

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**Action required:**

1. This entire circular is important and should be read with particular attention to page 7 – “Action required by shareholders”.
2. If you are in any doubt as to the action you should take, please consult your CSDP stockbroker, attorney, accountant, banker or other professional advisor immediately.
3. If you have disposed of all your shares in Sallies Limited then this circular, together with the accompanying form of instruction, should be forwarded to the purchaser to whom, or the stockbroker, agent, CSDP or banker through whom you disposed of your shares.



**SALLIES LIMITED**

(Incorporated in the Republic of South Africa)  
(Registration number 1903/001879/06)  
Share code: SAL ISIN: ZAE000022588  
("the company" or "Sallies")

---

**Circular to Sallies shareholders**

regarding

**an underwritten rights offer by Sallies of 124 916 992 (one hundred and twenty-four million nine hundred and sixteen thousand nine hundred and ninety-two) new ordinary par value shares of 0.1 cent each in the ordinary share capital of Sallies at a subscription price of 60 cents per new ordinary share, in the ratio of 25 new ordinary shares for every 100 ordinary shares held in Sallies at the close of business on Friday, 8 June 2007;**

and incorporating

**an enclosed form of instruction in respect of a renounceable (nil paid) letter of allocation in respect of the rights offer (for use only by certificated shareholders).**

---

**Offer opens at 09:00 on**  
**Offer closes at 12:00 on**

**Monday, 11 June 2007**  
**Friday, 29 June 2007**

---

**Sponsor and  
corporate advisor**

**sasfin**  
CAPITAL

**Attorneys**



**BRINK COHEN LE ROUX**

**Auditors and independent  
reporting accountants**



---

Date of issue: Monday, 11 June 2007

Copies of this circular are available in English only and may be obtained during normal business hours from the registered office of the company, the offices of the sponsor and the transfer secretaries, the addresses of which are set out in the "Corporate information" section of this circular from Monday, 11 June 2007 until Friday, 29 June 2007.

---

## CORPORATE INFORMATION

---

### Directors

T G Dale *(Chairman)*  
I J Marais\* *(Chief Executive Officer)*  
J Blersch  
Dr V E Msibi (alternate J Kögl)  
J E Woods

\* Executive

### Company Secretary

R S O'Callaghan  
86 Eighth Avenue  
Parktown North, 2193  
(PO Box 2889, Saxonwold, 2132)

### Sponsor and corporate advisor

Sasfin Capital  
A division of Sasfin Bank Limited  
(Registration number 1951/002280/06)  
Sasfin Place  
13 – 15 Scott Street  
Waverley, 2090  
(PO Box 95104, Grant Park, 2051)

### Auditors and reporting accountants

BDO Spencer Steward (Jhb) Incorporated  
Registered Auditors  
Chartered Accountants (SA)  
(Registration number 1995/002310/21)  
BDO House  
13 Wellington Road  
Parktown, 2193  
(Private Bag X50500, Houghton, 2041)

### Attorneys

Brink Cohen Le Roux Incorporated  
(Registration number 1993/004501/21)  
BCLR House  
19 West Street  
Houghton, 2198  
(PO Box 2404, Houghton, 2041)

### Sallies website

<http://www.sallies.co.za>

### Registered office

Witkop Fluorspar Mine  
Farm Wintershoek  
Zeerust, 2865  
(Private Bag X1315, Zeerust, 2865)

### Transfer secretaries

Computershare Investor Services 2004  
(Proprietary) Limited  
(Registration number 2004/003647/07)  
70 Marshall Street  
Johannesburg, 2001  
(PO Box 61763, Marshalltown, 2107)

### Commercial banker

First National Bank of Southern Africa Limited  
(Registration number 1929/001225/06)  
Corner President and Church Streets  
Zeerust, 2865  
(Private Bag X6334, Zeerust, 2865)

### Underwriters

Natrust Equities (Proprietary) Limited  
(Registration number 1968/014138/07)  
1st Floor Coronation Place  
Freestone Park  
135 Patricia Road  
Sandown, 2196  
(PO Box 652643, Benmore, 2010)

Titan Financial Services (Proprietary) Limited  
(Registration number 1996/006040/07)  
36 Stellenberg Road  
Parow Industria, 7493  
(PO Box 6100, Parow East, 7501)

Trinity Asset Managers (Proprietary) Limited  
(Registration number 1996/010864/07)  
Trinity Place, The Terraces  
1 Silverwood Close  
Steenberg Office Park  
Tokai, 7945  
(PO Box 30848, Tokai, 7966)

---

## TABLE OF CONTENTS

---

|   | <b>Page</b>        |
|---|--------------------|
| <b>Corporate information</b>  | Inside front cover |
| <b>Salient dates and times</b>  | 2                  |
| <b>Salient features</b>   | 3                  |
| <b>Definitions</b>  | 5                  |
| <b>Action required by shareholders</b>  | 7                  |
| <b>Circular to Sallies shareholders</b>   |                    |
| 1. Introduction   | 8                  |
| 2. Purpose of the rights offer  | 9                  |
| 3. Terms of the rights offer  | 9                  |
| 4. Procedure for acceptance, renunciation and sale of rights  | 10                 |
| 5. Underwriting   | 12                 |
| 6. Authorisations   | 13                 |
| 7. Financial effects of the rights offer  | 13                 |
| 8. Share capital  | 14                 |
| 9. Exchange Control Regulations   | 14                 |
| 10. Tax consequences  | 14                 |
| 11. Jurisdiction  | 15                 |
| 12. General information on Sallies and its directors  | 15                 |
| 13. Expenses  | 20                 |
| 14. Registration of documents   | 20                 |
| 15. Consents  | 20                 |
| 16. Opinions and recommendations  | 21                 |
| 17. South Africa law  | 21                 |
| 18. Directors' responsibility   | 21                 |
| 19. Documents available for inspection  | 21                 |
| <b>Annexure 1</b> Reviewed interim results for the six months ended 31 December 2006  | 22                 |
| <b>Annexure 2</b> <i>Pro forma</i> consolidated financial information of Sallies  | 27                 |
| <b>Annexure 3</b> Independent reporting accountants' report on the <i>pro forma</i> financial information relating to Sallies | 29                 |
| <b>Annexure 4</b> Table of entitlement to rights shares   | 31                 |
| <b>Annexure 5</b> Price history of Sallies shares on the JSE  | 32                 |
| <b>Annexure 6</b> Statement of compliance with the King II Report   | 33                 |
| <b>Annexure 7</b> Information on the underwriters   | 36                 |
| <b>Form of instruction</b>  | Enclosed           |

---

## SALIENT DATES AND TIMES

---

2007

|  |                        |
|--|------------------------|
| Last day to trade in Sallies shares in order to settle by the record date and to qualify to participate in the rights offer ( <i>cum</i> entitlement) on                   | Friday, 1 June         |
| Listing of letters of allocation on the JSE commences at commencement of trading on  | Monday, 4 June         |
| Sallies shares commence trading <i>ex-rights</i> on the JSE at commencement of trading on  | Monday, 4 June         |
| <b>Record date</b> for participation in the rights offer at the close of business on   | <b>Friday, 8 June</b>  |
| Rights offer circular and form of instruction posted to shareholders on  | Monday, 11 June        |
| <b>Rights offer opens</b> at commencement of trading on  | <b>Monday, 11 June</b> |
| Dematerialised shareholders will have their accounts at their CSDP or stockbroker automatically credited with their entitlement on   | Monday, 11 June        |
| Certificated shareholders on the register will have their entitlement credited to an account at Computershare Nominees (Proprietary) Limited on                            | Monday, 11 June        |
| The form of instruction in respect of a letter of allocation will be posted to certificated shareholders of Sallies recorded in the register as such on the record date on | Monday, 11 June        |
| Last day to trade in letters of allocation on the JSE on   | Friday, 22 June        |
| Listing of rights offer shares commences at commencement of trading on   | Monday, 25 June        |
| <b>Rights offer closes</b> – payments to be made and form of instruction in respect of letters of allocation lodged by certificated shareholders by 12:00 (see Note 1) on  | <b>Friday, 29 June</b> |
| <b>Record date for letters of allocation</b> on  | <b>Friday, 29 July</b> |
| Dematerialised shareholders' accounts will be updated with entitlements and debited by their CSDP or stockbroker and certificates posted to certificated shareholders on   | Monday, 2 July         |
| Results of rights offer released on SENS on  | Monday, 2 July         |
| Results of rights offer published in the press on  | Tuesday, 3 July        |

---

### Notes:

1. Dematerialised shareholders are required to notify their duly appointed CSDP or stockbroker of their acceptance of the offer in the manner and time stipulated in the agreement governing the relationship between the shareholder and his/her CSDP or stockbroker.
2. All times indicated are South African times unless otherwise stated.
3. Share certificates may not be dematerialised or rematerialised between Monday, 4 June 2007 and Friday, 8 June 2007, both days inclusive.
4. Dematerialised shareholders will have their accounts at their CSDP or stockbroker automatically credited with their Sallies shares in respect of which the rights offer has been accepted and certificated shareholders will have their Sallies share certificates in respect of which the rights offer has been accepted posted to them at their own risk, by registered post.
5. CSDPs effect payment in respect of dematerialised shareholders on a delivery versus payment method.

---

## SALIENT FEATURES

---

The definitions commencing on page 5 of this circular have, where necessary, been used in these salient features.

### 1. THE RIGHTS OFFER

#### 1.1 Introduction

Shareholders were advised on 22 March 2007 that as a consequence of a shortfall in budgeted production during the six months ended 31 December 2006 the company was experiencing a working capital shortfall. The board of directors of Sallies has therefore resolved to raise approximately R75 million to refinance the company by means of a rights offer, which is fully underwritten by the underwriters. Sallies has entered into three separate underwriting agreements with Natrust Equities, Titan and Trinity in terms whereof these underwriters have, respectively, undertaken to severally underwrite 25%, 30% and 45%, respectively, of 124 916 992 ordinary shares at an issue price of 60 cents per share.

Shareholders recorded in the register of members at the close of business on Friday, 8 June 2007 are granted the right to subscribe for rights shares in terms of the rights offer on the basis of 25 rights shares for every 100 Sallies shares held at a subscription price of 60 cents per rights share.

The rights shares will, upon allotment and issue, rank *pari passu* in all respects with the Sallies shares that are currently in issue.

#### 1.2 Purpose of the rights offer

During the period 30 March 2007 to 9 May 2007, the underwriters provided certain guarantees and bridging finance totalling R35 million to Sallies to ensure that Sallies is adequately financed during the period prior to the closing date of the rights offer. Natrust Equities provided guarantees totalling R8.75 million, while Titan and Trinity provided loans of R10.5 million and R15.75 million, respectively, bearing interest at the prime overdraft rate of First National Bank of Southern Africa Limited ("FNB"). A raising fee of 1% of the capital amount is payable to each of the underwriters for the respective loans and guarantees made available by each of them. The loans provided are to be repaid from the proceeds of the rights offer and the guarantees are to be cancelled upon the receipt of the proceeds of the rights offer. Sallies has undertaken in favour of FNB to ensure that the proceeds of the rights offer will be paid into Sallies' FNB account held in Zeerust.

The balance of the proceeds of the rights offer will be utilised to provide Sallies with adequate working capital.

#### 1.3 Terms of the underwriting agreement

The rights offer is fully underwritten. Natrust Equities, Titan and Trinity have severally underwritten 25%, 30% and 45% of the issue, respectively:

1.3.1 in terms of an underwriting agreement concluded on 23 March 2007, and amended on 22 May 2007, Natrust Equities has agreed to underwrite the allotment and issue of 31 229 248 Sallies ordinary shares (25% of the shares to be issued in terms of the rights offer) at an issue price of 60 cents per share. Sallies has agreed to pay Natrust Equities an underwriting fee of R468 438.72 (exclusive of VAT), being the equivalent of 2.5% of the aggregate value of the shares underwritten by Natrust Equities;

1.3.2 in terms of an underwriting agreement concluded on 23 March 2007 and superceded on 16 May 2007, Titan has agreed to underwrite the allotment and issue of 37 475 098 Sallies ordinary shares (30% of the shares to be issued in terms of the rights offer) at an issue price of 60 cents per share. Sallies has agreed to pay Titan an underwriting fee of R562 126.47 (exclusive of VAT), being the equivalent of 2.5% of the aggregate value of the shares underwritten by Titan; and

1.3.3 in terms of an underwriting agreement concluded on 27 March 2007 and superceded on 3 April 2007, Trinity has agreed to underwrite the allotment and issue of 56 212 646 Sallies ordinary shares (45% of the shares to be issued in terms of the rights offer) at an issue price of 60 cents per share. Sallies has agreed to pay Trinity an underwriting fee of R843 189.69 (exclusive of VAT), being the equivalent of 2.5% of the aggregate value of the shares underwritten by Trinity.

