

# CAPE DIAMONDS PLC

REPORT AND FINANCIAL STATEMENTS  
YEAR ENDED 30 JUNE 2008



## DIRECTORS AND ADVISERS

<b>DIRECTORS</b>	Dr Anna T M Mokgokong M J Madungandaba S Sasson O J Lubow	Non-Executive Chairperson Finance Director Executive Director Non-Executive Director
<b>SECRETARY REGISTERED OFFICE</b>	Preiskel & Co. 8-10 New Fetter Lane London EC4A 1RS	
<b>BANKERS</b>	HSBC Bank plc 69 Pall Mall London SW1Y 5EY	
<b>AUDITORS</b>	Deloitte LLP London	
<b>NOMINATED ADVISER AND STOCKBROKER</b>	WH Ireland Limited 5th Floor 85-89 Colmore Row Birmingham B3 2BB	
<b>SOLICITORS</b>	Beachcroft LLP 100 Fetter Lane London EC4A 1BN	
<b>REGISTRARS</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA	
<b>COMPANY NUMBER</b>	5084775	

## NON-EXECUTIVE CHAIRPERSON'S STATEMENT

The Company has posted to shareholders a circular detailing "Proposals for the Sub-division of share capital, conversion of convertible loan facility and Notice of General Meeting (the "GM")." The GM will be held at 2.30pm on 7 January 2009 at the offices of Beachcroft LLP, 100 Fetter Lane, London EC4A 1BN, which is after the announcement of these results. We summarise relevant matters below:

During the year under review, the Company continued to develop the Elandslaagte Mine and to erect its DMS plant. Various factors delayed the final commissioning of the DMS plant, including power cuts and design changes made to allow for factors specific to the geology of the Elandslaagte Mine, but by early 2008 the Company was in a position to start more or less continuous running of the plant. However the initial results of this exercise proved very disappointing as no diamonds of significance were recovered. As much of the material processed was taken from existing tailings it was difficult to ascertain the reason for this and to quantify the scope of the problem.

As a result of the difficulties experienced, the Group ceased commercial production and re-entered the pre-production phase with effect from 1 July 2007 whereby mining costs less proceeds from the sale of diamonds recovered have been capitalised and as a result no revenue has been recognised in the income statement.

The Company raised £3 million before costs during December 2007 but by May 2008, in light of the poor results obtained, the Company was running short of money and in order to give it the opportunity and cash flow necessary to carry out a formal review of its resources, it entered into a toll processing agreement with KMG Mining Services (Pty) Limited ("KMG"). This agreement provided for the Company to use its DMS plant to process tailings from the nearby Frank Smith Mine on a toll basis. This agreement, had it been fulfilled, would have allowed the Group to generate a significant and profitable monthly cash flow.

Shortly thereafter the Company announced that it had entered into a merger agreement with KMG. Subsequent consummation of these deals however, proved to be impractical and it became apparent that they could not be completed.

This put the Board in an extremely difficult position as cash had continued to be spent at the Mine but without any income. The effective result of this was that the Group was then not in a position to pay its employees: the Industrial Development Corporation ("IDC") was threatening to exercise its security rights over the DMS plant (in respect of which it had obtained a court order protecting its rights), creditors were threatening litigation and the Department of Minerals and Energy ("DME") was also threatening to suspend or remove the Group's mining licences. Against this background the Directors attempted to raise funds by way of a capital raising but this proved impossible. Therefore, after taking advice and recognising the threat of immediate liquidation if funds were not raised, the Directors entered into the Convertible Loan Facility.

In August 2008, the Company raised a total of £1 million before expenses from Keysha Investments 194 (Pty) Ltd ("Keysha") subject to the terms of the Convertible Loan Facility. The net proceeds of the Convertible Loan Facility have been and are being used for general working capital purposes at the Elandslaagte Mine. The Group is still seeking to re-finance the UK holding company in order to allow it to return to normal trading terms.

This was announced on 15 August 2008 together with the termination of the toll treatment and merger agreements with KMG. Since then, the Mine has been put on care and maintenance. The employees and all material creditors have been paid, IDC has removed the threat of exercising its security and indeed has indicated that subject, inter alia, to approval of the business plan, the R17 million balance of the ongoing financing facility remains available to be drawn down. A new order mining licence application has been submitted and the Company is finalising the required social and labour plan with the DME and this is awaiting approval.

Financing however, remains limited and the Board is therefore now pursuing a two-part strategy, the first part relating to the Elandslaagte Mine and the second part to the strengthening of the asset base.

The first part of the Board's strategy is to establish the extent of the resources at the Elandslaagte Mine and the economic feasibility of mining them. Information currently available suggests that former underground working in all three pipes may have been more extensive than had originally been understood. This in turn calls into question the competent persons' report published in the admission document dated 22 May 2006. In order to address this:

- the Group is carrying out a programme of bulk sampling in partnership with Altivex, the former site development contractor. This sampling is being carried out using the pan plant system to avoid the cost of starting up the DMS plant at this point. Under the agreement, Altivex will incur all of the sampling costs and will receive 80 per cent of the proceeds of any diamonds recovered.
- The Board and Altivex are working with VSA Geoconsultants Group (Pty) Limited to review the results of the sampling and other production information currently available to re-evaluate the original estimates made in the competent persons' report dated 22 May 2006.
- Depending on the outcome of that review, the Board then intend to take a decision as to whether:
  - (i) to proceed with further sampling and a full third-party competent persons' report;
  - (ii) to proceed with mining; or
  - (iii) to close down the operations at the Mine.

At the same time the Board intend to undertake a review of

the conduct of previous management and make an assessment as to whether there is any basis for taking action to recover any losses incurred by the Group and its Shareholders.

The second leg of the Company's strategy will involve strengthening the asset base through the acquisition of further resource assets in South Africa. As shareholders in and directors of CI Holdings and because of the prominence of Dr Anna Mokgokong and Joe Madungandaba's positions in the business community of the "new" South Africa, they have been privileged to see a strong flow of investment opportunities in the resource sector throughout South Africa and extending further into West Africa. Where appropriate, it would be their intention to introduce these to the Company for review by the Board and its advisers.

The Directors have undertaken an impairment review of the Mining Assets and Plant & Equipment. Until clarified by the results of the bulk sampling programme the extent of the resources at the Elandslaagte Mine are uncertain and experience to date indicates the possibility that the mine may not be capable of yielding diamonds in commercially minable quantities.

Based on the diamond recoveries to date and projected revenues (based on current diamond prices, which are impacted by the current financial crisis) the directors have reassessed the value of the assets and have written down the Mining Assets by £47.7m and the Plant and Equipment by £1.2m. These write downs have increased the loss for the year by £48.9m.

## BOARD CHANGES

Once it became apparent that the initial returns from processing the materials on the mine were significantly less than had been anticipated, the Chief Executive Manie Silver, was asked to resign. His successor Mr David Gadd-Claxton resigned after the year end when the merger with KMG broke down because KMG could not fulfill the conditions. Former Chairman, Masoud Alikhani, stepped down from the Board at the Annual General Meeting held in February 2008.

The Board recognises the need to recruit a senior executive management team including a new Chief Executive Officer, a group geologist and a full-time Finance Director and has instituted steps to identify and approach suitably qualified individuals.

The present directors have entered into service agreements with the Company effective from November 2008 with notice periods ranging from 3 to 12 months.

## GOING CONCERN

If the resolutions proposed in the Circular are not passed at the GM, the loan to Keysha will need to be repaid and the consideration will be 74.9% of the Group's interest in Golden Falls. With the remaining Golden Falls' shares owned by Wheatfields, the Group's BEE partner, the Group will lose control of Golden Falls.

If the resolutions proposed are passed at the GM, the position of the Group will be as follows:

1. Based on management's working capital forecasts, the Group currently has approximately two months' cash in hand to remain in operation.
2. A R17 million facility remaining with the IDC which can only be drawn down on the approval of a business plan by the IDC.

The Directors feel comfortable that with potential new opportunities available and an appropriate business plan, there is a reasonable chance that they can raise the additional funds necessary to meet the needs for the next twelve months to 31 December 2009. For this reason, as described in Note 1, the Directors continue to adopt the going concern basis in preparing the financial statements.

A summary of the Company's share capital pre and post GM if the proposals are passed is as follows:

### Present:

#### 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

The issued shares includes the issue of 100 million new ordinary shares of 1p each on conversion to Keysha, representing 69.16 per cent. of the enlarged share capital. The deferred shares have very limited rights and are effectively valueless.

## WARRANTS

Following the sub-division the number of ordinary shares subject to the warrants granted by the Company and the exercise price will be adjusted. Warrant holders will be notified of the adjustments to their warrants in due course.

