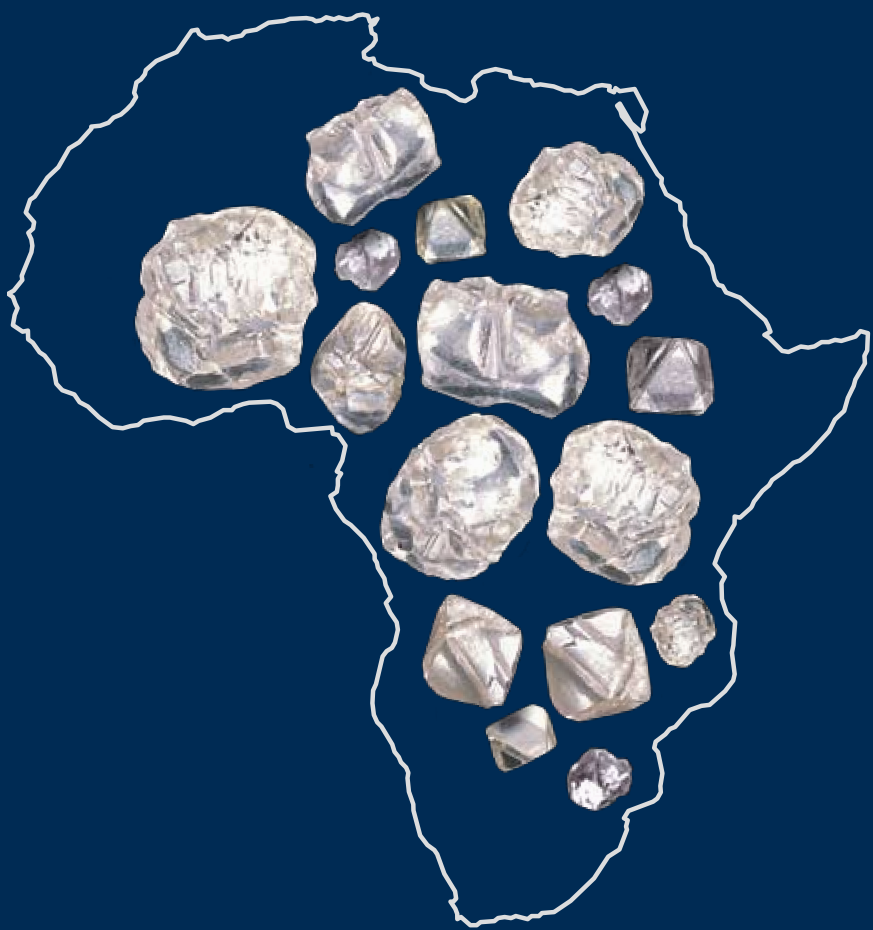
FIRESTONE DIAMONDS



FIRESTONE DIAMONDS PLC

Annual Report & Accounts

2008

Firestone Diamonds plc

an emerging force in diamond mining and exploration in Africa

Contents

Highlights 2008

Key statistics

Kimberlites in licence areas

95

Diamondiferous kimberlites in licence areas

24

Exploration licenses

25,000sq km

Increase in turnover in 2008

102%

2008 Developments

Financial

- Turnover increased 102% to £3.3 million (2007: £1.6 million)
- Loss of £0.2 million (2007: Loss of £0.5 million); diluted loss per share 0.4p (2007: Loss 1p)
- Gain of £2.8 million on disposal of interest in African Diamonds plc
- Bonte Koe toll treatment project with De Beers reached full production and positive cash flow
- £5 million financing completed in July 2008

BK11, Botswana

- Positive results from Phase 1 bulk sampling
  – sample grade of 10 cpht and modelled grade of 15 cpht
  – diamond value estimated at $200/carat in June 2008
- Phase 2 bulk sampling under way
  – first hole returned sample grade of 10 cpht
  – full results expected in early 2009
- Inferred resource statement expected Q1 2009
- Possible production in 2010

BK16, Botswana

- Agreement to acquire 87.5% interest in BK16
- Good economic potential
  – historical sampling recovered grades up to 15 cpht
  – high quality diamonds
- Drilling commenced in November 2008

Tsabong, Botswana

- Over 10,000 metres of percussion, core and LDD drilling completed
- Independent data review concluded that Tsabong has the potential for economic large sized kimberlite deposits
- LDD drilling completed on MK1 during the year and on five more kimberlites since year end
- Bulk sampling results expected in early 2009

2009 Outlook

- Company well funded and confident about prospects despite challenging market conditions
- Increased focus on cash and cash flow
- New toll treatment projects being pursued
- BK11 and BK16 will be primary focus in Botswana
- Considering joint venture partner for Tsabong

The most active diamond explorer in Botswana

Firestone Diamonds plc is a UK-based diamond mining and exploration company with operations in Botswana and South Africa, which are the world's largest and fourth largest producers of diamonds, respectively.

Botswana

Botswana is the world's largest and lowest cost producer of diamonds, with annual production worth over $3.5 billion Botswana is considered to be one of the most prospective countries in the world to explore for kimberlite – the primary source rock for diamonds, with a ratio of economic kimberlites of more than 5%, compared to the global average of 1%.

Firestone is the largest holder of mineral rights in Botswana's kimberlite fields, with over 25,000 square kilometres under license, covering the entire Tsabong kimberlite field and much of the areas around the major Orapa and Jwaneng mines. Firestone has 95 kimberlites in its license areas, of which 24 have been proven to be diamondiferous and 16 are at the bulk sampling stage. The BK11 and BK16

Key

- City
- Firestone Project
- Airport

Countries of operation

kimberlites in the Orapa area are the most advanced in the portfolio. The Tsabong kimberlite field is one of the largest diamondiferous kimberlite fields in the world, and is noted for the exceptionally large size of many of its kimberlites, in particular the 180 hectare MK1 kimberlite, which is one of the largest known diamondiferous kimberlites.

Botswana has been a successful, stable multiparty constitutional democracy since gaining independence in 1966, and is considered to be the leading country in Africa in respect of governance. Transparency International's Corruptions Perception Index ranks Botswana as one of the least corrupt countries in the world (38 out of 179), ahead of countries such as Italy, Czech Republic, Greece and South Africa.

South Africa

South Africa is the world's fourth largest diamond producer. Firestone's operations in South Africa are located in the Namaqualand region on the west coast. Namaqualand has been one of the world's largest alluvial diamond producing regions for the past 80 years. Firestone's most significant mining operation is its toll treatment operation at the Bonte Koe Mine, which is operated jointly with De Beers.

Botswana kimberlite fields

8% of Botswana kimberlites are economic, which is the highest rate in the world.

Tsabong project

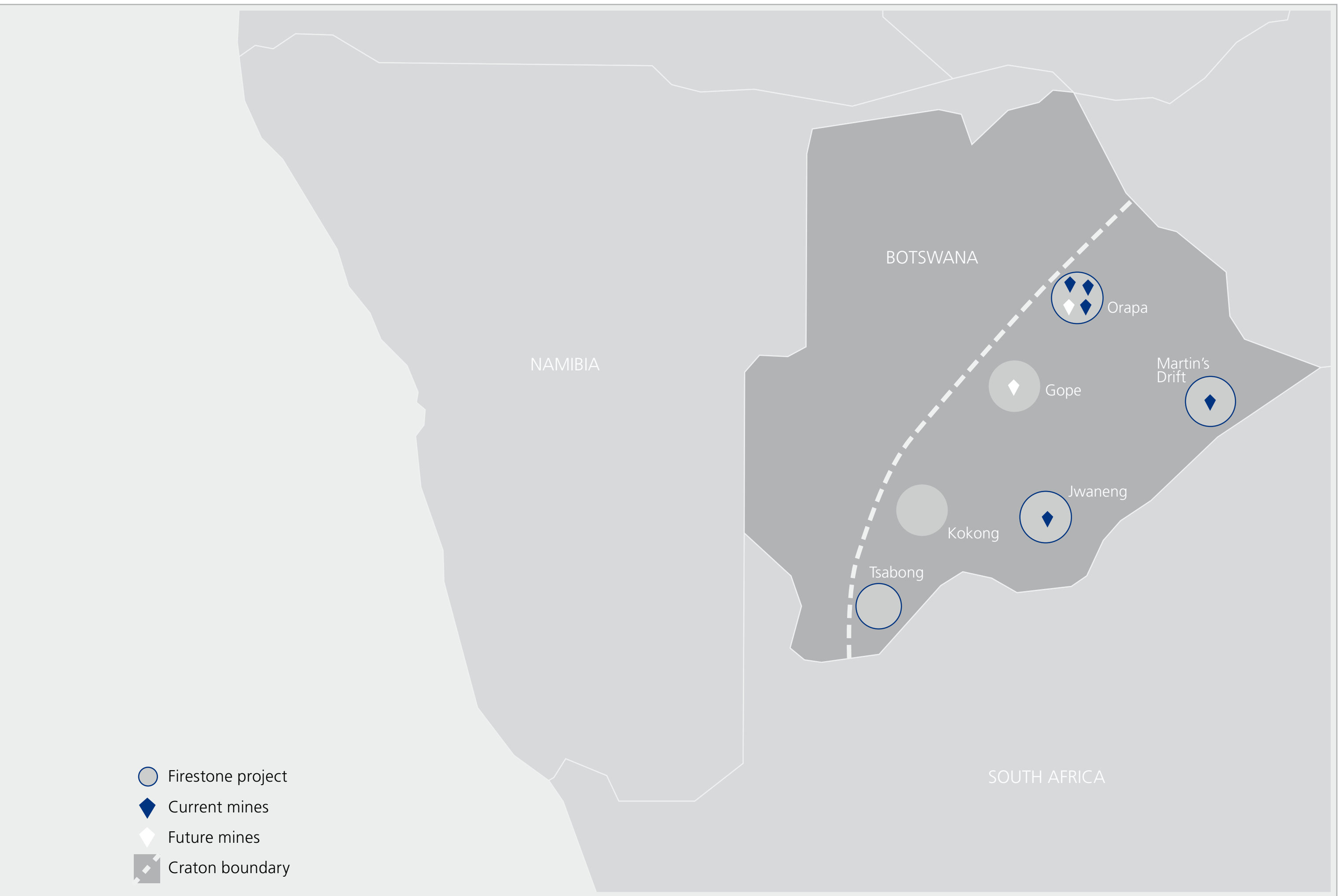
- 7,000 sq km covering entire kimberlite field
- 100% Firestone

Tsabong field

- 85 kimberlites; 19 diamondiferous
- Firestone evaluating

Kokong field

- 79 kimberlites; 19 diamondiferous
- Rio Tinto evaluating



Jwaneng project

- 3,000 sq km surrounding Jwaneng
- 100% Firestone

Orapa project

- BK11 advanced evaluation project – 80% Firestone
- BK16 advanced evaluation project – Firestone earning 87.5%
- 10,000 sq km surrounding Orapa – 100% Firestone

Botswana

Jwaneng field

- 3 out of 11 kimberlites economic
- Jwaneng Mine ~$2B revenue p.a., >90% margin

Orapa field

- 8 out of 75 kimberlites economic
- Orapa Mine ~$1B revenue p.a., ~70% margin
- New mine being developed at AK6

Gope field

- 1 out of 9 kimberlites economic
- Gem Diamonds updating feasibility on GO25

Martin's Drift field

- 5 out of 7 kimberlites economic
- New mine in production in 2008

Chairman's statement

Dear Shareholder,

The past year has seen continued good progress in the growth and development of Firestone's project portfolio. Activities during the year were primarily focused on Botswana, which is the world's largest and lowest cost producer of diamonds. Firestone is the largest holder of diamond exploration rights in Botswana's kimberlite fields, with approximately 25,000 square kilometres now under license, and has 95 known kimberlites within its licence areas.

Overview

The most significant developments during the year were at the BK11 evaluation project in Botswana, where we made good progress towards confirming its economic potential. We also acquired rights to the nearby BK16 kimberlite, which we believe has similar potential to BK11. We commenced a significant bulk sampling programme at Tsabong, where we believe that the prospects for identifying economic kimberlites are very good. Activities in South Africa were focused on the Company's toll treatment joint venture with De Beers at the Bonte Koe Mine in Namaqualand. The operation reached its full design capacity and achieved target revenue of £3.3 million for the year.

With appetite for risk greatly reduced in current market conditions and investors primarily concerned about cash and cash flow, we are focusing most of our activities on BK11 and BK16, which are at a more advanced stage of evaluation. In relation to BK11, we believe that, subject to the results of the next phase of evaluation, it could be brought into production as early as mid 2010. We are also continuing to pursue new toll treatment projects, which are increasingly attractive in the current economic environment as a source of consistent and predictable revenue and cash flow.

While we believe that Tsabong has very substantial economic potential, it is at an earlier stage than our Orapa projects and will need significant investment to confirm economic viability. We have therefore decided to reduce expenditure on Tsabong and are considering the introduction of a joint venture partner to finance further work. Despite current market conditions, interest in the project remains high and a number of expressions of interest have already been received.

The crises that have damaged the world's financial markets and the global economy are without precedent and have had a very significant impact on the mining sector. Share prices of most companies in the sector, both large and small, including Firestone, have experienced substantial declines as a result. While many of these companies may not survive or remain independent due to depressed commodity prices and limited availability of debt and equity finance, we remain confident about Firestone's prospects. The Company's cash position remains secure, we have a very experienced and capable management team, a highly prospective portfolio of projects and a clear vision of how to continue successfully developing our company in these challenging times.

Financial

Turnover for the period increased 102% to £3.3 million compared to last year, principally as a result of Bonte Koe reaching full production capacity during the year. The Company produced an operating profit of £2.1 million before impairment charges of £2.2 million related to its South African alluvial assets. During the year the Company disposed of its interests in African Diamonds plc, which resulted in a net gain of £2.8 million. Loss per share was 0.4p (2007: 1p loss per share). In July 2008 the Company raised £5 million from a share placement to finance exploration and evaluation expenditures in Botswana. The Company's current cash position is approximately £2.5 million.

Diamond market

Substantial decreases in prices for rough diamonds have been reported over the past two months. These decreases have not been reflected in prices for polished diamonds, which have only declined by about 10% in 2008. We believe that much of the rough price decreases can be attributed to significant reductions in availability of bank financing to rough diamond buyers for inventory and receivables. We continue to believe that the long-term prospects for diamonds remain positive due to the projected significant long-term shortfall in supply and that diamond prices will increase once again when the global economy begins to recover.

BK11, Botswana

Substantial progress was made at the BK11 kimberlite in the Orapa area during the year. The Phase 1 evaluation programme was completed in June 2008, with very encouraging results. A sample of 135 tonnes of material produced a sample grade of 10 carats per hundred tonnes ("cpht")

1. Bulk sampling plant, Botswana
2. Drill core on BK11, Botswana

and a modelled grade of 15 cpht. The quality of diamonds recovered was very good, comprising mostly clear white gemstones and the value was estimated at approximately $200 per carat in June 2008. With low operating costs in the Orapa area of $7-8 per tonne, the economic potential of BK11 looks very promising.

In July 2008, the Company commenced its Phase 2 evaluation programme, comprising approximately 2,300 metres of percussion, core and 36 inch large diameter drilling ("LDD"). Drilling was completed in November 2008 and approximately 1,200 tonnes of kimberlite material from six LDD holes was transported to the Company's bulk sample plant at Tsabong.

In order to improve final diamond recovery from the bulk sampling plant, a modular second stage diamond recovery plant based around automated grease belt technology has been leased. Commissioning of the grease plant was completed in November 2008 and has delayed processing of the LDD samples by six weeks. Results from the first hole have been analysed, and returned a sample grade of 10 cpht from approximately 120 tonnes processed, which is in line with the sample grade from the first three LDD holes drilled in Phase 1.

With annual shutdown starting in mid December, processing of material from the five remaining LDD holes will resume in January 2009. External audits of Phase 2 bulk sampling will be carried out, following which an independent valuation of diamonds recovered will be undertaken. The Company expects that this will provide sufficient data to define an inferred resource. Subject to the results of this work, the Company is evaluating the feasibility of accelerating a development decision on BK11 to allow first production from BK11 to commence in 2010.

BK16, Botswana

In June 2008, the Company entered into an agreement under which it can earn an 87.5% interest in the BK16 kimberlite, which is located 20 kilometres from BK11. The Company believes that BK16 has similar economic potential to BK11. BK16 was discovered by De Beers in the 1970's and a grade of 15 cpht was reported from bulk sampling. Diamonds recovered by the limited historical sampling carried out were predominantly high quality, white gemstones, which indicates that they are likely to have a high average value, possibly similar to BK11. The Company plans to carry out a programme of core and LDD drilling similar to that undertaken on BK11. Core drilling commenced on BK16 in November 2008.

