

SALLIES



SALLIES LIMITED
ANNUAL REPORT 2007

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Corporate profile

Sallies was incorporated in 1903 as the South African Land and Exploration Mining Company Limited and has been listed since 1904 in the mining sector of what is now the JSE Limited. Following the acquisition of the Witkop Fluorspar Mine in the North West Province of South Africa in 1999, Sallies' principal business has been the production and sale of acid grade fluorspar. It acquired the Buffalo Fluorspar Mine in Limpopo province with effect from 1 August 2006.

The bulk of its acid grade output is exported to international customers active mainly in the production of HFC refrigerant gases, fluoro-polymers and aluminium fluoride. As by-products, it produces metallurgical grade fluorspar and agricultural lime for the local market.



The board

Tom Dale (*Chairman and Chief Executive*) (57)

After graduating as a mining engineer in England, Tom was engaged by JCI as a miner in 1973. He left the local mining industry in 1999 as MD of Gold Fields Limited, a company which he had helped to create and turn around to profitability. During the intervening period, Tom held line management positions in the local gold and coal industries and was exposed to the international granite business; graduated at the Wits MBA programme; and was a rated gold analyst for two consecutive years with a local stockbroker. During 2000 and 2001 he was contract CEO of a copper and cobalt producer in Zambia.

Johann Blersch (*Commercial Director*) (66)

Johann has some 40 years' experience in corporate finance and stockbroking in South Africa. During his career he was the chief executive of three major South African stock brokerages. He is a Chartered Accountant and holds a BComm degree from the University of Stellenbosch and an MBA from the University of Cape Town. He has also attended the Stanford Executive Program.

Dr Vincent Msibi (*Non-executive Director*) (52)

In addition to being a Lieutenant Colonel in the SADF, Dr Msibi is the group executive chairman of Phodiso Holdings Limited and a director and chairman of a number of companies including African Renaissance Holdings Limited, Engel & Volkers, Ububele Investment Holdings and Lotobhi Investment Holdings. He holds a BSc from the University of Zululand and obtained his medical degree at Medunsa. In 2002, he completed a Senior Executive Programme at Harvard Business School.

Jürgen Kögl (*Alternate Director*) (51)

Jürgen spent 10 years with his family-owned heavy engineering business in Windhoek, including five years as the group's chief executive. From 1987 to 1989 he was a bond dealer for Max Pollak & Freemantle and thereafter joined J Solms & Company as a partner for special projects. In addition, he launched a strategic consultancy called Khula Consulting (Pty) Limited with four other partners, which holds mandates for a number of trans-national and major South African companies. Jürgen holds degrees in civil engineering and economic history from UCT.

Jeremy Edward Woods (*Non-executive Director*) (61)

Jeremy is a director of companies and private investor who manages private funds. He is the former investment editor of *The Sunday Times* and had for many years worked as a financial journalist around the world.

Barney Esterhuyzen (*Non-executive Director*) (48)

Barney is an advocate and entrepreneur. He has chaired and served as director on many boards, including the JSE listed SAIL Group Limited for which he was the Executive Chairman until 2003. He is also the Executive Chairman of Luna Group (Pty) Limited, a private equity investment company, headquartered in Cape Town for the past 30 years.

Statement of Chairman and Chief Executive

INTRODUCTION

I joined the board of Sallies as non-executive Chairman on 16 February 2007. Shortly thereafter the blasting contractor at Witkop, the operational core of your company, refused to blast as a result of protracted non-payment of his invoices. I record this incident to illustrate the dire financial circumstances which Sallies faced early in C2007. A 25-for-100 rights offer at 60 cps, raising almost R75 million, was completed on 2 July 2007 and this was expected to restore your company to financial health.

It became apparent thereafter, however, that the financial information systems had deteriorated to the extent that management did not know its production costs and as a result, uneconomical cut off grades were being implemented in the pits. Re-building these information systems exposed the central problem of the company. It was selling fluorspar at prices below its unit cost of production. As a consequence, Sallies shareholders were subsidising its customers.

On 1 October 2007, subsequent to the resignation of the previous incumbent, I accepted the executive challenge as CEO. Johann Blerch, a financial specialist, who joined Sallies as a non-executive director concurrently with me in February 2007, also accepted an executive role as Commercial Director at the beginning of October 2007. We believe that the most pressing challenges at Sallies have been identified and are being actively addressed. Shareholders will be kept transparently informed of progress.

SUMMARY

Sallies made a loss before taxation of R47 million during F2007 (F2006: R39 million). Of this, Witkop accounted for R34 million for the full year and Buffalo accounted for R13 million between 1 August 2006 and 30 June 2007. These losses were a function of poor operating performances combined with uneconomical prices achieved. Even had operations delivered against budgets, the C2007 price levels would have been lower than the unit production costs.

According to unreviewed, unaudited management accounts, the group lost R25 million during H1 F2008.

As I write, major shareholders have provided bridging finance during December 2007 and January 2008, are expected to provide further short-term finance, and have underwritten a rights offer to raise R75 million.

Future profits will depend upon

- (i) a sustainable operating turnaround at Witkop which delivers higher product volumes than in F2007 whilst maintaining product specifications and tight control of costs and capex;
- (ii) successful re-engineering for the Buffalo project; and
- (iii) fluorspar prices which are significantly higher than existing contracts.

Our core objective is to deliver growth in value to shareholders. This must be founded on reliable operating performance and sensible pricing. At Witkop the ore body is low grade and highly variable. An experienced management team has been assembled, and they are committed to establishing a track record of consistent operating performance. At Buffalo, our consulting metallurgists and engineers will present their conclusions on re-engineering the project early in C2008.

MARKETING

Sales of all grades of fluorspar by Witkop increased by 6% to 98 705 dry metric tonnes ("DMT") between F2006 and F2007. Sales from Buffalo were 16 088 dry metric tonnes.

Witkop achieved sub USD180 per dry metric tonne prices during the financial year. Because it is a newcomer to the market, and both its specifications and delivery credentials must be established, Buffalo sold its output at a discount to the Witkop prices. Existing and potential customers were appraised of our price targets at the annual fluorspar conference in Frankfurt early in November 2007. Against a background of China, the world's largest producer, progressively withdrawing low priced product for export in order to add value in domestic forward integration, it is clear that the market has tightened. Sallies has already sold substantial volumes of acid grade fluorspar for export in C2008 at prices significantly higher than those achieved in C2007.

In support of our marketing drive we have made special efforts to guarantee specifications and delivery.

OPERATIONS

Safety, health, environment

I am pleased to record that no operational fatalities occurred in F2007. At year end the accumulated fatality free shifts for Witkop and Buffalo were 6 072 and 1 137 respectively. No disabling injuries occurred at either operation during the year. We will benchmark our safety performance against industry standards and set new objectives for health and environmental management in due course.

Statement of Chairman and Chief Executive

(continued)

Reserves, resources, and mining rights.

The competent persons' report by RSG Global dated May 2006 stated that, as of August 2005, proven and probable reserves at Witkop were 34.7 million tonnes at a grade of 14.6% and that measured, indicated and inferred resources were 52.8 million tonnes at a grade of 13.8%. Our consulting geologist has completed certain work on the impact of mining since 2005 and the sterilisation of reserves below dumps, and therefore the reserve/resource estimates need to be updated.

After protracted delays, it seems that the final stages of conversion of old order mining rights at Witkop to new order rights and the establishment of new order mining rights at Buffelshoek, could have been reached. We hope to finalise these rights as soon as practicable. The new order mining rights to process tailings at Buffalo must still be separated from the rights attributable to the vendors of Buffalo and an application to secure a prospecting right over the ore deposit at Buffalo is in progress.

Production

Production of all grades of fluorspar at Witkop increased from 92 677 wet metric tonnes in F2006 to 117 841 wet metric tonnes in F2007 (27%). Production at Buffalo between August 2006 and June 2007 was 16 340 wet metric tonnes excluding some 4 500 wet metric tonnes purchased from the previous owners of Buffalo. These production volumes were significantly below budget.

At Witkop the initial challenge to increasing output is to create mining flexibility in the pits by increasing waste stripping and re-establishing mineable reserves. This will ensure that economic cut off grades can be implemented and that the optimum blend of ore required by the plant to achieve good recoveries can be delivered. In addition, ore losses and dilution must be minimised by effective supervision of good drilling and loading standards. Accurate drilling and blasting is required to optimise fragmentation, in order that the crusher performs to expectations. The mining team is planning to fully implement these improvements to the effectiveness of mining by July 2008.

During October a private metallurgical consultant audited the Witkop plant and during November the representative of a mid tier consulting engineering company repeated that audit. Both concluded that there is no short-term, low capital cost opportunity to meaningfully increase capacity at the Witkop plant. Increases in fluorspar volumes must originate in the pits and at the crushing section, primarily from improved planning and control.

During October and November, the consultants referred to above similarly visited Buffalo and the consulting company was subsequently retained to re-engineer the processing of dumps 5 and 6. Initial conclusions from this exercise are expected during Q3 F2008.

The majority of the additional funding requirement, referred to above, is scheduled to strengthen the mining fleet and plant infrastructure at Witkop and to establish the capacity to treat dumps 5 and 6 at Buffalo.

FINANCE

The rights offer referred to above proposes to raise the R75 million via the 24-for-100 rights issue of convertible debentures (CDs) convertible at 50 cents on or before 31 December 2012 on the basis of one CD for one new share.

All shareholders will be entitled to follow their rights during this issue.

HUMAN RESOURCES

Casper Badenhorst, Witkop's recently appointed General Manager, has moved swiftly to appoint a qualified geologist, experienced in fluorspar, to manage mineral resources and in addition he has strengthened the mining team.

Gerrit Bleeker, who was appointed as General Manager of Buffalo on 23 October 2007, has similarly moved rapidly to recover production from its low point of October 2007 towards break even until the re-engineering is complete.

The general managers are actively supported by the Group Finance, Engineering, Plant Operations, Quality Control and Human Resource managers.

It is apparent from the strike related to working on public holidays during F2007 and the wage strike during F2008 and subsequent interactions at Witkop, that management does not yet enjoy the industrial peace which is so vitally important to the future of the company. The F2008 wage strike resulted in production losses of about 8 600 DMT worth about R10 million. A programme of consultation and communication with union representatives and the workforce, facilitated by a capable, experienced professional, began in January 2008.

Statement of Chairman and Chief Executive

(continued)

OTHER CHALLENGES

Honeywell

On Monday, 14 January 2008, the Arbitral Tribunal in Zurich dealing with the Honeywell arbitration gave its preliminary, non-binding assessment on the evidence it heard at the witness hearings during the last week of September 2007. Its most important conclusions were:

- (I) that the termination of the Witkop contract with Honeywell, by Sallies, was legal according to Swiss law;
- (II) that the foundation upon which Honeywell based its USD6.9 million claim against Sallies is unsustainable in Swiss law.

Honeywell must now motivate the legal grounds for a change in the basis of their claim by 4 February 2008 and Sallies must respond to their argument by 25 February 2008.

If a change in the basis of the claim is accepted by the Tribunal, Honeywell can present evidence supporting a revised claim by 7 April 2008. Sallies will then have the opportunity to respond to this in due course.

Rare earths

Monazite is the most important rare earth occurrence at Buffalo. The consulting engineering team responsible for the Buffalo re-engineering have been tasked to propose a plant design which will extract rare earths concurrently with fluor spar. Discussions with the principals of a rare earth processing company are scheduled to take place during February 2008.

Exploration

Notwithstanding the management focus on current operations, Sallies is pursuing an exploration agreement for a significant, high grade fluor spar deposit.

OUTLOOK

Certain existing major shareholders and a prospective new major shareholder have once again resolutely stepped into the breach to financially support the company. The new management group is committed to delivery of operating improvements and is addressing the identified priorities. Prices achieved in the export contracts agreed to date for C2008 delivery indicate that the market is moving rapidly towards the sharply higher levels required by your company.