#### 1.4 Excess applications and shares not taken up

Sallies shareholders will not be entitled to apply for a greater number of rights shares in excess of those offered to them in terms of the rights offer.

Shares not taken up under the rights offer will be subscribed for and issued to the underwriters in terms of the underwriting agreements.

## 2. FINANCIAL EFFECTS OF THE RIGHTS OFFER

The table below sets out the *pro forma* financial effects of the rights offer based on Sallies' unaudited reviewed interim results for the six months ended 31 December 2006. These financial effects are the responsibility of the directors of Sallies and they have been prepared for illustrative purposes only, in order to provide information about the financial position and results of Sallies assuming that the rights offer had been implemented on 31 December 2006 and 1 July 2006, respectively. Due to its nature, the *pro forma* financial information may not give a fair reflection of Sallies' financial position, changes in equity, results of operations or cash flows subsequent to the rights offer. The *pro forma* consolidated balance sheet and income statement of Sallies are set out in Annexure 2 to this circular. The independent reporting accountants' report on the *pro forma* financial information is set out in Annexure 3 to this circular.

|   | Before the rights offer | After the rights offer | Percentage change |
|---|-------------------------|------------------------|-------------------|
| Basic loss per share (cents)                              |                         |                        |                   |
| – undiluted   | (4.1)                   | (3.0) <sup>2</sup>     | 26.83             |
| – diluted   | (3.7)                   | (2.8) <sup>2</sup>     | 24.32             |
| Headline loss per share (cents)                           |                         |                        |                   |
| – undiluted   | (4.1)                   | (3.0) <sup>2</sup>     | 26.83             |
| – diluted   | (3.7)                   | (2.8) <sup>2</sup>     | 24.32             |
| Net asset value per share (cents)                         | 20.2                    | 27.8 <sup>3</sup>      | 37.62             |
| Tangible net asset value per share (cents)                | 18.2                    | 26.1 <sup>3</sup>      | 43.41             |
| Weighted average number of shares in issue ('000)         | 459 629                 | 584 546                | 27.18             |
| Diluted weighted average number of shares in issue ('000) | 507 875                 | 632 792                | 24.60             |

#### Notes:

1. "Before" financial information has been extracted from the reviewed interim results of Sallies for the six months ended 31 December 2006.
2. The "After the rights offer" loss per share figures assume the application of the net proceeds of the rights offer to settle all interest bearing debt as well as the accounts payable that were overdue at 31 December 2006, but no interest is assumed to have been earned on the *pro forma* net cash balance of R28.4 million remaining after such application of the proceeds of the rights offer.
3. The "After the rights offer" net asset values include the share capital and share premium arising from the issue of 124 916 992 ordinary shares of 0.1 cent each at 60 cents per share, net of the estimated transaction costs related to the rights offer of R2.684 million (which have been written-off against share premium).

## 3. CONFIRMATIONS, OPINIONS, RECOMMENDATIONS AND UNDERTAKINGS

The directors have considered the terms and conditions of the rights offer and are unanimously of the opinion that the terms of the rights offer are fair and reasonable to Sallies shareholders. They accordingly recommend that all shareholders follow their rights in terms of the rights offer.

Each of Sallies' advisors namely, each of its sponsor and corporate advisor, attorneys, commercial banker, transfer secretaries and the independent reporting accountants, has consented in writing to act in the capacities stated and to their names appearing in this circular and have not withdrawn such consent prior to the issue of this circular.

The independent reporting accountants have given and have not withdrawn their consent to the inclusion of their report in the form and context in which it is included in this circular.

---

## DEFINITIONS

---

In this circular, unless otherwise stated or the context otherwise indicates, the words in the first column shall have the meanings stated opposite them in the second column and words in the singular shall include the plural and *vice versa*. Words importing natural persons shall include corporations and associations of persons and an expression denoting any gender shall include the other genders.

|                               |   |
|-------------------------------|---|
| “business day”                | any day other than a Saturday, Sunday or official public holiday in South Africa;   |
| “certificated shareholders”   | Sallies shareholders who hold Sallies shares in certificated form;  |
| “circular”                    | all the documents and annexures contained in this bound circular, dated 11 June 2007, including the enclosed form of instruction;   |
| “common monetary area”        | South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland;  |
| “Companies Act”               | the Companies Act, 1973 (Act 61 of 1973), as amended from time to time;   |
| “CSDP”                        | Central Securities Depository Participant, appointed by the individual shareholder for purposes of and in regard to, dematerialisation;   |
| “dematerialisation”           | the process by which certificated shares are converted to an electronic form as uncertificated shares and recorded in the sub-register of shareholders maintained by a CSDP;  |
| “dematerialised shareholders” | Sallies shareholders who hold Sallies shares which have been incorporated into the Strate system and which are no longer evidenced by physical documents of title in terms of the Custody and Administration of Securities Act, 1992;   |
| “directors”                   | the board of directors of Sallies, whose names are set out under “Corporate information”;   |
| “documents of title”          | share certificates and/or certificated transfer deeds and/or balance receipts or any other documents of title in respect of Sallies shares in certificated form;  |
| “emigrants”                   | former residents of the common monetary area;   |
| “form of instruction”         | a form of instruction in respect of a letter of allocation reflecting the rights of certificated shareholders and on which certificated shareholders are entitled to indicate whether they wish to take up, sell or renounce all or part of their rights;   |
| “Honeywell”                   | Honeywell International Inc; a company registered in the United States of America – state or other jurisdiction of incorporation or organisation: Delaware with address of principal executive offices 101 Columbia Road, Morris Township, New Jersey;  |
| “IFRS”                        | International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, International Financial Reporting Interpretations Committee and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee; |
| “JSE”                         | the JSE Limited, a company duly incorporated and registered in South Africa as a public company, under registration number 2005/022939/06 and licensed as an exchange under the Securities Services Act, 2004;  |
| “last practicable date”       | the last practicable date prior to the finalisation of this circular, being 22 May 2007;  |

|  |   |
|--|---|
| “letters of allocation” or “LAs”   | renounceable (nil paid) letters of allocation to be issued to Sallies shareholders, conferring a right on the holder to subscribe for rights shares in terms of the rights offer;   |
| “Natrust Equities”   | Natrust Equities (Proprietary) Limited (Registration number 1968/014138/07), one of the underwriters, the further details of which are set out in Annexure 7 to this circular;  |
| “record date”  | Friday, 8 June 2007;  |
| “Registrar”  | the Registrar of Companies in South Africa;   |
| “reporting accountants”  | BDO Spencer Steward (Jhb) Incorporated;   |
| “right”  | the renounceable right to subscribe for rights shares in terms of the rights offer;   |
| “rights offer”   | the renounceable rights offer by Sallies of 124 916 992 ordinary shares at an issue price of 60 cents per share in the ratio of 25 new ordinary shares for every 100 shares held at the close of business on Friday, 8 June 2007;         |
| “rights participant”   | a shareholder entitled to participate in the rights offer;  |
| “rights shares” or<br>“the new Sallies shares” or<br>“new ordinary shares” | the 124 916 992 new ordinary shares which are the subject of the rights offer;  |
| “Sallies” or “the company”   | Sallies Limited (Registration number 1903/001879/06), a public company incorporated in South Africa whose shares are listed on the JSE;   |
| “Sallies group”  | collectively, Sallies and all its subsidiaries;   |
| “Sallies shareholders” or<br>“shareholders”                                | the registered holders of Sallies shares from time to time;   |
| “Sallies shares” or<br>“ordinary shares” or “shares”                       | ordinary shares of a par value of 0.1 cent each in the issued share capital of Sallies;   |
| “SARS”   | the South African Revenue Services;   |
| “SENS”   | Securities Exchange News Service of the JSE;  |
| “South Africa”   | the Republic of South Africa;   |
| “Strate”   | Strate Limited (Registration number 1998/022242/06), a custody and clearing settlement system introduced by the JSE for all share transactions concluded on the JSE;  |
| “Titan”  | Titan Financial Services (Proprietary) Limited (Registration number 1996/006040/07), one of the underwriters, the further details of which are set out in Annexure 7 to this circular   |
| “transfer secretaries”   | Computershare Investor Services 2004 (Proprietary) Limited (Registration number 2004/003647/07);  |
| “Trinity”  | Trinity Asset Management (Proprietary) Limited (Registration number 1996/010864/07), one of the underwriters, the further details of which are set out in Annexure 7 to this circular;  |
| “underwriters”   | Natrust Equities, Trinity and Titan, the further details of which are set out in Annexure 7 to this circular;   |
| “underwriting agreements”  | the three underwriting agreements between Sallies on the one hand and the underwriters on the other, in terms whereof Natrust Equities, Titan and Trinity have severally underwritten 25%, 30% and 45% of the rights offer, respectively; |
| “VAT”  | Value-Added Tax as defined in the Value-Added Tax Act (Act 89 of 1991), as amended;   |
| “Witkop Fluorspar”   | Witkop Fluorspar Mine (Proprietary) Limited (Registration number 1972/006392/07), a private company incorporated in South Africa, a subsidiary of Sallies; and  |
| “ZAR” or “Rand” or “R”   | South African Rand.   |

---

## **ACTION REQUIRED BY SHAREHOLDERS**

---

This circular is important and requires your immediate attention. A form of instruction applicable to certificated shareholders only is enclosed. The letter of allocation to which the form of instruction refers and relates is negotiable and can be dealt with on the JSE.

Shareholders are referred to paragraph 4 of this circular, which sets out the detailed action required by certificated shareholders and dematerialised shareholders.

### **1. IF YOU HAVE DEMATERIALISED YOUR SALLIES SHARES:**

- 1.1 you will **not** receive a printed form of instruction;
- 1.2 your CSDP or stockbroker will credit your account with the number of rights to which you are entitled;
- 1.3 your CSDP or stockbroker will contact you to ascertain:
  - whether or not you wish to follow your rights in terms of the rights offer and in respect of how many rights shares; or
  - if you do not wish to follow all or any of your rights:
    - whether you wish to sell your rights and how many rights you wish to sell; or
    - whether you wish to renounce your rights and how many rights you wish to renounce and the details of the renounee.
- 1.4 If you are not contacted, you should contact your CSDP or stockbroker and furnish them with your instructions. If your CSDP or stockbroker does not obtain instructions from you, they are obliged to act in terms of the agreement entered into between you and your CSDP or stockbroker.

**Sallies does not take responsibility and will not be held liable for any failure on the part of any CSDP or stockbroker to notify you of the rights offer and/or to obtain instructions from you as to whether to subscribe for the right shares and/or to sell the rights allocated and any and all such liability is hereby expressly excluded.**

### **2. IF YOU HAVE NOT DEMATERIALISED YOUR SALLIES SHARES:**

If you wish to subscribe for the rights shares allocated to you, you must complete the enclosed form of instruction in accordance with the instructions contained therein and lodge it, together with payment for the amount due, with the transfer secretaries by 12:00 on Friday, 29 June 2007.

If you do not wish to subscribe for all or some of the rights shares allocated to you, as reflected in the form of instruction, you may sell or renounce your rights or let them lapse. In such event, you must complete the relevant section of the form of instruction and return it to the transfer secretaries to be received by no later than 12:00 on Friday, 29 June 2007, if you wish to sell, and by 12:00 on Friday, 29 June 2007, if you have renounced your rights.

### **3. IF YOU HAVE DISPOSED OF YOUR SHARES:**

If you have disposed of all your Sallies shares, please forward this circular to the purchaser of such shares or to the stockbroker or agent through whom the disposal was effected.



# SALLIES LIMITED

(Incorporated in the Republic of South Africa)  
(Registration number 1903/001879/06)  
Share code: SAL ISIN: ZAE000022588

---

## Directors

T G Dale (Chairman)  
I J Marais\* (Chief Executive Officer)  
J Blersch  
Dr V E Msibi (alternate J Kögl)  
J E Woods

\* Executive

---

## CIRCULAR TO SALLIES SHAREHOLDERS

---

### 1. INTRODUCTION

- 1.1 Shareholders were notified by way of a SENS announcement released on 22 March 2007 that during the six months ended 31 December 2006 operations at Sallies failed to achieve budgeted production and as a consequence the company required refinancing to fund a working capital shortfall. It was also announced that the major shareholders have agreed to underwrite a 1-for-4 rights offer at 60 cents per share to raise approximately R75 million.

