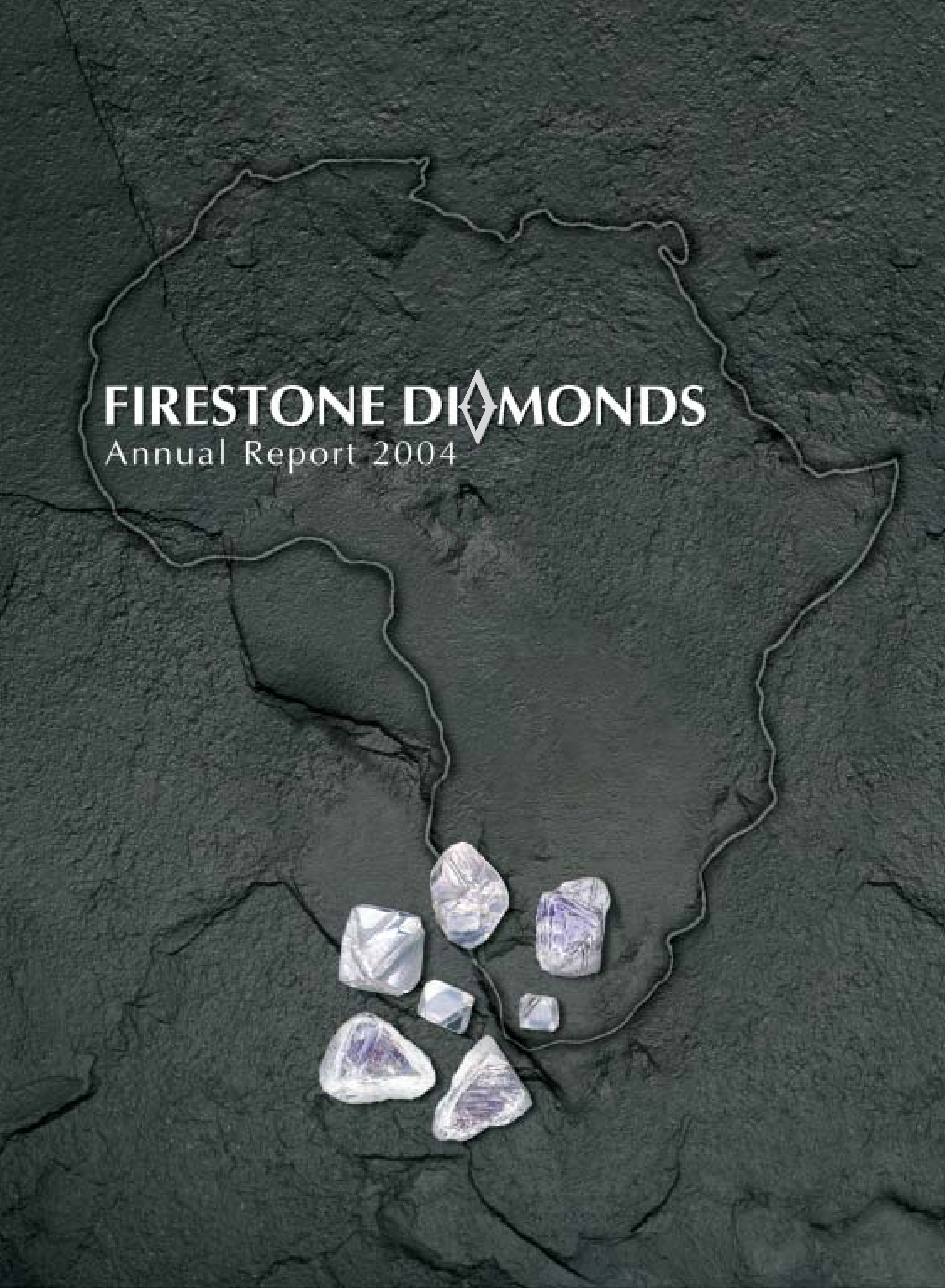
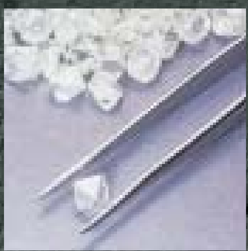
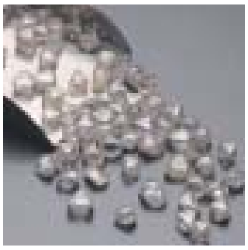
FIRESTONE DIAMONDS
Annual Report 2004



FIRESTONE DIAMONDS PLC





contents

Location of Firestone Projects

Firestone Diamonds plc is a UK-based international diamond mining and exploration company with operations in the Namaqualand region of South Africa, Botswana and the United States.

Firestone's objective is to create significant growth in shareholder value through the successful development of large scale diamond exploration projects that have the potential to yield significant reserves of gem quality diamonds. Firestone's key competitive advantage is its substantial intellectual property database and expertise from more than forty years of diamond exploration worldwide.

Firestone's corporate development strategy is to use its intellectual property database to identify and secure attractive, large scale exploration projects, and to build a portfolio comprising production and advanced development projects to provide sustainable cash flow to fund ongoing exploration programmes. The company plans to develop its exploration projects through a combination of joint ventures and the company's own exploration programmes.

Namaqualand, which is located on the west coast of South Africa, has been one of the world's largest alluvial diamond producing regions for the past 60 years, with total production to date estimated to be worth more than $3 billion. Firestone's mining operations in Namaqualand include the Bonte Koe, Avontuur and Oena Mines, all of which produce high quality alluvial diamonds, and a growing portfolio of advanced and early stage exploration projects, of which the Groen River Valley project is the most important.

Firestone has extensive interests in Botswana, which is the world's largest producer of diamonds, with annual production of over 30 million carats worth over $2.5 billion. Botswana is considered to be one of the best countries in the world to explore for kimberlite – the primary source rock for diamonds. Firestone's Mopipi, Orapa and Jwaneng projects are located close to the major Orapa and Jwaneng mines and are all being explored by De Beers in joint venture with Firestone. Firestone is also exploring for kimberlite in the US on the Laurentia craton, which extends into Canada, where it hosts the Ekati and Diavik diamond mines.

Firestone has a highly qualified management team with extensive experience in the financing and development of diamond and other natural resource projects. Firestone is quoted on the Alternative Investment Market (AIM) of the London Stock Exchange and trades under the symbol FDI.L.

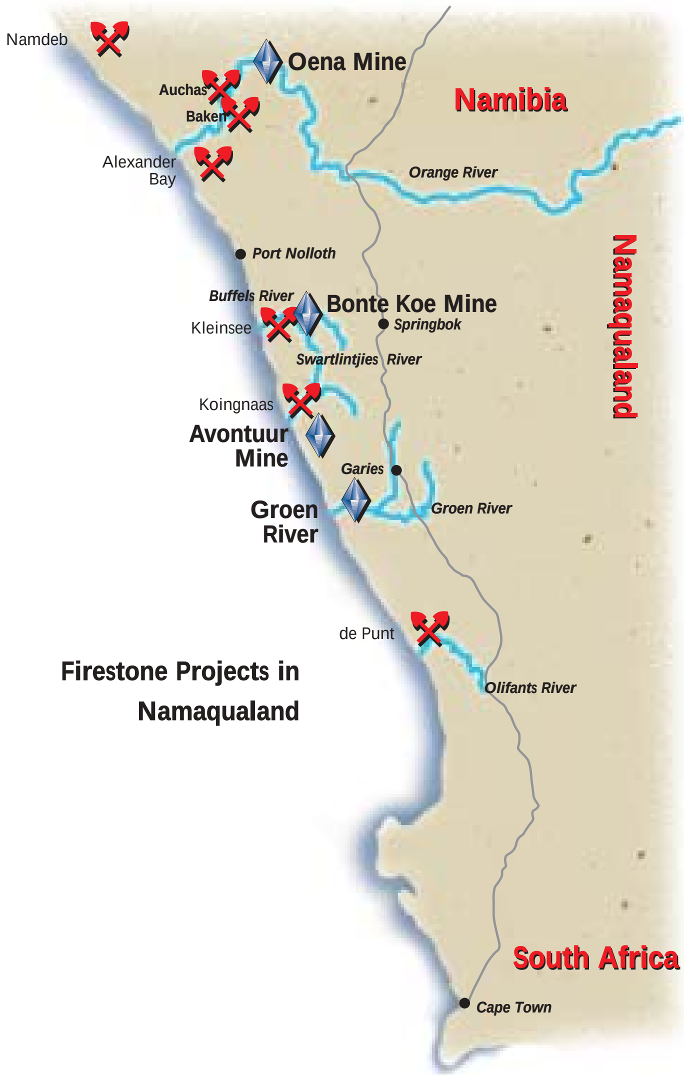
Chairman's Statement

Dear Shareholder,

The past year has seen continued good progress in the growth and development of Firestone's exploration project portfolio and mining operations.

Exploration Overview

In last year's Chairman's Statement I indicated that we intended to increase the scale of the Company's exploration activities and to work with joint venture partners on a selective basis to allow us to finance and accelerate the development of an expanded portfolio of exploration projects. We have made significant progress in this regard, having acquired three new kimberlite exploration projects and having secured joint venture partners for all four of our kimberlite exploration projects over the past year.



Firestone Projects in Namaqualand

Exploration sampling, Mopipi

The primary focus of our kimberlite exploration activities was in Botswana, which is the world's largest producer of diamonds, with annual production of approximately 30 million carats worth over $2.5 billion. Over the past year we expanded the area of our Mopipi project, and in June we announced that we had entered into a joint venture with De Beers over the Mopipi project. We secured very attractive terms for this joint venture, with De Beers agreeing to finance and carry out all exploration and evaluation work, up to and including the completion of bankable feasibility studies on any kimberlites discovered in the project area, in return for a 61% interest in the project. We are confident that De Beers will identify the source of the strong kimberlitic indicator mineral anomalies identified by our work in the Mopipi area.

