

FIRESTONE DIAMONDS PLC
(Registered number 3589905)

ANNUAL REPORT

YEAR ENDED 30 JUNE 2000



FIRESTONE DIAMONDS PLC
ANNUAL REPORT
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FIRESTONE DIAMONDS PLC
YEAR ENDED 30 JUNE 2000

DIRECTORS

W D Baxter
M J Hampton
H C D Jenner-Clarke
J Kenny Jnr
J F Kenny
P Kenny

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Pinsent Curtis Company Services Limited

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FIRESTONE DIAMONDS PLC CHAIRMAN'S STATEMENT

Dear Shareholder

The past year was one of continued growth and progress for Firestone. Production from the Avontuur Mine increased substantially, generating sufficient cash flow to finance all of the Company's operational and exploration expenditures in South Africa and contributing significantly to development costs at the Oena Mine. The acquisition of an 87.5% interest in the Oena Mine was the most significant development during the year. The Oena Mine is an exceptional project with excellent exploration potential, and is estimated to contain a substantial resource of large, high quality diamonds. Good progress was made at the Company's exploration projects in South Africa and Botswana and positive results were obtained. Demand for rough diamonds was exceptionally strong, resulting in a number of price increases during the year.

Mining & Development

Oena Mine

In February, we made our most important acquisition since the Company floated on the Alternative Investment Market (AIM) of the London Stock Exchange in 1998, with the purchase of an 87.5% interest in the Oena Mine, located on the lower Orange River in South Africa, an area where the Company has extensive expertise. This acquisition was significant for a number of reasons. The Orange River area is a well established diamond producing area which produces diamonds comparable to the best in the world, typically selling at prices between \$700-\$900 per carat. The Oena Mine adds significantly to the value of our project portfolio, containing an estimated resource of 200,000 carats. Previous operations at Oena produced over 30,000 carats, with an average stone size of approximately 2 carats, the largest stone recovered being 70 carats. The Company recovered its first diamonds at Oena in April. Pilot production has been ongoing since then with the objective of evaluating and prioritising proposed mining areas. A substantial investment was made in new earthmoving equipment and in upgrading the gravel processing plant in preparation for commercial scale mining. This work is approaching completion, and commercial scale mining is expected to commence in early 2001, following which we expect Oena to make a significant contribution to the Company's profits and cash flow over its projected ten year life.

The Oena Mine has significant additional exploration potential. A programme of reverse circulation and percussion drilling was started with the objective of identifying and evaluating new gravel deposits. Strong demand for Orange River production resulted in prices increasing by more than 10% during the year, and with these shortages expected to continue for the foreseeable future, further price rises can be expected.

Avontuur Mine

Production from the Avontuur Mine increased 543% over the previous year to 12,989 carats as a result of the expansion carried out during that year. Diamonds produced were approximately 85% gem quality, with an average size of 0.2 carats per stone. The average price achieved for gem quality production from Avontuur increased 8% from \$97 to \$105 per carat, and we expect prices to continue to remain firm in the coming year. A further expansion to the capacity of the gravel treatment plants at Avontuur, through the introduction of a new dense media separation plant, is currently under way and is expected to be completed in early 2001. Exploration activity continued at Avontuur and focused on a number of promising new target areas to the east and north of the current mining areas.

Exploration

Botswana

Botswana, which is the world's largest producer of diamonds by value, continued to be the focus for the Company's kimberlite exploration efforts. During the year we substantially increased our land position in the Mopipi region, located about 50 kilometres west of De Beers' major Orapa Mine, from 85 square kilometres to over 2,000 square kilometres. We were granted two new prospecting licences, known as Mopipi South and Mopipi West, and entered into an option agreement over another area in the Mopipi region, known as Mopipi North. A considerable amount of exploration work was carried out during the year. This work produced continued positive results, which indicate that it is likely that diamondiferous kimberlite is present in the region. As kimberlite pipes typically occur in clusters, and no kimberlite has ever been discovered west of Orapa, we are optimistic about the potential for the discovery of a new kimberlite field.

Most of the exploration work was carried out in the Mopipi South and Mopipi North areas. In Mopipi South, over 100 target areas were identified by interpretation and analysis of aerial photography, satellite imagery and aeromagnetic data. Follow-up soil sampling identified 9 high priority target areas showing high anomalous counts of kimberlitic indicator minerals. Similar work in Mopipi North resulted in the identification of more than 10 high priority target areas, including one from which a microdiamond was recovered.

FIRESTONE DIAMONDS PLC
CHAIRMAN'S STATEMENT (continued)

All the high priority targets identified to date are now being subjected to high density sampling to confirm initial sampling results and to select and prioritise targets for drilling during the coming year.

South Africa

The Groen River Valley project is our 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 production from the Orange River. Exploration continued at the Groen River Valley with continued encouraging results.

In the first half of the year evaluation of the last of three high priority target areas that had been identified by previous work in the area was completed. The gravels tested at this location were proven to be diamondiferous, as the first two locations tested had also been. The data obtained from this work significantly increased our understanding of the geology of the region, and resulted in the identification of a number of additional areas through which the target palaeo channels are believed to run. The Company has applied for prospecting permits for these areas.

Work on the Groen River Valley project was limited during the second half of the year, as staff and equipment were temporarily redeployed to the Oena Mine to assist in re-establishing mining operations there. We expect the staff and equipment to return to the Groen River Valley once mining operations are established at Oena in early 2001. We remain confident that the Groen River Valley has the potential to become an important new alluvial diamond producing region. With the substantial land position that Firestone holds in the region, the project has the potential to make a significant contribution to the Company's future growth.

We have also identified a number of new areas in South Africa with good exploration potential, for which we have submitted prospecting permit applications to the Department of Mineral & Energy Affairs. We expect these permits to be granted during the coming year and look forward to updating you in this regard in due course.

The Diamond Market

The strength in the rough diamond market continued into the current year, with De Beers' sales for 2000 forecast to reach a new record of \$5.87 billion, a 12% increase on the previous record of \$5.2 billion reached in 1999. Prices for gem quality rough diamonds increased several times during the year, with sales of Avontuur production benefiting as a result. Severe supply shortages in larger size, better quality rough diamonds such as those produced at Oena, resulted in significant price increases at this end of the market.