The environment for mining companies in South Africa is becoming increasingly challenging on several fronts. Disruptions to electricity supply are disastrous for extraction plants. According to current projections by Eskom, the national electricity supplier, regular interruptions in power supply will be experienced over the next five years, whilst current capacity is being upgraded, expanded or maintained. This could have a negative impact on the company's ability to achieve its production targets. In addition, it is vitally important that a partnership is established with all stakeholders to ensure that issues such as safety management and the security of tenure of mining rights does not place unwarranted burdens on management or abnormal risks on shareholders.

Sallies has, as yet, no clear competitive edge, and it is incumbent upon management to develop such an edge and establish a track record for mining low grade, variable fluor spar deposits.

In conclusion, I wish to thank our shareholders and bankers, my fellow directors, management and staff and all other stakeholders for their support during F2007.



TG Dale

Chairman and Chief Executive

30 January 2008

Summary of financial performance

for the 4 years ended 30 June 2007

FINANCIAL	Unit	% change	2007	2006	2005	2004
Revenue and profitability						
Mining revenue	R000	25.8%	109 315	86 882	101 157	84 406
Loss from mining operations	R000	(45.6%)	(8 872)	(16 315)	(1 971)	(10 939)
Loss before taxation	R000	19.8%	(47 235)	(39 428)	(31 605)	(19 203)
Taxation	R000	240.6%	5 600	1 644	120	3 643
Loss for the year	R000	10.2%	(41 635)	(37 784)	(31 485)	(15 560)
Basic loss per share						
Undiluted	cents	(39.6%)	(8.4)	(13.9)	(12.3)	(10.3)
Diluted	cents	(40.3%)	(8.3)	(13.9)	(12.3)	(9.8)
Headline loss per share						
Undiluted	cents	(41.7%)	(8.5)	(14.4)	(12.4)	(10.4)
Diluted	cents	(41.7%)	(8.4)	(14.4)	(12.4)	(9.9)
Revenue/total assets	%		53.8	51.2	97.1	78.3
Assets and liabilities						
			2007			
			pro forma**			
Non-current assets	R000	153 449	153 449	82 668	77 066	69 791
Current assets	R000	56 758	49 556	87 155	27 149	38 036
Total assets	R000	210 207	203 005	169 823	104 215	107 827
Capital and reserves	R000	152 966	80 644	87 856	40 373	67 255
Non-current liabilities	R000	28 899	28 899	14 890	13 478	9 701
Current liabilities	R000	28 342	93 462	67 077	50 364	30 871
Total equity and liabilities	R000	210 207	203 005	169 823	104 215	107 827
Issued shares at 30 June	000	631 181	506 264	450 064	257 009	257 009
Undiluted weighted average issued shares	000	494 968	494 968	271 263	257 009	151 174
Diluted weighted average issued shares	000	499 430	499 430	271 263	257 009	159 144
Net current assets	R000	28 416	(43 906)	20 178	(23 215)	7 165
Interest bearing debt	R000	19 571	75 968	24 591	19 612	13 249
Interest bearing debt/capital and reserves	%	12.8	94.2	28	48.6	19.7
Current ratio		2.0	0.5	1.3	0.5	1.2
Quick ratio		0.8	0.2	1.2	0.2	1.0
Cash flows						
Net cash inflow/(outflow) from operations	R000		(69 435)	5 288	920	(14 922)
Net cash outflow from investment	R000		(83 663)	(10 978)	(7 558)	(5 466)
Net cash inflow from financing	R000		64 184	73 754	3 460	24 444
Net increase/(decrease) in cash and cash equivalents	R000		(88 914)	68 064	(3 178)	4 056
Cash and cash equivalents at beginning of year	R000		60 060	(8 004)	(4 826)	(8 882)
Cash and cash equivalents at end of year	R000		(28 854)	60 060	(8 004)	(4 826)

**The pro forma assets and liabilities at 30 June 2007 section shows the actual figures adjusted as if the proceeds of the rights offer had been received on 30 June 2007 instead of 2 July 2007.

Summary of operational and stock market performance

for the 4 years ended 30 June 2007

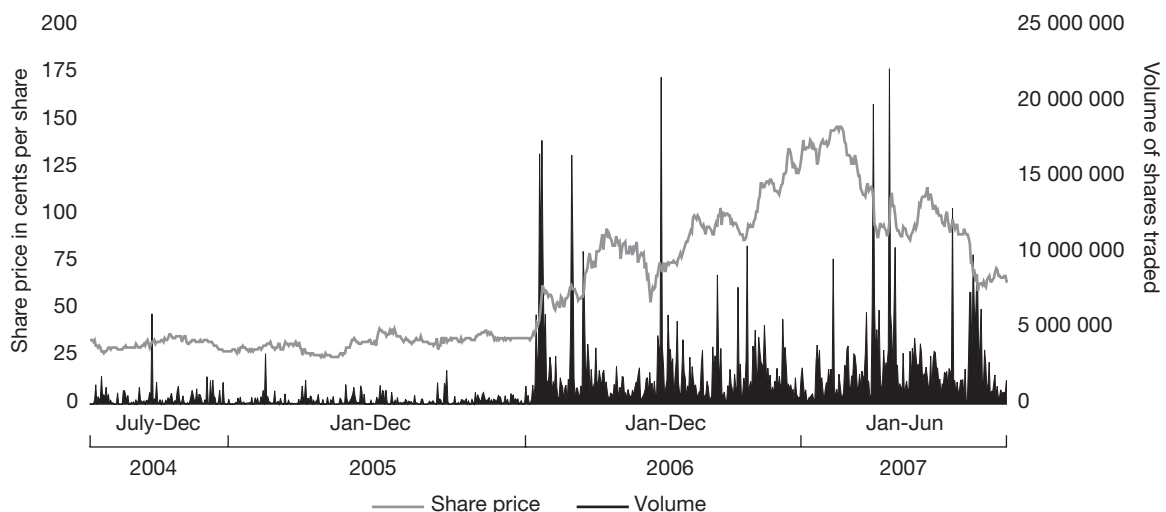
OPERATIONS	Unit	% change	2007	2006	2005	2004
Mining						
Ore mined	tonnes	24.7%	1 831 155	1 469 002	1 652 820	1 260 040
Stripping ratio		(46.6%)	0.31	0.58	0.97	0.60
Milling						
Ore milled	tonnes	30.2%	1 569 361	1 205 680	1 529 216	1 059 105
Head grade	%	4.4%	10.38	9.94	11.13	11.93
Fluorspar concentrate produced (wet metric tonnes)						
Acid grade	wmt	32.0%	110 744	83 914	150 337	106 610
Metallurgical grade*	wmt	(19.0%)	7 097	8 763	11 090	10 371
Fluorspar all grades	wmt	27.2%	117 841	92 677	161 427	116 981
Sales (dry metric tonnes)						
Acid grade	dmt	7.8%	92 310	85 625	126 656	105 376
Export	dmt	8.0%	82 676	76 583	117 356	95 960
Local	dmt	6.5%	9 634	9 042	9 300	9 416
Metallurgical grade*	dmt	(14.0%)	6 395	7 439	6 620	6 278
Fluorspar all grades	dmt	6.1%	98 705	93 064	133 276	111 654
Agricultural lime*	tonnes	(100.0%)	0	20 000	10 000	40 000

* by-products

STAFF	Unit	% change	2007	2006	2005	2004
Employees at year end	persons	42.9%	360	252	201	180
Staff turnover	%	141.9%	22.5	9.3	10.4	9.2

STOCK MARKET	Unit	% change	2007	2006	2005	2004
Market capitalisation	R million	40.8%	476	338	90	90
Number of shares traded	000	97.7%	559 590	283 036	468	72 148
Highest price traded	cents	54.7%	147	95	35	38
Lowest price traded	cents	125.8%	70	31	26	15
Closing price	cents	25.3%	94	75	35	35
Value of transactions over the year	R million	201.7%	589.8	195.5	0.2	22.8
Shares traded/shares in issue at year end	%	75.8%	110.5	62.9	0.2	28.1

Sallies share price and volumes traded



Corporate governance

COMPLIANCE WITH THE CODE OF CORPORATE PRACTICES AND CONDUCT

The board of directors is currently managing the company's business operations to achieve a turnaround. The company is currently not possessed of adequate human and financial resources to fully comply with the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance. In particular the positions of Chairman and Chief Executive are currently held by the same person.

It is the intention of the board to appoint a non-executive Chairman in due course.

Otherwise the board considers that the group complies in the main with the provisions of the code.

PREPARATION OF ANNUAL FINANCIAL STATEMENTS

In terms of the Companies Act in South Africa, the directors are responsible for the preparation of annual financial statements; which fairly present the state of affairs of the company and the group as at the end of the financial year; the income and cash flow statements; and the statement of changes in shareholders' equity for the year under review, in accordance with International Financial Reporting Standards.

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 company has a unitary board comprising five members of whom three are non-executive. During F2007 the board comprised six members of whom five were non-executive. The non-executive directors are independent of management.

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.

The board is in control of the group, and meets every third month, to review strategy, planning, funding requirements, operational and financial performance, acquisitions and disposals, major capital expenditure, stakeholder communication and other material matters.

The board further monitors the activities of management within the group. This is through attendance at monthly management meetings and the formal review of monthly management reports and accounts.

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.

Board attendance Directors	Designation		Number of meetings attended	Number of board meetings held
<input type="checkbox"/> J Blersch	Non-executive	(Appointed 16 February 2007)	2	2
<input type="checkbox"/> TG Dale	Chairman	(Appointed 16 February 2007)	2	2
<input type="checkbox"/> BC Esterhuyzen	Non-executive	(Appointed 27 June 2007)	1	1
<input type="checkbox"/> PH Flack	Non-executive	(Resigned 8 January 2007)	3	3
<input type="checkbox"/> IJ Marais	Chief Executive	(Resigned 1 October 2007)	6	6
<input type="checkbox"/> AD Moffat	Non-executive	(Resigned 5 February 2007)	4	4
<input type="checkbox"/> Dr V Msibi (Alt: J Kögl)	Non-executive		6	6
<input type="checkbox"/> JJ Nel	Non-executive	(Appointed 15 August 2006, resigned 16 April 2007)	3	3
<input type="checkbox"/> LB Robertson	Non-executive	(Resigned 5 February 2007)	4	4
<input type="checkbox"/> JE Woods	Non-executive	(Appointed 5 February 2007)	3	3

Corporate governance

(continued)

EXECUTIVE COMMITTEE (EXCO)

An executive committee has been established to review operational and financial results on a monthly basis. Once information has been discussed and verified by the committee, it is sent out to the rest of the board of directors.

Members of the committee are:

- CH Badenhorst (General Manager: Witkop)
- J Blersch (Commercial Director)
- GP Bleeker (General Manager: Buffalo)
- TG Dale (Chairman)
- PRP Potgieter (Group Financial Manager)

AUDIT COMMITTEE

An audit committee meets at least twice each year to discuss accounting, auditing, internal accounting control and financial matters. It provides a forum through which the independent external auditors report to the board of directors.

The audit committee also sets the principles for recommending the use of the external auditors for non-audit services.

Members of the committee are:

- J Blersch (Chairman)
- TG Dale
- JJ Nel (Resigned 16 April 2007)
- LB Robertson (Resigned 5 February 2007)

The audit committee will be reconstituted to comply with the current corporate governance guidelines as soon as practically possible.

RISK MANAGEMENT

Operating risk is the potential for loss to occur through a breakdown in control information, business processes and compliance systems.

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.

HEALTH, SAFETY AND ENVIRONMENT

The group has an outsourced primary healthcare function, and all employees have freedom of choice to belong to a medical aid scheme. An occupational health practitioner is employed on a part time basis, visiting the mine regularly to ensure that compliance with legislation is achieved, while the function of Occupational Hygienist is outsourced to a consultant, who visits the mine monthly, and who compiles the statutory reports.