## RESULTS FOR THE YEAR:

The loss for the year amounts to £42.8 million compared with a loss of £8.4 million in the prior year. The results for the year include the impairment charge of £48.9 million (2007: none) and a deferred tax credit of £10.0 million (2007: £0.3 million) in respect of the mining assets.

Dr Anna T M Mokgokong

Non-Executive Chairperson

30 December 2008

## DIRECTORS' REPORT

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

### RESULTS AND DIVIDENDS

The results to 30 June 2008 reflect the operating and administrative expenses of the Group together with impairment write downs of the mining property and plant and equipment. Pre-production mining costs less income from the sale of diamonds recovered has been capitalised.

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 (2007: nil).

Key performance indicators for the Group are as follows:

	YEAR ENDED 30 JUNE 2008	YEAR ENDED 30 JUNE 2007
Property, plant and equipment	4,433,389	47,638,581
Cash and cash equivalents	114,078	3,013,191
Net (liabilities)/assets	(559,910)	38,585,283
Loss on part disposal of subsidiary	–	(5,156,070)
Loss for the year	(42,848,956)	(8,413,179)
Loss per share	97.66p	22.14p

### 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 1985) of the Directors holding office at 30 June 2008 or at their date of resignation are shown below.

NAME	NUMBER OF ORDINARY SHARES OF 10P AT 30 JUNE 2008 OR DATE OF RESIGNATION	% OF ISSUED SHARE CAPITAL	NUMBER OF ORDINARY SHARES OF 10P AT 30 JUNE 2007 OR DATE OF RESIGNATION	% OF ISSUED SHARE CAPITAL
M A Alikhani*	3,081,420	6.91	2,881,420	8.33
H M Silver	40,000	0.09	–	–
R L Stubbs	–	–	7,500	0.02
J D Vergopoulos	–	–	10,000	0.03
<b>Total</b>	<b>3,121,420</b>	<b>7.00</b>	<b>2,898,920</b>	<b>8.38</b>

\* 2,811,420 shares disclosed under M Alikhani are held by Shanley Holdings Ltd. M Alikhani is the beneficial owner of Shanley Holdings.

### 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 A Alikhani	Non-Executive Chairman (resigned 22 February 2008)
D Gadd-Claxton	Chief Executive Officer (appointed 28 March 2008) (resigned 27 August 2008)
H M Silver	Chief Executive Officer (resigned 28 March 2008)
M J Madungandaba	Finance Director
O J Lubow	Non-Executive Director
S Sasson	Executive Director

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

Details of share warrants granted to Directors are provided in Note 23.

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 had 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 25 to the accounts.

#### ISSUES OF SHARES AND WARRANTS

During the year 10,000,000 (2007: 1,775,000) ordinary shares of £0.10 (2007: of £0.10) were issued for £3,000,000 (2007: £1,617,500).

#### SUBSTANTIAL SHAREHOLDINGS

The Company is aware that as at 30 November 2008 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
Forreston Ltd	10,000,000	22.42%
Seaton Resources Limited	6,022,120	13.50%
Lynchwood Nominees Ltd	3,369,150	7.55%
Shanley Holdings Limited	2,811,420	6.30%
Chase Nominees Limited	2,260,770	5.07%
Golden Hope Ltd	1,690,000	3.79%
The Bank of New York Nominees Ltd (B001)	1,938,963	4.35%
Chase Nominees Limited		
Des:CMBL	1,487,250	3.33%
W B Nominees Limited	1,358,914	3.05%
Puma Nominees Ltd	1,355,858	3.04%

The Company is aware of the following options over Ordinary 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

None of the Ordinary Shares held under the above options 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 in respect of which the options have been granted.

Hermanus Manuel Silver has a beneficial interest in Interactive Trading 365 (Pty) Limited.

#### SPECIAL BUSINESS

Subject to and conditional upon the passing of Resolutions 1 to 5 at GM on 7 January 2009, the following resolutions will be proposed at the Annual General Meeting, as set out in the formal notice on pages 42 to 44.

The following resolutions constitute Special Business:

Resolution number 3 is proposed as an Ordinary Resolution to provide the Directors with authority to allot relevant securities (within the meaning of section 80(2) of the Act) up to a maximum nominal amount of £39,291.50 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. 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.

## DIRECTORS' REPORT CONT'D

Resolution number 4 is to seek authority for the Directors to allot equity securities 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.

### 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 2008 were equivalent to 112 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. This review necessitated an impairment of the mining property which amounted to £47.7 million. The related deferred tax liability of £10.7 million has also been reversed.

In addition, a £1.2 million impairment has been made to the DMS plant.

### CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group made charitable donations of £nil (2007: £3,127).

The Group did not make any contributions to any political organisation.

### DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training/career development and promotion of disabled persons should, as far possible, be identical to that of other employees.

### 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; and
- labour disputes, unscheduled shut-downs or other processing problems and technical failures.

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

### EVENTS AFTER THE BALANCE SHEET DATE

The relevant information can be found in Note 24.

### GOING CONCERN BASIS

The Group was loss making in the current year, recording a loss of £42.8 million. At the time of signing the 2007 financial statements, the nature of the Group's business was such that there was significant reliance on the DMS plant at the Elandslaagte mine reaching full capacity by May 2008. This was not achieved and the mine has been put onto "care and maintenance".

Over and above the outcome of the resolution proposed for approval at the GM, the directors consider that the outlook presents significant challenges in terms of economic viability of the mine, future diamonds prices as well as input costs and future funding.

### OUTCOME OF THE GM

The GM is scheduled for 7 January 2009 where several resolutions will be presented to shareholders. If the resolutions are passed, the Keysha loan will be converted and Keysha will become a majority shareholder of the Company.

If the resolutions are not passed, the loan will be repayable and the consideration payable will be the Group's 74.9 % interest in the mine, putting the Company into a net liability position.

### ECONOMIC VIABILITY OF MINING ELANDSLAAGTE

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 as the information currently available suggests that previous mining in all three pipes may have been more extensive than had originally been understood.

Based on the outcome of this, and after approval of the resolutions noted above, 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:

- (i) to proceed with further sampling and a full third party competent persons' report;
- (ii) to proceed with mining; or
- (iii) 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. The global diamond industry has seen a significant reduction in rough diamond prices since June 2008 which has been

exacerbated by the global economic crisis. For this reason, the future prices the Group will be able to achieve is unclear.

### CONTINUED SUPPORT OF THE IDC

As disclosed in note 15(b), a loan of £4.02 million is currently owed to the IDC, who, for the period 1 March to 30 June 2008, allowed Golden Falls, the Group's 74.4% owned subsidiary, a moratorium on repayments of capital and interest.

This moratorium has expired and Golden Falls is now in breach of the terms of the loan.

The IDC has confirmed in writing 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 unless the directors make a decision to liquidate Golden Falls. The IDC have also confirmed the availability of the R17 million facility for draw down, which is subject to their approval of the Golden Falls' new business plan.

The loan is secured by a charge over the movable assets (excluding diamond stock) of Golden Falls.

If the IDC allows the draw down and continues to support the Group, they have confirmed that they will work with the directors to restructure the debt and renegotiate the repayment terms of the loan.

As explained in the Non-Executive Chairperson's Statement on pages 2 to 3, the Board is now pursuing a two part strategy, the first part relating to the Elandslaagte mine and second part to the strengthening of the asset base. There is no certainty that the Board will be in a position to pursue this strategy if the outcome of the GM is that the resolutions are not approved. In addition, the Group and Company will have to secure additional funding. Whilst there is still a Rand 17 million facility remaining undrawn with the IDC, it can only be drawn down on the IDC's approval of a business plan. The directors are also pursuing alternative sources of funding but have not yet secured a commitment.

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. Therefore there is a material uncertainty which may cast significant doubt on the entity'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 the business.

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

## DIRECTORS' REPORT CONT'D

continue as a going concern. Nevertheless, after making enquiries, 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 resolutions will be passed, the loan converted and 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 Company or the Group 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 persons who is a Director 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 S234ZA of the Companies Act 1985.

### 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  
30 December 2008

## 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 Directors established an audit committee and a remuneration committee with formally delegated duties and responsibilities to operate with effect from Admission on 26 May 2006.

### THE AUDIT COMMITTEE

The current audit committee comprises Joe Madungandaba and Oren Lubow, chaired by Joe Madungandaba. 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 Oren Lubow, chaired by 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 Note 25.

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 for the Company and the Group. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires the financial statements to present fairly for each financial year the Company's and Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standard Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- > properly select and apply accounting policies;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- > provide additional disclosures when the compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which complies with the requirements of the Companies Act 1985. The Board's statement on going concern is included in the Directors' Report on page 7.

The Directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

### DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, 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
2. 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 they face.

