



SALLIES LIMITED

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

Reviewed Results for the six months ended 31 December 2003

PROGRESS ON THE ROAD TO RECOVERY

As anticipated, the company posted a loss at the interim stage. The interim remedial measures which were implemented have, however, already started taking effect while the successful fundraising exercise undertaken after the review period will enable the company to complete its production expansion programme and strengthen its balance sheet.

As a result of the operational improvement actions which have been initiated, Sallies has met all its contractual obligations in terms of on-time and on-specification shipments to customers since May 2003. The achievement of volume and quality targets is attributable to the stabilisation of plant feed; the restoration of power supply consistency; and a strong focus on maintenance which has improved plant availability.

During the review period the mining operations at Witkop were fully insourced, reducing mining costs substantially, and construction started on the expansion of the milling circuit. In addition, three successful international marketing tours were undertaken.

The interim results

While sales for the period increased by 37% in volume terms, revenue was static as a result of an unfavourable movement in the rand/dollar exchange rate, which averaged 7.07 in the six months to December 2003 against 10.03 for the corresponding period in 2002. The increase in the cost of sales is due to the rise in tonnages. Administrative expenses were pruned significantly and will continue to reduce.

The substantial drop in inventories reflects the improved efficiency of the metallurgical plant as well as the successful retreatment and sale of off-specification materials which had been stockpiled. Considering that the company invested R3.8 million in capital expenditure during the period, its cashflow was satisfactory.

The next stage

Shareholders were advised at the year-end that while the interim recovery measures would halt Sallies' decline, restoring the company to sustained profitability would require a rights offer to fund an increase in production. The fundraising exercise realised R36 million - R6 million above the target - with additional shares having to be issued to meet investor demand. Of this amount some R11 million is being used to increase the capacity of the metallurgical plant and the rest is being applied to pay down debt.

The expansion of the milling circuit is due for completion in May this year and the project is currently on time and on budget. It will

increase Witkop's output from 110 000 tons per year to 180 000 tons. This increase is fully supported by Witkop's ore reserves and will be readily absorbed by the market. Every ton that Sallies is capable of producing in 2004 has, in fact, already been sold.

Prospects

The fluorspar price has improved significantly since 2002 in response to a sharp reduction in exports from China, the world's largest producer. Given these currently favourable market conditions, the company's full order book, its return to operational efficiency and the beneficial effects expected from the capital injection and the output increase, we are confident that the results for the year to June will show continued progress on the road to recovery.

Dividend

The board has not considered a distribution to shareholders for the six months to December 2003.

Accounting policies

The company's accounting policies conform to South African Statements of Generally Accepted Accounting Practice. These policies are consistent with those applied in the previous review period.

Restatement of comparatives

Comparative amounts have been restated where appropriate to facilitate improved disclosure.

Review opinion

The interim report for the period ended 31 December 2003 has been reviewed by Ernst & Young and their unqualified review report is available for inspection at the registered office of the company.

Diluted earnings per share

Diluted earnings per share have been calculated assuming that at the beginning of the period nil (2002 - 6 839 000) share options, allocated to directors, employees and consultants, were exercised. The net loss is adjusted by the tax effect of the interest earned on the additional capital from the exercise of the share options