We have recently acquired two highly prospective new kimberlite exploration projects in Botswana, one near the Orapa Mine and the other near the Jwaneng Mine. Since then, we have announced that we have signed two new joint venture agreements with De Beers over these projects, on the same commercial terms as those of the Mopipi joint venture.

De Beers is currently carrying out an intensive exploration programme in the Mopipi and Orapa project areas. More than 51,000 line kilometres of high-resolution geophysical surveys have been conducted, and 180 kimberlite targets have been selected to date for further investigation. It is expected that drilling of the first targets will take place in early 2005. De Beers will also commence work on the

Jwaneng project early next year. We believe that the prospects for the discovery of diamondiferous kimberlite at our projects in Botswana are very good.

The pace of exploration activity in South Africa has also increased. The Groen River Valley project in Namaqualand is Firestone's most promising exploration project in South Africa due to the high quality and large size of diamonds that have been mined in the area and the large area controlled by the Company. Exploration drilling carried out during the year in the Groen River Valley project area resulted in a very significant discovery, and proved the presence of at least one very large gravel deposit that is known to be diamondiferous. An intensive exploration and evaluation programme is planned for the area, with drilling due to begin shortly, and it is expected that this next phase of work will confirm the economic potential of the area.

In June we also announced a new kimberlite exploration project in the US and the signing of a joint venture with American Diamonds Inc. over that project.

Mining Operations Overview

Firestone's mining operations play an important role in contributing cash flow to finance the Company's exploration activities.

The development of our third mining operation at Bonte Koe, which is now in production, has been the most significant development in this regard over the past year. Production at the Avontuur Mine increased 222% to 6,339 carats for the year. The average price for gem quality diamonds sold increased 19% to $131 per carat, and has since risen to $140 per carat as the rough diamond market has continued to strengthen. Although overall production at the Oena Mine declined 54% due to mining contractor problems, production from the Company's own mining operations at Oena increased 26% to 903 carats for the year. The average price for diamonds sold increased 24% to $1,050 per carat, primarily due to the sale of a number of high value diamonds, including stones of 30.53 and 20.15 carats that sold for approximately $200,000 and $42,000, respectively.

Turnover from Firestone's own mining operations increased during the year, with the second half of the year showing an increase of 6% from the first half, but the mining contractor problems at Oena and the continued strength in the rand resulted in overall group turnover declining 15% to £978,298. Despite this, after tax profits rose 148% to £161,498.

As a result of the increased scale of the Company's mining operations we decided to create the new position of Operations Director. We have appointed Jan Louw to this position and he will be responsible for managing all aspects of our mining operations in South Africa. Mr Louw has extensive experience in planning, developing and managing large scale open cast mining operations, having worked in senior management positions for Anglo American for 13 years in South Africa and Namibia.

Overburden stripping, Bonte Koe

The Diamond Market

Prices in the rough diamond market increased strongly during the year, driven by the growing shortfall in rough diamond supply across all segments of the market. Rough diamond prices have risen by about 30% since the beginning of 2003, and this has followed through into the polished diamond market, with polished prices rising 21% so far in 2004.

De Beers reported a 7% rise in rough diamond sales in 2003 to $5.5 billion, and a 2% increase in sales for the first half of 2004 to $3 billion. De Beers, which only a few years ago held more than $4 billion worth of diamond stocks, is facing potentially significant shortages under its demand-driven Supplier of Choice policy. Earlier this year De Beers indicated that its stocks were at minimum working levels and that for the first time its sales would be based on intake, meaning that it would only be able to supply the market on the basis of new production from its mines and purchases from other producers.

Demand for diamond jewellery has continued to increase, with global retail sales increasing 7% in 2003, and 7% in the first half of 2004. With continued growth forecast for retail demand, and the rough diamond supply deficit expected to continue for at least the next three to five years, the outlook for diamond prices continues to be very positive.

Mining pit, Avontuur

63 carat yellow diamond, Oena

Outlook

Growth in shareholder value for smaller companies in the natural resources sector, such as Firestone, is primarily driven by exploration success. We believe that Firestone's substantial intellectual property assets, with data from more than forty years of diamond exploration in South Africa and elsewhere, provide us with a significant competitive advantage, as we can use them to identify attractive, large scale exploration projects that have the potential to yield significant reserves of gem quality diamonds.

The progress that we have made over the past year in securing joint ventures with De Beers over our three Botswana projects, and with American Diamonds Inc. over our US project, provides a good indication of the Company's ability in this regard. With these projects now being financed and managed by joint venture partners, we intend to continue expanding our exploration project portfolio. In July 2004, the Company completed a share placing, raising approximately £1.3 million net of expenses, for the purpose of accelerating the pace of acquisition, exploration and development of new projects. We intend to work on selected projects ourselves and to seek joint venture partners for the remaining projects. We are currently evaluating a number of new opportunities in South Africa and elsewhere, and expect to be able to announce the results of this work in the coming year.

We also intend to continue developing our mining operations in South Africa. Our main focus in this regard will be on Bonte Koe, which is expected to start making a significant contribution to group turnover during the second half of the financial year. We remain concerned about the impact on our mining

Diamonds from Oena

operations of further strengthening of the rand, which has been one of the strongest performing emerging market currencies in the world in the past few years, having gained almost 140% against the dollar since hitting an all time low of R13.85 in 2001.

With the many opportunities that are available to Firestone and with the strength in the rough diamond market expected to continue in the medium term, we remain confident about the Company's long term prospects. I would like to record again the Board's appreciation of the continued dedication and commitment of our senior management and staff, who have contributed to the Company's continued growth and development over the past year, and who will be critical to the Company's ability to achieve its objectives for the coming year.

Review of Operations

MINING

Bonte Koe Mine, Namaqualand, South Africa

In July 2003, the Company announced that it had agreed to acquire the Bonte Koe Mine in Namaqualand, and that it intended to re-establish mining operations through its black empowerment joint venture company, African Star Minerals. Development plans for Bonte Koe were prepared with the assistance of independent consultants, and a contract was awarded at the end of 2003 for the construction of a 100 tonne per hour dense media separation (DMS) gravel treatment plant.

In early 2004, following a review of exploration potential at Bonte Koe and other opportunities on the Buffels River, the Company decided to increase the capacity of the gravel treatment plant by 50% to 150 tonnes per hour. The Company also decided to upgrade the power and water infrastructure planned for Bonte Koe, and to construct a 10 km power line and to lay a 35km water pipeline to the mine. While capital costs were higher and the project schedule was delayed as a result, operating cost savings are expected to be substantial and to pay for the additional capital costs during the first two years of operation.

By the end of June, substantial work had been completed on the fabrication of the gravel treatment plant, establishment of water supply and on the refurbishment of accommodation, workshop and office facilities. Construction and certification of the power line was not completed until September, which then allowed commissioning of the plant to commence, with the first diamonds being recovered in October. The plant is now operational, although minor modifications are being made to optimise gravel throughput and diamond recovery efficiency. While these final modifications are still being made, the plant is processing tailings and low grade gravels that overlie the main ore body.

Treatment Plant, Bonte Koe

Diamonds from Bonte Koe

Although no sales of diamonds from Bonte Koe have yet taken place, the first parcel of diamonds from the mine has been valued at $200 per carat, in line with expectations. We expect that operations will ramp up to target production levels and that the mine will start making a significant contribution to overall group production in the second half of the financial year.

Diamonds from Avontuur

Avontuur Mine, Namaqualand, South Africa

The new DMS gravel treatment plant at Avontuur was fully operational during the year and production levels increased substantially as a result. Production for the year was 6,339 carats, an increase of 222% compared to last year, and grades from mining areas ranged from 2 to 30 carats/100 tonnes. Diamonds produced continued to be approximately 85% gem quality, with an average size of 0.22 carats per stone. The average price for gem quality diamonds sold during the year increased 19% to $131 per carat, compared to $110 at the end of last year, and has since risen to $140 per carat as the rough diamond market continued to strengthen. Some mining equipment from Avontuur has been temporarily allocated to Bonte Koe, but the impact of this has been reduced by more effective utilization of other equipment at the mine.

Sandberg excavation, Oena

Exploration activity continued on targets that had been identified by data from a high-resolution airborne electromagnetic survey conducted over the mine. A total of 1,819 metres of drilling were carried out over 102 holes on selected targets, following which locations for bulk sampling have been selected. Bulk sampling of the first of these targets is expected to take place next year.

Oena Mine, Namaqualand, South Africa

Meso gravel mining operations were carried out by the Company at the Oena and Blokwerf terraces during the year. Overall production at the Oena terrace was significantly reduced due to the fact that no mining was carried out by the Company's mining contractor, following a dispute over its failure to meet a number of commitments under the terms of its contract. The dispute has not been resolved to the Company's satisfaction and legal proceedings against the contractor are under way. As a result, overall production at Oena declined 54% compared to last year, although production from the Company's own mining operations at Oena increased 26% to 903 carats.

Grades from mining areas continued in line with last year, and ranged from 0.06 to 1 carats/100 tonnes, with diamonds produced averaging 1.23 carats per stone. With continued shortages of supply at the high end of the diamond market, demand for Oena production remained strong. The average price for diamonds sold increased 24% to $1,050 per carat, primarily due to the sale of a number of large, high value stones. A number of special diamonds were recovered during the year, including stones of 30.53 and 20.15 carats that sold for approximately $200,000 and $42,000, respectively.