By order of the Board  
Finance Director  
M J Madungandaba

30 December 2008

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPE DIAMONDS PLC

We have audited the Group and Company financial statements of Cape Diamonds Plc for the year ended 30 June 2008 which comprise the Consolidated Group and Company Income Statements, the Consolidated Statement of Recognised Income and Expense, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

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

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

## BASIS OF AUDIT OPINION

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

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

## OPINION

In our opinion:

- > the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's and Parent Company's affairs as at 30 June 2008 and of their losses for the year then ended;
- > the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- > the information given in the Directors' Report is consistent with the financial statements.

## EMPHASIS OF MATTER – GOING CONCERN

Without qualifying our opinion, we draw attention to the disclosures made in Note 1 to the financial statements concerning the Group's ability to continue as a going concern which depends upon the outcome of a number of factors.

## OUTCOME OF THE GM

The GM is scheduled for 7 January 2009 where several resolutions will be presented to shareholders. If the resolutions are passed, the Keysha loan will be converted and Keysha will become a majority shareholder of the Company.

If the resolutions are not passed, the loan will be repayable and the consideration payable will be the Group's 74.9 % interest in the mine.

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

### ECONOMIC VIABILITY OF MINING ELANDSLAAGTE

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 as the information currently available suggests that previous mining in all three pipes may have been more extensive than had originally been understood.

Based on the outcome of this, and after approval of the resolutions noted above, a revised Competent Persons' Report may be commissioned to establish the extent of the diamond resources at the Elandsplaagte 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:

- (i) to proceed with further sampling and a full third party competent persons' report;
- (ii) to proceed with mining; or
- (iii) 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. The global diamond industry has seen a significant reduction in rough diamond prices since June 2008 which has been exacerbated by the global economic crisis. For this reason, the future prices the Group will be able to achieve is unclear.

### CONTINUED SUPPORT OF THE IDC

As disclosed in note 15(b), a loan of £4.02 million is currently owed to the IDC, who, for the period 1 March to 30 June 2008 allowed Golden Falls, the Group's 74.4% owned subsidiary, a moratorium on repayments of capital and interest.

This moratorium has expired and Golden Falls is now in breach of the terms of the loan.

The IDC has confirmed in writing 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 unless the directors make a decision to liquidate Golden Falls. The IDC have also confirmed the availability of the £1.07 million (R17 million) facility for draw down, which is subject to their approval of Golden Falls' new business plan.

The loan is secured by a charge over the movable assets (excluding diamond stock) of Golden Falls.

If the IDC allows the draw down and continues to support the Group, they have confirmed that they will work with the directors to restructure the debt and renegotiate the repayment terms of the loan.

These, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company or the Group was unable to continue as a going concern as it is not practicable to determine or quantify them.

### Deloitte LLP

Chartered Accountants and Registered Auditors  
London  
30 December 2008

## CONSOLIDATED INCOME STATEMENT

YEAR ENDED 30 JUNE 2008

	NOTES	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Revenue	4(a)	–	883,975
Mining expenses		–	(987,142)
<b>Gross loss</b>		–	(103,167)
Other operating income	4(a)	92,178	11,565
Administrative expenses		(2,974,626)	(2,117,978)
Impairment of assets	11(a)	(48,880,547)	–
Other operating expenses		(835,183)	(1,249,261)
Loss on part disposal of subsidiary	20	–	(5,156,070)
<b>Operating loss</b>	5	(52,598,178)	(8,614,911)
Investment income	4(b)	66,503	248,626
Finance costs	7	(333,484)	(52,337)
<b>Loss before taxation</b>		(52,865,159)	(8,418,622)
Taxation	8	10,016,203	5,443
<b>Loss for the year</b>		(42,848,956)	(8,413,179)
Attributable to:			
Equity holders of the parent	19	(38,657,930)	(7,305,535)
Minority interest		(4,191,026)	(1,107,644)
		(42,848,956)	(8,413,179)
<b>Loss per share</b>			
Basic and diluted	10	97.66p	22.14p

The above results all relate to continuing operations.

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

YEAR ENDED 30 JUNE 2008

	NOTE	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Exchange differences on translation of foreign operations	19	858,347	(172,982)
Loss for the year		(42,848,956)	(8,413,179)
<b>Total income and expense recognised</b>		(41,990,609)	(8,586,161)
Attributable to:			
Equity holders of the parent		(37,799,583)	(7,478,517)
Minority interest		(4,191,026)	(1,107,644)
		(41,990,609)	(8,586,161)

# CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

	NOTE	30 JUNE 2008 £	30 JUNE 2007 £
<b>Non-current assets</b>			
Property, plant and equipment	11(a)	4,433,389	47,638,581
Investments	11(b)	119,296	161,344
		4,552,685	47,799,925
<b>Current assets</b>			
Inventory	12	55,067	145,588
Trade and other debtors	13	326,471	1,370,875
Cash and cash equivalents	14	114,078	3,013,191
		495,616	4,529,654
<b>Total assets</b>		<b>5,048,301</b>	<b>52,329,579</b>
<b>Current liabilities</b>			
Trade and other payables	15(a)	(1,283,325)	(2,152,351)
Provisions	16	(20,895)	(40,103)
		(1,304,220)	(2,192,454)
<b>Net current (liabilities)/assets</b>		<b>(808,604)</b>	<b>2,337,200</b>
<b>Non-current liabilities</b>			
Provisions	16	(282,920)	(183,357)
Long-term liabilities	15(b)	(4,021,071)	(1,290,197)
Deferred tax	9	–	(10,078,288)
		(4,303,991)	(11,551,842)
<b>Total liabilities</b>		<b>(5,608,211)</b>	<b>(13,744,296)</b>
<b>Net (liabilities)/assets</b>		<b>(559,910)</b>	<b>38,585,283</b>
<b>Equity</b>			
Share capital	18	4,459,605	3,459,605
Share premium	19	28,244,541	26,394,541
Translation reserve	19	642,441	(215,906)
Accumulated (loss)/profit	19	(34,171,606)	4,259,047
<b>Equity attributable to equity holders of the parent</b>		<b>(825,019)</b>	<b>33,897,287</b>
Minority interest		265,109	4,687,996
<b>Total (deficit)/equity</b>		<b>(559,910)</b>	<b>38,585,283</b>

These financial statements were approved by the Board of Directors and authorised for issue on 30 December 2008.  
Signed on behalf of the Board of Directors by

M J Madungandaba  
Director

## CONSOLIDATED CASH FLOW STATEMENT

### YEAR ENDED 30 JUNE 2008

	NOTE	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Net cash outflow from operating activities	21	(932,873)	(4,017,402)
<b>Investing activities</b>			
Interest received		66,503	248,626
Pre-production development costs		(3,718,005)	(4,383,698)
Acquisition of property, plant and equipment		(3,342,020)	(2,132,669)
Acquisition of investment		–	(164,004)
Partial disposal of subsidiary		–	716,828
Net cash used in investing activities		(6,993,522)	(5,714,917)
<b>Financing activities</b>			
Proceeds on issue of shares		3,000,000	1,752,000
Share issue expenses		(150,000)	(134,500)
Loans received		2,403,676	1,684,587
Interest paid		(333,484)	(52,337)
Net cash from financing activities		4,920,192	3,249,750
Net decrease in cash and cash equivalents		(3,006,203)	(6,482,569)
Cash and cash equivalents at beginning of the year		3,013,191	9,731,664
Effect of foreign exchange rate changes		107,090	(235,904)
Cash and cash equivalents at end of the year		114,078	3,013,191

## COMPANY INCOME STATEMENT

### YEAR ENDED 30 JUNE 2008

	NOTES	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
<b>Continuing operations</b>			
Administrative expenses	27	(2,974,626)	(2,117,977)
Impairment	31(a)	(25,062,607)	–
Operating loss	27	(28,037,233)	(2,117,977)
Interest income	28	32,611	135,882
Investment income	28	1,220,922	842,286
Loss before taxation		(26,783,700)	(1,139,809)
Taxation		–	–
Loss for the year	34	(26,783,700)	(1,139,809)

## COMPANY BALANCE SHEET

AS AT 30 JUNE 2008

	NOTES	30 JUNE 2008 £	30 JUNE 2007 £
<b>Non-current assets</b>			
Investment in subsidiaries	31	199,852	21,315,476
		199,852	21,315,476
<b>Current assets</b>			
Trade and other debtors	32	92,319	337,163
Cash and cash equivalents		76,997	2,443,875
		169,316	2,781,038
<b>Total assets</b>		369,168	24,096,514
<b>Current liabilities</b>			
Trade and other payables	33	(929,078)	(950,000)
<b>Total liabilities</b>		(929,078)	(950,000)
<b>Net current (liabilities)/assets</b>		(759,762)	1,831,038
<b>Net (liabilities)/assets</b>		(559,910)	23,146,514
<b>Equity</b>			
Share capital	34	4,459,605	3,459,605
Share premium	34	28,244,541	26,394,541
Accumulated loss	34	(33,264,056)	(6,707,632)
<b>Total (deficit)/equity attributable to equity holders of the parent</b>		(559,910)	23,146,514

These financial statements were approved by the Board of Directors and authorised to issue on 30 December 2008.

