-based payments and the Buffalo impairment</b>		<b>(47 740)</b>	<b>(51 530)</b>	<b>2 173</b>	<b>57 572</b>
Honeywell award interest provision	4	-	(464)	-	(464)
Notional interest on convertible debentures		(3 797)	(3 204)	(3 797)	(3 204)
Share-based payments		-	(920)	-	(11)
Impairment of inter company loans and investments		-	-	(49 081)	(36 305)
<b>(Loss)/Profit before the Buffalo impairment</b>		<b>(51 537)</b>	<b>(56 118)</b>	<b>(50 705)</b>	<b>17 588</b>
Buffalo impairment		-	(6 464)	-	-
<b>(Loss)/Profit before taxation</b>	5	<b>(51 537)</b>	<b>(62 582)</b>	<b>(50 705)</b>	<b>17 588</b>
Taxation	7	5 269	-	-	-
<b>(Loss)/Profit for the year</b>		<b>(46 268)</b>	<b>(62 582)</b>	<b>(50 705)</b>	<b>17 588</b>
<b>Other comprehensive income</b>					
Other comprehensive income		-	-	-	-
<b>Total other comprehensive (loss)/income for the year</b>		<b>(46 268)</b>	<b>(62 582)</b>	<b>(50 705)</b>	<b>17 588</b>
<b>Total (loss)/profit and total comprehensive (loss)/income attributable to the owners of the parent</b>		<b>(46 268)</b>	<b>(62 582)</b>	<b>(50 705)</b>	<b>17 588</b>
<b>(Loss) per share (cents)</b>	8				
<b>Basic</b>					
Undiluted		(6.6)	(9.8)	-	-
Diluted		(6.6)	(9.8)	-	-

# Statement of financial position

at 30 June 2011

R000	Note	Group		Company	
		2011	2010	2011	2010
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>96 019</b>	102 561	<b>91 904</b>	113 888
Investment properties	9	1 349	3 143	1 349	3 143
Goodwill	10	10 175	10 175	-	-
Property, plant and equipment	11	80 400	86 464	4	6
Loans to subsidiary companies	12	-	-	90 551	110 739
Restricted investments	13	4 095	2 779	-	-
<b>Current assets</b>		<b>75 511</b>	72 609	<b>1 487</b>	4
Inventories	14	51 428	31 576	-	-
Trade and other receivables	15	13 875	13 543	460	-
Taxation prepaid		-	2 789	-	-
Cash and cash equivalents	16	10 208	24 701	1 027	4
<b>Total assets</b>		<b>171 530</b>	175 170	<b>93 391</b>	113 892
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>		<b>611</b>	35 672	<b>(11 411)</b>	28 087
Share capital and premium	17	295 873	284 787	295 873	284 787
Portion of unsecured unsubordinated convertible debentures deemed to be equity	20	17 102	17 102	17 102	17 102
Share-based payment reserve		19 068	18 947	19 068	18 947
Accumulated loss		(331 432)	(285 164)	(343 454)	(292 749)
<b>Non-current liabilities</b>		<b>148 454</b>	109 053	<b>99 778</b>	61 234
Instalment sale agreements	18	-	1 287	-	-
Provision for environmental rehabilitation	19	48 676	46 532	-	-
Portion of unsecured unsubordinated convertible debentures deemed to be debt	20	65 031	61 234	65 031	61 234
Long-term loans payable	21	34 747	-	34 747	-
<b>Current liabilities</b>		<b>22 465</b>	30 445	<b>5 024</b>	24 571
Trade and other payables	22	21 178	27 805	5 024	24 571
Current portion of instalment sale agreements	18	1 287	2 640	-	-
<b>Total equity and liabilities</b>		<b>171 530</b>	175 170	<b>93 391</b>	113 892

## Statement of changes in equity

for the year ended 30 June 2011

R000	Share capital	Share premium	Portion of convertible debentures deemed to be equity	Share-based payment reserve	Accumulated loss	Total
<b>GROUP</b>						
<b>Balance at 30 June 2009</b>	642	284 145	17 102	19 981	(222 582)	99 288
<b>Total other comprehensive loss</b>	-	-	-	-	(62 582)	(62 582)
Transactions with owners:						
Share-based payments	-	-	-	(1 035)	-	(1 035)
<b>Total transactions with owners</b>	-	-	-	(1 035)	-	(1 035)
<b>Balance at 30 June 2010</b>	642	284 145	17 102	18 946	(285 164)	35 671
<b>Total other comprehensive loss</b>	-	-	-	-	(46 268)	(46 268)
Transactions with owners:						
Share-based payments	-	-	-	122	-	122
Shares issued	83	11 003	-	-	-	11 086
<b>Total transactions with owners</b>	83	11 003	-	122	-	11 208
<b>Balance at 30 June 2011</b>	<b>725</b>	<b>295 148</b>	<b>17 102</b>	<b>19 068</b>	<b>(331 432)</b>	<b>611</b>
Note	17	17	20	30		
<b>COMPANY</b>						
<b>Balance at 30 June 2009</b>	642	284 145	17 102	19 981	(310 337)	11 533
<b>Total other comprehensive income</b>	-	-	-	-	17 588	17 588
Transactions with owners:						
Share-based payments	-	-	-	(1 035)	-	(1 035)
<b>Total transactions with owners</b>	-	-	-	(1 035)	-	(1 035)
<b>Balance at 30 June 2010</b>	642	284 145	17 102	18 946	(292 749)	28 086
<b>Total other comprehensive loss</b>	-	-	-	-	(50 705)	(50 705)
Transactions with owners:						
Share-based payments	-	-	-	122	-	122
Shares issued	83	11 003	-	-	-	11 086
<b>Total transactions with owners</b>	83	11 003	-	122	-	11 208
<b>Balance at 30 June 2011</b>	<b>725</b>	<b>295 148</b>	<b>17 102</b>	<b>19 068</b>	<b>(343 454)</b>	<b>(11 411)</b>

## Statement of cash flows

for the year ended 30 June 2011

R000	Note	Group		Company	
		2011	2010	2011	2010
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(36 512)</b>	(2 770)	<b>(6 624)</b>	68 035
Cash receipts from customers		55 740	60 247	–	–
Cash paid to suppliers and employees		(97 441)	(53 422)	(4 187)	73 708
Cash utilised by operations	29	(41 701)	6 825	(4 187)	73 708
Taxation refunded		8 058	–	–	–
Finance cost		(4 886)	(9 915)	(2 437)	(5 673)
Interest income		2 017	320	–	–
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(10 089)</b>	470	<b>(27 100)</b>	(68 058)
Net additions to mine plant, equipment and buildings		(9 771)	(311)	–	–
Proceeds from disposal of plant and equipment		108	1 381	1 794	24
Proceeds from sale of investment properties		174	–	–	–
(Increase) in investments		(600)	(600)	–	–
(Increase) in loans to group companies		–	–	(28 894)	(68 082)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>32 108</b>	(4 030)	<b>34 747</b>	–
Loans raised		34 747	–	34 747	–
Finance lease obligations		(2 639)	(4 030)	–	–
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(14 493)</b>	(6 330)	<b>1 023</b>	(23)
<b>Cash and cash equivalents at beginning of year</b>		<b>24 701</b>	31 031	<b>4</b>	27
<b>Cash and cash equivalents at end of year</b>	16	<b>10 208</b>	24 701	<b>1 027</b>	4

# Notes to the financial statements

for the year ended 30 June 2011

## ACCOUNTING POLICIES

### 1. PRESENTATION OF FINANCIAL STATEMENTS

The group annual financial statements and the company annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC – International Financial Reporting Interpretations Committee of the IASB – interpretations) issued by the International Accounting Standards Board (IASB) and in terms of the Companies Act of South Africa.

#### ***Basis of preparation***

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments and investment properties at fair value or amortised cost, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period.

#### **1.1 Significant judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

- (A) The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

#### ***Mining rights***

Mining rights include prospecting and exploration permits if they include an option for the company to acquire the rights to extract and retain at least a portion of the benefits from the mineral deposits. The company accounts for mining rights as tangible assets and discloses them separately under property, plant and equipment.

- (B) The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

#### ***Property, plant and equipment and intangible assets***

Property, plant and equipment and intangible assets are considered for impairment if there is any reason to believe after applying the internal and external impairment indicators that an impairment may be necessary. Factors taken into consideration include the economic viability of the asset itself and where it is a component of a larger cash-generating unit, the viability of the unit. Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current asset value and, if lower, the assets are impaired to the present value.

#### ***Assets' useful lives and residual value***

The company depreciates its assets over their estimated useful lives taking into account residual values, where appropriate. The appropriateness of its assets' estimated useful lives, residual values and their depreciation methods are re-assessed on an annual basis. The actual lives of these assets and their respective residual values may vary depending on a variety of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### **Impairment of trade receivables and loans receivable**

The company assesses its receivables for impairment at each statement of financial position date. The impairment for receivables is assessed for impairment on an individual debtor basis, based on historical data and future factors. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the company makes judgements as to whether there is objective evidence indicating a measurable decrease in the estimated future cash flows from a financial asset. Where objective evidence of impairment exists, future cash flows expected to be collected are projected after taking into account market conditions and the credit risk profile of the trade debtors. The present value of these cash flows, determined using an appropriate discount rate, is compared to the carrying amount of the receivable and, if lower, the receivables are impaired to the present value.

### **Rehabilitation provision**

Long-term environmental obligations are based on the company's environmental plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the statement of financial position date. Increases due to additional environmental disturbances are capitalised and amortised over the remaining lives of the mines. Annual increases in the provisions relating to the change in the net present value of the provision and inflationary increases are shown separately in the statement of comprehensive income.

The estimated cost of rehabilitation is reviewed annually and adjusted as appropriate for changes in legislation or technology.

Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure, in view of the uncertainty of estimating the potential future proceeds.

### **Taxation**

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### **Functional and presentation currency**

These financial statements are presented in South African Rand (ZAR), which is the company's functional currency.

All financial information presented in ZAR has been rounded to the nearest 1 000 ZAR.

It is the directors' judgement that the primary economical environment in which the company operates is the South African Rand (ZAR) based on the fact that expenditure incurred is mainly in South African Rand.

### **Fair value of investment properties**

The company obtains the assistance of professional property valuers in order to assist with the valuation assumptions.

This is mainly based on the sale of similar properties in the specified location of the properties.

### **Share-based payments**

The fair value of share options is estimated by using valuation models, such as Black-Scholes and binomial lattice, on the date of grant based on certain assumptions. Those assumptions are described in note 31 and include, among others, the dividend growth rate, expected volatility, expected life of the options and number of options expected to vest.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 1.2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods in these financial statements.

#### 1.2.1 Consolidation

The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the group's ownership interest in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised as income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 – Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint controlled entity.

#### 1.2.2 Business combinations and goodwill

##### *Business combinations*

##### *Initial recognition and measurement*

All business combinations are accounted for by applying the acquisition method. The cost of the business combination is the fair values at the date of exchange of the assets given, liabilities incurred or assumed, and equity instruments issued by the group, in exchange for control of the acquisition. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Contingent consideration is included in the cost of the business combination at fair value determined at the date of acquisition. Subsequent changes to the assets, liabilities or equity which arise as a result of the contingent consideration are not effected against goodwill, unless they are valid measurement period adjustments. The interest of non-controlling shareholders may be measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

acquisition-by-acquisition basis. When a business combination is achieved in stages, the group's previously held interests in the acquired entity are re-measured to fair value on the date the group attains control and the resulting gain or loss is recognised in profit or loss. Where the previously held interest was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment. At the acquisition date, the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill in accordance with the group's accounting policy for goodwill. The acquisition date is the date on which the group effectively obtains control of the acquiree. The excess of the fair value of the net identifiable assets and contingent liabilities of the entity acquired over the cost of acquisition results in a bargain purchase which is recognised immediately in profit or loss.