EXPLORATION
Mopipi, Botswana

Firestone's Mopipi prospecting licences cover an area of approximately 3,650 square kilometers and are located adjacent to De Beers' Orapa and Letlhakane diamond mines. Firestone has carried out a substantial amount

Indicator minerals, Mopipi

of exploration at Mopipi over the past seven years. Soil sampling has produced seven micro diamonds, one white macro diamond weighing 0.07 carats, a large number of G10 garnets and more than fifty chrome diopsides. These results strongly suggest the presence of a new diamondiferous kimberlite source in the area.

During the year, the Company acquired the interests held in the Mopipi project by Firestone's previous joint venture partner, NM & BC Exploration Services. In June 2004, the Company entered into a new joint venture with De Beers over the Mopipi project, under the terms of which De Beers will finance and carry out all exploration and evaluation work, up to and including the completion of bankable feasibility studies on any kimberlites discovered in the joint venture area, in return for a 61% interest in the joint venture.

De Beers has made significant progress on the Mopipi project since June. A total of 51,408 line kilometres of high-resolution geophysical surveys, comprising airborne magnetics, airborne gravity gradiometry, ground magnetics and ground gravity, have been conducted, covering approximately 95% of the Mopipi project area. Interpretation of data from the geophysical surveys is currently under way, and 118 targets have already been selected for further investigation. These targets are currently being verified on the ground in preparation for drilling in early 2005.

The economic potential of kimberlites BK31 and BK35, previously discovered by De Beers, and located in the Mopipi project area close to the Letlhakane diamond mine, is being re-evaluated. Modeling of high-resolution ground geophysics is being undertaken in order to establish accurate size estimates for the bodies. Ground gravity surveys have already been conducted over BK31, and will be conducted over BK35 in the first quarter of 2005. This information will be used to determine drilling positions for sampling of the kimberlites to assess their economic potential.

Groen River Valley, Namaqualand, South Africa

The Groen River Valley project is the Company's most promising exploration project in South Africa, due to the high quality and large size of diamonds that have been mined in the area, and the large area controlled by the Company. The Company is confident that the Groen River Valley has the potential to become an important new alluvial diamond producing region. Based on the substantial land position that Firestone holds in the area, this project has the potential to make a significant contribution to the Company's future growth.

Drilling, Groen River Valley

Test excavation, Groen River Valley

A major percussion drilling programme was carried out during the year on selected targets that had been identified by ground mapping and aerial photo and satellite analysis, and resulted in a very significant discovery. Targets were drilled in five areas, with 98 holes drilled over a total of 2,203 metres. Preliminary interpretation of the drilling logs and samples has been carried out for the first of the five targets that was drilled, and indicates the presence of a very significant gravel deposit (known as the HL deposit). Diamonds have already been recovered from the property on which this deposit is located, proving that it is diamondiferous.

Groen River, approaching the coast

An intensive exploration and evaluation programme is planned for the Groen River Valley area in 2005, and it is expected that this programme will make significant progress towards confirming the economic potential of the area. This programme, which is due to begin shortly, will include detailed drilling and bulk sampling on the HL deposit, follow-up drilling on targets identified by the previous drilling programme, and drilling of new targets. As the HL deposit has been proven to be diamondiferous, the objective of the bulk sampling programme will be to estimate the grade of the deposit and diamond value in order to make an initial economic evaluation of the deposit.

Groen River Valley diamonds

An application for a prospecting permit for a new area in the Groen River Valley is awaiting approval. This new permit will, if granted, significantly increase the size of our land position in the area. It is expected that this permit will be granted in 2005, following which drilling and sampling will be carried out on targets that have already been identified by aerial photo and satellite analysis of the new area.

Orapa, Botswana

Since the end of the year, Firestone has been awarded two new prospecting licences covering an area of approximately 1,300 square kilometers adjoining the western boundary of the Orapa Mine, and the southern and eastern boundaries of the nearby Letlhakane Mine. The Company has recently announced that De Beers has entered into a joint venture with Firestone over this project, on the same commercial terms as those of the Mopipi joint venture.

De Beers will carry out an intensive exploration and evaluation programme in the Orapa project area. High-resolution geophysical surveys, including airborne magnetics, ground gravity and ground magnetics, will be conducted over the entire project area. When data from these surveys has been processed and interpreted, it will be reviewed along with data from previous kimberlite indicator mineral sampling in order to select and prioritise potential kimberlite drilling targets. This work has already commenced, and the initial geophysical work programme is expected to be completed in the first quarter of 2005. A total of 62 targets have already been identified. Target identification is expected to be completed during the second quarter of 2005, following which drilling of selected targets will be carried out.

Jwaneng, Botswana

Since the end of the year, Firestone has been awarded four new prospecting licences covering an area of approximately 3,700 square kilometers close to the Jwaneng Mine. The Company has recently announced that De Beers has entered into a joint venture with Firestone over this project, on the same commercial terms as those of the Mopipi joint venture.

Substantial exploration work has already been carried out by De Beers in the Jwaneng region, and airborne magnetic data is available for the Jwaneng project area from surveys carried out by the Botswana Geological Survey. Under the terms of the Jwaneng joint venture agreement, this data will be used in conjunction with data from past kimberlite indicator mineral sampling to identify target areas for follow-up work on the ground. High-resolution ground gravity and magnetic surveys will be conducted on selected target areas to identify potential kimberlite drilling targets. This work is expected to commence in early 2005.

US Exploration Project

A significant amount of exploration has been carried out on the Company's kimberlite exploration project in the United States. More than 750 stream and soil samples were taken up to the end of the year. More than one third of these contained kimberlitic indicator minerals, and microprobe analysis has confirmed that some of the grains are diamond-associated, including a number of G10's and diamond-associated chromites. This sampling has identified a number of high priority target areas with exceptionally high counts of kimberlitic indicator minerals and significant numbers of chrome diopside, which indicates proximity to source. The results indicate that at least one previously unknown kimberlite field is located in the project area, and that some of these kimberlites may be diamondiferous.

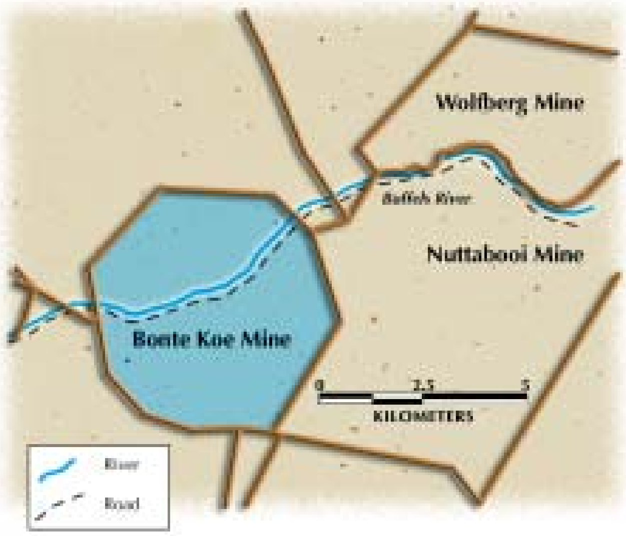
In June 2004, the Company entered into a joint venture over the US project with American Diamonds Inc. American Diamonds is owned by Dunsmuir Ventures Limited and Majescor Resources Inc, both Canadian diamond exploration companies and listed on the TSX Venture Exchange in Canada. Under the terms of the joint venture, ADI can earn a 60% interest in the project through the expenditure of $1 million. Follow-up sampling is under way in the high priority target areas, and results will be announced once this work has been completed.

James F. Kenny
Chairman
6 December 2004

63.3 carat diamond, Oena

Project Overview

Bonte Koe Mine, Namaqualand, South Africa



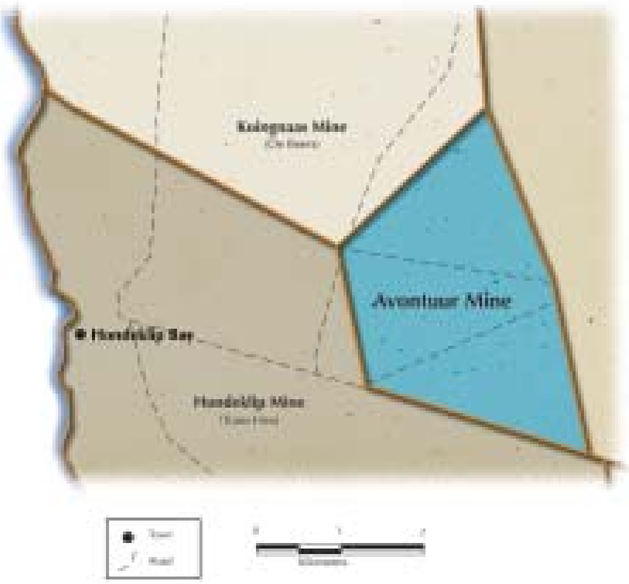
Location of Bonte Koe Mine

The Bonte Koe mine covers an area of approximately 2,500 hectares along the Buffels River in the Namaqualand region of the Northern Cape Province of South Africa, and lies immediately downstream of De Beers' Nuttabooi mine. The Buffels River has been a significant diamond producing area for the past 40 years. Mining operations in the area have produced an estimated total of over 3 million carats, with an estimated current value of over $750 million. The Buffels River area produces diamonds with an average size of approximately 0.4 carats per stone and an estimated value of $200 per carat. Previous operations at Bonte Koe have produced approximately 180,000 carats at an average size of 0.4 carats per stone. Firestone's interest in the Bonte Koe Mine is held through African Star Minerals.

