FIRESTONE DIAMONDS PLC
(Registered number 3589905)

ANNUAL REPORT

YEAR ENDED 30 JUNE 2002

PKF

FIRESTONE DIAMONDS PLC
ANNUAL REPORT
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FIRESTONE DIAMONDS PLC
YEAR ENDED 30 JUNE 2002

DIRECTORS

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

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REGISTERED NUMBER

3589905

COMPANY SECRETARY

Pinsent Curtis Company Services Limited

FIRESTONE DIAMONDS PLC
CHAIRMAN'S STATEMENT

The past year saw continued progress in the development of Firestone's mining operations and exploration projects. The primary focus at our mining operations was on development work at both the Avontuur and Oena Mines, while exploration activity during the year was mainly concentrated on the Mopipi project in Botswana. The Company has been very active in identifying new projects, and we expect to secure and commence work on our third mining operation and two new exploration projects in the coming year. While the South African government's initiatives to support black economic empowerment (BEE) have received much publicity in recent months, they are unlikely to have an adverse effect on Firestone. These initiatives are expected to result in new opportunities opening up, and Firestone intends to pursue these opportunities in cooperation with a prominent BEE partner, with whom negotiations are at an advanced stage.

Mining

Oena Mine, Namaqualand, South Africa
Significant progress was made at Oena during the year, with production increasing 230% to 923 carats, at an average size of 1.93 carats per stone. Prices for Oena production continued to remain strong, with the average value of production increasing 18% to $855 per carat. A number of special stones were recovered during the year, including a fancy yellow diamond weighing 30.14 carats that sold for $104,200, or $3,460 per carat, and white diamonds of 26.28, 13.5 and 11.27 carats that sold for $2,096, $3,998 and $2,273 per carat, respectively. Diamonds larger than 5 carats accounted for more than 47% of production. Since the year-end a very rare orange diamond weighing 16.41 carats was recovered. This stone has not yet been sold. With worldwide rough diamond prices averaging approximately $60 per carat, the prices achieved for Oena production place it in the top echelon of diamond mines worldwide in terms of diamond value. We remain confident that the value of run of mine production will continue to rise as production volumes increase and as a consequence of the continued shortage of large, high quality diamonds.

A number of significant additions were made to the mining infrastructure at Oena during the year. A new mobile gravel treatment plant was acquired and commissioned by year-end. A second field screening unit was also acquired and put into operation to supply the new plant with screened gravel. Grades from mining areas were broadly in line with expectations, ranging from 0.39 to 1.49 carats/100 tonnes.

Development of the Sandberg deposit began in March with the awarding of a contract for overburden stripping. This work took much longer than anticipated as a number of extremely hard cemented sandstone layers were encountered in the overburden. Strong water flows were also encountered at depth in the mining pit, and continuous pumping was required to allow excavation to proceed. Gravel has been recovered from the target levels, and initial recoveries have produced an average size of 3.26 carats per stone. However, a number of problems have been encountered in processing the target gravels due to the fact that they are water-saturated and have a high clay content. This will require changes to be made to the gravel screening unit and treatment plant, and further processing of these gravels has therefore been deferred while the necessary modifications are reviewed.

Pending these modifications, the new gravel treatment plant has been relocated upstream from Sandberg to the Blokwerf terrace, where development work has recently commenced. Blokwerf hosts more than 50% of the gravel resources at Oena. Initial recoveries indicate a higher grade and larger average size at Blokwerf than was recovered from mining on the meso gravels downstream at the Oena terrace. It is expected that meso gravel mining operations will now be carried out simultaneously at both the Oena and Blokwerf terraces.

The increase in earthmoving and gravel processing capacity that was put in place at Oena during the year is expected to have a significant impact on production during the current year.

Exploration activity continued at Oena and a total of 946 metres of percussion drilling was carried out over 55 holes at the Sandberg, Oena and Blokwerf deposits.

Avontuur Mine, Namaqualand, South Africa
Production at Avontuur during the second half of the year was slightly higher than the first half, at 1,685 carats, for full year production of 3,350 carats. Diamonds produced continued to be approximately 85% gem quality, with an average size of 0.21 carats per stone. Average prices for gem quality production increased 8% to $108 per carat, with prices rising to $114 per carat in May due to strong market demand. Grades from mining areas ranged from 6 to 47 carats/100 tonnes.

The lower production during the year was primarily due to the fact that mining activities were focused on clearing and processing stockpiles of lower grade gravels in preparation for the development of the SP3 deposit. The first gravels from SP3 were excavated and available for processing towards the end of the year. An unexpectedly high clay content in the gravel hampered processing of this material, resulting in oversize material having to be processed several times to maximise liberation of diamonds from the clay matrix. As a result of these problems, processing of gravels from the initial SP3 excavation has not yet been completed, although one block from SP3 from which a significant portion of the excavated gravel has been treated has produced a grade of approximately 10 carats/100 tonnes. In the meantime, lower grade gravel stockpiles are being processed while new mining areas are being opened up.