### *Subsequent measurement*

If the initial accounting for business combinations has been determined provisionally, then these provisional amounts are adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed as of the date of acquisition that, if known, would have affected the amounts initially recognised. The measurement period is the period from the date of acquisition to the date the group obtains complete information about facts and circumstances that existed as of the acquisition date, subject to a maximum of one year.

### *Goodwill*

#### *Initial recognition and measurement*

Goodwill arising on the acquisition of subsidiaries and joint ventures represents the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill acquired is recognised as an asset and initially measured at its cost.

#### *Subsequent measurement*

Goodwill is subsequently measured at cost less any accumulated impairment.

#### *De-recognition*

When goodwill forms part of a cash-generating unit and part of that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation in determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### *Impairment*

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill is allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. Refer to note 1.2.11 for a description of impairment testing procedures.

### **1.2.3 Investment properties**

Investment property is property that is held to earn rentals or capital appreciation, or both.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

### *Fair value*

Subsequent to initial measurement, investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

### **1.2.4 Property, plant and equipment**

Mine property and housing stands are stated at historical cost and are not depreciated.

Mineral rights of the mining operation are stated at historical cost and are amortised over the useful life of the mine, using the units of production method.

Plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date. The cost of an asset comprises any costs incurred in bringing the asset to the location and condition necessary for it to operate as intended by management. Plant and equipment are subsequently stated at cost, less accumulated depreciation and any accumulated impairment. Any identified impairment is recognised in profit and loss. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other expenditures are charged to the statement of comprehensive income during the financial period in which they are incurred.

Expenditure incurred to replace or modify a significant component of plant is capitalised and any remaining carrying value of the replaced component is derecognised.

Depreciation commences when the assets are available for their intended use. The depreciation expense is recognised through the statement of comprehensive income. Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the various classes of assets, after taking into account residual values.

Annual rates of depreciation are as follows:

Mine plant and equipment	3%-33.3%
Furniture and equipment	5%-10%
Decommissioning assets	based on units of production method.
Mineral rights	based on units of production method.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, annually.

### **1.2.5 Environmental rehabilitation**

Estimated long-term environmental obligations, comprising pollution control, rehabilitation and mine closure, are based on the company's environmental management plans in compliance with current technology, environmental and regulatory requirements.

### *Ongoing rehabilitation cost*

Expenditure on ongoing rehabilitation costs is recognised as an expense.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### **1.2.6 Investment in subsidiaries**

Investment in subsidiary companies is accounted in the company accounts at initial cost, being the fair value of the consideration given, less any impairment. The carrying value of subsidiaries is assessed for impairment where there are indicators of impairment.

### **1.2.7 Financial instruments**

#### *Initial recognition*

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

#### *Derecognition*

Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another company without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled.

#### *Loans to group companies*

These include loans to holding companies, fellow subsidiaries and subsidiaries and are recognised initially at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Derivative instruments*

The group uses derivative financial instruments to manage its exposure to foreign exchange and commodity price risks arising from operational, financing and investment activities. The group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments comprise forward exchange contracts. Subsequent to initial recognition they are measured at fair value. Fair value adjustments are recognised in the income statement. Fair value is determined by comparing the contracted forward rate to the present value of the current forward rate of an equivalent contract with the same maturity date. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

#### *Trade and other receivables*

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

The following objective evidence is considered in determining when an impairment loss has been incurred:

- (1) Significant financial difficulty of the debtor;
- (2) A breach of contract, such as a default or delinquency in interest or principal repayments; and
- (3) It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

The carrying amount of trade receivables is reduced directly when the facts about the trade debtor indicate that liquidation has occurred or has been applied for thereby indicating uncollectability, and the debt has not been previously impaired. In all other cases impairment is recognised through an allowance account. Amounts charged to the allowance account are written off against trade receivables balance when the company becomes aware that a debt previously impaired is no longer recoverable and would remain uncollectable. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of comprehensive income.

### *Trade and other payables*

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### *Bank overdrafts and borrowings*

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

### *Restricted investments*

Investments are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in profit or loss for the period.

## **1.2.8 Tax**

### *Current tax assets and liabilities*

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

### *Deferred tax assets and liabilities*

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit nor loss.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit nor loss except for business combination transactions.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

A deferred tax asset is recognised for the carry forward of unused tax losses and unused Secondary Tax on Companies ("STC") credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date.

### *Tax expenses*

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, directly in equity; or
- a business combination.

### **1.2.9 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### *Finance leases – lessee*

The lease payments are apportioned between the finance charge and reduction of the outstanding liability.

The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

#### *Operating leases – lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

### **1.2.10 Inventories**

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

The company reviews the net realisable value of, and demand for, its inventory on a monthly basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include the timing and success of future technological innovations, competitor actions, supplier prices and economic trends.

### **1.2.11 Impairment of assets**

The company assesses at each statement of financial position date whether there is any indication that an asset may be impaired through profit and loss. An impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit and loss. Any impairment loss of a revalued asset is treated as a revaluation decrease. If any such indication exists, the company estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

### **1.2.12 Share capital and equity**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. If the company reacquires its own equity instruments, those treasury shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the company's own equity instruments. Consideration paid or received shall be recognised directly in equity.

### **1.2.13 Employee benefits**

#### *Short-term employee benefits*

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to wages, salaries, annual and sick leave represent the amount which the company has a present obligation to pay as a result of employees' services provided to the statement of financial position date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

#### *Defined contribution plans*

The company contributes to a defined contribution plan, the assets of which are held in a separate trustee administered fund. The provident plan is funded by payments from employees and the company. Contributions to defined contribution provident funds are charged against income as incurred.

### **1.2.14 Contingent assets and liabilities**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Contingent assets are not recognised as assets.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company, or a present obligation that arises from past events that is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities.

### **1.2.15 Dividend policy**

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's directors.

Secondary tax on companies in respect of dividends is recognised as a liability and is included in the tax charge in profit and loss.

### **1.2.16 Segment reporting**

The segment information has been prepared in accordance with IFRS 8 – Operating Segments, which defines requirements for the disclosure of financial information of an entity's operating segments.

#### *Identification of reportable segments*

The group discloses its reportable segments according to the group's components that management monitor regularly in making decisions about operating matters. The reportable segments comprise various operating segments primarily located in South Africa based on the group's lines of business.

Segment information is prepared in conformity with the basis that is reported to the Executive Committee in assessing segment performance and allocating resources to segments. These values have been reconciled to the consolidated financial statements. The basis reported by the group is in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements and are consistent with the prior year.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

Segment revenue excludes value added taxation and includes intersegment revenue. Net revenue represents segment revenue from which intersegment revenue has been eliminated. Sales between segments are made on a commercial basis. Segment expenses include direct and allocated expenses. Depreciation and amortisation have been allocated to the segments to which they relate.

The segment assets comprise all assets of the different segments that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis.

### 1.2.17 Provisions

Provisions are recognised when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions are discounted using pre-tax rates that reflect, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as borrowing cost.

- Environmental rehabilitation

Provision is made for environmental rehabilitation costs where either a legal or constructive obligation is recognised as a result of past events.

Estimates are based upon the company's environmental management plans in compliance with current technology, environmental and regulatory requirements. Costs are regularly reviewed and adjusted as appropriate for new circumstances.

Where a provision is made for dismantling and site restoration costs, an asset of similar initial value is raised and amortised in accordance with the group's accounting policy for property, plant and equipment.

The group has restricted investments to which contributions are made to the funding of the estimated cost of pollution control and rehabilitation during, and at the end of, the life of mines.

- Decommissioning costs

The present value of estimated future decommissioning costs, which embody the future economic benefits, are capitalised as property, plant and equipment and concomitant decommissioning obligation is raised.

These estimates are reviewed annually and discounted using a pre-tax rate that reflects current market assessment of the time value of money.

Decommissioning assets include mine plant, equipment and buildings, and are amortised on a straight-line basis over the expected useful life of the mine.

The unwinding of the decommissioning obligation, due to the passage of time, is charged to finance cost.

- Restoration costs

Estimated restoration costs are charged against income during the period in which such restoration obligation arises. These estimates are reviewed annually and any increases in such revised estimates are charged against income.

- Ongoing rehabilitation costs

Expenditure on ongoing rehabilitation costs is recognised as an expense when incurred.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### **1.2.18 Revenue**

Revenue from sale of goods is recognised when delivery is made and significant risks and rewards of ownership are transferred to the buyer.

Revenue from rendering of services includes management fees which is recognised when the service is rendered.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates and value added tax.

Interest income is recognised on a time-proportion basis that takes into account the effective yield on the asset and the principal outstanding.

### **1.2.19 Cost of sales**

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.2.20 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### **1.2.21 Translation of foreign currencies**

#### *Foreign currency transactions*

A foreign currency transaction is recorded, on initial recognition in ZAR, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each statement of financial position date:

- foreign currency monetary items are translated using the closing rate; and
- non-monetary items that are measured at fair value in a foreign currency are translated at historical cost using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

Cash flows arising from transactions in a foreign currency are recorded in ZAR by applying to the foreign currency amount the exchange rate between the ZAR and the foreign currency at the date of the cash flow.

### **1.2.22 Finance income/expense**

Interest is recognised in profit or loss, using the effective interest rate method.

### **1.2.23 Share-based payment transactions**

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received and the corresponding increase in equity, directly, are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly, are measured by reference to the fair value of the equity instruments granted.

If the share-based payments do not vest until the counterparty completes a specified period of service, the company accounts for those services as they are rendered by the counterparty during the vesting period (or on a straight-line basis over the vesting period).

If the share-based payments vest immediately the services received are recognised in full.

For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

### **1.2.24 Convertible debentures**

The component parts of compound instruments (convertible debentures) issued by the company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to a share premium. Where the conversion option remains unexercised at the maturity date of the convertible debentures, the balance recognised in equity will be transferred to retained profits.

No gain or loss is recognised in profit or loss upon conversion or expiry of the conversion option. Transaction costs that relate to the issue of the convertible debentures are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible debentures using the effective interest method.

### **1.2.25 Related parties**

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the party in making financial and operational decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning. Transactions with related parties are executed at arm's length.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### **1.2.26 Earnings per share**

The company presents basic earnings per share ("EPS") for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue for the effects of all dilutive potential ordinary shares.

### **1.2.27 Headline earnings per share**

Headline earnings per ordinary share are calculated using the weighted average number of ordinary shares in issue during the period and are based on the earnings attributable to ordinary shareholders after excluding those items as required by Circular 3/2009 issued by the South African Institute of Chartered Accountants ("SAICA").

## **2. NEWLY INTRODUCED STATEMENTS AND INTERPRETATIONS**

### **Standards and interpretations issued and effective**

The following standards, amendments and interpretations were in issue, effective and have been adopted for the first time in the current financial year:

#### **IFRS 2 – Share-based Payment**

The amendment confirms that in addition to business combinations as defined in IFRS 3 (2008) – Business Combinations, contributions of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2 – Share-based payments. This amendment is effective for annual periods beginning on or after 1 July 2009. A further amendment was made relating to the accounting for group cash-settled share-based payment transactions and provides more guidance on the definition of the term "Group". This amendment is effective for annual periods beginning on or after 1 January 2010.

