

RIVER DIAMONDS LIMITED



ANNUAL REPORT & ACCOUNTS 2003

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DIRECTORS AND ADVISORS

Directors

I C Orr-Ewing
N D Shaw-Hardie
R E Crew
B T Walsham (Resigned 10 September 2003)
D A Lenigus (Appointed 10 September 2003)
A Balme (Appointed 10 September 2003)

Secretary

Bart Secretaries Limited, 5th Floor Carmelite,
50 Victoria Embankment, Blackfriars, London EC4Y 0LS

Registered office

5th Floor Carmelite, 50 Victoria Embankment,
Blackfriars, London EC4Y 0LS

Corporate advisers

Loeb Aron & Company Ltd, Georgian House,
63 Coleman Street, London EC2R 5BB

Auditors

MRI Moores Rowland LLP, 3 Sheldon Square, London W2 6PS

Solicitors

Laytons, Carmelite, 50 Victoria Embankment, London EC4Y 0LS

Registrars

Capita IRG plc, Bourne House, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

CHAIRMAN'S STATEMENT

The year to 31st August 2003 was a transitional year for the Company. The operations were bedded down at Melguiera and a three-month joint venture was undertaken with Christiaan Human. His plant which included a 16 foot pan plant was found to be suitable for treating the diamondiferous gravels and good results were achieved. It is the largest pan plant operating in Brazil, although they are common in South Africa. The stones recovered helped to prove the overall grade of the gravels, as well as giving us valuable information on the market prices of the stones sold. Receipts from the diamond sales were credited against the joint venture, which, on termination, showed a small cash loss. Following the termination of the joint venture it was decided to purchase the diamond equipment from Mr Human on a lease purchase basis; this transaction will be reflected in the current financial year.



CAPTION CAPTION CAPTION CAPTION CAPTION CAPTION

Apart from the trading losses, customary in young mining and exploration companies, there was a loss of £424,000 which crystallised when the shareholding in Jubilee Investment Trust plc was sold. During the year the Trust subscribed for a block of shares in River Diamonds Limited and River Diamonds limited subscribed for a tranche of shares in Jubilee, a company that is modelled on Resource Investment Trust plc. The concept being that shares in an investment trust would be more liquid than shares in a small exploration company, with the added benefit that the investment trust agreed not to dispose of the shares without the approval of the exploration company for a period of two years. The share exchange that we had completed with Resources Investment Trust had worked to the benefit of River Diamonds but unfortunately in its early months the shares of Jubilee nose-dived and, as River Diamonds is an operating company, the company was obliged to sell the shareholding at a large loss.

Since 31st August 2003, there have been many changes in the company, both in the receipt of further funds, from existing shareholders and in the addition of new shareholders, as well as in the progress made in preparing the site for bulk mining as opposed to trial mining. Throughout, care has been taken to meet all the environmental requirements; all company employees in Brazil being aware of the need to protect what is a unique environment.

The encouraging firmness in the rough diamond market, with the emphasis on larger stones, is excellent news for the company. From 1730 to 1860 Brazil was the principal supplier of gem diamonds in the world and still is the ninth largest supplier of rough diamonds, all alluvial. More recently the country has been a prolific supplier of large white and coloured stones, which all command high prices.

Sao Carlos Mineracao Ltda, the wholly owned subsidiary of River Diamonds Limited has recently been informed that it meets the requirements of the Brazilian section of the Kimberley Process. In practical terms this means that the Brazilian company will be provided with "certificates of origin" and can therefore export rough diamonds all over the world provided that the company pays a local tax of 0.05%. At present we believe there is only one other company in the Mato Grosso that has this certification.

I also welcome two new directors, Anthony Balme and Dave Lenigas, both of whom have long experience of the mining business. Their availability at any hour has been a feature of their support and commitment to the company. As usual we would not have a company were it not for the operational staff, who have put up with difficult conditions in order to build the company and our thanks are due to them.

Colin Orr-Ewing, Chairman

DIRECTORS' REPORT

For the year ended 31 August 2003

The Directors submit their report and the financial statements of River Diamonds Limited for the year ended 31 August 2003.