Tsabong, Botswana

Tsabong is the Company's biggest kimberlite exploration and evaluation project. It contains 85 known kimberlites, including the 180 hectare MK1 kimberlite which is one of the world's largest known diamondiferous kimberlites.

Substantial work was carried out on Tsabong during the year, with over 10,000 metres of percussion, core and LDD drilling completed. An independent review of data from the project was completed and confirmed that the Tsabong field is located in a similar geological setting to the major Jwaneng Mine and that it has the potential to contain economic large sized diamondiferous kimberlite deposits. Evaluation work was focused on 14 high priority kimberlites that had been selected based on diamond content, kimberlite indicator mineral chemistry and size. LDD drilling was carried out on MK1 and macrodiamonds were recovered during the year, but processing of the samples was not completed as a result of metallurgical problems encountered with MK1 material at the bulk sampling plant.

Since the end of the year modifications have been made to the bulk sampling plant and LDD drilling has been completed on a further five kimberlites. All LDD samples have been processed through the bulk sampling plant and are now being processed through the newly commissioned grease recovery plant as a final audit. Results are expected in early 2009.

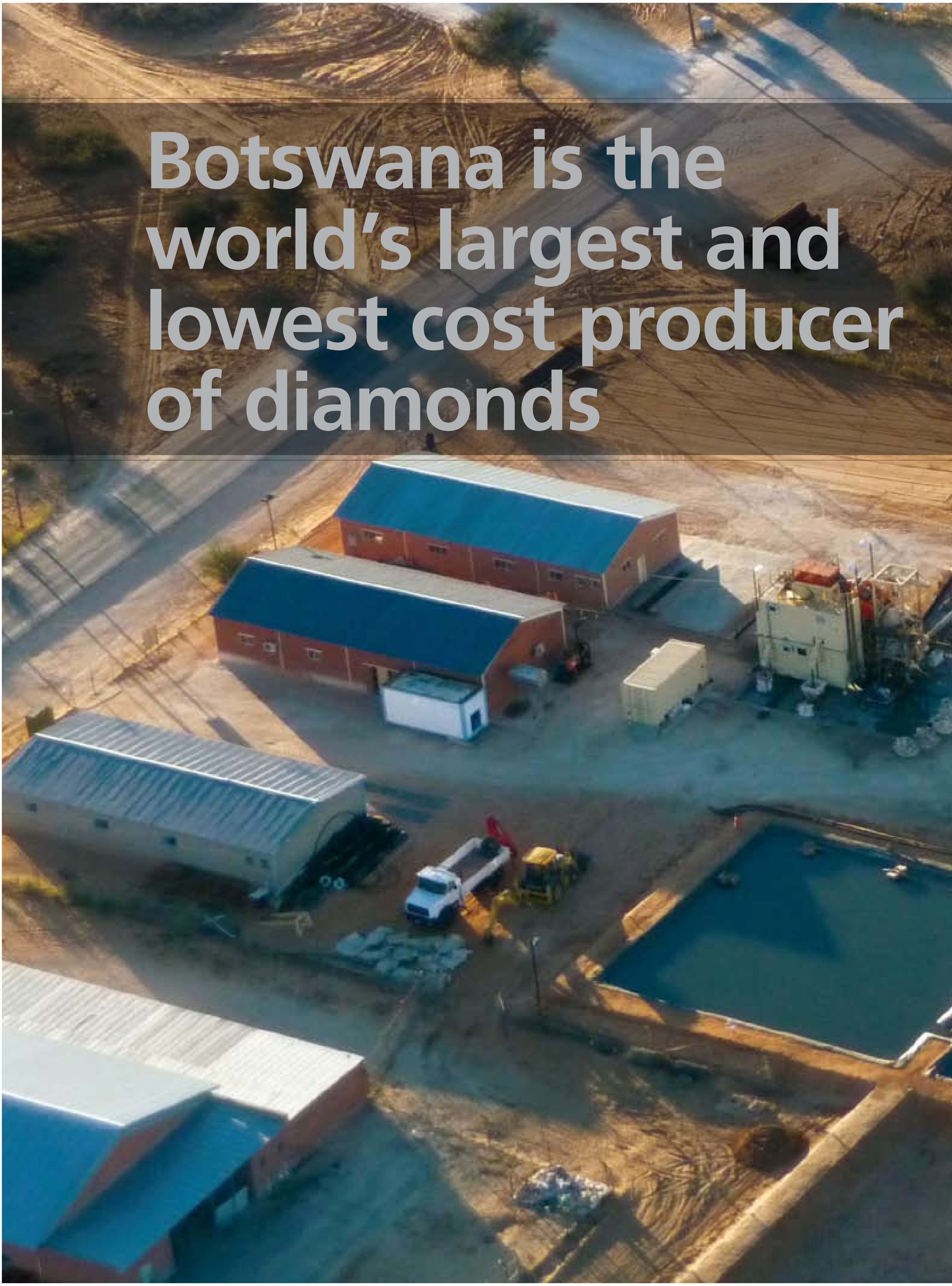
South Africa

Activities in South Africa were focused on the Company's toll treatment joint venture with De Beers at the Bonte Koe Mine in Namaqualand. The operation had a very successful year, achieving full design capacity of one million tonnes per annum and positive cash flow in the first half of the year. With the Company's strategic focus increasingly directed towards Botswana, the Company announced during the year that the Company's other alluvial assets in South Africa would be sold or joint ventured. A number of discussions have been held with interested parties, but no agreements have been concluded yet.

Jwaneng, Botswana

Following the completion by De Beers of their initial exploration programme over Firestone's prospecting licences in the Jwaneng region, De Beers and Firestone have agreed to terminate the Jwaneng joint venture. The Company is currently evaluating alternatives for the project.

James F Kenny
Chairman
9 December 2008



Botswana is the world's largest and lowest cost producer of diamonds

Project overview

BK11 Project

- 8 hectare kimberlite
- Located in centre of Orapa mining area
- Grades of up to 33 carats per hundred tonnes from sampling
- Possible development decision in 2009

BK11 diamonds

BK11 kimberlite, Orapa, Botswana

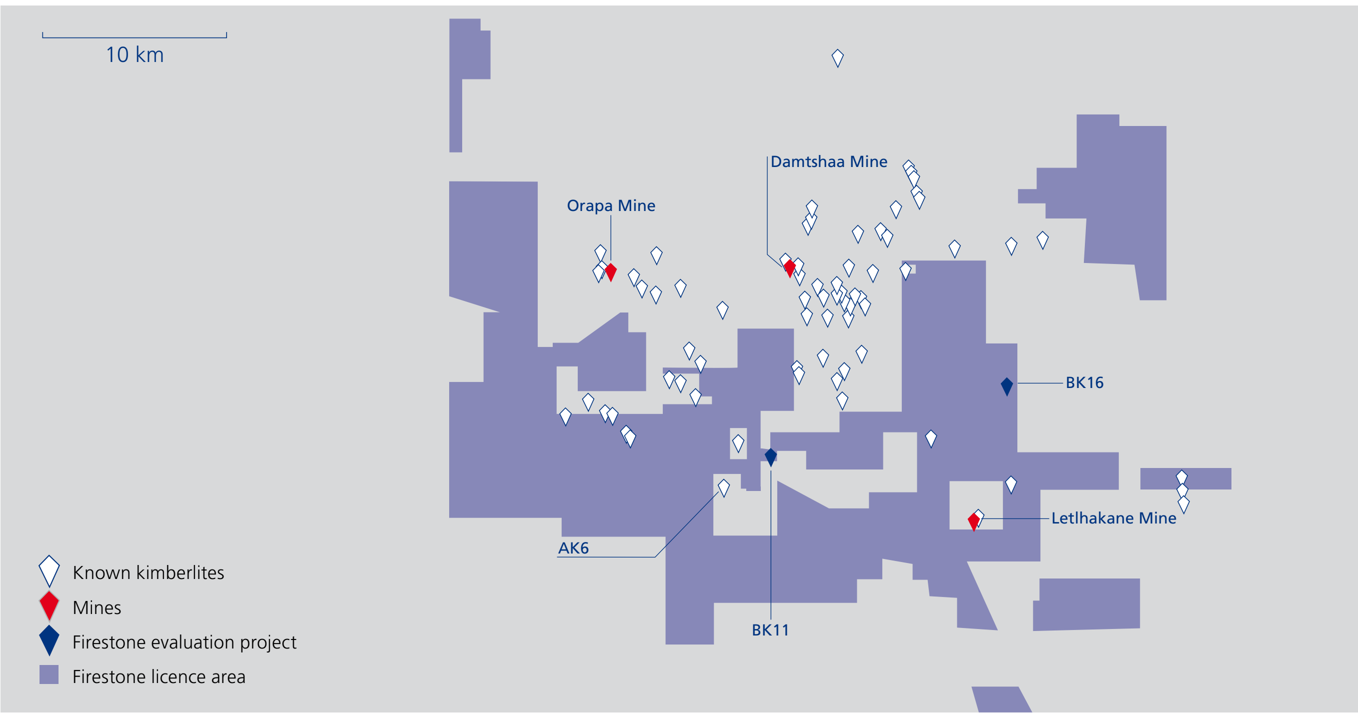
The BK11 kimberlite is located in the Orapa kimberlite field in northern Botswana. With eight economic kimberlites out of the 75 kimberlites discovered in the field to date and a new mine being developed by African Diamonds plc in joint venture with De Beers, the Orapa field has an economic ratio of more than 10%, which is significantly higher than the global average of 1%. The Orapa Mine produces approximately $1 billion in revenue and $800 million in operating profit per annum, and is one of the richest diamond mines in the world.

BK11 is located approximately 7 kilometres north-west and 20 kilometres south-east of De Beers' Letlhakane and Orapa mines, respectively, and is within 5 kilometres of the proposed new mine at AK6. The surface area of BK11 is estimated to be 8 hectares, and overburden is shallow at less than 20 metres.

Phase 1 evaluation was completed in June 2008, with very encouraging results. A sample of 135 tonnes of kimberlite produced a sample grade of 10 cpht and a modelled grade of 15 cpht. The quality of diamonds recovered was very good, comprising mostly clear white gemstones, and the value was estimated at approximately $200 per carat in June 2008. BK11 contains approximately 17 million tonnes of kimberlite material to a depth of 120 metres.

Phase 2 evaluation, comprising approximately 2,300 metres of percussion, core and 36 inch large diameter drilling, commenced in July 2008. The Company expects that this will provide sufficient data to define an inferred resource.

With the well developed infrastructure in the Orapa area and a new mine being developed 5 kilometres away at AK6, the grade required for BK11 to be economically viable is modest. Subject to the results of the Phase 2 evaluation work, the Company is examining the feasibility of accelerating a development decision on BK11 to allow first production from BK11 to commence in 2010. Firestone owns an 80% interest in BK11.



BK16 and Orapa Projects

- Bulk sampling on BK16 to take place in 2009
- Licences cover 10,000 square kilometres
- Licences contain nine kimberlites, five diamondiferous

Orapa Mine (Debswana)

BK16 kimberlite and Orapa exploration, Orapa, Botswana

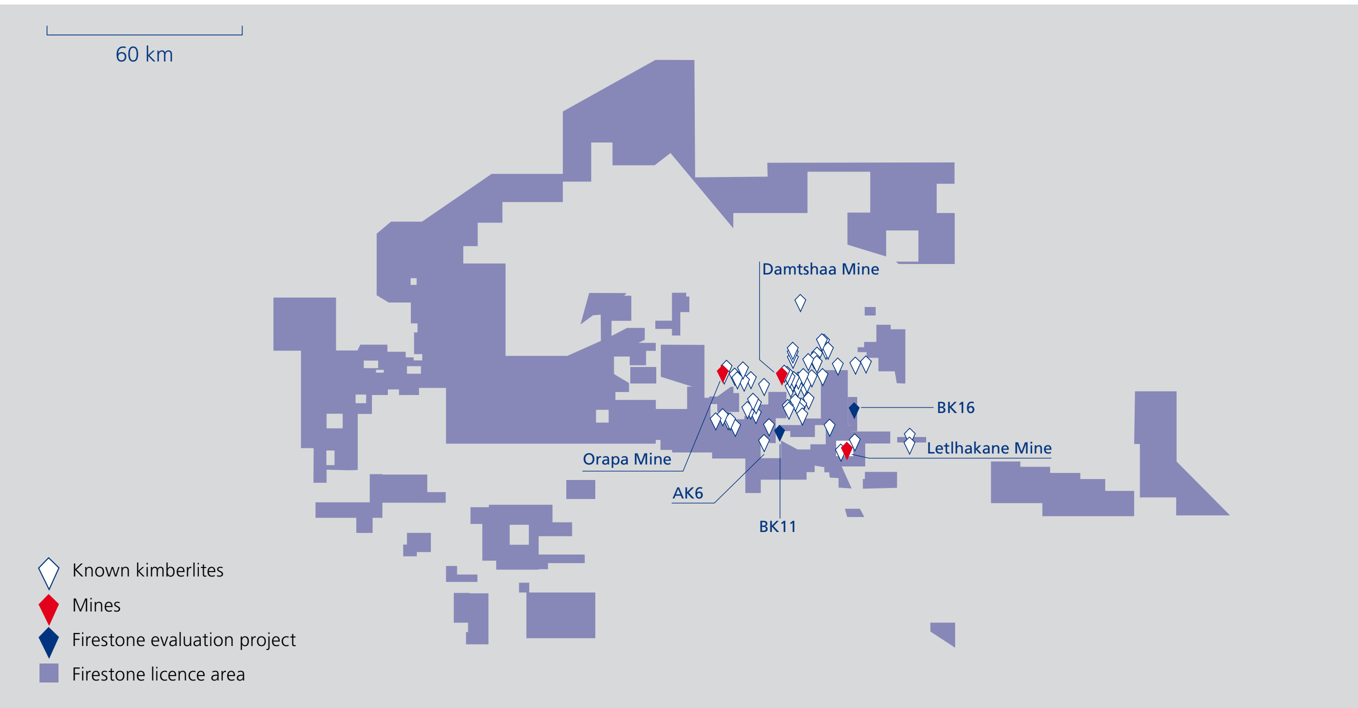
BK16

In June 2008 the Company entered into an agreement with SouthernEra under which it can acquire an 87.5% interest in the BK16 kimberlite in return for carrying all costs to completion of bankable feasibility. It is situated approximately 22 kilometres north east of BK11 and 12 kilometres north of the Letlhakane Mine. It was discovered by De Beers in the 1970's and a grade of 15 cpht was reported from bulk sampling.

Limited work has been carried out on BK16 since then, until SouthernEra acquired control of the project in 2007. SouthernEra has carried out high resolution ground geophysical surveys and drilled 19 core and percussion holes totalling approximately 2,300 metres. Based on this work, BK16 is estimated to be a minimum of 3.5 hectares in size and to contain approximately 17 million tonnes of kimberlite to a depth of 200 metres. Diamonds recovered by the limited sampling carried out by SouthernEra and others has recovered predominantly high quality, white gemstones, with few industrial diamonds. This indicates that diamonds from BK16 are likely to have a high average value, possibly similar to BK11. Firestone intends to carry out bulk sampling in 2009 in order to confirm representative grades and diamond values. Subject to the results of this work, a resource development programme would be undertaken on BK16 similar to that planned on BK11.

Orapa Exploration

Firestone controls prospecting licences over an area of approximately 10,000 square kilometres in the Orapa region. These licences contain eight known kimberlites, of which four have been proven to be diamondiferous. Firestone owns a 100% interest in these prospecting licences.