On behalf of the Board

PH Flack
Chairman

17 March 2004
Johannesburg

CONSOLIDATED INCOME STATEMENT

R000	Six months ended	Six months ended	Percentage Change	Year ended
	31 Dec 03	31 Dec 02		30 Jun 03
	Reviewed	Reviewed		Audited
Revenue - mining	44 599	44 144	1	83 288
Cost of sales	(52 304)	(44 133)	19	(90 587)
(Loss)/profit from mining activities	(7 705)	11	-	(7 299)
Less:				
Depreciation	(1 214)	(1 075)	13	(2 186)
Amortisation of mineral rights	(1 038)	(1 111)	(7)	(2 166)
Operating loss from mining	(9 957)	(2 175)	358	(11 651)
Profit on disposal of assets	2	-	-	46
Administrative expenses	(4 061)	(5 396)	(25)	(9 102)
Investment income	20	-	-	372
Amortisation of goodwill	(332)	(355)	(6)	(1 220)
Net finance costs	(965)	(256)	277	(2 006)
Net foreign exchange gains	3 400	524	549	5 204
Property, plant and equipment written off	-	-	-	(2 463)
Net loss before taxation	(11 893)	(7 658)	55	(20 820)
Taxation	3 257	1 107	194	6 271
Net loss for period	(8 636)	(6 551)	32	(14 549)
Issued shares (000)	92 294	92 294	-	92 294
Weighted average shares issued (000)	92 294	92 294	-	92 294
Weighted average shares issued for diluted earnings per share (000)	92 294	99 133	(7)	92 294
Reconciliation of earnings:				
Net loss attributable to ordinary shareholders for basic earnings per share	(8 636)	(6 551)	32	(14 549)
Amortisation of goodwill	332	355	(6)	1 220
Deferred tax on business combination	(332)	(355)	(6)	(690)
Gain on disposal of assets (net of tax)	-	-	-	(32)
Property, plant and equipment written off (net of tax)	-	-	-	1 724
Net loss attributable to ordinary shareholders for headline earnings per share	(8 636)	(6 551)	32	(12 327)
Add				
■ Amortisation of mineral rights	1 038	1 111	(7)	2 166
■ Depreciation (net of tax)	850	752	13	1 556
Adjusted cash loss attributable to ordinary shareholders for cash earnings per share	(6 748)	(4 688)	44	(8 605)
Loss per share (cents)				
Basic				
■ undiluted	(9.4)	(7.1)	32	(15.8)
■ diluted	(9.4)	(6.6)	42	(15.8)
Headline				
■ undiluted	(9.4)	(7.1)	32	(13.4)
■ diluted	(9.4)	(6.6)	42	(13.4)
Cash (loss)/earnings				
■ undiluted	(7.3)	(5.1)	44	(9.3)
■ diluted	(7.3)	(4.7)	55	(9.3)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R000	Share		Accumulated profit/(loss)	Total
	capital	premium		
Balance at 30 June 2002	92	53 953	8 197	62 242
Net loss for period	-	-	(6 551)	(6 551)
Balance at 31 December 2002	92	53 953	1 646	55 691
Net loss for period	-	-	(7 998)	(7 998)
Balance at 30 June 2003	92	53 953	(6 352)	47 693
Net loss for period	-	-	(8 636)	(8 636)
Balance at 31 December 2003	92	53 953	(14 988)	39 057

CONSOLIDATED CASH FLOW STATEMENT

R000	Six months ended	Six months ended	Year ended
	31 Dec 2003	31 Dec 2002	30 Jun 2003
	Reviewed	Reviewed	Audited
Net cash inflows from operating activities	3 239	5 641	1 969
Cash surplus generated by operations	4 006	9 566	6 381
Net interest paid	(965)	(256)	(2 006)
Taxation received/(paid)	178	(3 669)	(2 778)
Net investment income	20	-	372
Net cash outflows from investing activities	(2 871)	(6 008)	(6 510)
Net additions to mine plant, equipment and buildings	(2 871)	(6 008)	(6 645)
Proceeds from disposals of plant and equipment	-	-	135
Net cash outflows/(inflows) from financing activities	(1 172)	4 622	2 807
Long term loans			
■ raised	-	4 740	1 600
■ repaid	(1 172)	(118)	793
Net (decrease)/increase in cash and cash equivalents	(804)	4 255	(1 734)
Cash and cash equivalents at beginning of period	(8 882)	(6 574)	7 148
Cash and cash equivalents at end of period	(9 686)	(2 319)	(8 882)

CONSOLIDATED BALANCE SHEET

R000	31 Dec 2003	31 Dec 2002	30 Jun 2003
	Reviewed	Reviewed	Audited
ASSETS			
Non-current assets	67 086	70 860	66 520
Property, plant and equipment	55 912	59 143	55 014
Goodwill	10 517	11 717	10 849
Accounts receivable	657	-	657
Current assets	24 405	30 160	232
Inventories	6 528	12 743	14 922
Accounts receivable	15 176	15 643	18 326
Taxation pre-paid	2 618	1 774	2 796
Cash and cash equivalents	83	-	188
Total assets	91 491	101 020	102 752
Net asset value per share (cents)	42.3	60.3	51.7
EQUITY AND LIABILITIES			
Capital and reserves	39 057	55 691	47 693
Share capital and premium	54 045	54 045	54 045
Accumulated (loss)/profit	(14 988)	1 646	(6 352)
Non-current liabilities	7 573	17 614	12 817
Long-term loan	-	3 266	2 492
Provision for environmental rehabilitation	1 324	957	1 082
Deferred taxation	6 249	13 391	9 243
Current liabilities	44 861	27 715	42 242
Accounts payable	23 886	14 112	23 302
Bank overdraft	9 769	2 319	9 070
Current portion of long-term liabilities	11 206	11 284	9 870
Total equity and liabilities	91 491	101 020	102 752