The year saw some significant developments in the rough diamond market. As a result of a strategic review, De Beers introduced a number of changes into their business practices. The most significant change was a shift in focus from their traditional approach of supply management, where the De Beers Central Selling Organisation (CSO) would limit supply to the market to maintain a balance between overall supply and demand, to demand creation. The primary objective of this initiative is to increase demand for diamonds by raising the advertising to sales ratio for diamond jewellery from its present level of 0.5%, closer to the average of about 10% in the luxury products sector. In line with this initiative, the CSO was renamed the Diamond Trading Company (DTC). These changes are expected to increase overall demand for diamonds, which will benefit all producers, including Firestone.

The issue of conflict diamonds – diamonds illegally mined by rebel organisations in countries such as Sierra Leone and Angola – received much publicity during the year, with groups such as Global Witness urging the diamond industry to take all possible steps to eliminate trade in these diamonds. Conflict diamonds are estimated to comprise about 4% by value of world diamond production. The industry has reacted swiftly and responsibly to this problem. Much progress has been made in addressing this issue through the development of policies, procedures and controls in order to identify the country of origin of rough diamonds as they pass through world markets, and to block trade in diamonds from conflict zones. Further similar initiatives are expected in coming months to ensure that the ban on conflict diamonds is properly enforced. Firestone does not and will not participate in any activities in conflict zones, and fully supports industry initiatives to prevent trade in conflict diamonds.

The year was also marked by two De Beers takeover bids. The first, for emerging Canadian producer, Winspear Diamonds, was successful, while the second, for Australian miner Ashton Mining, was not, with De Beers losing out to a counterbid by Rio Tinto. With De Beers' stockpile estimated to have been reduced to required working levels of about \$2.5 billion, these bids are considered to be indicative of the strong fundamentals of and prospects for the rough diamond market. With some analysts predicting a potential supply shortfall in 2001, the outlook for diamond prices remains positive, particularly for larger, high quality goods.

FIRESTONE DIAMONDS PLC
CHAIRMAN'S STATEMENT (continued)

Financial

Firestone's financial position remains strong and the Company is debt free. In February 2000 we completed a share placing to raise approximately £1.5 million. The primary purpose of the fund raising was to finance the acquisition and development of the Oena Mine. Increased cash flow from the Avontuur Mine during the year financed all South African overheads and exploration expenditure, and also contributed significantly to development costs at the Oena Mine. We have no further significant capital commitments in respect of our existing projects, and have sufficient funds to support current planned exploration programmes. Results for the period show an increased profit over last year, in line with expectations.

Management

The Company's management team was significantly strengthened during the year. We appointed a Regional Operations Manager for Namaqualand, and hired new managers for the Avontuur Mine and the Oena Mine, all with extensive experience in mine management and in alluvial diamond mining. We also expanded our geological team by the hiring of a senior geologist with extensive experience in diamond mining and exploration.

Outlook

A consistent and key element of our corporate development strategy has been to balance our investments between advanced development and production projects which can provide short term cash flow, and large scale exploration projects which have the potential to yield significant reserves of gem quality diamonds. We intend to continue to maintain this balance in the future.

We have also had a policy of investing only in stable countries with transparent, open democracies such as South Africa and Botswana. Over the past year, political and armed conflict continued in the diamond-rich countries of Angola and Sierra Leone and spread into the Democratic Republic of Congo. The risk of investing in such countries remains extremely high, and we will therefore continue to restrict our future investments to South Africa, Botswana and similarly safe, stable countries where attractive diamond exploration and mining opportunities are available.

We stated last year that we intended to add to our portfolio of mining and exploration projects, and we have done so during the year, most notably through the acquisition of our interest in the Oena Mine. We intend to continue to leverage the Company's extensive data and expertise to identify low cost, attractive diamond mining and exploration opportunities, and expect that additional projects will be brought into the Company during the coming year.

The rough diamond market and prices are expected to remain strong during the coming year. With production from Oena expected to come on stream in 2001, production from Avontuur expected to continue increasing, and with the considerable potential of our mining and exploration projects, we remain confident about the Company's prospects. We have made substantial further progress during the year towards achieving our objective of becoming a leading independent diamond producer, and look forward to another year of strong growth and development.

James F. Kenny
Chairman

11 December 2000

FIRESTONE DIAMONDS PLC OPERATIONS REVIEW

Avontuur Mine, Namaqualand, South Africa

The Avontuur Mine covers approximately 2,600 acres and is located near the coastal town of Hondeklip Bay in Namaqualand. Hondeklip Bay is a well established alluvial diamond producing area and hosts De Beers' Koiingnaas Mine and Trans Hex's Hondeklip Bay Mine, both of which have been producing for approximately 20 years. The Avontuur Mine has total reserves and resources estimated at approximately 885,000 carats, which will give the mine a projected life of nine years.

Production at the Avontuur Mine continued to increase as a result of the expansion carried out last year, rising by 543% to a total of 12,989 carats, with monthly production reaching a new record of 2,552 carats in March. A number of new mining areas were brought into production during the year. The quality and size of production remained consistent, with production during the year being approximately 85% gem quality and with an average size of 0.2 carats per stone. Demand for Avontuur production remained strong, and the average price achieved for gem quality diamonds from Avontuur rose 8% from \$97 to \$105 per carat.

A decision was made to expand the gravel processing capacity at the mine through the introduction of a new dense media separation (DMS) plant. The new DMS plant will increase gravel processing capability at the mine by 33% to approximately 400 tonnes per day, and will allow lower grade deposits and stockpiles to be processed. The DMS plant has been acquired and is in the process of being erected, with commissioning expected in early 2001. Some disruptions in gravel processing have been caused while this work is being carried out, but overburden stripping, gravel mining and stockpiling have continued as normal.

Exploration activity continued at Avontuur and focused on a number of promising new target areas to the east and north of the current mining areas which had not previously been explored. Approximately 4,300 metres of percussion and reverse circulation drilling was carried out and potentially diamondiferous gravels were identified in two new locations. Sampling and evaluation of these deposits will be carried out during the coming year.

On the basis of data obtained from recent exploration, we have identified new exploration potential in a number of areas close to Hondeklip Bay and have applied for prospecting permits over those areas. These applications are still being processed, and exploration will start as soon as the permits are granted.