#### **IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations**

This amendment deals with plans to sell the controlling interest in a subsidiary. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. A further amendment has been made to clarify that IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. This further amendment to the standard is effective for annual periods beginning on or after 1 January 2010 and is to be applied prospectively with earlier application permitted.

#### **IFRS 8 – Operating Segments**

A textual amendment has been made to the standard to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker. This amendment is effective for annual periods beginning on or after 1 January 2010 with earlier application permitted.

#### **IAS 7– Statement of Cash Flows**

The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. This amendment is effective for annual periods beginning on or after 1 January 2010 with earlier application permitted.

#### **IAS 10 – Events after the Reporting Period**

In conjunction with IFRIC 17, an amendment has been made to IAS 10 that clarifies the recognition of a liability for a dividend payable. This amendment is effective for annual periods beginning on or after 1 July 2009.

#### **IAS 17 – Leases**

The amendment resulted in the deletion of specific guidance regarding the classification of leases of land so as to eliminate inconsistency with the general guidance on lease classification. As a consequence, the classification of land as finance or operating lease should be established by the application of the general principles of IAS 17. This amendment is effective for annual periods beginning on or after 1 January 2010 with earlier application permitted.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### **IAS 32 – Financial Instruments: Presentation**

The amendment deals with accounting for rights issues (including rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. This amendment to the standard is effective for annual periods beginning on or after 1 February 2010.

### **IAS 36 – Impairment of Assets**

An amendment was made to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8 – Operating Segments (i.e. before the aggregation of segments with similar economic characteristics permitted by IFRS 8.12). This amendment is effective for annual periods beginning on or after 1 January 2010.

### **IAS 38 – Intangible Assets**

Two amendments were made: one includes clarifying the requirements under IFRS 3 (2008) regarding accounting for intangible assets acquired in a business combination and the second amendment clarifies the description of the valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. These amendments are effective for annual periods beginning on or after 1 July 2009.

### **IAS 39 – Financial Instruments: Recognition and Measurement**

Several amendments have been processed that are effective at different dates. Amendments effective for annual periods beginning on or after 1 January 2010 deal with treating loan prepayment penalties as closely related embedded derivatives, scope exemption for business combination contracts, cash flow hedge accounting and hedging using internal contracts. An amendment effective for annual periods beginning on or after 1 July 2009 deals with the clarification of two hedge accounting issues surrounding inflation in a financial hedged item and a one-sided risk in a hedged item. An amendment effective for annual periods ending on or after 30 June 2009 deals with embedded derivatives when reclassifying financial instruments.

### **IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments**

The interpretation addresses divergent accounting by entities issuing equity instruments in order to extinguish all or part of a financial liability (often referred to as “debt for equity swaps”). This interpretation is effective for annual periods beginning on or after 1 July 2010. The company does not intend to adopt this interpretation early. Management is of the opinion that the adoption of this interpretation will not have a significant impact on the consolidated financial statements.

### **IAS 21 – The Effects of Changes in Foreign Exchange Rates**

This is a consequential amendment that arose from changes to Business Combinations. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. A further amendment arose as a consequence from amendments to IAS 27 which provides clarity on the transitional rules in respect of the disposal or partial disposal of an interest in a foreign operation. This further amendment is effective for annual periods beginning on or after 1 July 2010. The company does not intend to adopt this amendment early. Management is of the opinion that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

### **IAS 27 – Consolidated and Separate Financial Statements**

This amendment deals with the consequential amendments from changes to Business Combinations and the measurement of a subsidiary held for sale in the separate financial statements. This amendment is effective for annual periods beginning on or after 1 July 2009. A further amendment has been made that deals with the transition requirements for previous amendments arising from changes to IAS 27. This amendment is effective for annual periods beginning on or after 1 July 2010. Further consequential amendments arose from the issue of IFRS 10, IFRS 11 and IFRS 12. These recent consequential amendments are effective for annual periods beginning on or after 1 January 2013. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

The adoption of the above standard did not have a significant impact on the consolidated financial statements

### ***New standards issued but not yet effective***

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### **IFRS 9 – Financial Instruments**

This standard forms part of the first phase of the three phase project to replace IAS 39 – Financial Instruments: Recognition and Measurement. This standard is effective for annual periods beginning on or after 1 January 2013. The company does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

### **IFRS 10 – Consolidated Financial Statements**

This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within consolidated financial statements of the parent company and provides additional guidance to assist in determination of control where this is difficult to assess. This standard is effective for annual periods beginning on or after 1 January 2013. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

### **IFRS 12 – Disclosure of Interest in Other Entities**

This standard addresses disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for annual periods beginning on or after 1 January 2013. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

### **IFRS 13 – Fair Value Measurement**

This standard provides new guidance on fair value measurement and related disclosure requirements. addresses disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. This standard is effective for annual periods beginning on or after 1 January 2013. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

### ***Amendments to existing standards and interpretations issued, but not yet effective***

#### **IFRS 1 – First-time Adoption of International Financial Reporting Standards**

This amendment deals with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRS for the first time. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. A further amendment was made relating to oil and gas assets and determining whether an arrangement contains a lease. This amendment to the standard is effective for annual periods beginning on or after 1 January 2010. A further amendment has been made that relieves the first-time adopters of IFRS from providing the additional disclosures introduced through the amendment of IFRS 7 in March 2009. This amendment to the standard is effective for annual periods beginning on or after 1 July 2010.

Further amendments were made to further clarify that changes in accounting policies in the year of adoption fall outside the scope of IAS 8, the use of revaluation carried out after the date of transition as a basis for deemed cost is now permitted and the use of carrying amount under previous GAAP as deemed cost for operations subject to rate regulation is also now permitted. These amendments are effective for annual periods beginning on or after 1 January 2011. The standard was further amended to provide guidance for entities emerging from severe hyperinflation and resuming presentation of IFRS-compliant financial statements or presenting IFRS-compliant financial statements for the first time as well as to remove the fixed date of 1 January 2004 relating to the retrospective application of the derecognition requirements of IAS 39, and relief for first-time adopters from calculating day 1 gains on transactions that occurred before the date of adoption. Both these amendments are effective for annual periods beginning on or after 1 July 2011. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

#### **IFRS 3 – Business Combinations**

This amendment deals with the accounting for business combinations. This amendment to the standard is effective for annual periods beginning on or after 1 July 2009. Further amendments have been made that deal with the transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS 3, provide

## Notes to the financial statements

*for the year ended 30 June 2011 (continued)*

clarity on the measurement of non-controlling interest and provide additional guidance on un-replaced and voluntary replaced share-based payment awards. These amendments are effective for annual periods beginning on or after 1 January 2011. The company does not intend to adopt this amendment early. Management is of the opinion that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

### **IFRS 7 – Financial Instruments: Disclosures**

Amendments were made that clarify the intended interaction between qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and removed disclosure items which were seen to be superfluous or misleading. These amendments are effective for annual periods beginning on or after 1 January 2011. Further amendments require additional disclosure on transfer transactions of financial assets including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. This further amendment is effective for annual periods beginning on or after 1 July 2011. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

### **IAS 1 – Presentation of Financial Statements**

This amendment deals with amendments to structure of financial statements and current/non-current classification of derivatives. This amendment to the standard is effective for annual periods beginning on or after 1 January 2009. A further amendment has been made to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. This further amendment is effective for annual periods beginning on or after 1 January 2010 with earlier application permitted. A more recent amendment provides clarification on the statement of changes in equity. This amendment is effective for annual periods beginning on or after 1 January 2011. The company does not intend to adopt these amendments early. Management is of the opinion that the adoption of these amendments will not have a significant impact on the consolidated financial statements.

### **IAS 12 – Income Taxes**

The amendment introduces a rebuttable presumption that an investment property will be recovered in its entirety through sale. This amendment is effective for annual periods beginning on or after 1 January 2012. The group does not intend to adopt this standard early. Management is of the opinion that the adoption of this standard will not have a significant impact on the consolidated financial statements.

### **IAS 24 – Related Party Disclosure**

This amendment deals with the simplification of the disclosure requirements for government-related entities and the clarification of the definition of a related party. This amendment to the standard is effective for annual periods beginning on or after 1 January 2011. The company does not intend to adopt this amendment early. Management is of the opinion that the adoption of this amendment will not have a significant impact on the consolidated financial statements.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

R000	Group		Company	
	2011	2010	2011	2010
<b>3. REVENUE</b>				
<b>Mining revenue</b>				
Acid grade fluorspar concentrate	45 221	50 687	-	-
Metallurgical grade fluorspar concentrate	9 764	8 641	-	-
Agricultural lime	1 121	1 014	-	-
Crushed stone	(35)	473	-	-
	<b>56 071</b>	<b>60 815</b>	<b>-</b>	<b>-</b>
<b>Other revenue</b>				
Management fee	-	-	16 558	73 707
	<b>56 071</b>	<b>60 815</b>	<b>16 558</b>	<b>73 707</b>
<b>Investment income</b>				
Interest received – bank	351	320	-	-
Interest received – SARS	1 666	-	-	-
	<b>2 017</b>	<b>320</b>	<b>-</b>	<b>-</b>
<b>4. FINANCE COST</b>				
Unwinding of decommissioning obligation	2 145	3 540	-	-
Bank overdraft	304	701	-	-
Rubio (note 21)	1 018	-	1 018	-
SARS	(2 000)	2 190	(2 000)	2 190
Honeywell	-	464	-	464
	<b>1 467</b>	<b>6 895</b>	<b>(982)</b>	<b>2 654</b>
<b>5. (LOSS)/PROFIT BEFORE TAXATION</b>				
Is stated after taking into account:				
Auditors' remuneration: audit fee	500	502	200	167
Depreciation of mining assets	13 259	17 328	-	-
Depreciation of office furniture and equipment	2	2	2	2
Depreciation of decommissioning asset	1 919	2 121	-	-
Realised foreign exchange losses/(gains)	775	1 091	(630)	(182)
Salaries and wages	22 804	24 365	1 200	2 547
Professional services	3 906	2 768	3 127	2 662
□ Managerial and technical services	3 644	2 425	2 865	2 319
□ Secretarial and administration	262	343	262	343
Legal fees	427	546	287	372

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

R000	Directors' fees	Salary	Provident fund	2011	2010
<b>6. DIRECTORS' EMOLUMENTS</b>					
Paid by company					
Executive					
□ J Blersch	–	–	–	–	1 547
□ TG Dale	–	–	–	–	500
□ PR Cooke	–	1 200	–	1 200	554
Non-executive					
□ N Davidoff	250	–	–	250	173
□ BC Esterhuizen*	–	–	–	–	37
□ DGJ Kerrison*	–	–	–	–	37
□ A Kamau*	120	–	–	120	83
□ J Kögl	120	–	–	120	120
□ SP Morris*	120	–	–	120	104
□ FJP Roux*	–	–	–	–	77
□ S Swana*	120	–	–	120	120
Paid by subsidiaries					
□ CH Badenhorst	–	–	–	–	835
Prescribed officer of subsidiaries					
□ GD Clarke	–	1 313	217	1 530	–
Total	730	2 513	217	3 460	4 187

\* Independent

### Details of directors' contracts:

The executive director is paid a monthly cash salary, without further benefits, reviewable yearly in July in accordance with an employment contract incorporating a six-month notice period.

The non-executive directors have not entered into employment contracts and are only paid their directors' fees.