In terms of the rights offer, 124 916 992 ordinary shares of 0.1 cent each in the issued share capital of Sallies will be issued to raise R74 950 195.20. Sallies has entered into three separate underwriting agreements with Natrust Equities, Titan and Trinity in terms whereof these underwriters have undertaken severally to underwrite 25%, 30% and 45% of the rights offer, respectively.

Shareholders recorded in the register at the close of business on Friday, 8 June 2007 are granted the renounceable right to subscribe for rights shares in terms of the rights offer on the basis of 25 rights shares for every 100 Sallies shares held at a subscription price of 60 cents per rights share.

The rights shares will, upon allotment and issue, rank *pari passu* in all respects with the Sallies shares that are currently in issue.

- 1.2 On Friday, 11 May 2007 at a general meeting of Sallies, a special resolution was passed by the requisite majority in terms of the Companies Act and the JSE Listings Requirements authorising an increase in the authorised share capital of the company from 500 million ordinary shares of 0.1 cent each to 1 000 million ordinary shares of 0.1 cent each. At the same meeting ordinary resolutions were passed by the requisite majority in terms of the Companies Act and the JSE Listings Requirements placing the authorised but unissued shares under the control of the directors of the company with specific approval to allot and issue those shares on such terms and conditions as the directors may deem fit.
- 1.3 The enclosed form of instruction in respect of the letter of allocation contains details of the rights to which certificated shareholders are entitled, as well as the procedures for acceptance or renunciation of the rights offer. Dematerialised shareholders will be advised of the rights to which they are entitled as well as the procedure for acceptance or renunciation of the rights offer by their CSDP or stockbroker.

- 1.4 The JSE has granted listings for the letters of allocation and rights shares as follows:
- letters of allocation in respect of 124 916 992 rights shares will be listed from the commencement of trade on Monday, 4 June 2007 to the close of trade on Friday, 22 June 2007, both days inclusive; and
  - 124 916 992 rights shares will be listed with effect from the commencement of business on Monday, 25 June 2007.

Shareholders recorded in the register at the close of business on Friday, 8 June 2007 will be granted the right to subscribe for rights shares in terms of the rights offer on the basis of 25 rights shares for every 100 Sallies shares held at a subscription price of 60 cents per rights share.

The rights shares will, upon allotment and issue, rank *pari passu* in all respects with the Sallies shares that are currently in issue.

## 2. PURPOSE OF THE RIGHTS OFFER

- 2.1 During the period 30 March 2007 to 9 May 2007, the underwriters provided certain guarantees and bridging finance totalling R35 million to Sallies to ensure that Sallies is adequately financed during the period prior to the closing date of the rights offer. Natrust Equities provided guarantees totalling R8.75 million, while Titan and Trinity provided loans of R10.5 million and R15.75 million, respectively, bearing interest at the prime overdraft rate of First National Bank of Southern Africa Limited ("FNB"). A raising fee of 1% of the capital amount is payable to each of the underwriters for the respective loans and guarantees made available by each of them. The loans provided are to be repaid from the proceeds of the rights offer and the guarantees are to be cancelled upon the receipt of the proceeds of the rights offer. Sallies has undertaken in favour of FNB to ensure that the proceeds of the rights offer will be paid into Sallies' FNB account held in Zeerust.
- 2.2 The balance of the proceeds of the rights offer will be utilised to provide Sallies with adequate working capital.

## 3. TERMS OF THE RIGHTS OFFER

### 3.1 Particulars of the rights offer

Sallies is offering for subscription, upon the terms and conditions set out in this circular by way of renounceable rights, to Sallies shareholders and/or their renounees, a total of 124 916 992 rights shares at a price of 60 cents per rights share payable in full on acceptance by certificated shareholders, or on a delivery versus payment basis by the CSDP or stockbroker of dematerialised shareholders, in ZAR, in the ratio of 25 rights shares for every 100 Sallies shares held at the close of business on Friday, 8 June 2007.

### 3.2 Opening and closing dates of the rights offer

The rights offer will open at 09:00 on Monday, 11 June 2007 and will close at 12:00 on Friday, 29 June 2007.

### 3.3 Entitlement

Sallies shareholders are granted the renounceable right to subscribe for 25 rights shares for every 100 Sallies shares held on the record date. Sallies shareholders are referred to the table of entitlements set out in Annexure 4 hereto. The allocation of rights shares will be such that only whole numbers of rights shares will be issued and shareholders will be entitled to rounded numbers of rights shares. Fractional entitlements of 0.5 or greater will be rounded up and less than 0.5 will be rounded down.

Certificated shareholders will have their rights credited to an account in electronic form, which will be administered by Computershare Nominees (Proprietary) Limited on their behalf. The enclosed form of instruction reflects the number of rights shares for which the certificated shareholder is entitled to subscribe. The procedure that the shareholder should follow for the acceptance, sale or renunciation of his rights is reflected in the form of instruction.

Dematerialised shareholders will have their rights for rights shares for which they are entitled to subscribe, credited to their accounts by their appointed CSDP or stockbroker in electronic form. The CSDP or stockbroker will advise the dematerialised shareholders of the procedures they need to follow for the acceptance, sale or renunciation of rights.

The letters of allocation to which the form of instruction relates are negotiable and can be traded on the JSE.

### 3.4 **Excess applications and shares not taken up**

Sallies shareholders may not apply for rights shares in excess of those allocated to them in terms of the rights offer.

Shares not taken up under the rights offer will be subscribed for and issued to the underwriters in terms of the underwriting agreements.

### 3.5 **JSE listings**

The JSE has granted listings for the letters of allocation and rights shares as follows:

- letters of allocation in respect of 124 916 992 rights shares will be listed from the commencement of trade on Monday, 4 June 2007 to the close of trade on Friday, 22 June 2007, both days inclusive; and
- 124 916 992 rights shares will be listed with effect from the commencement of business on Monday, 25 June 2007.

## 4. **PROCEDURE FOR ACCEPTANCE, RENUNCIATION AND SALE OF RIGHTS**

### 4.1 **Certificated shareholders**

#### 4.1.1 **Acceptance**

Full details of the procedure for acceptance of the rights offer by certificated shareholders are contained in the form of instruction enclosed with this circular. It should be noted that:

- 4.1.1.1 acceptances are irrevocable and may not be withdrawn;
- 4.1.1.2 acceptances may be made only by means of the enclosed form of instruction;
- 4.1.1.3 any instruction to sell or renounce all or part of the rights may only be made by means of the form of instruction;
- 4.1.1.4 the properly completed form of instruction and a banker's draft or cheque in ZAR crossed "not transferable" and "or bearer" deleted in payment of the subscription price payable for the relevant rights shares must be received by the transfer secretaries at either of the addresses referred to in paragraph 4.1.3.2 below by no later than 12:00 on Friday, 29 June 2007. No late postal acceptances will be considered;
- 4.1.1.5 the form of instruction to take up the rights in question will be regarded as complete only when the cheque or banker's draft has been cleared for payment;
- 4.1.1.6 such payment will constitute an irrevocable acceptance of the rights offer upon the terms and conditions set out in this circular and in the form of instruction once the banker's draft or cheque has been cleared for payment;
- 4.1.1.7 if any form of instruction is not received as set out above, the rights offer will be deemed to have been declined and the right to subscribe for the rights shares in terms of the form of instruction will lapse regardless of who holds it.

#### 4.1.2 **Renunciation or sale of rights**

- 4.1.2.1 Sallies has issued all letters of allocation in dematerialised form and the electronic record for certificated shareholders is being maintained by Computershare Nominees (Proprietary) Limited. This has made it possible for certificated shareholders to enjoy the same rights and opportunities as dematerialised shareholders.
- 4.1.2.2 Certificated shareholders not wishing to subscribe for all, or some of the rights shares allocated to them as reflected in the form of instruction, may sell or renounce or lapse their rights.

- 4.1.2.3 In addition, certificated shareholders who wish to sell all, or some of the rights shares allocated to them as reflected in the form of instruction, should complete the relevant section of the form of instruction and return it to the transfer secretaries in accordance with the instructions contained therein, to be received by no later than 12:00 on Friday, 22 June 2007.
- 4.1.2.4 Computershare Investor Services 2004 (Proprietary) Limited will endeavour to procure the sale of the rights on the JSE on behalf of such certificated shareholders and will remit the proceeds in accordance with the payment instructions reflected in the form of instruction, net of stockbrokerage charges and associated expenses. Neither the transfer secretaries nor the company nor any stockbroker appointed by either of them will have any obligation or be responsible for any loss or damage whatsoever in relation to or arising out of the timing of such sales, the price obtained or any failure to sell such rights. References in this paragraph to a certificated shareholder include references to the person or persons executing the form of instruction and any person or persons on whose behalf such person or persons executing the form of instruction is/are acting and in the event of more than one person executing the form of instruction, the provisions of this paragraph shall apply to them, jointly and severally.
- 4.1.2.5 Certificated shareholders who do not wish to sell all or some of the rights allocated to them as reflected in the form of instruction, and who do not wish to subscribe for rights shares offered in terms of the form of instruction but who wish to renounce their rights, should complete the relevant section of the form of instruction and return it to the transfer secretaries in accordance with the instructions contained therein.
- 4.1.2.6 Certificated shareholders who wish to subscribe for only a portion of the rights shares allocated to them must indicate the number of rights shares for which they wish to subscribe on the form of instruction.
- 4.1.2.7 Certificated shareholders wishing to sell or renounce all, or part of, their rights will be liable to pay a cost of R61.80 plus taxes and Strate costs.

#### 4.1.3 **Payment**

##### 4.1.3.1 *Currency*

The amount due on acceptance of the rights offer is payable in ZAR.

##### 4.1.3.2 *Payment terms*

A banker's draft drawn on a registered bank or a cheque drawn on a South African bank (each of which should be crossed and marked "not transferable" and, in the case of a cheque, with the words "or bearer" deleted) in favour of "**Sallies – Rights Offer**" in respect of the amount due, together with a properly completed form of instruction, must be lodged by certificated shareholders and/or their renounees by no later than 12:00 on Friday, 29 June 2007 in accordance with the instructions contained in the form of instruction and clearly marked "**Sallies – Rights Offer**":

By hand to:

Computershare Investor Services 2004 (Proprietary) Limited  
Ground Floor  
70 Marshall Street  
Johannesburg  
2001

or sent by post, at the risk of the shareholder or renounee concerned, to:

Computershare Investor Services 2004 (Proprietary) Limited  
PO Box 61763  
Marshalltown  
2107

All cheques or banker's drafts received by the transfer secretaries will be deposited immediately for payment. In the event that any cheque or banker's draft is dishonoured, Sallies, in its sole discretion, may treat the relevant acceptance as void or may tender delivery of the relevant rights shares to which it relates against payment in cash of the subscription price for such rights shares. Money received in respect of an application which is rejected or otherwise treated as void by Sallies,

or which is otherwise not validly received in accordance with the terms stipulated in this paragraph, will be posted by ordinary mail (without interest) by way of a cheque drawn in ZAR to the applicant concerned, at the applicant's risk on or about Monday, 2 July 2007. If the applicant concerned is not a Sallies shareholder and gives no address in the form of instruction, then the relevant refund will be held by Sallies until collected by the applicant.

#### 4.1.3.3 *Sallies share certificates*

Where applicable, share certificates in respect of rights shares will be posted, by registered post, by the transfer secretaries, at the risk of the certificated shareholders concerned, on or about Monday, 2 July 2007. As Sallies uses the "certificated transfer deeds and other temporary documents of title" procedure approved by the JSE, only "block" certificates will be issued in respect of rights shares.

Certificated shareholders receiving rights shares in certificated format must note that such shares cannot trade on the JSE until they have been dematerialised. This could take between one and ten days.

## 4.2 **Dematerialised shareholders**

### 4.2.1 **Acceptance, renunciation or sale of rights**

The CSDP or stockbroker appointed by dematerialised shareholders should contact such shareholders to ascertain:

- whether such dematerialised shareholders wish to follow their rights in terms of the rights offer (in which case CSDPs effect payment on a delivery versus payment basis) or renounce their rights and in respect of how many rights shares; and/or
- if such dematerialised shareholders do not wish to follow all or any of their rights, whether they wish to sell their rights and how many rights they wish to sell.

If you are not contacted, you should contact your CSDP or stockbroker and furnish them with your instruction. Should a CSDP or stockbroker not obtain instructions from a dematerialised shareholder, they are obliged to act in terms of the mandate granted to them by such dematerialised shareholder, or if the mandate is silent in this regard, not to accept the rights on behalf of such shareholder.

### 4.2.2 **Payment**

Your CSDP or stockbroker will effect payment directly on your behalf in respect of rights followed, in ZAR, on Monday, 2 July 2007 on a delivery versus payment basis.

