



SALLIES LIMITED

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

Preliminary results for the financial year ended 30 June 2006

NEW HORIZONS AFTER DIFFICULT YEAR

The year under review was one in which external factors again hampered the company's recovery.

The delay in the approval of its application for the mining rights to the Buffelshoek deposit significantly reduced feed grades and consequently recoveries during the first nine months, and while the company believed that it was possible to reverse the trend in the last quarter, this was in fact not the case, and the effects of sub-optimal mining blend are still being felt.

The impact of the withholding of payments by Honeywell during the first six months was also felt during the second half, when the company's cash reserves were totally depleted, and critical maintenance had to be postponed.

The company has terminated its onerous supply agreement with Honeywell, after due legal advice, on the grounds of non payment for goods supplied and delivered. Honeywell has referred the matter to arbitration before the International Chamber of Commerce in Zurich and the company is pursuing its own claim for payment from Honeywell.

Since the review period, however, Sallies's situation has improved slowly but steadily following the successful completion of the fully underwritten rights offer to raise R65 million, the exercising of options by FRM Strategies (Proprietary) Limited, which raised R15 million, and the private placement, post year end, of 42.86 million shares with Titan Financial Services (Proprietary) Limited, which raised a further R30 million. This much-needed cash injection eased the extreme financial pressure under which the company has operated in recent years, and management could turn their attention from survival to growth, starting with the acquisition of Buffalo Fluorspar.

While the BEE transaction in terms of which African Renaissance Investments will acquire a 30% interest in Sallies's assets and liabilities has not yet become irrevocable, the company is confident that this strategic partnership will generate further growth opportunities.

Operational and market overview

Largely as a result of lower than budgeted feedgrades, for reasons mentioned above, the company was unable to increase its output year on year, and while operating costs stayed constant, revenue was lower as a result of the relatively large portion of sales made to Honeywell at the beginning of the period at dollar prices significantly below market prices. The recycling project remained on hold in the continued absence of a response from the Department of Water Affairs and Forestry to the company's application for an Integrated Water Use Licence which has been outstanding for well over a year. The rand/dollar exchange rate was reasonably steady and the international market for fluorspar was buoyant with price levels improving further, and even though the company could not derive an immediate benefit from rising prices, it is expected that these trends will continue, and that benefits will be derived shortly, on completion of previous year obligations.

Board and management

During the period under review, a number of board changes occurred. Dr Vincent Msibi joined the board with Jürgen Kögl as his alternate, and Jurie Geldenhuys resigned from the board. Jean Nel joined the board post year end as an independent non-executive director.

Buffalo acquisition

The salient features of this transaction have already been announced in the media, and it is pleasing to note that Buffalo has thus far performed ahead of expectations.

Prospects

The company's prospects have brightened considerably over the past three months and the major transactions currently being completed will not only stabilise its position but will provide it with a sound platform for future growth. While results for the March and June quarter were still poor, the new financial year saw management focusing on the achievement of budgeted production and grade targets, which will lead to the company's fortunes finally being reversed.

South African Revenue Services (SARS)

SARS challenged the tax treatment of certain inter-group transactions at the time of Sallies acquiring Witkop Fluorspar Mine (Proprietary) Limited ("Witkop") from Phelps Dodge. SARS claimed that the entering into of marketing agreements between Sallies and Witkop was a breach of Section 103 of the Income Tax Act of 1998. Secondly, it claimed that interest on the US Dollar loan raised through RMB Resources, Australia, at the time of acquiring Witkop was not interest incurred in the production of income. These matters came to trial in August 2006. On the Section 103 issue, SARS withdrew its case. On the interest issue, judgment has gone in favour of SARS. Management will take this judgment on appeal.

Modified reviewed opinion

Preliminary results for the year to 30 June 2006 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 incurred a net loss of R37.8 million for the financial year ended 30 June 2006. These conditions, along with other matters set forth in the above commentary, indicate the existence of a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern. They further draw attention to the fact that Honeywell have lodged a claim against Sallies Limited after the onerous contract with Honeywell was cancelled. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements. They lastly draw attention to the fact that due to severe cash flow problems Witkop Fluorspar Mine (Pty) Ltd, a subsidiary company, was unable to make certain pension fund payments during the year. This matter has been rectified.

Accounting policies

The reviewed results for the year have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the preliminary report is in compliance with IAS 34: Interim Financial Reporting.

The financial information for the year ended 30 June 2006 has been prepared adopting the same accounting policies used in the most recent annual financial statements, except for the adoption of the new statements IFRS 2: Share Based Payments and IAS 16: Property, plant and equipment.

Reviewed results for the six months ended 30 December 2005

As a result of the company's transition from South African Statements of Generally Accepted Accounting Practice to International Financial Reporting Standards an arithmetical error had been made in calculating the impact on property, plant and equipment at the company's transition date, 1 July 2004. Accordingly, the carrying values of property, plant and equipment, deferred tax and capital and reserves were inadvertently overstated with a resultant incorrect depreciation charge made in the income statement. This error impacts certain aspects of the historic disclosure made by the company - particularly in respect of the relevant line items included in the unaudited interim results announcement (for the six months ended 31 December 2005) as well as any subsequent disclosure of pro forma financial information which was based on such information.

The audited financial statements of the company for the financial year ended 30 June 2006 which are due to be released in September 2006 are not affected by this error.