Sorting Avontuur production (L to R) D.Wessels; H.Jenner-Clarke, Exploration Director

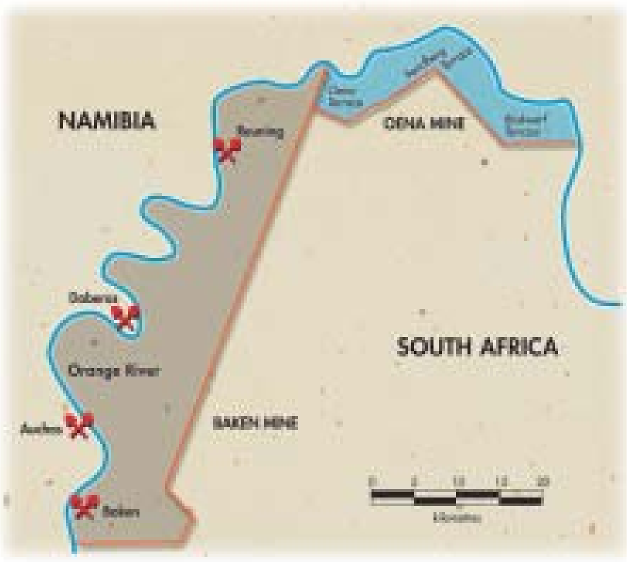
Avontuur Mine, Namaqualand, South Africa

The Avontuur Mine covers approximately 2,600 hectares and is located near the coastal town of Hondeklip Bay in Namaqualand. Hondeklip Bay is a well-established alluvial diamond producing area and hosts De Beers' Koingnaas Mine, which has been producing for approximately 20 years. The Hondeklip Bay area produces diamonds



Location of Avontuur Mine

with an average size of approximately 0.2 carats per stone and a value of between $100-110 per carat, from buried onshore marine terraces. The Avontuur Mine produces diamonds from terraces ranging from 30 to 60 metres above sea level. Total historical production in the Hondeklip Bay area is estimated at over 1.5 million carats. Firestone owns a 100% interest in the Avontuur Mine.



Location of Oena Mine

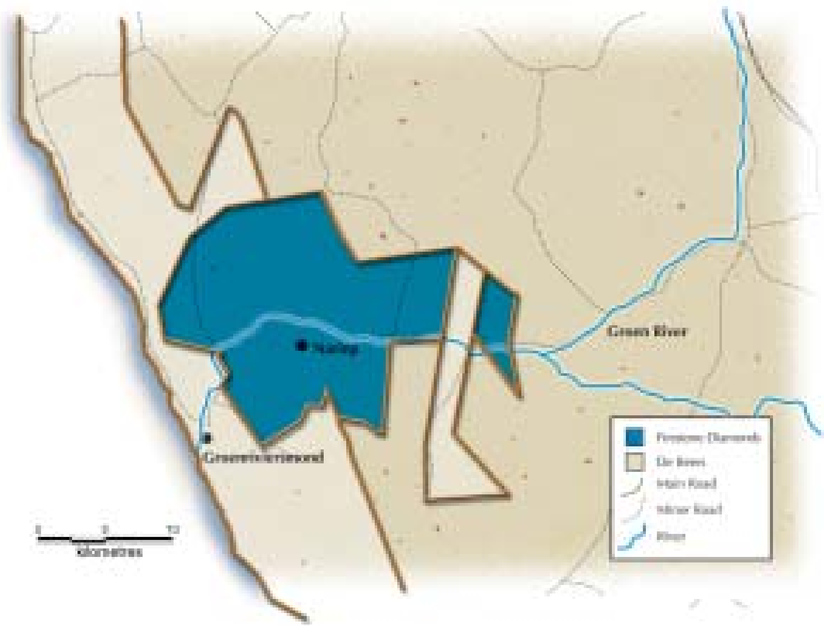
Oena Mine, Namaqualand, South Africa

The Oena Mine is located on the lower Orange River, in a well established diamond producing area which produces diamonds comparable to the best in the world, typically selling at prices between $700-$900 per carat. Oena covers 8,900 hectares, and extends in a 4.8 kilometre wide strip along 15 kilometres of the Orange River. Oena is located upstream of the Auchas Mine, operated by De Beers, and the Baken Mine, operated by Trans Hex, South Africa's second largest diamond producer. Total historical production at Oena is over 30,000 carats, with an average stone size of approximately 2 carats, the largest stone recovered being 70 carats. Firestone owns an 87.5% interest in the Oena Mine.

Groen River Valley, Namaqualand, South Africa

The Groen River Valley project covers an area of approximately 190 square kilometres of the lower reaches of the Groen River in Namaqualand. A considerable amount of prospecting has been carried out by Firestone in this region in recent years, resulting in the identification of the palaeo river systems which were responsible for transporting the diamonds of large size and exceptional quality that have been mined near the mouth of the Groen River by De Beers and other operators. Diamonds from the Groen River Valley are considered to be similar in quality to those from the Orange River, with an estimated value of up to $1,000 per carat. The Groen River has the potential to become a significant new alluvial diamond producing region. All locations tested by exploration to date have been proven to be diamondiferous. Firestone owns a 100% interest in the Groen River Valley project.

Mobile processing plant, Groen River Valley



Location of Groen River Valley Project

Mopipi, Botswana

Botswana is the world's largest producer of diamonds by value, with annual production of approximately 30 million carats worth over $2.5 billion and accounting for over 25% of worldwide production by value. The Mopipi project covers an area of approximately 3,650 square kilometers and is located adjacent to the Orapa and Letlhakane diamond mines, which together produce approximately 17 million carats per annum with a value of about $1.3 billion.

Exploration drilling, Mopipi

The Mopipi project lies in an area where deep-seated north-south structural trends intersect with east-west trending dykes and fractures. Kimberlite intrusions typically exploit such intersections. Firestone has carried out a substantial amount of exploration at Mopipi, including aerial photography and satellite imagery interpretation, acquisition and interpretation of aeromagnetic, electromagnetic and gravity data, extensive soil sampling and drilling. This work has provided very strong evidence of the presence of a diamondiferous kimberlite source in the Mopipi region.

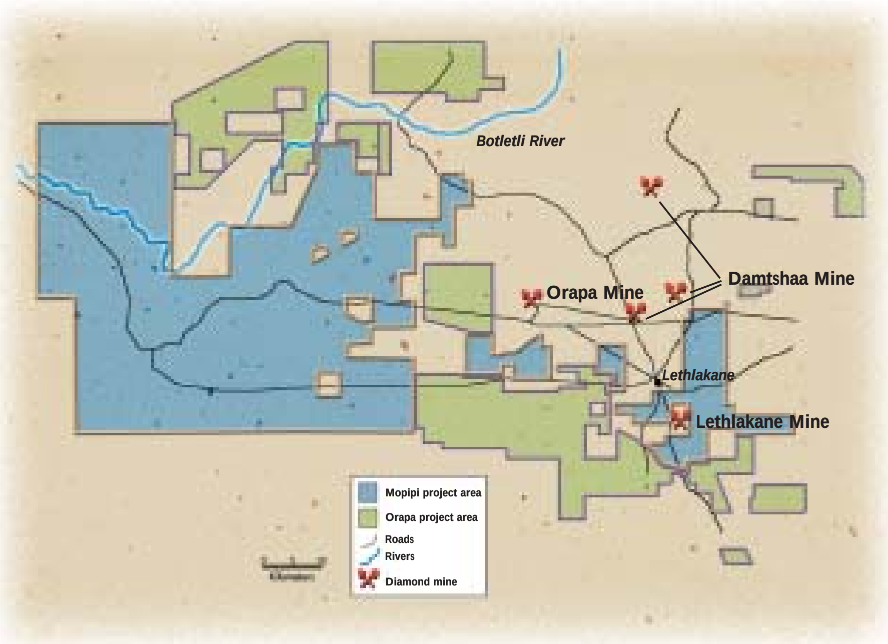
Firestone has entered into a joint venture with De Beers under which De Beers will be responsible for financing and carrying out all exploration and evaluation work, up to and including the completion of bankable feasibility studies on any kimberlites discovered in the joint venture project area, in return for a 61% interest in the project. Following completion of a bankable feasibility study Firestone will have an option to call on De Beers to provide loan finance to Firestone for Firestone's share of mine construction costs, in return for an additional 4% interest in the project.

Orapa, Botswana

The Orapa project covers an area of approximately 1,300 square kilometers and adjoins the western boundary of the Orapa Mine, and the southern and eastern boundaries of the nearby Letlhakane Mine. The Orapa project is also adjacent to the Mopipi project area. Much of the area covered by the Orapa prospecting licences has never been fully explored using modern geophysical exploration techniques, and is considered to be highly prospective for the discovery of new diamondiferous kimberlites. Firestone has entered into a joint venture with De Beers over the Orapa project on the same commercial terms as those of the Mopipi joint venture.

Target area, Mopipi Dam

Firestone licences in the Orapa Area



Jwaneng, Botswana

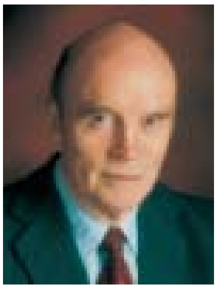
The Jwaneng project covers an area of approximately 3,700 square kilometers. The project area is located at a distance of between 25 and 75 kilometres from the Jwaneng Mine, which produces approximately 12 million carats per annum with a value of over $1.5 billion. Much of the area covered by the Jwaneng prospecting licences has never been fully explored using modern geophysical exploration techniques, and is considered to be highly prospective for the discovery of new diamondiferous kimberlites. Firestone has entered into a joint venture with De Beers over the Jwaneng project on the same commercial terms as those of the Mopipi joint venture.

