31.12.2004

# 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 2004

# OPERATIONAL ADVANCES REVERSED BY STRONG RAND AND ONEROUS CONTRACT

## CONSOLIDATED INCOME STATEMENT

| R000 | 6 months ended 31 Dec 04 Reviewed | 6 months ended 31 Dec 03 Reviewed | Percentage Change | Year ended 30 Jun 04 Audited |
|---|---|---|---|---|
| **Revenue - mining** | **49 955** | 44 599 | 12 | 84 406 |
| **Cost of sales** | **(49 865)** | (52 304) | (5) | (92 755) |
| Profit/(loss) from mining activities | **90** | (7 705) | (101) | (8 349) |
| Less: | | | | |
| Depreciation | **(1 657)** | (1 214) | 36 | (2 590) |
| Amortisation of mineral rights | **(1 401)** | (1 038) | 35 | (2 110) |
| **Operating loss from mining** | **(2 968)** | (9 957) | (70) | (13 048) |
| Profit on disposal of assets | **441** | 2 | 21 961 | 282 |
| Administrative expenses | **(4 482)** | (4 061) | 10 | (9 473) |
| Investment income | **67** | 20 | 235 | 157 |
| Amortisation of goodwill | **(606)** | (332) | 83 | (674) |
| Finance costs | **(850)** | (965) | (12) | (1 762) |
| Net foreign exchange gains | **468** | 3 400 | (86) | 5 316 |
| Provision for onerous contract | **(22 717)** | - | 100 | - |
| **Net loss before taxation** | **(30 647)** | (11 893) | 158 | (19 203) |
| Taxation (deferred) | **7 421** | 3 257 | 128 | 3 643 |
| **Net loss for period** | **(23 226)** | (8 636) | 169 | (15 560) |
| Issued shares (000) | **257 009** | 92 294 | 178 | 257 009 |
| Weighted average shares issued (000) | **257 009** | 92 294 | 178 | 151 174 |
| Weighted average shares issued for diluted earnings per share (000) | **264 034** | 92 294 | 186 | 155 118 |
| **Reconciliation of earnings:** | | | | |
| **Net loss attributable to ordinary shareholders for basic earnings per share** | **(23 226)** | (8 636) | 169 | (15 560) |
| Amortisation of goodwill | **606** | 332 | 83 | 674 |
| Deferred tax on business combination | **(606)** | (332) | 83 | (674) |
| Profit on disposal of assets (net of tax) | **(309)** | - | 100 | (197) |
| **Net loss attributable to ordinary shareholders for headline earnings per share** | **(23 535)** | (8 636) | 173 | (15 757) |
| Add | | | | |
| ■ Provision for onerous contract (net of tax) | **15 902** | - | 100 | - |
| ■ Amortisation of mineral rights | **1 401** | 1 038 | 35 | 2 110 |
| ■ Depreciation (net of tax) | **1 160** | 850 | 36 | 2 125 |
| **Adjusted cash loss attributable to ordinary shareholders for cash earnings per share** | **(5 072)** | (6 748) | (25) | (11 522) |
| **Loss per share (cents)** | | | | |
| Basic | | | | |
| ■ undiluted (cents) | **(9.0)** | (9.4) | (4.3) | (10.3) |
| ■ diluted (cents) | **(8.8)** | (9.4) | (6.4) | (10.0) |
| Headline | | | | |
| ■ undiluted (cents) | **(9.2)** | (9.4) | (2.1) | (10.4) |
| ■ diluted (cents) | **(8.9)** | (9.4) | (5.3) | (10.2) |
| Cash (loss)/earnings | | | | |
| ■ undiluted (cents) | **(2.0)** | (7.3) | (73.0) | (7.6) |
| ■ diluted (cents) | **(1.9)** | (7.3) | (73.9) | (7.4) |