Signed on behalf of the Board of Directors by

M J Madungandaba  
Director

# COMPANY CASH FLOW STATEMENT

YEAR ENDED 30 JUNE 2008

	NOTES	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED TO 30 JUNE 2007 £
Net cash outflow from operating activities	35	(991,489)	(1,180,823)
<b>Investing activities</b>			
Interest received		32,611	135,882
Loans to subsidiary		(4,258,000)	(6,740,444)
Net cash used in investing activities		(4,225,389)	(6,604,562)
<b>Financing activities</b>			
Proceeds on issue of shares		3,000,000	1,752,000
Share issue expenses		(150,000)	(134,500)
Net cash inflow from financing activities		2,850,000	1,617,500
Net decrease in cash and cash equivalents		(2,366,878)	(6,167,885)
Cash and cash equivalents at beginning of the year		2,443,875	8,611,760
Cash and cash equivalents at end of the year		76,997	2,443,875

# NOTES TO THE FINANCIAL STATEMENTS

## YEAR ENDED 30 JUNE 2008

### 1. GOING CONCERN BASIS

The Group was loss-making in the current year, recording a loss of £42.8 million. At the time of signing the 2007 financial statements, the nature of the Group's business was such that there was significant reliance on the DMS plant at the Elandslaagte mine reaching full capacity by May 2008. This was not achieved and the mine has been put into "care and maintenance".

Based on the management's working capital forecasts, the Group currently has approximately two months' cash in hand to remain in operation.

Over and above the outcome of the resolutions proposed for approval at the GM, as detailed in the Circular to Shareholders and described in the Directors' Report and the Non-Executive Chairperson's Statement, the Directors consider that the outlook presents significant challenges in terms of economic viability of the mine, future diamonds prices as well as input costs and future funding.

### OUTCOME OF THE GM

The GM is scheduled for 7 January 2009 where several resolutions will be presented to shareholders. If the resolutions are passed, the Keysha loan will be converted and Keysha will become a majority shareholder of the Company.

If the resolutions are not passed, the loan will be repayable and the consideration payable will be the Group's 74.9 % interest in the mine.

### ECONOMIC VIABILITY OF MINING ELANDSLAAGTE

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 as the information currently available suggests that previous mining in all three pipes may have been more extensive than had originally been understood.

Based on the outcome of this, and after approval of the resolutions noted above, 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:

- (i) to proceed with further sampling and a full third party competent persons' report;
- (ii) to proceed with mining; or
- (iii) 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. The global diamond industry has seen a significant reduction in rough diamond prices since June 2008 which has been exacerbated by the global economic crisis. For this reason, the future prices the Group will be able to achieve is unclear.

### CONTINUED SUPPORT OF THE IDC

As disclosed in note 15(b), a loan of £4.02 million is currently owed to the IDC, who, for the period 1 March to 30 June 2008, allowed Golden Falls, the Group's 74.4% owned subsidiary, a moratorium on repayments of capital and interest.

This moratorium has expired and Golden Falls is now in breach of the terms of the loan.

The IDC has confirmed in writing 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 unless the directors make a decision to liquidate Golden Falls. The IDC have also confirmed the availability of the R17 million facility for draw down, which is subject to their approval of the Golden Falls' new business plan.

The loan is secured by a charge over the movable assets (excluding diamond stock) of Golden Falls.

If the IDC allows the draw down and continues to support the Group, they have confirmed that they will work with the directors to restructure the debt and renegotiate the repayment terms of the loan.

As explained in the Non-Executive Chairperson's Statement on pages 2 to 3, the Board is now pursuing a two part strategy, the first part relating to the Elandslaagte mine and second part to the strengthening of the asset base. There is no certainty that the Board will be in a position to pursue this strategy if the outcome of the GM is that the resolutions are not approved. In addition, the Group and Company will have to secure additional funding. Whilst there is still a R17 million facility remaining undrawn with the IDC, it can only be drawn down on the IDC's approval of a business plan. The Directors are also pursuing alternative sources of funding but have not yet secured a commitment.

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. Therefore there is a material uncertainty which may cast significant doubt on the entity'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 the business.

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. Nevertheless, after making enquiries, 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 resolutions will be passed, the loan converted and 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 Company or the Group was 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 1985. 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 7 Financial Instruments Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 17).

Five interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

IFRIC 7	Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary economies:	IFRIC 12	Service concessions
IFRIC 8	Scope of IFRS 2	IFRIC 13	Customer Loyalty programmes
IFRIC 9	Reassessment of Embedded Derivatives	IFRIC 14	IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 10	Interim Financial Reporting and Impairment	IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 11	IFRS 2 Group and Treasury Share Transactions	IFRIC 16	Hedges of a Net Investment in a Foreign Operation
		IFRIC 17	Distribution of non-cash assets to owners.

The Directors have assessed that the adoption of the above standards and interpretations does not have a material impact on the financial statements of the Group.

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.

Amendment to IFRS 1	First-time Adoption of International Financial Reporting Standards.
IFRS 8	Operating SGMents
Amendments to IAS 27	Consolidated and Separate Financial Statements
Amendment to IFRS 2	Share-based payment – Vesting Conditions and Cancellations
Amendment to IAS 32	Financial Instruments: Presentation and IAS1: Presentation of Financial Instruments and Obligations Arising on Liquidation
Revision to IAS 23	Borrowing costs
Revision to IFRS 3	Business combinations
Revision to IAS 1	Presentation of Financial Statements
Amendment to IAS 39	Financial Instruments: Recognition and Measurement

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 impact of IFRS 8 operating sGMents has yet to be determined.

The comparative figures cover the year ended 30 June 2007.

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

	2008	2007
Year end rate	15.89	14.18
Average rate for the year	14.64	13.95

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2008

### 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 and therefore comply with Article 4 of the EU IAS Regulation.

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. To the extent that such excess purchase consideration relates to the acquisition of mining properties and leases, that amount is capitalised within property, plant and equipment as mining properties and leases.

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.

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:

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2008

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- > 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 and from which future economic benefits are expected to flow to the company.
- Rights to prospect in the area of interest are current, provided that such costs are expected to 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, net of pre-production income generated by diamonds recovered, incurred on mining areas where commercial production has not commenced are capitalised. When the specific area is mined as part of commercial operations the capital asset is written off over the life of the operations related to that specific area.

##### 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 2008.

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.

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 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

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2008

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### TRADE RECEIVABLES (CONTINUED)

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 ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### 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 2007, the Group ceased commercial production as a result of the issues outlined in the Non-Executive Chairperson's statement and accordingly re-entered the pre-production phase, ceasing to recognise revenue.

An analysis of the Group's revenue is as follows:

	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Sale of goods (see below)	–	883,975

In 2008, revenue of £292,882 (2007:nil) was generated from the sale of diamonds and credited to capitalised mining costs.

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

#### 4(b). INVESTMENT AND OTHER INCOME

	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Interest on bank deposits	66,503	248,626
Other operating income	92,178	11,565
	158,681	260,191

#### 5. OPERATING LOSS – GROUP

Loss from operations has been arrived at after charging:

	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Net foreign exchange losses	1,531,941	630,202
Depreciation of property, plant and equipment	250,437	276,395
Impairment	48,880,546	–
Amortisation of rehabilitation assets	15,786	5,403
Staff costs (see note 6)	1,570,539	1,415,550
Share-based payment	227,276	737,385

The analysis of auditors' remuneration is as follows:

	2008 £	2007 £
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	65,000	45,000
– Interim	12,766	15,500
– South Africa	47,335	69,536
Prior year		
Under-provision Group	46,809	–
<b>Total audit fees</b>	<b>176,910</b>	<b>135,036</b>
Other services – South Africa	9,923	444
<b>Total non-audit fees</b>	<b>9,923</b>	<b>444</b>
<b>Total fees</b>	<b>186,833</b>	<b>135,480</b>

Fees payable to Deloitte 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 2008 NO	YEAR ENDED 30 JUNE 2007 NO
The average monthly number of employees (excluding executive Directors) was	141	180
Number of Directors	6	4
	147	184
	£	£
Emoluments for qualifying services: Highest paid Director (note 2.5)	171,558	110,000
Staff costs including Directors:		
Wages and salaries – UK	587,053	231,962
– South Africa	903,538	1,183,588
	1,490,591	1,415,550

Total staff costs include amounts paid to Directors of £670,498 (2007: £674,784). See Note 2.5.

