



Merafe Resources Limited
 (formerly South African Chrome and Alloys Limited)
 (Incorporated in the Republic of South Africa)
 (Registration number 1987/003452/06)
 ("Merafe" or "the Company")
 Share Code: MRF ISIN number: ZAE 000060000

Reviewed results for the 9 months ended 31 December 2004 and further cautionary announcement

GROUP ABRIDGED INCOME STATEMENT

	9 Months to 31 December 2004 Reviewed R'000	12 Months to 31 March 2004 Audited R'000
Revenue	502 369	554 442
EBITDA	60 237	(23 427)
Depreciation	(16 103)	(25 312)
Net financing costs	(38 585)	(58 385)
Profit/(loss) before taxation	5 549	(107 124)
Taxation	-	-
Net profit/(loss) for the period	5 549	(107 124)
Earnings/(loss) per share (cents)	0.45	(9.43)
Headline earnings/(loss) per share (cents)	0.45	(9.43)
Ordinary shares in issue	1 237 917 518	1 195 664 842
Weighted average ordinary shares in issue for period	1 236 676 723	1 135 527 054

GROUP ABRIDGED BALANCE SHEET

	9 Months to 31 December 2004 Reviewed R'000	12 Months to 31 March 2004 Audited R'000
ASSETS		
NON-CURRENT ASSETS		
Options, mineral and participation rights	258	258
Property, plant and equipment	681 054	679 897
Investments	6 408	9 784
Long-term receivables	1 638	2 840
CURRENT ASSETS	479 088	156 312
Inventories	237 270	92 797
Trade and other receivables	189 598	63 515
Bank and cash	52 220	-
TOTAL ASSETS	1 168 446	849 091
EQUITY AND LIABILITIES		
CAPITAL AND RESERVES		
Share capital	12 379	11 957
Share premium	557 035	527 217
Fair value reserve	1 637	130
Accumulated loss	(311 194)	(316 743)
NON-CURRENT LIABILITIES		
Long-term borrowings	395 154	369 295
CURRENT LIABILITIES	513 435	257 235
Trade and other payables	438 414	199 122
Current portion of long-term borrowings	50 988	49 170
Bank overdraft	24 033	8 943
TOTAL EQUITY AND LIABILITIES	1 168 446	849 091

STATEMENT OF CHANGES IN EQUITY

	9 Months to 31 December 2004 Reviewed R'000	12 Months to 31 March 2004 Audited R'000
Share capital	12 379	11 957
Balance at beginning of period	11 957	10 150
New shares issued during period	422	1 807
Share premium	557 035	527 217
Balance at beginning of period	527 217	421 406
Premium on new shares issued during the period	29 818	105 811
Accumulated loss	(311 194)	(316 743)
Balance at beginning of period	(316 743)	(200 091)
Net profit/(loss) for the period	5 549	(107 124)
Transfer to fair value reserve	-	(130)
Prior year adjustment	-	(9 398)
Fair value reserve	1 637	130
BALANCE AT END OF PERIOD	259 857	222 561

GROUP ABRIDGED CASH FLOW STATEMENT

	9 Months to 31 December 2004 Reviewed R'000	12 Months to 31 March 2004 Audited R'000
Cash generated by operations	28 970	(45 106)
Interest cost	-	(57 557)
Interest received	3 008	1 838
Cash flows from operating activities	31 978	(100 825)
Cash flows from investing activities	(11 175)	(45 227)
Cash flows from financing activities	16 328	135 800
Net increase (decrease) in cash and cash equivalents	37 131	(10 252)
Cash and cash equivalents at beginning of period	(8 944)	1 308
Cash and cash equivalents at end of period	28 187	(8 944)

COMMENTARY

Change of year-end

Shareholders are reminded that the Company changed its year-end from 31 March to 31 December and, as such, the current reporting period is for nine months to 31 December 2004.

Accounting policy

This report has been prepared in terms of South African Statements of Generally Accepted Accounting Practice (GAAP) and the Companies Act, No 61 of 1973, and is consistent with those applied in the financial statements for the 12 months ended 31 March 2004.

Review of results

The reviewed results of the Company, as set out above, have been reviewed by the Company's auditors, KPMG Inc. as required by the JSE Securities Exchange South Africa. Their review report is available for inspection at the Company's registered address.

Merafe's current source of income is from its chrome venture with Xstrata SA (Pty) Limited ("the Xstrata-Merafe Chrome Venture"), which became effective on 1 July 2004 and reinforced the merged entity as the South African market leader with total managed annual capacity of 1.4 million tonnes of ferrochrome per annum. Merafe shares in 11% of the earnings before interest, tax and depreciation ("EBITDA") from the Xstrata-Merafe Chrome Venture until 30 June 2005. Merafe's share of the EBITDA from the Xstrata-Merafe Chrome Venture will increase to 14% from 1 July 2005 and to 17.5% from 1 July 2006 onwards.

The Company's earnings before interest, tax, depreciation and amortisation for the nine-month period ended 31 December 2004 was R60 million. After accounting for depreciation of R16 million and net interest paid of R38 million the net profit after tax was R5.5 million.

Of importance to the future of the Company, is its performance since the formation of the Xstrata-Merafe Chrome Venture on 1 July 2004. Merafe's 11% share of the EBITDA from the Xstrata-Merafe Chrome Venture for the six-month period from 1 July 2004 to 31 December 2004, was R55 million. Corporate costs for this six-month period were R8 million and included costs relating to the formation of the Xstrata-Merafe Chrome Venture of R2 million. The average Rand: US\$ exchange rate during this six-month period was R6.22: US\$1.