### 4.2.3 **Rights shares**

Dematerialised shareholders will have their accounts credited with the rights shares subscribed for in terms of the rights offer, on Monday, 2 July 2007.

## 5. **UNDERWRITING**

5.1 The rights offer is fully underwritten. Natrust Equities, Titan and Trinity have severally underwritten 25%, 30% and 45% of the issue, respectively, as follows:

5.1.1 in terms of an underwriting agreement dated 23 March 2007 and amended on 22 May 2007, Natrust Equities has agreed to severally underwrite the allotment and issue of 31 229 248 Sallies ordinary shares (25% of the shares to be issued in terms of the rights offer) at an issue price of 60 cents per share. Sallies has agreed to pay Natrust Equities an underwriting fee of R468 438.72 (exclusive of VAT), being the equivalent of 2.5% of the aggregate value of the shares underwritten by Natrust Equities;

5.1.2 in terms of an underwriting agreement dated 23 March 2007, which was superceded on 16 May 2007, Titan has agreed to severally underwrite the allotment and issue of 37 475 098 Sallies ordinary shares (30% of the shares to be issued in terms of the rights offer) at an issue price of 60 cents per share. Sallies has agreed to pay Titan an underwriting fee of R562 126.47 (exclusive of VAT), being the equivalent of 2.5% of the aggregate value of the shares underwritten by Titan; and

5.1.3 in terms of an underwriting agreement dated 27 March 2007, which was superceded on 3 April 2007, Trinity has agreed to severally underwrite the allotment and issue of 56 212 646 Sallies ordinary shares (45% of the shares to be issued in terms of the rights offer) at an issue price of 60 cents per share. Sallies has agreed to pay Trinity an underwriting fee of R843 189.69 (exclusive of VAT), being the equivalent of 2.5% of the aggregate value of the shares underwritten by Trinity.

5.2 All of the underwriting agreements will become irrevocable upon fulfilment of the conditions precedent on 1 June 2007.

5.3 In terms of the underwriting agreements the underwriting commission will not be paid until the underwriter commitments have been met.

Please refer to Annexure 7 for full details of the underwriters.

## 6. AUTHORISATIONS

At a general meeting of Sallies held on Friday, 11 May 2007, the necessary special and ordinary resolutions approving an increase of the company's authorised but unissued share capital and the placing of such shares under the control of the directors who shall have the power to allot and issue such shares on such terms and conditions as they deem fit, were passed. The special resolution was registered by the Registrar on 22 May 2007.

## 7. FINANCIAL EFFECTS OF THE RIGHTS OFFER

The table below sets out the *pro forma* financial effects of the rights offer based on Sallies' unaudited reviewed interim results for the six months ended 31 December 2006. These financial effects are the responsibility of the directors of Sallies and they have been prepared for illustrative purposes only, in order to provide information about the financial position and results of Sallies assuming that the rights offer had been implemented on 31 December 2006 and 1 July 2006, respectively. Due to its nature, the *pro forma* financial information may not give a fair reflection of Sallies' financial position, changes in equity, results of operations or cash flows subsequent to the rights offer. The *pro forma* consolidated balance sheet and income statement of Sallies are set out in Annexure 2.

The independent reporting accountants' report on the *pro forma* financial information is set out in Annexure 3.

|   | Before the<br>rights offer | After the<br>rights offer | Percentage<br>change |
|---|----------------------------|---------------------------|----------------------|
| Basic loss per share (cents)                              |                            |                           |                      |
| – undiluted   | (4.1)                      | (3.0) <sup>2</sup>        | 26.83                |
| – diluted   | (3.7)                      | (2.8) <sup>2</sup>        | 24.32                |
| Headline loss per share (cents)                           |                            |                           |                      |
| – undiluted   | (4.1)                      | (3.0) <sup>2</sup>        | 26.83                |
| – diluted   | (3.7)                      | (2.8) <sup>2</sup>        | 24.32                |
| Net asset value per share (cents)                         | 20.2                       | 27.8 <sup>3</sup>         | 37.62                |
| Tangible net asset value per share (cents)                | 18.2                       | 26.1 <sup>3</sup>         | 43.41                |
| Weighted average number of shares in issue ('000)         | 459 629                    | 584 546                   | 27.18                |
| Diluted weighted average number of shares in issue ('000) | 507 875                    | 632 792                   | 24.60                |

### Notes:

1. "Before" financial information has been extracted from the unaudited reviewed interim results of Sallies for the six months ended 31 December 2006.
2. The "After the rights offer" loss per share figures assume the application of the net proceeds of the rights offer to settle all interest bearing debt as well as the accounts payable that were overdue at 31 December 2006, but no interest is assumed to have been earned on the *pro forma* net cash balance of R28.4 million remaining after such application of the proceeds of the rights offer.
3. The "After the rights offer" net asset values include the share capital and share premium arising from the issue of 124 916 992 ordinary shares of 0.1 cent each at 60 cents per share, net of the estimated transaction costs related to the rights offer of R2.684 million (which have been written-off against share premium).

## 8. SHARE CAPITAL

The authorised and issued share capital of Sallies, before and after the rights offer, is set out below:

|  | <b>R</b>    |
|--|-------------|
| <hr/>  |             |
| <i>Authorised share capital</i>                      |             |
| 1 000 000 000 ordinary shares of 0.1 cent each       | 1 000 000   |
| <hr/>  |             |
| <i>Issued share capital, before the rights offer</i> |             |
| 499 667 967 ordinary shares of 0.1 cent each         | 499 668     |
| Share premium  | 207 423 541 |
| <hr/>  |             |
|  | 207 923 209 |
| <hr/>  |             |
| <i>Issued share capital, after the rights offer</i>  |             |
| 624 584 959 ordinary shares of 0.1 cent each         | 624 585     |
| Share premium  | 279 564 819 |
| <hr/>  |             |
|  | 280 189 404 |
| <hr/>  |             |

## 9. EXCHANGE CONTROL REGULATIONS

The following summary is intended only as a guide and is therefore not comprehensive. Sallies shareholders who are in any doubt as to the appropriate course of action to take should consult their professional advisors.

The rights shares to be issued pursuant to the rights offer are not freely transferable from South Africa and must be dealt with in terms of the South African Exchange Control Regulations.

Sallies shareholders who are not resident in the common monetary area should obtain advice as to whether any governmental and/or other legal consent is required and/or whether any other formality must be observed to follow their rights in terms of the rights offer.

In terms of the Exchange Control Regulations of South Africa, non-residents of the common monetary area will be allowed to:

- take up rights allocated in terms of the offer;
- purchase letters of allocation on the JSE;
- subscribe for new ordinary shares arising from letters of allocation purchased on the JSE, provided that payment is received in foreign currency or in Rand from a non-resident account.

All applications by non-residents for the above purposes must be made through an Authorised Dealer in foreign exchange. Shares subsequently rematerialised and issued in certificated form, will be endorsed "non-resident".

Where a right in terms of the offer falls due to a former resident of the common monetary area, which right is based on shares controlled in terms of the Exchange Control Regulations, only emigrant's blocked funds may be used to take up this right. In addition, emigrant's blocked funds may also be used to:

- purchase letters of allocation on the JSE;
- subscribe for new ordinary shares arising from the letters of allocation purchased on the JSE.

Applications by emigrants using emigrant's blocked funds for the above purposes must be made through the Authorised Dealer in foreign exchange controlling their blocked assets. Any shares issued pursuant to the use of emigrant blocked funds will be credited to their blocked share accounts at the CSDP controlling their blocked portfolios. The sale proceeds of letters of allocation, if applicable, will be returned to the Authorised Dealer in foreign exchange for credit to such emigrants' blocked accounts.

## 10. TAX CONSEQUENCES

Sallies shareholders are advised to consult their professional advisors regarding the tax consequences of the rights offer and Sallies makes no representation and give no warranty in regard to the tax consequences of the rights offer insofar as individual shareholders are concerned.

## 11. JURISDICTION

- 11.1 The rights offer is not being made, directly or indirectly, in or into or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national securities exchange of, the United States of America, Australia, Canada, Italy, Luxembourg or Japan. Accordingly, copies of this circular, the form of instruction/letters of allocation and any related documents are not being and must not be mailed or otherwise distributed or sent in or into the United States of America, Australia, Canada, Italy, Luxembourg or Japan, including to Sallies shareholders with registered addresses in the United States, Australia, Canada or Japan or to persons whom Sallies shareholders know to be custodians, nominees or trustees holding Sallies shares for persons in the United States of America, Australia, Canada, Italy, Luxembourg, Japan or any other jurisdiction in which the rights offer shares may not be offered.
- 11.2 Persons receiving such documents (including, without limitation, custodians, nominees and trustees) shall not distribute or send them in, into or from the United States of America, Australia, Canada, Italy, Luxembourg or Japan or use such mails or such other means, instrumentality or facility in connection with the rights offer and in doing so, will render invalid any related purported acceptance of the rights offer.
- 11.3 In addition, the distribution of this circular and/or accompanying documents and/or the transfer of the rights shares and/or the rights to subscribe for rights shares in jurisdictions other than South Africa, excluding those jurisdictions already referred to in paragraphs 11.1 and 11.2 above, may be restricted by law and failure to comply with any of those restrictions may constitute a violation of the laws of any such jurisdiction. Neither this circular nor any form of instruction/letter of allocation may be regarded as an offer in any jurisdiction in which it is illegal to make such an offer. In those circumstances, this circular and any form of instruction are sent for information purposes only.

## 12. GENERAL INFORMATION ON SALLIES AND ITS DIRECTORS

### 12.1 Incorporation and history of Sallies

Sallies was incorporated on 9 March 1903 in Pretoria as the South African Land and Exploration Mining Company Limited and has been listed in the "Mining" sector of the JSE lists since 1904. The company changed its name to Sallies Limited in 1999.

### 12.2 Nature of business and prospects

The main business of Sallies is that of mining and exploration in all its spheres without limitation to the generality of the foregoing. On 1 July 1999 Sallies acquired a 100% interest in Phelps Dodge Mining (Proprietary) Limited (renamed Witkop Fluorspar) and in its wholly-owned subsidiaries, Mosega Fluorspar Works (Proprietary) Limited and Marico Fluorspar (Proprietary) Limited, for R78.964 million.

On 31 July 2006, Sallies purchased all of the fluorspar assets of Transvaal Mining and Finance Company (Proprietary) Limited (formerly trading as Buffalo Fluorspar) for R65 million, and transferred such assets into a company named Buffalo Fluorspar Mine (Proprietary) Limited, in which it now holds a 100% stake.

The Witkop Fluorspar Mine, located near Zeerust in the North West Province, produces and sells mainly acid grade fluorspar. The bulk of its output is exported to international customers across the globe, active mainly in the production of hydrofluoric acid, further processed into refrigerant gases, fluoro-polymers and aluminium fluoride. In addition, it produces metallurgical grade fluorspar, primarily for the local market.

The Buffalo Fluorspar mine, located near Mookgopong in the Limpopo Province, produces and sells only acid grade fluorspar, which is exported to international customers who are mainly active in the production of hydrofluoric acid.

Sallies owns all the freehold properties on which it operates.

It is envisaged that the proceeds of the rights offer, after defraying associated expenses, will be utilised to provide the company with adequate working capital.

The company exploits a well-understood ore body and operates in a firm and strengthening market for its products. Improved management effectiveness from the addition of stronger team members and the provision of working capital from the rights issue should enhance operating and financial performance during the 2008 financial year.

Several opportunities for future growth are currently being evaluated.