The potential impact of HIV/Aids on the workforce is recognised with the mine having established an Aids policy in 2000. Awareness campaigns are operated on an ongoing basis.

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 outsourced.

In May 2005, Witkop 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). To date, no feedback has been received, and the mine continues to engage the department.

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.

To enable the directors to meet these responsibilities, management has embarked on a programme to revise the systems of internal accounting control and to streamline the monthly reporting process aimed at reducing the risk of error or loss.

Corporate governance

(continued)

WORKER PARTICIPATION

A workers' committee and forum have been established at the mine to ensure worker participation. Management and worker representatives meet formally and informally at the operational level to share information and to address matters of mutual interest.

RELATIONSHIPS WITH STAKEHOLDERS

The group, subject to certain confidential information during closed periods, 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 and results announcements, which provide an opportunity for shareholders to address questions to the board. A high value is placed on internal communication with all employees.

CODE OF ETHICS

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

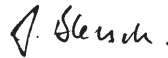
The group further operates a "closed period" prior to the publication of its results at half year and year end. This period commences from the end of the reporting period until the results are announced.

Approval of financial statements

The annual financial statements and group annual financial statements for the year ended 30 June 2007 set out on pages 12 to 42 were approved by the board of directors on 29 January 2008 and are signed on its behalf by:



TG Dale
Chairman



J Blersch
Commercial Director

30 January 2008

Declaration by company secretary

In my capacity as company secretary, I hereby confirm, in terms of the Companies Act 1973, that for the year ended 30 June 2007, 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 all such returns are true, correct and up to date.



R O'Callaghan
Company secretary

30 January 2008

Independent auditors' report

TO THE SHAREHOLDERS OF SALLIES LIMITED

We have audited the accompanying annual financial statements and consolidated annual financial statements of Sallies Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 30 June 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 12 to 42.

Directors' responsibility for the Annual Financial Statements

The company's directors are responsible for the preparation and the fair presentation of these annual financial statements and consolidated annual financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, 1973. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of annual financial statements and consolidated annual 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.

Auditors' responsibility

Our responsibility is to express an opinion on these annual financial statements and consolidated annual 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 whether the annual financial statements and consolidated annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements and consolidated annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements and consolidated annual 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 annual financial statements and consolidated annual 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements and consolidated annual 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 annual financial statements and consolidated annual financial statements present fairly, in all material respects, the financial position of the company and of the group as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, 1973.


Going concern

Without qualifying our opinion, we draw attention to the disclosure made by the directors in their report regarding the going concern status of the group, the continuing Honeywell arbitration, and the rights issue for cash subsequent to the year end. These matters indicate the existence of a material uncertainty which may cast doubt on the group's ability to continue as a going concern.

Reportable irregularities

Without qualifying our conclusion, we draw further attention to the fact that reportable irregularities in terms of Section 45 of the Auditing Professions Act occurred at Witkop Fluorspar Mine (Pty) Limited and Buffalo Fluorspar Mine (Pty) Limited. These concerned the non-payment of pension fund contributions, employees' tax and other statutory deductions within the periods required by the various Acts governing these matters.

These matters were all satisfactorily resolved by the year end.



BDO Spencer Steward (Johannesburg) Incorporated
Chartered Accountants (S.A.)
Registered Auditors

Per: JJ Boland
30 January 2008

Directors' report

BUSINESS ACTIVITIES

The main business of the company at present is mining and exploration for fluorspar.

The company was incorporated in 1903, listed in 1904 and was involved in gold mining and exploration in South Africa.

On 1 July 1999, the company acquired a 100% interest in Witkop Fluorspar Mine (Proprietary) Limited and its wholly owned subsidiary, Marico Fluorspar (Proprietary) Limited, for R80 million. The acquisition was financed by an equity placement of 55 259 922 ordinary shares at 80 cents per share and a USD denominated foreign loan of USD6.5 million. This loan has subsequently been repaid in full.

The Witkop Fluorspar Mine is situated near Zeerust in the North West Province and produces and markets acid grade fluorspar concentrates primarily for export. It also produces and supplies, as a by-product, metallurgical grade fluorspar concentrates and briquettes for the local market; and agricultural lime which is sold to local co-operatives.

On 31 July 2006, the company acquired the fluorspar assets of Transvaal Mining and Finance Company Limited, trading as Buffalo Fluorspar. The Buffalo fluorspar mine is situated in the Limpopo province and produces and markets acid grade fluorspar from tailings for export.

FINANCIAL RESULTS

During the year under review the group made a loss of R41.6 million (2006: loss of R37.8 million). The operating results for the year under review are fully disclosed in the attached audited financial statements.

GOING CONCERN

Given: (a) the low contaminant levels of our fluorspar and the value of this in the market place which is now being recognised in current pricing; (b) the buoyancy of the market; (c) the independent views on our mineral resources in the Competent Persons' Reports; (d) historical output levels achieved at Witkop over F2005 and (e) our current understanding of the mining challenges at Witkop; (f) the recent management changes; and now that additional funding has been provided; the directors are satisfied that Sallies is a going concern.

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.

SHARE CAPITAL

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

Share capital movement	Number of shares	2007 Share capital	Share premium	Number of shares	2006 Share capital	Share premium
Issued	000	R000	R000	000	R000	R000
<input type="checkbox"/> Balance at beginning of year	450 064	450	175 235	257 009	257	88 910
<input type="checkbox"/> Issue of shares in terms of rights offer and exercising of options	181 117	181	34 367	193 055	193	89 415
<input type="checkbox"/> Share issue expenses						(3 090)
<input type="checkbox"/> Balance at end of year	506 264	506	209 602	450 064	450	175 235

CATEGORIES OF SHAREHOLDERS

At 30 June 2007, the ordinary shares of the company were held by the categories of shareholders detailed below:

Percentage	2007	2006
<input type="checkbox"/> Directors	2.8	6.9
<input type="checkbox"/> Institutional shareholders	43.8	38.8
	46.6	45.7
<input type="checkbox"/> Other companies and private investors	53.4	54.3
	100.0	100.0

Directors' report

(continued)

MAJOR SHAREHOLDERS

According to the company's share register and declarations made by directors and nominees at 30 June 2007, the following shareholders held shares in excess of 5% of the ordinary share capital of the company:

Shareholder	Number of shares held (millions)	Issued share capital %
□ Natrust Equities (Pty) Limited	56.2	11.1
□ Titan Nominees (Pty) Limited	42.0	8.3
□ Investec Emerging Fund Managers	34.9	6.9

DIRECTORS' INTEREST IN SHARE CAPITAL

At 30 June 2007, and at the date of this report, no directors had a direct beneficial interest in the share capital of the company. The directors' indirect beneficial interests are detailed below:

Indirect beneficial 000	2007	2006
□ BC Esterhuyzen	4 224	–
□ PH Flack	–	9 733
□ AD Moffat	–	11 333
□ LB Robertson	–	10 383
□ JE Woods	10 000	–
	14 224	31 449

DIRECTORS' EMOLUMENTS

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

Emoluments R000	Basic salary	Expense allowances	Re-tirement benefits	Fees, bonuses and other benefits	Medical aid	Share based payments	Directors' fees	Total emoluments
2007								
□ Executive								
■ IJ Marais	720	409	88	2	35	–	–	1 254
□ Non-executive								
■ J Blersch	225	–	–	–	–	–	45	270
■ TG Dale	225	–	–	–	–	–	56	281
■ BC Esterhuyzen	–	–	–	–	–	–	–	–
■ PH Flack	–	–	–	95	–	–	75	170
■ AD Moffat	–	–	–	–	–	–	75	75
■ Dr V Msibi (Alt: J Kögl)	–	–	–	–	–	–	120	120
■ JJ Nel	–	–	–	–	–	–	60	60
■ LB Robertson	–	–	–	249	–	–	75	324
■ JE Woods	–	–	–	–	–	–	50	50
	1 170	409	88	346	35	–	556	2 604

Directors' report

(continued)

DIRECTORS' EMOLUMENTS (continued)

The following emoluments were paid and accrued to directors during F2006:

Emoluments R000	Basic salary	Expense allowances	Retirement benefits	Fees, bonuses and other benefits	Medical aid	Share based payments	Directors' fees	Total emoluments
2006								
□ Executive								
■ IJ Marais	720	443	110	10	34	408	–	1 725
□ Non-executive								
■ PH Flack	–	–	–	–	–	–	1 163	1 165
■ JJ Geldenhuys	–	–	–	–	–	–	70	70
■ AD Moffat	–	–	–	–	–	–	1 135	1 135
■ LB Robertson	–	–	–	–	–	–	1 135	1 135
	720	443	110	10	34	408	3 505	5 230

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 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 1.5% of the number of ordinary shares in issue.

During the year no options were granted nor cancelled.

Number of share options 000	2007	2006
□ Opening balance	10 857	5 505
□ Share options granted during the year	0	5 352
□ Issue of shares in terms of rights offer entitlement of options	2 131	
□ Share options exercised	(3 532)	
□ Balance at end of year	9 456	10 857

Management 000	Rights offer options entitlement 2007	Options exercised 2007	New options granted 2006	Rights offer options 2006	Existing options at 30 June 2005	Rights offer options 2004	Total
□ CH Badenhorst, Jr	–	(324)	–	115	75	134	–
□ CH Badenhorst, Sr (Estate late)	–	(324)	–	115	75	134	–
□ FJN Badenhorst	–	(604)	–	214	140	250	–
□ MH du Plessis	–	(324)	–	115	75	134	–
□ J Enslin	–	(432)	–	153	100	179	–
□ IJ Marais*	1 937	(1 200)	1 000	2 750	2 200	1 800	8 487
□ S Rademan	–	(324)	–	115	75	134	–
□ AB Smal	194	–	500	275	–	–	969
	2 131	(3 532)	1 500	3 852	2 740	2 765	9 456

*Executive Director

Directors' report

(continued)

SHARE INCENTIVE SCHEME (continued)

Over and above the Share Incentive Trust Options, the following options are exercisable:

Number of share options 000	2007	2006
□ Opening balance	8 732	38 988
□ Share options vested during the year	–	21 444
□ Issue of shares in terms of rights offer and exercising of options	1 079	(51 700)
□ Share options exercised	(9 811)	
□ Balance at end of year	–	8 732
□ Made up as follows:		
□ FRM Strategies (Pty) Limited	–	8 732

The FRM options, granted in 2003, as part of the FRM/Sallies management agreement, consisted of time based and performance based modules. As at 30 June 2007, all the time based options and performance based options had been exercised.

DIRECTORS

The directors in office at year end were:

TG Dale (Chairman)

IJ Marais* (Chief Executive)

J Blersch

BC Esterhuyzen

Dr V Msibi (Alt: J Kögl)

JE Woods

*Executive

Subsequent to year end, IJ Marais resigned from the board after which TG Dale was appointed Chief Executive and J Blersch Commercial Director of the company.

SECRETARY

The company secretary is RS O'Callaghan.

BORROWINGS

The group's export shipments are made in bulk which could, at times, result in no sales for periods of up to two to three months. As a result of this, it is necessary to utilise bank facilities. To this end, the company has secured bank overdraft facilities secured by a cession of group trade debtors, certain properties, shares in subsidiaries and loans to subsidiaries.

The company's articles of association have placed no restriction on the directors' borrowing powers.

DIVIDENDS

No dividends were declared or are proposed in respect of the company's financial year ended 30 June 2007 (30 June 2006: Nil).

Dividend payments will commence once the board is confident that profits generated by the company are sustainable.

