

CAPE DIAMONDS PLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2009

DIRECTORS AND ADVISERS

DIRECTORS

Dr Anna T M Mokgokong
M J Madungandaba
S Sasson
O J Lubow

Non-Executive Chairperson
Finance Director
Executive Director
Non-Executive Director

**SECRETARY
REGISTERED OFFICE**

Preiskel & Co.
c/o Preiskel & Co. LLP
5 Fleet Place
London EC4M 7RD

BANKERS

HSBC Bank plc
69 Pall Mall
London SW1Y 5EY

AUDITORS

Deloitte LLP
London

NOMINATED ADVISER AND STOCKBROKER

WH Ireland Limited
5th Floor
85-89 Colmore Row
Birmingham B3 2BB

SOLICITORS

Beachcroft LLP
100 Fetter Lane
London EC4A 1BN

REGISTRARS

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands B63 3DA

COMPANY NUMBER

5084775

NON-EXECUTIVE CHAIRPERSON'S STATEMENT

When I wrote to you on 31 March 2009 I set out to you a combined strategy of firstly, seeking new business opportunities for the Group and strengthening the asset base through the acquisition of further resource assets in Africa and secondly, reviewing the property at Elandsplaagte to establish its value and to establish what further action may be appropriate.

I am pleased to report that we have made good progress with the first part of the strategy and hope to make a detailed announcement regarding progress when appropriate. It is our belief that the diamond sector is beginning to show strong signs of recovery and that opportunities to acquire undervalued assets still remain available to us in this sector.

Additionally, interest is being shown again in a number of other resource sectors including coal and it is our belief that with our wide network of local contacts within Africa we should be able to identify strong additional opportunities to bring into the Group. Accordingly, the Company is proposing a resolution at the Annual General Meeting to change the Company name to Cape Resources Plc.

The Mine remains under care and maintenance mainly because of significant cash constraints under which we have operated and also due to uncertainty relating to the economic feasibility of the resource. During the period to 30 June 2009 we processed 104,400 run of mine tonnes from Elandsplaagte using the pan plant system and recovered 522 carats with an average value of USD 422. This was below our expectations for the Mine and due to the fact that it was unclear from which part of the Mine this material was extracted, it is not possible to draw an informed conclusion from this result.

I am extremely pleased that following the period ended 30 June 2009, we have been able to negotiate an increase in the previous advance of £92,526 from Community Investment Holdings (Pty) Limited up to £768,000. The terms and conditions of the advance are yet to be formalized and an announcement in this regard is expected shortly.

In addition, an agreement was reached with the Directors that all Directors have waived their Directors fees for the period 01 July 2008 to 31 December 2009. If the Group successfully raises equity in the future, the Directors will be given ordinary shares to compensate for the fees waived.

CHANGES IN SHARE CAPITAL

A summary of the Company's share capital post the 2008 AGM is as follows:

Before:

Authorised

70 million shares of 10p each

Issued

44,596,053 ordinary shares of 10p each

Post (on 8 January 2009):

Authorised

800 million shares of 1p each

44,596,053 deferred shares of 9p each

Issued

44,596,053 deferred shares of 9p each

144,596,053 ordinary shares of 1p each

Included in the share capital is 100 million new ordinary shares of 1p each which were issued to Keysha Investments 194 (Pty) Limited upon conversion of their loan to shares on 07 January 2009, representing 69.16 per cent of the enlarged share capital. The deferred shares have no rights.

RESULTS FOR THE YEAR

The loss for the year amounts to £2.0 million compared with a loss of £42.8 million in the prior year. The results for the year include the impairment charge of £nil (2008: £48.9 million) and a deferred tax credit of £nil (2008: £10 million) in respect of the mining assets.

Your Board remain determined to continue the implementation of its strategy going forward and views the future with confidence. The Directors hope to make a further update announcement to Shareholders when appropriate.

This report and accounts for the year ended 30 June 2009 is available on the Company's website at www.capediamonds.com. The Annual General Meeting is convened for 30 December 2009 at 10:30 a.m. at the offices of W.H. Ireland Limited, 24 Martin Lane, London EC4R 0DR.

PERFORMANCE POST YEAR END

During the period to date of this report we processed 70,400 tonnes, comprising a combination of run of mine and virgin material from the Elandsplaagte mine, using the pan plant system and recovered 705 carats with an average value of USD821 per carat.

At the date of this report all diamond recoveries were held as stock.

Further advances of £454,154 were granted by Community Investment Holdings (Pty) Ltd to the Group whilst £221,320 remains available for draw down. The terms and conditions of the advance are yet to be formalized and an announcement in this regard is expected to follow shortly.

Included in creditors as at 30 June 2009 is £695,560 which are disputed and the Directors are of opinion that these amounts will not be paid in the 12 months from the date of this report.

Further to that, the Directors managed to negotiate a discount of £119,455 on outstanding creditors.

During the period to date of this report the Group settled £214,700 of the outstanding amounts as at 30 June 2009 and raised additional creditors of £217,324.

An agreement was reached with the major creditors that their accounts would be settled as soon as the necessary South African exchange control approval has been obtained.

It is intended that as from March 2010, all other creditors will be settled as and when they become due and payable.

The Group have also become aware of a contravention of South African Reserve Bank (“SARB”) exchange controls (Note 21(b)).

The IDC loan is accruing interest monthly and no cash repayments have been made since the year end to the date of this report. Continuous negotiations are taking place between management and the IDC. The IDC visits Elandsplaagte at least once a month to follow up on progress made by management in managing operations.

GOING CONCERN

As at the date of this report, the Group should have sufficient cash in hand to remain in operation taking into account £221,320 to be drawn down on the interim advance from Community Investment Holdings (Pty) Limited. The Directors feel that with potential new opportunities available and the business plan for the next twelve months (the assumptions of which are disclosed in the Directors’ Report), there is a reasonable likelihood that they can meet the needs of the Group for the next twelve months to 31 December 2010. For this reason, as described in Note 1, the Directors continue to adopt the going concern basis in preparing the financial statements.

Dr Anna Mokgokong
Chairperson

14 December 2009

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements, for the year ended 30 June 2009.

RESULTS AND DIVIDENDS

The results to 30 June 2009 reflect the operating and administrative expenses of the Group.

The results for the year are set out in the Consolidated Income Statement on page 13. The Directors do not recommend the payment of a dividend on the ordinary shares (2008: £nil).

Key performance indicators for the Group are as follows:

	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2008
Property, plant and equipment	5,428,858	4,433,389
Cash and cash equivalents	22,907	114,078
Net liabilities	(1,847,478)	(559,910)
Loss for the year	(1,990,593)	(42,848,956)
Loss per share	1.84p	97.66p

BUSINESS REVIEW

Refer to the Chairperson's Statement on page 2 for the detailed business review.

The interests in share capital (as defined in the Companies Act 2006) of the Directors holding office at 30 June 2009 or at their date of resignation are shown below.

NAME	NUMBER OF ORDINARY SHARES OF 1P AT 30 JUNE 2009 OR DATE OF RESIGNATION	% OF ISSUED SHARE CAPITAL	NUMBER OF ORDINARY SHARES OF 10P AT 30 JUNE 2008 OR DATE OF RESIGNATION	% OF ISSUED SHARE CAPITAL
M A Alikhani	–	–	3,081,420	6.91%
H M Silver	–	–	40,000	0.09%
Total	–	–	3,121,420	7.00%

PRINCIPAL ACTIVITIES

The main activity of the Group is to mine and extract diamonds in the Republic of South Africa. The principal activity of the Company is that of a holding company

DIRECTORS AND THEIR INTERESTS

The names of the Directors who served throughout the year and subsequently, except where shown otherwise, are as follows:

Dr. A T M Mokgokong	Non-Executive Chairperson
M J Madungandaba	Finance Director
O J Lubow	Non-Executive Director
S Sasson	Executive Director
D Gadd-Claxton*	Executive Director

* D Gadd-Claxton resigned as Director and chief executive during the year.

All of the serving Directors have a service contract with the Company.

Details of share warrants granted to Directors are provided in Note 22.

Other than as set out in the preceding paragraphs, none of the Directors held any interests in the shares of the Company or its subsidiary undertakings during the year. All of the interests reported are beneficial.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has purchased and maintains liability insurance for its Directors and Officers.

TRANSACTIONS WITH DIRECTORS AND RELATED PARTIES

Details of transactions with Directors and related parties are set out in Note 24 to the accounts.

ISSUES OF SHARES AND WARRANTS

During the year a loan of £1,000,000 was converted to ordinary shares, resulting in the issue of 100,000,000 ordinary shares of £0.01 each.

During the year 44,596,053 ordinary shares of £0.10 were converted to deferred shares of £0.09 and ordinary shares of £0.01 each.

SUBSTANTIAL SHAREHOLDINGS

The Company is aware that as at 30 November 2009 the following persons are interested (within the meaning of the Act) directly in 3% or more of the issued share capital of the Company:

NAME	NUMBER OF ORDINARY SHARES	% OF ISSUED SHARE CAPITAL AFTER ADMISSION
Keysha Investments 194 (Pty) Limited	100,000,000	69.16%
Forreston Limited	10,000,000	6.92%
Seaton Resources Limited	6,022,120	4.16%

The Company is aware of the following options over ordinary shares and deferred shares:

SHAREHOLDER	OPTION HOLDER	NUMBER OF SHARES UNDER OPTION
Seaton Resources Limited	Activeminerals (Pty) Limited	5,022,120
Seaton Resources Limited	Interactive Trading 365 (Pty) Limited	1,000,000
Golden Hope Limited	Golden Hope Limited	250,000
Forreston Limited	Forreston Limited	250,000

None of the ordinary shares nor any of the deferred shares held under the above options relating to South African citizens may be transferred to the respective option holders without the relevant South African exchange control consents having been obtained.

Pending exercise of the above options the respective option holders are entitled to exercise the voting rights attached to the ordinary shares and deferred shares in respect of which the options have been granted.