Principal activities

The principal activity of the Group during the year was that of mining exploitation.

Results and dividends

The trading loss for the year, after taxation was £758,704.

The directors do not recommend the payment of a dividend.

Review of the business

The Directors believe the development of the underlying business to be satisfactory.

Post balance sheet events

Subsequent to the year end, £100,000 of loans included within creditors were converted into shares.

On 19 December 2003, the Directors announced that the Company intends to seek admission to AIM which will enable the Company to access more readily the capital markets in order to increase the diamond and gold production in Brazil.

The Directors are also pleased to announce that on 28 January 2004 £256,000 was raised from private investors from the issue of new shares and warrants which will provide the Company with further working capital.

Directors

The following directors have held office during the year:

I C Orr-Ewing
N D Shaw-Hardie
R E Crew
B T Walsham (Resigned 10 September 2003)

Directors' interest in shares

Directors' interests, including family interests in the Ordinary share capital, were as follows:

	<i>Beneficial Holding</i>	
	<i>31 August 2003</i>	<i>31 August 2002</i>
I C Orr-Ewing	6,366,667	4,866,667
N D Shaw-Hardie	–	–
RE Crew	–	–
B T Walsham	–	–

Substantial shareholdings

At 8 January 2004 the following had notified the Company of disclosable interests in 3% or more of the nominal value of the company's shares:

	<i>Ordinary shares of 1p</i>		<i>%</i>
IC Off-Ewing	7,855,367	6	
Capita Trust Company Limited	29,500,000	21	
The Drill Company Limited	9,533,333	7	
The Jubilee Investment Trust plc	33,333,333	23	
Newland Resources Ltd	10,000,000	7	
Phillip Securities (UK) Nominees Limited	7,950,003	6	
C Rowan	27,000,000	19	

DIRECTORS' REPORT (continued)

For the year ended 31 August 2003

Policy on payment of creditors

The Company seeks to maintain good terms with all of its trading partners. In particular, it is the Company's policy to agree appropriate terms and conditions for its transactions with suppliers and, provided the supplier has complied with its obligations, to abide by the terms of payment agreed. Trade creditor days of the Company for the year ended 31 August 2003 were 3 days, calculated in accordance with the requirements set down by the Companies Act 1985. This represents the ratio, expressed in days, between the amounts invoiced to the Company by its suppliers in the year and the amounts due, at the year end, to trade creditors.

Auditors

A resolution to re-appoint MRI Moores Rowland LLP as auditors will be put to the members at the Annual General Meeting.

Directors' responsibilities in the preparation of financial statements

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, directors are required to:

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

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

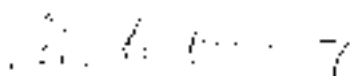
Corporate governance

The Company has developed appropriate measures to ensure that it complies, as far as practicable, with the Code of Best Practice introduced by the Hampel Report having regard to the size of the Company.

The Company has adopted and operates a share dealing code for Directors in the same terms as the Model Code for companies whose shares have been admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Company issues announcements on the OFEX Newstrack Service, complies with the OFEX Code of Best Practice and otherwise complies (as far as practicable and to the extent that they are no less onerous than the OFEX code) with the rules of AIM as if the Ordinary Shares of the Company were admitted to AIM.

On behalf of the Board



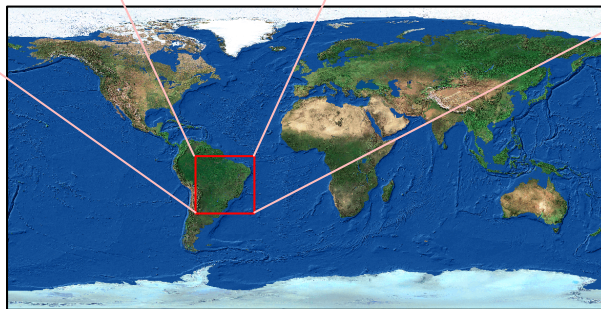
I C Orr-Ewing
Director

24 February 2004

SÃO CARLOS MINERATION LIMITED

MELGUEIRA PROJECT

Localization in Brazil Map



INDEPENDENT AUDITORS' REPORT

to the members of River Diamonds Limited

We have audited the Financial Statements of River Diamonds Limited on pages 8 to 22 for the year ended 31 August 2003. The Financial Statements have been prepared under the historical cost convention and on 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards are set out on page 5.

