



Sally Malay Mining Limited

ACN 095 792 288

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15 March 2004

Manager Announcements
Companies Announcements Office
Australian Stock Exchange Limited
10th Floor 20 Bond Street
SYDNEY NSW 2000

Dear Sir/Madam,

DECEMBER 2003 HALF-YEAR REPORT

Pursuant to Part 2M.3, Div. 5, Sect. 320 (1) of the Corporations Act 2001, the Company hereto lodges its December 2003 Half-Year Report.

Should you have any further queries in relation to the above please do not hesitate to contact me.

Yours faithfully,
SALLY MALAY MINING LIMITED

TREVOR ETON
Chief Financial Officer
and Company Secretary

SALLY MALAY MINING LIMITED
(ACN 095 792 288)

Half Year Financial Report

31 December 2003

Directors' Report

The directors submit their report for the half-year ended 31 December 2003.

DIRECTORS

The names and details of the Company's directors in office during the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Keith S Liddell (Executive Chairman)

Peter J Harold (Managing Director)

Alasdair C Cooke (Non Executive Director)

Michael A Bohm (Executive Director – Operations)

Robert A Logan (Non-Executive Director) (Appointed 8 October 2003)

Gregory J Heaney (Alternate Director to Robert A Logan) (Appointed 8 October 2003)

REVIEW OF OPERATIONS

SALLY MALAY PROJECT

The Company's principal asset, held in a wholly owned entity, are mining leases that include the Sally Malay nickel project (the "Project"), located 240 kilometres south of Kununurra in the East Kimberley district of Western Australia. The wholly owned entity, Kimberley Nickel Mines Pty Ltd ("KNM"), is progressing with development and construction of the Project and is on schedule to be in production in the 3rd quarter of 2004.

Project Infrastructure

During the period the 120 person village was completed with most rooms available for occupation. The main site access and village access roads were completed and the administration office was occupied with telephone and computing facilities commissioned successfully.

Process Plant

Construction work advanced well during the period with site civil work completed and concrete works nearing completion. Equipment orders were placed for all major items and steel fabrication commenced off-site.

Mining and Dam Earthworks Contract

The Open Pit Mining Contract was finalised during the period and the contractor, Roche Mining Pty Limited, delivered the excavator and truck fleet to site. Site establishment commenced in January 2004 and open pit mining commenced in February 2004.

Construction of the tailing storage facility (TSF) and water storage facility (WSF) will commence following the wet season.

Development Timetable

The updated development schedule (as at March 2004) is as follows:

✘	Earthworks commenced	August 2003
✘	120 person village operational	November 2003
✘	Open pit mining commenced	February 2004
✘	Dam construction commences	2nd quarter 2004
✘	Plant commissioning commences	Early 3rd quarter 2004
✘	Concentrate production commences	Early 3rd quarter 2004
✘	1st concentrate shipment to China	September 2004

Project Financing

All conditions precedent to the Senior Bank Facility (totalling A\$52 million) and the Jinchuan Group Ltd ("Jinchuan") subordinated US\$5 million loan were satisfied during the period and the full US\$5 million was received in February 2004. Currency hedging was undertaken in early December 2003 ensuring a favourable exchange rate of US\$0.7302 for the conversion of the US\$5 million loan to A\$'s.

The Feasibility Financing Facility with Macquarie Bank Limited which had been drawn down to \$2.75 million was repaid in full on 31 December 2003.

Nickel & Currency Hedging

KNM commenced US\$ nickel price and matching US\$/A\$ currency hedging in December 2003 and due to the strong nickel price has secured a very attractive average hedge price and exchange rate. This has resulted in the banks agreeing to reduce the minimum hedge tonnage by 25% from 9,270 tonnes to 7,000 tonnes. The successful hedging program has resulted in 7,000 tonnes of Ni hedged at an equivalent of A\$15,801 per tonne which is 22% above the minimum price of A\$13,000 per tonne required under the Senior Bank Facility. In addition, US\$27.5 million of unmatched currency was sold forward at an average exchange rate of US\$0.6757.

EXPLORATION

Copernicus - Salk Joint Venture

Work, by wholly owned entity Sally Malay Exploration Pty Ltd ("SME"), continued on the Copernicus - Salk JV with Thundelarra Exploration Ltd. SME completed six reverse circulation holes into the Copernicus Prospect (current resource is 241,000t @ 1.5% nickel, 0.8% copper and 0.059% cobalt using a 1% nickel cut-off) to better define the resource extension to the south and at depth. Assay results for the six drill holes were as follows:

Drill Hole	Depth (m)	Interval (m)	Ni(%)	Cu(%)	Co(%)
CORC029	54 – 58	4m	1.47	0.51	0.06
CORC029	74 – 76	2m	0.95	0.34	0.03
CORC030	92 – 99	7m	1.44	0.86	0.06
CORC031	36 – 44	8m	1.04	0.73	0.04
CORC032	61 – 69	8m	0.82	0.28	0.03
CORC033	100 – 104	4m	0.55	0.27	0.03
CORC034	94 – 97	3m	1.64	0.66	0.06

The results confirmed the earlier interpretation of the Copernicus Resource and SME will commence a Feasibility Study on mining the Copernicus Resource in March 2004. The aim will be to commence treating Copernicus ore in early 2006 at the Sally Malay process plant immediately following the completion of the Sally Malay open pit.

