



# SALLIES LIMITED

(Incorporated in the Republic of South Africa) • Registration number 1903/001879/06  
JSE Share Code: SAL • ISIN: ZAE00022588

## Reviewed results for the year ended 30 June 2003

### INCREASED OUTPUT AND REDUCED COSTS TO RESTORE PROFITABILITY

Shareholders were advised on 3 July 2003 that it was likely that the loss reported for the first half of the year would increase in the second half. The first-half performance deterioration was primarily due to a decline in the head grade, plant breakdowns and inefficiencies, and a consequent decrease in production volumes. As detailed below, remedial actions have been initiated with some positive effects, following a full business review by FRM Strategies, who were retained in February 2003 to formulate, produce and oversee a performance improvement plan. However, in the second half of the year results were further impacted by the strengthening of the rand against the US dollar, which had a significant effect on revenue as some 90% of the group's production is sold on the export market at dollar-denominated prices.

#### Interim remedial actions

- At the corporate level, Izak Marais has been recruited as managing director of the Witkop operation and appointed to the Sallies board. The management function has been moved to Witkop and the Johannesburg head office has been closed.
- Operationally, bottlenecks and other constraints have been identified and addressed. The mining strategy has been reviewed and the composition of the plant feed has been stabilised. The reliability of the power supply has been restored and a strong focus on maintenance has increased plant availability. Witkop is now consistently achieving its target volumes and specified quality of product.
- On the marketing front, major customers and agents were visited in order to cement long-term relationships and confirm contracts.

#### The next stage

While they will arrest its decline, these interim measures will not return Sallies to profitability. The board believes this can only be achieved by reducing unit costs through a substantial increase in production. Such an increase would be supported by the group's existing mineral reserves and absorbed by its long-term contracted customers.

As announced in July, the board therefore proposes to raise some R30 million by means of a rights offer. The proceeds of this exercise will be used to reduce debt and to fund the insourcing of the mining activities, thus reducing mining costs, as well as the expansion of milling capacity to achieve a 50% increase in production. The rights offer will also create the opportunity to bring in a black economic empowerment partner.

#### Prospects

Arrangements for the proposed rights offer are well advanced and a further announcement in this regard will be made in due course. The envisaged reduction of mining costs should restore operational profitability and there is a ready, secure market for the increase in output

which should result from the plant expansion and modernisation. In the meantime, management continues to focus on efficiency improvements and cost control.

#### Dividend

In the light of these results, the board has not considered a distribution to shareholders for the year to June 2003.

#### Accounting policies

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

#### Restatement of comparatives

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

#### Review opinion

The financial information set out in the reviewed results has been reviewed by the Group's auditors Ernst & Young who issued a modified review opinion on the fact that the going concern of Sallies Limited is dependent on the ongoing financial support from RMB Resources Limited, Australia (a loan creditor and a major shareholder), the raising of capital by way of a rights issue in October 2003 and the successful implementation of a turnaround strategy as disclosed in the directors comments. The modified review report is available for inspection at the registered office of the company, or the offices of FRM Strategies, 9 Fricker Road, Illovo Boulevard, Illovo.

#### Diluted loss per share

Diluted losses per share have been calculated assuming that at the beginning of the year 6 415 000 (2002 – 6 415 000) share options, allocated to directors, employees and consultants, were not exercised.

#### Change of directors

During the review period Messrs MJ Tuite, PH de Villiers, OR Dix, JH Slade and LJ Woolcock resigned as directors. Messrs PH Flack, JJ Geldenhuys, IJ Marais, AD Moffat and LB Robertson were appointed to the board.