Directors' report

(continued)

SUBSEQUENT EVENTS

Rights issue

The gross proceeds of the rights offer completed on 2 July 2007 were R74 950 195.29 and the expenses pertaining thereto were R2 628 558.27. Accordingly the share capital and share premium increased by R72 321 636.93 on that date.

The pro forma 30 June 2007 consolidated balance sheet below shows the actual consolidated balance sheet adjusted as if the proceeds of the rights offer had been received on 30 June 2007, and the proceeds had been applied to pay the overdue accounts payable and to repay the short-term (bridging) loans and bank overdrafts.

Consolidated balance sheet at 30 June 2007

R000	Audited	Rights offer proceeds	Pro forma
Assets			
Non-current assets	153 449		153 449
Current assets	49 556	7 202	56 758
Total assets	203 005	7 202	210 207
Equity and liabilities			
Capital and reserves	80 644	72 322	152 966
Non-current liabilities	28 899		28 899
Current liabilities	93 462	(65 120)	28 342
Total equity and liabilities	203 005	7 202	210 207
Issued shares (000)	506 264		631 181
Net asset value per share (cents)	15.9		24.2
Current ratio	0.53		2.00

Honeywell arbitration

Sallies/Witkop Fluorspar Mine (Pty) Limited is claiming USD1 067 327 from Honeywell International Inc for payment of material delivered and Honeywell is claiming USD6 847 305 from Sallies/Witkop for damages as a result of breach of contract. The witness hearings before the International Court of Arbitration in Zurich were completed on 27 September 2007.

On 14 January 2008 the tribunal gave its preliminary, non-binding assessment on the evidence it heard at the witness hearings. Its most important conclusions were:

- (i) that the termination of the Witkop contract with Honeywell, by Sallies, was legal according to Swiss law;
- (ii) that the foundation upon which Honeywell based its claim against Sallies is unsustainable in Swiss law.

Honeywell must now motivate the legal grounds for a change in the basis of their claim by 4 February 2008 and Sallies must respond to their argument by 25 February 2008.

If a change in the basis of the claim is accepted by the tribunal, Honeywell can present evidence supporting a revised claim by 7 April 2008. Sallies will then have the opportunity to respond to this in due course.

Directors' report

(continued)

SUBSIDIARY COMPANIES

Details of subsidiary companies in which the company has a direct or indirect interest are as follows:

Subsidiaries	Issued share capital	Holding %	Shares at cost R000	Due (to)/by subsidiary R000	(Loss)/ Profit after tax R000
2007					
Directly held:					
□ Witkop Fluorspar Mine (Proprietary) Limited – Mining	2 250	100	80 449	35 299	(25 391)
□ Buffalo Fluorspar Mine (Proprietary) Limited – Mining	1 000	100	1	43 002	(12 821)
□ Pypklip Mining Holdings (Proprietary) Limited – Mining rights holding	1	100	0	30 013	(11 738)
			80 450	108 314	(49 950)
Indirectly held through					
□ Witkop Fluorspar Mine (Proprietary) Limited: Marico Fluorspar (Proprietary) Limited – Property holding	8 556 805	100	2 010	–	(7 534)
□ Mosega Fluorspar Works (Proprietary) Limited – Property holding	280	100	0	–	–
			2 010	–	–

All companies are registered in South Africa.

Income statements

for the year ended 30 June 2007

R000	Note	Group		Company	
		2007	2006	2007	2006
Revenue – mining	2	109 315	86 882	-	-
Cost of sales		(118 187)	(103 197)	-	-
Loss from mining operations		(8 872)	(16 315)	-	-
Administrative and other operating expenses		(20 639)	(22 720)	(5 902)	(19 347)
Depreciation of mineral rights	9	(2 564)	(2 056)	-	-
Finance cost	3	(6 480)	(2 735)	(870)	(30)
Investment income	2	282	85	246	34
Profit on disposal of property, plant and equipment		583	1 817	5	1 743
Net foreign exchange profit/(loss)	4	1 639	(1 435)	-	-
Provision for onerous contract	20	-	9 366	-	-
Depreciation and impairments		(11 184)	(5 435)	(72 166)	-
Loss before taxation	4	(47 235)	(39 428)	(78 687)	(17 600)
Taxation	6	5 600	1 644	-	-
Loss for the year		(41 635)	(37 784)	(78 687)	(17 600)
Loss per share (cents)	7				
Basic					
□ undiluted		(8.4)	(13.9)		
□ diluted		(8.3)	(13.9)		

Balance sheets

at 30 June 2007

R000	Note	Group		Company	
		2007	2006	2007	2006
ASSETS					
Non-current assets		153 449	82 668	188 770	130 398
Goodwill	8	10 175	10 175	–	–
Property, plant and equipment	9	143 274	71 940	6	3
Interest in subsidiaries	10	–	–	188 764	130 395
Restricted investment	11	–	553	–	–
Current assets		49 556	87 155	1 948	74 600
Inventories	12	33 921	5 187	–	–
Accounts receivable	13	12 239	4 852	1 827	349
Taxation prepaid		2 789	2 858	–	–
Cash and cash equivalents	14	607	74 258	121	74 251
Total assets		203 005	169 823	190 718	204 998
EQUITY AND LIABILITIES					
Capital and reserves		80 644	87 856	152 635	196 897
Share capital and premium	15	210 108	175 685	210 108	175 685
Share option reserve		724	724	724	724
Accumulated (loss)/profit		(130 188)	(88 553)	(58 197)	20 488
Non-current liabilities		28 899	14 890	–	–
Interest bearing debt	16	13 943	4 638	–	–
Provision for environmental rehabilitation	17	14 956	4 652	–	–
Deferred taxation	18	–	5 600	–	–
Current liabilities		93 462	67 077	38 083	8 101
Bank overdraft	14	29 461	14 198	8 572	–
Accounts payable	19	30 850	42 204	2 575	4 959
Provisions	20	587	4 778	–	3 142
Taxation		–	142	–	–
Short-term loans	16	26 936	–	26 936	–
Current portion of interest bearing debt	16	5 628	5 755	–	–
Total equity and liabilities		203 005	169 823	190 718	204 998

Statements of changes in equity

for the year ended 30 June 2007

R000	Note	Share capital	Share premium	Share option reserve	Accumulated profit/(loss)	Total
GROUP						
Balance at 30 June 2005		257	88 910	1 975	(50 769)	40 373
Rights issue		141	61 792	–	–	61 933
Options exercised		52	24 533	(9 063)	–	15 522
Options granted		–	–	7 812	–	7 812
Loss for the year		–	–	–	(37 784)	(37 784)
Balance at 30 June 2006		450	175 235	724	(88 553)	87 856
Rights issue		43	29 958	–	–	30 001
Options exercised		13	4 409	–	–	4 422
Options grants		–	–	–	–	–
Loss for the year		–	–	–	(41 635)	(41 635)
Balance at 30 June 2007		506	209 602	724	(130 188)	80 644
COMPANY						
Balance at 30 June 2005		257	88 910	1 975	38 088	129 230
Rights issue		141	61 792	–	–	61 933
Options exercised		52	24 533	(9 063)	–	15 522
Options granted		–	–	7 812	–	7 812
Loss for the year		–	–	–	(17 600)	(17 600)
Balance at 30 June 2006		450	175 235	724	20 488	196 897
Rights issue		43	29 958	–	–	30 001
Options exercised		13	4 409	–	–	4 422
Options grants		–	–	–	–	–
Loss for the year		–	–	–	(78 687)	(78 687)
Balance at 30 June 2007		506	209 602	724	(58 199)	152 635

Cash flow statements

for the year ended 30 June 2007

R000	Note	Group		Company	
		2007	2006	2007	2006
Net cash inflow/(outflow) from operating activities		(69 435)	5 288	(12 903)	(4 364)
Cash receipts from customers		101 928	84 749	(1 105)	(143)
Cash paid to suppliers and employees		(171 363)	(79 592)	(11 798)	(4 221)
Cash generated/(utilised) by operations	27.1	(69 435)	5 157	(12 903)	(4 364)
Normal taxation paid	27.2	-	131	-	-
Net cash (outflow)/inflow from investing activities		(83 663)	(10 978)	(130 288)	1 777
Additions to maintain plant and equipment		(85 081)	(12 859)	(5)	-
Proceeds from disposal of property, plant and equipment		583	1 817	4	1 743
(Increase)/decrease in restricted investment		553	(21)	(130 533)	-
Investment income		282	85	246	34
Net cash inflow/(outflow) from financing activities		64 184	73 754	60 489	77 009
Long-term loan (repaid)/raised		9 305	(966)	-	-
Short-term facility raised		26 936	-	26 936	-
Proceeds from share issue		34 423	80 545	34 423	80 545
Transaction cost regarding the rights issue		-	(3 090)	-	(3 090)
Finance cost		(6 480)	(2 735)	(870)	(30)
Movement of subsidiary loans		-	-	-	(416)
Net increase/(decrease) in cash and cash equivalents		(88 914)	68 064	(82 702)	74 422
Cash and cash equivalents at beginning of year		60 060	(8 004)	74 251	(171)
Cash and cash equivalents at end of year	14	(28 854)	60 060	(8 451)	74 251

Notes to the financial statements

for the year ended 30 June 2007

1. ACCOUNTING POLICIES

The financial statements set out on pages 12 to 42 are prepared on the historical cost basis except where stated otherwise in accordance with International Financial Reporting Standards (“IFRS”) and interpretations of those standards as adopted by the International Accounting Standards Board and the Companies Act, No. 61 of 1973, in South Africa. The financial statements are presented in South African rand and are rounded to the nearest thousand, unless otherwise stated. The company’s accounting policies conform with International Financial Reporting Standards. These policies are consistent with those applied in the previous year. The financial statements are prepared on the going concern basis.

1.1 Consolidation

The consolidated financial statements include those audited financial statements of the company and its subsidiaries for the same accounting period.

Subsidiaries are defined as those companies in which the company, either directly, or indirectly, has more than one half of the voting rights, has the right to appoint more than half the board of directors or otherwise has the power to control the financial and operating activities of the entity.

At the date of acquisition of a subsidiary, the cost of the investment is allocated to the fair value of individual identifiable assets and liabilities. The excess of the purchase price over the fair value of the assets and liabilities is capitalised as goodwill and is tested annually for impairment.

Unrealised income arising from transactions within the group and inter-company balances are eliminated.

1.2 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. 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 income statement 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 income statement. 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:

Mining plant and equipment	3% – 33.3%
Furniture	5% – 10%

Decommissioning assets – 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 income statement in the year the asset is derecognised.

The asset’s residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

1.3 Impairment

The carrying amounts of the company's assets, other than goodwill, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Goodwill is tested for impairment annually. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

1.4 Inventories

Inventories are valued at the lower of costs and net realisable value. Inventory consisting of ore stockpiles is valued at the average cost of production.

Processed inventory of acid grade fluor spar concentrate is valued at the lower of average costs of production or estimated net realisable value. Estimated net realisable value is the estimated selling price in the ordinary course of business less any costs of completion and distribution. Consumables are valued on a moving average cost basis.

1.5 Revenue recognition

Revenue is recognised at the fair value of the consideration received net of any discounts and related taxes and to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be readily measured. Revenue from the sale of fluor spar concentrates, briquettes and agricultural lime is recognised when the significant risks and rewards of ownership are transferred to the buyer.

Investment income is recognised on a time proportionate basis that takes into account the effective yield, and an appropriate accrual is made at each accounting date.

1.6 Retirement benefit information

The group operates 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. The company's contributions are charged to the income statement in the year to which they relate.

1.7 Taxes

□ Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

□ Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Notes to the financial statements

for the year ended 30 June 2007 (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

□ Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

1.8 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency 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. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains and losses arising on translation are credited to or charged against income.

1.9 Financial instruments

□ Financial assets

Financial assets are recognised in the balance sheet when the company becomes party to the contractual provisions of the asset. When financial assets are recognised initially, they are measured in fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

■ Trade and other receivables

Trade and other receivables are measured at the fair value of original invoice using the effective interest rate, less impairment losses.