Oena Mine, Namaqualand, South Africa

In February, Firestone acquired an 87.5% interest in the Oena Mine, which is located on the lower Orange River, some 250 km north of the Avontuur Mine. The quality of diamonds produced in the lower Orange River area is considered among the best in the world, averaging more than \$700 per carat. The Oena Mine 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. The Oena Mine covers 22,000 acres, and extends in a 4.8 kilometre wide strip along 15 kilometres of the Orange River.

Previous mining operations at Oena produced over 30,000 carats of diamonds, with an average stone size of approximately 2 carats and an average value of \$800 per carat. The largest stone recovered to date at Oena was 70 carats. Approximately 330 carats were recovered from small scale mining in 1999 and were sold for an average of \$880 per carat. The largest stones recovered during 1999 were 48 carats, 16.28 carats, and a 10.81 carat D flawless stone that sold for \$5,000 per carat.

On the basis of detailed mapping, drilling and bulk sampling which have been carried out at the Oena Mine, the Company has estimated that it contains a resource of more than 40 million tonnes of diamondiferous gravel. Based on results from bulk sampling at Oena and data from other mining operations on the Orange River, the grade is estimated to be a minimum of 0.5 carats/100 tonnes, giving a potential resource of 200,000 carats. On this basis the in situ value of the estimated resource at Oena is \$176 million.

Much of the original mine infrastructure was still in place when we took control of operations at Oena in March. Work initially focused on repairing and upgrading accommodation, workshops, power and water supply, and roads. This work is now almost complete. In parallel with this, exploration staff and equipment were moved from the Groen River Valley to Oena to assist in starting pilot mining and sampling operations. The first diamonds were recovered at Oena in April, and pilot production has continued since then, with the objective of evaluating and prioritising proposed new mining areas in advance of commercial scale mining operations.

FIRESTONE DIAMONDS PLC
OPERATIONS REVIEW (continued)

The main gravel processing plant is being upgraded by the introduction of an x-ray fluorescence sorting machine and grease tables for final diamond recovery. A significant amount of earthmoving equipment has been moved onto the mine in preparation for commercial mining operations, which will begin once modifications to the main processing plant have been completed. This work is at an advanced stage and is scheduled to be completed in early 2001.

There is considerable exploration potential at Oena, and we believe that the gravel resources at the mine will be substantially increased as exploration is carried out. An extensive programme of reverse circulation and percussion drilling commenced in June with the objective of identifying additional gravel deposits at the mine. Initial results from this drilling have been encouraging and we are confident that it will result in a significant addition to the mine's reserves.

Commercial scale mining is expected to commence in early 2001, following which we expect Oena to begin to make a significant contribution to the Company's profits and cash flow. Strong demand for and shortages of large, high quality diamonds resulted in prices for Orange River production increasing by more than 10% during the year. With these shortages expected to continue for the foreseeable future, further price rises can be expected during the coming year.

Mopipi, Botswana

In addition to being a highly stable country with good infrastructure, Botswana is the world's largest producer of diamonds by value, with annual production of over 20 million carats worth over \$1.6 billion, and is host to De Beers' Orapa, Letlhakane and Jwaneng mines. Botswana is considered to be the best country in the world to explore for kimberlite – the primary source rock for diamonds – and it is likely that further discoveries will be made there. Firestone's Mopipi projects are located about 50 kilometres west of De Beers' Orapa Mine.

In the first half of the year we substantially increased our land position in the Mopipi area, from 85 square kilometres to over 2,000 square kilometres. We were granted two new prospecting licences, known as Mopipi South and Mopipi West, and entered into an option agreement over another area in the Mopipi region, known as Mopipi North. These new areas are all being explored in partnership with Firestone's original Mopipi Central joint venture partner.

Firestone's current license position in Botswana is as follows:

Project	Area (sq. kms.)	Interest
Mopipi Central	85	Firestone earning 75% interest
Mopipi South & Mopipi West	1,900	Firestone owns 50% interest
Mopipi North	38	Firestone holds option to acquire 100% interest

With exploration work ongoing continuously in the Mopipi area, it was decided to establish a semi-permanent exploration base in the area. Establishment of the base was completed during the year, providing accommodation, power and water and allowing soil samples to be processed and examined in the field. Several months were lost due to the exceptionally heavy rains experienced in Southern Africa between December and April.

Initial exploration at the Mopipi Central project had resulted in the identification of a number of clusters of significant kimberlitic indicator mineral anomalies that coincided with aerial photo and aeromagnetic anomalies, and the recovery of a macrodiamond from soil samples. Geochemical analysis of the indicator minerals confirmed that they were derived from diamond-bearing kimberlite, indicating that it is likely that diamondiferous kimberlite is present in the Mopipi region.

In Mopipi South, aerial photography, satellite imagery and aeromagnetic data were acquired and initial interpretation and analysis completed. This work identified over 100 target areas containing geological structures and features possibly associated with kimberlitic occurrences. More than 120 soil samples were taken over these target areas to recover and evaluate kimberlitic indicator minerals. This sampling identified 9 high priority target areas showing high anomalous counts of kimberlitic indicator minerals, with up to 21 grains of kimberlitic pyrope garnet per sample.

In Mopipi North, aeromagnetic data was acquired and interpreted and the results integrated with data from previously conducted aerial photo interpretation and soil sampling. Soil sampling at Mopipi North identified more than 10 high priority target areas. Follow-up sampling on one of the target areas resulted in the recovery of a microdiamond, providing further evidence that the kimberlite sources from which the indicator minerals are derived are diamondiferous.

FIRESTONE DIAMONDS PLC
OPERATIONS REVIEW (continued)

The results from the Mopipi South and Mopipi North areas confirm the possible presence of diamondiferous kimberlite in the Mopipi region, and the Company continues to be encouraged about the potential for the discovery of a new kimberlite field. The high priority target areas in Mopipi Central, Mopipi North and Mopipi South are currently being subjected to high density sampling. The objective of this work is to confirm initial sampling results, to prioritise the targets, and to identify patterns in the dispersion of the indicator minerals in order to aid in the precise location of drilling sites.

Groen River Valley, Namaqualand, South Africa

The Groen River Valley project covers an area of approximately 74,000 acres of the lower reaches of the Groen River in Namaqualand. A considerable amount of prospecting has been carried out in this region in recent years, resulting in the identification of the palaeo river channels that were responsible for transporting the diamonds of large size and exceptional quality that have been mined near the mouth of the Groen River by De Beers and other operators. Diamonds from the Groen River Valley are considered to be similar in quality to those from the Orange River.