Commissioning of the new dense media separation plant (DMS) commenced during the second half of the year. Final tests on the DMS are being completed and it is expected to go into full production in January. Plans will be made to operate the DMS on a double shift basis once sufficient stockpiles of gravel are available.

Exploration activity continued at Avontuur, with the most significant development being the acquisition of data from a high resolution airborne electromagnetic survey covering the entire property. Interpretation of this data has identified 6 new exploration targets, on which drilling has commenced. A total of 6,736 metres of percussion drilling was carried out over 389 holes during the year.

A prospecting permit for a new area to the east of Avontuur was granted during the period. This area contains a number of promising exploration targets, and exploration will commence in the coming year.

Exploration

Groen River Valley, Namaqualand, South Africa
The Groen River Valley project is the Company's most important exploration project in South Africa, primarily due to the high quality and large size of diamonds that have been mined in the area, which are similar in quality to those from the Orange River.

A substantial amount of ground mapping and aerial photo analysis was carried out during the year to identify targets for the next phase of drilling and sampling. In the course of this work a number of significant new extensions to the target Groen River palaeo channels were identified. Prospecting permit applications were lodged for these areas, which, when granted, will more than double the size of our land position in the area. Drilling will resume in the Groen River Valley in the new year. We remain confident that the Groen River Valley has the potential to become an important new alluvial diamond-producing region. Based on the substantial land position that Firestone holds in the area, this project has the potential to make a significant contribution to the Company's future growth.

During the year the Company lodged prospecting permit applications covering a new palaeo river system in Namaqualand. This system is known to be diamondiferous. Satellite and aerial photo interpretation have already identified palaeo channels over a length of more than 10 kilometres. Drilling and bulk sampling will be carried out on these channels once the prospecting permits have been issued.

Mopipi, Botswana
Botswana, which is the world's largest producer of diamonds by value, continued to be the focus of the Company's kimberlite exploration efforts. Exploration work at the Mopipi project during the year was focused on the Mopipi Dam area, where previous sampling had produced an intense concentration of samples with exceptionally high counts of kimberlitic indicator minerals, indicating the presence of diamondiferous kimberlite in the area.

A high resolution helicopter-borne magnetic survey was conducted in the area surrounding Mopipi Dam with the objective of properly defining and delineating drilling targets and to provide precise locations for the siting of drill holes. The survey was conducted over an area of approximately 100 square kilometres, representing approximately 3% of the area covered by Firestone's prospecting licences in the Mopipi region.

Data from this survey was interpreted and integrated with data from previous gravity and magnetic surveys and correlated with the results of soil sampling and mapping work. This resulted in the identification of more than 100 potential kimberlite drilling targets, some of which coincided with targets already identified by indicator mineral counts and analysis. It was decided to use Mobile Metal Ion (MMI) geochemical sampling in order to reduce the number of and prioritise these targets for the first phase of the drilling programme. MMI analysis is a relatively new technique that is used to identify the location at which mobile metal ions are released at the surface from a buried source.

Surface samples were taken at the centre points of the higher ranked geophysical anomalies. These samples were subjected to MMI analysis for kimberlite-associated metals such as niobium, chrome and nickel. A significant number of geophysical targets exhibited pronounced MMI anomalies of kimberlite-associated metals, indicating a local kimberlitic source. These targets were selected as top priority drilling targets.

The initial drilling programme was planned on the basis that kimberlites in the Mopipi area would, like most kimberlites in Botswana, be of a similar age to the nearby Orapa kimberlites, which were intruded through the Karoo sandstone. Accordingly, the drilling objective was to drill the targets until either kimberlite or Karoo sandstone was intersected. Eighteen targets were selected for drilling using a four inch reverse circulation drill rig. All drill holes were terminated in Karoo sandstone, without encountering kimberlite.

As drilling failed to identify the source of the strong kimberlitic indicator mineral anomalies that were recovered in the Mopipi Dam area, it was decided to process and analyse material recovered from the drill holes. This work was carried out on site and resulted in the unexpected recovery of a significant number of kimberlitic pyrope and other suspected kimberlitic indicator minerals from the Karoo sandstone. This development has a number of significant implications. First, as the Karoo sandstone predates the intrusion of the Orapa kimberlites, the kimberlitic indicator minerals that were recovered from the Karoo cannot have been derived from the Orapa field, thus proving that there is another kimberlite source in the region in addition to the Orapa field. The second implication is that the kimberlite source in the Mopipi region is likely to lie at a greater depth than has been considered likely until now.

More detailed examination and analysis of the indicator minerals recovered from the Karoo is currently being carried out, but the drilling results already indicate that the emplacement model for kimberlite in the Mopipi area is more complex than first thought. The results will also necessitate a re-evaluation of our geophysical data to ensure that the targets that have been identified are consistent with this new model. This work is currently being carried out, and further drilling will take place once the results have been received and interpreted.