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

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

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

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made on page 12 of the financial statements concerning the availability of financial resources. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 August 2003 and of the Group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

MRI Moores Rowland LLP
Registered Auditor
Chartered Accountants

3 Sheldon Square
London W2 6PS
27 February 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 August 2003

	<i>Note</i>	2003 £	2002 £
Turnover		2,054	–
Cost of Sales		<u>(209,231)</u>	<u>(181,570)</u>
Gross loss		(207,177)	(181,570)
Administrative expenses		<u>(124,967)</u>	<u>(193,031)</u>
Operating loss	3	(332,144)	(374,601)
Loss on disposal of investment	3	<u>(424,327)</u>	<u>–</u>
Loss on ordinary activities before interest		(756,471)	(374,601)
Other interest receivable and similar income		98	3
Interest payable and similar charges	5	<u>(2,331)</u>	<u>(955)</u>
Loss on ordinary activities before taxation		(758,704)	(375,553)
Tax on loss on ordinary activities	6	<u>–</u>	<u>–</u>
Loss on ordinary activities after taxation	15	<u>(758,704)</u>	<u>(375,553)</u>
Loss per share		pence	pence
Basic	8	<u>(0.62)</u>	<u>(0.48)</u>
Fully diluted	8	<u>(0.62)</u>	<u>(0.48)</u>

There are no recognised gains or losses other than those passing through the profit and loss account. All activities relate to continuing operations which were acquired or commenced in the year.

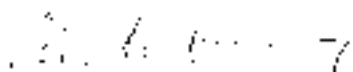
CONSOLIDATED BALANCE SHEET

As at 31 August 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	9		<u>135,547</u>		<u>189,124</u>
			135,547		189,124
Current assets					
Debtors	11	84,610		8,301	
Investment	12	77,000		100,000	
Cash at bank and in hand		<u>9,691</u>		<u>15,600</u>	
		171,301		123,901	
Creditors:					
Amounts falling due within one year	13	<u>(220,587)</u>		<u>(104,060)</u>	
Net current (liabilities) assets					
			<u>(49,286)</u>		<u>19,841</u>
Total net assets					
			<u>86,261</u>		<u>208,965</u>
Capital and reserves					
Called up share capital	14		1,414,033		989,000
Share premium account	15		210,967		–
Profit and loss account	15		<u>(1,538,739)</u>		<u>(780,035)</u>
Equity shareholders' funds					
	16		<u>86,261</u>		<u>208,965</u>

Approved by the Board on 24 February 2004

Signed on behalf of the Board of Directors



I C Orr-Ewing
Director

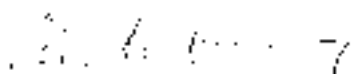
COMPANY BALANCE SHEET

As at 31 August 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	9		105,053		165,524
Investments	10		6,848		6,848
			<u>111,901</u>		<u>172,372</u>
Current assets					
Debtors	11	214,793		70,452	
Investments	12	77,000		100,000	
Cash at bank and in hand		–		169	
		<u>291,793</u>		<u>170,621</u>	
Creditors: amounts falling due within one year	13	<u>(206,610)</u>		<u>(104,060)</u>	
Net current assets			<u>85,183</u>		<u>66,561</u>
Total net assets			<u>197,084</u>		<u>238,933</u>
Capital and reserves					
Called up share capital	14		1,414,033		989,000
Share premium account	16		210,967		–
Profit and loss account	15		<u>(1,427,916)</u>		<u>(750,067)</u>
Equity shareholders' funds	16		<u>197,084</u>		<u>238,933</u>

Approved by the Board on 24 February 2004

Signed on behalf of the Board of Directors



I C Orr-Ewing Director
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 August 2003