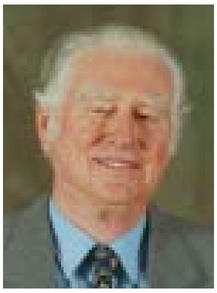
US Kimberlite Exploration Project

Firestone's US kimberlite exploration project is located on the North American Laurentia craton, which is the largest area of prospective diamond potential in the world. Approximately half of the Laurentia craton is located in Canada, where it hosts the Ekati and Diavik diamond mines, operated by BHP Billiton and Rio Tinto, respectively, and the other half is located in the United States. Significant areas of the Laurentia craton in the United States have never been explored systematically for diamonds. Firestone's US Project is located in what is considered to be the best of these areas in terms of geological potential. In June 2004 the Company entered into a joint venture over the US Project with American Diamonds Inc, under the terms of which, ADI can earn a 60% interest in the project through the expenditure of $1 million.

Firestone licences in the Jwaneng Area

Directors & Advisors



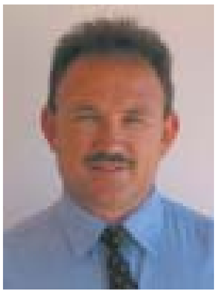


From Top to bottom:

James F. Kenny, Chairman;

Hugh Jenner-Clarke, Deputy Chairman;

Philip Kenny, Chief Executive



From top to bottom:

Jan Louw, Director of Operations;

Kovilan Govender, Senior Geologist

Directors

James Flannan Kenny, B.A., LL.B., M. Sc., Executive Chairman
Hugh Clifford David Jenner-Clarke, B. Sc., F.G.S., Deputy Chairman and Director of Exploration
Philip Kenny, B.E., M.B.A., Chief Executive
James Kenny Jnr., B. Comm., M.B.S., Executive Director
Michael James Hampton, B.A., Non-executive Director
William Douglas Baxter, M.A., M.A.I., Non-executive Director

Nominated Advisor

Brewin Dolphin Securities Limited
48 St. Vincent Street
Glasgow G2 5TS

Nominated Broker

Bell Lawrie White
48 St. Vincent Street
Glasgow G2 5TS

Auditors

PKF
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

Solicitors

Reynolds Porter Chamberlain
Chichester House
278-282 High Holborn
London WC1V 7HA

Bankers

Royal Bank of Scotland
22 High Street
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Guernsey, GY1 4BQ

PR Consultants

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MWB Business Exchange
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London EC4N 6NQ

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Capita Registrars
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Registered Office

1 Park Row
Leeds LS1 5AB

Registered Number

3589905

Company Secretary

Pinsent Masons Secretarial Limited
1 Park Row
Leeds LS1 5AB

Directors' Report - for the year ended 30 June 2004

The directors present their report together with the audited financial statements for the year ended 30 June 2004.

Results and Dividends

The group profit for the year after taxation and minority interests amounted to £161,498.

The directors do not recommend the payment of a dividend.

Principal Activity

The principal activity of the group was diamond exploration and mining. The principal activity of the company was that of a holding company.

Review of Business and Future Developments

A detailed review of the business and future developments is included in the Chairman's Statement on pages 4 to 11.

Share Capital

On 1 August 2003, the company completed the placing of 6,065,000 new ordinary shares at a price of 33 pence per share, raising approximately £2,000,000 before the deduction of related expenses. On 7 May 2004 share options were exercised resulting in the issuing of 700,000 new shares at an option exercise price of 33 pence. On 26 July 2004, the company completed the placing of 2,187,500 new ordinary shares at a price of 64 pence per share, raising £1,400,000 before the deduction of related expenses.

At 6 December 2004, the company has been notified of the following interests in the issued ordinary share capital:

	Shares	%
Elfin Trust Company Limited	7,200,000	16.3
Aurora International Investments Limited	7,200,000	16.3
Gartmore Investment Limited, Gartmore Fund Managers Limited and Gartmore Global Partners	5,418,116	12.6

Elfin Trust Company Limited holds 7,200,000 ordinary shares as trustee for a discretionary trust, the beneficiaries of which include certain members of the Jenner-Clarke family. Through its holding of shares in Aurora International Investments Limited, Elfin Trust Company Limited controls 7,200,000 ordinary shares as trustee for a discretionary trust, the beneficiaries of which include members of the Kenny family.

Payment Policy

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with.

At 30 June 2004, the group had an average of 28 days (2003: 54 days) purchases outstanding in trade creditors.

Directors

The directors who served during the period, their beneficial interests and those of their families in the ordinary share capital of the company, were as follows:

	At 30 June 2004		At 30 June 2003	
	Ordinary Shares	**Share Options**	**Ordinary Shares**	**Share Options**
J F Kenny	505,765	350,000	505,765	1,175,000
H C D Jenner-Clarke	586,057	350,000	586,057	1,355,000
P Kenny *	538,806	350,000	538,806	1,355,000
M J Hampton	106,875	110,000	106,875	110,000
J Kenny Jnr *	157,023	200,000	157,023	550,000
W D Baxter	10,000	-	10,000	-

* Potential beneficiaries of a discretionary trust, controlling 7,200,000 ordinary shares. Further details of share options are shown in note 19 to the financial statements.

Directors' Report - (continued)

Going Concern

Following a review of the company's financial position, the directors have concluded that sufficient financial resources will be available to meet the company's current and foreseeable working capital requirements. On this basis, they consider it appropriate to prepare the financial statements on a going concern basis.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements the directors are required to;

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the Directors' Report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

Corporate Governance

The directors believe that the company complies with the principles set out in The Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council so far as they consider is appropriate, having regard to the size and nature of activities of the group.

Auditors

PKF have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

P Kenny
Director
6 December 2004

Auditors' Report

We have audited the financial statements of Firestone Diamonds plc for the year ended 30 June 2004 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities contained in the Directors' Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and the company's affairs as at 30 June 2004 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London, UK	PKF
8 December 2004	Registered Auditors

Consolidated Profit and Loss Account - for the year ended 30 June 2004

	Notes	2004 £	2003 £
Production		961,435	1,157,980
Turnover	2	978,298	1,157,289
Change in stocks of finished goods and in work in progress		(16,863)	691
Raw materials and consumables		(142,634)	(133,019)
Staff costs		(158,871)	(104,069)
Depreciation and amortisation		(124,925)	(58,652)
Other operating charges		(428,256)	(727,183)
Operating profit		106,749	135,057
Profit on disposal of fixed assets	5	43,857	-
Profit on ordinary operating activities before interest and taxation		150,606	135,057
Interest receivable and similar income	3	28,311	30,071
Interest payable and similar charges	4	(4,958)	(2,261)
Profit on ordinary activities before taxation	5	173,959	162,867
Tax on profit on ordinary activities	8	(17,480)	(71,520)
Profit on ordinary activities after taxation		156,479	91,347
Minority interests		5,019	(26,140)
Retained profit for the year	20	161,498	65,207
Earnings per share			
Basic earnings per share	9	0.4p	0.2p
Diluted earnings per share	9	0.4p	0.2p

Turnover is wholly derived from continuing activities.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 30 June 2004

	2004 £	2003 £
Profit for the financial year	161,498	65,207
Currency translation differences	113,782	168,171
Total recognised gains and losses for the year	275,280	233,378

Consolidated Balance Sheet - 30 June 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Intangible assets	10		10,746,075		9,028,912
Tangible assets	11		3,307,431		1,844,402
Investments	12		609,351		378,275
			14,662,857		11,251,589
Current assets					
Stocks	13	121,063		128,754	
Debtors	14	478,649		250,736	
Cash at bank and in hand		293,934		273,636	
		893,646		653,126	
Creditors					
Amounts falling due within one year	15	(684,894)		(618,283)	
Net current assets			208,752		34,843
Total assets less current liabilities			14,871,609		11,286,432
Creditors					
Amounts falling due after one year	15		(1,010,976)		(193,638)
Provisions for liabilities and charges					
Other provisions	16	(877,110)		(564,852)	
Deferred taxation	17	(469,013)		(403,574)	
			(1,346,123)		(968,426)
Net assets			12,514,510		10,124,368
Capital and reserves					
Called up share capital	19		8,193,094		6,840,094
Share premium account	20		4,415,004		3,648,123
Merger reserve	20		(1,076,399)		(1,076,399)
Profit and loss account	20		984,165		708,885
Equity Shareholders' Funds	21		12,515,864		10,120,703
Minority equity interests			(1,354)		3,665
			12,514,510		10,124,368

Approved by the Board on 6 December 2004

P Kenny
Director

Company Balance Sheet - 30 June 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Fixed Assets					
Intangible assets	10		-		234,308
Investments	12		12,518,726		10,043,570
			12,518,726		10,277,878
Current Assets					
Debtors	14	4,120		4,120	
Cash at bank		28,203		231,744	
		32,323		235,864	
Creditors					
Amounts falling due within one year	15	(73,040)		(73,085)	
Net Current (Liabilities)/Assets			(40,717)		162,779
Total Assets			12,478,009		10,440,657
Capital and Reserves					
Called up share capital	19		8,193,094		6,840,094
Share premium account	20		4,415,004		3,648,123
Profit and loss account	20		(130,089)		(47,560)
Equity Shareholders' Funds			12,478,009		10,440,657

Approved by the Board on 6 December 2004

P Kenny
Director

Consolidated Cash Flow Statements - for the year ended 30 June 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Net cash (outflow)/inflow from operating activities	22		(149,154)		576,399
Returns on investments and servicing of finance					
Interest received		28,311		30,071	
Interest element of finance lease payments		(4,958)		(2,261)	
Net cash inflow from returns on investments and servicing of finance			23,353		27,810
Capital expenditure and financial investment					
Payments to acquire intangible fixed assets		(1,501,683)		(1,624,597)	
Payments to acquire tangible fixed assets		(1,019,076)		(62,653)	
Receipts from sales of tangible fixed assets		110,885		-	
Payments to acquire investments		(231,076)		(93,013)	
Net cash outflow from capital expenditure and financial investment			(2,640,950)		(1,780,263)
Net cash outflow before use of liquid resources and financing			(2,766,751)		(1,176,054)
Financing					
New long term loans		877,948		-	
Issue of ordinary share capital		2,119,881		-	
Finance lease payments		(228,716)		(40,378)	
			2,769,113		(40,378)
Increase/(decrease) in cash	23 & 24		2,362		(1,216,432)

1 Accounting Policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

(b) Basis of consolidation

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair value, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the group has gained control of the subsidiary are taken to the profit and loss account.