Tsabong project

- Covers 7,400 square kilometres and entire Tsabong field
- Contains 85 kimberlites, 18 diamondiferous
- Eighteen kimberlites discovered since November 2006
- Expect number of kimberlites in the Tsabong field to reach more than 100

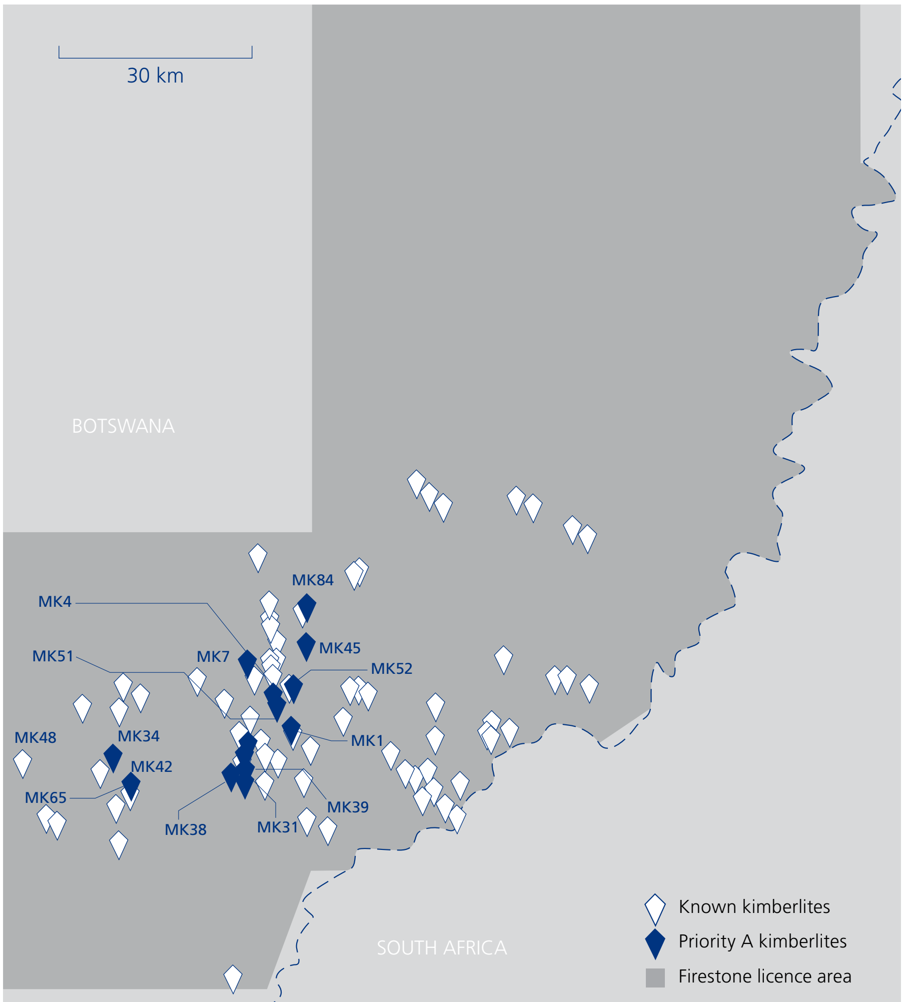
Tsabong, Botswana

The Tsabong kimberlite field is located in south western Botswana, approximately 280 kilometres south west of the Jwaneng Mine, which is the world's most profitable diamond mine, producing over $2 billion revenue and over $1.8 billion operating profit per annum. The Tsabong project extends over an area of approximately 7,400 square kilometres, and covers the entire Tsabong kimberlite field.

Tsabong is one of the largest diamondiferous kimberlite fields in the world, containing 85 known kimberlites, of which 18 have been proven to be diamondiferous. It is noted for the exceptionally large size of many of its kimberlites, in particular the 180 hectare MK1 kimberlite, which is one of the largest known diamondiferous kimberlites. The Tsabong field also contains five kimberlites larger than 50 hectares and 32 kimberlites between 20 and 50 hectares in size.

Work at Tsabong has been primarily focused on 14 high interest kimberlites that were selected on the basis of diamond content, kimberlite indicator mineral ("KIM") chemistry and size. A programme of 17,000 metres of core and percussion drilling has been undertaken on these kimberlites to obtain material for detailed microdiamond, KIM chemistry and petrographic analyses. Bulk samples from selected kimberlites is being undertaken by large diameter drilling to provide an indication of grade and diamond value.

Exploration at Tsabong is targeting approximately 80 well defined geophysical anomalies that have been identified by interpretation of aeromagnetic survey data over the area. The company expects the total number of kimberlites in the Tsabong area to reach more than 100, once exploration has been completed.



Bulk sampling plant, Tsabong

With rough diamond prices estimated to have tripled since the Tsabong field was discovered in the early 1980's, the threshold for economic viability is modest. A kimberlite in Tsabong with a grade of 20 cpht and average quality diamonds of $100 per carat would support a large-scale, profitable mining operation. Access to the area is via tarred road from Gaborone and infrastructure in the area is good. Firestone owns a 100% interest in the Tsabong project.

Kimberlite	Area (ha)	Macrodiamond recovery	Microdiamond recovery	Other comments
MK 1	180	Y	Y	Very large size; 13% G10 garnets; microdiamond grade of 25 cpht
MK 31	75	NS	Y	Large size
MK 45	25	RP	N	4% G10 garnets; best KIM chemistry
MK 4	20	NS	Y	10% G10 garnets
MK 42	20	NS	Y	
MK 39	20	NS	Y	
MK 38	20	Y	Y	24% G10 garnets; best KIM chemistry; microdiamond grade of 25–30 cpht
MK 7	20	NS	N	Group 1 eclogitic garnets
MK 34	20	NS	Y	
MK 52	15	RP	Y	
MK 51	10	RP	Y	17% G10 garnets
MK 84	10	RP	N	10% G10 garnets; best KIM chemistry
MK 65	10	NS	Y	Best diamond results
MK 48	10	NS	Y	

NS = not yet sampled
RP = Results pending

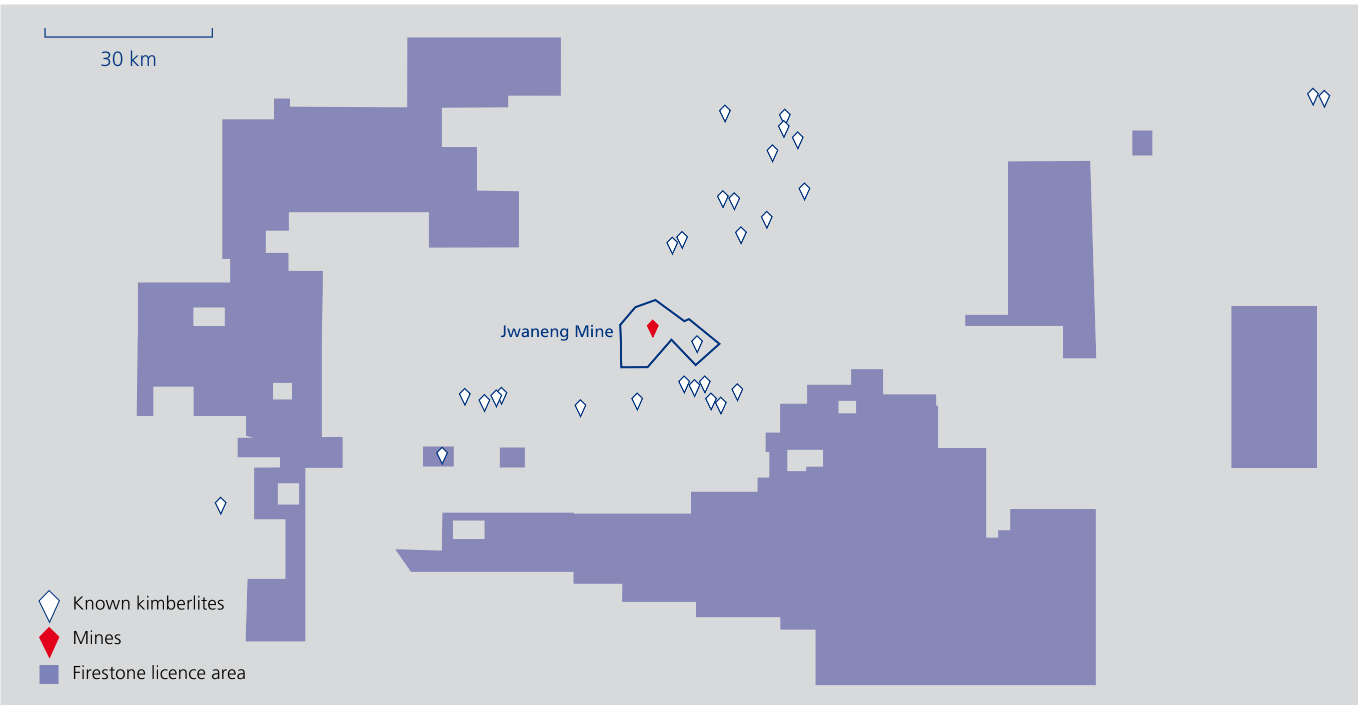
Jwaneng Project

- Covers 6,000 square kilometres
- Close to major Jwaneng Mine
- High resolution geophysics recently completed

Jwaneng Mine (Debswana)

Jwaneng, Botswana

Firestone holds prospecting licences over a total of approximately 6,000 square kilometres in the Jwaneng area. The Jwaneng Mine is the world's biggest diamond mine, producing over $2 billion revenue and over $1.8 billion operating profit per annum. The area covered by the Jwaneng prospecting licences has recently been surveyed for the first time using modern high resolution airborne and ground geophysical exploration techniques and is considered prospective for the discovery of new diamondiferous kimberlites. Firestone owns a 100% interest in these prospecting licences.



Bonte Koe Mine

- Toll-treatment project with De Beers
- Operating at full capacity since 2007
- £3.5 million annual revenue
- Other toll treatment projects being pursued

Processing Plant, Bonte Koe

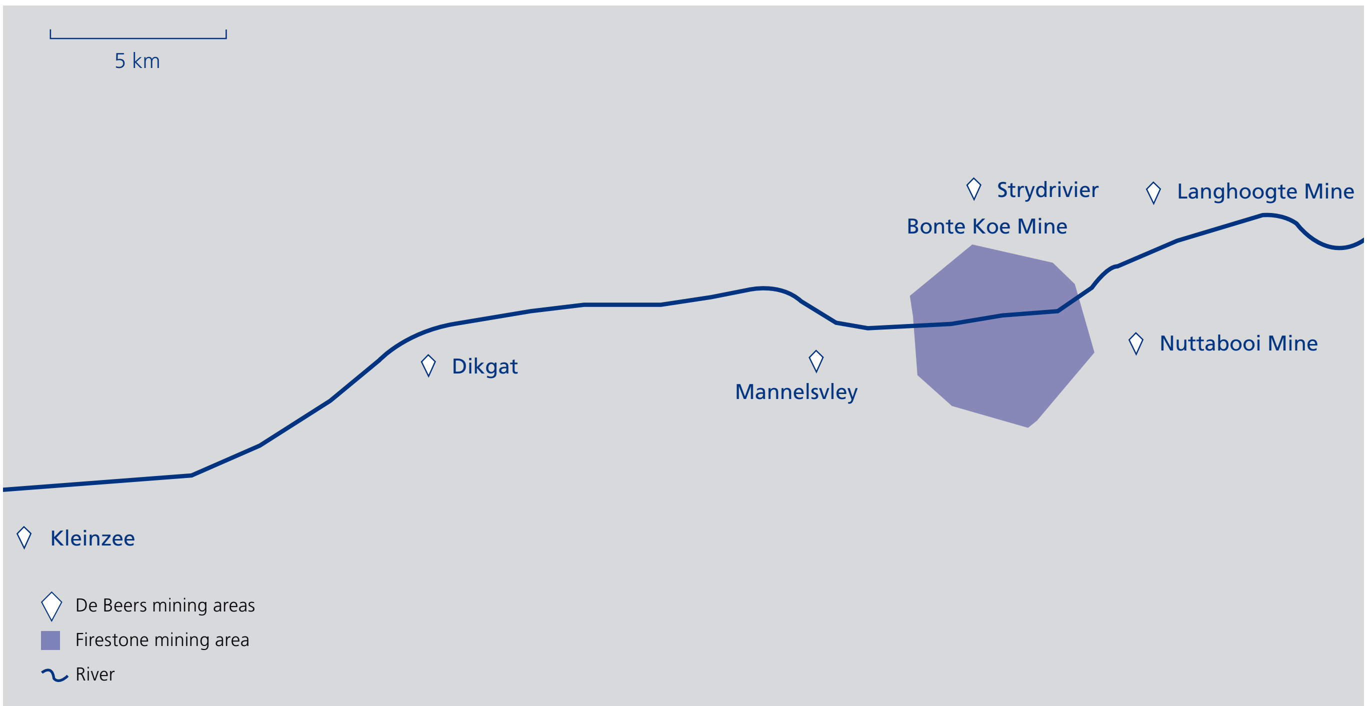
The Bonte Koe Mine, South Africa

The Bonte Koe mine covers an area of approximately 25 square kilometres along the Buffels River in Namaqualand, a region that 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 a value of over $200 per carat.

Firestone has an agreement with De Beers to jointly exploit deposits on the Buffels River adjacent to Bonte Koe over which De Beers holds mining rights. Under the terms of the agreement Firestone uses its plant and infrastructure at Bonte Koe to process gravel mined by De Beers on a toll-treatment basis.

The toll-treatment operation provides Firestone with average annual revenue of approximately £3.5 million and operating profits of £1.5 million. Following the completion of a significant expansion to the plant capacity at Bonte Koe in early 2007, the plant is now operating at full capacity.

Firestone's interest in the Bonte Koe Mine is held through African Star Minerals, the Company's black empowerment subsidiary.



Alluvial mining and exploration projects

→ Groen River Valley, Oena Mine and Avontuur Mine projects to be sold or joint ventured

Mining operations, South Africa

Alluvial Mining and Exploration Projects, South Africa

Following the decision to focus the Company's exploration and development activities on its kimberlite projects in Botswana, the Company decided to seek expressions of interest in relation to the sale or joint venturing of its alluvial projects in South Africa. A number of discussions have been held with interested parties, but no agreements have been concluded yet.

Groen River Valley

The Groen River Valley exploration project covers an area of approximately 500 square kilometres of the lower reaches of the Groen River in Namaqualand. A considerable amount of prospecting has been carried out by Firestone, resulting in the identification of the palaeo river systems which were responsible for transporting the diamonds of large size and high quality that have been mined near the mouth of the Groen River by De Beers and other operators. Firestone owns a 100% interest in the Groen River Valley project.

Oena

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 over $1,500 per carat. The Oena mining lease covers 89 square kilometres, and extends 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. Firestone owns an 87.5% interest in the Oena Mine.

Avontuur Mine

The Avontuur Mine covers approximately 26 square kilometres and is located near the coastal town of Hondeklip Bay in Namaqualand. The Hondeklip Bay area produces diamonds with an average size of approximately 0.2 carats per stone and a value of $110-$120 per carat. Firestone owns a 100% interest in the Avontuur Mine.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Directors and Senior Management

James Kenny, B.A., LL.B., M.Sc.

Chairman

Jim Kenny is a graduate in law and economics from University College, Dublin, and holds a Masters degree in Economics from Columbia University Graduate School of Business Administration, New York. He has over 30 years' experience as chairman and chief executive of several private and publicly quoted companies in natural resources exploration and production in the oil and gas, gold, diamonds, base-metals and industrial minerals sectors.

Philip Kenny, B.E., M.B.A.

Chief Executive Officer

Philip Kenny is a graduate in Mechanical Engineering from University College, Dublin, and holds postgraduate qualifications in Engineering from Trinity College, Dublin and a Master of Business Administration in Finance from Boston College, Massachusetts. He has 25 years' experience in the mining, and oil and gas sectors in Europe, Africa and the U.S., and has worked for more than 12 years in the diamond mining and exploration business.

Tim Wilkes, B.Sc.

Chief Operating Officer

Tim Wilkes is a graduate in geology from Kingston University, England and has over 26 years' experience on kimberlite and alluvial diamond exploration, evaluation and mining projects worldwide. He spent 18 years with De Beers, where he was the Competent Person and General Manager – Mineral Resource Management, with responsibilities for the management of De Beer's mineral resource portfolio worldwide. He is a member of the sub-committee for diamonds of the South African Mineral Resource Committee (SAMREC).

Jan Louw, B.E.

Director of Operations

Jan Louw is a graduate in Mechanical Engineering from Stellenbosch University, South Africa and has extensive experience in planning, developing and managing large scale open cast mining operations. He worked in senior management positions for Anglo American for 16 years in South Africa and Namibia, and was Mine Manager at Anglo American's Namakwa Sands mining operation in South Africa prior to joining Firestone Diamonds.

James Kenny, B.Comm., M.B.S.

Director

James Kenny holds a Bachelor of Commerce (Honours) and a Master's Degree in Finance from University College Dublin. He has over 18 years' investment banking experience in the natural resources and other sectors. He has worked for Natwest and was a Director of ABN AMRO and ABN AMRO Rothschild. He was the founder and former Chief Executive of Evolution Capital Limited, now part of Evolution Securities plc and is currently a director of Metro Capital Management, Axeon plc and Advantage Partners International.

Hugh Jenner-Clarke, B.Sc., F.G.S.