	Note	2003 £	2002 £
Net cash outflow from operating activities	17	(235,177)	(282,387)
Returns on investment and servicing of finance	17	(2,233)	(952)
Taxation		-	-
Capital expenditure and financial investment	17	<u>(10,506)</u>	<u>(82,004)</u>
Cash outflow before financing		(247,916)	(365,343)
Management of liquid resources	17	98,672	(100,000)
Financing	17	<u>136,000</u>	<u>409,000</u>
Decrease in cash in the year	17	<u><u>(13,244)</u></u>	<u><u>(56,343)</u></u>
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the year		(13,244)	(56,343)
Net debt at 1 September 2002		<u>(5,106)</u>	<u>51,237</u>
Net debt at 31 August 2003	17c	<u><u>(18,350)</u></u>	<u><u>(5,106)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

1. Accounting policies

Basis of accounting

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

Going concern

Having reviewed the Group's income, expenditure and cash flow projections, the directors have a reasonable expectation that the group has sufficient financial resources to continue trading for the foreseeable future. Accordingly The financial statements have been prepared on the going concern basis.

Basis of consolidation

The consolidated accounts include the accounts of the Company and each of its subsidiaries which are accounted for using the acquisition method of accounting, whereby the Group's results include the results of the acquired business from the date of acquisition.

Tangible fixed assets and depreciation

Fixed assets are stated at cost less depreciation. Depreciation is calculated to write down the cost, of all tangible fixed assets by equal annual instalments over their expected useful life, as follows:

Mining leases	Over 3 years
Plant and machinery	Over 3 – 10 years
Motor Vehicles	Over 3 years
Fixtures Fittings and Equipment	Over 4 years

Investments

Fixed and current asset investments are stated at cost less provision for any impairment in value.

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Foreign currencies

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

2. Turnover

Turnover for the year arises from the Group's principal activity wholly undertaken outside the United Kingdom.

3. Operating loss

	Note	2003 £	2002 £
Operating loss is stated after charging:			
Depreciation		64,083	62,880
Auditors' remuneration		7,500	–
		<u>71,583</u>	<u>62,880</u>

A loss of £424,327 arose from the disposal of the Company's current asset investment in Jubilee Investment Trust plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 August 2003

4. Employees

	2003 No.	2002 No.
The average monthly number of persons (including directors) employed by the Group during the year was:		
Office and management	<u>4</u>	<u>3</u>

	2003 £	2002 £
Employment costs		
Wages and salaries	<u>112,975</u>	<u>92,662</u>

	2003 £	2002 £
Directors' remuneration		
Aggregate emoluments (including benefits in kind)	<u>64,335</u>	<u>34,806</u>

5. Interest payable

	2003 £	2002 £
Bank loan interest payable	<u>2,331</u>	<u>955</u>

6. Taxation

	2003 £	2002 £
UK Corporation tax	<u>-</u>	<u>-</u>

There is no charge to UK Corporation tax due to the availability of losses.

7. Loss for the year

The Company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these Financial Statements. The Group loss figure includes a loss after taxation of £677,849 (2002: £345,585) which is dealt with in the accounts of the parent company.

8. Loss per share

Loss for the year attributable to shareholders is £758,704 (2002: Loss £375,553). This is divided by the weighted average number of shares outstanding calculated to be 122,871,388 (2002: 77,933,333) to give basic loss per share of 0.62 (2002: 0.48p).