While we are disappointed that we did not intersect kimberlite in the first phase of our drilling programme, we have made significant progress in our understanding of the geology of the region, and we continue to believe that the potential for the discovery of a new kimberlite field in the Mopipi region is very good.

During the year, a new anomalous indicator mineral trail was identified to the east of our current prospecting licence areas. As a result, the Company applied for and was granted a new prospecting licence over this area, totalling some 936 square kilometres. Satellite and aerial photo interpretation work has been carried out in selected parts of this area, known as Mopipi East. Initial reconnaissance soil samples have been taken and processing and analysis are currently under way. A significant new chrome diopside anomaly was recently identified in Mopipi South, and follow-up sampling in this area is currently being planned.

The Diamond Market

De Beers' sales declined by approximately 20% from the record level of $5.7 billion in 2000 to $4.5 billion in 2001, driven by poor global economic conditions, particularly in the United States, although global retail diamond jewellery sales dropped by only 5%. The rough diamond market has recovered strongly in 2002, with De Beers' sales for the first six months rising 8.5% to $2.8 billion. Continued shortages in larger size, better quality rough diamonds such as those produced at Oena resulted in prices at this end of the market remaining firm in 2001 and strengthening in 2002. This trend is expected to continue. The longer term outlook for diamond prices continues to be positive, as analysts continue to project a supply deficit in the diamond market for the next 3-5 years, with prices expected to increase as a result.

Financial

Although operational difficulties resulted in a shortfall in production at Avontuur, most of this was offset by increased production from Oena, resulting in group production declining by approximately 10%. Operating profit was lower due to significant increases in development expenditure at both Avontuur and Oena.

In November 2001 the Company completed a share placing to raise approximately £2.2 million. The primary purpose of the fund raising was to finance a more aggressive exploration programme at Mopipi and to accelerate development work at the Oena Mine. All the Company's significant capital and exploration programme commitments in this respect have been met. The Company remains debt free and currently has cash reserves and diamond stocks of approximately £1.1 million.

Outlook

The passing of the new Minerals Bill in the South African parliament and the publication of the associated draft Mining Charter have created a lot of publicity in recent months. One of the key aspects of the Bill is that it will transfer all privately held mineral rights, which comprise about 60% of the total in South Africa, to the State. The main purpose of the Charter is to support the South African government's black economic empowerment (BEE) objectives. While the large South African mining companies will be significantly affected by these developments, we do not expect any *significant negative impact on Firestone, as the mineral rights at all of Firestone's South African projects are already* State-owned. Under the new Bill, compliance with BEE requirements will be reviewed at the time of mining and/or prospecting permit renewal. As Firestone's permits at Oena and Avontuur do not require renewal for another 5 years, we will have ample time to comply with the requirements.

Firestone's BEE strategy has developed substantially beyond meeting the minimum requirements specified in the Charter. One of the consequences of the new legislation is that many diamond-related assets that would otherwise have remained undeveloped will become available. We intend to pursue these opportunities through partnering with a South African BEE company and we believe that this strategy will open up significant new growth prospects for the Company. Negotiations with a prominent South African company in relation to a BEE joint venture are at an advanced stage, and we expect to announce specific details on our plans in the near future.

Looking forward, we are confident that production will increase substantially during the coming year. We also intend to continue to take advantage of the Company's extensive data and expertise to identify attractive, low cost diamond mining and exploration opportunities, and expect to acquire one new mining project and two new exploration projects in Namaqualand in the current year.

Finally, I would like to record the Board's appreciation of the continued dedication and commitment of the Company's senior management and staff, all of whom contributed to the Company's continued growth and development over the past year.

James F. Kenny
Chairman

13 December 2002

FIRESTONE DIAMONDS PLC
DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 30 June 2002.

RESULTS AND DIVIDENDS

The group profit for the year after taxation and minority interests amounted to £124,547.

The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A detailed review of the business and future developments is included in the Chairman's Statement on pages 2 to 5.

SHARE CAPITAL

At 6 December 2002, the company has been notified of the following interests in the issued ordinary share capital:

	Shares	%
Elfin Trust Company Limited	7,200,000	21.1
Aurora International Investments Limited	7,200,000	21.1

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

PAYMENT POLICY

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

At 30 June 2002, the group had an average of 33 days (2001: 27 days) purchases outstanding in trade creditors.

DIRECTORS

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

	At 30 June 2002		At 30 June 2001	
	Ordinary Shares	Share Options	Ordinary Shares	Share Options
J F Kenny	**505,765**	**1,175,000**	505,765	625,000
H C D Jenner-Clarke	**586,057**	**1,355,000**	586,057	625,000
P Kenny *	**538,806**	**1,355,000**	538,806	625,000
M J Hampton	**106,875**	**110,000**	89,484	110,000
J Kenny Jnr *	**157,023**	**550,000**	157,023	300,000
W D Baxter	**4,000**	**-**	4,000	-

* Potential beneficiaries of a discretionary trust controlling 7,200,000 ordinary shares.