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Impairment losses on trade and other receivables are determined based on specific and objective evidence that assets are impaired and measured as the difference between the carrying amount of assets and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Cash flows pertaining to trade debtors are not discounted to present value where the trade receivables are short-term and the impact of such discounting is immaterial. Impairment losses are recognised in profit and loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

■ Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are measured at fair value, with changes in fair value being included in profit or loss.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

■ Money market deposits

Money market deposits in the balance sheet comprise long-term deposits required by the Department of Minerals & Energy and stand as guarantee for future restoration and decommissioning costs. Money market deposits are measured at fair value, with changes in fair value being included in profit or loss.

□ Financial liabilities

Financial liabilities are recognised in the balance sheet when the company becomes party to the contractual provisions of the liability. Financial liabilities are initially measured at fair value, plus transaction costs. However, transaction costs in respect of financial liabilities classified as fair value through profit and loss are expensed.

Non-derivative financial liabilities that are not designated on initial recognition as financial liabilities at fair value through profit or loss, including interest bearing loans and bank overdrafts, are measured at amortised cost.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability, and the difference in the respective carrying amounts is recognised in profit or loss.

■ Interest bearing loans and borrowings, and trade borrowings, and trade and other payables

After initial recognition, interest bearing loans and borrowings, and trade and other payables are subsequently measured at amortised cost using the effective interest method. Interest and any gains and losses are recognised as well as through the amortisation process.

□ Derivative financial instruments

The group uses derivative financial instruments (forward currency contracts) to cover its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of derivative financial instruments are recognised as they arise in the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The company does not apply hedge accounting in terms of IAS 39.

□ Offsetting of financial assets and liabilities

The company will offset financial assets and liabilities and present the net amount in the balance sheet when, and only when the company:

- currently has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.10 Derecognition of financial assets and liabilities

□ Financial assets

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset.

□ Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

1.11 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.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

1.12 Borrowing costs

Borrowing costs are recognised as an expense when incurred.

1.13 Provisions

A provision is recognised when there is a legal or constructive obligation, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

□ Environmental rehabilitation

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

□ Decommissioning costs

The present value of estimated future decommissioning costs, which embody the future economic benefits, are capitalised as property, plant and equipment and a 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 included in mine plant, equipment and buildings, 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.

1.14 Leased assets

Where the company assumes the significant risks and rewards of ownership of leased assets, these leases are classified as finance leases.

Items of plant and equipment held under finance leases are capitalised at their cash equivalent cost and a corresponding liability is raised. Such assets are depreciated in terms of the accounting policy on property, plant and equipment stated above.

Lease finance charges are allocated to accounting periods over the duration of the leases by the effective interest rate method, which reflects the extent and cost of lease finance utilised in each accounting period.

All other leases are treated as operating leases and the relevant rentals are charged to income on a straight line basis.

1.15 Share-based payment transactions

Certain employees (including senior executives) of the group receive an element of remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

□ Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Sallies Limited, if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service condition are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expenses recognised as at the beginning and end of that period. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised

Notes to the financial statements

for the year ended 30 June 2007 (continued)

for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 7).

1.16 Significant accounting judgements and estimates

□ Judgements

In the process of applying for the company's accounting policies, management has made judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements:

Preparing financial statements in conformity with IFRS requires estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

■ Asset lives and residual values

Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, extent of usage, environmental factors and maintenance programmes are taken into account. Residual value assessments consider the current market value for a similar asset that was already of the age and condition expected at the end of the asset's life were it disposed of net of estimated costs of disposal.

■ Deferred tax assets

Deferred tax assets are recognised to the extent it is probable that income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation, taxation rates and competitive forces.

□ Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

■ Impairment of assets

The company determines whether assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

■ Environmental rehabilitation

The company is required by law to provide for decommissioning and rehabilitation costs. Management determines on a yearly basis what the life of mine is and calculates this provision by taking into account the inflation rate and a discount rate at year end.

1.17 The following revised IFRS and Interpretation Standards, which did not have a material impact on reported results, were adopted in the current year:

- AC 503 Accounting for BEE Transactions;
- IAS 1 Amendment: Presentation of Financial Statements;
- IAS 21 Amendment: The effects of changes in Foreign Exchange Rates: Net Investment in a Foreign Operation;
- IAS 23 Amendment: Borrowing costs;
- IAS 39 Amendment: Financial Instruments, Recognition and Measurement;
- IFRIC 4 Determining Whether an Arrangement Contains a Lease;
- IFRIC 10 Interim Financial Reporting and Impairment;
- IFRIC 11 Group and Treasury Transactions;
- IFRIC 12 Service Concession Arrangements;
- IFRIC 13 Customer Loyalty Programmes; and
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Group		Company	
	2007	2006	2007	2006
2. REVENUE				
From the sale of:				
<input type="checkbox"/> Acid grade fluorspar concentrate	102 345	80 167	-	-
<input type="checkbox"/> Metallurgical grade fluorspar concentrate	6 970	6 460	-	-
<input type="checkbox"/> Agricultural lime	-	255	-	-
Mining revenue	109 315	86 882	-	-
Investment income	282	85	246	34
	109 597	86 967	246	34
3. FINANCE COST				
<input type="checkbox"/> Loan finance raising cost	80	329	-	-
<input type="checkbox"/> Bank overdraft and finance leases	5 198	2 130	-	15
<input type="checkbox"/> Other interest paid	1 202	15	870	15
<input type="checkbox"/> Unwinding of decommissioning obligation	-	261	-	-
	6 480	2 735	870	30
4. LOSS BEFORE TAXATION				
Is stated after taking into account:				
Auditors' remuneration	911	785	498	201
<input type="checkbox"/> Audit fee	911	785	498	201
<input type="checkbox"/> Other services	-	-	-	-
Depreciation of mining assets	11 129	5 211	-	-
Depreciation of office furniture and equipment	55	3	3	3
Amortisation of decommissioning asset	570	8	-	-
Provision for restoration	2 361	553	-	-
Foreign exchange losses/(gains)	(1 639)	1 435	-	-
<input type="checkbox"/> Gains	(1 933)	(405)	-	-
<input type="checkbox"/> Losses	294	1 840	-	-
Remuneration other than to employees				
<input type="checkbox"/> Managerial and technical services	1 655	219	1 655	219
<input type="checkbox"/> Secretarial and administration services	356	844	356	844
Share-based payment expense	-	7 812	-	7 812
Staff costs	33 526	19 990	-	-
Operating lease charges relating to equipment	-	2 949	-	-
5. DIRECTORS' EMOLUMENTS				
Non-executive directors				
Paid by company				
<input type="checkbox"/> J Biersch	45	225	-	270
<input type="checkbox"/> TG Dale	56	225	-	281
<input type="checkbox"/> PH Flack	75	-	95	170
<input type="checkbox"/> AD Moffat	75	-	-	75
<input type="checkbox"/> VE Msibi	120	-	-	120
<input type="checkbox"/> J Nel	60	-	-	60
<input type="checkbox"/> LB Robertson	75	-	249	324
<input type="checkbox"/> JE Woods	50	-	-	50
Executive directors				
Paid by subsidiaries				
<input type="checkbox"/> IJ Marais	-	720	534	1 254
Independent non-executive directors				
Paid by company				
<input type="checkbox"/> JJ Geldenhuis	-	-	-	70
Total	556	1 170	878	2 604
				5 230

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Group		Company	
	2007	2006	2007	2006
6. TAXATION				
South African normal taxation				
□ Prior year	-	(11)	-	-
□ Deferred tax liability offset against unrecognised assets	5 600	1 655	-	-
	5 600	1 644	-	-

R000	Group		Company	
	2007	2006	2007	2006
Reconciliation of tax rate				
□ Current year's credit as a percentage of net loss before taxation	-	4	-	-
□ Unutilised tax losses	29	25	-	29
□ Standard tax rate	29	29	-	29

The company has an estimated tax loss of R24.2 million (2006: R13.8 million) available for set off against future taxable income.

7. 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.

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 on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculation of loss per share is based on:

- An undiluted weighted average of 494 967 719 (2006: 271 263 476) shares in issue during the year.
- A diluted average of 499 430 016 (2006: 271 263 476) shares in issue, assuming that all the options granted had been exercised with effect from the date they were granted.

R000	Group	
	2007	2006
Reconciliation of earnings		
□ Net loss attributable to shareholders for basic earnings per share	(41 635)	(37 784)
Add: Gain on disposal of assets (net of tax)	(414)	(1 290)
□ Net loss attributable to shareholders for headline earnings per share	(42 049)	(39 074)
Headline loss		
Undiluted	(8.5c)	(14.4c)
Diluted	(8.4c)	(14.4c)

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Group		Company	
	2007	2006	2007	2006

8. GOODWILL

□ Carrying value	10 175	10 715	-	-
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R000	Mineral rights	Furniture and equipment	Mine properties	Mine plant and equipment	Decommissioning asset	Total
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9. PROPERTY, PLANT AND EQUIPMENT

GROUP

2007

□ Cost	36 619	31	-	68 735	166	105 551
□ Accumulated depreciation and impairment	(12 661)	(28)	-	(20 837)	(85)	(33 611)
□ Carrying amount at 30 June 2006	23 958	3	-	47 898	81	71 940
□ Additions	-	431	9 349	70 301	9 607	89 688
□ Depreciation	(2 564)	(58)	-	(11 126)	(570)	(14 318)
□ Disposals at net book value	-	-	-	(4 036)	-	(4 036)
□ Cost	36 619	462	9 349	131 661	9 773	187 864
□ Accumulated depreciation and impairment	(15 225)	(86)	-	(28 624)	(655)	(44 590)
□ Carrying amount at 30 June 2007	21 394	376	9 349	103 037	9 118	143 274

GROUP

2006

□ Cost	36 619	31	480	56 121	166	93 417
□ Accumulated depreciation and impairment	(10 605)	(25)	(480)	(15 871)	(77)	(27 058)
□ Carrying amount at 30 June 2005	26 014	6	-	40 250	89	66 359
□ Additions	-	-	-	12 859	-	12 859
□ Depreciation	(2 056)	(3)	-	(5 211)	(8)	(7 278)
□ Disposals at net book value	-	-	-	-	-	-
□ Cost	36 619	31	-	68 735	166	105 551
□ Accumulated depreciation and impairment	(12 661)	(28)	-	(20 837)	(85)	(33 611)
□ Carrying amount at 30 June 2006	23 958	3	-	47 898	81	71 940

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Furniture	Mine properties	Total
9. PROPERTY, PLANT AND EQUIPMENT (continued)			
COMPANY			
2007			
□ Cost	31	-	31
□ Accumulated depreciation and impairment	(28)	-	(28)
□ Carrying amount at 30 June 2006	3	-	3
□ Additions	6	-	6
□ Depreciation	(3)	-	(3)
□ Cost	37	-	37
□ Accumulated depreciation and impairment	(31)	-	(31)
□ Carrying amount at 30 June 2007	6	-	6
COMPANY			
2006			
□ Cost	31	480	511
□ Accumulated depreciation and impairment	(25)	(480)	(505)
□ Carrying amount at 30 June 2005	6	-	6
□ Depreciation	(3)	-	(3)
□ Disposals	-	-	-
□ Cost	31	-	31
□ Accumulated depreciation and impairment	(28)	-	(28)
□ Carrying amount at 30 June 2006	3	-	3

The carrying value of mine plant, equipment and buildings held under finance leases at 30 June 2007 is R19 426 588 (2006: R12 530 499). Refer note 16.1.

Certain portions of the farm Renosterfontein 304 JP are mortgaged as security for banking facilities.

A register containing the information required by paragraph 22 (3) of Schedule 4 of the Companies Act is available for inspection at the registered office of the company.