Exploration continued at the Groen River Valley project during the year, and the results continued to confirm the diamond potential of the region. Approximately 2,400 metres of percussion and reverse circulation drilling were carried out. Excavations were carried out at the last of the three high priority target areas that had been identified by a combination of aerial photography and satellite imagery analysis and drilling. All three locations tested have now been proven to be diamondiferous.

This work has resulted in significant advances in our understanding of the geology of the region and of the palaeo channels that are the target of our exploration work. These palaeo channels lie in valleys up to 500 metres wide, with the active part of the channels, where diamond grades are typically highest, being between 30 and 50 metres wide. Overburden depths range between 5 and 20 metres. On the basis of data obtained from this recent work, the Company has decided to expand its exploration acreage in the Groen River Valley region. A number of additional areas through which the target palaeo channels are believed to run have been identified and the Company has applied for prospecting permits over those areas. In keeping with normal procedures, some areas held under existing prospecting permits that are not considered to be of sufficient economic potential have been selected for relinquishment. The overall extent of the Company's land position in the Groen River Valley region is not expected to change materially as a result of these activities.

Work on the Groen River Valley project was limited during the second half of the year, as staff and equipment were temporarily redeployed to the Oena Mine to assist in re-establishing mining operations there. We expect the staff and equipment to return to the Groen River Valley in early 2001, once commercial production is established at Oena. We continue to be confident that the Groen River Valley has the potential to become an important new alluvial diamond producing region. With the substantial land position that the Company holds in the Groen River region, this project has the potential to make a significant contribution to the Company's future growth.

Breektaand, Van Rhynsdorp, South Africa

The Breektaand project is located 75 kilometres inland from the mouth of the Groen River, and covers approximately 7,400 acres. Work on the project to date has consisted of geological mapping and aerial photo and satellite imagery interpretation. This has resulted in the identification of a palaeo drainage system on the property that is thought to contain alluvial diamond deposits. Drilling will not be required as the target gravels outcrop, and the exploration programme will consist primarily of bulk sampling of the gravels that have been delineated by mapping. A revised Environmental Management Programme (EMP) was completed and submitted for review by the Department of Minerals and Energy. Due to the sensitive nature of some of the vegetation in the Breektaand area, discussions on the EMP have not yet been concluded. We do not anticipate any difficulties in resolving the outstanding matters, and it is expected that exploration will commence once this happens.

FIRESTONE DIAMONDS PLC DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 30 June 2000.

RESULTS AND DIVIDENDS

The group profit for the year after taxation and minority interests amounted to £287,981.

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 and Operations Review on pages 2 to 7.

SHARE CAPITAL

At 8 December 2000, the Company had been notified of the following interests in the issued ordinary share capital in addition to the directors' interests shown below:

	Shares	%
Elfin Trust Company Limited	14,400,000	47.4%
Serpentine Holdings Limited	956,189	3.1%

Elfin Trust Company Limited controls 7,200,000 ordinary shares as trustee for a discretionary trust, the beneficiaries of which include members of the Kenny family. It also holds 7,200,000 Ordinary shares as trustee for a discretionary trust the beneficiaries of which include members of the Jenner-Clarke 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 2000, the group had an average of 21 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:

	<u>At 30 June 2000</u>	<u>At 30 June 1999</u>	
	<u>Ordinary Shares</u>	<u>Ordinary Shares</u>	<u>Ordinary Warrants</u>
J F Kenny	505,765	505,765	-
H C D Jenner-Clarke	586,057	586,057	35,608
P Kenny *	538,806	538,806	76,393
M J Hampton	129,857	89,484	40,373
J Kenny Jnr *	157,023	157,023	64,118
W D Baxter	2,000	2,000	-

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

During the year, Messrs J F Kenny, P Kenny, H C D Jenner-Clarke, J Kenny Jnr and M J Hampton were granted 350,000, 350,000, 350,000, 200,000 and 110,000 share options respectively. Further details of share options are shown in note 19 to the financial statements.

MJ Hampton exercised 40,373 warrants on 16 August 1999. Warrants held by other directors lapsed during the year.

FIRESTONE DIAMONDS PLC
DIRECTORS' REPORT
(Continued)

GOING CONCERN

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

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and 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.

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.

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 of, and nature of activities of, the group.

AUDITORS

On 1 November 2000, Pannell Kerr Forster changed its name to PKF and, accordingly, it has signed its audit report in its new name. 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

11 December 2000

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
FIRESTONE DIAMONDS PLC**

We have audited the financial statements on pages 11 to 27 which have been prepared under the accounting policies set out on pages 15 and 16.

Respective responsibilities of directors and auditors

As described on page 9 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 affairs of the company and the group as at 30 June 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London

13 December 2000

PKF

PKF
Registered Auditors

FIRESTONE DIAMONDS PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 JUNE 2000

	<u>Notes</u>	<u>2000</u> £	<u>1999</u> £
Turnover	2	765,917	84,409
Change in stocks of finished goods and in work in progress		(31,332)	50,601
Production		734,585	135,010
Other operating income		-	15,639
Raw materials and consumables		(55,368)	(29,515)
Staff costs		(88,578)	(58,782)
Depreciation and amortisation		(64,723)	(45,119)
Operating profit before administrative costs		525,916	17,233
Other operating charges		(146,660)	(97,889)
Operating profit/(loss)		379,256	(80,656)
Interest receivable and similar income	3	34,201	43,070
Interest payable and similar charges	4	(208)	(2,599)
Profit/(loss) on ordinary activities before taxation	5	413,249	(40,185)
Tax on profit/(loss) on ordinary activities	8	(126,389)	(22,674)
Profit/(loss) on ordinary activities after taxation		286,860	(62,859)
Minority interests		1,121	-
Retained profit/(loss) for the year	20	287,981	(62,859)
Earnings per share			
Basic earnings/(loss) per share	9	1.1p	(0.3)p
Diluted earnings/(loss) per share	9	1.1p	(0.3)p
Turnover is wholly derived from continuing activities.			