R000	Group		Company	
	2011	2010	2011	2010
<b>7. TAXATION</b>				
South African normal taxation				
Prior year recoupment	5 269	–	–	–
	5 269	–	–	–
Reconciliation of tax rate				
Current year's credit as a percentage of net loss before taxation	(10)	–	–	–
Prior year recoupment	10	–	–	–
Unutilised tax losses	28	28	28	28
Standard tax rate (%)	28	28	28	28

The company has a tax loss of R8.543 million (2010: R6.911 million) to set off against future taxable income. The group has tax losses of R214.063 million (2010: R182.120 million) to set off against future taxable income. The group also has unredeemed capital expenditure for taxation purposes of R27.587 million (2010: R16.710 million) which can only be offset against taxable income from mining.

A deferred tax asset has not been recognised for future deductible temporary differences on the assessed loss carried forward due to the uncertainty in timing of future taxable income of the group.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 8. LOSS PER SHARE

Basic loss per share amounts are calculated by dividing loss after taxation for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

Headline loss per share is calculated by eliminating the re-measurements and impairment of assets.

Diluted loss per share amounts are calculated by dividing the loss after taxation by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued if:

- all options had been exercised on the date such options became exercisable; and
- the convertible debentures had been converted on the date such convertible debentures were issued; and
- a dilutive effect exists.

The calculation of loss per share is based on:

- an undiluted weighted average of 704 479 331 (2010: 642 220 007) ordinary shares in issue during the year; and
- a diluted average of 704 479 311 (2010: 642 220 007) ordinary shares in issue, assuming that all the options granted had been exercised with effect from the date they were vested.

R000	Group	
	2011	2010
<b>Reconciliation of earnings</b>		
Net loss attributable to shareholders for basic and diluted basic earnings per share	(46 268)	(62 582)
Loss on disposal of assets (net of tax)	43	611
Fair value of investment properties adjustment	1 627	–
Impairment of Buffalo fixed assets	–	6 464
Net (loss) attributable to shareholders for headline and diluted headline earnings per share	(44 598)	(55 507)
<b>Basic loss</b>		
Undiluted (cents)	(6.6)	(9.8)
Diluted (cents)	(6.6)	(9.8)
<b>Headline profit</b>		
Undiluted (cents)	(6.3)	(8.7)
Diluted (cents)	(6.3)	(8.7)

R000	Group		Company	
	2011	2010	2011	2010
<b>9. INVESTMENT PROPERTIES</b>				
Valuation	1 349	3 167	1 349	3 167
Carrying value	1 349	3 167	1 349	3 167
Reconciliation of investment property:				
Opening balance	3 143	3 167	3 143	3 167
Disposals	(167)	(24)	(167)	(24)
Fair value adjustments	(1 627)	–	(1 627)	–
Balance at 30 June	1 349	3 143	1 349	3 143

The properties consist of vacant land and no income is derived from the properties. During the year an offer was accepted for the disposal of all the properties. Transfer is in progress. The total proceeds are being held by the conveyancing attorney on behalf of the group.

The properties are valued at net realisable value as per the sales agreement which approximates its fair value at year-end.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

R000	Group		Company	
	2011	2010	2011	2010
<b>10. GOODWILL</b>				
Carrying value	10 175	10 175	-	-

Goodwill arose on acquisition of the equity of Witkop Fluorspar Mine (Pty) Limited.

Impairment test for goodwill: Goodwill is allocated to the group's cash-generating units (CGUs) identified according to business segment. The recoverable amount of CGU was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management. The discount rates used are pre-tax and reflect the specific risks relating to the relevant segments. The key assumptions used for value-in-use calculations are as follows:

- Growth rate: A zero real revenue growth rate was used to extrapolate cash flows beyond the budget period.
- Discount rate: Pre-tax discount rate applied to the cash flow projections of 20%. The rate used is pre-tax and reflect specific risks relating to the relevant operating segment.

R000	Mineral rights	Furniture and equipment	Mine properties	Mine plant and equipment	Decommissioning asset	Total
<b>11. PROPERTY, PLANT AND EQUIPMENT GROUP</b>						
<b>2011</b>						
Cost	36 619	42	9 349	176 388	35 999	258 397
Accumulated depreciation and impairment	(19 098)	(36)	(9 349)	(124 223)	(19 227)	(171 933)
Carrying amount at 30 June 2010	17 521	6	-	52 165	16 772	86 464
Additions	-	-	-	9 770	-	9 770
Depreciation	(593)	(2)	-	(13 255)	(1 919)	(15 769)
Disposals at carrying value	-	-	-	(65)	-	(65)
Movement over the year	(593)	(2)	-	(3 549)	(1 919)	(6 064)
Cost	36 619	42	9 349	186 094	35 999	268 103
Accumulated depreciation and impairment	(19 691)	(38)	(9 349)	(137 478)	(21 146)	(187 703)
Carrying amount at 30 June 2011	16 928	4	-	48 615	14 853	80 400

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

R000	Mineral rights	Furniture and equipment	Mine properties	Mine plant and equipment	Decommissioning asset	Total
<b>11. PROPERTY, PLANT AND EQUIPMENT (continued)</b>						
<b>GROUP</b>						
<b>2010</b>						
Cost	36 619	42	9 349	176 823	12 200	235 033
Accumulated depreciation and impairment	(19 098)	(34)	(9 349)	(106 892)	(10 642)	(146 015)
Carrying amount at 30 June 2009	17 521	8	–	69 931	1 558	89 018
Additions	–	–	–	311	23 799	24 110
Depreciation	–	(2)	–	(17 331)	(2 121)	(19 454)
Disposals at cost	–	–	–	(746)	–	(746)
Impairment	–	–	–	–	(6 464)	(6 464)
Movement over the year	–	(2)	–	(17 766)	15 214	(2 554)
Cost	36 619	42	9 349	176 388	35 999	258 397
Accumulated depreciation and impairment	(19 098)	(36)	(9 349)	(124 223)	(19 227)	(171 933)
Carrying amount at 30 June 2010	17 521	6	–	52 165	16 772	86 464

The carrying value of mine plant, equipment held by the group under finance leases at 30 June 2011 is R2 293 482 (2010: R4 275 513) (refer note 18).

Property, plant and equipment in Buffalo was impaired due to the placement of operations on care and maintenance.

R000	2011	2010
<b>COMPANY (all furniture)</b>		
Cost	42	42
Accumulated depreciation and impairment	(36)	(34)
Carrying amount at beginning of the year	6	8
Depreciation	(2)	(2)
Movement over the year	(2)	(2)
Cost	42	42
Accumulated depreciation and impairment	(38)	(36)
Carrying amount at end of the year	4	6

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

R000	Percentage held		Company	
	2011	2010	2011	2010
<b>12. INTEREST IN SUBSIDIARIES</b>				
Unlisted shares at cost				
□ Witkop Fluorspar Mine (Pty) Limited	100	100	78 964	78 964
□ Buffalo Fluorspar (Pty) Limited	100	100	60 000	60 000
Preference shares				
□ Witkop Fluorspar Mine (Pty) Limited	100	0	-	-
□ Buffalo Fluorspar (Pty) Limited	100	0	-	-
Provision for impairment of investments			(138 964)	(138 964)
Carrying value of investments in subsidiaries			-	-

R000	Note	Company	
		2011	2010
Amounts due from:			
Witkop Fluorspar Mine (Pty) Limited	27	249 757	221 252
Buffalo Fluorspar (Pty) Limited	27	23 766	23 377
		273 523	244 629
Provision for impairment		(182 972)	(133 890)
		90 551	110 739

These inter-group amounts are unsecured, interest-free and have no fixed terms of repayment. These loans have been subordinated in favour of the other creditors of the subsidiary companies until such time as the assets fairly valued exceed the liabilities.

The investments and loans receivables from subsidiaries have been impaired as there is an uncertainty over the recoverability of these amounts.

R000	2011			2010
	Sanlam	Glacier	Total	
<b>13. RESTRICTED INVESTMENTS</b>				
Restricted investments consist of units in collective investments and are accounted for at market values:				
Opening balance	2 149	630	2 779	1 932
Additions at fair value	600	-	600	600
Revaluation	694	22	716	247
Closing balance	3 443	652	4 095	2 779

The investments are ceded to Lombard Insurance Co Limited who have in turn issued a R2.2 million guarantee to the DMR on behalf of Witkop in respect of its rehabilitation obligations. This guarantee expired on 31 July 2011 and negotiations are in process for securing a replacement guarantee. Currently a further R50 000 is invested monthly.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

R000	Group		Company	
	2011	2010	2011	2010
<b>14. INVENTORIES</b>				
Ore stockpiles	1 265	3 713	-	-
Acid grade fluorspar	27 715	9 205	-	-
Metallurgical grade fluorspar	1 258	395	-	-
Consumables	21 190	18 263	-	-
	<b>51 428</b>	<b>31 576</b>	<b>-</b>	<b>-</b>
The amount of write-down of inventories to net realisable value recognised as an expense in the income statement is R258 319 (2010: R861 832). This expense is included in cost of sales.				
<b>15. TRADE AND OTHER RECEIVABLES</b>				
Trade debtors	6 065	1 783	-	-
Sundry debtors	1 638	1 383	460	-
Value added tax	6 172	10 377	-	-
	<b>13 875</b>	<b>13 543</b>	<b>460</b>	<b>-</b>
Trade receivables are generally non-interest bearing and are generally on 30-day terms.				
Refer to note 26 for details on the group's exposure to credit and currency risk.				
<b>16. CASH AND CASH EQUIVALENTS</b>				
Current bank account	10 202	12 550	1 027	4
Cash on call and on hand	6	5	-	-
US Dollar account	-	12 146	-	-
	<b>10 208</b>	<b>24 701</b>	<b>1 027</b>	<b>4</b>
Current assets				
Current accounts bear interest at floating rates. Refer to note 26 for details on the group's exposure to credit and currency risk.				
Included in cash and cash equivalents is a guarantee held by First National Bank to the value of R2 million. The guarantee is in favour of Gijima Supply Chain Management Services.				
<b>17. SHARE CAPITAL AND PREMIUM</b>				
<b>Share capital</b>				
Authorised				
1000 000 000 ordinary shares of 0.1 cent each	1 000	1 000	1 000	1 000
Issued and fully paid				
Opening balance: 642 220 007 shares	642	642	642	642
82 335 700 shares issued*	83	-	83	-
	<b>725</b>	<b>642</b>	<b>725</b>	<b>642</b>
724 555 707 ordinary shares of 0.1 cent each				
Share premium				
Arising from the allotment and issue of ordinary shares				
Opening balance	284 145	284 145	284 145	284 145
Shares issued	11 003	-	11 003	-
	<b>295 148</b>	<b>284 145</b>	<b>295 148</b>	<b>284 145</b>
Total share capital and premium	<b>295 873</b>	<b>284 787</b>	<b>295 873</b>	<b>284 787</b>

\* 82 335 700 new ordinary shares were allotted and issued to Honeywell on 27 September 2010 at an issue price of 13.5 cents per share, in terms of an award as determined by the International Court of Arbitration at the International Chamber of Commerce, in place of a cash settlement of USD1 243 824 plus interest at 5% per annum from 19 January 2006 until full payment.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### Share option schemes

Options to subscribe for 40 437 488 shares (2010: 40 937 488 shares) have been granted to former executive directors, certain executives and senior employees. Refer note 30.

R000	Group		Company	
	2011	2010	2011	2010
<b>18. INSTALMENT SALE AGREEMENTS</b>				
<b>Finance leases</b>				
Balance at 30 June	1 287	3 927	-	-
Less: Current portion included in current liabilities	(1 287)	(2 640)	-	-
	-	1 287	-	-

The present value of the net minimum lease payment is as follows:

R000	Minimum payments		Present value of minimum payments	
	2011	2010	2011	2010
<b>GROUP</b>				
Within 1 year	1 287	2 957	1 287	2 640
After 1 year but not greater than 5 years	-	1 320	-	1 287
	1 287	4 277	1 287	3 927
Less: Future finance charges	-	(350)	-	-
	1 287	3 927	1 287	3 927

The carrying value of mine plant and equipment held under finance leases at 30 June 2011 is R2 293 482 (2010: R4 275 513).