## 12.3 Information on directors

### 12.3.1 Details of directors

The full names, ages, addresses and occupations of the directors of Sallies and its subsidiaries are outlined below:

| <b>Name of director</b>   | <b>Age</b> | <b>Business address</b>            | <b>Occupation and curriculum vitae</b>   |
|---------------------------|------------|------------------------------------|--|
| Thomas Graham Dale†       | 56         | Buffelskloof 511 IQ, Potchefstroom | Non-executive chairman<br>Tom is a former managing director of Gold Fields Limited and of Gengold, the gold division of Gencor/Billiton Limited. In addition to gold mining experience in South Africa, he has executive experience in local coal and granite operations. He was also CEO of a substantial copper and cobalt group in Zambia. He holds a BSc Honours Mining Engineering degree from the University of Newcastle upon Tyne and an MBA from the University of the Witwatersrand. |
| Johann Blerscht†          | 65         | 5, 14th Avenue Houghton Estate     | Non-executive director<br>Johann has some 30 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 B Comm degree from the University of Stellenbosch and an MBA from the University of Cape Town. He attended the Stanford Executive Program.  |
| Dr Vincent Elijah Msibiti | 51         | 421 Pretorius Street Pretoria      | Non-executive director<br>Dr Msibiti is a director of companies. He is the chairman of African Renaissance Investments Holdings Limited, the holding company of the Black Economic Empowerment partner of Sallies. He holds a BSc degree from the University of Zululand and obtained his medical degree at Medunsa. He completed a Senior Executive Program at Harvard Business School.   |

| <b>Name of director</b>          | <b>Age</b> | <b>Business address</b>                              | <b>Occupation and curriculum vitae</b>   |
|----------------------------------|------------|--|--|
| Jürgen Kögl†                     | 50         | 30 Jan Smuts Avenue<br>Parktown                      | Alternate to VE Msibi<br>Jürgen is a director of African Renaissance Investments (Proprietary) Limited, the Black Economic Empowerment partner of Sallies. He has experience in heavy engineering, financial markets and strategic consultancy. He holds degrees in civil engineering and economic history from the University of Cape Town.         |
| Izak Johannes Marais*            | 39         | Witkop Fluorspar Mine<br>Farm Wintershoek<br>Zeerust | Chief executive of Sallies and managing director of all of Sallies' subsidiaries<br>Izak joined Sallies in 2003 from Gold Fields Limited where he had worked for 10 years in various key production and head office functions. He holds a mining engineering degree from the University of Pretoria and an MBA from the University of Cape Town.     |
| Jeremy Edward Wood†              | 61         | 25 Forest Avenue<br>Bishopscourt<br>Cape Town        | Non-executive director<br>Jeremy is a director of companies and private investor who manages private funds. He is the former investment editor of the <i>Sunday Times</i> and had for many years worked as a financial journalist around the world.  |
| Petrus Renier Prinsloo Potgieter | 37         | Witkop Fluorspar Mine                                | Director of all of Sallies' subsidiaries<br>Prinsloo joined Sallies at the end of 2006 as group financial manager. He has 13 years' experience in accounting and financial management, most recently as manager finance of the Amandelbult Section of Rustenburg Platinum Mines. He holds a Hons B Compt degree from the University of South Africa. |

\* Executive director.

† Independent.

All the directors are South African.

### 12.3.2 **Directors' interests in Sallies' shares**

Mr J E Woods is the indirect beneficial holder of 10 000 000 Sallies shares, representing a 2.0% interest in the company before the rights offer and a 1.6% interest in the company after implementation of the rights offer. Mr Woods has indicated that he intends following his rights in terms of the rights offer. Other than Mr Woods and other than as set out below none of the directors currently hold any beneficial or non-beneficial interests, directly or indirectly, in the company.

At its meeting held on 18 April 2007 the board of directors of Sallies resolved that Messrs T G Dale and J Blersch will, subject to shareholder approval, section 223 of the Companies Act and the JSE Listings Requirements, each be granted an irrevocable right and option to subscribe for shares in the issued share capital of Sallies ("option") on the following terms and conditions:

- 12.3.2.1 each of Messrs T G Dale and J Blersch will have an option for the purchase of 1.5% of the shares in the issued share capital of Sallies on a fully diluted basis (i.e. after the allotment and issue of all the shares to be issued pursuant to the rights offer detailed in this circular ("initial option"));
- 12.3.2.2 each of Messrs T G Dale and J Blersch will have an additional option for the purchase of 1.5% of all the shares in the issued share capital of Sallies to be allotted and issued to shareholders of Sallies or their renounees, in terms of any rights offer or capitalisation issue which may be made by Sallies, whilst any of the options remains unexercised ("additional option");
- 12.3.2.3 the strike price of the initial option will be agreed with the four major stakeholders in Sallies, namely Natrust Equities, Titan, Trinity and African Renaissance Investments (Proprietary) Limited, Sallies' Black Economic Empowerment partner. This strike price has subsequently been set at 91.25 cents per share *cum* rights, or 85 cents per share after completion of this rights offer. The strike price of any shares to be issued pursuant to any of the additional options will be the issue price of such new shares in terms of the relevant rights offer or capitalisation issue, as the case may be;
- 12.3.2.4 the options will be exercisable as to one-third on 31 December of each of 2007, 2008 and 2009; and
- 12.3.2.5 all or any of the options may be exercised immediately by Mr T G Dale and/or Mr J 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 Takeovers and Mergers of the Securities Regulation Panel).
- 12.3.2.6 Messrs T G Dale and J Blersch will each hold options over 9 368 774 Sallies shares after the completion of the rights offer.

There has been no other change in directors' shareholdings owned, beneficially or non-beneficially, directly or indirectly, since the last financial year-end.

#### 12.3.3 **Directors' interests in transactions**

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

- during the current or immediately preceding financial year; or
- during an earlier financial year that remains in any respect outstanding or unperformed.

#### 12.3.4 **Directors' remuneration**

Other than as set out in paragraph 12.3.2 above, there will be no variation in the remuneration receivable by the directors as a consequence of the rights offer.

### 12.4 **Sallies' share price history**

A table setting out the price history of Sallies shares on the JSE has been included in Annexure 5.

### 12.5 **Financial information**

The reviewed interim results of the Sallies group for the six month period ended 30 June 2006 is set out in Annexure 1. The *pro forma* income statement and balance sheet of Sallies is set out in Annexure 2 and a copy of the report of the independent reporting accountants thereon is duplicated at Annexure 3.

### 12.6 **Litigation statement**

#### 12.6.1 **Honeywell dispute**

Sallies is currently involved in arbitration proceedings with Honeywell, a former customer. An amount of US\$1 067 327 is owed by Honeywell to Sallies for fluorspar delivered by Witkop Fluorspar to Honeywell in 2005. Sallies sent a letter dated 21 November 2005 to Honeywell, demanding payment of the outstanding invoices.

Sallies was advised to obtain a Swiss legal opinion on the interpretation of the contract with Honeywell before proceeding with possible cancellation, which it did.

A letter informing Honeywell of a "material breach" was forwarded to Honeywell on 11 January 2006. Honeywell did not respond to this letter and Sallies cancelled the contract on 19 January 2006, to which Honeywell responded on the same date, claiming unjustified cancellation. Sallies responded on 25 January 2006 confirming the contractual basis on which the termination was justified.

Honeywell referred the matter to arbitration in terms of the Rules of the International Chamber of Commerce. Honeywell is claiming an amount of US\$6 847 305 from Sallies for damages which it alleges it suffered as a result of a breach of contract by Sallies. Sallies has counterclaimed for the sum of US\$1 067 327.

The witness hearings before the Arbitral Tribunal are expected to take place towards the end of this calendar year.

#### 12.6.2 **Application for the liquidation of Witkop Fluorspar**

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.

#### 12.6.3 **SARS dispute**

Sallies' acquisition of Witkop Fluorspar during 1999 moved it from the "Curtailed operations" sector to the "Mining" sector on the JSE lists. Sallies entered into a marketing agreement with its acquired subsidiary Witkop Fluorspar. Witkop Fluorspar was never responsible for its own marketing. This was done by its former holding company. Sallies stepped into the shoes of the previous holding company of Witkop Fluorspar. SARS held the view that the sole and main reason for Sallies entering into a marketing agreement with Witkop Fluorspar was to utilise the assessed tax loss of Sallies. This issue together with one other was referred to the special Tax Court, where it was withdrawn. The other outstanding issue in dispute with SARS is whether the interest incurred on the acquisition of Witkop Fluorspar is deductible. This matter is still the subject of legal proceedings and is at the appeal stage. The potential exposure of Sallies is approximately R3 million.

#### 12.6.4 **Other litigations**

Other than the above, there are no legal or arbitration proceedings or proceedings that are pending or threatened of which Sallies is aware which may have or have, during the 12 months preceding the date of this circular, had a material effect on the financial position of the Sallies group.

### 12.7 **Corporate Governance**

The directors have adopted the Code of Corporate Practices and Conduct as contained in the King Reports on Corporate Governance ("Code"). The Code contains recommendations as to the best practice for the control of reporting functions to the directors. The directors consider that Sallies complies with the provisions of the Code, except for there being no internal audit function, reasons for which are given below.

The directors are responsible for maintaining adequate accounting records and have the general responsibility for taking reasonable steps to safeguard the assets of the Sallies group and to prevent and detect fraud and other irregularities. To enable the directors to meet these responsibilities, management have set standards and implemented systems of internal accounting control aimed at reducing the risk of error or loss in a cost effective manner.

Due to the size of Sallies and management's close supervision over operations, no internal audit function that independently appraises the company's internal accounting controls has been deemed

necessary. The directors are of the opinion, based on the information and explanations given by management and the independent external auditors, that the internal accounting records may be relied on for preparing the financial statements and maintaining accounting for assets and liabilities. The directors believe that assets are protected and used as intended with appropriate authorisation.

Sallies' statement in support of the King II Report is set out in Annexure 6.

### 13. EXPENSES

At the last practicable date, estimated expenses of R810 000 have been provided for in connection with the rights offer and will be settled out of the proceeds of the rights offer. In addition to the above an underwriting commission of R1 874 000 is payable in respect of the rights offer. Details of the expenses (excluding VAT) are set out below:

|  | <b>R'000</b> |
|--|--------------|
| Composite corporate advisory and sponsor fees – Sasfin Capital                         | 225          |
| Independent reporting accountants' fees – BDO Spencer Steward (Jhb) Incorporated       | 50           |
| Attorneys' fees – Brink Cohen Le Roux Inc.   | 175          |
| Transfer secretaries fees – Computershare Investor Services 2004 (Proprietary) Limited | 35           |
| Printing costs and related announcements – Ince (Proprietary) Limited                  | 82           |
| JSE documentation inspection fees  | 46           |
| JSE listing fees   | 47           |
| Contingency for other costs  | 150          |
| Underwriting commission – Natrust Equities, Titan and Trinity                          | 1 874        |
|  | <b>2 684</b> |

### 14. REGISTRATION OF DOCUMENTS

A signed copy of this circular, together with a copy of the form of instruction with respect to the letters of allocation to be issued in relation to the rights offer, has been registered by the Registrar in terms of section 146A of the Companies Act, accompanied by:

- the written consents of the corporate advisor and sponsor, commercial banker, transfer secretaries, attorneys and independent reporting accountants to act in the capacities stated and to their names and reports being referred to in this circular in the form and context in which they appear, whose consents have not been withdrawn prior to the lodging of these documents for registration;
- signed copy of the independent reporting accountants' report on the *pro forma* financial information relating to Sallies, incorporating their consent to act in such capacity and to their name being stated in this circular;
- copies of all documents required and approved by the JSE, including a copy of the letter from the JSE confirming its approval of such documents;
- the Exchange Control approval for the rights offer;
- where applicable, powers of attorney granted by the directors of Sallies.

### 15. CONSENTS

Each of Sallies' advisors, namely the corporate advisor and sponsor, commercial banker, transfer secretaries, the attorneys and independent reporting accountants, has consented in writing to act in the capacities stated and to their names appearing in this circular and have not withdrawn such consent prior to the issue of this circular.

The independent reporting accountants have given and have not withdrawn their consent to the inclusion of their report in the form and context in which it is included in this circular. An independent reporting accountants' report on the *pro forma* balance sheet, income statement and financial effects of the rights offer is included as Annexure 3.

## 16. **OPINIONS AND RECOMMENDATIONS**

The directors have considered the terms and conditions of the rights offer and are of the unanimous opinion that the rights offer is in the interests of the company and its shareholders. They recommend that all shareholders follow their rights in terms of the rights offer.

## 17. **SOUTH AFRICAN LAW**

All transactions arising from the provisions of this circular and the form of instruction shall be governed by and be construed in accordance with the laws of South Africa.

## 18. **DIRECTORS' RESPONSIBILITY**

The directors of Sallies, whose names appear in paragraph 12.3 above, collectively and individually, accept full responsibility for the accuracy of the information given in this circular and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this circular contains all the information required by law and the JSE Listings Requirements.

## 19. **DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents, or copies thereof, will be available for inspection during normal business hours at the registered office of Sallies and the office of Sasfin Capital (the addresses of which appear on the inside front cover of this circular), from the date of issue of this circular, up to and including Friday, 29 June 2007:

- the memorandum and articles of association of Sallies;
- a copy of the Competent Person's report on Sallies dated 16 May 2006;
- the Sallies group audited financial statements for the three financial periods ended 30 June 2006;
- the Sallies group unaudited reviewed interim financial statements for the six months ended 31 December 2006;
- the Sallies group *pro forma* financial statements for the six months ended 31 December 2006;
- this circular, signed by or on behalf of the directors and the form of instruction, registered by the Registrar;
- the letters of consent of the corporate advisor and sponsor, the attorneys, commercial banker, transfer secretaries and the independent reporting accountants;
- the independent reporting accountants' report on the *pro forma* financial information;
- a signed copy of each of the underwriting agreements;
- the material agreement between Sallies and African Renaissance Investments (Proprietary) Limited dated 28 February 2006 and the acquisition agreement for Buffalo Fluorspar Mine (Proprietary) Limited dated 1 July 2006;
- The Sallies Limited Share Incentive Scheme; and
- the contract of employment with Mr I J Marais.