The consolidated profit and loss account and consolidated balance sheet include the financial statements of the company and its subsidiary undertakings up to 30 June. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date on which control passes. Intra-group sales and profits are eliminated fully on consolidation.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented in respect of the company. The Company's loss for the year is £82,529 (2003:£79,597).

(c) Turnover

Turnover represents the invoiced value of diamonds sold.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired and will be amortised through the profit and loss account over its useful economic life on a depletion percentage basis related to the associated mining property.

Provision is made for any impairment in the carrying value of goodwill to the extent that the asset's recoverable amount is reduced below its carrying value.

(e) Intangible assets

Costs relating to the acquisition, exploration and development of mineral properties are capitalised until such time as an economic reserve is defined and mining commences or the mining property is abandoned.

Once mining commences, intangible assets are amortised on a depletion percentage basis.

Provision is made for impairments to the extent that the asset's carrying value exceeds its net recoverable amount.

(f) Tangible assets

Expenditure on additions and improvements is capitalised as incurred. Fixed assets are included at historical cost.

Tangible fixed assets are depreciated over their estimated useful lives on a straight line basis, except mining property, which is depreciated on the depletion percentage basis. The following annual rates of depreciation have been used.

Mining equipment	- 10%
Plant and equipment	- 10%
Motor vehicles	- 20%

Provision is made for impairments to the extent that the asset's carrying value exceeds its net recoverable amount.

(g) Stocks

Stocks, consisting of cut and uncut diamonds, have been valued at estimated market values prevailing at 30 June 2004, with the amounts so determined reduced by the application of anticipated margins. The use of this method results in a carrying value of stock which approximates to the lower of cost and net realisable value.

(h) Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Differences on exchange arising from the translation of the opening balance sheets of foreign subsidiaries at the period end are taken directly to reserves. Revenues, costs and non-monetary assets are translated at the exchange rates ruling at the transaction date.

Profits and losses arising from currency transactions and on settlement of amounts receivable and payable in foreign currencies are dealt with through the profit and loss account.

(i) Deferred taxation

As required by FRS 19 – "Deferred tax", full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computations, except for those timing differences in respect of which the standard specifies that deferred tax should not be recognised.

Deferred tax assets and liabilities are undiscounted and are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

(j) Liquid resources

In accordance with FRS 1 – "Cash Flow Statements", for cash flow purposes, cash includes net cash in hand and bank deposits payable on demand within one working day, and liquid resources include all of the group's other bank deposits.

(k) Pension costs

The group operates a money purchase pension scheme. Contributions are charged to the profit and loss account in the period to which they relate. Contributions to employees' personal pension schemes are charged to the profit and loss account in the period in which they are incurred.

(l) Finance leases

Assets acquired under finance leases are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding.

(m) Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not, they are included in shareholders' funds.

2 Segment information

Turnover, operating results and net assets are substantially attributable to activities in southern Africa.

3 Interest Receivable and Similar Income

	2004	2003
	£	£
Bank interest receivable	28,311	30,071

4 Interest Payable and Similar Charges

	2004	2003
	£	£
Finance charges	4,958	2,261

5 Profit on Ordinary Activities Before Taxation

		2004	2003
		£	£
The profit on ordinary activities before taxation is stated after charging/(crediting):			
Depreciation of tangible fixed assets	- owned	24,329	25,715
	- leased	13,669	1,053
Amortisation of intangible fixed assets		72,957	31,884
Profit on disposal of fixed assets		(43,857)	-
Auditors' remuneration	- for audit services payable to group auditors	13,500	16,000
	- for tax services payable to group auditors	6,580	7,153

Depreciation of £201,079 (2003: £123,047) has been capitalised as part of deferred development and exploration costs, of which £43,434 (2003: £3,640) relates to leased assets.

The Board reviews the nature and extent of non-audit services to ensure that independence is maintained.

6 Staff Costs

	2004	2003
	£	£
Staff costs, including directors, for the period amounted to:		
Wages and salaries	791,742	648,978
Social security costs	12,785	1,936
Pension costs	40,852	31,745
	845,379	682,659

Included within staff costs is £381,048 (2003: £271,498) which has been capitalised as part of deferred development and exploration costs.

The average number of employees during the period was as follows:

	2004	2003
	No.	No.
Operations	97	98
Administration	11	5
	108	103

7 Directors' Emoluments

	2004	2003
	£	£
Emoluments in respect of qualifying services	305,460	307,092

The emoluments of the highest paid director were £135,000 (2003: £135,000). Directors' emoluments are comprised of both actual and deferred emoluments (see note 16). No directors (2003: nil) were accruing benefits under any pension schemes.

8 Taxation

	2004	2003
	£	£
(a) Analysis of charge in year		
Corporation tax	-	-
Deferred tax (overseas) – current year	17,480	71,520
	17,480	71,520

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004	2003
	£	£
Profit on ordinary activities before tax	173,959	162,867
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK at 30% (2003: 30%)	52,188	48,860
Effects of:		
Expenses not deductible for tax purposes	189,988	60,464
Capitalised expenses deductible for tax purposes	(164,564)	(224,926)
Loss brought forward offset in current year	(251,678)	(165,769)
Depreciation in excess of capital allowances	26,681	8,827
Current year tax losses to carry forward	147,385	272,544
Current tax charge for the year	-	-

The tax charge in future years will be affected by the rate at which the group generates profits and by the utilisation of existing losses.

9 Earnings per Share

Basic earnings per share is based on a profit of £161,498 (2003: £65,207) and a weighted average number of shares in issue of 39,853,921 (2003: 34,200,469).

Diluted earnings per share is based on a profit of £161,498 (2003: £65,207). The weighted average number of shares used to calculate diluted earnings per share incorporates the weighted average number of shares in issue of 39,853,921 (2003: 34,200,469) plus dilutive potential ordinary shares arising from share options of 2,375,709 (2003: 4,884,679) totalling 42,229,630 (2003: 39,085,148).

10 Intangible Fixed Assets

	Goodwill	Deferred exploration and development costs	Exploration data and prospecting rights	Provision for rehabilitation costs	Total
Group	**£**	**£**	**£**	**£**	**£**
Cost					
At 1 July 2003	**2,102,553**	**6,448,112**	**615,013**	**16,139**	**9,181,817**
Additions	**-**	**1,152,416**	**-**	**33,382**	**1,185,798**
Exchange difference	**-**	**614,766**	**-**	**3,737**	**618,503**
At 30 June 2004	**2,102,553**	**8,215,294**	**615,013**	**53,258**	**10,986,118**
Amortisation					
At 1 July 2003	**-**	**145,239**	**-**	**7,666**	**152,905**
Charge for the year	**18,899**	**50,005**	**-**	**4,053**	**72,957**
Exchange difference	**-**	**13,156**	**-**	**1,025**	**14,181**
At 30 June 2004	**18,899**	**208,400**	**-**	**12,744**	**240,043**
Net book value					
At 30 June 2004	**2,083,654**	**8,006,894**	**615,013**	**40,514**	**10,746,075**
At 30 June 2003	**2,102,553**	**6,302,873**	**615,013**	**8,473**	**9,028,912**

Company

Deferred exploration and development costs	**£**
At 1 July 2003	**234,308**
Additions	**89,963**
Intercompany transfers	**(324,271)**
At 30 June 2004	**-**

11 Tangible Fixed Assets - Group

	Mining property	Mining equipment	Plant and equipment	Motor vehicles	Total
Group	**£**	**£**	**£**	**£**	**£**
Cost					
At 1 July 2003	**536,813**	**399,984**	**1,435,445**	**163,056**	**2,535,298**
Additions	**-**	**63,175**	**1,400,330**	**49,265**	**1,512,770**
Disposals	**-**	**-**	**(159,212)**	**-**	**(159,212)**
Exchange difference	**52,966**	**45,285**	**231,609**	**4,944**	**334,804**
At 30 June 2004	**589,779**	**508,444**	**2,908,172**	**217,265**	**4,223,660**
Accumulated depreciation					
At 1 July 2003	**59,816**	**132,377**	**411,472**	**87,231**	**690,896**
Charge for the year	**5,801**	**46,121**	**162,155**	**25,000**	**239,077**
On disposals	**-**	**-**	**(92,184)**	**-**	**(92,184)**
Exchange difference	**6,224**	**12,199**	**49,702**	**10,315**	**78,440**
At 30 June 2004	**71,841**	**190,697**	**531,145**	**122,546**	**916,229**

Net book value					
At 30 June 2004	517,938	317,747	2,377,027	94,719	3,307,431
At 30 June 2003	476,997	267,607	1,023,973	75,825	1,844,402

TThe net book value of the group's tangible assets includes £575,349 (2003: £294,791) of plant and equipment and £48,418 (2003: £15,734) of motor vehicles, in respect of assets held under finance leases, on which depreciation of £57,103 (2003: £4,693) has been charged in the year.