During the year, Messrs J F Kenny, P Kenny, H C D Jenner-Clarke and J Kenny Jnr were granted 550,000, 730,000, 730,000, and 250,000 share options respectively. Since the year end, Mr W D Baxter acquired a further 3,000 ordinary shares in the company bringing his total shareholding to 7,000. Further details of share options are shown in note 19 to the financial statements.

GOING CONCERN

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

DIRECTORS' RESPONSIBILITIES

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

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

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

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

CORPORATE GOVERNANCE

The directors intend that the company will comply with the Principles of Good Governance and Code of Best Practice published in June 1998 by the Committee on Corporate Governance and the subsequent guidance published on internal controls by the Turnbull Committee, so far as is considered appropriate, having regard to the size and nature of activities of the group.

AUDITORS

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

BY ORDER OF THE BOARD

P Kenny
Director

13 December 2002

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FIRESTONE DIAMONDS PLC

We have audited the financial statements of Firestone Diamonds plc for the year ended 30 June 2002 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the group's and the company's affairs as at 30 June 2002 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF

PKF
Registered Auditors

London, UK

13 December 2002

FIRESTONE DIAMONDS PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2002

	Notes	2002 £	2001 £
Production		885,964	987,197
Turnover	2	842,334	951,219
Change in stocks of finished goods and in work in progress		43,630	35,978
Other operating income		-	725
Raw materials and consumables		(26,169)	(11,535)
Staff costs		(90,542)	(72,699)
Depreciation and amortisation		(62,882)	(149,163)
Other operating charges		(558,924)	(371,428)
Operating profit		147,447	383,097
Interest receivable and similar income	3	46,630	5,449
Interest payable and similar charges	4	(945)	(1,001)
Profit on ordinary activities before taxation	5	193,132	387,545
Tax on profit on ordinary activities	8	(49,314)	(111,247)
Profit on ordinary activities after taxation		143,818	276,298
Minority interests		(19,271)	(14,110)
Retained profit for the year	20	124,547	262,188
Earnings per share			
Basic earnings per share	9	0.4p	0.9 p
Diluted earnings per share	9	0.4p	0.9 p

Turnover is wholly derived from continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 2002

	£	£
Profit for the financial year	124,547	262,188
Currency translation differences	(161,151)	(44,605)
Total recognised gains and losses for the year	(36,604)	217,583

FIRESTONE DIAMONDS PLC
CONSOLIDATED BALANCE SHEET
30 JUNE 2002

	Notes	2002 £	2002 £	2001 £	2001 £
FIXED ASSETS					
Intangible assets	10		**7,531,142**		6,154,823
Tangible assets	11		**1,180,034**		1,601,671
Investments	12		**285,934**		176,386
			8,997,110		7,932,880
CURRENT ASSETS					
Stocks	13	**90,637**		69,478	
Debtors	14	**275,376**		35,531	
Cash at bank and in hand		**1,472,463**		417,741	
		1,838,476		522,750	
CREDITORS					
Amounts falling due within one year	15	**(686,433)**		(468,002)	
NET CURRENT ASSETS			**1,152,043**		54,748
TOTAL ASSETS LESS CURRENT LIABILITIES			**10,149,153**		7,987,628
CREDITORS					
Amounts falling due after one year	15		**(4,110)**		(9,674)
PROVISIONS FOR LIABILITIES AND CHARGES					
Other provisions	16	**(12,743)**		(17,641)	
Deferred taxation	17	**(267,450)**		(280,139)	
			(280,193)		(297,780)
NET ASSETS			**9,864,850**		7,680,174
CAPITAL AND RESERVES					
Called up share capital	19		**6,840,094**		6,072,615
Share premium account	20		**3,648,123**		2,213,593
Other reserves	20		**(1,076,399)**		(1,076,399)
Profit and loss account	20		**475,507**		512,111
SHAREHOLDERS' FUNDS	21		**9,887,325**		7,721,920
Minority interests			**(22,475)**		(41,746)
			9,864,850		7,680,174

Approved by the Board on 13 December 2002

P Kenny
Director

FIRESTONE DIAMONDS PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2002

	Notes	2002 £	2002 £	2001 £	2001 £
Net cash inflow from operating activities	22		**186,569**		764,442
Returns on investments and servicing of finance					
Interest received		**46,630**		5,449	
Interest element of finance lease payments		**(945)**		(1,001)	
Net cash inflow from returns on investments and servicing of finance			**45,685**		4,448
Capital expenditure and financial investment					
Payments to acquire intangible fixed assets		**(1,074,706)**		(982,931)	
Payments to acquire tangible fixed assets		**(162,663)**		(322,409)	
Receipts from sales of tangible fixed assets		**2,234**		33,585	
Payments to acquire investments		**(109,548)**		(70,510)	
Net cash outflow from capital expenditure and financial investment			**(1,344,683)**		(1,342,265)
Acquisitions and disposals					
Payment of deferred consideration for subsidiary undertaking		-		(3,425)	
Net cash outflow from acquisitions and disposals			-		(3,425)
Net cash outflow before use of liquid resources and financing			**(1,112,429)**		(576,800)
Financing					
Issue of ordinary share capital		**2,202,009**		-	
Capital element of finance lease payments		**(2,925)**		(4,126)	
			2,199,084		(4,126)
Increase/(decrease) in cash	23 & 24		**1,086,655**		(580,926)