Director

Hugh Jenner-Clarke is a graduate in geology (Honours) from Imperial College, London. He has over 40 years' experience in the diamond exploration industry as a geologist and exploration manager. He has worked on diamond exploration and mining projects in South Africa, Botswana, Australia, the USA and South America.

Michael Hampton, B.A.

Director

Mike Hampton hold a Bachelor of Arts degree from Harvard University. He has an extensive background in financing in the mining, commodities and shipping sectors. He spent 20 years at Chase Manhattan Bank and Swiss Bank in New York, Hong Kong, London and Chicago and has been involved in raising start-up and development capital for clients in the mining sector for over 15 years.

William Douglas Baxter, M.A., M.A.I.

Director

Doug Baxter holds a Masters degree in Engineering from Trinity College, Dublin, and is a Fellow of both the Institution of Civil Engineers of Ireland and of the Institution of Civil Engineers (U.K.). He has over 35 years' experience with Ove Arup & Partners and other companies in major engineering projects in Europe, Asia, the Middle East and Africa.

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2008.

Financial reporting

The financial statements for 2008 have been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group and Company adopted IFRSs with a transition date of 1 July 2006.

Results and dividends

The Group made a loss after taxation of £237,113 (2007: a loss of £542,907). Further details are shown in the consolidated income statement on page 26.

The directors do not recommend a dividend.

Principal activities

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 the business

A detailed review of the business and future developments of the business is included within the Chairman's Statement on pages 8 and 9. The directors are of the opinion that there is no material difference between the book value and the market value of the Group's mining properties.

Capital structure

At 1 July 2007 the Company's issued share capital comprised 55,791,445 Ordinary Shares of £0.20 each. On 17 June 2008 the Company issued a further 58,396 Ordinary Shares in respect of share options exercised by employees. The share capital of the Company on 30 June 2008 comprised 55,849,841 Ordinary Shares of £0.20 each.

On 16 July 2008 the Company issued a further 5,882,353 Ordinary Shares of £0.20 each at an issue price of £0.85 each. The issue raised £5,000,000 which is primarily being used to fund ongoing exploration and evaluation work at the Group's BK11, BK16 and Tsabong projects in Botswana.

At 4 December 2008 the Company has been notified of the following interests in the issued Ordinary Share capital:

	Shares	%
Blenheim Trust Company Limited	7,450,000	12.07
Aurora International Investments Limited	7,200,000	11.66
AXA SA	4,610,618	7.47
Artemis Investment Management Limited	3,115,000	5.05
J P Morgan Asset Management	3,065,536	4.97
Gartmore Investment Management Plc, Gartmore Investment Limited and Gartmore Fund Managers Limited	2,780,684	4.50

Directors

The directors who served during the year were as follows:

J.F. Kenny	Chairman
P. Kenny	Chief Executive Officer
M.J. Hampton*	Director
W.D. Baxter	Director
J. Kenny Jnr*	Director
H.C.D. Jenner-Clarke	Director

* Member of the Remuneration Committee

Directors' interests in the Company

Director	Interest in equity shares Number	Interest in options Number
J.F. Kenny	505,765	700,000
H.C.D. Jenner-Clarke	586,057	700,000
P. Kenny	538,806	700,000
M.J. Hampton	106,875	220,000
J. Kenny Jnr	157,023	400,000
W.D. Baxter	10,000	–

Principal risks and uncertainties

Business risks

The business of diamond exploration and mining has a number of inherent risks. These risks include the Group failing to identify economically viable diamond deposits at its exploration and evaluation projects and the possible failure to produce the expected tonnage, grade or diamond quality at the Group's mining and processing operations. The Board is aware of these risks and regularly reviews technical progress at all of the Group's projects in order to identify and manage these risks in the most effective manner.

Environmental and other regulatory requirements

The Group endeavours to comply with the environmental regulations and policies of the areas in which it operates. Where necessary the Group establishes rehabilitation provisions to reflect current legislation within the areas in which it operates.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. No assurance can be given that new rules and regulations will not be enacted or existing legislations will not be applied in a manner which could limit or curtail the Group's activities.

Financial risks

The Company is exposed to a number of different currency risks between the Rand, U.S. Dollar, Sterling and Pula. The Group values and sells its diamonds in U.S. Dollars, but proceeds of sales are received in Rand. The Group also receives its revenues from the Toll Treatment Plant, wholly utilised by De Beers, in Rand. As the Group reports in Sterling, reported revenue is affected by the combination of changes in the U.S. Dollar/Rand and Sterling/Rand rates. The Group's expenses in Botswana and South Africa are incurred in Pula and Rand, respectively, so any weakening in the Pula or 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 Pula or Rand. The Company does not hedge its currency positions other than for short-term transfers of funds between currencies which are expected to be reversed within 12 months. The Board monitors and reviews its policies in this regard on a regular basis.

The Company takes out suitable insurance against operational risks that are anticipated as being material.

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

Further details of the Group's financial instruments and financial risk management objectives and policies are set out in note 30 of the financial statements.

Key Performance Indicators ("KPIs")

Given the nature of the business and that the Group is in the early phase of exploration, evaluation and development of its kimberlite projects in Botswana, the directors are of the opinion that analysis using financial KPIs is not appropriate for an understanding of the development, performance or position of the business at this time. However the directors constantly review the overall expenditure in comparison to budget and the Group's current and projected cash positions.

	2008 **£**	2007 £
Cash and cash equivalents at the year-end	**381,507**	1,118,790

As outlined in the Capital structure section above the Company raised £5,000,000 from the issue of new Ordinary Shares on 16 July 2008 to fund projected exploration and evaluation expenditures in Botswana.

In addition to the above the Board also considers non-financial factors such as the Group's compliance with Corporate Governance Standards and compliance with environmental, rehabilitation and other legislation within the Group's areas of operations.

Post-balance sheet events

There are no significant post-balance sheet events other than the issue of new Ordinary Shares as explained above.

Policy and practice on the payment of creditors

The policy of the Group is to settle supplier invoices within the terms and conditions of trade agreed with individual suppliers. At the year-end the Group had an average of 49 days (2007: 19 days) purchases outstanding and the Company an average of 82 days (2007: 154 days).

Political and charitable donations

The Group made no charitable donations or political donations in the year (2007: nil).

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.

Auditors

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant available information of which the Company's auditors were unaware: and
- that director has taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

A resolution to reappoint PKF (U.K.) LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Corporate governance

Internal financial control

The Group operates a system of internal financial control commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board. The Board has responsibility for the effectiveness of the internal financial control framework. Such a system can only provide reasonable and not absolute assurance against material misstatement. The Group does not currently have, nor considers there is currently a need for, an internal audit function.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Annual General Meeting

Notice of the Annual General Meeting of the Company for 2008 is on page 61.

On behalf of the Board

Philip Kenny
Director
9 December 2008

Independent auditors' report to the members of Firestone Diamonds plc

We have audited the Group and Parent Company financial statements ("the financial statements") of Firestone Diamonds Plc for the year ended 30 June 2008 which comprise the Consolidated Income Statement and the Consolidated and Company Balance Sheets, Cash Flow Statements, Consolidated and Company Statements of Changes in Equity and the related notes. The 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 International Financial Reporting Standards ("IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (U.K. and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The 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 International Standards on Auditing (U.K. and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 June 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 June 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PKF (U.K.) LLP
9 December 2008
Registered Auditors
London, U.K.

Consolidated income statement

For the year ended 30 June 2008

	Note	2008 £	2007 £
Revenue	3	**3,309,412**	1,633,393
Changes in inventories		**(110,032)**	85,109
Raw materials and consumables used		**(603,292)**	(274,143)
Employee costs	7	**(1,198,505)**	(319,990)
Amortisation and depreciation		**(972,510)**	(531,887)
Impairment of mineral rights	6	**(2,166,529)**	–
Other operating expenses		**(1,328,399)**	(922,184)
Gain on sale of investments	12	**3,030,135**	–
Loss on disposal of derivative financial instruments	13	**(64,516)**	(668,683)
Operating loss	5	**(104,236)**	(998,385)
Financial income	10	**134,530**	280,834
Finance expense	11	**(326,318)**	(134,335)
Loss before tax		**(296,024)**	(851,886)
Taxation	14	**58,912**	308,979
Loss after tax for the year attributable to equity shareholders		**(237,112)**	(542,907)
Basic loss per share	15	**(0.4p)**	(1.0p)
Diluted loss per share	15	**(0.4p)**	(1.0p)

The notes on pages 33 to 59 form part of these financial statements.

Consolidated balance sheet
For the year ended 30 June 2008

	Note	2008 £	2007 £
Assets			
Non-current assets			
Goodwill	16	**2,057,802**	2,057,802
Intangible mining assets	17	**10,832,026**	9,589,925
Property, plant and equipment	18	**12,007,707**	12,568,132
Deferred tax asset	27	**247,545**	174,726
		25,145,080	24,390,585
Current assets			
Inventories	20	**311,592**	275,508
Trade and other receivables	21	**1,345,301**	2,335,709
Available-for-sale investments	22	**–**	5,537,915
Cash and cash equivalents	23	**381,507**	1,118,790
		2,038,400	9,267,922
Total assets		**27,183,480**	33,658,507
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital	24	**11,169,969**	11,158,290
Share premium		**19,278,205**	19,181,560
Merger reserve		**(1,076,399)**	(1,076,399)
Fair-value reserve		**–**	2,947,164
Translation reserve		**(5,021,312)**	(2,134,437)
Retained deficit		**(2,256,421)**	(2,583,363)
Total equity		**22,094,042**	27,492,815
Non-current liabilities			
Interest-bearing loans and borrowings	26	**1,860,593**	2,163,178
Deferred tax	27	**36,714**	294,161
Provisions	28	**199,827**	1,045,469
		2,097,134	3,502,808
Current liabilities			
Interest-bearing loans and borrowings	26	**775,030**	635,886
Trade and other payables	29	**1,642,484**	1,358,683
Current tax liabilities	29	**9,376**	6,382
Other financial liabilities	29	**–**	661,933
Provisions	28	**565,414**	–
		2,992,304	2,662,884
Total equity and liabilities		**27,183,480**	33,658,507

The financial statements were approved by the Board of Directors and authorised for issue on 8 December 2008.

Philip Kenny
Director

The notes on pages 33 to 59 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2008

	Share capital £	Share premium £	Merger reserve £	Fair-value reserve £	Translation reserve £	Retained deficit £	Total equity £
At 1 July 2006	11,151,581	19,132,921	(1,076,399)	4,568,841	–	(1,940,168)	31,836,776
Loss for the year recognised in income and expense	–	–	–	–	–	(542,907)	(542,907)
Deferred tax on net investment in subsidiary	–	–	–	–	–	(308,755)	(308,755)
Translation of foreign subsidiaries	–	–	–	–	(2,134,437)	–	(2,134,437)
Change in value of available-for-sale investments	–	–	–	(1,621,677)	–	–	(1,621,677)
Share-based payment adjustment	–	–	–	–	–	208,467	208,467
Total gains and losses recognised in equity	–	–	–	(1,621,677)	(2,134,437)	(208,467)	(3,547,647)
Total recognised gains and losses	–	–	–	(1,621,677)	(2,134,437)	(643,195)	(4,399,309)
Shares issued in year	6,709	48,639	–	–	–	–	55,348
At 30 June 2007	11,158,290	19,181,560	(1,076,399)	2,947,164	(2,134,437)	(2,583,363)	27,492,815
At 1 July 2007	11,158,290	19,181,560	(1,076,399)	2,947,164	(2,134,437)	(2,583,363)	27,492,815
Loss for the year recognised in income and expense	–	–	–	–	–	(237,112)	(237,113)
Deferred tax on net investment in subsidiary	–	–	–	–	–	271,354	271,355
Translation of foreign subsidiaries	–	–	–	–	(2,886,875)	–	(2,886,875)
Sale of available-for-sale investments	–	–	–	(2,947,164)	–	–	(2,947,164)
Share-based payment adjustment	–	–	–	–	–	292,700	292,700
Total gains and losses recognised in equity	–	–	–	(2,947,164)	(2,886,875)	292,700	(5,541,399)
Total recognised gains and losses	–	–	–	(2,947,164)	(2,886,875)	326,942	(5,507,097)
Shares issued in year	11,679	96,645	–	–	–	–	108,324
At 30 June 2008	**11,169,969**	**19,278,205**	**(1,076,399)**	**–**	**(5,021,312)**	**(2,256,421)**	**22,094,042**

The notes on pages 33 to 59 form part of these financial statements.

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for shares at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Amounts arising from the merger of subsidiary investments.
Fair-value reserve	Amounts attributable to the change in fair-value of available-for-sale financial assets.
Translation reserve	Gains/(losses) arising on retranslating the net assets and net income of overseas subsidiary companies denominated in foreign currencies into sterling.
Retained deficit	Cumulative profit/(loss) of the Group attributable to equity shareholders.

Consolidated cash flow statement
For the year ended 30 June 2008

	Note	2008 £	2007 £
Cash flow from operating activities			
Loss before taxation		**(296,024)**	(851,886)
Adjustments for:			
Depreciation, amortisation and impairment		**3,139,039**	531,887
Effect of foreign exchange movements		**(283,933)**	(844,433)
Interest payable		**326,318**	134,335
Equity-settled share-based payment		**292,700**	208,467
Fair-value adjustment in value of investments		**–**	781,778
Loss on sale of derivative financial instruments		**64,516**	–
Profit on sale of investment in shares		**(3,030,135)**	(6,593)
Loss/(profit) on sale of property, plant and equipment		**16,767**	(22,664)
Net cash flow from operating activities before changes in working capital		**229,248**	(69,109)
Increase in inventories		**(36,084)**	(210,938)
Decrease/(increase) in trade and other receivables		**917,589**	(623,646)
Increase in trade and other payables		**359,613**	796,604
Decrease in provisions		**(280,229)**	(242,153)
Net cash flow generated from/(used in) operating activities		**1,190,137**	(349,242)
Investing activities			
Payments for property, plant and equipment		**(1,506,179)**	(2,893,420)
Payments for non-current intangible assets		**(4,083,930)**	(1,513,950)
Costs capitalised within non-current intangible assets		**(954,598)**	(1,067,074)
Payments to settle liability arising on derivative financial instruments		**(726,449)**	–
Proceeds from sale of investment in shares		**5,620,886**	270,335
Proceeds from sale of property, plant and equipment		**–**	94,696
Net cash flow from investing activities		**(1,650,270)**	(5,109,413)
Financing activities			
Issue of Ordinary Shares		**108,324**	55,348
Proceeds from long-term borrowings		**238,144**	2,132,115
Proceeds from lease finance arrangements		**48,324**	–
Repayment of long-term borrowings		**(336,878)**	(219,342)
Repayment of lease finance		**(8,746)**	(6,847)
Interest paid		**(326,318)**	(134,335)
Net cash flow (used in)/from financing activities		**(277,150)**	1,826,939
Net decrease in cash and cash equivalents in the year		**(737,283)**	(3,631,716)
Cash and cash equivalents at the beginning of the year		**1,118,790**	4,750,506
Cash and cash equivalents at the end of the year	23	**381,507**	1,118,790

The notes on pages 33 to 59 form part of these financial statements.

Company balance sheet
For the year ended 30 June 2008

	Note	2008 £	2007 £
Assets			
Non-current assets			
Investment in subsidiaries	19	**29,598,018**	28,511,847
Current assets			
Trade and other receivables	21	**2,360**	191,601
Cash and cash equivalents	23	**13,403**	1,868,099
		15,763	2,059,700
Total assets		**29,613,781**	30,571,547
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital	24	**11,169,969**	11,158,290
Share premium		**19,278,205**	19,181,560
Retained deficit		**(968,436)**	(610,624)
Total equity		**29,479,738**	29,729,226
Current liabilities			
Trade and other payables	29	**134,043**	180,388
Other financial liabilities	29	**–**	661,933
		134,043	842,321
Total equity and liabilities		**29,613,781**	30,571,547

The financial statements were approved by the Board of Directors and authorised for issue on 8 December 2008.

Philip Kenny
Director

The notes on pages 33 to 59 form part of these financial statements.