By order of the board

**Johann Blersch**

*Non-executive director*

**Signed at Johannesburg on 11 June 2007 by Mr Johann Blersch in his capacity as director in terms of separate powers of attorney granted to him by each of the directors of Sallies**

---

**REVIEWED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2006**


---

**CONSOLIDATED INCOME STATEMENTS**

| <b>R'000</b>  | <b>Six months<br/>ended<br/>31 Dec 06<br/>Reviewed</b> | <b>Six months<br/>ended<br/>31 Dec 05<br/>Reviewed</b> | <b>Percentage<br/>change</b> | <b>Year<br/>ended<br/>30 Jun 06<br/>Audited</b> |
|---|--|--|------------------------------|---|
| Revenue – mining  | 52 164   | 57 252   | (9)                          | 86 882  |
| Cost of sales   | (55 728)   | (58 436)   | (5)                          | (103 197)                                       |
| Loss from mining activities   | (3 564)  | (1 184)  | 201                          | (16 315)  |
| Less: Depreciation  | (4 950)  | (112)  | 4 320                        | (5 222)   |
| Amortisation of mineral rights  | (1 233)  | (1 200)  | 3                            | (2 056)   |
| Operating loss from mining  | (9 747)  | (2 496)  | 291                          | (23 593)  |
| Profit on disposal of property,<br>plant and equipment                            | 5  | 45   | (89)                         | 1 817   |
| Administrative expenses   | (9 555)  | (5 013)  | 91                           | (22 932)  |
| Investment income   | 58   | 9  | 549                          | 85  |
| Finance costs   | (1 486)  | (898)  | 65                           | (2 735)   |
| Net foreign exchange gains/(losses)   | 1 692  | 1 533  | 10                           | (1 435)   |
| Provision for doubtful debt   | –  | (585)  | (100)                        | –   |
| Provision for onerous contract  | –  | (8 689)  | (100)                        | 9 366   |
| Net loss before taxation  | (19 033)   | (16 094)   | 18                           | (39 428)  |
| Taxation – deferred   | –  | (620)  | (100)                        | 1 644   |
| Net loss for period   | (19 033)   | (16 714)   | 14                           | (37 784)  |
| Issued shares ('000)  | 499 668  | 257 009  | 94                           | 450 064   |
| Weighted average shares issued ('000)   | 459 629  | 257 009  | 79 271                       | 263   |
| Weighted average shares<br>issued for diluted earnings per share ('000)           | 507 875  | 266 032  | 73 271                       | 263   |
| <b>RECONCILIATION OF EARNINGS</b>   |  |  |                              |   |
| Net loss attributable to ordinary shareholders<br>for basic earnings per share    | (19 033)   | (16 714)   | 14                           | (37 784)  |
| Profit on disposal of assets – net of tax   | (3)  | (32)   | (89)                         | (1 290)   |
| Net loss attributable to ordinary<br>shareholders for headline earnings per share | (19 036)   | (16 746)   | 14                           | (39 074)  |
| <b>LOSS PER SHARE (cents)</b>   |  |  |                              |   |
| Basic   |  |  |                              |   |
| – undiluted   | (4.1)  | (6.5)  | (36.3)                       | (13.9)  |
| – diluted   | (3.7)  | (6.3)  | (40.4)                       | (13.9)  |
| Headline  |  |  |                              |   |
| – undiluted   | (4.1)  | (6.5)  | (36.4)                       | (14.4)  |
| – diluted   | (3.7)  | (6.3)  | (40.5)                       | (14.4)  |

## CONSOLIDATED CASH FLOW STATEMENTS

| R'000   | Six months<br>ended<br>31 Dec 06<br>Reviewed | Six months<br>ended<br>31 Dec 05<br>Reviewed | Year<br>ended<br>30 Jun 06<br>Audited |
|---|--|--|---------------------------------------|
| Net cash inflows/(outflows) from operating activities | (40 432)                                     | 7 254  | 2 638                                 |
| Cash generated/(utilised) by operations               | (39 004)                                     | 8 143  | 5 157                                 |
| Interest paid   | (1 486)                                      | (898)  | (2 735)                               |
| Taxation paid   | –  | –  | 130                                   |
| Investment income                                     | 58   | 9  | 85                                    |
| Net cash outflows from investing activities           | (68 325)                                     | (4 787)                                      | (11 063)                              |
| Net additions to mine plant, equipment and buildings  | (68 330)                                     | (4 832)                                      | (12 880)                              |
| Proceeds from disposals of plant and equipment        | 5  | 45   | 1 817                                 |
| Net cash inflow/(outflows) from financing activities  | 35 545                                       | (4 763)                                      | 76 489                                |
| Long-term loans repaid                                | 3 307  | 1 140  | (966)                                 |
| Short-term facility                                   | –  | (5 903)                                      | –                                     |
| Share issues – net of costs                           | 32 238                                       | –  | 77 455                                |
| Net (decrease)/increase in cash and cash equivalents  | (73 212)                                     | (2 296)                                      | 68 063                                |
| Cash and cash equivalents at beginning of period      | 60 059                                       | (8 004)                                      | (8 004)                               |
| Cash and cash equivalents at end of period            | (13 152)                                     | (10 300)                                     | 60 059                                |

## CONSOLIDATED BALANCE SHEETS

| R'000                                      | 31 Dec 06<br>Reviewed | 31 Dec 05<br>Reviewed | 30 Jun 06<br>Audited |
|--|-----------------------|-----------------------|----------------------|
| <b>ASSETS</b>                              |                       |                       |                      |
| Non-current assets                         | 144 814               | 98 696                | 82 668               |
| Property, plant and equipment              | 134 086               | 87 974                | 71 940               |
| Goodwill                                   | 10 175                | 10 175                | 10 175               |
| Restricted investment                      | 553                   | 547                   | 553                  |
| Current assets                             | 25 138                | 22 217                | 87 155               |
| Inventories                                | 16 491                | 9 523                 | 5 187                |
| Accounts receivable                        | 5 768                 | 9 826                 | 4 852                |
| Taxation pre-paid                          | 2 858                 | 2 858                 | 2 858                |
| Cash and cash equivalents                  | 21                    | 10                    | 74 258               |
| <b>Total assets</b>                        | <b>169 952</b>        | <b>120 913</b>        | <b>169 823</b>       |
| <b>EQUITY AND LIABILITIES</b>              |                       |                       |                      |
| Capital and reserves                       | 100 965               | 36 569                | 87 856               |
| Share capital and premium                  | 207 923               | 89 167                | 175 685              |
| Other reserves                             | 724                   | 1 975                 | 724                  |
| Accumulated loss                           | (107 682)             | (54 573)              | (88 553)             |
| Non-current liabilities                    | 17 647                | 20 811                | 14 890               |
| Long-term loan                             | 7 945                 | 3 525                 | 4 638                |
| Provision for environmental rehabilitation | 4 102                 | 4 138                 | 4 652                |
| Deferred taxation                          | 5 600                 | 13 148                | 5 600                |
| Current liabilities                        | 51 340                | 63 533                | 67 077               |
| Accounts payable                           | 26 638                | 32 097                | 42 204               |
| Bank overdraft                             | 13 173                | 10 310                | 14 198               |
| Provisions                                 | 5 380                 | 18 055                | 4 778                |
| Taxation                                   | –                     | –                     | 142                  |
| Current portion of long-term liabilities   | 6 148                 | 3 071                 | 5 755                |
| <b>Total equity and liabilities</b>        | <b>169 952</b>        | <b>120 913</b>        | <b>169 823</b>       |
| Net asset value per share (cents)          | 20.2                  | 14.2                  | 19.5                 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| R'000                        | Capital reserves | Accumulated loss | Total    |
|------------------------------|------------------|------------------|----------|
| Balance at 30 June 2005      | 91 142           | (50 769)         | 40 373   |
| Movement in capital reserves | 85 267           | –                | 85 267   |
| Loss for period              | –                | (37 784)         | (37 784) |
| Balance at 30 June 2006      | 176 409          | (88 553)         | 87 856   |
| Movement in capital reserves | 32 239           | –                | 32 239   |
| Loss for period              | –                | (19 033)         | (19 033) |
| Balance at 31 December 2006  | 208 648          | (107 586)        | 101 062  |

## COMMENTS

### Directors, management and auditors

Subsequent to 31 December 2006, the board was reconstituted and now comprises Tom Dale (*Chairman*), Izak Marais (*CEO*), Johann Blersch, Dr Vincent Msibi (alternate: Jürgen Kögl) and Jeremy Woods. During December 2006, the management team was further strengthened by the appointment of a Group Financial Manager.

Shortly after the period under review, the company's auditors resigned and were replaced by BDO Spencer Steward (Jhb) Incorporated.

### Marketing

The international market for fluorspar remains buoyant and the company has sold all of its expected production for calendar 2007 from both Witkop and Buffalo at higher dollar prices than those achieved during the current review period.

### Operations

At the presentation to investors on 20 September 2006, the market was informed that operating results for July, August and September 2006 had been poor. The reasons for this were lower than budgeted feed and recovery grades caused by mining inflexibility with specific reference to the high grade Buffelshoek area. It was predicted that output from Witkop would achieve budgeted levels of about 12 000 wet tons of fluorspar per month for October, November and December 2006. These production levels were not achieved due to low availabilities of mining equipment. After the rights issue of 2006, management had planned to trade out of a position of inadequate working capital. This proved impossible and resulted in a further deterioration in the working capital position.

Notwithstanding the operating challenges outlined above, fluorspar output at Witkop for H1 F2007 was some 60% higher than the preceding six months. In addition, the final units of a replacement mining fleet were delivered in February 2007, further bolstering hauling capacity at Witkop.

### Finance

Failure to achieve operating budgets resulted in a net loss for the period of R19.0 million.

The recently announced fully underwritten 1-for-4 rights offer at 60 cents per share to raise approximately R75 million, should remove working capital constraints on operating performance. The rights offer is scheduled to be completed towards the end of June 2007.

Buffalo is beginning to produce fluorspar at budgeted levels.

Given: (a) the strength of the fluorspar market; (b) the availability of adequate working capital derived from the June 2007 rights issue; (c) the calibre of the ore bodies at Witkop and Buffalo as attested to in the latest Competent Person's Reports and (d) the growing coherence and operating focus of the new management team, the directors have no doubt that the company is a going concern.

There has been no change in the contingent liabilities since 30 June 2006.

## **Human resources**

An illegal stayaway on Friday, 6 April 2007 resulted in a lock-out until Thursday, 12 April 2007. Constructive engagement with the NUM during this period has highlighted those issues on both sides which are fundamental to future industrial peace.

## **Development**

Management resources have been committed to researching the economic potential of rare earths. Shareholders will be kept apprised of progress.

## **BEE**

The agreement in terms of which African Renaissance Investments (Proprietary) Limited will acquire a 30% undivided share in the fluorspar business of the Sallies group, has only one outstanding condition precedent to be fulfilled. The transaction is expected to be completed before 30 June 2007.

## **Honeywell**

Sallies has been notified that its dispute with Honeywell in which Honeywell is claiming an amount of almost US\$6.7 million from Sallies for damages, will appear before the International Chamber of Commerce in Zurich during the first half of May 2007 for arbitration.

## **Modified review opinion**

The interim report for the period 31 December 2006 has been reviewed by the group's auditors BDO Spencer Steward (Jhb) Incorporated and their modified review opinion is available for inspection at the registered office of the company. They have drawn attention to the fact that the group incurred a net loss of R19 million for the six-month period ended 31 December 2006 and at that date, the group's current liabilities exceeded its current assets by R26.2 million. These conditions, along with other matters as set forth above in the commentary, indicate the existence of a material uncertainty which may cause doubt on the group's ability to continue as a going concern. The auditors draw further attention to the fact that reportable irregularities concerning the statutory deductions set out below were reported in terms of section 45 of the Auditing Professions Act. The audit report for the year ended 30 June 2006 drew attention to similar matters:

- Failure to pay pension fund contributions in terms of the Pension Funds Act, No. 24 of 1956;
- Failure to pay employees' tax in terms of the Income Tax Act, No. 58 of 1962;
- Failure to pay unemployment insurance contributions in terms of the Unemployment Insurance Contributions Act, No. 24 of 2002; and
- Failure to pay skills development levy in terms of the Skills Development Levies Act, No. 9 of 1999.