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

£110,420 (2007:£168,022) was paid to contractors who work for Cape UK 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 2008 £	YEAR ENDED TO 30 JUNE 2007 £
Interest on loans	420,994	47,767
Other	910	4,570
Interest capitalised	(88,420)	–
<b>Total finance costs</b>	<b>333,484</b>	<b>52,337</b>

## 8. CURRENT TAX – GROUP

	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Analysis of tax credit		
Current tax		
– UK corporation tax	–	–
– South African tax	–	(103,940)
Deferred taxation (see note 9)	10,016,203	327,449
Under provision in prior year		
– South Africa (see note 9)	–	(218,066)
<b>Total tax credit</b>	<b>10,016,203</b>	<b>5,443</b>
	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Loss before tax	(52,865,159)	(8,418,622)
Tax at the UK Corporation tax rate of 28% (2007: 30%*)	14,802,245	2,525,587
Tax effect of impairment of assets	(13,686,553)	–
Tax effect of amounts that are not deductible in determining taxable profit	(174,560)	(924,194)
Tax effect of pre-production expenses	1,050,016	1,285,227
Tax effect of tax losses not recognised	(1,991,147)	(1,531,832)
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	111,108
Prior year deferred tax adjustment	–	(218,066)
Derecognition of deferred tax asset	(694,630)	–
Additional deferred tax liabilities recognised	–	(1,242,386)
Deferred tax related to mining impairment	10,710,832	–
<b>Total tax credit</b>	<b>10,016,203</b>	<b>5,444</b>

The Group is carrying forward estimated tax losses of £3.5 million (2007: £2.0 million) in the United Kingdom. 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.

The estimated assessed losses in South Africa amount to £40.9 million (2007: £10.3 million).

Deferred tax assets previously recognised at the South African tax rate of 29% have been written off.

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2008

### 8. CURRENT TAX – GROUP (CONTINUED)

In March 2007 the UK Government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008. This legislation was enacted in June 2007. With effect from June 2007 any deferred tax balances have been stated at 28% of those amounts.

### 9. DEFERRED TAX

	CAPEX £	TAX LOSSES £	MINING DEVELOPMENT £	TOTAL £
<b>South Africa</b>				
At 1 July 2006	–	1,557,765	(844,687)	713,078
Exchange differences	–	(107,650)	58,378	(49,272)
<b>Mining</b>				
development asset	(837,024)	–	–	(837,024)
Charge to income	(1,242,386)	1,569,835	–	327,449
Exchange differences	20,151	(25,463)	–	(5,312)
<b>Underprovision</b>				
prior year	(218,066)	–	–	(218,066)
<b>At 30 June 2007</b>	<b>(2,277,325)</b>	<b>2,994,487</b>	<b>(786,309)</b>	<b>(69,147)</b>
<b>UK</b>				
At 30 June 2006				
and 2007	–	–	(10,009,141)	(10,009,141)
<b>Total at 30 June 2007</b>	<b>(2,277,325)</b>	<b>2,994,487</b>	<b>(10,759,450)</b>	<b>(10,078,288)</b>
<b>South Africa</b>				
At 1 July 2007	(2,277,325)	2,994,487	(786,309)	(69,147)
<b>Current timing</b>				
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
<b>At 30 June 2008</b>	<b>(581,498)</b>	<b>581,498</b>	<b>–</b>	<b>–</b>
<b>UK</b>				
At 30 June 2007	–	–	(10,009,141)	(10,009,141)
Credit to income	–	–	10,009,141	10,009,141
<b>Total at 30 June 2008</b>	<b>(581,498)</b>	<b>581,498</b>	<b>–</b>	<b>–</b>

### 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 2008 £	YEAR ENDED 30 JUNE 2007 £
<b>Loss</b>		
Loss for the purposes of basic and diluted loss per share being attributable to equity holders of the parent	(38,657,930)	(7,305,535)
<b>Statutory number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	39,582,354	32,997,012
<b>Effect of dilutive potential ordinary shares:</b>		
Share warrants	3,929,150	4,379,150
Weighted average number of ordinary shares for the purpose of diluted earnings per share	43,511,504	37,376,162
<b>Basic and diluted loss per share</b>	<b>97.66p</b>	<b>22.14p</b>

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

See Note 24 for detail of the ordinary share sub-division after the balance sheet date.

**11. (a) PROPERTY, PLANT AND EQUIPMENT**

	LAND AND BUILDINGS £	MINING PROPERTY AND LEASES £	REHABILITATION ASSETS £	PLANT AND MACHINERY £	OTHER ASSETS £	TOTAL £
<b>Cost or valuation</b>						
At 1 July 2006	102,647	40,411,681	196,970	363,686	223,488	41,298,472
Additions	83,576	5,226,181	–	648,399	1,400,694	7,358,850
Exchange difference	(8,450)	(558,280)	(13,613)	(35,652)	(38,164)	(654,159)
<b>At 30 June 2007</b>	<b>177,773</b>	<b>45,079,582</b>	<b>183,357</b>	<b>976,433</b>	<b>1,586,018</b>	<b>48,003,163</b>
Additions	–	3,718,005	–	3,301,048	40,972	7,060,025
Impairment of assets	–	(47,719,648)	–	(1,215,278)	–	(48,934,926)
Exchange difference	(19,130)	(553,547)	(19,732)	(357,958)	(173,903)	(1,124,270)
<b>At 30 June 2008</b>	<b>158,643</b>	<b>524,392</b>	<b>163,625</b>	<b>2,704,245</b>	<b>1,453,087</b>	<b>5,003,992</b>
<b>Accumulated depreciation</b>						
At 1 July 2006	830	–	4,318	82,090	6,601	93,839
Charge for the year	4,000	159,893	5,403	77,682	34,820	281,798
Exchange difference	(122)	(2,593)	(386)	(6,933)	(1,021)	(11,055)
<b>At 30 June 2007</b>	<b>4,708</b>	<b>157,300</b>	<b>9,335</b>	<b>152,839</b>	<b>40,400</b>	<b>364,582</b>
Charge for the year	6,513	155,177	15,786	93,131	49,995	320,602
Impairment of assets	–	–	–	(54,379)	–	(54,379)
Exchange difference	(1,019)	(29,135)	(2,246)	(19,496)	(8,306)	(60,202)
<b>At 30 June 2008</b>	<b>10,202</b>	<b>283,342</b>	<b>22,875</b>	<b>172,095</b>	<b>82,089</b>	<b>570,603</b>
<b>Net book value</b>						
At 30 June 2008	148,441	241,050	140,750	2,532,150	1,370,998	4,433,389
At 30 June 2007	173,065	44,922,282	174,022	823,594	1,545,618	47,638,581

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.

No depreciation has been charged on the DMS plant in 2008 as the plant has been taken out of use. The total interest capitalised to assets was £88,820 (2007: nil).

The IDC loan disclosed in Note 15(b) is secured over the moveable assets of the mine excluding diamond stocks.

Included within the net book value of assets above are:

	YEAR ENDED 30 JUNE 2008 £	YEAR ENDED 30 JUNE 2007 £
Carrying amount of pan plant equipment in use	904,174	–
Carrying amount of DMS, currently not in use	2,821,468	–
<b>Impairment losses included in Income Statement</b>		
Impairment of mining property and leases	47,719,648	–
Plant and machinery	1,160,899	–
	48,880,547	–

During the year an amount of £48.9 million was included in the Income Statement as impairment of assets.

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2008

#### 11.(b) INVESTMENTS

	£
<b>South Africa</b>	
As at 1 July 2006	
Insurance policy – Sanlam	
– at cost	123,792
– fair value revaluation	5,817
Sub-total	129,609
Premium	31,735
<b>As at 30 June 2007</b>	<b>161,344</b>
– fair value revaluation	(42,048)
<b>As at 30 June 2008</b>	<b>119,296</b>

This investment is held as security for the rehabilitation provision disclosed in Note 16.

#### 12. INVENTORY

	30 JUNE 2008 £	30 JUNE 2007 £
Cost of production	2,542	1,181,257
Adjustment to net realisable value	–	(1,059,861)
Diamond stocks	2,542	121,396
Stock consumables	52,525	24,192
	<b>55,067</b>	<b>145,588</b>

#### 13. TRADE AND OTHER DEBTORS

	30 JUNE 2008 £	30 JUNE 2007 £
Guarantees and deposits	102,098	88,464
Other debtors	224,373	1,282,411
	<b>326,471</b>	<b>1,370,875</b>

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 £31,466 (R500,000), (2007: £88,464 , R1,254,417).

Included within other debtors is a VAT receivable of £178,623 (2007: £1,058,651).

In 2007, a receivable of £205,290 from Prema Mining (Proprietary) Ltd was included in other debtors. This has been written off in 2008.

#### 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 2008 £	30 JUNE 2007 £
Trade creditors	955,215	1,520,216
Short-term portion of a long term loan	–	367,066
Other creditors	107,142	61,305
Taxation	117,289	133,008
Accruals	103,679	70,756
<b>Total</b>	<b>1,283,325</b>	<b>2,152,351</b>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 76 (2007: 183) days.