Company statement of changes in equity

For the year ended 30 June 2008

Attributable to equity shareholders of the Company

	Share capital £	Share premium £	Retained deficit £	Total £
At 1 July 2006	11,151,581	19,132,921	17,314	30,301,816
Loss for the year recognised in income	–	–	(627,938)	(627,938)
Total recognised income and expense for the year	–	–	(627,938)	(627,938)
Shares issued in year	6,709	48,639	–	55,348
At 30 June 2007	11,158,290	19,181,560	(610,624)	29,729,226
At 1 July 2007	11,158,290	19,181,560	(610,624)	29,729,226
Loss for the year	–	–	(650,512)	(650,512)
Total recognised income and expense for the year	–	–	(650,512)	(650,512)
Share-based payment adjustment recognised in equity	–	–	292,700	292,700
Shares issued in year	11,679	96,645	–	108,324
At 30 June 2008	**11,169,969**	**19,278,205**	**(968,436)**	**29,479,738**

There were no gains or losses in the year recognised in equity.

The notes on pages 33 to 59 form part of these financial statements.

Company cash flow statement
For the year ended 30 June 2008

	Note	2008 £	2007 £
Cash flow from operating activities			
Loss before taxation		**(650,512)**	(627,938)
Adjustments for:			
Equity-settled share-based payment		**292,700**	–
Loss on sale of derivative financial instruments		**64,516**	668,683
Net cash flow from operating activities before changes in working capital		**(293,296)**	38,720
Increase/(decrease) in trade and other receivables		**189,241**	(180,004)
(Decrease)/increase in trade and other payables		**(46,345)**	95,522
Net cash flow used in operating activities		**(150,400)**	(43,737)
Investing activities			
Investment in subsidiary companies		**(1,086,171)**	(2,299,738)
Payments to settle liability arising on derivative financial instruments		**(726,449)**	–
Net cash flow from investing activities		**(1,812,620)**	(2,299,738)
Financing activities			
Issue of Ordinary Shares		**108,324**	55,348
Net cash flow used in financing activities		**108,324**	55,348
Net decrease in cash and cash equivalents in the year		**(1,854,696)**	(2,288,127)
Cash and cash equivalents at the beginning of the year		**1,868,099**	4,156,226
Cash and cash equivalents at the end of the year	23	**13,403**	1,868,099

The notes on pages 33 to 59 form part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2008

1 Basis of preparation

These consolidated financial statements of Firestone Diamonds plc have been prepared in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively "IFRSs") as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These consolidated financial statements are the first Firestone Diamonds plc financial statements to be prepared in accordance with IFRS, the transition date being 1 July 2006.

First-time adoption

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS1 "First-time Adoption of International Financial Reporting Standards".

- Business combinations effected before 1 July 2006, including those that were accounted for using the merger method of accounting under U.K. accounting standards, have not been restated.
- Only those exchange differences arising on the retranslation of foreign operations since 1 July 2006 have been recognised as a separate component of equity, with the related reserve being set to zero at that date.
- IFRS2 "Share-based payments" has been applied to employee options granted after 7 November 2002 that had not vested by 1 July 2006.

The Group has made estimates under IFRSs at the date of transition, which are consistent with those estimates made for the same date under U.K. GAAP unless there is objective evidence that those estimates were in error, i.e. the Group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

Judgments made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 2 below.

Companies Act s230 exception

The Company has taken advantage of the exemptions allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Group profit for the year included a loss on ordinary activities after tax of £650,512 (2007: loss of £627,938) in respect of the Company which is dealt with in the financial statements of the Company.

Standards, amendments and interpretations to published standards not yet effective.

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC have issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations are not effective for and have not been applied in the preparation of these consolidated financial statements:

- IAS 1: Presentation of Financial Statements (Revised 2007) (effective as of 1 January 2009)
- IAS 23: Borrowing Costs (Revised 2007) (effective as of 1 January 2009)
- IAS 27: Consolidated and Separate Financial Statements (Amended) (effective as of 1 July 2009)
- IFRS 2: Share Based Payments: Vesting conditions and Cancellations (Amended) (effective as of 1 January 2009)
- IFRS 3: Business Combinations (Revised) (effective as of 1 July 2009) includes an amendment to the treatment of minority interests (renamed non-controlling interests), amendments to the calculation of goodwill, a change to the method of accounting for acquisitions in stages, amendment to the accounting for contingent consideration and changes to the recognition and measurement of certain assets and liabilities
- IFRS 8: Operating Segments (effective as of 1 January 2009)
- IFRIC Interpretation 12: Service Concession Arrangements (effective as of 1 January 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 15: Agreements for the Construction of Real Estate (effective as of 1 January 2009 – not yet endorsed by the EU)
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 1 October 2008 – not yet endorsed by the EU)
- Amendments to IAS32 Financial Instruments: Presentation and IAS1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU
- Amendments to IFRS1 and IAS27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after1 January 2009). These amendments are still to be endorsed by the EU
- Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement). Entities shall apply the amendment retrospectively for annual periods beginning on or after 1 July 2009. This amendment is still to be endorsed by the EU.

The directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial adoption with the exception of IAS23: Borrowing Costs (Revised) which will require interest incurred in respect of long-term development projects to be capitalised within the relevant project and of IFRS 3: Business Combinations (Revised), which will require transaction costs arising on business combinations to be expensed to the income statement as opposed to the existing treatment of capitalisation, in the event that acquisitions are undertaken.

1 Basis of preparation continued

Basis of consolidation

The consolidated financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The results of subsidiaries have been included from the date of acquisition using the merger method of accounting or the purchase method of accounting as appropriate.

The consolidated financial statements present the results of the Company and its subsidiaries (“the Group”) as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full. All subsidiaries have a year-end of 30 June 2008 with the exception of Bonte Koe Mynbou Ondernemings (Eiendoms) Beperk which has a year-end of 31 March 2008, there were no material adjustments arising in the period 1 April 2008 to 30 June 2008.

Minority interests represent the portion of profit or loss and net assets not held by the Group. Profits and losses attributable to the minority interest are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders’ equity. Losses attributable to the minority interest are not included as part of shareholders’ equity unless there is a binding agreement whereby the minority is obliged to make good their share of the losses incurred.

Merger accounting

In accordance with the exemption in IFRS 1 where merger accounting has been used for the relevant acquisition in years prior to the transition date the accounting method used for the relevant acquisition has not been restated.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. The acquiree’s identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Where the fair value of consideration paid exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired the resulting difference is classified as goodwill and presented as a non-current intangible asset. Where the fair value of consideration paid is lower than the fair value of identifiable assets, liabilities and contingent liabilities acquired the difference is taken to the income statement. Goodwill arising from business combinations is assessed for impairment annually.

The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

Where the value of a business combination increases as a result of the purchase of all or part of a minority interest in an existing subsidiary the purchase method as set out above is applied proportionately to the increase in investment as set out above. The relevant proportion of the results of the acquired operations is included in the Consolidated Income Statement from the date of the relevant acquisition.

Exploration, evaluation and development expenditure

Exploration and evaluation costs related to an area of interest are carried forward as an intangible asset in the balance sheet where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale. Where these conditions are not met such costs are written off as incurred. This expenditure is carried at cost less accumulated amortisation and impairment.

Development expenditure incurred by or on behalf of the group or acquired from a third party is also classified as an intangible asset and is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises acquisition cost and other incurred cost directly attributable to the construction of a mine and the related infrastructure. This expenditure is carried at cost less accumulated amortisation and impairment.

Exploration, evaluation and development expenditure is categorised under mining licences, deferred exploration and development costs and exploration data and prospecting rights in the balance sheet according to the nature of the expenditure. Exploration and development costs include all directly attributable expenditure together with the relevant depreciation on plant and equipment utilised within the project.

Once a development decision has been taken, the carrying amount of the exploration, evaluation and development expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non current assets as “mining property” with property, plant and equipment.

No amortisation is recognised in respect of exploration, evaluation and development expenditure until it is reclassified as a “mining property’’.

1 Basis of preparation continued

Exploration, evaluation and development expenditure and mining property is tested for impairment annually if facts and circumstances indicate that impairment may exist. Exploration, evaluation and development expenditure is also tested for impairment once commercial reserves are found, before the assets are transferred to mining property.

Identifiable exploration, evaluation and development assets acquired as part of a business combination are recognised as assets at their fair value, as determined by the requirements of IFRS Business Combinations. Exploration and evaluation expenditure incurred subsequent to the acquisition is accounted for in accordance with the policy outlined above.

Licences

Licence rights acquired are amortised over the period of the licence to exploit such rights, typically five to fifteen years. Provision is made for any impairment in value, and that is reviewed on an annual basis.

Decommissioning and site rehabilitation

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production. Costs are estimated on the basis of a formal closure plan and local regulatory requirements. These provisions are subject to regular review.

Decommissioning and site rehabilitation costs arising from exploration, evaluation and development activity or from the installation of plant and other site preparation work are provided when the obligation to incur such costs arises and are capitalised as a separate category on the balance sheet. These costs are charged against profits through depreciation or impairment of the asset. Depreciation and impairment is included in operating costs.

Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

The annual rate of depreciation for each class of depreciable asset is:
Mining equipment – 3 to 10 years
Production plant and equipment – units of production method
Office equipment – 3 to 10 years
Motor vehicles – 3 to 5 years
Other assets – 3 to 10 years.

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the income statement.

Investments in subsidiaries

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

1 Basis of preparation continued
The following criteria are also applied in assessing impairment of specific assets:

Goodwill
The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Investment in financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Trade and other debtors
Trade and other debtors arise from normal commercial sales within the Group. These are initially recognised at invoice value adjusted for any allowance for impairment. Impairment and any reversal is recognised in profit or loss.

Loans and other receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group's loans and receivables include cash and cash equivalents. These include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within current liabilities on the balance sheet.

Available-for-sale financial investments
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial measurement, available-for-sale financial assets are measured at fair-value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Inventories
Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials and consumables – purchase cost on a first in, first out basis;

Finished goods – the value of cut and uncut diamonds has been determined by reference to market values at 30 June 2008 and 30 June 2007 respectively less an anticipated margin.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Financial liabilities
The Group classifies its financial liabilities as:

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated "as at fair value through profit or loss" After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Trade and other payables
These are initially recognised at invoiced value. These arise principally from the receipt of goods and services. There is no material difference between the invoiced value and the value calculated on an amortised cost basis.

1 Basis of preparation continued

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations.

Share-based payment transactions

Certain employees (including directors and senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002 that had not vested by 1 July 2006, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 25.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Group as a lessor

The Group owns and operates a processing plant in South Africa designed to process diamondiferous ore. The plant is leased to a De Beers subsidiary which has exclusive rights to the plant. Revenues are "toll based" dependent primarily on the tonnage of ore processed. Group revenues include the toll income received. Group operating costs include all costs of operating the plant. The plant is included in the Group's balance sheet as non-current property, plant and equipment.

Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Pounds Sterling which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is Pound Sterling.

1 Basis of preparation continued

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Pound Sterling using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and where material are transferred to the Group's translation reserve.

On transition to IFRS, the Group has taken advantage of the exemption offered under IFRS 1 and assumed zero brought forward translation differences on subsidiary undertakings as at 1 July 2006.

Foreign currency movements arising from the Group's net investment in subsidiary companies whose functional currency is not Pounds Sterling are recognised in the translation reserve, included within equity until such time as the relevant subsidiary company is sold whereupon the net difference relating the this disposal is transferred to profit and loss.

Pensions

The Group makes payments on behalf of employees to defined contribution pensions schemes. These are charged to the income statement or capitalised where appropriate on an accruals basis. The Group does not operate any define benefit pension schemes or similar arrangements.

Taxation

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Tax recoverable comprises amounts receivable in respect of consortium tax relief arising from the surrender of taxable losses to the Group's associate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Operating profit and loss

Operating profit and loss comprises revenues less operating costs. Operating costs comprise adjustments for changes in inventories, raw materials and consumables used, employee costs, amortisation, depreciation and impairment and other operating expenses.

2 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(i) Valuation of goodwill and exploration, evaluation and development expenditure, mining property and mining equipment.

The value of the Group's goodwill and exploration, evaluation and development expenditure, mining property and mining equipment is dependent upon the success of the Group in discovering economic and recoverable diamond resources. The estimation of future revenue

2 Critical accounting estimates and judgements continued
flows relating to these assets is uncertain and will also be affected by competition, relative exchange rates between the U.S. Dollar, the Rand, the Pula and Sterling and potential new legislation and related environmental requirements.

(ii) Share-based payments
In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 24.

(ii) Rehabilitation provisions
The Group makes estimates of future site restoration costs (rehabilitation provisions) based upon current legislation in South Africa and Botswana, technical reports and estimates provided by the Group's senior employees and advisors. These estimates will be affected by actual legislation in place, actual mining activity to be performed and actual conditions of the relevant sites when the restoration activity is to be performed in future periods. The provision for site restoration costs has been restated in the year to reflect a reassessment of provisions raised in prior years (note 35).

(iii) Impairment testing
The recoverable amounts of cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may impact our estimations and may then require a material adjustment to the carrying value of goodwill, tangible assets and intangible assets.

The Company reviews and tests the carrying value of both tangible and intangible assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

The carrying values of both tangible and intangible assets that are supported through a contract with a single customer are at risk in the event of termination. In the event of termination of that contract there may be an impairment on either the tangible or intangible level or both as the cash flows that are recoverable through the capital repayment as noted in the contract may not support the full recovery of these assets.

Expected future cash flows used to determine the value in use of goodwill, tangible and intangible assets are inherently uncertain and could materially change over time.

3 Revenue
An analysis of the Group's revenue and income is as follows:

	2008 £	2007 £
Lease and contractual receipts for use of processing plant	**3,057,025**	1,497,783
Sale of other goods and services	**252,387**	135,610
Total revenue	**3,309,412**	1,633,393

All revenues are derived from South African operations. The processing plant is owned and operated by African Star Minerals (Proprietary) Limited which is operated to the exclusive benefit of a De Beers subsidiary under the terms of a toll treatment contract based upon the tonnage of material processed.

4 Segmental analysis
A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards that are different in those other segments. The Group operated in the year in one segment, diamond mining, exploration and development and in one principal geographic area – Southern Africa. Operations in South Africa and Botswana are considered to be linked operations.

The Group does also conduct business within the U.K. including the ad hoc raising of funds, subsequently passed to subsidiary companies, and incurring of expenditure in relation to the Company's activities as a holding company. None of this activity is considered to be significantly different to the principal activity of the Group within the Southern African region.

5 Operating loss

	2008 Group £	2007 Group £
Operating loss for the year is stated after charging/(crediting):		
Amortisation of intangible assets	**239,440**	98,573
Depreciation of property, plant and equipment	**733,070**	433,314
Impairment of South African mineral rights (note 6)	**2,166,529**	–
Employee costs (note 7)	**1,198,508**	319,990
Foreign exchange (gains)/losses	**(285,386)**	182,833
Hire of property, plant and equipment	**132,378**	673
Share-based payments (note 25)	**292,700**	208,467
Auditors' remuneration (note 9)	**60,650**	77,100

	2008 Company £	2007 Company £
Operating loss for the year is stated after charging/(crediting):		
Employee costs	**240,412**	45,000
Hire of property, plant and equipment	**18,900**	673
Share-based payments (note 25)	**292,700**	–
Auditors' remuneration (note 9)	**24,250**	38,473

6 Exceptional charges included within operating loss

During the year the Group reconsidered the value of deferred exploration and development expenditure in respect of part of its South African operations where mining operations at certain sites have been discontinued. This exercise has concluded that an abnormal impairment charge of £2,166,529 be made for the year.

7 Staff numbers and costs:

The average number of persons, including executive directors, was:

	2008 Number Group	2007 Number Group
Operations	**101**	88
Administration	**14**	17
	115	105

Staff costs for the above persons, include the directors. There are no Company employees other than the directors.

	2008 £	2007 £
Wages and salaries	**1,809,017**	912,285
Social security costs	**8,605**	19,249
Pension costs	**42,781**	55,688
Share-based payments (note 25)	**292,700**	208,467
	2,153,103	1,195,689
Amounts capitalised in intangible assets	**(954,598)**	(875,699)
	1,198,505	319,990

8 Directors' emoluments:

Directors' emoluments for the period that each individual served as a director were as follows:

	2008 £	2007 £
Salaries and fees	**463,687**	343,593

The emoluments of the highest-paid director were £242,500 (2007: £135,000). The Group is currently in the process of establishing a defined contribution pension scheme in accordance with existing contractual arrangements.