Interest is charged at fixed rate of 13%. Early settlement can be done on obtaining a settlement amount.

R000	Group		Company	
	2011	2010	2011	2010
<b>19. PROVISION FOR ENVIRONMENTAL REHABILITATION</b>				
<b>Rehabilitation provision</b>				
Balance at 1 July	43 514	16 430	-	-
Inflationary adjustment	1 689	-	-	-
Change in DMR requirements	-	27 084	-	-
Balance at 30 June	45 203	43 514	-	-
<b>Decommissioning obligation</b>				
Balance at 1 July	3 018	2 762	-	-
Inflationary adjustment	455	-	-	-
Change in assumption	-	256	-	-
Balance at 30 June	3 473	3 018	-	-
Total	48 676	46 532	-	-
<b>Key assumptions:</b>				
Discount rate (risk-free rate R157)	7.50%	7.19%	-	-
Inflation rate (PPI)	7.4%	9.4%	-	-

### Environmental rehabilitation and decommissioning provision

These provisions are raised to ensure that adequate provision has been made for the environmental rehabilitation and decommissioning obligation of the mines. The DMR has approved the rehabilitation plan used as the basis of the calculation. At year-end the group's environmental liability was assessed by environmental solutions provider Digby Wells & Associates.

The assessment of the Witkop liability on closure of the mine was based on the Minerals and Petroleum Resources Development Act, Act 28 of 2002 as well as the relevant regulations and guidelines.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

Management is expecting that the resulting outflow of economic benefits will only occur once the mining operation is completed.

If the discount and inflation rates had been 1% different and all the other variables held constant, the group's profit after tax would have been affected by R243 095 (2010: R217 990).

### 20. UNSECURED UNSUBORDINATED CONVERTIBLE DEBENTURES (the "convertible debentures")

The convertible debentures consist of 144 244 008 ZAR-denominated convertible debentures at a price of R0.50, being 151 483 358 debentures which were issued by the company on 12 May 2008 of which 7 239 350 were converted to ordinary shares during the year ended 30 June 2009.

Convertible debentures are recognised at fair value and the difference between the fair value and the nominal value is classified as equity in respect of the conversion rights.

The net proceeds received from the issue of the convertible debentures have been split between the liability element and the equity component, representing the residual attributable to the option to convert the liability into equity of the group, as follows:

R000	Group		Company	
	2011	2010	2011	2010
<b>Proceeds on issue date</b>	<b>75 741</b>	75 741	<b>75 741</b>	75 741
<b>Liability component</b>				
At date of issue	(57 781)	(57 781)	(57 781)	(57 781)
Cumulative notional interest	(7 250)	(6 329)	(7 250)	(6 329)
Conversion of debentures	-	2 876	-	2 876
<b>Total</b>	<b>(65 031)</b>	(61 234)	<b>(65 031)</b>	(61 234)
<b>Equity component</b>				
Equity component at date of issue	17 960	17 960	17 960	17 960
Conversion of debentures	(858)	(858)	(858)	(858)
<b>Total</b>	<b>17 102</b>	17 102	<b>17 102</b>	17 102

The interest rate is fixed at 10%, nominal annual compounded semi-annually. The liability component is measured at amortised cost. The difference between the carrying amount of the liability component at the date of issue and the amount reported in the statement of financial position at 30 June 2011 represents the effective interest rate plus interest accrued to that date.

#### Summarised terms and conditions attaching to the unsubordinated unsecured convertible debentures

A debenture holder shall have the following options available to him which may be applied to all or part of his holding:

Where no default occurred:

- to elect early conversion any time prior to 31 December 2012, in terms of which debentures may be converted for shares on a one-for-one basis, subject to certain conditions. Accrued interest will be paid in cash;
- to elect maturity cash repayment of R0.50 per debenture plus interest at 31 December 2012; or
- to elect maturity conversion in terms of which debentures are converted into ordinary shares on a one for-one-basis on 31 December 2012. Accrued interest will be paid in cash.

If an event of default has occurred:

- to elect default cash repayment of R0.50 per debenture plus accrued interest.

A circular will shortly be posted to debenture holders providing details of an offer from Fluormin to acquire all the debentures which that company does not already own. Refer to note 31.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 21. LONG-TERM LOANS PAYABLE

A loan agreement was entered into with Rubio, a wholly-owned subsidiary of Fluormin, on 21 February 2011 for the ZAR equivalent of a USD8 million facility being for the provision of working capital to re-open Witkop.

Interest accrues at 10% per annum and is payable quarterly. The loan is repayable on 31 December 2012.

R000	Group		Company	
	2011	2010	2011	2010
Loan facility utilised	34 747	–	34 747	–

USD000	Group		Company	
	2011	2010	2011	2010
Loan facility in USD	8 000	–	8 000	–
Loan facility utilised in USD	(5 000)	–	(5 000)	–
Loan facility available in USD	3 000	–	3 000	–

In terms of the loan agreement the company is not allowed to:

- create, or permit to subsist, any new security over any of its assets;
- sell, lease, transfer or otherwise dispose of any of its receivables or assets on recourse terms;
- arrangement to set off money or benefit a bank account or other accounts; or
- any further arrangement or transaction raising the level of indebtedness.

R000	Group		Company	
	2011	2010	2011	2010
<b>22. TRADE AND OTHER PAYABLES</b>				
Trade creditors	10 133	859	60	–
Accrual relating to Honeywell	–	11 745	–	11 745
Accrual for interest on debentures	3 602	3 596	3 602	3 596
Value added tax	310	9 119	310	9 119
Other creditors	7 133	2 486	1 052	109
	<b>21 178</b>	<b>27 805</b>	<b>5 024</b>	<b>24 569</b>

Refer to note 26 for details on the group's exposure to risk.

### 23. CAPITAL COMMITMENTS

There were no capital commitments at 30 June 2011 (2010: Nil).

### 24. CONTINGENT LIABILITIES AND LITIGATION

#### 24.1 Eskom power supply

In the event of Witkop closing down, the group is contractually bound to reimburse Eskom the costs incurred by them in upgrading an electrical substation. The original cost of R528 460 is proportionately reduced from the year 2002 to the year 2012. At 30 June 2011, the potential liability is R52 846 (2010: R105 692).

#### 24.2 Suretyship

The company has provided an unlimited suretyship to the bankers of Witkop and Buffalo. The directors do not expect any losses under this agreement as use is not made of bank overdrafts.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 25. RETIREMENT BENEFITS

All the employees of the group are members of either the Witkop Fluorspar Provident Fund or the Witkop Fluorspar Mine Provident Fund which are both defined contribution funds governed by the Pension Fund Act of 1956. The assets of these schemes are held in administered trust funds separated from the company's assets. Scheme assets primarily consist of listed shares and property trust units and fixed income securities. No other post-retirement benefits are available to employees. Contributions amounted to R1 215 274 (2010: R1 340 946).

### 26. RISK MANAGEMENT

#### 26.1 General

In the normal course of its operations, the group is exposed to capital availability and liquidity, credit, market, interest rate and foreign exchange risk. This note describes the group's objectives, policies and processes for managing those risks and methods used to measure them. In order to manage these risks, the group has developed a comprehensive risk management process to facilitate control and monitoring. The board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance and treasury functions. These functions provide services to the businesses, co-ordinate access to domestic financial markets and monitor and manage the financial risks relating to the operations of the group. Operational and business risks are reviewed and addressed on an ongoing basis. There have been no substantive changes in the group's exposure to financial instrument risk, its objectives, policies and processes for managing those risks or the methods used to measure them from the previous periods unless otherwise stated in this note.

The group does not enter into or trade financial instruments including derivative financial instruments, for speculative purposes.

The fair value of financial instruments traded in active markets (such as restricted investments) is based on quoted market prices at balance sheet date. The quoted market price used for the financial assets held by the company is the current bid price.

#### 26.2 Capital availability and liquidity risk

The board's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business.

Convertible debentures not converted by 31 December 2012 will have to be repaid at that date. The maximum cash required for the capital repayment is R72 million which will have to be generated from fresh borrowings, retained earnings or the issue of new shares.

Liquidity risk arises from the group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due. The group's policy is to ensure that, to the extent it is possible, it will always have sufficient cash to allow it to meet its liabilities when they become due. The group manages liquidity risk via its centralised finance and treasury functions by maintaining adequate reserves, banking facilities and reserve borrowings facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the group's remaining contractual maturity for its non-derivative financial liabilities.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 26. RISK MANAGEMENT (continued)

#### 26.2 Capital availability and liquidity risk (continued)

These tables have been drawn up based on the undiscounted cash flows of financial liabilities.

R000	Total	Finance leases	Trade and other payables	Convertible debentures	Loans
<b>GROUP</b>					
<b>At 30 June 2011</b>					
Carrying amount	(121 933)	(1 287)	(20 868)	(65 031)	(34 747)
Contractual cash flows	(129 024)	(1 287)	(20 868)	(72 122)	(34 747)
Payable within 6 months	(20 868)	-	(20 868)	-	-
Payable within 12 months	(1 287)	(1 287)	-	-	-
Payable within 1 to 2 years	(106 869)	-	-	(72 122)	(34 747)
<b>GROUP</b>					
<b>At 30 June 2010</b>					
Carrying amount	(83 846)	(3 926)	(18 685)	(61 234)	-
Contractual cash flows	(95 083)	(4 276)	(18 685)	(72 122)	-
Payable within 6 months	(18 685)	-	(18 685)	-	-
Payable within 12 months	(2 956)	(2 956)	-	-	-
Payable within 1 to 2 years	(1 320)	(1 320)	-	-	-
Payable after 2 years	(72 122)	-	-	(72 122)	-
<b>COMPANY</b>					
<b>At 30 June 2011</b>					
Carrying amount	(69 745)	-	(4 714)	(65 031)	-
Contractual cash flows	(76 836)	-	(4 714)	(72 122)	-
Payable within 6 months	(4 714)	-	(4 714)	-	-
Payable within 12 months	-	-	-	-	-
Payable within 1 to 2 years	(72 122)	-	-	(72 122)	-
<b>COMPANY</b>					
<b>At 30 June 2010</b>					
Carrying amount	(76 684)	-	(15 450)	(61 234)	-
Contractual cash flows	(87 572)	-	(15 450)	(72 122)	-
Payable within 6 months	(15 450)	-	(15 450)	-	-
Payable within 12 months	-	-	-	-	-
Payable within 1 to 2 years	-	-	-	-	-
Payable after 2 years	(72 122)	-	-	(72 122)	-

#### 26.3 Credit risk

Credit risk is the risk of financial loss to the group if a customer or a counterparty fails to meet its contractual obligations. The group is mainly exposed to credit risk from credit sales and this risk is mitigated by dealing with creditworthy counterparties and a few major clients. It is the group's policy to assess the credit risk of new customers before entering into contracts and the credit risk attaching to individual customers is monitored on an ongoing basis. The maximum exposure to credit risk for the "loans and receivable" category of financial assets as well as the "at fair value through profit and loss – held for trading" equates to the carrying amounts as disclosed on the face of the statement of financial position and related notes for restricted investments, trade receivables and cash and cash equivalents.