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 30 JUNE 2000

	£	£
Profit/(loss) for the financial year	287,981	(62,859)
Currency translation differences	(27,298)	(6,504)
Total recognised gains and losses for the year	260,683	(69,363)

FIRESTONE DIAMONDS PLC
CONSOLIDATED BALANCE SHEET
30 JUNE 2000

	<u>Notes</u>	<u>2000</u>	<u>1999</u>
		£	£
FIXED ASSETS			
Intangible assets	10	5,138,604	2,822,486
Tangible assets	11	1,604,661	1,609,315
Investments	12	105,876	29,349
		<hr/>	<hr/>
		6,849,141	4,461,150
CURRENT ASSETS			
Stocks	13	45,953	82,140
Debtors	14	93,435	167,089
Cash at bank and in hand		1,009,529	416,140
		<hr/>	<hr/>
		1,148,917	665,369
CREDITORS			
Amounts falling due within one year	15	(335,552)	(88,470)
		<hr/>	<hr/>
NET CURRENT ASSETS		813,365	576,899
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,662,506	5,038,049
CREDITORS			
Amounts falling due after one year	15	(14,446)	-
PROVISIONS FOR LIABILITIES AND CHARGES			
Other provisions	16	(9,731)	(10,513)
Deferred taxation	17	(189,848)	(71,050)
		<hr/>	<hr/>
		(199,579)	(81,563)
NET ASSETS		7,448,481	4,956,486
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	19	6,072,615	4,596,798
Share premium account	20	2,213,593	1,402,242
Other reserves	20	(1,076,399)	(1,076,399)
Profit and loss account	20	294,528	33,845
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS	21	7,504,337	4,956,486
Minority interests		(55,856)	-
		<hr/>	<hr/>
		7,448,481	4,956,486
		<hr/>	<hr/>

Approved by the Board on 11 December 2000

P Kenny
Director



FIRESTONE DIAMONDS PLC
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 30 JUNE 2000

	<u>Notes</u>	<u>2000</u>	<u>1999</u>
		£	£
Net cash inflow/(outflow) from operating activities	22	952,043	(239,173)
Returns on investments and servicing of finance			
Interest received	34,201		43,070
Interest element of finance lease payments	(208)		-
Net cash inflow from returns on investments and servicing of finance		33,993	43,070
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets	(1,062,521)		(871,442)
Payments to acquire tangible fixed assets	(231,890)		(693,996)
Receipts from sales of tangible fixed assets	-		215,280
Payments to acquire investments	(76,527)		(3,965)
Net cash outflow from capital expenditure and financial investment		(1,370,938)	(1,354,123)
Acquisitions and disposals			
Purchase of subsidiary undertakings	(641,936)		-
Net cash acquired with subsidiaries	20,166		-
Payment of deferred consideration for subsidiary undertaking	-		(119,420)
Net cash outflow from acquisitions and disposals		(621,770)	(119,420)
Net cash outflow before use of liquid resources and financing		(1,006,672)	(1,669,646)
Management of liquid resources			
Cash withdrawn from/(placed on) 30 day deposit		313,319	(313,319)
Financing			
Issue of ordinary share capital	1,469,476		2,039,838
Exercise of warrants	119,249		-
Increase in cash	23 & 24	895,372	56,873

FIRESTONE DIAMONDS PLC
BALANCE SHEET
30 JUNE 2000

	<u>Notes</u>	£	£	£	<u>2000</u>	£
FIXED ASSETS						
Intangible assets	10		164,995			68,477
Tangible assets	11		8,106			10,808
Investments	12		4,140,644			4,140,644
			<hr/>			<hr/>
			4,313,745			4,219,929
CURRENT ASSETS						
Debtors	14	3,149,186		1,415,902		
Cash at bank		861,095		370,579		
		<hr/>		<hr/>		
		4,010,281		1,786,481		
CREDITORS						
Amounts falling due within one year	15	(62,597)		(48,292)		
		<hr/>		<hr/>		
NET CURRENT ASSETS			3,947,684			1,738,189
			<hr/>			<hr/>
TOTAL ASSETS			8,261,429			5,958,118
			<hr/> <hr/>			<hr/> <hr/>
CAPITAL AND RESERVES						
Called up share capital	19		6,072,615			4,596,798
Share premium account	20		2,213,593			1,402,242
Profit and loss account	20		(24,779)			(40,922)
			<hr/>			<hr/>
SHAREHOLDERS' FUNDS			8,261,429			5,958,118
			<hr/> <hr/>			<hr/> <hr/>

Approved by the Board on 11 December 2000

P Kenny
Director



FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

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

The acquisition by the company of Firestone Diamonds Limited was accounted for in accordance with the principles of merger accounting set out in Financial Reporting Standard 6 "Acquisitions and Mergers". Accordingly, the consolidated financial statements include the results of the company since incorporation on 24 June 1998 and are presented as if Firestone Diamonds Limited had been controlled by the company throughout the period from 24 June 1998.

In the company's balance sheet, the investment in Firestone Diamonds Limited is stated at the nominal value of the shares issued in consideration for that company.

The group financial statements consolidate the financial statements of the subsidiary undertakings of Firestone Diamonds Limited for the period from 24 June 1998 to 30 June 2000 using the acquisition method. Goodwill arising on consolidation is capitalised and shown within fixed assets. Amortisation of goodwill on consolidation is deferred until the operations commence generating income.

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) 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.

(e) Intangible assets

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

Intangible assets are amortised on a depletion percentage basis.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

1 ACCOUNTING POLICIES (Continued)

(f) 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 acquired 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.

(g) Deferred taxation

To the extent that it is probable that a liability will arise provision is made for deferred taxation, using the liability method, at rates of corporation tax which are expected to apply when the liability crystallises.

(h) Liquid resources

In accordance with Financial Reporting Standard 1 (revised 1996) – “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.

(i) Stocks

Stock consisting of cut and uncut diamonds is valued at the lower of cost and net realisable value.

(j) 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.

(k) 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

	<u>2000</u> £	<u>1999</u> £
Bank interest receivable	34,201	43,070

4 INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2000</u> £	<u>1999</u> £
Finance charges	208	-
Noteholder interest	-	2,599
	<u>208</u>	<u>2,599</u>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

5 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	<u>2000</u> £	<u>1999</u> £
The profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	34,654	34,697
Amortisation of intangible fixed assets	30,069	10,422
(Profit)/loss on disposal of fixed assets	2,781	(40,517)
Auditors' remuneration - for audit services payable to group auditors	10,000	8,000
- for other services payable to group auditors:	8,750	1,880
- for audit services payable to subsidiary auditors	8,133	6,298
	<u> </u>	<u> </u>

In addition to the above remuneration paid to group auditors, £nil (1999: £30,592) has been charged against the share premium account in respect of other non-audit services.