9 Auditors' remuneration

	2008 £	2007 £
Fees payable for the audit of the Group's financial statements	**24,250**	38,473
Fees payable for taxation services	**30,000**	33,193
Fees payable for other services	**6,400**	5,434
	60,650	77,100

10 Finance income

	2008 Group £	2007 Group £	2008 Company £	2007 Company £
Interest receivable	**134,530**	280,834	**40,620**	272,170

11 Finance expense

	2008 Group £	2007 Group £	2008 Company £	2007 Company £
Interest payable on loans	**322,753**	103,653	**–**	–
Interest payable on finance leases	**3,565**	30,682	**–**	–
	326,318	134,335	**–**	–

12 Gain on sale of investments

	2008 Group £	2007 Group £	2008 Company £	2007 Company £
Sale of shares	**3,030,135**	–	**–**	–

13 Loss on disposal of derivative financial instruments

	2008 Group £	2007 Group £	2008 Company £	2007 Company £
Loss on disposal (2007: fair-value losses)	**64,516**	668,683	**64,516**	668,683

14 Taxation

	2008 Group £	2007 Group £
Current tax	**–**	–
Deferred tax	**330,266**	(224)
Total tax	**330,266**	(224)

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of U.K. corporation tax to the loss before tax is as follows:

Factors affecting tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the U.K. 29.5% (2007: 30%).

	2008 £	2007 £
Loss before tax	**(296,024)**	(851,886)
Tax on loss at standard rate of 29.5% (2007: 30%)	**(87,327)**	(255,565)
Income not taxable	**(1,056,590)**	–
Adjustments to deferred tax not recognised	**1,007,532**	419,804
Other differences	**77,473**	(473,218)
Current tax (credit)/charge	**(58,912)**	(308,979)
Deferred tax credited to reserves	**(271,354)**	308,755
Total tax (credit)/charge	**(330,266)**	(224)

14 Taxation continued

Factors that may affect the future tax charge

Deferred tax has not been provided in full in respect of timing differences relating primarily to revenue losses, losses on derivative financial instruments and investment in property, plant and equipment as there is insufficient evidence that the benefit of the losses will be recovered. After 31 March 2008, a change in U.K. corporation tax rate was announced. The above deferred tax asset has been calculated based on a U.K. tax rate of 28% as applicable at 1 April 2008. The tax charge in the future will be affected by the rate at which the Group generates profits and by the utilisation of existing losses.

15 Earnings/(loss) per share

The calculation of the basic earnings per share is based upon the net loss after tax attributable to ordinary shareholders of £237,113 (2007: loss of £542,907) and a weighted average number of shares in issue for the year of 55,793,360 (2007: 55,758,177).

Post year end the Group issues new equity totaling 5,882,353 ordinary shares of £0.20p each. The loss per share when this is taken into consideration would be £0.4p.

Diluted earnings per share

The diluted loss per share in 2008 is based upon the net loss attributable to ordinary shareholders of £237,113 and a weighted average number of shares in issue for the year of 60,207,821. The diluted loss per share in 2008 and 2007 is the same as the losses have an anti-dilutive effect.

Post year end the Group issues new equity totaling 5,882,353 ordinary shares of £0.20p each. The diluted loss per share when this is taken into consideration would be £0.4p.

16 Goodwill

	2008 Group £
At 1 July 2006, 30 June 2007 and 30 June 2008	**2,057,802**

Goodwill arises from the Group's investments in South Africa. Goodwill has been assessed for impairment in accordance with the Group's accounting policies (note 1) at 30 June 2008 using the Group's total operations in South Africa as these are managed as a single business operation and the individual operations are not separable. No impairment was identified.

17 Intangible mining assets

	Deferred exploration and development 2008 Group £	Exploration data and prospecting rights 2008 Group £	Provision for rehabilitation costs 2008 Group £	Mining licences 2008 Group £	Total 2008 Group £
Cost					
At 1 July 2006	6,452,497	615,013	45,439	230,439	7,343,388
Additions	2,497,313	–	83,711	–	2,581,024
Exchange difference	(298,360)	–	(4,613)	–	(302,973)
At 30 June 2007	8,651,450	615,013	124,537	230,439	9,621,439
Additions	5,012,659	–	25,869	–	5,038,528
Exchange difference	(1,267,932)	(148,507)	(11,999)	–	(1,428,438)
At 30 June 2008	**12,396,177**	**466,506**	**138,407**	**230,439**	**13,231,529**
Amortisation and impairment					
At 1 July 2006	–	–	21,457	–	21,457
Charge for the year	–	–	11,717	–	11,717
Exchange difference	–	–	(1,660)	–	(1,660)
At 30 June 2007	–	–	31,514		31,514
Charge for the year	214,621	–	24,819	–	239,440
Exchange difference	(30,291)	–	(7,689)	–	(37,980)
Impairment charges	2,166,529	–	–	–	2,166,529
At 30 June 2008	**2,350,859**	**–**	**48,644**	**–**	**2,399,503**
Net book value at 30 June 2008	**10,045,319**	**466,506**	**89,763**	**230,439**	**10,832,026**
Net book value at 30 June 2007	8,651,450	615,013	93,023	230,439	9,589,925
Net book value at 1 July 2006	6,452,497	615,013	23,982	230,439	7,321,931

The Group's intangible mining assets include significant projects in both Botswana and South Africa which are managed as a linked operation. These assets have been assessed for impairment in accordance with the Group's accounting policies (note 1) at 30 June 2008. Impairment identified, which has arisen solely within the South African operations, has been charged to profit and loss as indicated above.

18 Property, plant and equipment

	Exploration and development 2008 Group £	Mining property 2008 Group £	Mining equipment 2008 Group £	Plant and equipment 2008 Group £	Motor vehicles 2008 Group £	Total 2008 Group £
Cost						
At 1 July 2006	6,498,068	503,188	680,179	5,133,023	243,278	13,057,736
Additions	–	–	208,982	2,558,107	126,331	2,893,420
Disposals	–	–	(238,337)	–	(32,118)	(270,455)
Exchange difference	(436,809)	(33,825)	(45,178)	(398,571)	(22,375)	(936,758)
At 30 June 2007	6,061,259	469,363	605,646	7,292,559	315,116	14,743,943
Additions	–	–	196,864	1,174,714	134,601	1,506,179
Disposals	–	–	–	–	(22,864)	(22,864)
Exchange difference	(538,746)	(23,063)	(1,414)	(823,142)	(54,683)	(1,441,048)
At 30 June 2008	**5,522,513**	**446,300**	**801,096**	**7,644,131**	**372,170**	**14,786,210**
Depreciation						
At 1 July 2006	271,181	74,592	249,425	1,056,636	150,295	1,802,129
Charge for the year	102,062	–	197,892	356,980	45,779	702,713
Disposals	–	–	(168,678)	–	(29,743)	(198,421)
Exchange difference	(20,128)	(5,014)	(17,311)	(77,688)	(10,469)	(130,610)
At 30 June 2007	353,115	69,578	261,328	1,335,928	155,862	2,175,811
Charge for the year	–	–	5,528	645,577	81,965	733,070
Disposals	–	–	–	–	(6,097)	(6,097)
Exchange difference	(31,386)	(6,209)	(86)	(69,900)	(16,700)	(124,281)
At 30 June 2008	**321,729**	**63,369**	**266,770**	**1,911,605**	**215,030**	**2,778,503**
Net book value at 30 June 2008	5,200,784	382,931	534,326	5,732,526	157,140	12,007,707
Net book value at 30 June 2007	5,708,144	399,785	344,318	5,956,631	159,254	12,568,132
Net book value at 1 July 2006	6,226,887	428,596	430,754	4,076,387	92,983	11,255,607

Motor vehicles include vehicles held under finance leases with a net book value of £40,879 (2007 nil). Additionally moveable plant and equipment amounting to £321,808 is secured against interest-bearing borrowings.

19 Investment in subsidiary companies

	2008 Company £
At 1 July 2006	**26,212,109**
Additions	**2,299,738**
At 30 June 2007	**28,511,847**
Additions	**1,086,171**
At 30 June 2008	**29,598,018**

19 Investment in subsidiary companies continued

At 30 June 2008, the Company held 100% (2007: 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**	75%	Diamond exploration and mining	South Africa
Firestone Diamonds (Botswana) (Pty) Ltd	100%	Diamond exploration and mining	Botswana
Daly City Ventures (Pty) Ltd	51%	Diamond exploration and mining	Botswana
Monak Venture (Pty) Ltd	80%	Diamond exploration and mining	Botswana

* 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 Group's South African subsidiaries are subject to exchange control approval in that country.

20 Inventories

	2008 Group £	2007 Group £
Raw materials and consumables	**283,188**	128,001
Cut and uncut diamonds held for sale	**28,404**	147,507
	311,592	275,508

21 Trade and other receivables

	2008 Group £	2007 Group £	**2008 Company £**	2007 Company £
Trade receivables	**776,517**	764,993	**–**	–
Other receivables	**437,905**	1,570,716	**2,360**	149
Prepayments	**130,879**	–	**–**	191,452
	1,345,301	2,335,709	**2,360**	191,601

There were no trade and other receivables that were past due or considered to be impaired.

22 Available-for-sale investments

	2008 Group £
At 1 July 2006	**7,416,952**
Disposals	**(257,360)**
Mark-to-market fair-value	**(1,621,677)**
At 30 June 2007	**5,537,915**
Disposals	**(5,537,915)**
At 30 June 2008	**–**

The available-for-sale investments comprised Ordinary Share holdings in African Diamonds plc and West African diamonds plc.

23 Cash and cash equivalents

	2008 Group £	2007 Group £	2008 Company £	2007 Company £
Cash at bank and in hand net of bank overdrafts	**381,507**	1,118,790	**13,403**	1,868,099

Cash deposits of £210,062 included above are linked to bonds in accordance with the requirements of the Mineral and Petroleum Resources Development Act 2004 of South Africa (note 28).

24 Share capital

	2008 Group and Company Number	2007 Group and Company £
Authorised		
Ordinary shares of 20p each	**99,750,010**	19,950,002
Redeemable preference shares of £1 each	**49,998**	49,998
	99,800,008	20,000,000
Allotted, called up and fully paid		
Ordinary shares of 20p each		
At 1 July 2006	**55,757,901**	11,151,581
Issued in the year on exercise of options	**33,544**	6,709
At 30 June 2007	**55,791,445**	11,158,290
Issued in the year on exercise of options	**58,396**	11,679
	55,849,841	11,169,969

25 Equity-settled share option scheme

The Company issues equity-settled share-based payments to employees and directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The Company operated two share option schemes: a Basic Share Option Scheme and a Performance Related Share Option Scheme. The fair value of services received in return for share options and other share-based incentives granted is measured by reference to the fair value of share options and incentives granted. This estimate is based on a Black-Scholes model which is considered most appropriate considering the effects of the vesting conditions, expected exercise period and the dividend policy of the Company.

The input into the Black-Scholes model for the share option plans are as follows:

	2008	2007
Weighted average share price	**136p**	117p
Weighted average option exercise prices	**96p**	96p
Expected volatility	**43%**	43%
Expected option life	**5 years**	5 years
Risk-free rate	**4.9%**	5.2%
Expected dividend yield	**Nil**	Nil

The calculation of the volatility of the share price was based on the Company's daily closing share price over the period from July 2003 to the date of grant.

25 Equity-settled share option scheme continued

Details of the total share options outstanding in respect of the Basic Share Option Scheme and the Performance Related Share Option Scheme during the year are as follows:

	30 June 2008		30 June 2007	
	No of share options	Weighted average exercise price Pence	No of share options	Weighted average exercise price Pence
Outstanding at beginning of year	**10,990,000**	**54**	10,810,000	52
Granted during the year	**560,000**	**117**	265,000	96
Exercised during the year	**(85,000)**	**58**	(50,000)	54
Forfeited during the year	**–**	**–**	(35,000)	90
Outstanding at the end of the year	**11,465,000**	**57**	10,990,000	54
Exercisable at the end of the year	**10,753,333**	**51**	10,268,333	53

The options exercisable at 30 June 2008 have an exercise price in the range of 33p to 148p (2007: 33p to 148p) and a weighted average contractual life of 7.16 years (2007: 6.36 years). The weighted average share price at the date of exercise of options exercised during the year was 185p (2007: 165p).

	Group £ 2008	Group £ 2007
Charge for the year	**292,700**	208,467

	Group £ 2008	Group £ 2007
Charge for the year	**292,700**	–

As at 30 June 2008, options granted under the Basic Share Option scheme were outstanding over a total of 3,720,000 (2007: 3,245,000) Ordinary Shares as follows:

Date of grant	Exercise period	Share options held at 30/6/08	Share options held at 30/6/07	Exercise price Pence
26/01/2000	26/1/ 01 to 26/1/10	–	30,000	–
25/02/2000	25/2/01 to 25/2/10	1,360,000	1,360,000	76.5
30/01/2001	30/1/02 to 30/1/11	–	15,000	–
22/07/2002	22/7/03 to 22/7/12	40,000	70,000	66.5
18/12/2003	18/12/04 to 18/12/13	20,000	30,000	36.0
08/04/2004	8/4/05 to 8/4/14	1,000,000	1,000,000	37.0
22/12/2004	22/12/05 to 22/12/14	500,000	500,000	110.0
04/04/2006	4/4/07 to 4/4/16	10,000	10,000	148.0
13/09/2006	13/9/07 to 13/9/16	195,000	195,000	89.5
30/04/2007	30/4/08 to 30/4/17	35,000	35,000	139.0
06/12/2007	06/12/08 to 06/12/17	60,000	–	98.0
19/12/2007	19/12/08 to 19/12/17	150,000	–	97.0
15/01/2008	15/01/09 to 15/01/11	200,000	–	113.0
22/01/2008	22/01/09 to 22/01/11	150,000	–	113.0
		3,720,000	3,245,000	

25 Equity-settled share option scheme continued

As at 30 June 2008, options granted under the Performance Related Share Option Scheme were outstanding over a total of 7,745,000 (2007: 7,745,000) Ordinary Shares as follows:

Date of grant	Exercise period	Share options held at 30/6/08	Share options held at 30/6/07	Exercise price (pence)
08/04/2003	8/4/04 to 8/4/13	1,085,000	1,085,000	33.0
09/01/2004	9/1/05 to 9/1/14	2,400,000	2,400,000	36.0
21/01/2004	21/1/05 to 21/1/14	1,360,000	1,360,000	41.0
08/04/2004	8/4/05 to 8/4/14	2,000,000	2,000,000	37.0
03/08/2004	3/8/05 to 3/8/14	250,000	250,000	70.0
03/05/2005	3/5/06 to 3/5/15	650,000	650,000	130.0
		7,745,000	7,745,000	

Share option settlement scheme

In order to minimise the share capital dilution that would arise on the exercise of options, the Company has implemented a share option settlement scheme. Under this scheme the Company will, at the time of exercise of any options, agree to issue shares to the option holder with a value equal to the difference between the market value of the shares and the option exercise price on the date of exercise. On the basis of this scheme, the effective dilution resulting from all outstanding basic and performance related options as of 30 June 2008 at the closing share price on 30 June 2008 of 144p per share was 4,414,462 shares (2007: closing share price of 157p per share, dilutive shares 7,282,245 respectively).

Long term incentive plan

The Company has established a Long Term Incentive Plan (LTIP) for the benefit of senior management. The LTIP makes up to 2,000,000 shares available to participants, of which 1,000,000 will be subject to the share price reaching £3 by the end of 2009, and 1,000,000 will be subject to the share price reaching £4 by the end of 2009. The relevant options are included within the above tables.

26 Interest-bearing loans and borrowings

	Non-current Group £ 2008	Non-current Group £ 2007
Bank loans	**1,830,124**	2,163,178
Obligations under finance leases	**30,469**	–
	1,860,593	2,163,178

	Current Group £ 2008	Current Group £ 2007
Bank loans	**765,921**	635,886
Obligations under finance leases	**9,109**	–
	775,030	635,886

Bank loans are secured by a first charge over the plant and machinery comprising the Toll Treatment plant at Buffels and a first bond of ZAR5,000,000 (£321,808) over the assets of the Company's subsidiary company Surfzone Diamonds Limited. The Company and certain of its subsidiary companies have entered into subordination agreements and other suretyships in respect of intra-group indebtedness to a maximum of ZAR25,000,000 (£1,609,041) in African Star Minerals (Proprietary) Limited and ZAR 40,000,000 (£2,574,466) in Surf Zone Diamonds (Proprietary) Limited.

The fair-value of interest-bearing borrowings is shown in note 30.

26 Interest-bearing loans and borrowings continued

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced. Amounts shown for debt include both capital repayments and related interest calculated at year-end rates.