Shareholders are reminded that in 4 months' time, on 1 July 2005, Merafe's share of EBITDA from the Xstrata-Merafe Chrome Venture increases to 14%, and in 16 months time, that percentage increases to 17.5%.

Numerous shareholders have requested that the Company illustrate how sharing in 17.5% of the EBITDA from the Xstrata-Merafe Chrome Venture would affect earnings going forward. As an example, using Merafe's actual 11% share of EBITDA of R55 million for the six-month period to 31 December 2004, then annualising this amount and increasing the share of EBITDA from 11% to 17.5%, results in Merafe's EBITDA (before corporate costs, interest and depreciation) being R175 million for a full year under the same trading conditions that prevailed in the last six months of 2004.

Review of operations

From an operating perspective, 2004 was a challenging year for all major South African producers, given the dramatic rise in the cost of key raw material inputs during the period and a decline in metallurgical efficiencies, due principally to a shortage of quality chrome ore for the Xstrata-Merafe Chrome Venture. Other challenging issues included some transformer failures and the reliability of electricity supply. The sharp rise in the cost of reductants (primarily coke) had the greatest negative impact on costs, offset to some extent by the success of the Xstrata-Merafe Chrome Venture's coke reduction programme.

The Xstrata-Merafe Chrome Venture has continued to enhance its relative cost competitiveness by increasing ore agglomeration capacity, securing a captive supply of reductants, improving the energy efficiency of capacity expansions and aggressively pursuing a general reduction in unit costs.

Challenging geological conditions at the Western mines reduced mine output and lowered head grades during the period, giving rise to a shortage of quality chrome ore mentioned above. An open cast mining section was opened in the latter part of 2004 to produce 80,000 tonnes ROM of chrome ore per month. This initiative is expected to make a significant contribution towards alleviating ore supply and associated quality difficulties in 2005.

The integration of Merafe and Xstrata's chrome businesses has been seamless, with many synergies materializing in the first six months. The Company now has a broader operating base, with earnings generated from the combined performance of all the Xstrata-Merafe Chrome Venture's 16 furnaces compared with its reliance on the 2 furnaces at the Boshhoek plant previously. Production levels at the Boshhoek plant have increased by 20% from the previous financial year to reach the plant's full design capacity and it is expected that these higher production rates will be sustained into 2005.

During 2005, a feasibility study will be undertaken to evaluate the introduction of Xstrata's proprietary Premus pre-reduction pelletising technology to the Wonderkop operations as part of the ongoing focus on cost reductions.

Market review

Global ferrochrome demand remained robust during 2004, increasing to approximately 5.5 million tonnes, compared to 5.2 million tonnes the previous year. Continued growth in the production of stainless steel, which accounts for around 80% of ferrochrome consumption, was the main driver behind this increase. In China, stainless steel melt grew by around 24% during the year, strongly underpinning the global increase.

Strong stainless steel melt growth was also evident in Europe, estimated at around 8.9 million tonnes in 2004, an increase of 6% versus the previous year, in South Korea where melt grew by 16.4% to 2.3 million tonnes per annum and in the United States, with an annual increase of around 8.4% to 2.4 million tonnes.

Quoted European base prices for ferrochrome remained firm at 73US¢ per pound in the first quarter of the 2005. The outlook for ferrochrome demand and prices for 2005 remains strong, with stainless melt forecast to continue to increase by around 9% in 2005 and no meaningful increase in ferrochrome production capacity expected before 2006.

Project Lion

The Company has assessed phase one of the R1.7 billion Project Lion, the 360,000 tonne per annum ferrochrome expansion of the Xstrata-Merafe Chrome Venture. Construction started in late December 2004, following the finalisation of the environmental impact study. Initial production is expected to commence in the second half of 2006, ramping up to full production from the beginning of 2007.

The board of Merafe has taken a decision to invest in 17.5% of Project Lion to match its share of earnings received from the Xstrata-Merafe Chrome Venture. The investment will be funded via a combination of equity and debt. The percentage investment in Project Lion may increase above 17.5% depending on the outcome of negotiations referred to in the Cautionary Announcement below which could, if successful, result in Merafe increasing its share in the earnings of an enlarged Xstrata-Merafe Chrome venture.

Future prospects

The Company announced previously that it would be focussing on organic and acquisitive growth in ferrochrome as well as through diversification into other resources. This strategy is on course, and in addition to Project Lion, the Company is in discussions regarding further acquisitions outside of ferrochrome. Shareholders will be kept updated on any progress in this regard.

Dividend

No dividend has been declared for the nine-month period to 31 December 2004.

Board composition

There have been no changes to the board of directors during the period under review.

Interim-results

The interim results for the six-month period ending 30 June 2005 will be published on 10 August 2005.

Further cautionary announcement

Further to the cautionary announcements dated 16 November 2004, 6 December 2004 and 18 January 2005, shareholders are advised that negotiations are in progress regarding a potential acquisition, which could result in Merafe increasing its share in the earnings of an enlarged Xstrata-Merafe Chrome Venture.

Accordingly, shareholders are advised to continue to exercise caution when dealing in their shares until a further announcement is made.

Chris Molefe
Non-Executive Chairman

Steve Phiri
Chief Executive Officer

2 March 2005
Johannesburg

Sponsor



Corporate & Merchant Bank
Corporate Finance
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