SPECIAL BUSINESS

Subject to and conditional upon the passing of Resolutions 1 to 6 at the AGM on 30 December 2009, the following resolutions will be proposed at the Annual General Meeting.

The following resolutions constitute Special Business:

Resolution number 3 is proposed as an Ordinary Resolution in accordance with Section 551 of the Companies Act 2006 to provide the Directors with authority to allot relevant securities up to a maximum nominal amount of £39,291.50 (in pursuance of warrants granted by the Company prior to the date hereof but for no other purpose) and, in addition, up to an aggregate nominal amount of £3 million. Such authority shall expire fifteen months from the passing of the resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company.

Resolution number 4 is to seek authority for the Directors to allot equity securities (as defined by Section 560 of the Companies Act 2006) on a non pre-emptive basis in pursuance of warrants granted by the Company prior to the date hereof and, in addition up to an aggregate nominal amount of £3 million provided that the authorities, unless duly renewed, varied or revoked prior to their expiry date, shall expire fifteen months from the passing of the resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company to be held after the passing of the resolution, but such authority shall allow the Company to make an offer or agreement which would or might require relevant securities to be allotted after the authority expires and, in that event, the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired and such authorities shall be in substitution for any authorities conferred upon the Directors in accordance with the said section prior to the passing of the resolution, which authorities (to the extent they remain in force and unexercised) are hereby revoked.

DIRECTORS' REPORT CONT'D

SPECIAL BUSINESS (CONTINUED)

RESOLUTION 5: ADOPTION OF NEW ARTICLES OF ASSOCIATION

It is proposed in resolution 5 to adopt new articles of association (the "New Articles") in order to update the Company's current articles of association (the "Current Articles") primarily to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") and the implementation of the last parts of the Companies Act 2006.

RESOLUTION 6: PROPOSED NAME CHANGE

It is proposed that the company's name be changed to Cape Resources Plc.

SUPPLIER PAYMENT POLICY

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 30 June 2009 were equivalent to 433 (2008: 76) days' purchases, based on the average daily amount invoiced by suppliers during the year. A disputed creditor balance of £680,000 has distorted this average.

FIXED ASSETS

In the opinion of the Directors the current open market value of the Group's interests in land and buildings and other assets is not less than their book value.

IMPAIRMENT

A review was carried out on each class of asset taking into account present circumstances, the value of anticipated future cash flows, costs to be incurred to achieve these and resale values.

EVENTS AFTER THE BALANCE SHEET DATE

The relevant information can be found in Note 23.

EMPLOYEE CONSULTATION

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

ENVIRONMENTAL MATTERS

Regular tests are carried out to ensure that the mine operates within safe environmental conditions.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors consider that there are the following material risks associated with the Group's operations:

- geological risks associated with the development of the Group's resources;
- environmental hazards, industrial and mechanical accidents and occupational health hazards;
- labour disputes, unscheduled shut-downs or other processing problems and technical failures; and
- Going concern – The risks and uncertainties related to going concern are fully detailed below.

The Group is vulnerable to additional risks which are detailed in Note 17.

GOING CONCERN

The Group has recorded a loss of £2.0 million in the current year. Over the past 12 months the DMS plant at the Elandslaagte mine remained in care and maintenance and the Group has continued operations with the pan plant.

Refer to the Chairpersons' statement on page 2 for the detailed trading and funding review post year end to the date of this report.

In reviewing the going concern and future cash flows for the next 12 months, management have made the following material assumptions:

- 5,720 carats of diamonds to be recovered at an average price of USD821 with cash inflows from diamond sales beginning in February 2010, reflecting higher recovery rates than recent experience, due to higher volumes of virgin ore being processed.
- Continued funding from Community Investment Holdings (Pty) Ltd. Management is currently in negotiations with Community Investment Holdings (Pty) Limited to increase the interim advance by an additional £242,000. These negotiations are yet to be finalized.
- It is intended that all major creditors, other than disputed balances, would be settled as soon as the required South African exchange control approvals are obtained. It was further assumed that all other creditors, other than disputed balances, as from March 2010, would be settled as and when they become due and payable.

- It is assumed that management would be able to negotiate corrective measures with SARB on the exchange control contravention (note 21(b)) and therefore no provision has been made in the cash flow assumptions.
- Continuous negotiations are taking place between management and the IDC. The IDC visits Elandslaagte at least once a month to follow up on progress made by management in managing operations. In evaluating the cash flows it was assumed that operations would yield sufficient cash flow to allow for repayments on the loan to commence as from July 2010 and that the IDC would not recall their loan in full within the period.

The Group is pursuing a number of opportunities to expand and grow the business and restructure its finances in order to secure its future. However, the Group faces a number of issues which require successful resolution to ensure the Group remains a going concern and these opportunities are realised.

ECONOMIC VIABILITY OF MINING ELANDSLAAGTE

Whilst the Group has been able to achieve diamond production since year end, the economic viability of the mine is contingent on the extent of the mine's resources. A programme of bulk sampling work is currently being undertaken. Achieving the Group's assumed production levels which are higher than recent production levels, is uncertain.

Based on the outcome of this, a revised Competent Persons Report may be commissioned to establish the extent of the diamond resources at the Elandslaagte Mine to determine the economic feasibility of mining.

Depending on the outcome of that review, the Board then intend to take a decision as to whether:

- to proceed with mining; or
- to close down the operations at the Mine.

VALUE OF ROUGH DIAMONDS

In addition to the availability of diamond resources, the Group's future revenue is also dependent on the price per carat that the Group is able to achieve in the open market which is subject to market demands and for this reason the future prices the Group will be able to achieve are uncertain.

CONTINUED SUPPORT OF COMMUNITY INVESTMENT HOLDINGS (PTY) LIMITED

The Group has negotiated an interim advance from Community Investment Holdings (Pty) Limited of £768,000. The terms and conditions of the advance are yet to be formalized and an announcement in this regard is expected shortly. The Directors are in the process of negotiating a further advance of £242,000 from Community Investment Holdings (Pty) Limited.

CONTINUED SUPPORT OF THE IDC

As disclosed in note 15(b) the repayment of the loan of £5.58 million to the IDC is overdue. The Group is currently in negotiations to extend the repayment of this loan and the IDC have confirmed in writing that they are aware of the situation and are working with the directors to determine the best way forward. They have also confirmed in writing that they will not seek to seize the assets while negotiations with the Directors are ongoing unless the directors make a decision to liquidate the operating subsidiary Golden Falls. The IDC have communicated that they will review the situation in May 2010. Should the IDC and management be unable to find a suitable solution to repay the loan, the IDC might consider taking action by exercising their rights. The loan is secured by a charge over the movable assets (excluding diamond stock and a specific crusher) of Golden Falls, which includes the DMS plant.

There is an uncertainty as to whether or not the IDC loan will be renegotiated or the IDC will exercise their rights and require the loan to be repaid in the period.

SARB PENALTY

As disclosed in note 21(b) there is a contingent liability related to potential exchange control contraventions.

There is an uncertainty as to whether or not any penalty will need to be paid and if cash will be available to pay it.

CASH FLOWS

Based on the above factors, there may be insufficient cashflow for the Group to manage its day-to-day operations without seeking and relying on further financing, which may or may not be available.

The Directors have concluded that the combination of the circumstances noted above represents a material uncertainty that casts significant doubt upon the Group's and Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, and after making enquiries, reviewing forecast cash flows and considering the uncertainties described above, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group and Company can access adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' REPORT CONT'D

GOING CONCERN (CONTINUED)

CASH FLOWS (CONTINUED)

The financial statements do not include the adjustments that would result if the Group or the Company was unable to continue as a going concern as it is not practicable to determine or quantify them.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the Directors at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors. A resolution proposing the re-appointment of Deloitte LLP will be put to the shareholders at the Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board by:

Dr Anna T M Mokgokong
Non-Executive Chairperson
14 December 2009

CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance and the guidelines set out in the Principles of Good Corporate Governance and Code of Best Practice (the “Combined Code”). Whilst AIM companies are not obliged to comply with the Combined Code, the Directors do intend to comply with the Combined Code so far as is appropriate having regard to the size and nature of the various companies making up the Group. The Board will take such measures so far as practicable to comply with the Combined Code and in addition, the Quoted Companies Alliance (“QCA”) Guidelines for AIM Companies.

The board has put in place the corporate governance procedures they believe are appropriate for the Company.

The Board retains full and effective control over the Company. The Company holds regular Board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. Apart from the regular meetings, additional meetings are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resources and environmental management. The Board is also responsible for monitoring the activities of the executive management. To enable the Board to perform its duties, all Directors have full access to all relevant information and to the service of the Company Secretary. If necessary the Non-Executive Directors may take independent professional advice at the Group’s expense.

THE AUDIT COMMITTEE

The current audit committee comprises of Mr Joe Madungandaba and Mr Oren Lubow, chaired by Mr Oren Lubow. A UK Chartered Accountant has been available as a consultant to the committee to advise on matters relating to the UK. The audit committee meets at least twice a year. The committee reviews the Group’s annual and interim financial statements before submission to the Board for approval. The committee reviews regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.

THE REMUNERATION COMMITTEE

The remuneration committee comprises Dr Anna Mokgokong and Mr Oren Lubow, chaired by Mr Oren Lubow. The remuneration committee meets at least twice a year. It is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration paying due regard to the interests of shareholders as a whole and the performance of the Group. The remuneration committee also determines allocations of any warrants or options granted under any share option scheme adopted by the Company in the future and is responsible for setting any performance criteria in relation to exercise of warrants granted under the Warrant Deeds and any such share options which may be granted.

Details of the remuneration paid to the Directors and senior management are shown in Notes 24 and 26.

The contingency related to the Directors’ waiver is disclosed in Note 21(c).