## **Accounting policies**

The interim report has been prepared in accordance with International Financial Reporting Standards IAS 34: Interim Financial Reporting.

The same accounting policies and methods of measurement and recognition as those applied in the 30 June 2006 annual financial statements have been applied in preparing this interim report.

## **Dividends**

No dividend has been declared for the period under review.

By order of the board

## **Tom Dale**

*Chairman*

Zeerust  
19 April 2007

Directors: Tom Dale (*Chairman*), Izak Marais\* (*CEO*), Johann Blersch, Dr Vincent Msibi (alternate: Jürgen Kögl), Jeremy Woods

\*Executive

**Registered office:** Witkop Fluorspar Mine Farm  
Wintershoek  
Zeerust, 2865  
(Private Bag X1315, Zeerust, 2865)

**Transfer secretaries:** Computershare Investor Services 2004 (Proprietary) Limited  
(Registration number 2004/003647/07)  
70 Marshall Street  
Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)

## PRO FORMA CONSOLIDATED FINANCIAL INFORMATION OF SALLIES

The unaudited *pro forma* consolidated income statement and consolidated balance sheet for the six months ended 31 December 2006, before and after the rights offer, are set out below. The unaudited *pro forma* consolidated income statement and consolidated balance sheet are the responsibility of the directors of Sallies and they have been prepared for illustrative purposes only, in order to provide information about the financial position and results of Sallies assuming that the rights offer had been implemented on 31 December 2006 and 1 July 2006, respectively. Due to its nature, the *pro forma* financial information may not give a fair reflection of Sallies' financial position and results of operations subsequent to the rights offer. The independent reporting accountants' report on the *pro forma* financial effects of the rights offer is set out in Annexure 3.

### Pro forma consolidated income statement

|   | Before<br>rights offer<br>R'000 | Adjustments<br>R'000 | After<br>rights offer<br>R'000 |
|---|---------------------------------|----------------------|--------------------------------|
| Revenue – mining  | 52 164                          |                      | 52 164                         |
| Cost of sales   | (55 728)                        |                      | (55 728)                       |
| Loss from mining operations                               | (3 564)                         |                      | (3 564)                        |
| Administrative expenses                                   | (9 555)                         |                      | (9 555)                        |
| Amortisation of mineral rights                            | (1 233)                         |                      | (1 233)                        |
| Depreciation  | (4 950)                         |                      | (4 950)                        |
| Finance cost  | (1 486)                         | 1 486 <sup>2</sup>   | –                              |
| Investment income   | 58                              |                      | 58                             |
| Profit on disposal of property, plant and equipment       | 5                               |                      | 5                              |
| Net foreign exchange gain                                 | 1 692                           |                      | 1 692                          |
| Net loss before taxation                                  | (19 033)                        | 1 486                | (17 547)                       |
| Taxation  | –                               |                      | –                              |
| Net loss for period                                       | (19 033)                        | 1 486                | (17 547)                       |
| Weighted average number of shares in issue ('000)         | 459 629                         |                      | 584 546                        |
| Diluted weighted average number of shares in issue ('000) | 507 875                         |                      | 632 792                        |
| Basic loss per share (cents)                              |                                 |                      |                                |
| – undiluted   | (4.1)                           |                      | (3.0)                          |
| – diluted   | (3.7)                           |                      | (2.8)                          |
| Headline loss per share (cents)                           |                                 |                      |                                |
| – undiluted   | (4.1)                           |                      | (3.0)                          |
| – diluted   | (3.7)                           |                      | (2.8)                          |
| <i>Reconciliation of headline loss:</i>                   |                                 |                      |                                |
| Net loss for period                                       | (19 033)                        |                      | (17 547)                       |
| Profit on disposal of assets, net of tax                  | (3)                             |                      | (3)                            |
| Headline loss   | (19 036)                        |                      | (17 550)                       |

#### Notes:

- The "Before" financial information has been extracted from the reviewed interim results of Sallies for the six months ended 31 December 2006.
- The adjustment represents the reduced interest charge (equal to the interest paid for the period) as a result of the repayment of all interest bearing debt at the beginning of the period and is expected to have a continuing effect.

**Pro forma consolidated balance sheet**

|   | Before<br>rights offer<br>R'000 | Adjustments<br>R'000  | After<br>rights offer<br>R'000 |
|---|---------------------------------|-----------------------|--------------------------------|
| <b>ASSETS</b>                               |                                 |                       |                                |
| <b>Non-current assets</b>                   | 144 814                         |                       | 144 814                        |
| Goodwill                                    | 10 175                          |                       | 10 175                         |
| Property, plant and equipment               | 134 086                         |                       | 134 086                        |
| Accounts receivable                         | 553                             |                       | 553                            |
| <b>Current assets</b>                       | 25 138                          | 28 420                | 53 558                         |
| Inventories                                 | 16 491                          |                       | 16 491                         |
| Accounts receivable                         | 5 768                           |                       | 5 768                          |
| Taxation prepaid                            | 2 858                           |                       | 2 858                          |
| Cash and cash equivalents                   | 21                              | 28 420 <sup>3</sup>   | 28 441                         |
| <b>Total assets</b>                         | 169 952                         | 28 420                | 198 372                        |
| <b>EQUITY AND LIABILITIES</b>               |                                 |                       |                                |
| Capital and reserves                        | 101 061                         | 72 266                | 173 327                        |
| Share capital and premium                   | 207 923                         | 72 266 <sup>2</sup>   | 280 189                        |
| Other reserves                              | 724                             |                       | 724                            |
| Accumulated loss                            | (107 586)                       |                       | (107 586)                      |
| <b>Non-current liabilities</b>              | 17 647                          | (7 945)               | 9 702                          |
| Interest bearing debt                       | 7 945                           | (7 945) <sup>3</sup>  | –                              |
| Provision for environmental rehabilitation  | 4 102                           |                       | 4 102                          |
| Deferred taxation                           | 5 600                           |                       | 5 600                          |
| <b>Current liabilities</b>                  | 51 244                          | (35 901)              | 15 343                         |
| Bank overdraft                              | 13 173                          | (13 173) <sup>3</sup> | –                              |
| Accounts payable                            | 26 543                          | (16 580) <sup>3</sup> | 9 963                          |
| Provisions                                  | 5 380                           |                       | 5 380                          |
| Current portion of interest bearing debt    | 6 148                           | (6 148) <sup>3</sup>  | –                              |
| <b>Total equity and liabilities</b>         | 169 952                         | 28 420                | 198 372                        |
| Number of shares in issue ('000)            | 499 688                         | 124 917               | 624 585                        |
| Net asset value per share (cents)           | 20.2                            |                       | 27.8                           |
| Tangible net asset value per share (cents)  | 18.2                            |                       | 26.1                           |
| Reconciliation of tangible net asset value: |                                 |                       |                                |
| Net asset value per share                   | 101 061                         |                       | 173 327                        |
| Goodwill                                    | (10 175)                        |                       | (10 175)                       |
| <b>Tangible net asset value</b>             | 90 886                          |                       | 163 152                        |

**Notes:**

1. "Before" financial information has been extracted from the reviewed interim results of Sallies for the six months ended 31 December 2006.
2. The adjustment represents the share capital and share premium arising from the issue of 124 916 992 ordinary shares of 0.1 cent each at 60 cents per share, net of the estimated transaction costs related to the rights offer of R2.684 million which have been written-off against share premium.
3. The adjustment represents the application of the net proceeds of the rights offer to settle all interest bearing debt as well as the accounts payable that were overdue at 31 December 2006. No interest is assumed to have been earned on the net cash balance of R28.4 million remaining after the application of the proceeds of the rights offer.

---

**INDEPENDENT REPORTING ACCOUNTANTS' REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION RELATING TO SALLIES**

---

"The Directors  
Sallies Limited  
Witkop Fluorspar Mine  
Farm Wintershoek  
Zeerust  
2865

23 May 2007

Dear Sirs

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE *PRO FORMA* FINANCIAL INFORMATION OF SALLIES LIMITED****INTRODUCTION**

The definitions contained in the circular of which this report forms part have been used throughout this report.

We have performed our limited assurance engagement in respect of the *pro forma* financial information set out on Annexure 2 to the circular to shareholders, to be dated 11 June 2007, which has been issued in connection with the rights offer. The *pro forma* financial information has been prepared in accordance with the JSE Listings Requirements, for illustrative purposes only, to provide information about how the proposed rights offer might have affected the reported historical financial information presented, had that corporate action been undertaken at the commencement of the financial period or at the date of the *pro forma* balance sheet being reported on.

**DIRECTORS' RESPONSIBILITY**

The directors of Sallies are responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the circular of which this annexure forms part and for the financial information from which it has been prepared. Their responsibility includes determining that: the *pro forma* financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of Sallies; and that the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express our limited assurance conclusion on the *pro forma* financial information included in the circular to Sallies shareholders. We conducted our assurance engagement in accordance with the International Standard *on Assurance Engagements applicable to Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the *Guide on Pro Forma Financial Information* issued by The South African Institute of Chartered Accountants.

This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

## SOURCES OF INFORMATION AND WORK PERFORMED

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Sallies, considering the evidence supporting the *pro forma* adjustments and discussing the adjusted *pro forma* financial information with the directors of Sallies in respect of the proposed rights offer which forms the subject matter of the circular.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Sallies in addition to other information from various public, financial and industry sources.

While our work performed has involved an analysis of the historical published audited financial information and other information provided to us, our assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with *International Standards on Auditing or International Standards on Review Engagements* and, accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe that the evidence obtained by us is sufficient and appropriate to provide a basis for our conclusion.

The *pro forma* financial information has been prepared, for illustrative purposes only, to provide information about how the proposed rights offer might have affected the financial position, changes in equity, results of operations or cash flows as presented by Sallies. Because of its nature the *pro forma* financial information may not present a fair reflection of the financial position of Sallies, after the relevant transaction, nor of its effect on earnings.

At your request and for the purpose of the proposed rights offer we present our report on the *pro forma* financial information relating to those transactions in compliance with the JSE Listings Requirements.

## CONCLUSION

Based on our examination of the evidence obtained, nothing has come to our attention, which causes us to believe that:

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of the Sallies group;
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed pursuant to paragraph 8.17 and paragraph 8.30 of the JSE Listings Requirements.

We consent to the inclusion of this letter and the reference to our opinion in the circular in the form and context in which it appears.

Yours faithfully

### **BDO Spencer Steward (Jhb) Inc.**

*Registered Auditors*

*Chartered Accountants (SA)*

BDO House  
13 Wellington Road  
Parktown, 2193

*Per: N Griffiths"*

---

**TABLE OF ENTITLEMENT TO RIGHTS SHARES**


---

The rounded number of rights to new shares to which a rights participant will become entitled will be as follows:

| <b>Number of existing ordinary shares held</b> | <b>Number of rights shares to which a rights participant is entitled</b> | <b>Number of existing ordinary shares held</b> | <b>Number of rights shares to which a rights participant is entitled</b> | <b>Number of existing ordinary shares held</b> | <b>Number of rights shares to which a rights participant is entitled</b> |
|--|--|--|--|--|--|
| 1  | –  | 35   | 9  | 69   | 17   |
| 2  | 1  | 36   | 9  | 70   | 18   |
| 3  | 1  | 37   | 9  | 71   | 18   |
| 4  | 1  | 38   | 10   | 72   | 18   |
| 5  | 1  | 39   | 10   | 73   | 18   |
| 6  | 2  | 40   | 10   | 74   | 19   |
| 7  | 2  | 41   | 10   | 75   | 19   |
| 8  | 2  | 42   | 11   | 76   | 19   |
| 9  | 2  | 43   | 11   | 77   | 19   |
| 10   | 3  | 44   | 11   | 78   | 20   |
| 11   | 3  | 45   | 11   | 79   | 20   |
| 12   | 3  | 46   | 12   | 80   | 20   |
| 13   | 3  | 47   | 12   | 81   | 20   |
| 14   | 4  | 48   | 12   | 82   | 21   |
| 15   | 4  | 49   | 12   | 83   | 21   |
| 16   | 4  | 50   | 13   | 84   | 21   |
| 17   | 4  | 51   | 13   | 85   | 21   |
| 18   | 5  | 52   | 13   | 86   | 22   |
| 19   | 5  | 53   | 13   | 87   | 22   |
| 20   | 5  | 54   | 14   | 88   | 22   |
| 21   | 5  | 55   | 14   | 89   | 22   |
| 22   | 6  | 56   | 14   | 90   | 23   |
| 23   | 6  | 57   | 14   | 91   | 23   |
| 24   | 6  | 58   | 15   | 92   | 23   |
| 25   | 6  | 59   | 15   | 93   | 23   |
| 26   | 7  | 60   | 15   | 94   | 24   |
| 27   | 7  | 61   | 15   | 95   | 24   |
| 28   | 7  | 62   | 16   | 96   | 24   |
| 29   | 7  | 63   | 16   | 97   | 24   |
| 30   | 8  | 64   | 16   | 98   | 25   |
| 31   | 8  | 65   | 16   | 99   | 25   |
| 32   | 8  | 66   | 17   | 100  | 25   |
| 33   | 8  | 67   | 17   | 1 000  | 250  |
| 34   | 9  | 68   | 17   |  |  |