FIRESTONE DIAMONDS PLC
BALANCE SHEET
30 JUNE 2002

	Notes	2002 £	2002 £	2001 £	2001 £
FIXED ASSETS					
Intangible assets	10		**347,951**		244,316
Tangible assets	11		**2,702**		5,404
Investments	12		**8,896,801**		4,140,644
			9,247,454		4,390,364
CURRENT ASSETS					
Debtors	14	**4,257**		3,699,951	
Cash at bank		**1,316,374**		280,880	
		1,320,631		3,980,831	
CREDITORS					
Amounts falling due within one year	15	**(47,834)**		(72,982)	
NET CURRENT ASSETS			**1,272,797**		3,907,849
TOTAL ASSETS			**10,520,251**		8,298,213
CAPITAL AND RESERVES					
Called up share capital	19		**6,840,094**		6,072,615
Share premium account	20		**3,648,123**		2,213,593
Profit and loss account	20		**32,034**		12,005
SHAREHOLDERS' FUNDS			**10,520,251**		8,298,213

Approved by the Board on 13 December 2002

P Kenny
Director

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2002

1 ACCOUNTING POLICIES

(a) Basis of accounting

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

(b) Basis of consolidation

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

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

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented in respect of the company.

(c) Turnover

Turnover represents the invoiced value of diamonds sold.

(d) Goodwill

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

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

(e) Intangible assets

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

Intangible assets are amortised on a depletion percentage basis.

(f) Tangible assets

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

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

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

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

(g) Stocks

Stocks, consisting of cut and uncut diamonds, have been valued at estimated market values prevailing at 30 June 2002 with the amounts so determined reduced by the application of anticipated margins. The use of this method results in a carrying value of stock which approximates to the lower of cost and net realisable value.

1 ACCOUNTING POLICIES (Continued)

(h) Foreign currencies

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

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

(i) Deferred taxation

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

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse. This represents a change in accounting policy, the group previously having applied a policy of partial provision. The effect of this change is not material and hence no prior period adjustments are reflected in the financial statements.

(j) Liquid resources

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

(k) Pension costs

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

(l) Finance leases

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

2 SEGMENT INFORMATION

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

3 INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £	2001 £
Bank interest receivable	**46,630**	5,449

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Finance charges	**945**	1,001

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging/(crediting):

		2002 £	2001 £
Depreciation of tangible fixed assets		**34,700**	91,320
Amortisation of intangible fixed assets		**28,182**	57,843
(Profit)/loss on disposal of fixed assets		**(2,197)**	12,631
Auditors' remuneration	- for audit services payable to group auditors	**20,000**	15,863
	- for other services payable to group auditors:	**7,036**	4,602
	- for audit services payable to subsidiary auditors	**8,334**	6,656

Depreciation of £100,680 (2001: £56,263) has been capitalised as part of deferred development and exploration costs.

6 STAFF COSTS

Staff costs, excluding directors, for the period amounted to:

	2002 £	2001 £
Wages and salaries	**307,834**	244,139
Social security costs	**1,259**	1,384
Pension costs	**28,307**	18,535
	337,400	264,058

Included within staff costs is £246,858 (2001: £179,894) which has been capitalised as part of deferred development and exploration costs.

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

	2002 No.	2001 No.
Operations	**84**	60
Administration	**5**	6
	89	66

7 DIRECTORS' REMUNERATION

	2002 £	2001 £
Remuneration in respect of qualifying services	**266,624**	232,004

The remuneration of the highest paid director was £90,000 (2001: £75,360).

8 TAXATION

	2002 £	2001 £
(a) Analysis of charge in year		
Corporation tax	-	-
Deferred tax (overseas) – prior years	-	(53,769)
– current year	**49,314**	165,016
	49,314	111,247

(b) Factors affecting tax charge for the year

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

	2002 £	2001 £
Profit on ordinary activities before tax	**193,132**	387,545
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK at 30% (2001: 30%)	**57,940**	116,264
Effects of:		
Expenses not deductible for tax purposes	**39,542**	50,746
Capitalised expenses deductible for tax purposes	**(708,665)**	(141,686)
Loss brought forward offset in current year	**(5,725)**	(87,225)
Depreciation in excess of capital allowances	**14,916**	43,689
Current year tax losses to carry forward	**601,992**	18,212
Current tax charge for the year	-	-

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

9 EARNINGS PER SHARE

Basic earnings per share is based on a profit of £124,547 (2001: £262,188) and a weighted average number of shares in issue of 32,832,201 (2001: 30,363,078).