R000	Note	Group 2007	Group 2006	Company 2007	Company 2006
10. INTEREST IN SUBSIDIARIES					
Unlisted shares at cost				80 450	80 449
Amounts due (by)/to:					
□ Witkop Fluorspar Mine (Proprietary) Limited				35 299	(4 602)
□ Buffalo Fluorspar Mine (Proprietary) Limited				43 002	-
□ Pypklip Mining Holdings (Proprietary) Limited				30 013	54 548
				188 764	130 395

These intergroup amounts are unsecured and interest free. These amounts are regarded as capital contributions by the company to its subsidiaries.

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11. RESTRICTED INVESTMENT

Money market deposits	-	533	-	-
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The deposits are required by the Department of Minerals & Energy, and stand as guarantee for future restoration and decommissioning costs. Interest at a variable rate was earned on this account. The effective interest rate ranged between 6.1% and 6.5% in 2006.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Note	Group		Company	
		2007	2006	2007	2006
12. INVENTORIES					
<input type="checkbox"/>	Tailing dumps	4 890	-	-	-
<input type="checkbox"/>	Ore stockpiles (at cost)	2 609	1 551	-	-
<input type="checkbox"/>	Acid grade fluorspar (at net realisable value)	16 560	1 817	-	-
<input type="checkbox"/>	Metallurgical grade fluorspar (at net realisable value)	49	12	-	-
<input type="checkbox"/>	Consumables (at net realisable value)	9 813	1 807	-	-
		33 921	5 187	-	-

The amount of write down of inventories to net realisable value recognised as an expense in the income statement is R1 624 706 (2006: R191 887).

This expense is included in cost of sales. 4

13. ACCOUNTS RECEIVABLE					
<input type="checkbox"/>	Trade debtors	2 880	10 248	-	-
<input type="checkbox"/>	Sundry debtors	9 359	2 482	1 827	349
<input type="checkbox"/>	Impairment of trade debtors	-	(7 878)	-	-
		12 239	4 852	1 827	349

The trade debtors are ceded to the company's bankers as security for facilities granted. Trade receivables are non-interest bearing and are generally on 30 days.

14. CASH AND CASH EQUIVALENTS					
<input type="checkbox"/>	Current bank account	(29 461)	(14 198)	(8 572)	-
<input type="checkbox"/>	Cash on call and on hand	603	7	-	-
<input type="checkbox"/>	Offshore account	4	-	-	-
<input type="checkbox"/>	Rights issue bank account	-	74 251	121	74 251
		(28 854)	60 060	(8 451)	74 251

Witkop Fluorspar Mine (Proprietary) Limited has facilities of R10 million and Buffalo Fluorspar Mine (Proprietary) Limited has facilities of R6 million secured by cessions of accounts receivable, mortgages over certain properties and unlimited guarantees by the company and its subsidiaries. Current account bears interest at floating rates based on prime.

15. SHARE CAPITAL AND PREMIUM					
Share capital					
<input type="checkbox"/>	Authorised				
	1 000 000 000 ordinary shares of 0.1 cent each	1 000	500	1 000	500
<input type="checkbox"/>	Issued and fully paid				
<input type="checkbox"/>	Opening balance: 450 063 797 shares	450	257	450	257
<input type="checkbox"/>	Issued for cash: 42 858 000	43	141	43	141
<input type="checkbox"/>	Issued for cash on exercise of share options: 13 341 868	13	52	13	52
<input type="checkbox"/>	506 263 665 ordinary shares of 0.1 cent each	506	450	506	450

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Note	Group		Company	
		2007	2006	2007	2006
15. SHARE CAPITAL AND PREMIUM (continued)					
Share premium					
□ Arising from the allotment and issue of ordinary shares		181 624	92 209	181 624	92 209
□ Less: Share issue and related expenses written off		(6 389)	(3 299)	(6 389)	(3 299)
□ Opening balance		175 235	88 910	175 235	88 910
□ Issued for cash		29 958	64 882	29 958	64 882
□ Issued for cash on exercise of share options		4 409	15 470	4 409	15 470
□ Transfer of share-based payment reserve on exercise of options		-	9 063	-	9 063
□ Less: Share issue and related expenses written off		-	(3 090)	-	(3 090)
		209 602	175 235	209 602	175 235
□ Total share capital and premium		210 108	175 685	210 108	175 685

Share option schemes

The company has a share option scheme under which options to subscribe for the company's shares have been granted to certain executives and senior employees.

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16. INTEREST BEARING DEBT

16.1 Finance leases

□ Balance at 30 June	19 571	10 393	-	-
□ Less: Current portion included in current liabilities	(5 628)	(5 755)	-	-
	13 943	4 638	-	-

The finance lease liability is secured by various items of plant and equipment (refer note 9). Interest is charged at various rates (8.7% –13.7%) (2006: 8.7% – 13.7%). The present value of the net minimum lease payments are as follows:

R000		Minimum payments		Present value of minimum payments	
		2007	2006	2007	2006
GROUP					
□ Within 1 year		7 648	6 542	5 628	5 755
□ After 1 year but not greater than 5 years		16 504	5 243	13 943	4 638
		24 152	11 785	19 571	10 393
□ Less: Future finance charges		(4 581)	(1 392)	-	-
		19 571	10 393	19 571	10 393

R000	Note	Group		Company	
		2007	2006	2007	2006
16.2 Short-term loans – secured					
□ Balance at 30 June		26 936	-	26 936	-
□ Less: Current portion included in current liability		(26 936)	-	(26 936)	-
		-	-	-	-
The loan was repaid out of the proceeds of the rights offer on 2 July 2008.					
Total interest bearing debt		13 943	4 638	-	-

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Group		Company	
	2007	2006	2007	2006
17. PROVISION FOR ENVIRONMENTAL REHABILITATION				
Decommissioning obligation				
□ Balance at 1 July	1 489	1 228	-	-
□ Movement for the year – unwinding	917	261	-	-
□ Balance at 30 June	2 406	1 489	-	-
Restoration provision				
□ Balance at 1 July	3 163	2 610	-	-
□ Movement for the year – unwinding	9 387	553	-	-
□ Balance at 30 June	12 550	3 163	-	-
Total	14 956	4 652	-	-
Key assumptions:				
□ Discount rate (risk free rate R153)	9.3%	8.5%		
□ Inflation rate (PPI)	10.0%	5.9%		
Decommissioning and restoration provision				
These provisions are raised to ensure that adequate provision has been made for the decommissioning and restoration obligation of the mine. The Department of Minerals and Energy approved cost is used as the basis for the calculation.				
18. DEFERRED TAXATION				
□ Balance at 1 July	5 600	7 255	-	-
□ Income statement movement	(5 600)	(1 655)	-	-
□ Balance at 30 June	-	5 600	-	-
Comprising:				
□ Mineral rights acquired in a business combination	-	6 948	-	-
□ Capital allowances	-	1 526	-	-
□ Prepayments	-	116	-	-
□ Provisions	-	(790)	-	-
□ Tax losses	-	(17 634)	-	(3 915)
□ Tax assets not raised	-	15 434	-	3 915
	-	5 600	-	-
19. ACCOUNTS PAYABLE				
□ Trade creditors	21 528	35 629	-	-
□ Fair value of foreign exchange contracts	-	1 067	-	-
□ Other creditors	3 872	5 508	2 575	4 959
	30 850	42 204	2 575	4 959

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Provision for legal fees	Bonus and leave pay	Staff provisions	Other	Total
20. PROVISIONS					
GROUP					
□ Opening balance	3 142	1 262	352	22	4 778
□ Transfer to accounts payable	–	(2 279)	(440)	(134)	(2 853)
□ Provided for during the year	473	2 261	1 030	252	4 015
□ Utilised	(2 824)	(1 244)	(942)	(26)	(5 036)
□ Reversed	(317)	–	–	–	(317)
	473	–	–	114	587
COMPANY					
□ Open balance				3 142	3 142
□ Utilised				(2 824)	(2 824)
□ Reversed				(318)	(318)
				–	–

Provision for legal fees

The contract with Honeywell was cancelled during the 2006 financial year and management has provided for legal fees in respect of the arbitration process.

Provision for employee benefits

Employee benefits in the form of bonus entitlements are provided for when they accrue to the employee with reference to services rendered up to the balance sheet date.

Provision for leave pay

A provision for leave pay is recognised for leave days owed to employees at year end. The provision is determined by multiplying the number of days owed to each employee by a daily rate based on the employee's remuneration. The provision is expected to be realised during the following year when employees are paid out their leave or when they use it.

21. CAPITAL COMMITMENTS

There were no capital commitments at 30 June 2007 (2006: Nil). Proposed capital expenditure is financed from internal resources and borrowing facilities.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

22. CONTINGENT LIABILITIES

Eskom power supply

In the event of Witkop Fluorspar Mine 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 will be proportionately reduced from the year 2002 to the year 2012. At 30 June 2007, the potential liability is R317 076 (2006: R369 922).

Suretyship

The company has provided an unlimited suretyship to the bankers of Witkop Fluorspar Mine (Proprietary) Limited and Buffalo Fluorspar Mine (Proprietary) Limited.

South African Revenue Service

SARS and Sallies have a dispute with regard to an interest claim. SARS claimed that interest on the US Dollar loan raised through RMB Resources, Australia, at the time of acquisition of Witkop was not interest incurred in the production of income. This matter came to trial in August 2006. Judgment has gone in favour of SARS. Management has taken this judgment on appeal and it is still in a judicial process.

Honeywell supply agreement dispute

The company terminated its onerous supply agreement with Honeywell. The matter is currently being heard by an Arbitral Tribunal established by the International Chamber of Commerce in Zurich.

The witness hearings before the Arbitral Tribunal took place in September 2007. The Arbitral Tribunal delivered a preliminary non-binding assessment in January 2008 in which they expressed the view that Honeywell had committed a material breach of the agreement and therefore the termination of the agreement by Witkop was lawful. Honeywell are required to disclose, by 11 February 2008, the weighted average FCA price negotiated for annual purchases by them of fluorspar, for the years 2001 to 2005, excluding the purchases from Witkop.

Honeywell has notified the Tribunal of its intention to change the basis of its claim for damages. Written argument on this point will be delivered to the Tribunal during February 2008.

Application for the liquidation of Witkop Fluorspar Mine (Pty) Limited ("Witkop Fluorspars")

During April 2006 an application for its winding-up was brought against Witkop Fluorspar by its erstwhile drilling contractor Fixtrade 1241 CC ("Fixtrade"). Witkop Fluorspar is opposing the application and is pursuing a counterclaim against Fixtrade which exceeds the amount being claimed against Witkop Fluorspar by Fixtrade. The dispute between the two companies arose when Witkop Fluorspar withheld payment to the value of approximately R961 000 from Fixtrade for persistent under-delivery in terms of the drilling contract concluded between the parties, which Witkop Fluorspar subsequently cancelled.

23. RETIREMENT BENEFITS

All the employees of the company belong to 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 947 295 (2006: R1 269 399).

24. FINANCIAL INSTRUMENTS

24.1 General

The group uses derivative financial instruments mainly to manage the currency risk arising from its operations. The derivatives used for this purpose are forward exchange contracts. In addition, various financial instruments – for example accounts receivable and accounts payable – arise directly from the group's operations. The group finances its operations primarily through a mixture of issued share capital, long-term loans and short-term loans, principally from its bankers.

The types of financial instruments used for investments of short-term funds are prescribed in group treasury policies with limits on the exposure to any one counter party.

The management of the group's funding, short-term investing in financial instruments, interest and currency risk is undertaken on behalf of the group by external managers who are limited to dealing in certain defined derivative instruments and are given strict guidelines on credit, spread and maturity profiles.

