



SALLIES LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1903/0018/9/06)
JSE share code: SAL ISIN: ZAE000022588
("Sallies" or "the company" or "the group")

REVIEWED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

CONSOLIDATED INCOME STATEMENT

R'000	Six months ended		%	Year ended
	31 Dec 06	31 Dec 05		
	Reviewed	Reviewed	Change	Audited
Revenue – mining	52 164	57 252	(9)	86 882
Cost of sales	(55 728)	(58 438)	(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)	(2 498)	291	(23 593)
Profit on disposal of PPE	5	45	(69)	1 817
Administrative expenses	(9 555)	(5 013)	91	(22 832)
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 issued for diluted earnings per share ('000)	507 875	266 032	73	271 263

RECONCILIATION OF EARNINGS

Net loss attributable to ordinary shareholders 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 shareholders for headline earnings per share	(19 036)	(16 746)	14	(39 074)

LOSS PER SHARE (cents)

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 STATEMENT OF CHANGES IN EQUITY

R'000	Capital reserves			Total
	Capital reserves	Accumulated loss		
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	32 238	–	32 238	
Loss for period	–	(19 033)	(19 033)	
Balance at 31 December 2006	208 647	(107 586)	101 061	

COMMENTARY

Directors, management and auditors

Subsequent to 31 December 2006, the board was reconstituted and now comprises Tom Dale (Chairman), Izak Marais (CEO), Johann Btersch, 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) Inc.

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 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.

CONSOLIDATED BALANCE SHEET

R'000	31 Dec 2006	31 Dec 2005	30 Jun 2006
	Reviewed	Reviewed	Audited
ASSETS			
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
Total assets	169 952	120 913	169 823
EQUITY AND LIABILITIES			
Capital and reserves	101 061	36 569	87 856
Share capital and premium	207 923	89 167	175 885
Other reserves	724	1 975	724
Accumulated loss	(107 586)	(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	51 244	63 533	67 077
Accounts payable	26 543	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
Total equity and liabilities	169 952	120 913	169 823
Net asset value per share (cents)	20.2	14.2	19.5

CONSOLIDATED CASH FLOW STATEMENT

R'000	Six months ended		Year ended
	31 Dec 06	31 Dec 05	
	Reviewed	Reviewed	Audited
Net cash inflows/(outflows) from operating activities	(40 432)	7 254	2 637
Cash generated/(utilised) by operations	(39 004)	8 143	5 157
Interest paid	(1 486)	(898)	(2 735)
Taxation paid	58	9	130
Investment income	–	–	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 raised/(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	(6 004)	(8 004)
Cash and cash equivalents at end of period	(13 152)	(10 300)	60 059

BEE

The agreement in terms of which African Renaissance Investments (Pty) 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) Inc. 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 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 certain statutory deductions 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.

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

Zeorust

19 April 2007

Directors: Tom Dale (Chairman), Izak Marais* (CEO), Johann Btersch, 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)