	Effective interest rate	Group Total £ 2008	Group Current £ 2008	Group 1–2 Years £ 2008	Group 2–5 years £ 2008
Cash at bank and other deposits	5.50%	381,507	381,507	–	–
First National Bank of Botswana	16.50%	(366,457)	(121,056)	(160,260)	(85,141)
WesBank Botswana	16.50%	(50,262)	(9,860)	(16,371)	(24,031)
WesBank South Africa	13.00%	(441,605)	(114,435)	(118,345)	(208,825)
ABSA	12.85%	(2,290,182)	(545,918)	(710,531)	(1,033,733)
First National Bank	16.50%	(36,459)	(36,459)	–	–
		(3,184,965)	(827,728)	(1,005,507)	(1,351,730)

27 Deferred tax

The deferred tax included in the balance sheet is as follows:

	2008 Group £	2007 Group £	**2008 Company £**	2007 Company £
Included in non-current assets	**(247,545)**	(174,726)	**–**	–
Included in non-current liabilities	**36,714**	294,161	**–**	–
	(210,831)	119,435	**–**	–

	At 1 July 2007 Group £	Movement in year Group £	**At 30 June 2008 Group £**
Accelerated capital allowances	(1,647)	168,361	**166,714**
Other timing differences	–	(112,619)	**(112,619)**
Deferred exploration costs	2,858,072	(4,763,298)	**(1,905,226)**
Foreign exchange differences	–	39,454	**39,454**
Tax losses	(2,975,860)	4,998,368	**2,022,508**
	(119,435)	330,266	**210,831**

The directors do not anticipate that accumulated reserves of overseas subsidiaries at 30 June 2008 will be remitted to the U.K. in the foreseeable future. Accordingly, no provision has been made for deferred tax on these balances.

28 Provisions

	Rehabilitation costs 2008 Group £	Directors' emoluments 2008 Group £	Total 2008 Group £
At 1 July 2007	831,251	214,218	1,045,469
Released in the year	(54,940)	–	(54,940)
Paid in the year	–	(214,218)	(214,218)
Exchange difference	(11,070)	–	(11,070)
	765,241	–	765,241
Disclosed as:			
Non-current	199,827	–	199,827
Current	565,414	–	565,414
	765,241	–	765,241

In 2007 all provisions were non-current. In 2007 an element of directors' remuneration was withheld subject to certain performance and liquidity constraints. The necessary conditions were satisfied in the year.

28 Provisions continued

The following cash deposits are linked to bonds held by subsidiaries in accordance with the requirements of the Mineral and Petroleum Resources Development Act 2004 of South Africa.

	Rand value	Sterling value
African Star Minerals (Proprietary) Limited	1,109,834	71,431
Asam Resources SA (Proprietary) Limited	314,715	20,256
Kuboes Diamante (Proprietary) Limited	500,000	32,181
Surf Zone Diamonds (Proprietary) Limited	1,339,218	86,194
	3,263,767	210,062

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. A total provision for rehabilitation work of £765,241 (2007: £1,045,469) has been raised as a long-term liability. The deferred assets which arise are being amortised over 10 years. The cost of all other provisions has been expensed in the year or in prior years.

29 Trade and other payables

	2008 Group £	2007 Group £	**2008 Company £**	2007 Company £
Trade payables	**1,237,337**	1,358,683	**–**	180,388
Tax and social security	**1,927**	6,382	**–**	–
Other payables	**329,021**	–	**–**	–
Other financial liabilities	**–**	661,933	**–**	661,933
Corporation tax	**9,376**	–	**–**	–
Accruals	**74,199**	–	**134,043**	–
	1,651,860	2,026,998	**134,043**	842,321

Other financial liabilities for 2007 comprised accumulated losses arising in respect of derivative financial instruments. These instruments were settled in 2008.

30 Financial instruments

In common with other businesses, the Group and Company (the "Group") is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

Substantive changes to the Group's exposure to interest-bearing indebtedness are disclosed in note 26.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

Group	**2008 £**	2007 £
Trade and other receivables	**1,345,301**	2,335,709
Available-for-sale investments	**–**	5,537,915
Cash and cash equivalents	**381,507**	1,118,790
Derivative financial instruments	**–**	(661,933)
Trade and other payables	**(1,642,484)**	(1,358,683)
Interest-bearing loans and borrowings	**(2,635,263)**	(2,799,064)

Company	**2008 £**	2007 £
Trade and other receivables	**2,360**	191,601
Cash and cash equivalents	**13,403**	1,868,099
Derivative financial instruments	**–**	(661,933)
Trade and other payables	**(134,043)**	(180,388)

30 Financial instruments continued

All investments in quoted securities and associated derivative financial instruments were sold or settled in the year. The fair-value of the principal financial instruments is not materially different from the carried values shown above.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated part of the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board retained full control over the Group's past investments in quoted securities and associated derivative financial instruments. The Board receives reports from financial personnel through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce ongoing risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk arises principally from the Group's and Company's trade and other receivables and cash and cash equivalents. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

The Group's principal trade and other receivables arise from the contracted operating plant contract in South Africa. This contract is with a subsidiary of the De Beers group and the recoverability of all amounts shown is expected without material adjustment.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings and government support where applicable.

Liquidity risk

Liquidity risk arises from the Group's and Company's management of working capital and the amount of funding committed to its diamond exploration, evaluation and mine development programmes. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group and Company arise in respect of the ongoing exploration, evaluation and development programmes, trade and other payables and the servicing of interest-bearing debt. Trade and other payables are all payable within six months.

As noted in the Directors' Report the Company raised £5,000,000 before expenses through the issue of new equity capital on 16 July 2008 to ensure that the Group had sufficient funds to continue with its ongoing operations. Further information in respect of the Group's interest-bearing indebtedness is disclosed in note 26.

The Board receives cash flow projections on a regular basis as well as information on cash balances.

Interest rate risk

The Group and the Company are exposed to interest rate risk in respect of its interest-bearing loans and borrowings which are variable rate instruments. The Group and Company are also exposed to interest rate risk in respect of surplus funds held on deposit. The Board does not currently undertake hedging arrangements in respect of its interest-bearing borrowings.

Interest rate table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit or loss before tax (through the impact on floating rate borrowings) and cash flows. There is no impact on the Group's equity.

	Change in rate	**2008 £**	Change in rate	2007 £
Sterling equivalent	–0.5%	**13,176**	–0.5%	13,995
	–1.0%	**26,352**	–1.0%	27,990
	–1.5%	**39,528**	–1.5%	41,985
Sterling equivalent	+0.5%	**(13,176)**	+0.5%	(13,995)
	+1.0%	**(26,352)**	+1.0%	(27,990)
	+1.5%	**(39,528)**	+1.5%	(41,985)

30 Financial instruments continued
Fair value of financial liabilities

	2008 Group £	2007 Group £
Bank loans	**(2,674,792)**	(2,813,059)
Trade and other payables	**(1,806,269)**	(1,318,037)
	(4,454,061)	(4,131,096)

The fair value of the bank loans has been calculated at 30 June 2008 as the interest rate is variable bank base rate plus a margin which management consider that reflects current interest rates and current spreads for the entity. There is no difference between the fair-value and book-value of trade and other payables. The same process was adopted for the 2007 analysis.

Currency risk
The Group does not currently enter into forward exchange contracts or otherwise hedge its potential foreign exchange exposure.

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. Long-term group loans to South African and Botswana subsidiary companies are considered to be part of the net investment by the Group in those subsidiaries.

The Company is exposed to a number of different currency risks between the Rand, U.S. Dollar, Sterling and Pula. The Group values and sells its diamonds in U.S. Dollars, but proceeds of sales are received in Rand. The Group also receives its revenues from the Toll Treatment Plant, wholly utilised by De Beers, in Rand. As the Group reports in Sterling, reported revenue is affected by the combination of changes in the U.S. Dollar/Rand and Sterling/Rand rates. The Group's expenses in Botswana and South Africa are incurred in Pula and Rand, respectively, so any weakening in the Pula or 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 Pula or Rand. The Company does not hedge its currency positions other than for short term transfers of funds between currencies which are expected to be reversed within 12 months. The Board monitors and reviews its policies in this regard on a regular basis.

As at 30 June 2008 the Group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2007: nil).

The Group holds substantial assets, comprising goodwill, mining properties and property, plant and equipment in Southern Africa. Accordingly the Group is exposed directly or will benefit from exchange rate fluctuations between Pounds Sterling and the Botswana Pula and the South African Rand in respect to these assets held by the Group.

At 30 June 2008 the effect of a significant movement in the above exchange rates will have the following effect on the net assets of the Group.

Botswana Base currency: Pula	Intangible mining properties £	Property, plant and equipment £	Goodwill £
Current balance sheet value	9,476,339	693,181	–
Sterling depreciates by 5%	473,817	34,659	–
Sterling depreciates by 10%	947,634	69,318	–
Sterling appreciates by 5%	(473,817)	(34,659)	–
Sterling appreciates by 10%	(947,634)	(69,318)	–

South Africa Base currency: Rand	Intangible mining properties £	Property, plant and equipment £	Goodwill £
Current balance sheet value	1,125,248	11,205,319	2,057,802
Sterling depreciates by 5%	56,262	560,266	102,890
Sterling depreciates by 10%	112,525	1,120,532	205,780
Sterling appreciates by 5%	(56,262)	(560,266)	(102,890)
Sterling appreciates by 10%	(112,525)	(1,120,532)	(205,780)

30 Financial instruments continued

Capital

The Group considers its capital and reserves attributable to equity shareholders to be the Group's capital. In managing its capital, the Group's primary long-term objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital needs. The Group's mining exploration and development activities are at an early stage and management considers that no useful target debt to equity gearing ratio can be identified at this time.

Details of the Group and Company capital are disclosed in the Group and Company statement of changes in equity.

There have been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

31 Operating lease commitments

	2008 Plant and machinery Group £	2007 Plant and machinery Group £
Within one year	**132,297**	3,750
Between one and two years	**89,387**	–
Between two and five years	**66,668**	–

The Company had operating lease commitments due within one year at 30 June 2008 of £3,750 (2007: £3,750).

32 Post-balance sheet events

On 16 July 2008 the Company issued a further 5,882,353 Ordinary Shares of £0.20 each at an issue price of £0.85 each. The issue raised £5,000,000 before expenses which will primarily be used to fund ongoing exploration and evaluation work at the Group's BK11, BK16 and Tsabong projects in Botswana.

The Company's share price has fallen significantly in 2008 in line with the overall mining sector, as a result of which the value of awards made under the Company's equity-based incentive schemes has been substantially reduced. The Company believes that the awards no longer provide appropriate performance incentives and intends to adjust these awards in the current financial year with the objective of ensuring that they fulfill their objective of motivating and retaining key management personnel and employees.

33 Capital commitments

There were no capital commitments outstanding at June 2008 for the Group and the Company.

34 Related-party transactions

At 30 June 2008 the amount of unpaid fees specific to individual directors were: J.F. Kenny £1,026 (2007: £6,658) and J. Kenny jnr £23,365 (2007: nil). In 2007 there were sums of £214,218 potentially due to directors dependent upon certain conditions being met. These sums were allocated to Directors' in the year and are also included in note 8 above.

Companies in which H.C.D. Jenner-Clark has an interest provided goods and services to the Group amounting to £5,109 (2007: £2,159).

Key management personnel received the following emoluments and provided good and services to the Group through companies in which they have an interest in the year:

	2008 £	2007 £
Salary and fees	**404,051**	375,836
Provisions of goods and services to the Group	**532,986**	1,339,419
	937,037	1,715,255

In the year the Company increased its investment in Firestone Diamonds Limited by £1,086,171 to provide funds for onward investment in the Groups operations in the Southern Africa region. Firestone Diamonds Limited increased its funding to Group companies within the Southern Africa region by £518,852. Details of the Company's subsidiary undertakings are shown in note 19 above. As explained in note 4 above the Group operated in the year in one segment, diamond mining, exploration and development and in one principal geographic area – Southern Africa. Operations in South Africa and Botswana are considered to be linked operations and intra-group indebtedness between the Group's subsidiaries is not meaningful to an understanding of the Group's operations in that region.

34 Related-party transactions continued
During the period the following amounts were invoiced for goods and services between operations in Southern Africa. All amounts invoiced were on normal commercial terms. All goods and services provided are classified as operating expenses.

Invoiced from:	£
Oena Mine (Proprietary) Limited	144,157
Surf Zone Diamonds (Proprietary) Limited	452,369
Asam Resources SA (Proprietary) Limited	146,625
	743,151

The Company provided various subordinations on the inter group loans as disclosed in note 26.

35 Prior year adjustments under U.K. GAAP
The net assets reported in previous periods has been restated to reflect amendments to rehabilitation provisions which have been reassessed for those periods and also to amend the treatment of the credit to equity arising from the recognition of share based payments from crediting a separate reserve to crediting retained earnings/(deficit).

Reconciliation of equity at 1 July 2006 (Group)

	Previously stated £	Adjustment a £	Adjustment b £	Restated U.K. GAAP £
Non-current assets				
Goodwill	2,057,802	–	–	2,057,802
Intangible mining assets	7,091,492	–	–	7,091,492
Property, plant and equipment	11,255,607	–	–	11,255,607
Other financial assets	3,078,550	–	–	3,078,550
Current assets				
Inventories	64,570	–	–	64,570
Trade and other receivables	1,886,790	–	–	1,886,790
Cash and cash equivalents	4,750,506	–	–	4,750,506
Non-current liabilities				
Interest-bearing borrowings	(450,130)	–	–	(450,130)
Deferred tax	(323,328)	–	–	(323,328)
Provisions	(580,909)	–	(706,713)	(1,287,622)
Current liabilities				
Interest-bearing borrowings	(333,500)	–	–	(333,500)
Trade and other payables	(606,693)	–	–	(606,693)
Net assets	27,890,757	–	(706,713)	27,184,044
Equity				
Share capital	11,151,581	–	–	11,151,581
Share premium account	19,132,921	–	–	19,132,921
Merger reserve	(1,076,399)	–	–	(1,076,399)
Share-option reserve	244,385	(244,385)	–	–
Retained deficit	(1,356,329)	244,385	(706,713)	(1,818,657)
Minority interest	(205,402)	–	–	(205,402)
Total equity attributable to shareholders	27,890,757	–	(706,713)	27,184,044

U.K. GAAP Adjustments

a) Transfer of share option reserve to retained deficit, reclassification within equity.

b) Restatement of historic rehabilitation provisions arising from a review of relevant legislation and obligations and a reassessment of the effect of mining operations performed in previous years. The additional expense for estimated rehabilitation costs forms part of other operating expenses.

35 Prior year adjustments under U.K. GAAP continued

Reconciliation of equity at 30 June 2007 (Group)

	Previously stated £	Adjustment a £	Adjustment b £	Restated U.K. GAAP £
Non-current assets				
Goodwill	2,044,752	–	–	2,044,752
Intangible mining assets	9,359,486	–	–	9,359,486
Property, plant and equipment	12,568,132	–	–	12,568,132
Other financial assets	3,078,550	–	–	3,078,550
Current assets				
Inventories	275,508	–	–	275,508
Trade and other receivables	2,510,435	–	–	2,510,435
Cash and cash equivalents	1,118,790	–	–	1,118,790
Non-current liabilities				
Interest-bearing borrowings	(2,163,178)	–	–	(2,163,178)
Deferred tax	(294,161)	–	–	(294,161)
Provisions	(338,756)	–	(706,713)	(1,045,469)
Current liabilities				
Interest-bearing borrowings	(635,886)	–	–	(635,886)
Trade and other payables	(1,428,211)	–	–	(1,428,211)
Net assets	26,095,461	–	(706,713)	25,388,748
Equity				
Share capital	11,158,290	–	–	11,158,290
Share premium account	19,181,560	–	–	19,181,560
Merger reserve	(1,076,399)	–	–	(1,076,399)
Share-option reserve	452,852	(452,852)	–	–
Retained deficit	(3,409,640)	452,852	(706,713)	(3,663,501)
Minority interest	(211,202)	–	–	(211,202)
Total equity attributable to shareholders	26,095,461	–	(706,713)	25,388,748

U.K. GAAP Adjustments

a) Transfer of share option reserve to retained deficit, reclassification within equity.

b) Restatement of historic rehabilitation provisions arising from a review of relevant legislation and obligations and a reassessment of the effect of mining operations performed in previous years.

36 Transition to International Financial Reporting Standards and other adjustments

The Group and Company reported under U.K. GAAP in its previous published financial statements for the year ended 30 June 2007. The analysis below shows a reconciliation of net assets as reported under U.K. GAAP (restated – note 35) as at 1 July 2006 and 30 June 2007 for both the Group and Company to the revised net loss and assets under International Financial Reporting Standards (IFRS) as reported in these financial statements.