Diluted earnings per share is based on a profit of £124,547 (2001: £262,188). The weighted average number of shares used to calculate diluted earnings per share incorporates the weighted average number of shares in issue of 32,832,201 (2001: 30,363,078) plus dilutive potential ordinary shares arising from share options of 1,453,836 (2001: 41,315) totalling 34,286,037 (2001: 30,404,393).

10 INTANGIBLE FIXED ASSETS

	Goodwill	Deferred exploration and development costs	Exploration data and prospecting rights	Provision for rehabilitation costs	Total
	£	£	£	£	£
Group					
Cost					
At 1 July 2001	2,102,553	3,513,659	615,013	17,641	6,248,866
Additions	-	2,267,833	-	-	2,267,833
Exchange difference	-	(888,459)	-	(4,898)	(893,357)
At 30 June 2002	2,102,553	4,893,033	615,013	12,743	7,623,342
Amortisation					
At 1 July 2001	-	89,192	-	4,851	94,043
Charge for the year	-	26,702	-	1,480	28,182
Exchange difference	-	(28,473)	-	(1,552)	(30,025)
At 30 June 2002	-	87,421	-	4,779	92,200
Net book value					
At 30 June 2002	2,102,553	4,805,612	615,013	7,964	7,531,142
At 30 June 2001	2,102,553	3,424,467	615,013	12,790	6,154,823

Company

	£
Deferred exploration and development costs	
At 1 July 2001	244,316
Additions	103,635
At 30 June 2002	347,951

11 TANGIBLE FIXED ASSETS – Group

	Mining property	Mining equipment	Plant and equipment	Motor vehicles	Total
	£	£	£	£	£
Group					
Cost					
At 1 July 2001	586,787	360,619	952,759	107,638	2,007,803
Additions	-	38,176	17,997	48,285	104,458
Disposals	-	-	-	(2,885)	(2,885)
Reclassification	-	(149,141)	149,141	-	-
Exchange difference	(162,936)	(64,023)	(259,692)	(31,090)	(517,741)
At 30 June 2002	423,851	185,631	860,205	121,948	1,591,635
Accumulated depreciation					
At 1 July 2001	59,921	94,796	209,205	42,210	406,132
Charge for the year	2,886	18,968	93,826	19,700	135,380
Disposals	-	-	-	(2,848)	(2,848)
Reclassification	-	2,401	(2,401)	-	-
Exchange difference	(17,005)	(29,406)	(69,380)	(11,272)	(127,063)
At 30 June 2002	45,802	86,759	231,250	47,790	411,601
Net book value					
At 30 June 2002	378,049	98,872	628,955	74,158	1,180,034
At 30 June 2001	526,866	265,823	743,554	65,428	1,601,671

The net book value of motor vehicles includes an amount of £5,030 (2001: £9,845) in respect of assets held under finance leases.

Company	Motor vehicles
	£
Cost	
At 1 July 2001 and 30 June 2002	13,510
Depreciation	
At 1 July 2001	8,106
Charge for the year	2,702
At 30 June 2002	10,808
Net book value	
At 30 June 2002	2,702
At 30 June 2001	5,404

12 INVESTMENTS

Group

	2002
	£
Interest in prospecting licences	
At 1 July 2001	176,386
Additions	109,548
At 30 June 2002	285,934

Company

Interest in subsidiary undertakings

	Shares	Shares to be issued	Total
	£	£	£
Cost			
At 1 July 2001	4,140,644	-	4,140,644
Transferred from debtors	-	3,699,951	3,699,951
Additions	-	1,056,206	1,056,206
At 30 June 2002	4,140,644	4,756,157	8,896,801

At 1 January 2002, the decision was taken to convert the loan between the company and Firestone Diamonds Limited into equity. These shares are currently awaiting issue.

At 30 June 2002, the company held 100% of the ordinary shares of Firestone Diamonds Limited, a company incorporated in the British Virgin Islands, whose principal activity was that of a holding company. Firestone Diamonds Limited had the following subsidiary undertakings:

Name	Holding	Business Activities	Country of incorporation
Fortuna Investment Holdings Limited	100%	Dormant	British Virgin Islands
Asam Resources SA (Proprietary) Limited	100%	Diamond exploration and mining	South Africa
Cornerstone (RSA) Limited	100%	Dormant	British Virgin Islands
Surf Zone Diamonds (Proprietary) Limited *	100%	Diamond exploration and mining	South Africa
Oena Mine (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa
Kuboes Diamante (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa

* Held by Cornerstone (RSA) Limited

All material subsidiaries are included in the consolidated financial statements.