Company	**Motor vehicles**
	£
Cost	
At 1 July 2003 and 30 June 2004	13,510
Depreciation	
At 1 July 2003 and 30 June 2004	13,510
Net book value	
At 1 July 2003 and 30 June 2004	-

12 Investments

Group

	£
Interest in prospecting licences	
At 1 July 2003	378,275
Additions	231,076
At 30 June 2004	609,351

Company

Interest in subsidiary undertakings

	Shares	Shares to be issued	Total
	£	£	£
Cost			
At 1 July 2003	4,140,644	5,902,926	10,043,570
Additions	-	2,475,156	2,475,156
Transfer	5,913,002	(5,913,002)	-
At 30 June 2004	10,053,646	2,465,080	12,518,726

At 1 January 2002, the decision was taken to convert advances from the company to Firestone Diamonds Limited into equity in Firestone Diamonds Limited. On 12 November 2003, shares were issued in respect of the balance outstanding as of 30 June 2003. The balance outstanding as of 30 June 2004 will be converted into shares before 31 December 2004.

At 30 June 2004, the company held 100% of the ordinary shares of Firestone Diamonds Limited, a company incorporated in the British Virgin Islands, whose principal activity was that of a holding company. Firestone Diamonds Limited had the following subsidiary undertakings:

Name	Holding	Business activities	Country of incorporation
Fortuna Investment Holdings Limited	100%	Dormant	British Virgin Islands
Asam Resources SA (Proprietary) Limited	100%	Diamond exploration and mining	South Africa
Cornerstone (RSA) Limited	100%	Dormant	British Virgin Islands
Surf Zone Diamonds (Proprietary) Limited *	100%	Diamond exploration and mining	South Africa
Oena Mine (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa
Kuboes Diamante (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa
African Star Minerals (Proprietary) Limited	75%	Diamond exploration and mining	South Africa
Bonte Koe Mynbou Ondernemings (Eiendoms) Beperk **	100%	Diamond exploration and mining	South Africa

* Held by Cornerstone (RSA) Limited
** Held by African Star Minerals (Proprietary) Limited

All material subsidiaries are included in the consolidated financial statements.

In the opinion of the directors, the aggregate value of shares in subsidiary undertakings is not less than the amount at which they are stated in these financial statements.

Distributions by the company's South African subsidiaries are subject to exchange control approval in that country.

13 Stocks

	Group 2004	Company 2004	Group 2003	Company 2003
	£	£	£	£
Cut and uncut diamonds held for sale	121,063	-	128,754	-

14 Debtors

	Group 2004	Company 2004	Group 2003	Company 2003
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	452,432	-	226,124	-
Advances to directors	21,025	-	22,698	-
Other debtors	5,192	4,120	1,914	4,120
	478,649	4,120	250,736	4,120

15 Creditors

	Group 2004	Company 2004	Group 2003	Company 2003
	£	£	£	£
Amounts falling due within one year:				
Bank loans and overdrafts	167,987	-	229	-
Obligations under finance leases	174,530	-	78,629	-
Trade creditors	246,302	-	295,199	-
Other creditors	-	-	148,763	-
Taxation and social security	15,636	-	14,215	-
Accruals and deferred income	80,439	73,040	81,248	73,085
	684,894	73,040	618,283	73,085
Amounts falling due after more than one year:				
Bank loan	766,029	-	-	-
Obligations under finance leases	244,947	-	193,638	-
	1,010,976	-	193,638	-

The bank loan is secured by a charge over certain plant and machinery of a subsidiary, African Star Minerals (Pty) Limited. The loan is subject to interest as explained in note 18(d).

Obligations under finance leases are payable as follows:

	Group 2004	Company 2004	Group 2003	Company 2003
Within one year	174,530	-	78,629	-
Between one and two years	193,108	-	89,625	-
Between two and five years	51,839	-	104,013	-
	419,477	-	272,267	-

Bank loan maturity analysis:

	Group 2004	Company 2004	Group 2003	Company 2003
Repayable in one year or less	167,763	-	-	-
Repayable between one and two years	167,763	-	-	-
Repayable between two and five years	430,503	-	-	-
Repayable in five years or more	167,763	-	-	-
	933,792	-	-	-

16 Other Provisions

Group

	Rehabilitation costs	Directors' deferred emoluments	Total
	£	£	£
At 1 July 2003	16,139	548,713	564,852
Charge for the year	33,382	275,139	308,521
Exchange difference	3,737	-	3,737
At 30 June 2004	53,258	823,852	877,110

Rehabilitation Costs:

Surf Zone Diamonds and Kuboes Diamante have established an environmental rehabilitation bond of R100,000 (£8,876) and R500,000 (£44,382) respectively in accordance with the requirements of the Mineral and Petroleum Resources Development Act 2002. These are currently the only required impositions to comply with environmental legislation in respect of the Avontuur Mine and the Oena Mine. Rehabilitation work is planned as an integral part of the mining operations as land disturbed by mining is backfilled, and will include surface profiling of the backfilled areas at a later date. The financial implications of these activities are considered by the directors to be of minimal consequence and inseparable from the normal running costs of the operation.

Accordingly, a total provision for rehabilitation work of R600,000 (£53,258) has been raised as a long term liability. The deferred assets which arise are being amortised over 10 years.

Directors' deferred emoluments:

The directors' entitlement to a portion of their emoluments is dependent upon certain conditions in respect of the company's cash position and profitability being met, and this portion is treated as deferred emoluments.

17 Deferred Tax

	At 1 July 2003	Profit and loss account	Currency translation movement	At 30 June 2004
Group	**£**	**£**	**£**	**£**
Accelerated capital allowances	**(96,860)**	**142,492**	**(9,687)**	**35,945**
Deferred exploration costs	**1,527,067**	**5,155**	**160,320**	**1,692,542**
Exchange losses	**27,186**	**67,514**	**2,719**	**97,418**
Tax losses	**(1,053,819)**	**(197,681)**	**(105,392)**	**(1,356,892)**
	403,574	**17,480**	**47,959**	**469,013**

The directors do not anticipate that accumulated reserves of overseas subsidiaries at 30 June 2004 will be remitted to the UK in the foreseeable future. Accordingly, no provision has been made for deferred tax on these balances.

18 Foreign Currency Risks and Exposures

(a) Objectives, policies and strategies

Currency rate risk

Loans between companies which are members of the Firestone Diamonds group are made in the operating currency of the lending company. In all other respects, the policy for all group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time.

The group's revenue derives from the sale of rough and polished diamonds by its South African operating subsidiaries. While proceeds of sales are received in Rand, diamonds are sold in US Dollars, with the Rand proceeds being calculated on the basis of the US Dollar sales price and the US Dollar/Rand exchange rate prevailing on the date of the sale. As the group reports in Sterling, reported revenue is affected by the combination of changes in the US Dollar/Rand and Sterling/Rand rates. The combination of the recent strength of the Rand and weakness of the US Dollar has had a negative impact on reported revenues, and further sustained strength of the Rand does represent a risk to the business.

The group's expenses in South Africa are incurred in Rand. Any weakening in the Rand would result in a reduction in expenses in Sterling terms, which would be to the group's advantage. There is an equivalent downside risk to the group of strengthening in the Rand, which would increase South African operating expenses in Sterling terms. The recent strength of the Rand against Sterling has an adverse impact on expenses in Sterling terms, and further sustained strength of the Rand does represent a risk to the business.

b) Currency exposures

As at 30 June 2004 the group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved.

(c) Interest rate risk

Group borrowings are all subject to a floating rate of interest and taken out in Rand only. The group's policy for future borrowings will be to take floating rates unless fixed rate financing is available at particularly attractive rates.

The maturity profile of financial liabilities of the group (company: £Nil) is as follows:-

	2004	2003
	£	**£**
Within one year	**342,517**	**78,858**
Between one and two years	**360,871**	**89,625**
Between two and five years	**482,342**	**104,013**
Greater than five years	**167,763**	**-**
	1,353,493	**272,496**

The fair value of all financial instruments is approximately equal to book value due to their short term nature and the fact that they bear interest at floating rates based on the local bank rate which at the year end was 11.5% (2003: 16.1%).

The only financial asset held by the group at 30 June 2004 was cash and deposits totalling £293,934 (2003: £273,636).

As permitted under FRS13 short term debtors and creditors have not been included in the above analysis.

19 Share Capital

Group and Company	**2004**		**2003**	
	Number	**£**	**Number**	**£**
Authorised:				
Ordinary shares of 20p each	**99,750,010**	**19,950,002**	**99,750,010**	**19,950,002**
Redeemable preference shares of £1 each	**49,998**	**49,998**	**49,998**	**49,998**
	99,800,008	**20,000,000**	**99,800,008**	**20,000,000**
Allotted, called up and fully paid:				
Ordinary shares of 20p each	**40,965,469**	**8,193,094**	**34,200,469**	**6,840,094**

On 1 August 2003, the company completed the placing of 6,065,000 new ordinary shares at a price of 33 pence per share, raising approximately £2,000,000 before the deduction of related expenses. On 7 May 2004 share options were exercised resulting in the issuing of 700,000 new shares at an option price of 33 pence. On 26 July 2004, the company completed the placing of 2,187,500 new ordinary shares at a price of 64 pence per share, raising £1,400,000 before the deduction of related expenses.