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 to their fair value.

#### 15. (b) LONG-TERM LIABILITIES

Loan received by Golden Falls from IDC:

	£
As at 30 June 2006	–
Loan received	1,657,263
Payable within 12 months	(367,066)
<b>As at 30 June 2007</b>	<b>1,290,197</b>
Loan received	2,309,880
Interest accrued	420,994
<b>As at 30 June 2008</b>	<b>4,021,071</b>

The loan is secured over all the moveable assets of the Golden Falls excluding diamond stocks. The original terms of the loan state that the loan shall be repaid in 47 equal monthly instalments of £73,413 (R1,041,000) each and a final instalment of £75,670 (R1,073,000), the first of which was paid on 1 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 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 unless the Directors make a decision to liquidate Golden Falls. The IDC have also confirmed the availability of the £1.07 million (R17 million) facility for draw down, which is subject to their approval of the Golden Falls' new business plan.

If the IDC allows the draw down and continues to support the Group, they have confirmed that they will work with the Directors to restructure the debt and renegotiate the repayment terms of the loan.

The loan bears interest at the South African prime rate (currently 15.5%) less 1%.

## 16. PROVISIONS

	CURRENT LIABILITIES LEAVE PAY £	NON-CURRENT LIABILITIES REHABILITATION £
At 1 July 2006	49,886	196,970
Utilised	(11,989)	–
Capitalised as part of pre-production asset	5,459	–
Exchange differences	(3,253)	(13,613)
<b>At 30 June 2007</b>	<b>40,103</b>	<b>183,357</b>
Utilised	(16,164)	–
Creation of additional provision	–	129,480
Exchange differences	(3,044)	(29,917)
<b>At 30 June 2008</b>	<b>20,895</b>	<b>282,920</b>

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 subsidiary's financial assets, which potentially subject the Company 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(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 2008 £	30 JUNE 2007 £
Debt	4,021,071	1,657,263
Cash and cash equivalents	(114,078)	(3,013,191)
Net Debt	3,906,993	(1,355,928)
Equity	(825,019)	33,897,287
<b>Net debt to equity ratio</b>	<b>4.74</b>	<b>N/A</b>

The debt is defined as long-term borrowings, as detailed in note 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 2008 £	30 JUNE 2007 £
<b>Financial assets</b>		
Fair value through profit and loss (FVTPL) Held for trading	119,296	161,344
Loans and receivables (including cash and cash equivalents)	440,549	4,384,066
<b>Financial liabilities</b>		
Short-term borrowings and payables at amortised cost	955,107	1,887,282
Long-term loan at amortised cost	4,021,071	1,290,197

## 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.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2008

### 17. FINANCIAL INSTRUMENTS GROUP (CONTINUED)

#### FOREIGN CURRENCY RISK MANAGEMENT (CONTINUED)

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 2008 MILLION	30 JUNE 2007 MILLION	30 JUNE 2008 MILLION	30 JUNE 2007 MILLION
Rand	–	–	–	9.7

#### 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 2008	30 JUNE 2007
Loss	–	460,000
Other equity	–	400,000

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.

#### 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 2008 would increase by £39,000 (2007: loss reported would decrease by £14,000) 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 MONTH TO 1 YEAR	1-5 YEARS	TOTAL
30 June 2008				
Long-term loans	14.5	–	4,604,126	4,604,126
	14.5	–	4,604,126	4,604,126
30 June 2007				
Long-term loans	13.5	–	1,469,374	1,469,374
Short-term portion				
of long-term loans	13.5	391,840	–	391,840
	13.5	391,840	1,469,374	1,861,214

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	1-5YEARS	TOTAL
<b>30 June 2008</b>				
Variable interest rate instruments	15.5	114,078	–	114,078
	15.5	114,078	–	114,078
<b>30 June 2007</b>				
Variable interest rate instruments	15.5	3,013,191	–	3,013,191
	15.5	3,013,191	–	3,013,191

#### 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 interest differential has been recorded in reserves (see note 34).

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 £	30 JUNE 2007 £
<b>Authorised</b>		
70 million ordinary shares of £0.10 each	7,000,000	7,000,000
<b>Issued and fully paid at 1 July</b>	<b>3,459,605</b>	<b>3,282,105</b>
34,596,053 ordinary shares of £0.10 each (2007: 32,821,053 ordinary shares of £0.10 each)		
<b>Issued during the year</b>	<b>1,000,000</b>	<b>177,500</b>
10,000,000 ordinary shares of £0.10 each (2007: 1,775,000 ordinary shares of £0.10 each)		
<b>Issued and fully paid at 30 June</b>	<b>4,459,605</b>	<b>3,459,605</b>

#### MOVEMENTS IN YEAR

On 31 December 2007 the Company allotted 10,000,000 ordinary shares of £0.10 at a price of £0.30 per share.

	NO. OF SHARES NO	NOMINAL VALUE £
At 1 July 2006	32,821,053	3,282,105
7 August 2006	25,000	2,500
6 October 2006	150,000	15,000
20 June 2007	1,600,000	160,000
<b>At 30 June 2007</b>	<b>34,596,053</b>	<b>3,459,605</b>
31 December 2007	10,000,000	1,000,000
<b>At 30 June 2008</b>	<b>44,596,053</b>	<b>4,459,605</b>

The Company has ordinary shares in issue which rank pari passu.

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2008

#### 19. STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL £	SHARE PREMIUM £	TRANSLATION RESERVE £	ACCUMULATED (LOSS)/PROFIT £	MINORITY INTEREST £	TOTAL £
<b>At 1 July 2006</b>	<b>3,282,105</b>	<b>25,089,041</b>	<b>(42,924)</b>	<b>10,827,197</b>	<b>–</b>	<b>39,155,419</b>
Net loss for the year	–	–	–	(7,305,535)	(1,107,644)	(8,413,179)
Shares issued	177,500	1,440,000	–	–	–	1,617,500
Share issue expenses	–	(134,500)	–	–	–	(134,500)
Share of net assets disposed of to minority	–	–	–	–	5,872,898	5,872,898
Exchange differences on translation of overseas operations	–	–	(172,982)	–	(77,258)	(250,240)
Share-based payments	–	–	–	737,385	–	737,385
<b>At 1 July 2007</b>	<b>3,459,605</b>	<b>26,394,541</b>	<b>(215,906)</b>	<b>4,259,047</b>	<b>4,687,996</b>	<b>38,585,283</b>
Net 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 23)	–	–	–	227,277	–	227,277
<b>At 30 June 2008</b>	<b>4,459,605</b>	<b>28,244,541</b>	<b>642,441</b>	<b>(34,171,606)</b>	<b>265,109</b>	<b>(559,910)</b>

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. DISPOSAL

### DISPOSAL OF MINORITY INTEREST

On 8 February 2007, DMI entered into a contract whereby Wheatfields acquired 25.6% of DMI's holdings in Golden Falls for an amount of £0.7 million (R10 million), which was received. Golden Falls has issued preference shares to DMI. The terms of preference shares are that 50% of preference dividends are paid to DMI until £6.6 million (R89 million) is paid over a period of ten years, subject to dividends being declared by the Directors of Golden Falls.

Dividends will be credited to the income statement in the year that they are received.

The results at the date of transaction were:

Cash consideration received	716,828
Share of subsidiary net assets disposed to minority interest	(5,872,898)
Loss on partial disposal of subsidiary to BEE partner	(5,156,070)

### 21. NOTES TO THE CASH FLOW STATEMENT

	30 JUNE 2008 £	30 JUNE 2007 £
Operating loss from continuing operations	(52,598,178)	(8,614,911)
Adjustments for:		
Impairment of assets	48,880,547	–
Depreciation of property, plant and equipment	304,816	276,395
Bad debt write off	205,290	–
Amortisation of rehabilitation assets	15,786	5,403
Increase/(decrease) in provisions	50,437	(45,721)
Share-based payments	227,276	737,384
Loss on part disposal of subsidiary	–	5,156,070
Net foreign exchange losses	1,531,941	630,202
Other non-cash items	26,795	–
<b>Operating cash flows before movements in working capital</b>	<b>(1,355,290)</b>	<b>(1,855,178)</b>
Decrease/(increase) in inventory	81,245	(105,143)
Decrease/(increase) in receivables	786,640	(979,704)
Decrease in payables	(445,468)	(1,077,377)
<b>Net cash outflow from operating activities</b>	<b>(932,873)</b>	<b>(4,017,402)</b>

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.

## 22. CONTINGENCIES AND COMMITMENTS

### (a) COMMITMENTS

Other commitments in Golden Falls include amounts approved by the board and contracted of £nil (2007: £2,327,221) for the DMS plant.

### (b) OTHERS

In respect of past directors, there are disputed amounts of approximately £100,000 which the Company considers are not owed.