---

---

**PRICE HISTORY OF SALLIES SHARES ON THE JSE**


---

|                  | High<br>(cents) | Low<br>(cents) | Volume      | Value<br>(R) |
|------------------|-----------------|----------------|-------------|--------------|
| <b>Quarterly</b> |                 |                |             |              |
| June 2004        | 35              | 30             | 16 273 330  | 5 553 914    |
| September 2004   | 35              | 27             | 25 876 236  | 7 956 818    |
| December 2004    | 39              | 28             | 21 479 075  | 7 118 236    |
| March 2005       | 33              | 25             | 17 057 862  | 5 052 946    |
| June 2005        | 36              | 24             | 14 803 334  | 4 431 957    |
| September 2005   | 40              | 29             | 17 171 337  | 6 036 944    |
| December 2005    | 39              | 32             | 16 016 467  | 5 716 546    |
| March 2006       | 80              | 33             | 181 566 817 | 105 511 159  |
| <b>Monthly</b>   |                 |                |             |              |
| March 2006       | 80              | 55             | 68 932 427  | 44 402 861   |
| April 2006       | 95              | 79             | 23 205 006  | 19 768 913   |
| May 2006         | 90              | 59             | 24 313 540  | 19 852 596   |
| June 2006        | 80              | 50             | 53 926 048  | 36 967 257   |
| July 2006        | 90              | 70             | 46 611 120  | 35 711 601   |
| August 2006      | 102             | 84             | 29 699 525  | 27 650 837   |
| September 2006   | 106             | 89             | 35 379 862  | 34 758 933   |
| October 2006     | 120             | 84             | 59 711 284  | 57 250 366   |
| November 2006    | 130             | 107            | 48 834 996  | 57 550 945   |
| December 2006    | 140             | 117            | 17 950 148  | 23 437 610   |
| January 2007     | 149             | 125            | 39 856 749  | 54 988 689   |
| February 2007    | 148             | 120            | 35 037 420  | 46 966 145   |
| March 2007       | 126             | 86             | 77 258 468  | 78 303 259   |
| <b>Daily</b>     |                 |                |             |              |
| 2 April 2007     | 95              | 93             | 641 362     | 603 865      |
| 3 April 2007     | 96              | 93             | 1 566 464   | 1 475 251    |
| 4 April 2007     | 94              | 90             | 3 584 094   | 3 296 816    |
| 5 April 2007     | 93              | 89             | 2 098 571   | 1 895 383    |
| 10 April 2007    | 92              | 85             | 2 726 072   | 2 388 056    |
| 11 April 2007    | 91              | 88             | 2 653 123   | 2 370 061    |
| 12 April 2007    | 97              | 89             | 3 590 825   | 3 371 015    |
| 13 April 2007    | 109             | 99             | 22 220 559  | 22 748 530   |
| 16 April 2007    | 115             | 111            | 6 043 433   | 6 835 260    |
| 17 April 2007    | 113             | 98             | 4 838 220   | 5 062 225    |
| 18 April 2007    | 108             | 102            | 2 168 796   | 2 249 375    |
| 19 April 2007    | 103             | 94             | 6 246 512   | 6 166 644    |
| 20 April 2007    | 98              | 92             | 10 382 572  | 9 727 547    |
| 23 April 2007    | 95              | 91             | 2 588 327   | 2 391 862    |
| 24 April 2007    | 92              | 89             | 2 565 606   | 2 304 376    |
| 25 April 2007    | 94              | 89             | 748 983     | 684 601      |
| 26 April 2007    | 92              | 89             | 1 316 627   | 1 192 648    |
| 30 April 2007    | 89              | 85             | 1 154 028   | 1 002 934    |
| 2 May 2007       | 95              | 89             | 802 130     | 728 756      |
| 3 May 2007       | 95              | 90             | 3 375 880   | 3 180 620    |
| 4 May 2007       | 95              | 89             | 634 807     | 581 368      |
| 7 May 2007       | 93              | 89             | 1 133 505   | 1 021 401    |
| 8 May 2007       | 90              | 87             | 1 528 687   | 1 346 213    |
| 9 May 2007       | 90              | 86             | 802 966     | 701 296      |
| 10 May 2007      | 88              | 87             | 1 086 730   | 953 372      |
| 11 May 2007      | 90              | 87             | 3 507 400   | 3 118 800    |
| 14 May 2007      | 93              | 88             | 1 471 665   | 1 339 929    |
| 15 May 2007      | 94              | 90             | 3 713 496   | 3 453 551    |
| 16 May 2007      | 96              | 90             | 2 603 321   | 2 473 155    |
| 17 May 2007      | 99              | 92             | 4 369 112   | 4 063 274    |
| 18 May 2007      | 98              | 93             | 3 339 008   | 3 172 058    |
| 21 May 2007      | 100             | 97             | 2 480 183   | 2 480 183    |
| 22 May 2007      | 106             | 100            | 2 622 806   | 2 722 781    |

---

## STATEMENT OF COMPLIANCE WITH THE KING II REPORT

---

### COMPLIANCE WITH THE CODE OF CORPORATE PRACTICES AND CONDUCT

The board of directors has adopted the Code of Corporate Practices and Conduct as contained in the King Reports on Corporate Governance. The Code contains recommendations as to the best practice for the control and reporting functions of the board of directors. The board considers that the company complies in the main with the provisions of the Code.

### PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

In terms of the Companies Act, the directors are responsible for the preparation of the annual financial statements, which fairly present the state of affairs of the company and the Sallies group 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 IFRS.

The company'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 Statements of South African Auditing Standards.

The directors consider that in preparing the annual financial statements, in accordance with IFRS, the company has used appropriate accounting policies supported by reasonable and prudent judgment and estimates and that all applicable accounting standards have been followed, the directors, further, have no reason to believe that the company will not be a going concern in the year ahead, subject to the raising of capital by way of a rights issue.

### BOARD AND COMMITTEE STRUCTURE

The company has a unitary board comprising five directors, four of whom are non-executive directors. The non-executive directors are independent of management. There is a policy detailing the procedures for appointments to the board which appointments must be formal and transparent. The clear division of responsibilities at board level ensures a balance of power as between the directors.

All directors are subject to retirement by rotation and 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 Sallies group, and meets at least quarterly, to review strategy, planning, implementation and control, operational and financial performance, acquisitions and disposals, major capital expenditure, stakeholder communication and other material matters.

An Executive Committee, to assist Messrs Marais and Potgieter, was appointed recently. Starting in May 2007, this committee will meet monthly to review the operations, finances and management performance of the group and evaluate opportunities for growth.

Members of the committee are:

T G Dale (*Non-executive chairman*);

J Blersch (*Non-executive director*);

I J Marais (*CEO*); and

P R P Potgieter (*Director of subsidiaries*).

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 Sallies group at the Sallies group's expense, should they think it would be in the best interests of the Sallies group.

## **AUDIT COMMITTEE**

An Audit Committee, whose members are non-executive directors, 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 and sets the principles for recommending the use of external auditors also for non-audit services.

Members of the committee are:

J Blersch (*Chairman*);

T G Dale;

I J Marais; and

P R P Potgieter.

## **HUMAN RESOURCES AND REMUNERATION COMMITTEE**

The Human Resources and Remuneration Committee, whose members are non-executive directors, establishes the Sallies group's philosophy, employment conditions and considers the remuneration of the directors.

Members of the committee are:

J Blersch;

T G Dale (*Chairman*); and

J Kögl.

## **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 are in place to manage operating risk, particularly the risk related to international trade and international trade finance.

## **HEALTH, SAFETY AND ENVIRONMENT**

The Sallies group has an outsourced primary healthcare function and all employees belong to a medical aid scheme. An occupational health practitioner is employed on a part-time basis visiting the mine regularly to ensure compliance with legislation is achieved.

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

No fatal accidents were reported for at least the last three years. Safe working practices are being entrenched as the "Witkop way". All mandatory codes of practice as required have been timeously submitted to the Director of Minerals & Energy.

The Witkop Fluorspar Mine operates in an environmentally responsible manner. ISO 14001:1996 and OHSAS 18001:1999 certifications were achieved in November 2004.

## **INTERNAL CONTROL**

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

To enable the directors to meet these responsibilities, management have set standards and implemented systems of internal accounting control aimed at reducing the risk of error or loss in a cost-effective manner.

Due to the size of the company and management's close supervision of operations, no internal audit function that independently appraises the company's internal accounting controls has been deemed necessary. The directors are of the opinion, based on the information and explanations given by management and the independent external auditors, that the internal accounting controls are adequate so that the accounting records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The directors believe that assets are protected and used as intended with appropriate authorisation.

## **WORKER PARTICIPATION**

A future forum as intended by the Social and Labour section of the MPRD Act has been established to ensure worker participation and compliance with the social and labour plan as submitted by Witkop Fluorspar. Management and worker representatives meet formally and informally at operational level to share information and to address matters of mutual interest.

## **RELATIONS WITH STAKEHOLDERS**

The company, subject to certain confidential information during closed periods, subscribes to open communication with its stakeholders. Investors and shareholders may direct their comments and questions on issues regarding the company to the management of the company. The company further encourages shareholders to attend its annual and other general meetings, which provide an opportunity for shareholders to ask questions of the board. A high value is placed on internal communication with all employees.

## **CODE OF ETHICS**

The company 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 Sallies group's business practices are conducted in a manner that is beyond reproach.

The company 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.

---

**INFORMATION ON THE UNDERWRITERS**


---

**Natrust Equities (Proprietary) Limited**

|                                  |   |
|----------------------------------|---|
| Main business:                   | Investment in securities  |
| Public officer:                  | Richard Ivan Jähnig   |
| Director:                        | Richard Ivan Jähnig   |
| Date and place of incorporation: | 22 November 1968 South Africa   |
| Registration number:             | 1968/014138/07  |
| Registered office:               | 1st Floor, Coronation Place, Freestone Park<br>135 Patricia Road, Sandown, 2196<br>(PO Box 652643, Benmore, 2010) |
| Auditors:                        | KPMG Incorporated   |
| Banker:                          | Nedbank Limited   |
| Authorised share capital:        | 100 ordinary shares of R1.00 each   |
| Issued share capital:            | 100 ordinary shares of R1.00 each   |

**Titan Financial Services (Proprietary) Limited**

|                                  |   |
|----------------------------------|---|
| Main business:                   | Investment in securities  |
| Public officer:                  | Isak Hendrik Johannes Visagie   |
| Directors:                       | Caro Wiese<br>Christoffel Hendrik Wiese   |
| Date and place of incorporation: | 20 May 1996 South Africa  |
| Registration number:             | 1996/006040/07  |
| Registered office:               | 36 Stellenberg Road<br>Parow Industria, 7493<br>(PO Box 6100, Parow East, 7501) |
| Auditors:                        | Rademeyer Wesson (Chartered Accountant)   |
| Banker:                          | Nedbank Limited   |
| Authorised share capital:        | 500 ordinary shares of R1.00 each   |
| Issued share capital:            | 100 ordinary shares of R1.00 each   |

**Trinity Asset Management (Proprietary) Limited**

|                                  |  |
|----------------------------------|--|
| Main business:                   | Financial portfolio and asset management   |
| Public officer:                  | Quinton James George   |
| Directors:                       | Quinton James George<br>Sandile Swana  |
| Date and place of incorporation: | 17 August 1996 South Africa  |
| Registration number:             | 1996/010864/07   |
| Registered office:               | Block D, The Terraces, 1 Silverwood Close<br>Steenberg Office Park, Tokai, 7945<br>(PO Box 30848, Tokai, 7966) |
| Auditors:                        | CAP Chartered Accountants  |
| Banker:                          | Standard Bank Limited  |
| Authorised share capital:        | 100 000 ordinary shares of R0.01 each  |
| Issued share capital:            | 10 000 ordinary shares of R0.01 each   |