Depreciation of £97,579 (1999: £80,079) has been capitalised as part of deferred development and exploration costs.

6 STAFF COSTS	<u>2000</u> £	<u>1999</u> £
Staff costs, excluding directors, for the period amounted to:		
Wages and salaries	193,889	180,170
Social security costs	1,060	678
Pension costs	7,398	5,111
	<u> </u>	<u> </u>
	202,347	185,959
	<u> </u>	<u> </u>

Included within staff costs is £158,770 (1999: £127,177) which has been capitalised as part of deferred development and exploration costs.

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

	<u>2000</u> No	<u>1999</u> No
Operations	54	42
Administration	6	4
	<u> </u>	<u> </u>
	60	46
	<u> </u>	<u> </u>

7 DIRECTORS' EMOLUMENTS	<u>2000</u> £	<u>1999</u> £
Emoluments in respect of qualifying services	252,398	217,494
	<u> </u>	<u> </u>

The emoluments of the highest paid director were £79,898.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

8 TAXATION	<u>2000</u> £	<u>1999</u> £
Corporation tax	-	-
Deferred tax	126,389	22,674
	<u>126,389</u>	<u>22,674</u>

9 EARNINGS PER SHARE

Basic earnings per share is based on a profit of £287,981 (1999: £62,859 loss) and a weighted average number of shares in issue of 25,970,122 (1999: 19,972,342).

Diluted earnings per share is based on a profit of £287,981 (1999: £62,859 loss). The weighted number of shares used to calculate diluted earnings per share incorporates the weighted average number of shares in issue of 25,970,122 (1999: 19,972,342) plus dilutive potential ordinary shares arising from share options of 22,835 (1999: nil), totalling 25,992,957 (1999: 19,972,342).

10 INTANGIBLE FIXED ASSETS	<u>Goodwill</u> £	<u>Deferred exploration and development costs</u> £	<u>Exploration data and prospecting rights</u> £	<u>Provision for rehabilitation costs</u> £	<u>Total</u> £
Group Cost					
At 30 June 1999	835,410	1,376,024	615,013	10,513	2,836,960
Additions	1,263,718	1,168,314	-	-	2,432,032
Exchange difference	-	(86,687)	-	(782)	(87,469)
	<u>2,099,128</u>	<u>2,457,651</u>	<u>615,013</u>	<u>9,731</u>	<u>5,181,523</u>
Amortisation					
At 30 June 1999	-	10,795	-	3,679	14,474
Charge for the period	-	29,078	-	991	30,069
Exchange difference	-	(1,333)	-	(291)	(1,624)
	<u>-</u>	<u>38,540</u>	<u>-</u>	<u>4,379</u>	<u>42,919</u>
Net book value					
At 30 June 2000	2,099,128	2,419,111	615,013	5,352	5,138,604
At 30 June 1999	835,410	1,365,229	615,013	6,834	2,822,486
Company					£
Deferred exploration and development costs					
At 1 July 1999					68,477
Additions					96,518
At 30 June 2000					<u>164,995</u>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

11 TANGIBLE FIXED ASSETS - Group

	<u>Mining property</u> £	<u>Mining equipment</u> £	<u>Plant and equipment</u> £	<u>Motor vehicles</u> £	<u>Total</u> £
Cost					
At 30 June 1999	698,535	235,076	815,031	62,843	1,811,485
Additions	805	149,707	49,793	48,450	248,755
Disposals	-	(2,333)	(496)	-	(2,829)
Exchange difference	(52,013)	(20,142)	(61,737)	(4,555)	(138,447)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2000	647,327	362,308	802,591	106,738	1,918,964
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation					
At 30 June 1999	27,246	80,108	81,110	13,706	202,170
Charge for the period	14,791	22,139	78,954	16,349	132,233
Disposals	-	-	-	-	-
Exchange difference	(2,297)	(9,081)	(7,654)	(1,068)	(20,100)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2000	39,740	93,166	152,410	28,987	314,303
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 30 June 2000	607,587	269,142	650,181	77,751	1,604,661
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 1999	671,289	154,968	733,921	49,137	1,609,315
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Company				<u>Motor vehicles</u> £	
Cost					
At 1 July 1999					13,510
Additions					-
					<hr/>
At 30 June 2000					13,510
					<hr/>
Depreciation					
As at 1 July 1999					2,702
Charge for the period					2,702
					<hr/>
At 30 June 2000					5,404
					<hr/>
Net book value					
At 30 June 2000					8,106
					<hr/>
At 30 June 1999					10,808
					<hr/>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

12 INVESTMENTS

Group	<u>2000</u>
	£
Interest in prospecting licence	
At 1 July 1999	29,349
Additions	76,527
	<hr/>
At 30 June 2000	105,876
	<hr/>
Company	
Shares in subsidiary undertakings	
Cost	
At 1 July 1999 and at 30 June 2000	4,140,644
	<hr/>

At 30 June 2000 the company held 100% of the ordinary shares of Firestone Diamonds Limited, whose principal activity was that of a holding company. Firestone Diamonds Limited had the following subsidiary undertakings:

<u>Name</u>	<u>Holding</u>	<u>Business Activities</u>	<u>Country of incorporation</u>
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

	<u>Group</u> <u>2000</u> £	<u>Company</u> <u>2000</u> £	<u>Group</u> <u>1999</u> £	<u>Company</u> <u>1999</u> £
Cut and uncut diamonds held for resale	45,953	-	82,140	-
	<hr/>	<hr/>	<hr/>	<hr/>

14 DEBTORS

	<u>Group</u> <u>2000</u> £	<u>Company</u> <u>2000</u> £	<u>Group</u> <u>1999</u> £	<u>Company</u> <u>1999</u> £
Amounts falling due within one year:				
Trade debtors	45,831	-	13,156	-
Amounts owed by subsidiary undertakings	-	3,149,186	-	1,415,751
Other debtors	47,604	-	153,782	-
Prepayments and accrued income	-	-	151	151
	<hr/>	<hr/>	<hr/>	<hr/>
	93,435	3,149,186	167,089	1,415,902
	<hr/>	<hr/>	<hr/>	<hr/>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