Should the need arise it would be the group's policy to take collateral. To date no collateral has been taken or obtained.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 26. RISK MANAGEMENT (continued)

#### 26.3 Credit risk (continued)

##### *Exposure to credit risk*

The ageing of trade receivables at the reporting date was:

Trade receivables ageing R000	2011			2010		
	Gross	Impairment	Total	Gross	Impairment	Total
<b>GROUP</b>						
Not past due and of high credit quality	6 065	–	6 065	1 632	–	1 632
Past due 31 to 60 days, but not impaired	–	–	–	58	–	58
Past due 61 to 120 days, but not impaired	–	–	–	93	–	93
	<b>6 065</b>	<b>–</b>	<b>6 065</b>	<b>1 783</b>	<b>–</b>	<b>1 783</b>

Trade receivables ageing R000	2011	2010
Customer A	2 712	–
<b>Local customers</b>		
Customer B	–	794
Customer C	700	493
Customer D	547	227
Customer E	301	224
Other	1 219	45
	<b>5 479</b>	<b>1 783</b>

#### 26.4 Market risk

##### *Fair value hierarchy*

The table below sets out the fair value measurements using the IFRS 7 fair value hierarchy.

R000	Total	Level 1	Level 2	Level 3
<b>GROUP</b>				
<b>Financial assets at fair value through profit or loss-held for trading at 30 June 2011</b>				
Fixed interest investments	4 095	4 095	–	–
Total	4 095	4 095	–	–
<b>At 30 June 2010</b>				
Fixed interest investments	2 778	2 788	–	–
Total	2 778	2 788	–	–

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data

There have been no transfers during the year between Levels 1, 2 and 3.

## Notes to the financial statements

for the year ended 30 June 2010 (continued)

### 26. RISK MANAGEMENT (continued)

#### 26.5 Interest rate risk

The group is exposed to interest rate risk from short-term borrowings and cash investments at variable rates.

In the ordinary course of business the entities within the group receive cash proceeds from its operations and are required to fund working capital and capital expenditure requirements. All entities within the group are not permitted to borrow long-term from external sources. The cash is managed to ensure that all surplus funds held within the group are invested with the centralised treasury. The surplus funds are invested to maximise returns whilst ensuring that the capital is safeguarded to the maximum extent possible by investing only with top financial institutions.

Contractual arrangements for committed borrowing facilities have in the past been maintained with one banking counterparty to meet the group's funding requirements, but as the group does not currently require external funding, these have been cancelled.

At the reporting date the interest rate profile of the group's interest bearing financial instruments was:

(R000)	Interest rate %	2011	2010
Convertible debentures fixed at	10.0	(65 031)	(61 234)
Rubio Investments loan fixed at	10.0	(34 747)	–
Finance lease obligation fixed at	13.0	(1 287)	(3 927)
Restricted investments	6.5-8.0	4 095	2 779

If the interest rate had been 1% higher- lower and all the other variables held constant, the group's profit after tax would have decreased-increased by R0 (2010: R0) as use was not made of variable interest rate financing.

#### 26.6 Foreign exchange risk

The group's sales are predominantly made to overseas customers and are US Dollar denominated. Foreign currency risk arises when these transactions are entered into. It is group policy to evaluate prevailing conditions in the foreign exchange market on an ongoing basis and, if deemed advisable, to hedge incoming US Dollars by entering into forward exchange contracts with the group's banker.

The group's exposure to foreign exchange risk at year-end was:

R000	Currency	2011	2010
Accounts receivable	USD	401	–
Cash and cash equivalents	USD	–	12 146
Exchange rate used to convert the above	1 USD =	6.78	7.61

If the Rand USD exchange rate had been R1 higher-lower and all the other variables held constant, the group's profit after tax would have decreased-increased by R6.0 million (2010: R5.8 million).

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 26. RISK MANAGEMENT (continued)

#### 26.7 Fair value

R000	2011	2011	2010	2010
	Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Financial assets</b>				
<b>Fair value through profit and loss – held for trading</b>				
Cash and cash equivalents	10 208	10 208	24 701	24 701
Restricted investment	4 095	4 095	2 778	2 778
<b>Loans receivable – measured at amortised cost</b>				
Trade and other receivables	13 875	13 875	3 163	3 163
<b>Financial liabilities</b>				
<b>Other financial liabilities measured at amortised cost</b>				
Trade and other payables	(21 178)	(21 178)	(19 683)	(19 683)
Other financial liabilities	(36 034)	(36 034)	(3 926)	(3 926)
Convertible debentures	(65 031)	(65 031)	(61 234)	(61 234)

The group is highly exposed to the overseas market for acid grade fluorspar as it constitutes the bulk of its sales 73.0% in F2011 (F2010: 76.2%, F2009: 94.5%, F2008: 87.9% of total sales). Because the prices in, and demand from, this market collapsed during Q2 of F2009, both operations were placed on care and maintenance. Witkop recommenced operations in Q3 of F2011.

The directors are of the opinion that the fair value of all financial instruments approximates their carrying amount as disclosed on the face of the statement of financial position. Due to the short-term nature of cash and cash equivalents, trade receivables and trade payables it is presumed that the fair value approximates the carrying amount. The fair value of remaining financial instruments measured at amortised cost have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

#### 26.8 Capital risk management

The group's objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. This objective is consistent with the prior year.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group's capital structure consists of debt which includes interest-bearing borrowings, cash and cash equivalents and equity attributable to equity holders of the company which comprise issued share capital, share premium, convertible debentures and accumulated earnings.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 27. RELATED PARTIES

#### Relationships:

Holding company:	Sallies Limited
Direct and indirect subsidiaries:	Witkop Fluorspar Mine (Pty) Limited Pypklip Mining Holdings (Pty) Limited Buffalo Fluorspar (Pty) Limited Marico Fluorspar (Pty) Limited Mosega Fluorspar Works (Pty) Limited

Rubio Investments 391 (Pty) Limited, wholly-owned subsidiary of Fluormin plc, a shareholder of Sallies Limited.

	Country of incorporation	% equity interest 2011	% equity interest 2010
The consolidated financial statements include the financial statements of Sallies Limited and the subsidiaries listed in the following table:			
<b>Directly held</b>			
<input type="checkbox"/> Witkop Fluorspar Mine (Pty) Limited	South Africa	100	100
<input type="checkbox"/> Pypklip Mining Holdings (Pty) Limited*	South Africa	100	100
<input type="checkbox"/> Buffalo Fluorspar (Pty) Limited	South Africa	100	100
<b>Indirectly held through Witkop Fluorspar Mine (Pty) Limited</b>			
<input type="checkbox"/> Marico Fluorspar (Pty) Limited*	South Africa	100	100
<input type="checkbox"/> Mosega Fluorspar Works (Pty) Limited*	South Africa	100	100

\* Dormant: in process of deregistration

R000	Loan 2011	Loan 2010
Long-term loan received from Rubio	34 747	–

R000	Investment in related parties	Transactions with related parties	Amounts owed by related parties	Amounts owed to related parties
The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year.				
<b>Subsidiary companies</b>				
<b>2011</b>				
Witkop Fluorspar Mine (Pty) Limited	78 964	16 558	249 757	–
Buffalo Fluorspar (Pty) Limited	–	–	23 766	–
<b>2010</b>				
Witkop Fluorspar Mine (Pty) Limited	78 964	73 707	221 253	–
Buffalo Fluorspar (Pty) Limited	–	–	23 377	–

#### Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 27. RELATED PARTIES (continued)

R000	2011	2010
<b>Compensation of key management of the group</b>		
Key management, besides the executive directors whose compensation is declared in directors' emoluments, includes the general manager of Witkop, (2011 only), the group resources manager and the group financial manager.		
Remuneration	2 809	1 834
Allowances and benefits	475	650
Share options granted	-	70
Total compensation paid to key personnel	3 284	2 554

#### Key management interests in an employee share incentive plan

The following options have been granted to key management.

Key management 000	Balance		Balance		Balance
	at 30 June 2009	Options forfeited 2010	at 30 June 2010	Options forfeited 2011	at 30 June 2011
<b>Directors of subsidiaries</b>	4 500	(4 500)	-	-	-
Badenhorst CH	3 000	(3 000)	-	-	-
Bleeker GP	1 500	(1 500)	-	-	-
<b>Employees</b>	5 869	(2 469)	3 400	(500)	2 900
	10 369	(6 969)	3 400	(500)	2 900

The options outstanding at 30 June 2011 are at strike prices of 64 cents (2 million options) and 60 cents (900 000 options). The final 300 000 of the options at a strike price of 60 cents will vest on 14 November 2011.

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 28. SEGMENTAL REPORTING

#### General

During the year the group conducted operations in two main business areas, Witkop (NW Province) and Buffalo (Limpopo).

Transactions between business segments are on normal commercial terms and conditions.

#### Information about profit/loss, assets and liabilities

R000	Witkop NW Province	Buffalo Limpopo	Sallies Other	Total
<b>Year ended 30 June 2011</b>				
<i>Business segment information</i>				
<b>Revenue</b>				
External sales	51 936	4 135	–	56 071
Inter-segmental revenue	–	–	16 558	16 558
Total revenue from operation	51 936	4 135	16 558	72 629
Operating loss from operations	(46 357)	(3 281)	8 564	(41 074)
Finance income	2 017	–	–	2 017
Finance costs	(2 449)	–	(10 031)	(12 480)
<b>(Loss) before tax</b>	<b>(46 789)</b>	<b>(3 281)</b>	<b>(1 467)</b>	<b>(51 537)</b>
Income tax recoupment	5 269	–	–	5 269
<b>(Loss) for the year</b>	<b>(41 520)</b>	<b>(3 281)</b>	<b>(1 467)</b>	<b>(46 268)</b>
<b>Other information</b>				
Capital expenditure	9 771	–	–	9 771
Depreciation and amortisation	15 767	–	2	15 769
<b>Statement of financial position</b>				
Assets	169 384	717	1 479	171 530
Liabilities	(304 003)	(121 312)	(254 396)	(170 919)

#### Information about products and services

R000	Export sales			Total	Local sales	Total
	Witkop NW Province	Buffalo Limpopo	Sallies Other			
<b>Revenue 2011</b>						
<i>External parties:</i>						
Acid grade fluorspar	36 982	4 135	–	41 117	4 104	45 221
Metallurgical grade fluorspar	–	–	–	–	9 764	9 764
Crushed stone	–	–	–	–	(35)	(35)
Agricultural lime	–	–	–	–	1 121	1 121
Total	36 982	4 135	–	41 117	14 954	56 071

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

% of total	65.9	7.4	0.0	73.3	26.7	100.0
<i>Inter-segmental:</i> Management fees			16 558			16 558

### 28. SEGMENTAL REPORTING (continued)

R000	Acid grade fluorspar	Other	Total
<b>2011</b>			
Assets	171 530	-	171 530
Liabilities	(170 919)	-	(171 919)

#### Information about geographical areas

R000	Export sales			Local sales	Total
	USA	Asia	Total		
<b>Revenue 2011</b>					
Acid grade fluorspar	36 982	4 135	41 117	4 104	45 221
Metallurgical grade fluorspar	-	-	-	9 764	9 764
Crushed stone	-	-	-	(35)	(35)
Agricultural lime	-	-	-	1 121	1 121
Total	36 982	4 135	41 117	14 954	56 071
% of total	65.9	7.4	73.3	26.7	100.0

The group's mining operation is based within the Republic of South Africa. The risk and rewards are not considered to be different within the regions of the Republic of South Africa. 73% of revenue is export based.