The Directors comply with Rule 21 of the AIM Rules for Companies relating to Directors’ dealings and take all reasonable steps to ensure compliance by the Company’s applicable employees. The Company operates a share dealing code for Directors and employees in accordance with the AIM Rules for Companies.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and Company's ability to continue as a going concern. The Board's statement on going concern is included in the Director's Report.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board
Finance Director
M J Madungandaba

14 December 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPE DIAMONDS PLC

We have audited the financial statements of Cape Diamonds Plc for the year ended 30 June 2009 which comprise the Group and Company Income Statements, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group Statement of Recognised Income and Expense and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

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 2009 and of the group's and the company's loss for the year then ended;
- > the financial statements have been properly prepared in accordance with the IFRSs as adopted by the European Union; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in Note 1 to the financial statements concerning the Group and Company's ability to continue as a going concern.

The Group has net liabilities (of £1,847,478), including a loan of £5,576,720 due within one year, and its short and long term operating cash flows are affected by a number of material risks and uncertainties, including, in particular, the level of diamond production achievable from the Group's mine.

These factors, together with the existence of other material uncertainties as described in Note 1, may cast significant doubt about the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- > the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPE DIAMONDS PLC CONT'D

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION (CONTINUED)

- > the company financial statements are not in agreement with the accounting records and returns; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

We reviewed:

- > the Directors' statement contained within the Directors' Report in relation to going concern.

D Thomas (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors
London, United Kingdom

14 December 2009

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 30 JUNE 2009

	NOTES	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Revenue	4(a)	27,202	–
Mining expenses		–	–
Gross profit		27,202	–
Other operating income	4(b)	3,080	92,178
Administrative expenses		(494,099)	(2,974,626)
Impairment of assets	11(a)	–	(48,880,547)
Other operating expenses		(942,712)	(835,183)
Operating loss	5	(1,406,529)	(52,598,178)
Investment income	4(b)	14,946	66,503
Finance costs	7	(599,010)	(333,484)
Loss before taxation		(1,990,593)	(52,865,159)
Taxation	8	–	10,016,203
Loss for the year		(1,990,593)	(42,848,956)
Attributable to:			
Equity holders of the parent	19	(1,699,468)	(38,657,930)
Minority interest	19	(291,125)	(4,191,026)
		(1,990,593)	(42,848,956)
Loss per share			
Basic and diluted	10	1.84p	97.66p

The above results all relate to continuing operations.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

YEAR ENDED 30 JUNE 2009

	NOTE	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Exchange differences on translation of foreign operations	19	(152,214)	858,347
Loss for the year		(1,990,593)	(42,848,956)
Total income and expense recognised		(2,142,807)	(41,990,609)
Attributable to:			
Equity holders of the parent		(1,877,698)	(37,799,583)
Minority interest		(265,109)	(4,191,026)
		(2,142,807)	(41,990,609)

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2009

	NOTE	30 JUNE 2009 £	30 JUNE 2008 £
Non-current assets			
Property, plant and equipment	11(a)	5,428,858	4,433,389
Investments	11(b)	172,467	119,296
		5,601,325	4,552,685
Current assets			
Inventory	12	63,332	55,067
Trade and other debtors	13	330,336	326,471
Cash and cash equivalents	14	22,907	114,078
		416,575	495,616
Total assets		6,017,900	5,048,301
Current liabilities			
Trade and other payables	15(a)	(7,514,865)	(1,283,325)
Provisions	16	(5,257)	(20,895)
		(7,520,122)	(1,304,220)
Net current liabilities		(7,103,547)	(808,604)
Non-current liabilities			
Provisions	16	(345,256)	(282,920)
Long-term liabilities	15(b)	–	(4,021,071)
		(345,256)	(4,303,991)
Total liabilities		(7,865,378)	(5,608,211)
Net liabilities		(1,847,478)	(559,910)
Equity			
Share capital	18	5,459,605	4,459,605
Share premium	19	28,099,780	28,244,541
Translation reserve	19	464,211	642,441
Accumulated loss	19	(35,871,074)	(34,171,606)
Equity attributable to equity holders of the parent		(1,847,478)	(825,019)
Minority interest		–	265,109
Total deficit		(1,847,478)	(559,910)

These financial statements were approved by the Board of Directors and authorised for issue on 14 December 2009.

Signed on behalf of the Board of Directors by:

M J Madungandaba
Director

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 30 JUNE 2009

	NOTE	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Net cash outflow from operating activities	20	(577,737)	(932,873)
Investing activities			
Interest received		14,946	66,503
Pre-production development costs		–	(3,718,005)
Acquisition of property, plant and equipment		(350,581)	(3,342,020)
Acquisition of investment		(53,171)	–
Net cash used in investing activities		(388,806)	(6,993,522)
Financing activities			
Proceeds on issue of shares		–	3,000,000
Share issue expenses		(144,761)	(150,000)
Loans received		1,000,000	2,403,676
Interest paid		(1,844)	(333,484)
Net cash from financing activities		853,395	4,920,192
Net decrease in cash and cash equivalents		(113,148)	(3,006,203)
Cash and cash equivalents at beginning of the year		114,078	3,013,191
Effect of foreign exchange rate changes		21,977	107,090
Cash and cash equivalents at end of the year		22,907	114,078

COMPANY INCOME STATEMENT

YEAR ENDED 30 JUNE 2009

	NOTES	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Continuing operations			
Administrative expenses		(227,977)	(2,974,626)
Impairment	31	(1,209,351)	(25,062,607)
Operating loss	27	(1,437,328)	(28,037,233)
Interest income	28	1,032	32,611
Investment income	28	–	1,220,922
Loss before taxation		(1,436,296)	(26,783,700)
Taxation		–	–
Loss for the year	34	(1,436,296)	(26,783,700)

COMPANY BALANCE SHEET

AS AT 30 JUNE 2009

	NOTE	30 JUNE 2009 £	30 JUNE 2008 £
Non-current assets			
Investment in subsidiaries	31(a)	–	199,852
		–	199,852
Current assets			
Trade and Other debtors	32	50,732	92,319
Cash and cash equivalents		13,150	76,997
		63,882	169,316
Total assets		63,882	369,168
Current liabilities			
Trade and Other payables	33	(1,204,849)	(929,078)
Total liabilities		(1,204,849)	(929,078)
Net current liabilities		(1,140,967)	(759,762)
Net liabilities		(1,140,967)	(559,910)
Equity			
Share capital	34	5,459,605	4,459,605
Share premium	34	28,099,780	28,244,541
Accumulated loss	34	(34,700,352)	(33,264,056)
Total deficit attributable to equity holders of the parent		(1,140,967)	(559,910)

These financial statements were approved by the Board of Directors and authorised to issue on 14 December 2009.

Signed on behalf of the Board of Directors by:

M J Madungandaba
Director

COMPANY CASH FLOW STATEMENT

YEAR ENDED 30 JUNE 2009

	NOTE	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Net cash outflow from operating activities	35	(20,339)	(991,489)
Investing activities			
Interest received		1,032	32,611
Loans to subsidiary		(899,779)	(4,258,000)
Net cash used in investing activities		(898,747)	(4,225,389)
Financing activities			
Proceeds on issue of shares		–	3,000,000
Loan raised		1,000,000	–
Share issue expenses		(144,761)	(150,000)
Net cash inflow from financing activities		855,239	2,850,000
Net decrease in cash and cash equivalents		(63,847)	(2,366,878)
Cash and cash equivalents at beginning of the year		76,997	2,443,875
Cash and cash equivalents at end of the year		13,150	76,997

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2009

1. GOING CONCERN BASIS

The Group has recorded a loss of £2.0 million in the current year. Over the past 12 months the DMS plant at the Elandslaagte mine remained in care and maintenance and the Group has continued operations with the pan plant.

Refer to the Chairpersons' statement on page 2 for the detailed trading and funding review post year end to the date of this report.

In reviewing the going concern and future cash flows for the next 12 months, management have made the following material assumptions:

- 5,720 carats of diamonds to be recovered at an average price of USD821 with cash inflows from diamond sales beginning in February 2010, reflecting higher recovery rates than recent experience due to higher ore volumes of virgin ore being processed.
- Continued funding from Community Investment Holdings (Pty) Ltd. Management is currently in negotiations with Community Investment Holdings (Pty) Limited to increase the interim advance by an additional £242,000. These negotiations are yet to be finalized.
- It is intended that all major creditors, other than disputed balances, would be settled as soon as the required South African exchange control approvals are obtained. It was further assumed that all other creditors, other than disputed balances, as from March 2010, would be settled as and when they become due and payable.
- It is assumed that management would be able to negotiate corrective measures with SARB on the exchange control contravention (note 21(b)) and therefore no provision has been made in the cash flow assumptions.
- Continuous negotiations are taking place between management and the IDC. The IDC visits Elandslaagte at least once a month to follow up on progress made by management in managing operations. In evaluating the cash flows it was assumed that operations would yield sufficient cash flow to allow for repayments on the loan to commence as from July 2010 and that the IDC would not recall their loan in full within the period.

The Group is pursuing a number of opportunities to expand and grow the business and restructure its finances in order to secure its future. However, the Group faces a number of issues which require successful resolution to ensure the Group remains a going concern and these opportunities are realised.

ECONOMIC VIABILITY OF MINING ELANDSLAAGTE

Whilst the Group has been able to achieve diamond production since year end, the economic viability of the mine is contingent on the extent of the mine's resources. A programme of bulk sampling work is currently being undertaken. Achieving the Group's assumed production levels, which are higher than recent production levels, is uncertain.

Based on the outcome of this, a revised Competent Persons Report may be commissioned to establish the extent of the diamond resources at the Elandslaagte Mine to determine the economic feasibility of mining.

Depending on the outcome of that review, the Board then intend to take a decision as to whether:

- to proceed with mining; or
- to close down the operations at the Mine.

VALUE OF ROUGH DIAMONDS

In addition to the availability of diamond resources, the Group's future revenue is also dependent on the price per carat that the Group is able to achieve in the open market which is subject to market demands and for this reason the future prices the Group will be able to achieve are uncertain.