## CONSOLIDATED CASH FLOW STATEMENT

| R000 | 6 months ended 31 Dec 04 Reviewed | 6 months ended 31 Dec 03 Reviewed | Year ended 30 Jun 04 Audited |
|---|---|---|---|
| **Net cash inflows from operating activities** | **1 898** | 3 239 | (14 922) |
| Cash surplus generated by operations | **2 681** | 4 006 | (13 255) |
| Interest paid | **(850)** | (965) | (1 762) |
| Taxation paid | **-** | 178 | (62) |
| Investment income | **67** | 20 | 157 |
| **Net cash outflows from investing activities** | **(6 538)** | (2 871) | (5 466) |
| Net additions to mine plant, equipment and buildings | **(7 226)** | (2 871) | (5 825) |
| Proceeds from disposals of plant and equipment | **688** | - | 359 |
| **Net cash outflows/(inflows) from financing activities** | **1 608** | (1 172) | 24 444 |
| Long-term loans | | | |
| ■ raised | **3 200** | - | - |
| ■ repaid | **(1 592)** | (1 172) | (10 678) |
| Rights Issue (Net of costs) | **-** | - | 35 122 |
| **Net (decrease)/increase in cash and cash equivalents** | **(3 032)** | (804) | 4 056 |
| **Cash and cash equivalents at beginning of period** | **(4 826)** | (8 882) | (8 882) |
| **Cash and cash equivalents at end of period** | **(7 858)** | (9 686) | (4 826) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| R000 | Share capital | Share premium | Accumulated loss | Total |
|---|---|---|---|---|
| **Balance at 30 June 2003** | 92 | 53 953 | (6 352) | 47 693 |
| **Net loss for period** | | | (8 636) | (8 636) |
| **Balance at 31 Dec 2003** | 92 | 53 953 | (14 988) | 39 057 |
| **Rights issue** | 165 | 34 957 | - | 35 122 |
| **Net loss for period** | | | (6 924) | (6 924) |
| **Balance at 30 Jun 2004** | 257 | 88 910 | (21 912) | 67 255 |
| **Net loss for period** | | | (23 226) | (23 226) |
| **Balance at 31 Dec 2004** | 257 | 88 910 | (45 138) | 44 029 |

## CONSOLIDATED BALANCE SHEET

| R000 | 31 Dec 2004 Reviewed | 31 Dec 2003 Reviewed | 30 Jun 2004 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | **74 952** | 67 086 | 69 791 |
| Property, plant and equipment | **62 833** | 55 912 | 58 912 |
| Goodwill | **9 569** | 10 517 | 10 175 |
| Accounts receivable | **729** | 657 | 704 |
| Deferred taxation | **1 821** | - | - |
| **Current assets** | **30 429** | 24 405 | 38 036 |
| Inventories | **11 992** | 6 528 | 8 054 |
| Accounts receivable | **14 197** | 15 178 | 23 688 |
| Taxation pre-paid | **2 858** | 2 618 | 2 858 |
| Cash and cash equivalents | **1 382** | 83 | 3 436 |
| **Total assets** | **105 381** | 91 491 | 107 827 |
| Net asset value per share (cents) | **17.1** | 42.3 | 44.5 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | **44 029** | 39 057 | 67 255 |
| Share capital and premium | **89 167** | 54 045 | 89 167 |
| Accumulated loss | **(45 138)** | (14 988) | (21 912) |
| **Non-current liabilities** | **5 465** | 7 573 | 9 701 |
| Long-term loan | **3 611** | - | 2 489 |
| Provision for environmental rehabilitation | **1 854** | 1 324 | 1 612 |
| Deferred taxation | **-** | 6 249 | 5 600 |
| **Current liabilities** | **55 887** | 44 861 | 30 871 |
| Accounts payable | **20 946** | 23 886 | 20 112 |
| Bank overdraft | **9 240** | 9 769 | 8 262 |
| Provision for onerous contract | **22 717** | - | - |
| Current portion of long-term liabilities | **2 984** | 11 206 | 2 498 |
| **Total equity and liabilities** | **105 381** | 91 491 | 107 827 |

## COMMENTS

In the report on the results for the year to 30 June 2004, it was noted that Sallies could be modestly profitable in 2005 at an exchange rate of R6.50 to the US dollar. During the review period, the exchange rate averaged R6.07 to the US dollar (-6.6%) and this, in conjunction with the Honeywell contract referred to below, has had a severe impact on the company's results.