#### Information about major customers

Revenue generated from significant customers includes:

R000	Product	2011	% of total
Customer A	Acid grade fluorspar	36 982	65.9

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 28. SEGMENTAL REPORTING (continued)

#### Information about profit/loss, assets and liabilities

R000	Witkop NW Province	Buffalo Limpopo	Sallies Other	Consolidated
<b>Year ended 30 June 2010</b>				
<i>Business segment information</i>				
<b>Revenue</b>				
External sales	57 665	3 150	–	60 815
Inter-segmental revenue	–	–	73 707	73 707
Total revenue from operation	57 665	3 150	73 707	134 522
<b>Results</b>				
Segment results from operations	1 345	(1 550)	73 705	73 500
Operating (loss)/profit from operations	(102 953)	(9 118)	66 493	(45 578)
Finance income	320	–	–	320
Finance costs	(2 786)	(1 457)	(13 081)	(17 324)
<b>(Loss)/Profit for the year</b>	<b>(105 419)</b>	<b>(10 575)</b>	<b>53 412</b>	<b>(62 582)</b>
<b>Other information</b>				
Capital expenditure	24 110	–	–	24 110
Depreciation	(19 451)	–	–	(19 451)
Impairment of assets	–	(6 464)	–	(6 464)
<b>Statement of financial position</b>				
Assets	169 147	3 326	2 697	175 170
Liabilities	(33 668)	(20 025)	(85 806)	(139 499)

#### Information about products and services

R000	Export sales			Total	Local sales	Total
	Witkop NW Province	Buffalo Limpopo	Sallies Other			
<i>Geographical segment information</i>						
Revenue June 2010						
Acid grade fluorspar	43 349	3 150	–	46 499	4 188	50 687
Metallurgical grade fluorspar	–	–	–	–	8 641	8 641
Crushed stone	–	–	–	–	473	473
Agricultural lime	–	–	–	–	1 014	1 014
Total	43 349	3 150	–	46 499	14 316	60 815
% of total	71.3	5.2	0.0	76.5	23.5	100.0
Inter-segmental:						
Management fees			73 707			73 707
R000	Acid grade fluorspar		Other	Total		
Assets	175 170		–	175 170		
Liabilities	(139 499)		–	(139 499)		

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 28. SEGMENTAL REPORTING (continued)

#### Information about geographical areas

R000	Europe	Export sales		Total	Local sales	Total
		USA	Asia			
<i>Geographical segment information</i>						
Revenue June 2010						
Acid grade fluorspar	43 349	–	3 150	46 499	4 188	50 687
Metallurgical grade fluorspar	–	–	–	–	8 641	8 641
Crushed stone	–	–	–	–	473	473
Agricultural lime	–	–	–	–	1 014	1 014
<b>Total</b>	<b>43 349</b>	<b>–</b>	<b>3 150</b>	<b>46 499</b>	<b>14 316</b>	<b>60 815</b>
% of total	71.3	0.0	5.2	76.5	23.5	100.0

The group's mining operation is based within the Republic of South Africa. The risk and rewards are not considered to be different within the regions of the Republic of South Africa. 76% of revenue is export based.

#### Information about major customers

Revenue generated from significant customers includes:

R000	Product	2010	% of total
Customer A	Acid grade fluorspar	46 499	71.3

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

R000	Group		Company	
	2011	2010	2011	2010
<b>29. CASH FLOW INFORMATION</b>				
<b>29.1 Reconciliation of net loss before taxation to cash generated/(utilised) by operations</b>				
(Loss)/Profit before taxation	<b>(51 537)</b>	(62 582)	<b>(50 705)</b>	17 588
Adjustments for:				
Amortisation of mineral rights	<b>593</b>	–	–	–
Depreciation	<b>13 258</b>	19 259	<b>2</b>	2
Depreciation of decommissioning asset	<b>1 919</b>	195	–	–
Provision for environmental rehabilitation	<b>2 144</b>	27 340	–	–
Increase in decommissioning asset	–	(23 799)	–	–
Share-based payments	<b>122</b>	(1 034)	<b>122</b>	(1 034)
Finance cost	<b>8 683</b>	13 119	<b>6 234</b>	8 879
Investment income	<b>(2 017)</b>	(320)	–	–
(Profit) from the sale of plant and equipment	<b>(43)</b>	(610)	–	–
Revaluation of investments	<b>(716)</b>	(247)	–	–
Impairment/(reversal) of impairment	<b>1 620</b>	6 464	<b>49 081</b>	36 305
Operating cash flow before changes in working capital	<b>(25 974)</b>	(22 215)	<b>4 734</b>	61 740
Decrease/(Increase) in working capital:				
Inventories	<b>(19 852)</b>	32 446	–	–
Accounts receivable	<b>(332)</b>	(569)	<b>(460)</b>	3 175
Accounts payable	<b>4 459</b>	(2 837)	<b>(8 461)</b>	8 793
Cash generated/(utilised) by operations	<b>(41 701)</b>	6 825	<b>(4 187)</b>	73 708

## 30. SHARE OPTIONS

### Share Incentive Scheme

The Sallies Limited Share Incentive Scheme was adopted on 10 November 1999. In terms of the scheme, participants are incentivised by means of the award of options. The award and allocation of options are governed by Sallies' board.

The option price is determined with reference to the share price of Sallies Limited. Participants may exercise their options in three equal tranches after one, two and three years, respectively, from grant date. Options expire ten years after grant date or the holder's resignation, but may be extended for up to two years after termination of employment at the discretion of the board. Options are settled in equity.

No options were awarded nor exercised in 2010 or 2011.

Options over ordinary shares in terms of share incentive scheme 000	Group		Company	
	2011	2010	2011	2010
Outstanding at beginning of the year	<b>3 400</b>	10 369	<b>3 400</b>	10 369
Forfeited during the year	<b>(500)</b>	(6 969)	<b>(500)</b>	(6 969)
Outstanding at end of the year	<b>2 900</b>	3 400	<b>2 900</b>	3 400
Exercisable at the end of the period	<b>2 594</b>	1 134	<b>2 594</b>	1 134
Weighted average exercise price of issued options	<b>60 cents</b>	60 cents	<b>60 cents</b>	60 cents
Weighted average exercise price of outstanding options	<b>60 cents</b>	60 cents	<b>60 cents</b>	60 cents
Weighted average exercise price of forfeited options	<b>60 cents</b>	64 cents	<b>60 cents</b>	64 cents
Weighted average exercise price of exercisable options	<b>60 cents</b>	60 cents	<b>60 cents</b>	60 cents
Fair value of options granted	–	–	–	–
Average remaining life	<b>1 year</b>	2 years	<b>1 year</b>	2 years

## Notes to the financial statements

for the year ended 30 June 2011 (continued)

### 30. SHARE OPTIONS GRANTED (continued) Share Incentive Schemes (continued)

Options over convertible debentures R000	Group		Company	
	2011	2010	2011	2010
<b>Outstanding at beginning of the year</b>	-	9 240	-	9 240
Cancelled during the year	-	(232)	-	(232)
Conditions not met	-	(9 008)	-	(9 008)
Outstanding at end of the year	-	-	-	-
Outstanding options vested	-	-	-	-
Weighted average exercise price of issued options	-	-	-	-
Weighted average exercise price of outstanding options	-	-	-	-
Weighted average exercise price of exercisable options	-	-	-	-
Average remaining life	-	-	-	-

#### Options granted to former executive directors

In addition to options granted in terms of the share incentive scheme, options over 18 768 744 ordinary shares at a strike price of 60 cents per share to each of Messrs TG Dale (former CEO) and J Blersch (former financial director) have been approved by the shareholders. These options all vested on Firebird's acquisition of a controlling interest in the company in July 2009.

TG Dale's options remain exercisable until 22 October 2011 and J Blersch's until 31 January 2012, being the second anniversary of termination of service.

### 31. SUBSEQUENT EVENTS

31.1 On 9 September 2011 Fluormin purchased from Firebird its total equity stake in Sallies of approximately 485 million ordinary shares and 83 million convertible debentures, increasing Fluormin's stake to 567 million shares (78.3% of the issued share capital and 57.8% of the convertible debentures).

As a result of this acquisition Fluormin's stake in both Sallies ordinary shares and convertible debentures surpasses 35% which, in terms of section 123 of the Companies Act ("the Act"), requires Fluormin to offer to acquire all the issued shares and convertible debentures in Sallies Ltd that it does not already own. On the same day Fluormin announced on SENS that it would be making such an offer in terms of section 114 of the Act. Under the terms of the offer Sallies shareholders may receive 0.0277 Fluormin ordinary shares for every one Sallies share held or a cash consideration of 14 cents per Sallies share. Sallies convertible debenture holders may receive 0.0646 Fluormin ordinary shares for every one Sallies convertible debenture held or a cash consideration of 50 cents per debenture. A circular containing details of the offer and the terms and timing thereof, as well as a notice of a general meeting, will be posted to Sallies security holders in due course.

31.2 On 6 September 2011 Sallies shareholders approved the acceptance of a loan from TSC of the Rand equivalent of USD 2.8 million, convertible into ordinary shares on various conditions inter alia receipt of the mandatory offer by Fluormin as referred to above. The loan was received on 13 July 2011.

On 9 September 2011 the loan from TSC was converted into 183 059 337 ordinary shares of 0.1 cent each ranking *pari passu* with the other issued shares of Sallies.

## Notes to the financial statements

*for the year ended 30 June 2011 (continued)*

### **31. SUBSEQUENT EVENTS (continued)**

31.3 On 6 September 2011 Sallies shareholders approved, by special resolution, the authority of the directors to authorise the company to provide direct or indirect financial assistance to related or inter-related companies as required in terms of section 45 of the Companies Act.

The directors are not aware of any significant events, with the exception of the above, that have occurred between the end of the financial year and the date of this report that may materially affect the results of the group for the period under review or its financial position as at 30 June 2011.



## Notice of annual general meeting

### **Sallies Limited**

(Registration number 1903/001879/06)

Share code: SAL ISIN: ZAE000022588

("Sallies" or "the company")

### **NOTICE OF THE 108TH ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD AT 10:00 ON TUESDAY, 29 NOVEMBER 2011 AT BLOCK 1, FREESTONE OFFICE PARK, 135 PATRICIA ROAD, ATHOLL, SANDTON.**

Notice is hereby given that the 108th Annual General Meeting ("AGM") of members will be held at 10:00 on Tuesday, 29 November at Block 1, Freestone Office Park, 135 Patricia Road, Atholl, Sandton to transact the following business:

To consider and, if thought fit, pass, with or without modification the following resolutions:

**1. ORDINARY RESOLUTION NUMBER ONE**

To receive and consider the Annual Financial Statements for the company and the group for the year ended 30 June 2011 together with the directors' report and the reports of the audit committee and independent auditor.

**2. ORDINARY RESOLUTION NUMBER TWO**

To resolve that the appointment of Mr B Phiri as a non-executive director of the company be authorised and confirmed, in accordance with article 16 of the company's articles of association. (Mr Phiri was appointed by the board on 20 September 2011 and his appointment must be ratified by the shareholders at the first AGM following his appointment.)

(A brief CV appears on page 1 of the annual report.)

**3. ORDINARY RESOLUTION NUMBER THREE**

To resolve that the appointment of Mr PR Cooke as a director of the company be authorised and confirmed in accordance with article 16 of the company's articles of association. (Mr Cooke retires by rotation but, being eligible, offers himself for re-appointment).

**4. ORDINARY RESOLUTION NUMBER FOUR**

To resolve that the appointment of Mr SP Morris as a non-executive director of the company be authorised and confirmed in accordance with article 16 of the company's articles of association. (Mr. Morris retires by rotation but, being eligible, offers himself for re-appointment.)