## 23. 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 £227,276 (2007: £737,385). No new warrants were granted during the year.

For the purposes of the IFRS 2 charge the warrants were valued using the Binomial 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.

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2008

#### 23. SHARE-BASED PAYMENTS (CONTINUED)

##### SHARE WARRANTS (CONTINUED)

No warrants were exercised during the year. In 2007 weighted average share price at the date of exercise for share options exercised during the year was £1.10.

No warrants were granted during 2008 or 2007.

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.

The Group recognised total expenses of £227,276 and £737,385 related to equity-settled share-based payment transactions in 2008 and 2007 respectively.

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

	NUMBER OF SHARE WARRANTS NO.	WEIGHTED AVERAGE EXERCISE PRICE £
At 30 June 2006	4,744,150	3,641,650
Exercised during the year	(175,000)	(17,500)
Warrants lapsed during the year	(190,000)	(190,000)
Outstanding and exercisable at 30 June 2007	4,379,150	3,434,150
Warrants lapsed during the year	(450,000)	(450,000)
<b>Outstanding and exercisable at 30 June 2008</b>	<b>3,929,150</b>	<b>2,984,150</b>

During the year certain employees left the Group and their warrants lapsed.

**23. SHARE-BASED PAYMENTS****EQUITY-SETTLED SHARE WARRANT SCHEME**

NAME	EXERCISE PRICE		30 JUNE 2007 OR DATE OF RESIGNATION NUMBER	LAPSED NUMBER	RECLASSIFICATION NUMBER	30 JUNE 2008 OR DATE OF RESIGNATION NUMBER
Masoud Alikhani	10p	Note A	400,000	–	–	400,000
Masoud Alikhani	100p	Note F	200,000	–	–	200,000
Robert Stubbs	10p	Note A and I	150,000	–	(150,000)	–
BR Corporate Finance Ltd	10p	Note B	40,000	–	–	40,000
BR Corporate Finance Ltd	100p	Note C	20,000	–	–	20,000
Kishor Sodha	10p	Note A and I	150,000	–	(150,000)	–
Kishor Sodha	100p	Note F and H	60,000	–	(60,000)	–
Other staff and consultants	10p	Note A	290,000	–	300,000	590,000
John Vergopoulos	100p	Note C and D	150,000	–	(150,000)	–
Staff and consultants	100p	Note C and D	48,118	–	62	48,180
Andrew Coxon	100p	Note F	100,000	–	–	100,000
Hermanus Manuel Silver	100p	Note E	150,000	(150,000)	–	–
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 <sup>1</sup>	100p	Note E	375,000	(300,000)	–	75,000
Others <sup>2</sup>	100p	Note F	375,000	–	60,000	435,000
Other shareholders	100p	Note C	1,607,765	–	149,938	1,757,703
			<b>4,379,150</b>	<b>(450,000)</b>	<b>–</b>	<b>3,929,150</b>
Weighted average exercise price (pence)			79	100	–	73.9

The weighted average contractual life of warrants outstanding at 30 June 2008 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
- Note H – These warrants have been reclassified and are now shown under “Others<sup>2</sup>”
- Note I – These warrants have been reclassified and are now disclosed under “other staff and consultants”

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 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.

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2008

#### 24. EVENTS AFTER THE BALANCE SHEET DATE

(a) *Convertible loan, GM and proposed changes to the share capital*

The Company has posted to shareholders circular outlining "Proposals for the Sub-division of share capital, conversion of convertible loan facility and Notice of General Meeting." The GM will be held on 7 January 2009.

The Directors entered into a convertible loan facility in August 2008, raising a total of £1 million before expenses from Keysha. The net proceeds of the convertible loan facility have been and are being used for general working capital purposes at the Elandslaagte Mine.

Summary of share capital pre and post the GM if proposals are passed is as follows:

	PRE GM	POST GM (ON 8 JANUARY 2009)
<b>Authorised</b>		
Ordinary shares of 10p each	70,000,000	-
Ordinary shares of 1p each	-	800,000,000
Deferred shares of 9p each	-	44,596,053
<b>Issued</b>		
Ordinary shares of 10p each	44,596,053	-
Ordinary shares of 1p each	-	144,596,053
Deferred shares of 9p each	-	44,596,053

The issued shares include 100 million new ordinary shares of 1p each on conversion to Keysha, representing 69.16% of the enlarged share capital. The deferred shares have very limited rights.

Following the sub-division, the number of ordinary shares subject to the warrants granted by the Company and the exercise price will be adjusted. Warrant holders will be notified of the adjustments to their warrants in due course.

- (b) A new order mining licence application has been submitted and Golden Falls is finalising the required social and labour plan with the DME. The deadline for finalising this plan is 31 January 2009.
- (c) A toll processing and a merger agreement were entered into in May 2008 which subsequently lapsed.

#### 25. RELATED PARTY TRANSACTIONS

RELATED PARTY	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT OF TRANSACTION 30 JUNE 2008 £	AMOUNT RECEIVABLE 30 JUNE 2008 £	AMOUNT OF TRANSACTION 30 JUNE 2007 £	AMOUNT RECEIVABLE 30 JUNE 2007 £
Prema Mining (Proprietary) Limited*	Shareholder	Creditor	-	-	96,992	-
Prema Mining (Proprietary) Limited*	Shareholder	Amount written off from debtor	205,290	-	-	286,743
Feinstein's Attorneys	I Levy, a director of Feinsteins and also an officer of DMI	Legal fees	8,461	-	22,225	-

\* Prema Mining (Pty) Limited was a shareholder in Golden Falls until February 2006.

#### DIRECTORS' TRANSACTIONS

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 the year, M A Alikhani purchased 200,000 shares of £0.10 each, and H.M. Silver purchased 40,000 shares of £0.10 each.

Seaton Resources Ltd owns 6,022,120 shares of £0.10 each. Activeminerals (Pty) Ltd is an option holder for 5,022,120 shares in Seaton Resources Ltd. A Scholtz, a previous director of Golden Falls, has a beneficial interest in Activeminerals (Pty) Ltd.

Interactive Trading 365 (Pty) Limited is an option holder for 1,000,000 shares. H M Silver, a previous Director, has a beneficial interest in Interactive Trading 365 (Pty) Limited.

## 25. RELATED PARTY TRANSACTIONS

### 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
<b>Total</b>	<b>–</b>	<b>66,872</b>	<b>524,802</b>	<b>78,824</b>	<b>670,498</b>

### YEAR ENDED 30 JUNE 2007

NAME	CONSULTANCY FEE £	DIRECTORS' FEES £	SALARY £	SHARE-BASED PAYMENTS £	TOTAL £
M A Alikhani	–	10,000	100,000	–	110,000
H M Silver	–	10,000	85,669	127,870	223,539
M J Madungandaba	–	548	3,014	63,935	67,497
A T M Mokgokong	–	548	1,644	63,935	66,127
S Sasson	–	438	2,630	–	3,068
O J Lubow	–	548	3,288	–	3,836
R L Stubbs	23,748	2,500	–	76,722	102,970
J D Vergopoulos	7,500	5,000	–	85,247	97,747
<b>Total</b>	<b>31,248</b>	<b>29,582</b>	<b>196,245</b>	<b>417,709</b>	<b>674,784</b>

#### Key management

	30 JUNE 2008 £	30 JUNE 2007 £
Salary	165,637	293,473
Share-based payment	98,529	319,675
Others	–	28,076
<b>Total</b>	<b>264,166</b>	<b>641,224</b>

A moratorium on Directors' salaries was declared subsequent to the year end and approved by the Board. Directors' salaries have ceased being paid since that date and are being accrued to be paid at a future 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 have been approved for issue during the year, however no contracts have been issued.

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2008

#### 26. STAFF COSTS – COMPANY

	YEAR ENDED 30 JUNE 2008 NO.	YEAR ENDED 30 JUNE 2007 NO.
The average monthly number of employees (excluding Executive Directors) was	–	–
Number of Directors	6	4
	£	£
Emoluments for qualifying services:		
Highest paid Director (payable by subsidiary)	171,588	110,000
Staff costs including Directors:		
Wages and salaries	359,777	131,962
Share-based payments	227,276	417,709

£110,420 (2007: £168,022) was paid to contractors who work for Cape UK 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.

#### 27. LOSS FROM OPERATIONS – COMPANY

Loss from operations has been arrived at after charging:

	30 JUNE 2008 £	30 JUNE 2007 £
Impairment of investment in subsidiary	25,062,607	–
Net foreign exchange losses	1,531,941	630,202

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

#### 28. INVESTMENT INCOME – COMPANY

	30 JUNE 2008 £	30 JUNE 2007 £
Interest on bank deposits	32,611	135,882
Notional interest receivable from subsidiary	1,220,922	842,286
Total investment income	1,253,533	978,168

#### 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 2008 £	30 JUNE 2007 £
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	169,316	2,781,038
<b>Financial liabilities</b>		
Amortised cost	823,719	877,564

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 2008 would decrease by £182,000 (2007 loss reported loss would decrease by £138,000).