CONTINUED SUPPORT OF COMMUNITY INVESTMENT HOLDINGS (PTY) LIMITED

The Group has negotiated an interim advance from Community Investment Holdings (Pty) Limited of £768,000. The terms and conditions of the advance are yet to be formalized and an announcement in this regard is expected shortly. The Directors are in the process of negotiating a further advance of £242,000 from Community Investment Holdings (Pty) Limited.

CONTINUED SUPPORT OF THE IDC

As disclosed in note 15(b), the repayment of the loan of £5.58 million to the IDC is overdue. The Group is currently in negotiations to extend the repayment of this loan and the IDC have confirmed in writing that they are aware of the situation and are working with the directors to determine the best way forward. They have also confirmed in writing that they will not seek to seize the assets while negotiations with the Directors are ongoing, unless the directors make a decision to liquidate the operating subsidiary Golden Falls. The IDC have communicated that they will review the situation in May 2010. Should the IDC and management be unable to find a suitable solution to repay the loan, the IDC might consider taking action by exercising their rights. The loan is secured by a charge over the movable assets (excluding diamond stock and a specific crusher) of Golden Falls, which includes the DMS plant.

There is an uncertainty as to whether or not the IDC loan will be renegotiated or the IDC will exercise their rights and require the loan to be repaid in the period.

SARB PENALTY

As disclosed in note 21(b) there is a contingent liability related to potential exchange control contraventions.

There is an uncertainty as to whether or not any penalty will need to be paid and if cash will be available to pay it.

CASH FLOWS

Based on the above factors, there may be insufficient cashflow for the Group to manage its day-to-day operations without seeking and relying on further financing, which may or may not be available.

The Directors have concluded that the combination of the circumstances represents a material uncertainty that casts significant doubt upon the Group's and Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries, reviewing the forecast cash flows and considering the uncertainties described above, the Directors have formed a judgement, at the time of approving the financial statements, that the Group and Company can access adequate resources to continue in operational existence for the foreseeable future. For these reasons the Directors continue to adopt the going concern basis in preparing the financial statements.

The financial statements do not include the adjustments that would result if the Group or the Company were unable to continue as a going concern as it is not practicable to determine or quantify them.

2. GENERAL INFORMATION

Cape Diamonds Plc is a company incorporated in Great Britain and registered in England and Wales under the Companies Act 2006. It was incorporated on 25 March 2004 under the name of Dominion Mining Plc and changed its name to Cape Diamonds Plc on 26 January 2006. The registered office is detailed on page 1. The Group's principal activities are discussed in the Director's Report.

This financial information is presented in pounds sterling. The currency of the primary economic environment in which the Group operates is South African Rand ("R"). Foreign operations are consolidated in accordance with the policies set out in note 3.

ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted IFRS 8 operating segments, which is effective from 01 January 2009. The impact of the adoption of IFRS 8 is immaterial as the company only operates in one segment and one market.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective and in some cases have not yet been adopted by the EU.

Revision to IAS 23	Borrowing costs
Revision to IFRS 3	Business combinations
Revision to IAS 1	Presentation of Financial Statements

Interpretations issued by The International Financial Reporting Interpretations Committee but not yet effective.

IFRIC 15	–	Agreement for construction of real estate
IFRIC 17	–	Distribution of non-cash assets to owners
IFRIC 18	–	Transfer of assets to customers

At the date of these financial statements, amendments were made to the following standards and interpretations, but not yet effective:

IFRS 1	–	<i>First-time Adoption of International Financial Reporting Standards</i>
IFRS 5	–	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
IAS 1	–	<i>Presentation of Financial Statements</i>
IAS 16	–	<i>Property, Plant and Equipment</i>
IAS 17	–	<i>Leases – Amendments resulting from April 2009 Annual Improvements to IFRSs</i>
IAS 19	–	<i>Employee Benefits</i>
IAS 20	–	<i>Accounting for Government Grants and Disclosure of Government Assistance</i>
IAS 27	–	<i>Consolidated and Separate Financial Statements</i>
IAS 28	–	<i>Investments in Associates</i>
IAS 29	–	<i>Financial Reporting in Hyperinflationary Economies</i>
IAS 31	–	<i>Interests in Joint Ventures</i>
IAS 32	–	<i>Financial Instruments: Presentation</i>
IAS 36	–	<i>Impairment of Assets</i>
IAS 38	–	<i>Intangible Assets</i>
IAS 39	–	<i>Financial Instruments: Recognition and Measurement</i>
IAS 40	–	<i>Investment Property</i>
IAS 41	–	<i>Agriculture</i>
IFRS 7	–	<i>Financial Instruments: Disclosures – Amendments enhancing disclosures about fair value and liquidity risk</i>
IFRS 8	–	<i>Operating Segments – Amendments resulting from April 2009 Annual Improvements to IFRSs</i>

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

2. GENERAL INFORMATION (CONTINUED)

ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

IFRS 2 – *Share-based Payment – Amendments relating to group cash-settled share-based payment transactions*

The Directors anticipate that the adoption of these Standards and Interpretations in later periods will not have a material impact upon the financial information of the Group.

The comparative figures cover the year ended 30 June 2008.

The R/£ exchange rates for the year are as follows:

	2009	2008
Year end rate	13.02	15.89
Average rate for the year	14.47	14.64

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are carried at fair value or amortised cost and in accordance with International Financial Reporting Standards. The principal accounting policies adopted, which have been consistently applied, are set out below.

BASIS OF CONSOLIDATION

The financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries) up to 30 June each year. Control is achieved where the Company has the power to govern the investee entity’s financial and operating policies so as to obtain benefits from its activities or where the Group owns either directly or indirectly, the majority of a company’s equity voting rights unless, in exceptional circumstances it can be demonstrated that ownership does not constitute control.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity

are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

BUSINESS COMBINATIONS

The acquisition of subsidiaries and minority interests is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquisition, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority’s proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Where the Group makes further acquisitions in investments it already holds, the assets and liabilities of the investment are reassessed and their revised fair values are recognised. Goodwill is accordingly adjusted.

GOODWILL

Goodwill arising on consolidation represents the excess of the fair value of consideration given over the Group’s interest in the fair value of identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition and is capitalised as an asset on the balance sheet.

IFRS 3 requires that negative goodwill is recognised immediately in the income statement. The negative goodwill that arises on the acquisition of a subsidiary under IFRS 3 is credited in full to the income statement.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

FOREIGN CURRENCIES

The financial information of each individual Group company is presented in South African Rand, the currency of the primary economic environment in which these companies operate (their functional currency). For the purpose of the consolidated financial information, the results and financial position of each Group company are expressed in pounds sterling which is the presentation currency for the consolidated financial information.

In preparing the financial information of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss account for the period.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the re-translation of non-monetary items where gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

OPERATING LOSS

Operating loss is stated before investment income and finance costs.

TAX

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAX (CONTINUED)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, being the fair value at the date of acquisition, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

> Plant and equipment	20%
> Furniture and fittings	20%
> Office equipment	20%
> Computer equipment	33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

MINING DEVELOPMENT

Mining development costs comprise development and exploration costs on mineral exploration prospects. Exploration costs are accumulated separately for each area of interest (an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proven to contain such a deposit) and are carried forward on the following basis:

- Each area of interest is considered separately when deciding whether and to what extent to carry forward an asset or write-off costs. An asset, as defined, is a resource controlled by the company as a result of past events.
- Rights to prospect in the area of interest are current, and there is a reasonable possibility that such costs will be recouped through successful development and exploitation of the area of interest.

Costs of mining properties and leases, which include the costs of acquiring and developing mining properties and mineral rights, are capitalised as tangible non-current assets in the period in which they are incurred. When a decision

is taken that a mining property is viable for commercial production, all further expenditure is expensed.

Mining properties and leases are amortised on a unit of production basis over the total estimated remaining life of the mine, once commercial production commences, using estimated economically recoverable proven and probable ore reserves.

The carrying values of exploration assets are reviewed by the Directors where results of exploration of an area of interest are sufficiently advanced to permit a reasonable estimate of the costs expected to be recouped through successful developments and exploitation of the area of interest. Expenditure in excess of this estimate is written off to the income statement in the period in which the review occurs.

At each reporting date, management assesses whether there is any indication that exploration and evaluation expenditure carried forward per area may be impaired. If any such impairment exists, the carrying amount is written down to the higher of net selling price and value in use.

All expenditure, generated by diamonds recovered, incurred on mining areas where commercial production has not commenced are expensed.

IMPAIRMENT OF TANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs (i.e. the mine).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised

as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 8 September 2005 that were unvested as of 30 June 2009.

The Group issues equity-settled and cash-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Share warrants granted are stated at par value when issued.

Fair value is measured by use of a binomial option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

REHABILITATION ASSETS

Rehabilitation assets are recorded at the estimated value of the long-term environmental obligation based on the Group's environmental management plan in compliance with regulatory and other requirements. Amortisation of rehabilitation assets are calculated on a unit of production

basis using estimated economically recoverable proved and probable ore reserves.

FINANCIAL INSTRUMENTS

Initial recognition and measurement

All financial instruments are recognised on the balance sheet. Financial instruments are initially recognised when the Company becomes party to the contractual terms of the instruments and are measured at cost, which is the fair value of the consideration given for financial asset or received for financial liability or equity instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement on initial recognition. Transaction costs are included in the initial measurement of the financial instrument. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets

The Company's principal financial assets are subsidiary loans, other receivables, deposits and cash and cash equivalents and an insurance policy held as security for the rehabilitation provision all held at fair value.

De-recognition

Financial assets (or a portion thereof) are de-recognised when the Company realises the rights to the benefits specified in the contract, the rights expire or the Company surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On de-recognition, the difference between the carrying amount of the financial asset and proceeds receivable is included in the income statement.

Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. On de-recognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and amount paid for it is included in the income statement.