Share options

The company operates two unapproved share option schemes for employees and directors. As at 30 June 2004, options granted under the Basic Share Option scheme were outstanding over a total of 2,571,000 ordinary shares as follows:

Date of grant	**Exercisable from**	**Exercisable to**	**Number of shares**	**Exercise price**
26 January 2000	26 January 2001	26 January 2010	56,000	44.5p
26 January 2000	26 January 2001	26 January 2010	30,000	51.5p
25 February 2000	25 February 2001	25 February 2010	1,360,000	76.5p
30 January 2001	30 January 2002	30 January 2011	25,000	69p
22 July 2002	22 July 2003	22 July 2012	100,000	66.5p
8 April 2004	8 April 2005	8 April 2014	1,000,000	37p

During the year, options granted under the Basic Share Option Scheme were relinquished as follows:

Date of grant	**Date Relinquished**	**Number of shares**	**Exercise price**
26 February 2001	17 February 2004	925,000	66p

As at 30 June 2004, options granted under the Performance Related Share Option Scheme were outstanding over a total of 7,060,000 ordinary shares as follows:

Date of grant	**Exercisable from**	**Exercisable to**	**Number of shares**	**Exercise price**
8 April 2003	8 April 2004	8 April 2013	1,300,000	33p
9 January 2004	9 January 2005	9 January 2014	2,400,000	36p
21 January 2004	21 January 2005	21 January 2014	1,360,000	41p
8 April 2004	8 April 2005	8 April 2014	2,000,000	37p

During the year options granted under the Performance Related Share Option Scheme were exercised as follows:

Date of grant	**Date Exercised**	**Number of shares**	**Exercise price**
8 April 2003	7 May 2004	700,000	33p

During the year, options granted under the Performance Related Share Option Scheme were relinquished as follows:

Date of grant	**Date Relinquished**	**Number of shares**	**Exercise price**
8 August 2001	17 February 2004	2,260,000	70p

The company's share price ranged between 54p and 35.45p during the year. The closing share price as at 30 June 2004 was 54p per share.

20 Reserves

Group	Share premium account £	Merger Reserve £	Profit and loss account £
At 1 July 2003	3,648,123	(1,076,399)	708,885
Profit for the year	-	-	161,498
Currency translation differences	-	-	113,782
Increase in share premium	766,881	-	-
At 30 June 2004	4,415,004	(1,076,399)	984,165
Company			
At 1 July 2003	3,648,123	-	(47,560)
Retained loss for the year	-	-	(82,529)
Increase in share premium	766,881	-	-
At 30 June 2004	4,415,004	-	(130,089)

21 Reconciliation of Movements in Shareholders' Funds

	Group 2004 £	Group 2003 £
Profit for the year	161,498	65,207
Other gains and losses in the year	113,782	168,171
	275,280	233,378
New share capital subscribed		
1 August 2003	1,888,881	-
7 May 2004	231,000	-
	2,119,881	-
Net addition to shareholders' funds	2,395,161	233,378
Opening shareholders' funds	10,120,703	9,887,325
Closing shareholders' funds	12,515,864	10,120,703

22 Net Cash Flow from Operating Activities

	2004 £	2003 £
Operating profit	106,749	135,057
Depreciation of tangible fixed assets	90,204	26,768
Amortisation of intangible fixed assets	34,721	31,884
Decrease/(increase) in stocks	16,863	(16,632)
Increase/(decrease) in debtors	(192,192)	64,165
(Decrease)/increase in creditors	(205,499)	335,157
Net cash inflow from operating activities	(149,154)	576,399

23 Analysis of Net Funds

	At 1 July 2003 £	Cash flow £	Non-cash changes	Movement on exchange £	At 30 June 2004 £
Cash at bank and in hand	273,636	2,359	-	17,939	293,934
Bank overdrafts	(229)	3	-	2	(224)
Cash	273,407	2,362	-	17,941	293,710
Bank loans	-	(877,948)	-	(55,844)	(933,792)
Finance leases	(272,267)	228,626	(341,522)	(34,314)	(419,477)
Total	1,140	(646,960)	(341,522)	(72,217)	(1,059,559)

24 Reconciliation of Net Cash Flow to Movement in Net Funds

	2004	2003
	£	£
Increase/(decrease) in cash in the year	**2,362**	**(1,216,432)**
Finance leases net movement	**(113,346)**	**(232,784)**
Cash inflow from increase in loans	**(877,498)**	**-**
Movement on exchange	**(72,217)**	**(15,355)**
Movement in net funds in the year	**(1,060,699)**	**(1,464,571)**
Net funds at 1 July 2003	**1,140**	**1,465,711**
Net (debt)/funds at 30 June 2004	**(1,059,559)**	**1,140**

25 Capital Commitments

At 30 June 2004, the group had authorised and contracted for capital commitments of £Nil (2003: £Nil).

26 Related Party Transactions

During the year ended 30 June 2004, Firestone Diamonds plc and its subsidiaries paid £36,093 (2003: £22,416) for consulting fees, staff costs, rent and other operating costs to Asam Minerals CC, Solarscreen Cape CC and Solarscreen Prospecting CC, companies in which Mr H Jenner-Clarke, who is a director of Firestone Diamonds plc, has an interest.

During the year ended 30 June 2003 one of the directors, J Kenny Jnr, received advances in relation to fees and expenses. The amount outstanding was £5,257 as at 30 June 2004 (2003: £1,757). During the year Philip Kenny, another director, received advances in relation to fees and expenses, and the amount outstanding as at 30 June 2004 was £15,768 (2003: Nil).

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at MWB Business Exchange, 78 Cannon Street, Fourth Floor, London EC4N 6NQ on 31 January, 2005 at 12.00 p.m. for the following purposes:

Ordinary Business

1. To receive the Company's annual accounts for the financial year ended 30 June 2004, the directors' report and the auditors' report on those accounts.
2. To reappoint PKF as auditors to hold office from the conclusion of this Meeting until the conclusion of the next general meeting of the Company at which accounts are laid, and to authorise the directors to fix their remuneration.
3. To reappoint Mr. J. F. Kenny, retiring by rotation in accordance with the Company's articles of association, as a director of the Company.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 4 will be proposed as an ordinary resolution and resolution 5 will be proposed as a special resolution:

4. That the directors be generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities pursuant to section 80 of the Companies Act 1985 (the "Act") up to an aggregate nominal amount of £8,000,000 for a period expiring (unless previously renewed, varied or revoked by the Company in a general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement.
5. That, subject to the passing of resolution 4 above, the directors be generally authorised pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act), pursuant to the authority conferred by that resolution as if section 89(1) of the Act did not apply to the allotment. This authority will expire 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement and will be limited to:

(a) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and, if in accordance with their rights the directors so determine, holders of other equity securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:

(i) to deal with equity securities representing fractional entitlements; and

(ii) to deal with legal problems under the laws of any territory, or the requirements of a regulatory body; and

(b) allotments of equity securities for cash otherwise than pursuant to sub-paragraph (a) up to an aggregate nominal amount of £4,000,000.

By Order of the Board
P Kenny
7 December 2004

Registered office:
1 Park Row
Leeds LS1 5AB

Notes:

1. A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for holding the Meeting. A form of Proxy is included with this notice. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the Meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 12.00 p.m., 29 January 2005 (being not more than 48 hours prior to the time fixed for the Meeting) or, if the Meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the Register of Members after that time will be disregarded in determining the right of any person to attend or vote at the Meeting

Form of Proxy

Firestone Diamonds plc

For use at the Annual General Meeting to be convened for 12.00 p.m., 31 January, 2005

I/We ______________________________

(BLOCK CAPITALS)

of ______________________________

being (a) member(s) of the above named Company hereby appoint the Chairman of the Meeting or ______________ (see Note 1) as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at MWB Business Exchange, 78 Cannon Street, Fourth Floor, London EC4N 6NQ on 31 January, 2005 at 12.00 p.m. and at every adjournment thereof and I/we direct my/our proxy to vote as indicated below.

		For	Against
Resolution 1	To receive the Company's annual accounts for the financial year ended 30 June, 2004, the directors' report and the auditors' report on those accounts.		
Resolution 2	To reappoint PKF as auditors and authorise the directors to fix their remuneration.		
Resolution 3	To reappoint J. F. Kenny as a director.		
Resolution 4	To authorise the directors to allot shares.		
Resolution 5	To disapply statutory pre-emption rights.		

Please indicate with a cross in each appropriate box how you wish your votes to be cast on each resolution. Unless so instructed, your proxy will vote or abstain at his/her discretion, as he/she will on any other matter (including amendments to resolutions) which may properly come before the Meeting. This Form of Proxy will be used only in the event that a poll be directed or demanded.

Signed: ______________________ Date: ______________

(See Notes 3 and 5)

Notes:

1. If you wish to appoint some other person as your proxy, please delete the words 'the Chairman of the Meeting or' and insert the full name of your proxy in the space provided.
2. To be valid, the completed Form of Proxy must be lodged with the Company's Registrars not less than 48 hours before the time fixed for holding the Meeting.
3. In the case of a corporation, the Form of Proxy should be under the common seal or under the hand of a duly authorised officer or attorney.
4. A proxy need not be a member of the Company.
5. Any one of two or more joint holders may sign, or vote in person or by proxy, but if more than one of the joint holders is present at the Meeting or represented by proxy, only the holder whose name stands first in the Register of Members shall be entitled to vote.
6. Completion of this Form of Proxy will not prevent a member from attending the Meeting and voting in person should he/she so wish.
7. Any alterations made to this Form of Proxy should be initialled.

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