15 CREDITORS	<u>Group</u> <u>2000</u> £	<u>Company</u> <u>2000</u> £	<u>Group</u> <u>1999</u> £	<u>Company</u> <u>1999</u> £
Amounts falling due within one year:				
Bank overdraft	16,001	-	4,665	-
Obligations under finance leases	2,419	-	-	-
Trade creditors	81,766	-	30,670	-
Other creditors	102,672	-	-	-
Taxation and social security	17,141	-	-	-
Accruals and deferred income	115,553	62,597	53,135	48,292
	<u>335,552</u>	<u>62,597</u>	<u>88,470</u>	<u>48,292</u>
Amounts falling due after more than one year:				
Obligations under finance leases	14,446	-	-	-
	<u>14,446</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Obligations under finance leases are payable as follows:				
Within one year	2,419	-	-	-
Between two and five years	14,446	-	-	-
	<u>16,865</u>	<u>-</u>	<u>-</u>	<u>-</u>

Obligations under finance leases are secured on the underlying assets.

16 OTHER PROVISIONS	<u>Group</u> <u>2000</u> £	<u>Company</u> <u>2000</u> £	<u>Group</u> <u>1999</u> £	<u>Company</u> <u>1999</u> £
Provision for rehabilitation costs	9,731	-	10,513	-
	<u>9,731</u>	<u>-</u>	<u>10,513</u>	<u>-</u>

Surf Zone Diamonds has established an environmental rehabilitation bond of R100,000 (£9,731) in accordance with the requirements of the South African Minerals Act of 1991. This is currently the only required imposition to comply with environmental legislation in respect of the Avontuur 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 area 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 provision for rehabilitation work of R100,000 (£9,731) has been raised as a long term liability. The deferred asset, which arises, will be amortised over 10 years, which is the directors' estimate of the life of the mine.

17 DEFERRED TAX	<u>At 30 June</u> <u>1999</u> £	<u>Profit and</u> <u>loss account</u> £	<u>Currency</u> <u>translation</u> <u>movement</u> £	<u>At 30 June</u> <u>2000</u> £
Group				
Accelerated capital allowances	7,046	407	(533)	6,920
Deferred exploration costs	290,141	190,644	(25,071)	455,714
Exchange losses	(26,178)	(4,120)	2,023	(28,275)
Tax losses	(199,959)	(60,542)	15,990	(244,511)
	<u>71,050</u>	<u>126,389</u>	<u>(7,591)</u>	<u>189,848</u>

The directors do not anticipate that accumulated reserves of overseas subsidiaries at 30 June 2000 will be remitted to the UK in the foreseeable future. Accordingly, no provision has been made for deferred tax on these balances.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

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, 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 the 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 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:

	2000 £	1999 £
Sterling	7,232,504	4,468,613
Rand	215,977	487,873
	<hr/>	<hr/>
	7,448,481	4,956,486
	<hr/>	<hr/>

(c) Currency exposures

The net value at 30 June 2000 of monetary assets and liabilities held in currencies other than the functional currency of the operating units involved was as follows:

	Net foreign currency monetary assets	
	2000	1999
Functional currency of group operations	Dollars	Dollars
	£	£
Sterling	-	1,546
	<hr/>	<hr/>
	1,546	38,763
	<hr/>	<hr/>

Gains and losses arising from these assets due to currency movements will be recognised in the profit and loss account.

19 SHARE CAPITAL

	2000		1999	
	Number	£	Number	£
Authorised:				
Ordinary shares of 20p each	49,750,010	9,950,002	35,000,010	7,000,002
Redeemable Preference Shares of £1 each	49,998	49,998	49,998	49,998
	<hr/>	<hr/>	<hr/>	<hr/>
	49,800,008	10,000,000	35,050,008	7,050,000
	<hr/>	<hr/>	<hr/>	<hr/>
Allotted, called up and fully paid:				
Ordinary shares of 20p each	30,363,078	6,072,615	22,983,992	4,596,798
	<hr/>	<hr/>	<hr/>	<hr/>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

19 SHARE CAPITAL (continued)

On 26 January 2000, the company increased its authorised share capital to £10,000,000 by the creation of 14,750,000 ordinary shares of 20 pence each.

On 14 February 2000 Firestone Diamonds Plc issued 5,877,905 new ordinary shares of 20 pence each at 25 pence each raising £1,469,476.

On 7 March 2000 the company allotted 956,189 ordinary shares of 20 pence each at 72 pence per share as part consideration for the acquisition of Oena Mine (Proprietary) Limited and Kuboes Diamante (Proprietary) Limited (see note 25). On the same day, a further 17,365 ordinary shares were issued at 72 pence per share as consideration for the acquisition of exploration rights in South Africa.

Warrants

Warrants exercised during the year and the resulting changes in the company's share capital were as follows:

Exercise date	<u>Number</u>	<u>Proceeds</u> £	<u>Share premium</u> £	<u>Share capital</u> £
16 August 1999	527,627	119,249	13,724	105,525
	<u>527,627</u>	<u>119,249</u>	<u>13,724</u>	<u>105,525</u>

The remaining 305,512 warrants lapsed on 31 July 1999.