INVESTMENTS

Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs. At subsequent reporting dates, debt securities that the company has the expressed intention and ability to hold to maturity (held-to-maturity) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investment other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Settlement date accounting is applied to all investments made.

On the disposal of any investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

BANK BORROWINGS

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

TRADE PAYABLES

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, which are described above, management has made no critical judgement that have a significant effect on the amounts recognised in the financial statements, apart from those involving estimations, which are dealt with below.

KEY SOURCES OF ESTIMATION UNCERTAINTY

FAIR VALUE OF WARRANTS ISSUED

Warrants granted during the period are fair valued. The fair value of equity-based share warrants is estimated at the date of grant using an option-pricing model, taking into account the terms and conditions upon which the warrants were granted. The expected life of the warrants is based on academic research and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the comparator's volatility of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

FAIR VALUE OF MINING PROPERTIES

The key source of estimation uncertainty at the balance sheet date relating to the future, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year concerns the fair value of the mining development, which was determined based on surveyed tonnes of ore in-situ and the waste, ore and treatment cost per tonne, and the DMS plant. Any significant change in these costs per tonne could result in a change in the carrying value of the asset.

REHABILITATION PROVISION

Rehabilitation provision is recorded at the estimated value for the rehabilitation of mining site when mining activities cease, based on the Group's environmental plan.

4(a). REVENUE – GROUP

On 1 July 2008, the Group ceased production as a result of the issues outlined in the Non-Executive Chairperson's Statement and accordingly re-entered the pre-production phase. The Group continued with bulk sampling and the production from the pan plants are recognised as revenue when sold.

In 2009, net revenue of £27,202 (2008: £292,882) was generated from the sale of diamonds. In 2008 the amount was credited to capitalised mining costs.

All sales of goods were made in the South African market which is the Group's only segment.

4(b). INVESTMENT AND OTHER INCOME – GROUP

	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Interest on bank deposits	14,946	66,503
Other operating income	3,080	92,178
	18,026	158,681

5. OPERATING LOSS – GROUP

Loss from operations has been arrived at after charging:

	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Net foreign exchange (gains)/losses	(109,720)	1,531,941
Depreciation	298,672	266,223
Impairment	–	48,880,546
Staff costs (see note 6)	440,135	1,490,591
Share-based payment	–	227,276

The analysis of auditors' remuneration is as follows:

	2009 £	2008 £
Fees payable to the Company's auditors for the audit of the Company's annual accounts	5,000	5,000
The audit of the Company's subsidiaries pursuant to legislation		
– Group	25,000	65,000
– Interim	–	12,766
– South Africa	23,907	47,335
Prior year		
Under-provision Group	70,000	46,809
Total audit fees	123,907	176,910
Other services – South Africa	–	9,923
Total non-audit fees	–	9,923
Total fees	123,907	186,833

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

6. STAFF COSTS – GROUP

	YEAR ENDED 30 JUNE 2009 NO	YEAR ENDED 30 JUNE 2008 NO
The average number of employees (excluding executive Directors) was	58	141
Number of Directors	4	6
	62	147
	£	£

Emoluments for qualifying services:

Highest paid Director (note 24)	–	171,558
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Staff costs including Directors:

Wages and salaries – UK	–	587,053
– South Africa	440,135	903,538
	440,135	1,490,591

Total staff costs include amounts paid to Directors of £nil (2008: £970,498). See Note 21(c), 24 and 26.

The above figures include the allocation of the share-based payment charge for the prior year.

£79,480 (2008: £110,420) was paid to contractors who work for Cape Diamonds Plc as though they are employees.

No retirement benefits are accruing to Directors under pension schemes. There is no amount payable in respect of retirement benefits to either Directors or employees under any pension scheme in either period.

7. FINANCE COSTS – GROUP

	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Interest on loans	599,010	420,994
Other	–	910
Interest capitalised	–	(88,420)
Total finance costs	599,010	333,484

8. TAXATION – GROUP

Analysis of tax credit

	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Current tax		
– UK corporation tax	–	–
– South African tax	–	–
Deferred taxation (see note 9)	–	10,016,203
Total tax credit	–	10,016,203

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

8. TAXATION – GROUP (CONTINUED)

	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Loss before tax	(1,990,593)	(52,865,159)
Tax at the UK Corporation tax rate of 28% (2008: 28%)	557,366	14,802,245
Tax effect of impairment of assets	–	(13,686,553)
Tax effect of amounts that are not deductible in determining taxable profit	(272,674)	(174,560)
Tax effect of pre-production expenses	–	1,050,016
Tax effect of tax losses not recognised	(284,692)	(1,991,147)
Derecognition of deferred tax asset	–	(694,630)
Deferred tax related to mining impairment	–	10,710,832
Total tax credit	–	10,016,203

The Group is carrying forward estimated tax losses of £3.7 million (2008: £3.5 million) in the United Kingdom.

The estimated assessed losses in South Africa amount to £42.8 million (2008: £40.9 million).

No deferred tax provision has been made in respect of these carried forward losses due to the uncertainty over the availability of taxable profit against which these losses may be offset in the foreseeable future.

9. DEFERRED TAXATION

	CAPEX £	TAX LOSSES £	MINING DEVELOPMENT £	TOTAL £
2008				
South Africa				
At 1 July 2007	(2,277,325)	2,994,487	(786,309)	(69,147)
Current timing differences	1,574,590	(1,551,612)	(22,978)	–
Tax losses written off	–	(694,630)	–	(694,630)
Exchange differences	121,237	(166,747)	107,596	62,086
Credit to income	–	–	701,691	701,691
At 30 June 2008	(581,498)	581,498	–	–
UK				
At 01 July 2007	–	–	(10,009,141)	(10,009,141)
Credit to income	–	–	10,009,141	10,009,141
Total at 30 June 2008	(581,498)	581,498	–	–

	CAPEX £	TAX LOSSES £	MINING DEVELOPMENT £	TOTAL £
2009				
South Africa				
At 1 July 2008	(581,498)	581,498	–	–
Current timing differences	253,447	–	–	253,447
Tax loss	–	(253,447)	–	(253,447)
At 30 June 2009	(328,051)	328,051	–	–
UK				
At 30 June 2009	(328,051)	328,051	–	–

10. LOSS PER SHARE

FROM CONTINUING OPERATIONS:

The calculation of the basic and diluted loss per share is based on the following data:

	YEAR ENDED 30 JUNE 2009 £	YEAR ENDED 30 JUNE 2008 £
Loss		
Loss for the purposes of basic and diluted loss per share being attributable to equity holders of the parent	(1,699,468)	(38,657,930)
Statutory number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	91,993,313	39,582,354
Effect of dilutive potential ordinary shares:		
Share options	236,986	3,929,150
Weighted average number of ordinary shares for the purpose of diluted earnings per share	92,230,299	43,511,504
Basic and diluted loss per share	1.84p	97.66p

The outstanding share warrants are anti-dilutive as the Group has made a loss during the current and prior years.

The deferred shares have no rights and therefore do not form part of the loss per share calculations.

11.(a) PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS £	OTHER ASSETS £	TOTAL £
Cost or valuation			
At 1 July 2007	177,773	47,825,390	48,003,163
Additions	–	7,060,025	7,060,025
Impairment of Assets	–	(48,934,926)	(48,934,926)
Exchange difference	(19,130)	(1,105,140)	(1,124,270)
At 30 June 2008	158,643	4,845,349	5,003,992
Additions	–	350,581	350,581
Exchange difference	32,706	944,090	976,796
At 30 June 2009	191,349	6,140,020	6,331,369
Accumulated depreciation			
At 1 July 2007	4,708	359,874	364,582
Charge for the year	6,513	314,089	320,602
Impairment of Assets	–	(54,379)	(54,379)
Exchange difference	(1,019)	(59,183)	(60,202)
At 30 June 2008	10,202	560,401	570,603
Charge for the year	6,589	292,083	298,672
Exchange difference	735	32,501	33,236
At 30 June 2009	17,526	884,985	902,511
Net book value			
At 30 June 2008	148,441	4,284,948	4,433,389
At 30 June 2009	173,823	5,255,035	5,428,858

Land and buildings consist of a farm, Elandslaagte no. 385, situated in the District of Barkly West, Province of the Northern Cape in the Republic of South Africa, measuring 272 ha with some farm buildings thereon.

The property is held subject to a Notarial Mineral Lease no. K52/2002RM in terms whereof the Republic of South Africa is the lessor of all precious stones found in, on and under the property and in terms whereof Elandslaagte Diamonds (Proprietary) Limited is the lessee of the sole and exclusive right to mine and recover precious stones in, on and under the property for a duration of 20 years commencing 3 May 2001, with a further two options to extend the lease for five years.

The IDC loan disclosed in Note 15(b) is secured over the moveable assets of the mine, excluding diamond stocks and a specific crusher, which is held as security for the creditor related to that crusher.

A crusher to the value £348,196 is held as security for a trade creditor.

During the year an amount of £nil (2008: £48,880,547) was included in the Income Statement as impairment of assets.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

11.(b) INVESTMENTS

	£
South Africa	
As at 30 June 2007	161,344
– fair value revaluation	(42,048)
As at 30 June 2008	119,296
– investment	27,443
– fair value revaluation	(3,800)
– exchange differences	29,528
As at 30 June 2009	172,467

Part of this investment is held as security for the rehabilitation provision disclosed in Note 16.

12. INVENTORY

	30 JUNE 2009 £	30 JUNE 2008 £
Diamond stocks	–	2,542
Stock consumables	63,332	52,525
	63,332	55,067

13. TRADE AND OTHER DEBTORS

	30 JUNE 2009 £	30 JUNE 2008 £
Guarantees and deposits	114,560	102,098
Other debtors	215,776	224,373
	330,336	326,471

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

A deposit is held by the South African Department of Mineral and Energy on estimated long term environmental obligations and other guarantees for an amount of £43,391 (R565,000), (2008: £31,466, R500,000).