As stated in the Basis of Preparation, these are the Group's first consolidated financial statements covered by IFRS. An explanation of how the transition from U.K. GAAP to IFRS has affected the Group's financial position and financial performance is set out below.

The reconciliation also includes an adjustment to the amount of rehabilitation provisions at 30 June 2006 increasing the previous provision by £706,713. As this adjustment arises from a fundamental error in the financial statements for the year ended 30 June 2006 this adjustment is considered to be a U.K. GAAP adjustment.

Significant changes to the cash flow statement

None of the adjustments arising from the transition to IFRS relate to cash and therefore there is no impact on the reported cash flows other than presentation.

36 Transition to International Financial Reporting Standards continued
Reconciliation of equity at 1 July 2006 (Company)

	U.K. GAAP restated £	Adjustment a £	Adjustment b £	IFRS £
Non-current assets				
Goodwill	2,057,802	–	–	2,057,802
Intangible mining assets	7,091,492	230,439	–	7,321,931
Property, plant and equipment	11,255,607	–	–	11,255,607
Available-for-sale investments	–	2,848,111	4,568,841	7,416,952
Other financial assets	3,078,550	(3,078,550)	–	–
Current assets				
Inventories	64,570	–	–	64,570
Trade and other receivables	1,886,790	–	–	1,886,790
Derivative financial instruments	–	–	119,845	119,845
Cash and cash equivalents	4,750,506	–	–	4,750,506
Non-current liabilities				
Interest-bearing borrowings	(450,130)	–	–	(450,130)
Deferred tax	(323,328)	–	(35,954)	(359,282)
Provisions	(1,287,622)	–	–	(1,287,622)
Current liabilities				
Interest-bearing borrowings	(333,500)	–	–	(333,500)
Trade and other payables	(606,693)	–	–	(606,693)
Net assets	27,184,044	–	4,652,732	31,836,776
Equity				
Share capital	11,151,581	–	–	11,151,581
Share premium account	19,132,921	–	–	19,132,921
Merger reserve	(1,076,399)	–	–	(1,076,399)
Fair-value reserve	–	–	4,568,841	4,568,841
Translation reserve	–	–	–	–
Retained deficit	(1,818,657)	(205,402)	83,891	(1,940,168)
Minority interest	(205,402)	205,402	–	–
Total equity attributable to shareholders	27,184,044	–	4,652,732	31,836,776

36 Transition to International Financial Reporting Standards continued

Reconciliation of equity at 30 June 2007 (Group)

	U.K. GAAP restated £	Adjustment a, d £	Adjustment c £	Adjustment e £	IFRS £
Non-current assets					
Goodwill	2,044,752	–	–	13,050	2,057,802
Intangible mining assets	9,359,486	230,439	–	–	9,589,925
Property, plant and equipment	12,568,132	–	–	–	12,568,132
Available-for-sale investments	–	2,848,111	(2,848,111)	–	–
Other financial assets	3,078,550	(3,078,550)	–	–	–
Current assets					
Inventories	275,508	–	–	–	275,508
Trade and other receivables	2,510,435	–	–	–	2,510,435
Available-for-sale investments	–	–	5,537,915	–	5,537,915
Derivative financial instruments	–	–	–	–	–
Cash and cash equivalents	1,118,790	–	–	–	1,118,790
Non-current liabilities					
Interest-bearing borrowings	(2,163,178)	–	–	–	(2,163,178)
Deferred tax	(294,161)	–	–	–	(294,161)
Provisions	(1,045,469)	–	–	–	(1,045,469)
Current liabilities					
Interest-bearing borrowings	(635,886)	–	–	–	(635,886)
Trade and other payables	(1,428,211)	–	(598,787)	–	(2,026,998)
Net assets	25,388,748	–	2,091,017	13,050	27,492,815
Equity					
Share capital	11,158,290	–	–	–	11,158,290
Share premium account	19,181,560	–	–	–	19,181,560
Merger reserve	(1,076,399)	–	–	–	(1,076,399)
Fair-value reserve	–	–	2,947,164	–	2,947,164
Translation reserve	–	(2,134,437)	–	–	(2,134,437)
Retained deficit	(3,663,501)	1,923,235	(856,147)	13,050	(2,583,363)
Minority interest	(211,202)	211,202	–	–	–
Total equity attributable to shareholders	25,388,748	–	2,091,017	13,050	27,492,815

36 Transition to International Financial Reporting Standards continued

Reconciliation of profit for the year to 30 June 2007 (Group)

	U.K. GAAP £	Adjustments a £	Adjustments c £	Adjustments e £	IFRS £
Revenue	1,633,393	–	–	–	1,633,393
Changes in inventories	85,109	–	–	–	85,109
Raw materials and consumables used	(274,143)	–	–	–	(274,143)
Employee costs	(319,990)	–	–	–	(319,990)
Amortisation, depreciation and impairment	(536,105)	(8,832)	–	13,050	(531,887)
Other operating expenses	(664,353)	(257,831)	–	–	(922,184)
Loss on disposal	–	–	(668,683)	–	(668,683)
Operating loss	(76,089)	(266,663)	(668,683)	13,050	(998,385)
Financial income	280,834	–	–	–	280,834
Financial costs	(134,335)	–	–	–	(134,335)
Profit/(loss) before tax	70,410	(266,663)	(668,683)	13,050	(851,886)
Taxation	(35,730)	35,954	–	–	224
Profit/(loss) after tax for the year	34,680	(230,709)	(668,683)	13,050	(851,662)

Notes to the reconciliations:

a) Reclassification of other financial asset to available-for-sale investment and intangible mining property. Transfer of losses previously attributable to the minority interests to retained deficit.

b) Fair-value adjustments at 1 July 2006 to reflect the market value of available-for-sale investments to the fair-value reserve and to recognise the market value of currency and share derivative contracts.

c) Fair-value adjustments at 30 June 2007 to reflect the market value of available-for-sale investments to the fair-value reserve and to recognise the market value of currency and share derivative contracts.

d) Transfer of the effect of the retranslation of overseas subsidiary companies from retained deficit to a separate translation reserve net of an adjustment to reflect the recycling of realised foreign exchange losses to the income statement.

e) In accordance with IFRS 3, goodwill arising on the acquisition of a subsidiary is no longer amortised and therefore any adjustment to amortise goodwill under U.K. GAAP during the year since transition to IFRS has been reversed.

Reconciliation of equity at 1 July 2006 (Company)

	U.K. GAAP £	Adjustment g f	IFRS £
Non-current assets			
Investments	26,212,109	–	26,212,109
Current assets			
Trade and other receivables	11,597	–	11,597
Derivative financial instruments	–	6,750	6,750
Cash and cash equivalents	4,156,226	–	4,156,226
Non-current liabilities			
Deferred tax	–	(2,025)	(2,025)
Current liabilities			
Trade and other payables	(82,841)	–	(82,841)
Net assets	30,297,091	4,725	30,301,816
Non-current liabilities			
Equity			
Share capital	11,151,581	–	11,151,581
Share premium account	19,132,921	–	19,132,921
Retained earnings	12,589	4,725	17,314
Total equity attributable to shareholders	30,297,091	4,725	30,301,816

36 Transition to International Financial Reporting Standards continued

Reconciliation of equity at 30 June 2007 (Company)

	U.K. GAAP £	Restatement g £	U.K. GAAP Restated £	Adjustment h £	IFRS £
Non-current assets					
Investments	28,511,847	–	28,511,847	–	28,511,847
Current assets					
Trade and other receivables	149	191,452	191,601	–	191,601
Cash and cash equivalents	1,868,099	–	1,868,099	–	1,868,099
Non-current liabilities					
Deferred tax	–	–	–	–	–
Current liabilities					
Trade and other payables	(180,388)	–	(180,388)	–	(180,388)
Other creditors	–	–	–	(661,933)	(661,933)
Net assets	30,199,707			(470,481)	29,729,226
Non-current liabilities					
Equity					
Share capital	11,158,290	–	11,158,290	–	11,158,290
Share premium account	19,181,560	–	19,181,560	–	19,181,560
Retained deficit	(140,143)	191,452	(51,309)	(661,933)	(610,624)
Total equity attributable to shareholders	30,199,707			(470,481)	29,729,226

	U.K. GAAP £	Adjustment i £	IFRS £
Other operating expenses	(152,732)	–	(152,732)
Fair-value loss on derivative financial instruments	–	(477,231)	(477,231)
Operating loss and loss before tax	(152,732)	(477,231)	(629,963)
Taxation	–	2,025	2,025
Loss after tax for the year	(152,732)	(475,206)	(627,938)

Notes to the reconciliations:

f) Fair-value adjustments at 1 July 2006 to recognise the market value of share derivative contracts.

g) Prior period adjustment to correct 2007 financial statements.

h) Fair-value adjustments at 30 June 2007 to recognise the market value of share derivative contracts.

i) Fair-value adjustments at 30 June 2007 to recognise the market value of share derivative contracts.

Notes

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at MWB Business Exchange, 60 Cannon Street, London EC4N 6NP on 29 January 2009 at 11.45 a.m. for the following purposes:

Ordinary Business

1. To receive the Company's annual accounts for the financial year ended 30 June 2008, the directors' report and the auditors' report on those accounts.
2. To reappoint PKF (U.K.) LLP 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 H. Jenner-Clarke, 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 resolutions 4 and 5 will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions:

4. That the authorised share capital of the company be increased from £20,000,000 divided into 99,750,010 ordinary shares of 20p each and 49,998 redeemable preference shares of £1 each to £30,000,000 by the creation of an additional 50,000,000 new ordinary shares of 20p each having the rights set out in the Articles of Association.
5. That, subject to the passing of resolution 4, 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 £10,000,000 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.
6. That, subject to the passing of resolution 4 and 5 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 £6,000,000.
7. That the Articles of Association of the Company in the form contained in the printed document produced to the meeting and for the purpose of identification signed by the Chairman, be and hereby approved and adopted as the new Articles of Association of the Company in place of and to the exclusion of the existing Articles of Association.

By Order of the Board
P. Kenny
9 December 2008

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, speak and vote instead of him. The proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.
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 delivered to Firestone Diamonds plc, 4th Floor, 26-28 Hammersmith Grove, London W6 7BA not less than 48 hours before the time fixed for holding the Meeting (excluding weekends and public holidays. 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 6.00 p.m., 27 January 2009 (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.

4. A vote withheld option is provided on the form of proxy to enable you to instruct not to vote on any resolution. However, it should be noted that a vote withheld in this way is not a "vote" in law and will not be counted in the calculation of the proportion of votes "for" and "against" a resolution.
5. To change your proxy instructions simply submit a new proxy appointment form using the methods set out above. Note that the cut-off time for receipt of a proxy appointment (see above) shall also apply in relation to any amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
6. As at 5.00 p.m. on 8 December 2008 the Company's issued share capital comprised 61,732,194 ordinary shares of 20p each ("Ordinary Shares") and 49,998 redeemable preference shares of £1 each ("Redeemable Preference Shares"). Each ordinary share carries the right to one vote at a general meeting of the Company, the Redeemable Preference Shares do not carry any voting rights. Therefore, the total number of voting rights in the Company as at 5.00 p.m. on 8 December 2008 is 61,732,194.
7. Explanatory Notes to Resolution 7:

Resolution number 7 will be proposed as a special resolution to replace the Company's existing Articles of Association with new Articles of Association. The new Articles of Association are similar to the Company's existing Articles of Association but have been updated primarily to reflect certain provisions of the new Companies Act 2006 (the "2006 Act"). Copies of the new Articles of Association will be available from the Company's registered office from the date of the notice of the Annual General Meeting until the date of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes prior to and until the conclusion of the Annual General Meeting. Your attention is drawn, in particular, to the following:

Disclosure of Interests in Shares

The provisions of the Companies Act 1985 regarding the disclosure of interests in shares were repealed in January 2007. New provisions under the 2006 Act have now been brought into force and Article 48 refers to the corresponding sections of the 2006 Act.

General Meetings to be Called on 14 Days Notice

The 2006 Act has amended the requirement to give 21 days' notice, in respect of a general meeting of shareholders at which it is proposed to pass a special resolution, to 14 days' notice. Article 55 states that the length of notice for calling a general meeting is 14 clear days'. The length of notice for the Company's annual general meeting will remain at 21 clear days and for resolutions at which special notice has been given will remain at 28 clear days.

Proxies

The 2006 Act now provides that a proxy may not only attend and vote at a meeting on the shareholder's behalf but may now also speak at the meeting and the new Articles of Association provide for this.

Provision has been made for the Directors to allow shareholders who hold their shares in uncertificated form to now appoint their proxy by means of electronic communication in accordance with the Uncertificated Securities Regulations 2001. Article 81 reflects this change.

Under the 2006 Act the requirement to lodge an instrument appointing a proxy at the place specified for that purpose not less than 48 hours before the time of the meeting has been amended to exclude weekends, Christmas Day, Good Friday and any bank holiday. Accordingly, any of these days may no longer count towards the 48 hour period.

Remuneration of Directors

The aggregate amount of remuneration of the directors (excluding the Executive Directors) has been increased from £50,000 per year to £250,000 per year.

Director Conflicts of Interest

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The new Articles of Association at Articles 118 to 136 give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Electronic Communications

On 20 January 2007 certain provisions under the 2006 Act came into force allowing companies to communicate with their shareholders electronically via e-mail or website and Articles 175 and 176 allow for this.

The 2006 Act enables companies to communicate with shareholders through the Company's website and/or through the use of email provided that, in each case, the shareholder has agreed that information may be supplied to him or her in such a way.

With regard to the consent to communication by website, the Company can send a notice requesting an individual to consent to having documents or information sent to him or her by means of a website, and if the Company does not receive a response to such a request within 28 days of the request being sent, the individual shareholder is deemed to have agreed to receive documents or information by such means. However, if the Company wishes to send information or documents by way of electronic form (for example, by way of email or fax) it will only be entitled to do so on receiving written consent and an appropriate address from the shareholder.

Where information is provided in electronic form, shareholders can still require the Company to send them the information or document in hard copy and such information or document must then be provided within 21 days of the request.

Other Changes

The opportunity is also being taken to make minor amendments to the Company's Articles of Association to update statutory references and to correct typographical errors. However, the above narrative summarises the material differences between the current and the proposed Articles of Association. Changes of a minor, conforming or technical nature have not been mentioned specifically. Copies of the Articles of Association (showing the proposed differences between the current Articles of Association and the new Articles of Association) are available for inspection during normal business hours at the registered office of the Company until the date of the Annual General Meeting or upon request from the Company Secretary, and are displayed on the Company's website. Copies will be available at the Annual General Meeting.

Form of Proxy – Firestone Diamonds plc

For use at the Annual General Meeting to be convened for 11.00 a.m., 29 January 2009

I/We
(BLOCK CAPITALS)

of ______________________________

being (a) member(s) of the above named Company hereby appoint the Chairman of the Meeting or ______________________ (see Note 2) as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at MWB Business Exchange, 60 Cannon Street, London EC4N 6NP on 29 January, 2009 at 11.45 a.m. and at every adjournment thereof and I/we direct my/our proxy to vote as indicated below.

		For	Against	Withheld
Resolution 1	To receive the Company's annual accounts for the financial year ended 30 June, 2008, the directors' report and the auditors' report on those accounts.			
Resolution 2	To reappoint PKF (U.K.) LLP as auditors and authorise the directors to fix their remuneration.			
Resolution 3	To reappoint H. Jenner-Clarke as a director.			
Resolution 4	To increase the authorised ordinary share capital			
Resolution 5	To authorise the directors to allot shares.			
Resolution 6	To disapply statutory pre-emption rights.			
Resolution 7	To adopt the new articles of association.			

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 5 and 7)

Notes:
1. A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him. The proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.
2. 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.
3. If you wish you may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. To appoint more than one proxy please photocopy this form indicating on each copy the name of the proxy and the number of shares in respect of which the proxy is appointed. All forms must be signed and should be returned in the same envelope.
4. To be valid, the completed Form of Proxy must be lodged with the Company's Registrars not less than 48 hours (excluding weekends and public holidays) before the time fixed for holding the Meeting.
5. In the case of a corporation, the Form of Proxy should be signed under the common seal or under the hand of a duly authorised officer or attorney.
6. A proxy need not be a member of the Company.
7. 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.
8. Completion of this Form of Proxy will not prevent a member from attending the Meeting and voting in person should he/she so wish.
9. Any alterations made to this Form of Proxy should be initialled.

Please tear out and return in envelope supplied.

Company information

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Nominated Adviser
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Glasgow G2 5TS

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PR Consultants
Conduit PR
76 Cannon Street
London EC4N 6AE

Company Secretary
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