Drilling during the period on the recently identified Copernicus North EM anomaly was successful intersecting 3 metres of massive sulphide intersection grading 2.75% nickel, 1.36% copper and 0.083% cobalt. Down hole EM will be undertaken as soon as access is available and a detailed drilling program to test the extent of this new mineralisation is planned for April/May 2004.

Sally Malay Project Mining Leases

There was no exploration work undertaken on the Sally Malay leases during the period.

ROUNDING

The amounts contained in this report and in the half-year financial report have been rounded to the nearest \$1000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the class order applies.



Peter J Harold
Managing Director

Perth, 15 March 2004

Sally Malay Mining Limited
CONDENSED STATEMENT OF FINANCIAL PERFORMANCE
HALF YEAR ENDED 31 DECEMBER 2003

	Notes	CONSOLIDATED 31 December 2003 \$'000	THE COMPANY 31 December 2002 \$'000
REVENUES FROM ORDINARY ACTIVITIES	2	130	70
Borrowing costs	2	(524)	(35)
Corporate and marketing expenses		(686)	(375)
Exploration and evaluation expenses		(233)	-
Other expenses from ordinary activities	2	(212)	(75)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,525)	(415)
INCOME TAX BENEFIT RELATING TO ORDINARY ACTIVITIES		271	-
LOSS ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED		(1,254)	(415)
Share issue costs		(785)	-
TOTAL EXPENSES ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED AND RECOGNISED DIRECTLY IN EQUITY		(785)	(91)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF SALLY MALAY MINING LIMITED		(2,039)	(506)
Basic loss per share (cents per share)		(1.2)	(0.7)
Diluted loss per share (cents per share)		(1.2)	(0.7)

The condensed statement of financial performance should be read in conjunction with the accompanying notes.

Sally Malay Mining Limited
CONDENSED STATEMENT OF FINANCIAL POSITION
HALF YEAR ENDED 31 DECEMBER 2003

	Notes	CONSOLIDATED 31 December 2003 \$'000	CONSOLIDATED 30 June 2003 \$'000
CURRENT ASSETS			
Cash assets		9,528	4,286
Receivables		2,436	246
Hedge receivable	4	201	-
TOTAL CURRENT ASSETS		12,165	4,532
NON-CURRENT ASSETS			
Plant and equipment		3,921	450
Deferred exploration, evaluation and development expenditure		22,624	8,630
Hedge receivable	4	12,814	-
TOTAL NON-CURRENT ASSETS		39,359	9,080
TOTAL ASSETS		51,524	13,612
CURRENT LIABILITIES			
Payables		2,649	1,216
Deferred hedge gain		201	-
Provisions		37	69
Interest-bearing liabilities		1,381	10
TOTAL CURRENT LIABILITIES		4,268	1,295
NON-CURRENT LIABILITIES			
Deferred hedge gain		12,814	-
Interest-bearing liabilities		2,751	2,806
TOTAL NON-CURRENT LIABILITIES		15,565	2,806
TOTAL LIABILITIES		19,833	4,101
NET ASSETS		31,691	9,511
EQUITY			
Contributed equity	3	34,832	11,398
Accumulated Losses		(3,141)	(1,887)
TOTAL EQUITY		31,691	9,511

The condensed statement of financial position should be read in conjunction with the accompanying notes.

Sally Malay Mining Limited
CONDENSED STATEMENT OF CASH FLOWS
HALF-YEAR ENDED 31 DECEMBER 2003

	CONSOLIDATED 31 December 2003 \$'000	THE COMPANY 31 December 2002 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(888)	(350)
Receipts from other parties	3	6
Interest received	117	7
Borrowing costs paid	(504)	-
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,272)	(337)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash outflow for short term deposits	(551)	-
Proceeds from sale of plant and equipment	-	57
Payment for plant and equipment	(33)	(170)
Payment for exploration and development	(11,792)	(1,875)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(12,376)	(1,988)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of ordinary shares	22,572	2,044
Payment of share issue expenses	(642)	
Proceeds from borrowings	-	2,037
Hire purchase payments	(285)	-
Finance lease payments	(5)	-
Repayment of borrowings	(2,750)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	18,890	4,081
NET INCREASE IN CASH HELD	5,242	1,756
Opening cash	4,286	219
CLOSING CASH CARRIED FORWARD	9,528	1,975

The condensed statement of cash flows should be read in conjunction with the accompanying notes.