There has been no change in the nature of the group's risk profile between 30 June 2007 and the date of these financial statements.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

24. FINANCIAL INSTRUMENTS (continued)

24.2 Currency risk management

Forward exchange contracts have been entered into to reduce the foreign currency exposure on the group's operations and the group's net assets. The group enters into forward exchange contracts to hedge sale commitments denominated in foreign currencies (principally USD). The remaining terms of the currency forward exchange contracts are typically less than one year.

The purpose of the group's foreign currency hedging activities is to protect the group from the risk that the eventual net inflows will be adversely affected by changes in exchange rates.

At 30 June 2007, the group had no outstanding forward exchange contracts.

Currency exposure in accounts receivable USD000	2007	2006
<input type="checkbox"/> USD accounts receivable	149	1 145
<input type="checkbox"/> USD covered by way of FECs	-	(1 761)
<input type="checkbox"/> Net exposure	149	(616)

24.3 Interest rate risk management

The group has not entered into any interest rate swap agreement with banks, but will, at the appropriate time, consider the utilisation of these instruments to convert from a floating to a fixed interest rate.

24.4 Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

24.5 Liquidity risk

The group has managed its liquidity risk by issuing share capital and ensuring that it has adequate banking facilities.

24.6 Fair values

The fair values of all cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts reflected in the balance sheet.

R000	Country of incorporation	% equity interest 2007	% equity interest 2006
------	-----------------------------	------------------------------	------------------------------

25. RELATED PARTIES

The consolidated financial statements include the financial statements of Sallies Limited and the subsidiaries listed in the following table:

Directly held

<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 Mine (Pty) Limited	South Africa	100	100

Indirectly held through Witkop Fluorspar Mine (Pty) Limited

<input type="checkbox"/> Marico Fluorspar (Pty) Limited	South Africa	100	100
<input type="checkbox"/> Mosega Fluorspar Works (Pty) Limited	South Africa	100	100

All group companies have provided unlimited suretyships to the bankers of Witkop Fluorspar Mine (Pty) Limited.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

Related party R000	Investment in related parties	Transactions with related parties	Amounts owed by related parties	Amounts owed to related parties
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25. RELATED PARTIES (continued)

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year.

Entity with significant influence over the group

□ FRM Strategies (Pty) Limited 2007	–	111	–	–
□ FRM Strategies (Pty) Limited 2006	–	219	–	109

Subsidiary companies

□ Buffalo Fluorspar Mine (Pty) Limited	–	–	44 488	–
□ Witkop Fluorspar Mine (Pty) Limited 2006	78 964	–	35 299	–
□ Pypklip Mining Holdings (Pty) Limited 2006	–	–	30 013	–

□ 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. For the year ended 30 June 2007, the group has not made any provision for doubtful debts relating to amounts owed by related parties (2006: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Group companies have agreed that they do not intend to call up the intercompany loans for at least the next 12 months.

R000	2007	2006
Compensation of key management of the group		
□ Short-term employee benefits	1 150	720
□ Post-employment pension and medical benefits	198	144
□ Other benefits	474	453
□ Share-based payments	330	408
□ Total compensation paid to key personnel	2 152	1 725

Directors' interests in an employee share incentive plan

At 30 June 2007, the members of the board of directors held options to purchase ordinary shares under this scheme as follows:

- 8 487 500 ordinary shares options owned by Izak Marais at prices between 20 cents and 60 cents each, vesting over a three year period.

Options granted in terms of the share incentive scheme expire ten years after grant date.

During 2007, 1 937 500 options were granted to Izak Marais in terms of the rights issue at 60 cents each.

FRM Strategies (Pty) Limited exercised 9.8 million options at prices between 22 cents to 60 cents per share, with a total consideration received by the group of R23 million in cash.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

26. SEGMENTAL REPORTING

Based on risks and returns, the directors consider that the primary reporting is by business segment. The directors consider that there were three business segments during the year under review, being:

- mining, extraction and production of acid grade fluorspar concentrate used to produce HF gases and aluminium fluoride;
- the purchase, drying, briquetting and sale of metallurgical grade fluorspar concentrate into steel manufacturing and foundry industries;
- the sale of agricultural lime into the agricultural sector.

Revenue by products

As revenue from the first of these business segments constitutes more than 90% of total revenue, no segmental reporting by business segments is provided. The secondary reporting format is by geographical analysis by origin and destination.

By origin

The Witkop Fluorspar Mine is situated near Zeerust in the North West Province and produces acid grade fluorspar concentrates primarily for export and metallurgical grade fluorspar concentrates for the local market.

The Buffalo Fluorspar Mine is situated near Mookgophong in the Limpopo province and produces acid grade fluorspar concentrate primarily for export.

The other assets and capital expenditure are of a South African nature.

R000	Revenue		Accounts receivable	
	2007	2006	2007	2006
By destination				
<input type="checkbox"/> North Africa	6 552	–	–	–
<input type="checkbox"/> USA	9 895	5 533	502	7 878
<input type="checkbox"/> Europe	75 918	74 634	555	574
<input type="checkbox"/> South Africa	16 950	6 715	1 823	1 796
	109 315	86 882	2 880	10 248

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Group		Company	
	2007	2006	2007	2006
27. CASH FLOW INFORMATION				
27.1 Reconciliation of net loss before taxation to cash generated/(utilised) by operations				
Loss before taxation	(47 235)	(39 428)	(78 687)	(17 600)
Adjustments for:				
Amortisation of mineral rights	2 564	2 056	-	-
Depreciation of mining assets	11 097	5 211	-	-
Depreciation of environmental assets	-	8	-	-
Depreciation of office furniture and equipment	87	3	3	3
Finance cost	6 480	2 735	870	30
Investment income	(282)	(85)	(246)	(34)
Profit from the sale of property, plant and equipment	(583)	(1 817)	(5)	(1 743)
Provision for environmental rehabilitation	10 303	814	-	-
Provision for onerous contract	-	(9 366)	-	-
Impairment of trade debtors	-	5 435	-	-
Other provisions raised	656	4 778	-	3 142
Share-based payments	-	7 812	-	7 812
Operating cash flow before changes in working capital				
Carried forward	(16 913)	(21 844)	(78 065)	(8 390)
Decrease/(increase) in working capital:				
Inventories	(28 734)	10 651	-	-
Accounts receivable	(7 387)	(2 083)	(1 539)	(143)
Accounts payable	(16 401)	18 433	66 701	4 169
Cash generated/(utilised) by operations	(69 435)	5 157	(12 903)	(4 364)
27.2 Normal taxation paid				
Balance at 1 July	2 716	2 858	-	-
Current year's charge	73	(11)	-	-
Balance at 30 June	2 789	(2 716)	-	-
Normal taxation paid	-	131	-	-

28. SHARE-BASED PAYMENTS

Share Incentive Schemes

The Sallies Limited Share Incentive Scheme was adopted on 10 November 1999. The options which are currently outstanding were granted at weighted average strike prices varying between 22 cents and 56 cents per option. 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.

At 30 June 2007, options under this scheme were outstanding over:

- 8 487 500 ordinary shares to Izak Marais at prices between 20 cents and 60 cents each, vesting over a three year period.
- 968 750 ordinary shares to employees at prices between 20 cents and 60 cents each, vesting over a three year period.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

R000	Number of options		WAEP	
	2007	2006	2007	2006

28. SHARE-BASED PAYMENTS (continued)

During 2007, 1 937 500 options were granted to Izak Marais and 193 750 to employees in terms of the rights issue at 60 cents per share, and options granted during the year.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year for Izak Marais:

□ Outstanding at the beginning of the year	7 750 000	4 000 000	33	20-35
□ Granted during the year	–	1 000 000	–	34
□ Rights issue during the year	1 937 500	2 750 000	60	46
□ Exercised during the year	(1 200 000)	–	20	–
□ Outstanding at the end of the year	8 487 500	7 750 000	41	33

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year for employees:

□ Outstanding at the beginning of the year*	3 107 000	1 505 000	39	22-56
□ Granted during the year	–	500 000	–	34
□ Rights issue during the year	193 750	1 102 000	60	46
□ Exercised during the year	(2 332 000)	–	38	–
□ Outstanding at the end of the year	968 750	3 107 000	42	39

* Included within this balance are options that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002.

Notes to the financial statements

for the year ended 30 June 2007 (continued)

28. SHARE-BASED PAYMENTS (continued)

The options are settled in equity once exercised.

FRM agreement

In 2003, FRM Strategies (Proprietary) Limited was appointed to drive the implementation phase of the then newly developed strategic plan designed to return the company to profitability and maximise shareholder value over a three year period. Messrs Flack, Robertson and Moffat, who are directors of FRM Strategies (Pty) Limited and are each, directly or indirectly, beneficial shareholders of one third of the share capital of FRM Strategies (Pty) Limited, were appointed as directors of Sallies. In the implementation phase, FRM Strategies (Pty) Limited was incentivised to maximise Sallies' market capitalisation, by the award of options over Sallies shares.

The agreement provided for the issue of 38 988 250 options. A further 22 522 676 options were subsequently granted in terms of rights offers. Those options were exercised as follows:

51 700 000 during 2006 for cash of R15.5 million

9 820 966 during 2007 for cash of R23.0 million

The following table illustrates the number and weighted average exercise prices (WAGP) of, and movements in, share options during the year for FRM Strategies (Pty) Limited:

R000	Number of options		WAGP	
	2007	2006	2007	2006
□ Outstanding at the beginning of the year	8 731 786	38 988 250	46	20-22
□ Rights issue during the year	1 079 140	21 443 536	60	46
□ Exercised during the year	(9 810 926)	(51 700 000)	25-60	20-46
□ Outstanding at the end of the year	-	8 731 786	-	46



Notice of annual general meeting

Notice is hereby given that the annual general meeting of shareholders of the company will be held at 12h00 on Wednesday, 27 February 2008 at the Glenhove Conference Centre, 52 Glenhove Road, Melrose Estate for the following purposes:

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

1. ANNUAL REPORT

As ordinary resolution number 1

To receive and consider the annual financial statements of the company and the group for the year ended 30 June 2007 together with the directors' and independent auditors' reports.

2. DIRECTORS

As ordinary resolution number 2

2.1 "RESOLVED THAT Mr TG Dale be appointed as a director of the company."

As ordinary resolution number 3

2.2 "RESOLVED THAT Mr J Blersch be appointed as a director of the company."

As ordinary resolution number 4

2.3 "RESOLVED THAT Mr JE Woods be appointed as a director of the company."

As ordinary resolution number 5

2.4 "RESOLVED THAT Mr BC Esterhuyzen be appointed as a director of the company."

The directors listed in items 2.1 to 2.4 above were appointed during the year as additional directors in terms of article 68 of the company's articles of association. In terms of article 81, they are obliged to retire at the annual general meeting but they are eligible for election.

An abbreviated *curriculum vitae* of each director appears on page 1 of this report.

3. DIRECTORS' FEES

As ordinary resolution number 6

"RESOLVED THAT with effect from 1 July 2007, the annual directors' fees be set at R120 000 each, with the Chairman receiving an additional R30 000."

4. DIRECTORS' OPTIONS

As special resolution number 1

4.1 "RESOLVED THAT the company authorise, subject to the Listings Requirements of the JSE Limited and pursuant to section 223 of the Companies Act, 1973, that the following options be granted to TG Dale ("Dale") and J Blersch ("Blersch") upon and subject to the following terms and conditions:

4.1.1 Each of Dale and Blersch shall have the irrevocable right and option to purchase 18 768 774 ordinary par value shares of 0.1 cent each in the issued share capital of the company ("Shares") at a strike price of 60 cents per Share, exercisable, cumulatively, as to 12 512 516 Shares on or after 31 December 2007 (as to two thirds), 31 December 2008 (as to five sixths) and 31 December 2009 (as to all the Shares forming the subject matter of the options), subject to Dale or Blersch, as the case may be, still remaining a consultant or in the employ of Sallies at the relevant exercise date.