Share options

The company operates an Unapproved Share Option scheme for all employees and the directors. As at 30 June 2000, options granted under the Unapproved Share Option scheme were outstanding over a total of 1,461,000 ordinary shares as follows:

<u>Date of grant</u>	<u>Exercisable from</u>	<u>Exercisable to</u>	<u>Number of shares</u>	<u>Exercise price</u>
26 January 2000	26 January 2001	26 January 2010	101,000	44.5p
25 February 2000	25 February 2001	25 February 2010	1,360,000	76.5p

20 RESERVES

	<u>Share premium account</u> £	<u>Merger Reserve</u> £	<u>Profit and loss account</u> £
Group			
At 30 June 1999	1,402,242	(1,076,399)	33,845
Premium arising on issue of shares	811,351	-	-
Profit for the period	-	-	287,981
Loss on foreign exchange	-	-	(27,298)
	<u>2,213,593</u>	<u>(1,076,399)</u>	<u>294,528</u>
At 30 June 2000	<u>2,213,593</u>	<u>(1,076,399)</u>	<u>294,528</u>
Company			
At 30 June 1999	1,402,242	-	(40,922)
Premium arising on issue of shares	811,351	-	-
Retained profit for the period	-	-	16,143
	<u>2,213,593</u>	<u>-</u>	<u>(24,779)</u>
At 30 June 2000	<u>2,213,593</u>	<u>-</u>	<u>(24,779)</u>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
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21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>Group</u> <u>2000</u> £	<u>Group</u> <u>1999</u> £
Profit/(loss) for the period	287,981	(62,859)
Other gains and losses in the period	(27,298)	(6,504)
	<hr/>	<hr/>
	260,683	(69,363)
New share capital subscribed		
24 June 1998	-	2
6 August 1998	-	635,674
12 August 1998	-	1,768,443
9 May 1999	-	27,617
24 May 1999	-	21,994
24 June 1999	-	40,340
16 August 1999	119,249	-
14 February 2000	1,469,476	-
7 March 2000	698,443	-
	<hr/>	<hr/>
	2,287,168	2,494,070
	<hr/>	<hr/>
Net addition to shareholders' funds	2,547,851	2,424,707
Opening shareholders' funds	4,956,486	2,531,779
	<hr/>	<hr/>
Closing shareholders' funds	7,504,337	4,956,486
	<hr/> <hr/>	<hr/> <hr/>

22 NET CASH FLOW FROM OPERATING ACTIVITIES

	<u>2000</u> £	<u>1999</u> £
Operating profit/(loss)	379,256	(80,656)
Depreciation of tangible fixed assets	34,654	34,697
Amortisation of intangible fixed assets	30,069	10,422
Loss/(profit) on disposal of fixed assets	2,781	(40,517)
Decrease/(increase) in stocks	36,187	(50,601)
Decrease/(increase) in debtors	130,498	(116,040)
Increase in creditors	338,598	3,522
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	952,043	(239,173)
	<hr/> <hr/>	<hr/> <hr/>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2000

23 ANALYSIS OF NET FUNDS	At		Other	At
	1 July 1999 £	Cash flow £	non-cash changes £	30 June 2000 £
Cash	102,821	906,708	-	1,009,529
Bank overdraft	(4,665)	(11,336)	-	(16,001)
	<hr/>	<hr/>	<hr/>	<hr/>
	98,156	895,372	-	993,528
Finance leases	-	-	(16,865)	(16,865)
Liquid resources	313,319	(313,319)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	411,475	582,053	(16,865)	976,663
	<hr/>	<hr/>	<hr/>	<hr/>
24 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS				
			2000 £	1999 £
Increase in cash in the period			895,372	56,873
Cash (inflow)/outflow from change in liquid resources			(313,319)	313,319
			<hr/>	<hr/>
Change in net funds arising from cash flows			582,053	370,192
Conversion of loan notes to share capital			-	454,354
Inception of finance leases			(16,865)	-
			<hr/>	<hr/>
Movement in net funds in the period			565,188	824,546
Net funds/(debt) at 30 June 1999			411,475	(413,071)
			<hr/>	<hr/>
Net funds at 30 June 2000			976,663	411,475
			<hr/>	<hr/>

25 ACQUISITION OF BUSINESSES DURING THE YEAR

On 25 February 2000, the group acquired control of Oena Mine, through its acquisition of Oena Mine (Proprietary) Limited and Kuboes Diamante (Proprietary) Limited. The results of these companies from this date to 30 June 2000 have been consolidated within the group profit and loss account and have been treated as a single business.

The purchase has been accounted for using the acquisition method of accounting.

FIRESTONE DIAMONDS PLC
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25 ACQUISITIONS OF BUSINESSES DURING THE YEAR (continued)

The fair value of the assets and liabilities of Oena Mine (Proprietary) Limited and Kuboes Diamante (Proprietary) Limited at the date of acquisition was as follows:

	<u>Book value</u> £
Debtors	8,776
Cash	20,166
Creditors	(473,832)
	<hr/>
	(444,890)
Minority interests	54,735
	<hr/>
Net liabilities acquired	(390,155)
Goodwill	1,263,718
Amount attributable to loans acquired	454,383
	<hr/>
	1,327,946
	<hr/> <hr/>
Satisfied by:	
Cash	641,936
Shares	686,010
	<hr/>
	1,327,946
	<hr/> <hr/>

The directors do not believe that there was a difference between the fair value and book value of the assets and liabilities of the companies at the date of acquisition.

Since the date of acquisition, the businesses have not contributed to the operating results of the group, their activities being restricted to exploration and development which has been capitalised in the balance sheet. The businesses contributed a net cash outflow of £105,975 to cash outflows from capital expenditure.

The companies did not trade for the period from 1 January 2000, the beginning of their financial year, to the date of acquisition. The profit after tax for the year ended 31 December 1999 was £41,400. There were no recognised gains or losses in the companies other than those included in the profit and loss account.

26 CAPITAL COMMITMENTS

At 30 June 2000, the group had authorised and contracted for capital commitments of £81,794 (1999: nil).

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
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27 RELATED PARTY TRANSACTIONS

During the period ended 30 June 2000, Firestone Diamonds plc and its subsidiaries paid £17,925 (1999: £20,722) for consulting fees, staff costs, rent and other operating costs to Asam Minerals CC, a company in which Mr H Jenner-Clarke, who is a director of Firestone Diamonds plc, has an interest. In addition, fixed assets to the value of £nil (1999: £25,016) were acquired at market value from Asam Minerals CC during the period. In addition, Surf Zone Diamonds (Proprietary) Limited presented two diamonds with a value of £1,171 (1999: nil) to Mr H Jenner-Clarke.

During the period, the directors received advances in relation to fees and expenses. The amounts advanced to or by each director in this respect at 30 June were as follows:

	Advanced to/ (advanced by) at <u>30 June 2000</u> £	Advanced to/ (advanced by) at <u>30 June 1999</u> £
J F Kenny	34,347	57,462
H Jenner-Clarke	(80,982)	(17,982)
P Kenny	(21,690)	93,545
J Kenny Jnr	13,257	20,757
	<u> </u>	<u> </u>

The balance at 30 June 1999 represents the highest balance during the two years.