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half year financial report should be read in conjunction with the Annual Financial Report of Sally Malay Mining Limited as at 30 June 2003. It is also recommended that the half-year financial report be considered together with any public announcements made by Sally Malay Mining Limited and its controlled entities during the half-year ended 31 December 2003 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half year has been treated as a discrete reporting period.

b) Changes in accounting policies

The accounting policies adopted are consistent with those applied in the prior period.

	CONSOLIDATED 31 December 2003 \$'000	THE COMPANY 31 December 2002 \$'000
2. LOSS FROM ORDINARY ACTIVITIES		
(a) Revenues from non- operating activities		
Interest		
Other persons/corporations	127	7
Proceeds from disposal of plant and equipment	-	57
Other sundry revenue	3	6
	130	70
(b) Borrowing costs		
Interest paid/payable	88	5
Finance charges on hire purchase assets	43	-
Facility costs	393	30
	524	35
(c) Other expenses from ordinary activities		
Depreciation	35	18
Amortisation	177	-
Cost of plant and equipment sold	-	57
	212	75
	CONSOLIDATED 31 December 2003 \$'000	CONSOLIDATED 30 June 2003 \$'000
3. CONTRIBUTED EQUITY		
<i>(a) Issued and paid up capital</i>		
Ordinary shares fully paid	34,832	9,513
<i>(b) Unissued capital</i>		
Ordinary shares to be issued	-	1,885
	34,832	11,398

3. CONTRIBUTED EQUITY – Cont'd

	Number of Shares	31 December 2003 \$'000
<i>(c) Movements in shares on issue</i>		
Balance at beginning of year	80,268,298	9,513
Issued during the period		
➤ Private placements and public offering	62,944,047	26,104
➤ Less transaction costs	-	(785)
Balance at end of year	<u>143,212,345</u>	<u>34,832</u>

4. FOREIGN EXCHANGE AND COMMODITY CONTRACTS

The net mark to market values of foreign exchange and commodity contracts held as at the reporting date were:

	CONSOLIDATED 31 December 2003 \$'000	CONSOLIDATED 30 June 2003 \$'000
Forward foreign exchange contracts – current	183	-
Forward foreign exchange contracts – non-current	3,753	-
Forward commodity contracts	(22,132)	-
	<u>(18,196)</u>	<u>-</u>

In accordance with AASB 1012 "Foreign Currency Translation", the net mark to spot values of forward foreign exchange contracts of \$13,015,000 and the related deferred gain has been recognised in the Condensed Consolidated Statement of Financial Position at 31 December 2003. This amount differs from the mark to market values stated above. The net mark to market values of forward commodity contracts at 31 December 2003 has not been recognised in the Condensed Consolidated Statement of Financial Position.

5. NON-CASH FINANCING AND INVESTING ACTIVITIES

	CONSOLIDATED 31 December 2003 \$'000	CONSOLIDATED 30 June 2003 \$'000
Issue of 6,400,000 ordinary shares at 23.5 cents per share in respect of engineering and design work on the Sally Malay project	1,504	-
Issue of 200,000 ordinary shares at 29 cents per share in respect of brokerage fees	58	-
Issue of 127,500 ordinary shares at 67 cents per share in respect of brokerage fees	85	-
Plant and equipment under hire purchase acquired during the period – at cost	3,761	69
Plant and equipment under finance lease acquired during the period – at cost	63	-

6. CONTINGENT LIABILITIES

During the period, the Company has agreed to become a covenantor with Kimberley Nickel Mines Pty Ltd in regard to indebtedness and liabilities resulting from the hire purchase of the mine village and mobile equipment and the finance leasing of mine equipment.

7. SEGMENT INFORMATION

Sally Malay Mining Limited operates in one business segment – mineral exploration and nickel mining development and in one geographical area – Australia.

8. SUBSEQUENT EVENTS

There have been no significant subsequent events affecting the affairs of the Company.

9. TAX CONSOLIDATION

As at the date of this report, the Company and its wholly owned entities are yet to decide to form a tax consolidated group. This decision will be made prior to, or at the time the Company (as head entity for a tax consolidated group), or the Company and its controlled entities, lodges its or their 2003 income tax return(s). Based on a preliminary analysis, it is not anticipated that the deferred tax related balances will be materially impacted upon entry into the tax consolidations regime.

Directors' Declaration

In accordance with a resolution of the directors of Sally Malay Mining Limited ("the Company"), I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity:
 - i. give a true and fair view of the financial position as at 31 December 2003 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii. comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



P. Harold
Managing Director

Perth, 15 March 2004

Independent review report to members of Sally Malay Mining Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both Sally Malay Mining Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the period ended 31 December 2003.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

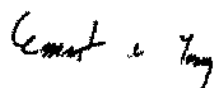
Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

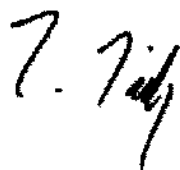
Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Sally Malay Mining Limited and the entities it controlled during the half-year is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2003 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



VW Tidy
Partner
Perth
15 March 2004