Included within other debtors is a VAT receivable of £156,802 (2008: £178,623).

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and balances in bank, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value and have an original maturity of three months or less. The South African entities are subject to exchange control restrictions.

15.(a) TRADE AND OTHER PAYABLES

	30 JUNE 2009 £	30 JUNE 2008 £
Trade creditors	1,702,791	955,215
Short-term portion of a long term loan	5,576,720	–
Other creditors	92,527	107,142
Taxation	142,827	117,289
Accruals	–	103,679
Total	7,514,865	1,283,325

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 433 (2008: 76) days for the Group and 236 (2008: 229) for its subsidiaries.

Included within trade creditors is a balance of £680,000 which is disputed, and has been outstanding since May 2006.

The Directors consider that the carrying amount of trade payables approximates their fair value.

15.(b) LONG-TERM LIABILITIES

Loan received by Golden Falls from IDC:

	£
As at 30 June 2007	1,290,197
Loan received	2,309,880
Interest accrued	420,994
As at 30 June 2008	4,021,071
Short term portion	(5,576,720)
Interest accrued	597,166
Exchange difference	958,483
As at 30 June 2009	–

The loan is secured over all the moveable assets of Golden Falls excluding diamond stocks and a crusher to the value of £348,196. The terms of the first loan state that the loan shall be repaid in 47 equal monthly instalments of £79,954 (R1,041,000) each and a final instalment of £82,412 (R1,073,000), the first of which was paid on 01 February 2008 and the remainder thereafter on the first day of each and every succeeding month until the loan has been repaid in full.

The terms of the second loan state that the loan shall be repaid in 30 equal monthly instalments of £76,798 (R1,000,000) each until fully repaid, the first of which was paid on 01 February 2008.

The IDC allowed Golden Falls a moratorium on repayments of capital and interest from 1 March to 30 June 2008. This moratorium has expired and Golden Falls is now in breach of the terms of the loan.

The IDC has confirmed they are aware of the situation and are working with the Directors to determine the best way forward. They have also confirmed that they will not seek to seize the assets while negotiations with the directors are ongoing unless the Directors make a decision to liquidate Golden Falls. This arrangement will be reviewed by the IDC in May 2010.

The IDC have confirmed that they will work with the Directors to restructure the debt and renegotiate the repayment terms of the loan.

The first loan bears interest at the South African prime rate (currently 10.5%) less 1%. The second loan bears interest at the South African prime rate (currently 10.5%).

16. PROVISIONS

	CURRENT LIABILITIES LEAVE PAY £	NON-CURRENT LIABILITIES REHABILITATION £
At 1 July 2007	40,103	183,357
Utilised	(16,164)	–
Creation of additional provision	–	129,480
Exchange differences	(3,044)	(29,917)
At 30 June 2008	20,895	282,920
Utilised	(13,600)	–
Exchange differences	(2,038)	62,336
At 30 June 2009	5,257	345,256

The leave pay provision relates to vested leave pay to which employees become entitled upon leaving the employment of the Company. The provision arises as employees render a service that increases their entitlement to future compensated leave. The provision is utilised when employees who are entitled to leave pay, leave the employment of the Company or when the accrued leave due to an employee is utilised.

Rehabilitation provision relates to the estimated liability arising from current mining activities and the Group's obligation to incur costs related to the rehabilitation of the mining site when mining activities cease.

17. FINANCIAL INSTRUMENTS – GROUP

CREDIT RISK

The Group's principal financial assets are bank balances and cash, trade and other debtors.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk.

The Group's financial assets, which potentially subject the Group to concentrations of credit risk, consist solely of the loan to its subsidiary.

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders; refer to Note 1 for further detail. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 15(a) and 15(b), cash and cash equivalents; financial assets carried at fair value and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 19.

GEARING RATIO

The Board periodically reviews the capital structure of the Group. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	30 JUNE 2009 £	30 JUNE 2008 £
Debt	5,576,720	4,021,071
Cash and cash equivalents	(22,907)	(114,078)
Net Debt	5,553,813	3,906,993
Equity	(1,847,478)	(825,019)
Net debt to equity ratio	3.01	4.74

The debt is defined as long- and short-term borrowings, as detailed in note 15(a) and 15(b).

Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

SIGNIFICANT ACCOUNTING POLICIES

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis on which income and expenses are recognised, in respect of each class of asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

CATEGORIES OF FINANCIAL INSTRUMENTS

	CARRYING VALUE	
	30 JUNE 2009 £	30 JUNE 2008 £
Financial assets		
Fair value through profit and loss (FVTPL) Held for trading	172,467	119,296
Loans and receivables (including cash and cash equivalents)	353,243	440,549
Financial liabilities		
Short-term borrowings and payables at amortised cost	1,702,791	955,107
Short-term portion of long-term loan at amortised cost	5,576,720	–
Long-term loan at amortised cost	–	4,021,071

FINANCIAL RISK MANAGEMENT

The Board monitors the financial risks relating to the operations of the Group. These risks include market risk (primarily currency and interest rate risk), and liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

17. FINANCIAL INSTRUMENTS – GROUP (CONTINUED)

FOREIGN CURRENCY RISK MANAGEMENT

The Group is exposed to foreign exchange risk associated with fluctuations in the relative value of the South African Rand. These risks are mitigated to the extent considered necessary by the Board.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	ASSETS		LIABILITIES	
	30 JUNE 2009 £	30 JUNE 2008 £	30 JUNE 2009 £	30 JUNE 2008 £
Denominated in Rand	461,982	271,360	6,312,352	4,380,887

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group is mainly exposed to the Rand. The following table details the Group's sensitivity to a 5% increase and decrease in the Sterling against the Rand. 5% represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Sterling strengthens 5% against the Rand. For a 5% weakening of the Sterling against the Rand, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	30 JUNE 2009	30 JUNE 2008
Loss	278,589	195,692
Other equity	–	–

Reasons for foreign currency impacts shown above.

The Group's sensitivity to foreign currency has decreased during the current period due to the impairment of loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender. The impairment of the loans in the Company is detailed in note 31(a) and 31(b).

INTEREST RATE RISK MANAGEMENT

The Group is exposed to interest rate risk through the cash and cash equivalents and short-term financial assets. The Group's exposure to interest rates is detailed in the interest rate sensitivity section of this note.

INTEREST RATE SENSITIVITY

The sensitivity analyses below have been determined based on the exposure to interest rates for interest bearing instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 1% increase or decrease in interest rates has been applied in this analysis.

If interest rates had been 1% higher/lower and all other variables were constant, the Group's loss for the year ended 30 June 2009 would increase by £55,767 (2008: £39,000) and equity would be reduced by the same amounts.

The Group's sensitivity to interest rates has increased during the current period mainly due to increase in long-term loans relative to the cash position in the Group.

LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for the liquidity risk management rests with the Board of Directors. The Board of Directors monitors the level of liquid assets available to the Company and the level of funding required to meet its short-medium and long-term requirements.

LIQUIDITY AND INTEREST RISK TABLES

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes interest (one year for long-term loans and six months for short-term loan) and principal cash flows.

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	LESS THAN 1 YEAR	1-5 YEARS	TOTAL
30 June 2009				
Long-term loans	14.25	5,576,720	–	5,576,720
30 June 2008				
Long-term loans	14.5	–	4,604,126	4,604,126

The repayment terms in respect to the loans are detailed in note 15(b).

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	LESS THAN 1 MONTH TO 1 YEAR	1-5 YEARS	TOTAL
30 June 2009				
Variable interest rate instruments	14.25	22,907	–	22,907
30 June 2008				
Variable interest rate instruments	15.5	114,078	–	114,078
	15.5	114,078	–	114,078

COMMODITY PRICE RISK

Historically, commodity prices have displayed wide ranges and are affected by numerous factors over which the Group does not have any control. These include world production levels, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events.

OTHER RISKS

Due to the nature and extent of the Company's financial assets and liabilities, it is not unduly exposed to price risks and cash flow risks.

FAIR VALUES

The loans from the holding company to the subsidiary are denominated in Rand.

The carrying amounts of the following financial instruments approximate their fair values:

- > Cash at bank – deposits without specified maturity dates and bear interest at market-related rates.
- > Accounts receivable – subject to normal credit terms and reflected net of doubtful debt provision
- > Accounts payable – subject to normal credit terms and relatively short payment cycle.

18. SHARE CAPITAL

	30 JUNE 2008 £
Authorised	
70 million ordinary shares of £0.10 each	7,000,000
Issued and fully paid at 1 July	3,459,605
34,596,053 ordinary shares of £0.10 each (2007: 32,821,053 ordinary shares of £0.10 each)	
Issued during the year	1,000,000
10,000,000 ordinary shares of £0.10 each (2007: 1,775,000 ordinary shares of £0.10 each)	
Issued and fully paid at 30 June	4,459,605

	30 JUNE 2009 £
Authorised	
800 million ordinary shares of £0.01 each	8,000,000
44,596,053 deferred shares at £0.09 each	4,013,645
Ordinary shares	
Issued and fully paid at 1 July	
44,596,053 Ordinary shares of £0.10 each were converted to 44,596,053 deferred shares at £0.09 each and 44,596,053 Ordinary Shares of £0.01 each	4,459,605
Converted to deferred shares	
44,596,053 deferred shares of £0.09 each	(4,013,645)
Issued during the year	
100,000,000 Ordinary shares of £0.01 each	1,000,000
Issued and fully paid at 30 June 2009	1,445,960
Deferred shares	
Issued and fully paid	
44,596,053 deferred shares of £0.09 each	4,013,645
Issued and fully paid at 30 June 2009	5,459,605

The deferred shares carry no specific rights.

MOVEMENTS IN YEAR

On 8 January 2009, 44,596,053 ordinary shares were converted to deferred shares at £0.09 each.

On 8 January 2009, 100,000,000 ordinary shares of £0.01 each were issued and fully paid for.