#### 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 2006	11,624,783	4,355,098	15,979,881
Increase in loans during the year	–	7,582,731	7,582,731
Revaluation	–	(1,632,172)	(1,632,172)
Exchange difference	–	(614,964)	(614,964)
<b>30 June 2007</b>	<b>11,624,783</b>	<b>9,690,693</b>	<b>21,315,476</b>
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)
<b>30 June 2008</b>	<b>199,852</b>	<b>–</b>	<b>199,852</b>

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

Loans to subsidiary comprise a revolving loan facility to DMI, repayable from surplus on the South African operation. The loan is unsecured and bears interest at LIBOR plus 1.5%: facilities agreements have been concluded which determines varying repayment terms. The Company has subordinated its rights to reclaim payment of the loan until such time that the assets of the subsidiaries, fair valued, exceeds its liabilities. The interest rate charged on this loan is lower than the normal market-related interest rate in the subsidiaries country of operation and thus this loan was treated as a low interest loan and fair valued on that basis. The interest payable was waived giving rise to accrual of notional interest.

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

The Company holds all the issued shares of the subsidiary.

At 30 June 2008, 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 2008

#### 31(b). RELATED PARTY TRANSACTIONS – COMPANY

RELATED PARTY	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT OF TRANSACTION 30 JUNE 2008 £	AMOUNT RECEIVABLE 30 JUNE 2008 £	AMOUNT OF TRANSACTION 30 JUNE 2007 £	AMOUNT RECEIVABLE 30 JUNE 2007 £
						9,690,693
DMI	Subsidiary	Loans				
		Cash transfers paid	4,258,000	–	6,740,445	
		Notional interest	1,220,922	–	842,286	
		Revaluation	–	–	(1,632,172)	
		Exchange difference	(1,531,939)	–	(614,964)	
		Investment	–	199,852	–	11,624,783
		Impairment of investment and loans	(25,062,607)	–	–	
			(21,115,624)	199,852	5,335,595	21,315,476
Prema Mining (Proprietary) Ltd	Shareholder	Amount written off from Debtors	205,590	–	–	205,590

#### 32. TRADE AND OTHER DEBTORS – COMPANY

The carrying amount of these assets approximates their fair value.

	30 JUNE 2008 £	30 JUNE 2007 £
Other debtors	92,319	337,163

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 112 (2007: 147) days.

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

	30 JUNE 2008 £	30 JUNE 2007 £
Trade payables	823,719	877,564
Other payables and accruals	105,359	72,436
	929,078	950,000

**34. STATEMENT OF CHANGES IN EQUITY – COMPANY**

	SHARE CAPITAL £	SHARE PREMIUM £	ACCUMULATED LOSS £	TOTAL £
At 1 July 2006	3,282,105	25,089,041	(4,673,035)	23,698,111
Net loss for the year	–	–	(1,139,809)	(1,139,809)
Shares issued	177,500	1,440,000	–	1,617,500
Share issue expenses	–	(134,500)	–	(134,500)
Share-based payment	–	–	737,383	737,383
Revaluation of subsidiary loan	–	–	(1,632,171)	(1,632,171)
At 1 July 2007	3,459,605	26,394,541	(6,707,632)	23,146,514
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
Net loss for the year	–	–	(26,783,700)	(26,783,700)
<b>Balance at 30 June 2008</b>	<b>4,459,605</b>	<b>28,244,541</b>	<b>(33,264,056)</b>	<b>(559,910)</b>

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

**35. NOTES TO THE CASH FLOW STATEMENT – COMPANY**

	30 JUNE 2008 £	30 JUNE 2007 £
Operating loss from continuing operations	(28,037,233)	(2,117,977)
Impairment of subsidiary investment	25,062,607	–
Write off of debtor	205,290	–
Share based payments	227,276	737,384
Net foreign exchange losses	1,531,941	630,202
Operating cash flows before movements in working capital	(1,010,119)	(750,391)
Decrease/(increase) in receivables	39,552	(45,445)
Decrease in payables	(20,922)	(384,987)
Net cash outflow from operating activities	(991,489)	(1,180,823)

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.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at 10.30 a.m. on 30 January 2009 at the offices of Beachcroft LLP, 100 Fetter Lane London EC4A 1BW for the purpose of considering and if thought fit, passing the following resolutions, ("Resolutions") of which Resolutions 1 to 3 will be proposed as Ordinary Resolutions and Resolution 4 will be proposed as a Special Resolution:

1. To receive and adopt the Company's annual accounts for the financial year ended 30 June 2008 together with the last directors' report and auditors' report on those accounts.
2. To re-appoint Deloitte LLP as Auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the Directors to agree their remuneration.

Subject to and conditional upon the passing of resolutions 1 to 5 at General Meeting to be held on 7 January 2009:

3. THAT for the purposes of section 80 of the Companies Act 1985 as amended (the "Act") (and so that the expressions used in this resolution shall bear the same meanings as in the said section 80) the Directors of the Company be and are generally and unconditionally authorised to allot relevant securities (within the meaning of section 80(2) of the Act):-
  - (a) 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)
  - (b) up to an aggregate nominal amount of £3 million in addition to the authority conferred in sub-paragraph (a) below;

provided that these authorities, unless duly renewed, varied or revoked prior to their expiry date, shall expire fifteen months from the passing of this Resolution or, if earlier, the conclusion of the next annual general meeting of the Company to be held after the passing of this Resolution, but such authorities shall allow the Company to make an offer or agreement which would or might require relevant securities to be allotted after the authorities expire and, in that event, the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authorities 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 this Resolution, which authorities (to the extent they remain in force and unexercised) are hereby revoked.

4. THAT subject to the passing of Resolution 3, the Directors of the Company be hereby empowered pursuant to section 95 of the Act to allot or make offers or agreements to allot equity securities (as defined in Section 94(2) of the Act) wholly for cash to allot or make offers or agreements to allot equity securities pursuant to the authority conferred by Resolution 3 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
  - (a) the allotment of equity securities in connection with any invitation made to the holders of ordinary shares to subscribe by way of rights in the same proportions (as nearly as may be) to their respective holdings but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in connection with ordinary shares representing fractional entitlement or on account of either legal or practical problems arising in connection with the laws of any territory or of the requirements of any applicable regulatory body or stock exchange in any territory;
  - (b) the allotment (otherwise than pursuant to sub-paragraph 4(a) above) of equity securities pursuant to warrants granted by the Company prior to the date hereof;
  - (c) the allotment (otherwise than pursuant to sub-paragraphs 4(a) and 4(b) above) of equity securities 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 this Resolution or, if earlier, the conclusion of the next annual general meeting of the Company to be held after the passing of this Resolution, but such authorities shall allow the Company to make an offer or agreement which would or might require relevant securities to be allotted after the authorities expire and, in that event, the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authorities 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 this Resolution, which authorities (to the extent they remain in force and unexercised) are hereby revoked.

By order of the Board  
Dr Anna T M Mokgokong  
30 December 2008

Registered office  
C/o Preiskel & Co.  
8-10 New Fetter Lane  
London EC4A 1RS

## NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

### ENTITLEMENT TO ATTEND AND VOTE

- Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:
  - 6 p.m. on 28 January 2009; or,
  - if this Meeting is adjourned, at 6 p.m. on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the Meeting.

### APPOINTMENT OF PROXIES

- If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
- A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
- You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy please contact the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3BR.
- In order to facilitate voting by corporate representatives at the AGM, arrangements will be put in place at the AGM so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting

but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

### APPOINTMENT OF PROXY USING HARD COPY PROXY FORM

- The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

- completed and signed;
- sent or delivered to Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3BR; and
- received by Neville Registrars no later than 10.30 a.m. on 28 January 2009.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

### APPOINTMENT OF PROXY BY JOINT MEMBERS

- In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

### CHANGING PROXY INSTRUCTIONS

- To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited, at Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3BR.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

### TERMINATION OF PROXY APPOINTMENTS

- In order to revoke a proxy instruction you will need to inform the Company using the following method:
  - By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars, at Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3BR. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

## NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

In either case, the revocation notice must be received by Neville Registrars, at Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3BR no later than 10.30 a.m. on 28 January 2009.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

### ISSUED SHARES AND TOTAL VOTING RIGHTS

10. As at 12 noon on 22 December 2008, the Company's issued share capital comprised 44,596,053 ordinary shares of 10 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 12 noon on 22 December 2008 is 44,596,053.

### DOCUMENTS ON DISPLAY

11. Copies of the annual accounts for the year ended 30 June 2008, service contracts and letters of appointment of the Directors of the Company will be available:

- for at least 15 minutes prior to the Meeting; and
- during the Meeting.