The remedial strategy initiated in 2003 has achieved very significant operational improvements. Against the comparable half-year period in 2003, ore mined increased from 617 000 tonnes to 832 000 tonnes (+34.8%) and tonnes milled from 522 000 to 732 000 (+32.6%), while mining costs per tonne were reduced from R19.14 to R15.45 (-19.3%). At the same time, the company's customer base has been diversified to the point where Honeywell, which previously consumed virtually its entire production, now accounts for just under half of its business.

Unfortunately, these achievements coincided with the steady strengthening of the rand against the weakening US dollar, which has more than reversed the advances that would otherwise have been made. The effect of the exchange rate has been exacerbated by the provision for the company's contract with Honeywell. When this five-year contract was negotiated in 2000, it was capped at US$116 per tonne, at a time when the spot price of fluorspar was US$107/tonne and the rand was at R10.53 to the US dollar. The spot price is currently at the US$170/tonne level and the exchange rate is ±R6.00 to the US dollar. Against this background, the company has defined its agreement with Honeywell as an "onerous contract" in terms of South African Statements of Generally Accepted Accounting Practice. A provision of R22.7 million has accordingly been made in the accounts for the projected loss to completion on the Honeywell contract.

The company has entered into discussions with Honeywell with a view to either suspending the contract until such time as the exchange rate allows it to be executed profitably or renegotiating the terms of this contract.

**Prospects**
The international fluorspar market remains buoyant and indications are that the price could strengthen to US$200/tonne by December 2005. At these price levels, the considerable production and cost improvements the company has achieved would make it profitable even at sub-six exchange rates, were it not for the Honeywell contract. The prospects for the remainder of the year are therefore dependent on the outcome of the negotiations now under way with Honeywell.

**Dividends**
The board has not considered a distribution to shareholders for the six months to December 2004.

**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.

**Contingent liabilities**
Eskom: In the event of Witkop Fluorspar Mine ceasing to use Eskom power, the company is contractually bound to reimburse Eskom with the costs incurred by them in upgrading an electrical substation. The original cost of R320 000 will be reduced proportionately from the year 2002 to the year 2010. At 31 December 2004, the potential liability was R195 554 (30 June 2004: R213 332).

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

South African Revenue Service (SARS) is challenging the treatment of certain inter-group transactions. The company is objecting to the view taken by SARS and management is confident that the objection will be upheld. No provision has therefore been raised for additional taxation.

**Review opinion**
The interim report for the period 31 December 2004 has been reviewed by the company's auditors Ernst & Young and their modified review report is available for inspection at the registered office of the company. They draw attention to the fact that the group continued to make operational losses during this period, and that its continued operation could be dependent on the successful renegotiation of the terms of the Honeywell contract and its ability to generate sufficient cash flows in the ordinary course of business to meet its operating and other commitments. These conditions indicate the existence of a material uncertainty which may cast doubt on the group's ability to continue as a going concern.

**Diluted loss per share**
The diluted loss per share has been calculated assuming that at the beginning of the period 18 872 500 (2003: nil) share options allocated to directors, employees, lenders and consultants were exercised.

On behalf of the board

**PH Flack**
*Chairman*

**23 March 2005**
*Johannesburg*

dPA 4307

**Directors:** PH Flack (Chairman), LB Robertson*, AD Moffat, JJ Geldenhuys, IJ Marais* (*Executive)
**Registered office:** Farm Wintershoek, Zeerust, 2865 • (Private Bag X1315, Zeerust, 2865) ■ **Transfer secretaries:** Computershare Investor Services 2004 (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) ■ **Investor and media relations:** For further information contact Kathy du Plessis on Telephone +27 (11) 728 4701, Telefax +27 (11) 728 2547, e-mail: sallies@dpapr.com