	NO. OF SHARES NO	NOMINAL VALUE £
At 30 June 2008	44,596,053	4,459,605
08 January 2009	100,000,000	1,000,000
At 30 June 2009	144,596,053	5,459,605

The Company has 144,596,053 ordinary shares of £0.01 in issue which rank pari passu.

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

19. STATEMENT OF CHANGES IN EQUITY – GROUP

	SHARE CAPITAL £	SHARE PREMIUM £	TRANSLATION RESERVE £	ACCUMULATED (LOSS)/PROFIT £	MINORITY INTEREST £	TOTAL £
At 1 July 2007	3,459,605	26,394,541	(215,906)	4,259,047	4,687,996	38,585,283
Loss for the year	–	–	–	(38,657,930)	(4,191,026)	(42,848,956)
Shares issued	1,000,000	2,000,000	–	–	–	3,000,000
Share issue expenses	–	(150,000)	–	–	–	(150,000)
Exchange differences on translation of overseas operations	–	–	858,347	–	(231,861)	626,486
Share-based payments (note 22)	–	–	–	227,277	–	227,277
At 1 July 2008	4,459,605	28,244,541	642,441	(34,171,606)	265,109	(559,910)
Loss for the year	–	–	–	(1,699,468)	(291,125)	(1,990,593)
Shares issued	1,000,000	–	–	–	–	1,000,000
Share issue expenses	–	(144,761)	–	–	–	(144,761)
Exchange differences on translation of overseas operations	–	–	(178,230)	–	26,016	(152,214)
At 30 June 2009	5,459,605	28,099,780	464,211	(35,871,074)	–	(1,847,478)

The translation of the Group's foreign operations to the Group's functional currency at each balance sheet gives rise to a foreign exchange difference that is initially recorded as a separate component of the equity in the translation reserve. This reserve is recognised in the income statement on the disposal of the foreign operation.

The Directors do not recommend the payment of a dividend on the ordinary shares.

20. NOTES TO THE CASH FLOW STATEMENT

	30 JUNE 2009 £	30 JUNE 2008 £
Operating loss from continuing operations	(1,406,529)	(52,598,178)
Adjustments for:		
Impairment of assets	–	48,880,547
Depreciation of property, plant and equipment	298,673	320,602
Bad debt write off	12,787	205,290
(Decrease)/increase in provisions	(15,638)	50,437
Share-based payments	–	227,276
Net foreign exchange losses	(109,720)	1,531,941
Other non-cash items	–	26,795
Operating cash flows before movements in working capital	(1,220,427)	(1,355,290)
(Increase)/decrease in inventory	(8,265)	81,245
(Increase)/decrease in receivables	(3,865)	786,640
Increase/(decrease) in payables	654,820	(445,468)
Net cash outflow from operating activities	(577,737)	(932,873)

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid-investments with a maturity of three months or less.

21. CONTINGENCIES AND COMMITMENTS**(a) CONTINGENCIES**

The Company has contingent liabilities regarding transactions related to machinery of £150,379 (2008: nil).

(b) SARB PENALTY

The Company has become aware of a contravention of the South African Reserve Bank rules as shares in the Company are now held by Keysha Investments 194 (Pty) Limited a South African controlled company and are in the process of discussing the issue with the South African Reserve Bank. The outcome of the discussion is uncertain and, whilst management believe this highly unlikely, the Company might be subject to penalties in this regard to a maximum amount of £1 million.

(c) WAIVER OF DIRECTORS FEES

An agreement was reached with the directors where all Directors have waived their Directors' fees for the period 01 July 2008 to 31 December 2009. If the Group successfully raises equity in the future, the Directors will be given ordinary shares to compensate for the fees waived. At the date of this report the total accumulated directors fees waived amounted to £615,721.

22. SHARE-BASED PAYMENTS**SHARE WARRANTS**

The Company has a share warrant scheme for some employees of the Group. The expense recognised during the year for share-based payments in respect of share warrants granted is £nil (2008: £227,276). No new warrants were granted during the year.

For the purposes of the IFRS 2 charge the warrants were valued using the Binominal Option Pricing Model, using the following assumptions:

Time to maturity – 3 years
 Risk free rate – 4.11% to 4.55%
 Dividend yield – nil
 Volatility – 50%
 Weighted average share price 87p
 Weighted average exercise price 78p

The assumptions above are consistent with the assumptions in the previous year.

Warrants are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period varies. If the warrants remain unexercised after a period of five years from the date of grant the warrants expire. Warrants are forfeited if the employee leaves the Group.

No warrants were exercised during the year.

Expected volatility was determined by calculations the historical volatility of the Group's share price over the previous one year. The expected life used in the model had been adjusted, based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

Details of the share warrants outstanding during the year are as follows:

	NUMBER OF SHARE WARRANTS NO.	WEIGHTED AVERAGE EXERCISE PRICE £
Outstanding and exercisable at 30 June 2008	3,929,150	2,984,150
Warrants lapsed during the year	–	–
Outstanding and exercisable at 30 June 2009	3,929,150	2,984,150

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

22. SHARE-BASED PAYMENTS (CONTINUED)

EQUITY-SETTLED SHARE WARRANT SCHEME

NAME	EXERCISE PRICE		30 JUNE 2008 OR DATE OF RESIGNATION NUMBER	LAPSED NUMBER	RECLASSIFICATION NUMBER	30 JUNE 2009 OR DATE OF RESIGNATION NUMBER
Masoud Alikhani	10p	Note A	400,000	–	(400,000)	–
Masoud Alikhani	100p	Note F	200,000	–	(200,000)	–
BR Corporate Finance Ltd	10p	Note B	40,000	–	–	40,000
BR Corporate Finance Ltd	100p	Note C	20,000	–	–	20,000
Other staff and consultants	10p	Note A	590,000	–	400,000	990,000
Staff and consultants	100p	Note C and D	48,180	–	–	48,180
Andrew Coxon	100p	Note F	100,000	–	(100,000)	–
Merika J Madungandaba	100p	Note E	75,000	–	–	75,000
Dr Anna Mokgokong	100p	Note E	75,000	–	–	75,000
Oren Lubow	100p	Note C and G	113,267	–	–	113,267
Others ¹	100p	Note E	75,000	–	–	75,000
Others ²	100p	Note F	435,000	–	300,000	735,000
Other shareholders	100p	Note C	1,757,703	–	–	1,757,703
			3,929,150	–	–	3,929,150
Weighted average exercise price (pence)			73.9	–	–	76.41

The weighted average contractual life of warrants outstanding at 30 June 2009 was 2.1 years.

NOTE:

- Note A – Exercisable at any time before 7 February 2010
- Note B – Exercisable at any time before 1 September 2009
- Note C – Exercisable at any time before 30 March 2010
- Note D – These warrants have been reclassified and are now disclosed under “other shareholders”
- Note E – Exercisable at any time between 21 October 2007 and 21 October 2012
- Note F – Exercisable at any time before 21 April 2011
- Note G – Oren Lubow’s warrants are held by Fitel Nominees Ltd

On 27 July 2007, 3.6 million warrants were approved for issue to directors and staff for which contracts have not been issued. During the year 120,000 (2008: 480,000) of these warrants were cancelled after certain employees left the Group.

One million warrants were approved for issue to David Gadd-Claxton for which no contract was issued, and these lapsed on his departure on 27 August 2008.

At the time of this report, 40,000 (Note B) warrants had lapsed.

23. EVENTS AFTER THE BALANCE SHEET DATE

- (a) A new order mining licence application has been submitted in order to replace the existing old order mining licence and Golden Falls is awaiting approval from DME.
- (b) The Group have negotiated an interim advance from Community Investment Holdings (Pty) Limited of £768,000. The terms and conditions of the advance are yet to be formalized and an announcement in this regard is expected shortly. As at the date of this report, approximately £221,320 remains to be drawn down.

24. RELATED PARTY TRANSACTIONS

RELATED PARTY	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT OF TRANSACTION 30 JUNE 2009 £	AMOUNT RECEIVABLE 30 JUNE 2009 £	AMOUNT OF TRANSACTION 30 JUNE 2008 £	AMOUNT RECEIVABLE 30 JUNE 2008 £
Prema Mining (Proprietary) Limited	Common director	Amount written off from debtor	–	–	205,290	–
Community Investment Holdings(Pty)Ltd	MJ Madungandaba and ATM Mokgokong directors of Community Investment Holdings (Pty) Limited and Cape Diamonds Plc	Loan	92,526	92,526		

DIRECTORS' TRANSACTIONS

Year ended-2009

No direct transactions with directors

Year ended-2008

No direct transactions with directors

As at the balance sheet date, Shanley Holdings owns 2,811,420 shares of £0.10 each. M A Alikhani is the beneficial owner of Shanley Holdings Ltd. During 2008, M A Alikhani purchased 200,000 shares of £0.10 each, and H M Silver purchased 40,000 shares of £0.10 each.

Post year end, the group have negotiated an interim advance with a related party (Note 23(b)).

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

24. RELATED PARTY TRANSACTIONS (CONTINUED)

YEAR ENDED 30 JUNE 2009

NAME	CONSULTANCY FEE £	DIRECTORS' FEES £	SALARY £	SHARE-BASED PAYMENTS £	TOTAL £
M J Madungandaba	–	–	–	–	–
A T M Mokgokong	–	–	–	–	–
S Sasson	–	–	–	–	–
O J Lubow	–	–	–	–	–
Total	–	–	–	–	–

YEAR ENDED 30 JUNE 2008

Directors

NAME	CONSULTANCY FEE £	DIRECTORS' FEES £	SALARY £	SHARE-BASED PAYMENTS £	TOTAL £
M A Alikhani	–	16,493	142,905	–	159,398
H M Silver	–	7,831	124,315	39,412	171,558
M J Madungandaba	–	10,000	59,170	19,706	88,876
A T M Mokgokong	–	10,000	48,412	19,706	78,118
S Sasson	–	10,000	60,000	–	70,000
O J Lubow	–	10,000	60,000	–	70,000
D Gadd-Claxton	–	2,548	30,000	–	32,548
Total	–	66,872	524,802	78,824	670,498

Key management

	30 JUNE 2009 £	30 JUNE 2008 £
Salary	–	165,637
Share-based payment	–	98,529
Total	–	264,166

A moratorium on Directors' salaries was declared subsequent to the year ended 30 June 2008 and approved by the Board. Directors' salaries have ceased being paid since that date.