**5. ORDINARY RESOLUTION NUMBER FIVE**

To resolve that the appointment of an audit committee comprising Sandile Swana, Andrew Kamau and Jürgen Kögl be authorised.

**6. ORDINARY RESOLUTION NUMBER SIX**

To resolve that the re-appointment of BDO South Africa Inc (responsible partner: JC Lemmer) as auditors until the next Annual General Meeting in accordance with section 270 (1) of the Companies Act of South Africa, be authorised and confirmed.

**7. ORDINARY RESOLUTION NUMBER SEVEN**

To resolve that the auditors' remuneration be determined by the directors in their sole discretion.

**8. ORDINARY RESOLUTION NUMBER EIGHT**

To resolve that with effect from 1 July 2011, the annual directors' fees be set at R120 000 each, with the chairman receiving an additional R130 000.

**9. ORDINARY RESOLUTION NUMBER NINE – CONTROL OF AUTHORISED BUT UNISSUED SHARES**

To resolve that all the unissued shares in the authorised share capital of the company be and are hereby placed under the control of the directors of the company, who are authorised to allot and issue the same to such persons and on such terms and conditions as they may determine in their sole and absolute discretion, subject to the provisions of the Companies Act of South Africa and the JSE Listings Requirements.

## Notice of annual general meeting

(continued)

A majority of the votes cast by all shareholders present or represented by proxy will be required to approve ordinary resolutions numbers one to seven.

### 10. ORDINARY RESOLUTION NUMBER TEN – GENERAL AUTHORITY TO ISSUE SHARES, OPTIONS OR CONVERTIBLE SECURITIES FOR CASH

To resolve that the directors be given the general authority to allot and issue unissued shares of a class already in issue held under their control, for cash, and/or issue any options/convertible securities when the directors consider it appropriate in the circumstances, subject to the provisions of the Companies Act of South Africa, the provisions of the Banks Act, No. 94 of 1990 (as amended), the JSE Listings Requirements and to the following limitations, that:

- the authority shall be valid until the next Annual General Meeting of the company (provided it shall not extend beyond 15 months from the date of this resolution);
- an announcement giving full details, including the impact on net asset value, net tangible asset value, earnings and headline earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of shares in issue prior to such issue;
- issues for cash in any one financial year may not exceed 15% of the company's issued share capital;
- the issues must be made to public shareholders as defined by the JSE Listings Requirements;
- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% of the volume weighted average traded price as determined over the 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the company.

In terms of the JSE Listings Requirements, the approval of this resolution is subject to achieving a 75% majority of the votes cast in favour by shareholders present or represented by proxy.

### 11. ORDINARY RESOLUTION NUMBER ELEVEN

"RESOLVED that any one of the directors of the company and the company secretary be and are hereby authorised to do all such things and sign all such documents as may be necessary to implement ordinary resolution number ten."

A majority of the votes cast by all shareholders present or represented by proxy will be required to approve ordinary resolution nine.

#### NOTES:

If you have disposed of all your shares in Sallies Limited then this annual report, together with the accompanying notice of annual general meeting and form of proxy, should be forwarded to the purchaser to whom, or the stockbroker, Central Securities Depository Participant ("CSDP") agent or banker through whom you disposed of your shares.

Any shareholders wishing to attend the AGM who have already dematerialised their shares in Sallies, and such dematerialised shares are not recorded in the electronic sub-register of Sallies in their own names, should request letters of representation from their duly appointed CSDP or stockbroker, as the case may be, to authorise them to attend and vote at the AGM in person.

Any shareholders entitled to attend and vote at the AGM are entitled to appoint proxies to attend, speak and vote at the AGM in their stead. The proxies so appointed need not be members of the company.

**If you have not yet dematerialised your shares** in Sallies and are unable to attend the AGM, but wish to be represented thereat, you must complete the attached proxy form in accordance with the instructions therein and lodge it with the transfer secretaries of Sallies namely, Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received by no later than 10:00 on Friday, 25 November 2011.

**If you have already dematerialised your shares** in Sallies:

- and such dematerialised shares are recorded in the electronic sub-register of Sallies in your own name and you are unable to attend the AGM, but wish to be represented thereat, you must complete the attached proxy form in accordance with the instructions therein and lodge it with the transfer secretaries of Sallies, namely Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received by no later than 10:00 on Friday, 25 November 2011; or

## Notice of annual general meeting

*(continued)*

- where such dematerialised shares are not recorded in the electronic sub-register of Sallies in your own name, you should notify your duly appointed CSDP or stockbroker, as the case may be, in the manner and cut-off time stipulated in the agreement governing your relationship with your CSDP or broker of your instructions as regards voting your shares at the AGM.

By order of the Board



**Richard O'Callaghan**  
*Company Secretary*

**Registered office**

BDO Place  
457 Rodericks Road, Lynnwood, Pretoria, 0081  
(PO Box 95436, Waterkloof, 0145)

**Transfer secretaries**

Computershare Investor Services (Pty) Limited  
70 Marshall Street, Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)



Proxy form

**FOR USE AT THE ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD AT 10:00 ON TUESDAY, 29 NOVEMBER 2011 AND AT ANY ADJOURNMENT THEREOF**

For use by the holders of the company's certificated ordinary shares ("certificated shareholder") and/or dematerialised ordinary shares held through a Central Securities Depository Participant ("CSDP") who have selected own-name registration ("own-name dematerialised shareholders").

Not for the use by holders of the company's dematerialised ordinary shares who are not own-name dematerialised shareholders. Such shareholders must contact their CSDP or broker timeously if they wish to attend and vote at the annual general meeting and request that they be issued with the necessary authorisation to do so, or provide the CSDP or broker timeously with their voting instructions should they not wish to attend the annual general meeting in order for the CSDP or broker to vote thereat in accordance with their instructions.

I/We \_\_\_\_\_ (full name in BLOCK LETTERS)

of (please print address) \_\_\_\_\_

being a shareholder of Sallies and holding  ordinary shares in the company, hereby appoint:

1. \_\_\_\_\_ of \_\_\_\_\_ or failing him/her,

2. \_\_\_\_\_ of \_\_\_\_\_ or failing him/her,

3. the chairman of the annual general meeting, \_\_\_\_\_

as my/our proxy to act for me/us and on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof; and to vote for and/or against the resolutions and/or abstain from voting in respect of the Sallies ordinary shares registered in my/our name(s), in accordance with the following instructions:

		For	Against	Abstain
1.	<b>Ordinary resolution number one</b> Adopt annual financial statements for the year to 30 June 2011			
2.	<b>Ordinary resolution number two</b> Appointment of B Phiri as non-executive director			
3.	<b>Ordinary resolution number three</b> Appointment of PR Cooke as a director			
4.	<b>Ordinary resolution number four</b> Appointment of SP Morris as non-executive director			
5.	<b>Ordinary resolution number five</b> To resolve that the appointment of an audit committee comprising Sandile Swana, Andrew Kamau and Jürgen Kögl be authorised			
6.	<b>Ordinary resolution number six</b> Re-appointment of BDO South Africa Inc as auditors			
7.	<b>Ordinary resolution number seven</b> Authorise the directors to determine the auditors' remuneration			
8.	<b>Ordinary resolution number eight</b> Approve the directors' fees			
9.	<b>Ordinary resolution number nine</b> Place authorised but unissued shares under the control of the directors			
10.	<b>Ordinary resolution number ten</b> General authority to issue shares, options or convertible debentures for cash			
11.	<b>Ordinary resolution number eleven</b> Authority to directors and secretary to implement ordinary resolution number ten			

\* Please indicate with an "X" in the appropriate spaces above how you wish your votes to be cast.

Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

Signed at \_\_\_\_\_ on \_\_\_\_\_  
(place) (date)

Member's signature \_\_\_\_\_

Assisted by (if applicable) \_\_\_\_\_

Please read the notes on the reverse hereof.

## Notes

1. This proxy form is to be completed only by those members who are:
  - a. holding shares in a certificated form; or
  - b. recorded in the sub-register in electronic form in their "own name".
2. Members who have dematerialised their shares other than own-name dematerialised shareholders, and who wish to attend the annual general meeting must contact their Central Securities Depository Participant ("CSDP") or broker who will furnish them with the necessary authority to attend the annual general meeting, or they must instruct their CSDP or broker as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between the members and their CSDP or broker.
3. Each member is entitled to appoint one or more proxies (who need not be a member(s) of the company) to attend, speak and, on a poll, vote in place of that member at the annual general meeting.
4. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided, with or without deleting "the chairman of the annual general meeting". The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
5. A member's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that member in the appropriate box(es) provided. Failure to comply with the above will be deemed to authorise the chairman of the annual general meeting, if the chairman is the authorised proxy, to vote in favour of the ordinary and special resolutions at the annual general meeting, or any other proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit, in respect of all the member's votes exercisable thereat.
6. A member or his/her proxy is not obliged to vote in respect of all the ordinary shares held by such member or represented by such proxy, but the total number of votes for or against the ordinary and special resolutions and in respect of which any abstention is recorded may not exceed the total number of votes to which the member or his/her proxy is entitled.
7. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this form of proxy, unless previously recorded by the company's transfer office or waived by the chairman of the annual general meeting.
8. The chairman of the annual general meeting may reject or accept any proxy form which is completed and/or received, other than in accordance with these instructions and notes, provided that the chairman is satisfied as to the manner in which a member wishes to vote.
9. Any alterations or corrections to this proxy form must be initialled by the signatory(ies).
10. The completion and lodging of this proxy form will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
11. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the company's transfer secretaries.
12. Where there are joint holders of any shares, only that holder whose name appears first in the register in respect of such shares need sign this form of proxy.
13. Forms of proxy must be lodged with the transfer secretaries at the address given below by no later than 10:00 local time on Friday, 25 November 2011. They may be faxed to +27 (11) 638 5321.

### **Transfer Secretaries**

Computershare Investor Services (Pty) Limited  
Ground Floor, 70 Marshall Street  
Johannesburg, 2001  
PO Box 61051, Marshalltown, 2107

## Corporate information



**SALLIES LIMITED**  
Reg No 1903/001879/06

### **DIRECTORS**

Nicholas Davidoff\* (USA; Chairman)  
Patrick Cooke (Acting CEO, COO and Financial Director)  
Andrew Kamau\*\* (Kenyan)  
Jürgen Kögl\*  
Stephen Morris\*\* (British)  
Sandile Swana\*\*  
Benedict Phiri\*

\* *Non-executive † Independent*

### **COMPANY SECRETARY**

Richard O'Callaghan

### **SPONSOR**

Bridge Capital Advisors (Pty) Limited

### **AUDITORS**

BDO South Africa Incorporated

### **ATTORNEYS**

DLA Cliffe Dekker Hofmeyr

### **BANKERS**

First National Bank of Southern Africa Limited

### **TRANSFER SECRETARIES**

Computershare Investor Services (Pty) Limited

### **INVESTOR AND MEDIA RELATIONS**

Timothy Shultz  
Meropa Communications (Pty) Limited  
Telephone +27 (11) 506 7300  
Telefax +27 (11) 086 688 7849  
e-mail: [timothys@meropa.co.za](mailto:timothys@meropa.co.za)

### **REGISTERED OFFICE**

Block C  
Riverwalk Office Park  
41 Matroosberg Road  
Ashlea Gardens  
Pretoria  
0145

### **POSTAL ADDRESS**

Private Bag X1315  
Zeerust 2865

### **WEBSITE**

[www.sallies.co.za](http://www.sallies.co.za)