4.1.2 If either Dale or Blersch ceases to be a consultant or to remain in the employ of Sallies, any of the options that may have become exercisable by the affected director, as the case may be, will continue to be exercisable after date of termination of his consultancy or employment during the following periods:

4.1.2.1 if termination occurs before 30 June 2008: one month thereafter

4.1.2.2 if termination occurs between 1 July 2008 and 30 June 2009: 1 year thereafter

Notice of annual general meeting

(continued)

4.1.2.3 if termination occurs after 30 June 2009: 2 years thereafter.

4.1.3 All or any of the options may be exercised immediately by Dale and/or Blersch if at any time whilst any option remains unexercised there is a change in control in Sallies (within the meaning of the Securities Regulation Code on take-over and Mergers of the Securities Regulation Panel)."

5. AUDITORS

As ordinary resolution number 7

5.1 "RESOLVED THAT the remuneration of the auditors be determined by the directors in their sole discretion."

As ordinary resolution number 8

5.2 "RESOLVED THAT BDO Spencer Steward (Johannesburg) Incorporated, the company's existing auditors, be appointed to hold office until the next annual general meeting."

(BDO Spencer Steward were appointed by the directors on 3 May 2007 in terms of article 128 of the company's articles of association, following the resignation of Ernst & Young, who decided that the company no longer meets their client continuance criteria.)

6. UNISSUED SHARE CAPITAL

As ordinary resolution number 9

6.1 "RESOLVED THAT the entire authorised but unissued share capital of the company be placed under the control of the directors of the company until the next annual general meeting with general authority to allot and issue all or part thereof in their discretion and upon such terms and conditions as they deem fit, subject to sections 221 and 222 of the Companies Act, 1973, as amended, and the Listings Requirements of the JSE."

As ordinary resolution number 10

6.2 "RESOLVED THAT the directors of the company be authorised until the next annual general meeting of the company (whereupon this authority shall lapse, unless it is renewed at the aforementioned annual general meeting), provided that it shall not extend beyond 15 months from the date of this annual general meeting, to allot and issue ordinary shares for cash subject to the Listings Requirements of the JSE and the Companies Act, 1973, as amended, on the following basis:

6.2.1 the securities which are a subject of the issue must be a class already in issue;

6.2.2 the allotment and issue of ordinary shares for cash shall be made only to persons qualifying as public shareholders as defined in the Listings Requirements of the JSE and not to related parties;

6.2.3 the number of ordinary shares issued for cash shall not in the aggregate in any one financial year of the company exceed 15% of the company's issued ordinary shares. The number of ordinary shares which may be issued for cash shall be based on the number of ordinary shares in issue at the date of application, less any ordinary shares issued by the company during the current financial year, provided that any ordinary shares to be issued for cash pursuant to a rights issue (announced, irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were ordinary shares in issue at the date of application;

6.2.4 the maximum discount at which ordinary shares may be issued for cash is 10% of the weighted average traded price on the JSE of those ordinary shares 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; and

6.2.5 after the company has issued ordinary shares for cash which represent, on a cumulative basis within a financial year, 5% or more of the number of ordinary shares in issue prior to that issue, the company shall publish an announcement containing full details of the issue, including the effect of the issue on the net asset value and earnings per share of the company."

Note:

In terms of the Listings Requirements of the JSE, a 75% majority of the votes cast by shareholders present or represented by proxy at the annual general meeting must be cast in favour of this ordinary resolution for it to be approved.

Notice of annual general meeting

(continued)

7. DEBENTURES

As ordinary resolution number 11

"RESOLVED THAT the directors of the company be given specific authority, pursuant to section 221 of the Companies Act, 1973, to allot and issue 151 483 358 unsubordinated unsecured convertible debentures with a nominal value of R0.50 each upon and subject to the terms and conditions set out in the document entitled "Terms and Conditions attaching to the unsubordinated unsecured convertible debentures of the company with a nominal value of R0.50 each" which is attached as a loose insert in this Annual Report, and to allot and issue, credited as fully paid, the maximum whole number of shares set out in the terms and conditions set out in the document entitled "Terms and Conditions attaching to the unsubordinated unsecured convertible debentures of the company with a nominal value of R0.50 each," equal to the aggregate principal amount of the debentures upon the repayment, conversion, purchase or cancellation of such Debentures, as contemplated in the terms and conditions attaching to such debentures, subject further to sections 221 and 222 of the Companies Act, 1973 and the Listings Requirements of the JSE."

8. REASON AND EFFECT OF SPECIAL RESOLUTION 1

The reason for special resolution number 1 is the requirement in section 223 of the Companies Act, 1973 that no option or right may be given either directly or indirectly to any director of a company on any basis other than that laid down in section 222(1)(c) (i.e. in terms of a pro rata offer to all the members of the company) unless it has been authorised in terms of a special resolution. The effect of special resolution number 1 is to authorise the company to grant to each of Dale and Blersch an option to purchase 18 768 774 shares at a strike price of 60 cents per share in three tranches.

9. VOTING AND PROXIES

A shareholder of the company entitled to attend, speak and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend, speak and on a poll to vote in his/her stead. The proxy need not be a shareholder of the company. A form of proxy is attached within this annual report for the convenience of any certificated shareholders and own-name registered dematerialised shareholders who cannot attend the annual general meeting, but who wish to be represented thereat. On a poll every shareholder of the company present in person or represented by proxy shall have one vote for every share held in the company by that shareholder. Shareholders who have dematerialised their ordinary shares through a Central Securities Depository Participant (CSDP) or broker, other than own-name registered dematerialised shareholders, and who wish to attend the annual general meeting, must request that their CSDP or broker issue them with the necessary authority to attend. Should shareholders who have dematerialised their ordinary shares, other than own-name dematerialised shareholders, wish to vote by proxy, they must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between that dematerialised shareholder and their CSDP or broker, and in the manner and cut-off time stipulated by the CSDP or broker.

Forms of proxy, duly completed and signed by the shareholders, must be lodged at the company's transfer secretaries at the address below by no later than 12h00 on Monday, 25 February 2008.

By order of the board

Registered office
Witkop Fluorspar Mine
Farm Wintershoek
Zeerust, 2865

Transfer secretaries
Computershare Investor Services
2004 (Proprietary) Limited
70 Marshall Street,
Johannesburg, 2001
(PO Box 61051,
Marshalltown, 2107)



Proxy form

Only for use by certificated and own-name dematerialised shareholders.

Shareholders who have dematerialised their shares, who do not have own-name registration and who wish to be represented at the meeting, must instruct their CSDP or broker in terms of the agreement between them.

For use at the annual general meeting of the company to be held at 12h00 on Wednesday, 27 February 2008 at the Glenhove Conference Centre, 52 Glenhove Road, Melrose Estate, Johannesburg.

I/We _____ (name in block letters)

of (address in block letters) _____

being the holder/s of _____ ordinary shares in Sallies Limited

do hereby appoint _____ of _____

or, failing him/her _____ of _____

or, failing him/her, the chairman of the meeting as my/our proxy to attend, speak and, on a poll, vote on my/our behalf at the annual general meeting of the company to be held on Wednesday, 27 February 2008 at 12h00 and at any adjournment thereof, and to vote or abstain from voting as follows on the resolutions to be proposed at such meeting:

	For	Against	Abstain
Ordinary resolution number 1: Receive and consider the annual financial statements			
Ordinary resolution number 2: Elect TG Dale			
Ordinary resolution number 3: Elect J Blersch			
Ordinary resolution number 4: Elect JE Woods			
Ordinary resolution number 5: Elect BC Esterhuyzen			
Ordinary resolution number 6: Approve directors' fees			
Special resolution number 1: Approve terms of options to be granted to Messrs Dale and Blersch			
Ordinary resolution number 7: Authorise the directors to agree the auditors' remuneration			
Ordinary resolution number 8: Appoint BDO Spencer Steward (Johannesburg) Incorporated as the company's auditors			
Ordinary resolution number 9: Authorise that the unissued share capital be placed under the control of the directors			
Ordinary resolution number 10: Authorise the directors to allot and issue ordinary shares for cash			
Ordinary resolution number 11: Authorise the directors to allot and issue the debentures and the maximum whole number of shares set out in the terms and conditions equal to the aggregate principal amount of the debentures upon repayment, conversion, purchase or cancellation of such debentures			

A shareholder entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy or proxies to attend, speak and, on a poll, vote in his/her stead. A proxy need not be a shareholder of the company.

Every person present and entitled to vote at the annual general meeting as a shareholder or as a representative of a body corporate shall on a show of hands have one vote only, irrespective of the number of shares such person holds or represents, but in the event of a poll, every share shall have one vote.

Please indicate with an "X" in the appropriate spaces above how you wish your votes to be cast. If you return this form duly signed without any specific directions, the proxy will vote or abstain at his discretion.

Signed at _____ on _____ 2008

Signature _____

Assisted by me (where applicable)

Please ensure that the completed proxy is received by Computershare Investor Services 2004 (Proprietary) Limited, PO Box 61051, Marshalltown, 2107 South Africa, fax +27 (11) 638 5321 by 12h00 on Monday, 25 February 2008.

Please read the notes on the reverse hereof.

Notes to the proxy

1. Signatory/ies to the proxy form may insert the name of a proxy or the name of an alternative proxy of his choice in the blank spaces provided with or without deleting “the chairman of the meeting”, but any such deletion must be initialled by the signatory/ies.

Any insertion or deletion not complying with the foregoing will be deemed not to have been validly effected. The person present at the meeting whose name appears first on the list of names above, shall be validly appointed proxy for the shareholder at the meeting.

2. A shareholder's instructions to the proxy must be indicated in the appropriate blocks provided. A shareholder or his proxy is not obliged to use all the votes exercisable by the shareholder or by his proxy or to cast all those votes in the same way, but the total of his votes cast and in respect whereof abstention is directed, may not exceed the total of the votes exercisable by the shareholder or his proxy. Failure to comply with the above or to provide voting instructions or the giving of contradictory instructions will be deemed to authorise the proxy to vote or abstain from voting at the meeting as he deems fit in respect of all that shareholder's votes exercisable at the meeting.
3. Any alteration or correction made to this proxy form must be initialled by the signatory/ies.
4. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the company.
5. When there are joint holders of shares, any one holder may sign the proxy form.
6. A married woman still subject to her husband's marital power must be assisted by him (if applicable).
7. The completion and lodging of this proxy form will not preclude the shareholder who signs this proxy from attending the 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.
8. Completed proxy forms should be returned to the company's transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), South Africa to be received by no later than 12h00 local time on Monday, 25 February 2008. They may be faxed to +27 (11) 638 5321.
9. The chairman of the meeting may accept or reject any proxy form which is completed and/or received other than in accordance with these instructions.



SALLIES LIMITED
Reg No 1903/001879/06

Corporate information

DIRECTORS

TG Dale (Chairman and Chief Executive)
J Blersch (Commercial Director)
BC Esterhuyzen
Dr VE Msibi (alternate: J Kögl)
JE Woods

COMPANY SECRETARY

RS O'Callaghan

SPONSOR

Sasfin Capital
A division of Sasfin Bank Limited

AUDITORS

BDO Spencer Steward (Johannesburg) Incorporated

ATTORNEYS

Brink Cohen Le Roux Incorporated
Routledge Modise

REGISTERED OFFICE

Witkop Fluorspar Mine
Farm Wintershoek
Zeerust, 2865

BANKERS

First National Bank of South Africa Limited

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Proprietary) Limited

INVESTOR AND MEDIA RELATIONS

Max Gebhardt
Meropa Communications (Proprietary) Limited
Telephone +27 (11) 772 1010
Telefax +27 (11) 772 1100
e-mail: maxgebhardt@meropa.co.za

Shareholders' diary

Financial year end	30 June
Annual general meeting	25 February 2008
Interim results	March 2008