Share-based payments' charges relate to the IFRS 2 charge for the year with respect to warrants granted in 2006 to the Directors, Group employees and consultants.

3.6 million warrants were approved for issue during the 2008 year, however no contracts have been issued. No warrants were approved or granted during 2009.

25. ADOPTION OF IFRS 8 OPERATING SEGMENTS

The Group has adopted IFRS 8 *Operating Segments* with effect from 01 January 2009. IFRS 8 requires operating segments to be identified on the basis of components used in internal reports of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the category of mining which includes diamond sales and cost of producing diamonds. The Group's reportable segments under IFRS 8 are therefore as follows:

Mining: Diamond mining

There are no other operations in the group.

25(a). SEGMENT REVENUES AND RESULTS

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	SEGMENT REVENUE		SEGMENT LOSS AFTER TAX	
	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2008
Diamond				
Mining	27,202		(1,990,593)	(42,848,956)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year (2008: nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the notes.

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, profits of associates, investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

25(b). SEGMENT ASSETS

	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2008
Segment assets		
Consolidated assets	6,017,900	5,048,301
Segment liabilities		
Consolidated liabilities	7,865,378	5,608,211

25(c). GEOGRAPHICAL INFORMATION

The Group operates in one principle geographical area – South Africa.

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

	REVENUE FROM EXTERNAL CUSTOMERS		NON-CURRENT ASSETS	
	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2009	YEAR ENDED 30 JUNE 2008
South Africa	27,202		– 5,601,325	4,552,685

26. STAFF COSTS – COMPANY

	YEAR ENDED 30 JUNE 2009 NO.	YEAR ENDED 30 JUNE 2008 NO.
The average monthly number of employees (excluding Executive Directors) was:	–	–
Number of Directors	4	6
	£	£
Emoluments for qualifying services:		
Highest paid Director (payable by subsidiary)	–	171,588
Staff costs including Directors:		
Wages and salaries	79,480	359,777
Share-based payments	–	227,276

£79,480 (2008: £110,420) was paid to contractors who work for the Company as though they are employees.

No retirement benefits are accruing to Directors under pension schemes, as a result there is no amount payable in respect of retirement benefits to either Directors or employees under any pension scheme in either period.

Directors' fees were waived in the year (see Note 21(c)).

27. LOSS FROM OPERATIONS – COMPANY

Loss from operations has been arrived at after charging/(crediting):

	30 JUNE 2009 £	30 JUNE 2008 £
Impairment of investment in subsidiary	1,209,351	25,062,607
Net foreign exchange (gains)/losses	(109,720)	1,531,941

Auditors' remuneration for the Company and the Group is disclosed in Note 5.

28. INVESTMENT INCOME – COMPANY

	30 JUNE 2009 £	30 JUNE 2008 £
Interest on bank deposits	1,032	32,611
Notional interest receivable from subsidiary	–	1,220,922
Total investment income	1,032	1,253,533

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

29. FINANCIAL INSTRUMENTS – COMPANY

CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to stakeholders. The capital structure of the Company consists of cash and cash equivalents; financial assets carried at fair value and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 34.

The Company is equity financed.

CATEGORIES OF FINANCIAL INSTRUMENTS

	30 JUNE 2009 £	30 JUNE 2008 £
Financial assets		
Loans and receivables (including cash and cash equivalents)	63,882	169,316
Financial liabilities		
Amortised cost	1,204,849	823,719

At the reporting date there are no loans and receivables designated at FVTPL. The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Board of Directors monitor the financial risks relating to the operations of the Company. These risks include market risk (primarily currency and interest rate risk), credit risk and liquidity risk.

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The foreign currency exposure and sensitivity is materially the same for the Group and Company only. Refer to Note 17 for details in respect to foreign currency sensitivity.

INTEREST RATE RISK MANAGEMENT

The Company is exposed to interest rate risk through the cash and cash equivalents and short-term financial assets. The Company's exposure to interest rates is detailed in the interest rate sensitivity section of this note.

INTEREST RATE SENSITIVITY

The sensitivity analysis below has been determined based on the exposure to interest rates for the average balance of interest-bearing financial asset investments held during the year. A 1% increase or decrease in interest rates has been applied in this analysis.

If interest rates had been 1% higher and all other variables were constant, the Company's loss for the year ended 30 June 2009 would decrease by £nil (2008: £182,000).

LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for the liquidity risk management rests with the Board of Directors. The Board of Directors monitors the level of liquid assets available to the Company and the level of funding required to meet its short-medium and long-term requirements. Refer to Note 1 for details in relation to material uncertainties in respect of the Company and the Group's ability to meet its future obligations.

CREDIT RISK

Financial assets which potentially subject the Company to concentrations of credit risk, consist solely of the loan to its subsidiary.

30. PENSIONS

There are no pension schemes in place in the Group.

31(a). INVESTMENT IN SUBSIDIARIES – COMPANY

	SHARES £	LOANS £	TOTAL £
At 1 July 2007	11,624,783	9,690,693	21,315,476
Increase in loans during the year	–	4,258,000	4,258,000
Notional interest		1,220,922	1,220,922
Exchange difference		(1,531,939)	(1,531,939)
Impairment of investment	(11,424,931)	(13,637,676)	(25,062,607)
30 June 2008	199,852	–	199,852
Increase in loans during the year	–	899,779	899,779
Exchange difference	–	109,720	109,720
Impairment of investment	(199,852)	(1,009,499)	(1,209,351)
30 June 2009	–	–	–

Investment in subsidiaries comprises the purchase of the entire share capital of DMI which holds 25.4% interest in Golden Falls, 49% of the issued shares of Golden Falls, which in turn owns 100% of the ordinary share capital of Elandslaagte comprising the Leicester, Russell and Balmoral mines.

Due to considerable impairment of the underlying mining assets of the subsidiaries, the Company investment and loans to the subsidiaries were impaired.

At 30 June 2009, investments in the following subsidiaries were held:

	ACTIVITY	COUNTRY OF INCORPORATION AND OPERATION	ORDINARY SHARES HELD COMPANY	ORDINARY SHARES HELD GROUP
Dominion Mining Investments (Proprietary) Ltd	Mining	South Africa	100%	100%
Golden Falls Mining (Proprietary) Limited	Mining	South Africa	49%	74.4%
Elandslaagte Diamonds (Proprietary) Ltd	Mining	South Africa	–	74.4%

NOTES TO THE FINANCIAL STATEMENTS CONT'D

YEAR ENDED 30 JUNE 2009

31(b). RELATED PARTY TRANSACTIONS – COMPANY

RELATED PARTY	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT OF TRANSACTION 30 JUNE 2009 £	BALANCE AT 30 JUNE 2009 £	AMOUNT OF TRANSACTION 30 JUNE 2008 £	BALANCE AT 30 JUNE 2008 £
						–
DMI	Subsidiary	Loans				
		Cash transfers paid	899,779	–	4,258,000	–
		Notional interest	–	–	1,220,922	–
		Exchange difference	109,720	–	(1,531,939)	–
		Investment	–	1,209,351	–	199,852
		Impairment of investment and loans	(1,009,499)	(1,209,351)	(25,062,607)	–
			–	–	(21,115,624)	199,852
Prema Mining (Proprietary) Ltd	Common director	Amount written off from Debtors	–	–	205,590	–

32. TRADE AND OTHER DEBTORS – COMPANY

The carrying amount of these assets approximates their fair value.

	30 JUNE 2009 £	30 JUNE 2008 £
Other debtors	50,732	92,319

The Directors consider that the carrying amount of other receivables approximates their fair value.

33. TRADE AND OTHER PAYABLES – COMPANY

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 433 (2008: 76) days.

The Directors consider that the carrying amount of trade payables approximates their fair value.

	30 JUNE 2009 £	30 JUNE 2008 £
Trade payables	1,204,849	823,719
Other payables and accruals	–	105,359
	1,204,849	929,078

34. STATEMENT OF CHANGES IN EQUITY – COMPANY

	SHARE CAPITAL £	SHARE PREMIUM £	ACCUMULATED LOSS £	TOTAL £
At 1 July 2007	3,459,605	26,394,541	(6,707,632)	23,146,514
Net loss for the year	–	–	(26,783,700)	(26,783,700)
Shares issued	1,000,000	2,000,000	–	3,000,000
Share issue expenses	–	(150,000)	–	(150,000)
Share-based payment	–	–	227,276	227,276
At 1 July 2008	4,459,605	28,244,541	(33,264,056)	(559,910)
Shares issued	1,000,000	–	–	1,000,000
Share issue expenses	–	(144,761)	–	(144,761)
Net loss for the year	–	–	(1,436,296)	(1,436,296)
Balance at 30 June 2009	5,459,605	28,099,780	(34,700,352)	(1,140,967)

The Directors do not recommend the payment of a dividend on the ordinary shares.

35. NOTES TO THE CASH FLOW STATEMENT – COMPANY

	30 JUNE 2009 £	30 JUNE 2008 £
Operating loss from continuing operations	(1,437,328)	(28,037,233)
Impairment of subsidiary investment	1,209,351	25,062,607
Write off of debtor	–	205,290
Share based payments	–	227,276
Net foreign exchange (gains)/losses	(109,720)	1,531,941
Operating cash flows before movements in working capital	(337,697)	(1,010,119)
Decrease in receivables	41,588	39,552
Increase/(decrease) in payables	275,770	(20,922)
Net cash outflow from operating activities	(20,339)	(991,489)

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank and other short-term highly-liquid investments with a maturity of three months or less.