The directors of Sallies are furthermore of the opinion that this error does not negatively impact the information provided in respect of, inter-alia, the recent rights offer (published on 5 June 2006), the BEE transaction and/or the revised Buffalo Fluorspar acquisition. More importantly as this is entirely an accounting matter the current growth and earnings potential of the company remain unaffected.

On behalf of the board

PH Flack
Chairman

IJ Marais
Chief executive

20 September 2006
Johannesburg

CONSOLIDATED INCOME STATEMENT

R000	Year		Percentage
	ended	ended	
	30 Jun 06	30 Jun 05	Change
	Reviewed	Audited	
Revenue - mining	86 882	101 157	(14)
Cost of sales	(103 197)	(103 128)	-
Loss from mining activities	(16 315)	(1 971)	728
Less:			
Depreciation	(5 222)	(4 275)	22
Amortisation of mineral rights	(2 056)	(2 310)	(11)
Operating loss from mining	(23 593)	(8 556)	176
Profit on disposal of assets	1 817	469	287
Administrative and other operating expenses	(17 498)	(7 097)	147
Investment income	85	90	(6)
Finance costs	(2 735)	(2 912)	(6)
Net foreign exchange losses	(1 435)	(1 853)	(23)
Impairment of trade debtors	(5 435)	(2 380)	128
Provision for onerous contract	9 366	(9 366)	(200)
Loss before taxation	(39 428)	(31 605)	25
Taxation (deferred)	1 644	120	1 270
Loss for the year	(37 784)	(31 485)	20
Issued shares (000)	450 064	257 009	75
Weighted average shares issued (000)	271 263	257 009	6
Weighted average shares issued for diluted earnings per share (000)*	271 263	257 009	6
Reconciliation of earnings:			
Net loss attributable to ordinary shareholders for basic earnings per share	(37 784)	(31 485)	20
Profit on disposal of assets (net of tax)	(1 290)	(333)	287
Net loss attributable to ordinary shareholders for headline earnings per share	(39 074)	(31 818)	23
Loss per share (cents)			
Basic			
■ undiluted (cents)	(13.9)	(12.3)	(14)
■ diluted (cents)	(13.9)	(12.3)	(14)
Headline			
■ undiluted (cents)	(14.4)	(12.4)	(16)
■ diluted (cents)	(14.4)	(12.4)	(16)

* The value of the future benefits to be received by the entity, added to the option price, equals the average market price of the shares. There is thus no diluted effect on earnings or headline earnings per share.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R000	Share		Share option reserve	Accumulated (loss)	Total
	capital	premium			
Balance at 30 Jun 2004	257	88 910	1 512	(19 284)	71 395
Loss for period	-	-	463	(31 485)	(31 022)
Balance at 30 Jun 2005	257	88 910	1 975	(50 769)	40 373
Rights issue	141	61 792	-	-	61 933
Options exercised	52	24 533	(9 063)	-	15 522
Loss for period	-	-	7 812	(37 784)	(29 972)
Balance at 30 Jun 2006	450	175 235	724	(88 553)	87 856

CONSOLIDATED CASH FLOW STATEMENT

R000	Year	
	ended	ended
	30 Jun 06	30 Jun 05
	Reviewed	Audited
Net cash inflows from operating activities	5 288	920
Cash surplus generated by operations	5 157	920
Taxation paid	131	-
Net cash outflows from investing activities	(10 978)	(7 558)
Additions to maintain mine plant and equipment	(12 859)	(8 492)
Movement in investments	(21)	-
Proceeds from disposals of plant and equipment	1 817	844
Investment income	85	90
Net cash inflows from financing activities	73 754	3 460
Interest paid	(2 735)	(2 912)
Long-term loans repaid	(966)	(172)
Short-term facility raised	-	6 544
Proceeds from shares issued	80 545	-
Share issuing costs	(3 090)	-
Net increase/(decrease) in cash and cash equivalents	68 064	(3 178)
Cash and cash equivalents at beginning of the year	(8 004)	(4 826)
Cash and cash equivalents at end of the year	60 060	(8 004)

CONSOLIDATED BALANCE SHEET

R000	30 Jun	
	2006	2005
	Reviewed	Audited
ASSETS		
Non-current assets	82 668	77 066
Property, plant and equipment	71 940	66 359
Goodwill	10 175	10 175
Investments	553	532
Current assets	87 155	27 149
Inventories	5 187	15 838
Accounts receivable	4 852	8 204
Taxation pre-paid	2 858	2 858
Cash and cash equivalents	74 258	249
Total assets	169 823	104 215
Net asset value per share (cents)	32.4	15.7
EQUITY AND LIABILITIES		
Capital and reserves	87 856	40 373
Share capital and premium	175 685	89 167
Share option reserve	724	1 975
Accumulated loss	(88 553)	(50 769)
Non-current liabilities	14 890	13 478
Long-term loan	4 638	2 385
Provision for environmental rehabilitation	4 652	3 838
Deferred taxation	5 600	7 255
Current liabilities	67 077	50 364
Accounts payable	42 204	23 771
Bank overdraft	14 198	8 253
Provisions	4 778	9 366
Taxation	142	-
Current portion of long-term liabilities	5 755	8 974
Total equity and liabilities	169 823	104 215