On behalf of the Board

**PH Flack**

*Chairman*

**18 September 2003**

*Johannesburg*

## CONSOLIDATED INCOME STATEMENT

	Year ended 30 June 2003 Reviewed	Year ended 30 June 2002 Audited
R000		
<b>Revenue - mining</b>	<b>83 288</b>	<b>114 115</b>
■ Continuing operations	83 288	113 510
■ Discontinued operations	-	605
<b>Cost of sales</b>	<b>92 773</b>	<b>89 152</b>
■ Continuing operations	92 773	87 070
■ Discontinued operations	-	2 082
<b>(Loss)/profit from mining operations</b>	<b>(9 485)</b>	<b>24 963</b>
■ Continuing operations	(9 485)	26 440
■ Discontinued operations	-	(1 477)
Administrative expenses	(9 102)	(11 516)
Amortisation of goodwill	(1 220)	(628)
Amortisation of mineral rights	(2 166)	(1 966)
Finance cost	(2 006)	(1 526)
Investment income	372	466
Profit/(loss) on disposal of property, plant and equipment	46	(322)
Net foreign exchange gain	5 204	2 287
Property, plant and equipment write-off	(2 463)	(5 101)
<b>Net (loss)/profit before taxation</b>	<b>(20 820)</b>	<b>6 657</b>
Taxation	6 271	(2 062)
<b>Net (loss)/profit for the year</b>	<b>(14 549)</b>	<b>4 595</b>
Issued shares (000)	92 294	92 294
Weighted average shares issued (000)	92 294	92 294
Weighted average shares issued for diluted earnings per share (000)	92 294	99 133
Reconciliation of earnings:		
Net (loss)/profit attributable to ordinary shareholders for basic earnings per share	(14 549)	4 595
Amortisation of goodwill	1 220	628
Property, plant and equipment write-off (net of tax)	1 724	3 571
Deferred tax on amortised goodwill	(690)	(628)
(Gain)/loss on disposal of assets (net of tax)	(32)	225
Loss on discontinued operations (net of tax)	-	1 112
Non recurring expenditure (net of tax)	-	260
Net (loss)/profit earnings attributable to ordinary shareholders for headline earnings per share	(12 327)	9 763
Depreciation (net of tax)	1 556	1 841
Amortisation of mineral rights	2 166	1 966
Adjusted cash (deficit)/surplus earnings attributable to ordinary shareholders for cash earnings per share	(8 605)	13 570
<b>(Loss)/earnings per share (cents)</b>		
Basic		
■ undiluted	(15.8)	5.0
■ diluted	(15.8)	5.0
Headline		
■ undiluted	(13.4)	10.6
■ diluted	(13.4)	10.2
Cash earnings		
■ undiluted	(9.3)	14.7
■ diluted	(9.3)	14.0

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R000	Share capital	Share premium	Accu- mulated profit/(loss)	Total
Balance at 1 July 2001	92	53 953	3 602	57 647
Net profit for the year	-	-	4 595	4 595
Balance at 30 June 2002	92	53 953	8 197	62 242
Net loss for the year	-	-	(14 549)	(14 549)
Balance at 30 June 2003	92	53 953	(6 352)	47 693

## CONSOLIDATED CASH FLOW STATEMENT

	Year ended 30 June 2003 Reviewed	Year ended 30 June 2002 Audited
R000		
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1 969</b>	<b>(1 397)</b>
Cash receipts from customers	102 283	82 771
Cash paid to suppliers and employees	(95 902)	(80 450)
Cash generated by operations	6 381	2 321
Finance cost	(2 006)	(1 526)
Investment income	372	466
Normal taxation paid	(2 778)	(2 658)
<b>Net cash outflow from investing activities</b>	<b>(6 510)</b>	<b>(3 494)</b>
Additions to property, plant and equipment	(6 645)	(6 095)
Proceeds from disposal of property, plant and equipment	135	2 601
<b>Net cash inflow/(outflow) from financing activities</b>	<b>2 807</b>	<b>(11 467)</b>
Long-term loan raised	4 600	1 014
Long-term loan repaid	(1 793)	(12 481)
<b>Net decrease in cash and cash equivalents</b>	<b>(1 734)</b>	<b>(16 358)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>(7 148)</b>	<b>9 210</b>
<b>Cash and cash equivalents at end of year</b>	<b>(8 882)</b>	<b>(7 148)</b>

## CONSOLIDATED BALANCE SHEET

	Year ended 30 June 2003 Reviewed	Year ended 30 June 2002 Audited
R000		
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>66 520</b>	<b>67 964</b>
Goodwill	10 849	12 069
Property, plant and equipment	55 014	55 321
Accounts receivable	657	574
<b>Current assets</b>	<b>36 232</b>	<b>51 990</b>
Inventories	14 922	13 524
Accounts receivable	18 326	35 368
Taxation prepaid	2 796	2 789
Cash and cash equivalents	188	309
<b>Total assets</b>	<b>102 752</b>	<b>119 954</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>	<b>47 693</b>	<b>62 242</b>
Share capital and premium	54 045	54 045
Accumulated (loss)/profit	(6 352)	8 197
<b>Non-current liabilities</b>	<b>12 817</b>	<b>16 776</b>
Interest bearing debt	2 492	269
Provision for environmental rehabilitation	1 082	993
Deferred taxation	9 243	15 514
<b>Current liabilities</b>	<b>42 242</b>	<b>40 936</b>
Bank overdraft	9 070	7 457
Taxation payable	-	2 771
Accounts payable	23 302	18 252
Current portion of long-term loans	9 870	12 456
<b>Total equity and liabilities</b>	<b>102 752</b>	<b>119 954</b>