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

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

13 STOCKS

	Group 2002	Company 2002	Group 2001	Company 2001
	£	£	£	£
Cut and uncut diamonds held for sale	90,637	-	69,478	-

14 DEBTORS

	Group 2002 £	Company 2002 £	Group 2001 £	Company 2001 £
Amounts falling due within one year:				
Trade debtors	**264,211**	-	29,774	-
Amounts owed by subsidiary undertakings	-	-	-	3,699,951
Other debtors	**11,165**	4,257	5,757	-
	275,376	4,257	35,531	3,699,951

15 CREDITORS

	Group 2002 £	Company 2002 £	Group 2001 £	Company 2001 £
Amounts falling due within one year:				
Bank overdraft	**69**	-	5,139	-
Obligations under finance leases	**2,573**	-	3,065	-
Trade creditors	**117,661**	-	86,078	-
Other creditors	**127,176**	-	95,583	-
Taxation and social security	**11,223**	-	15,538	-
Accruals and deferred income	**427,731**	**47,834**	262,599	72,982
	686,433	**47,834**	468,002	72,982
Amounts falling due after more than one year:				
Obligations under finance leases	**4,110**	-	9,674	-

Obligations under finance leases are payable as follows:

	Group 2002 £	Company 2002 £	Group 2001 £	Company 2001 £
Within one year	**2,573**	-	3,065	-
Between two and five years	**4,110**	-	9,674	-
	6,683	-	12,739	-

Obligations under finance leases are secured on the underlying assets.

16 OTHER PROVISIONS

	Group 2002 £	Company 2002 £	Group 2001 £	Company 2001 £
Provision for rehabilitation costs	**12,743**	-	17,641	-

The movement in the year relates solely to foreign currency exchange differences.

Surf Zone Diamonds and Kuboes Diamante have each established an environmental rehabilitation bond of R100,000 (£6,371) in accordance with the requirements of the South African Minerals Act of 1991. These are currently the only required impositions to comply with environmental legislation in respect of the Avontuur Mine and the Oena Mine. Rehabilitation work is planned as an integral part of the mining operations as land disturbed by mining is backfilled, and will include surface profiling of the backfilled areas at a later date. The financial implications of these activities are considered by the directors to be of minimal consequence and inseparable from the normal running costs of the operation.

Accordingly, a total provision for rehabilitation work of R200,000 (£12,743) has been raised as a long term liability. The deferred assets which arise are being amortised over 10 years.

17 DEFERRED TAX

	At 1 July 2001	Profit and loss account	Currency translation movement	At 30 June 2002
	£	£	£	£
Group				
Accelerated capital allowances	(73,779)	**(20,574)**	**23,268**	**(71,085)**
Deferred exploration costs	624,875	**768,155**	**(257,202)**	**1,135,828**
Exchange losses	(31,176)	**(17,997)**	**11,155**	**(38,018)**
Tax losses	(239,781)	**(680,270)**	**160,776**	**(759,275)**
	280,139	**49,314**	**(62,003)**	**267,450**

The directors do not anticipate that accumulated reserves of overseas subsidiaries at 30 June 2002 will be remitted to the UK in the foreseeable future. Accordingly, no provision has been made for deferred tax on these balances.

18 FOREIGN CURRENCY RISKS AND EXPOSURES

(a) Objectives, policies and strategies

Currency rate risk

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

The group's revenue derives from the sale of rough and polished diamonds by its South African operating subsidiaries. While proceeds of sales are received in Rand, diamonds are sold in US Dollars, with the Rand proceeds being calculated on the basis of the US Dollar sales price and the US Dollar/Rand exchange rate prevailing on the date of the sale. This means that the group's revenue is not exposed to Rand exchange rate risk, but only to US Dollar exchange rate risk. This is not considered to be material.

The group's expenses in South Africa are incurred in Rand. Any weakening in the Rand would result in a reduction in expenses in Sterling terms, which would be to the group's advantage. There is an equivalent downside risk to the group of strengthening in the Rand, which would increase South African operating expenses in Sterling terms. However, the possibility of significant strengthening in the Rand is considered low, and this risk is therefore not considered to be material.

(b) Currency analysis of net assets

The group's net assets by currency of operations at 30 June were as follows:

	2002	2001
	£	£
Sterling	**9,274,514**	6,999,614
Rand	**590,336**	680,560
	9,864,850	7,680,174

(c) Currency exposures

As at 30 June 2002 the group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved.

19 SHARE CAPITAL

	2002 Number	2002 £	2001 Number	2001 £
Authorised:				
Ordinary shares of 20p each	**99,750,010**	**19,950,002**	59,750,010	11,950,002
Redeemable preference shares of £1 each	**49,998**	**49,998**	49,998	49,998
	99,800,008	**20,000,000**	59,800,008	12,000,000
Allotted, called up and fully paid:				
Ordinary shares of 20p each	**34,200,469**	**6,840,094**	30,363,078	6,072,615

On 31 January 2002, the authorised share capital was increased to £20,000,000 by the creation of 40,000,000 ordinary shares of 20p each.

On 4 September 2001, 17,391 ordinary shares in the company were issued to Mr Michael J Hampton in respect of director's fees due to him of £10,000. These shares were issued at a price of 57.5p per share.

On 6 November 2001, the company placed 3,790,000 ordinary shares of 20p each with institutional investors at a price of 60p per share. The placing raised £2,176,209 net of expenses.

On 8 May 2002 a total of 30,000 ordinary shares were issued as a consequence of the exercise of employee share options. 10,000 shares were issued at 69p a share, and 20,000 at 44.5p a share.

Share options

The company operates two unapproved share option schemes for employees and directors. As at 30 June 2002, options granted under the Basic Share Option scheme were outstanding over a total of 2,396,000 ordinary shares as follows:

Date of grant	Exercisable from	Exercisable to	Number of shares	Exercise price
26 January 2000	26 January 2001	26 January 2010	56,000	44.5p
26 January 2000	26 January 2001	26 January 2010	30,000	51.5p
25 February 2000	25 February 2001	25 February 2010	1,360,000	76.5p
30 January 2001	30 January 2002	30 January 2011	25,000	69p
26 February 2001	26 February 2002	26 February 2011	925,000	66p

On 22 July 2002, a total of 100,000 options to purchase ordinary shares in the company were granted under the Basic Option Scheme to certain employees at an exercise price of 66.5p per share.

As at 30 June 2002 options granted under the Performance Related Share Option Scheme were outstanding over a total of 2,260,000 ordinary shares as follows:

Date of grant	Exercisable from	Exercisable to	Number of shares	Exercise price
8 August 2001	8 August 2002	8 August 2011	2,260,000	70p

The closing share price as at 28 June 2002 was 79.5p per share.

20 RESERVES

	Share premium account £	Merger Reserve £	Profit and loss account £
Group			
At 1 July 2001	2,213,593	(1,076,399)	512,111
Shares issued	1,434,530	-	-
Profit for the year	-	-	124,547
Loss on foreign exchange	-	-	(161,151)
At 30 June 2002	3,648,123	(1,076,399)	475,507
Company			
At 1 July 2001	2,213,593	-	12,005
Shares issued	1,434,530	-	-
Retained profit for the year	-	-	20,029
At 30 June 2002	3,648,123	-	32,034

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 2002 £	Group 2001 £
Profit for the year	124,547	262,188
Other gains and losses in the year	(161,151)	(44,605)
	(36,604)	217,583
New share capital subscribed		
4 September 2001	10,000	-
6 November 2001	2,176,209	-
8 May 2002	15,800	-
	2,202,009	-
Net addition to shareholders' funds	2,165,405	217,583
Opening shareholders' funds	7,721,920	7,504,337
Closing shareholders' funds	9,887,325	7,721,920

22 NET CASH FLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit	147,447	383,097
Depreciation of tangible fixed assets	34,700	91,320
Amortisation of intangible fixed assets	28,182	57,843
(Profit)/Loss on disposal of fixed assets	(2,197)	12,631
Increase in stocks	(43,630)	(23,525)
(Increase)/decrease in debtors	(274,394)	62,864
Increase in creditors	296,461	180,212
Net cash inflow from operating activities	186,569	764,442

23 ANALYSIS OF NET FUNDS

	At 1 July 2001 £	Cash flow £	Movement on exchange £	At 30 June 2002 £
Cash	417,741	1,083,012	(28,290)	1,472,463
Bank overdraft	(5,139)	3,643	1,427	(69)
	412,602	1,086,655	(26,863)	1,472,394
Finance leases	(12,739)	2,925	3,131	(6,683)
Total	399,863	1,089,580	(23,732)	1,465,711

24 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2002 £	2001 £
Increase/(decrease) in cash in the year	1,086,655	(580,926)
Finance leases paid	2,925	4,126
Movement on exchange	(23,732)	-
Movement in net funds in the year	1,065,848	(576,800)
Net funds at 1 July 2001	399,863	976,663
Net funds at 30 June 2002	1,465,711	399,863

25 CAPITAL COMMITMENTS

At 30 June 2002, the group had authorised and contracted for capital commitments of £Nil (2001: £Nil).

27 RELATED PARTY TRANSACTIONS

During the year ended 30 June 2002, Firestone Diamonds plc and its subsidiaries paid £20,586 (2001: £37,393) for consulting fees, staff costs, rent and other operating costs to Delphin (Pty) Limited and Asam Minerals CC, companies in which Mr H Jenner-Clarke, who is a director of Firestone Diamonds plc, has an interest.

During the year one of the directors, J Kenny Jnr, received advances in relation to fees and expenses. The amount advanced to him in this respect at 30 June 2002 was £9,257 (2001: £5,757).