The calculation of diluted loss per share is based on the weighted average number of shares outstanding adjusted by the dilutive share options. The weighted average number of shares outstanding used in the calculation is 122,871,388.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 August 2003

9. Tangible fixed assets

Group:

	<i>Mining Leases</i>	<i>Plant & Machinery</i>	<i>Motor Vehicles</i>	<i>Fixtures fittings and equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost					
At 1 September 2002	130,761	107,896	13,052	295	252,004
Additions	–	181	6,430	3,895	10,506
At 31 August 2003	<u>130,761</u>	<u>108,077</u>	<u>19,482</u>	<u>4,190</u>	<u>262,510</u>
Depreciation					
At 1 September 2002	43,587	16,132	3,161	–	62,880
Charge for the year	43,587	16,132	4,364	–	64,083
At 31 August 2003	<u>87,174</u>	<u>32,264</u>	<u>7,525</u>	<u>–</u>	<u>126,963</u>
Net book value					
At 31 August 2003	<u>43,587</u>	<u>75,813</u>	<u>11,957</u>	<u>4,190</u>	<u>135,547</u>
At 31 August 2002	<u>87,174</u>	<u>91,764</u>	<u>9,891</u>	<u>295</u>	<u>189,124</u>

	<i>Mining Leases</i>	<i>Plant & Machinery</i>	<i>Motor Vehicles</i>	<i>Total</i>
	£	£	£	£
Cost				
At 1 September 2002	130,761	85,000	12,643	228,404
Additions	–	–	3,612	3,612
At 31 August 2003	<u>130,761</u>	<u>85,000</u>	<u>16,255</u>	<u>232,016</u>
Depreciation				
At 1 September 2002	43,587	16,132	3,161	62,880
Charge for the year	43,587	16,132	4,364	64,083
At 31 August 2003	<u>87,174</u>	<u>32,264</u>	<u>7,525</u>	<u>126,963</u>
Net book value				
At 31 August 2003	<u>43,587</u>	<u>52,736</u>	<u>8,730</u>	<u>105,053</u>
At 31 August 2002	<u>87,174</u>	<u>68,868</u>	<u>9,482</u>	<u>165,524</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 August 2003

10. Fixed asset investments

Company:

	<i>Shares in group undertakings</i>
	<i>£</i>
Cost	
At 1 september 2002 and 31 August 2003	<u>6,848</u>

Name and nature of business	<i>Country of incorporation</i>	<i>Class of shares</i>	<i>% held</i>
São Carlos Mineração Ltda - Mining	Brazil	Ordinary	100
Mineração São Carlos SA - Dormant	Brazil	Ordinary	100

11. Debtors

	<i>Group 2003</i>	<i>Company 2003</i>	<i>Group 2002</i>	<i>Company 2002</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Amounts owed by group undertakings	–	137,759	–	69,000
Other debtors	84,610	77,034	8,301	1,452
	<u>84,610</u>	<u>214,793</u>	<u>8,301</u>	<u>70,452</u>

12. Current Assets Investment

Group and company

	<i>Listed Investments</i>	<i>Unlisted Investments</i>	<i>Total</i>
		<i>£</i>	<i>£</i>
Balance brought forward	–	100,000	100,000
Additions	500,000	–	500,000
Disposal	(500,000)	(23,000)	(523,000)
Balance carried forward	<u>–</u>	<u>77,000</u>	<u>77,000</u>
Net Book Value			
As at 31 August 2003	<u>–</u>	<u>77,000</u>	<u>77,000</u>
As at 31 August 2002	<u>–</u>	<u>100,000</u>	<u>100,000</u>

13. Creditors: Amounts falling due within one year

	<i>Group 2003</i>	<i>Company 2003</i>	<i>Group 2002</i>	<i>Company 2002</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Bank loans and overdrafts	28,041	28,041	20,706	20,706
Trade creditors	14,880	903	23,017	23,017
Directors' current account	60,221	60,221	29,516	29,516
Other creditors	100,000	100,000	–	–
Accruals and deferred income	17,445	17,445	30,821	30,821
	<u>220,587</u>	<u>206,610</u>	<u>104,060</u>	<u>104,060</u>

Included within creditors is £100,000 relating to a loan which was converted into ordinary shares subsequent to the year end.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 August 2003

14. Share capital

	2003 £	2002 £
Authorised		
200,000,000 Ordinary shares of 1p each	<u>2,000,000</u>	<u>2,000,000</u>
Allotted, issued and fully paid		
141,403,332 Ordinary shares of 1p each	<u>1,414,033</u>	<u>989,000</u>

The Company has allotted shares for cash consideration during the year as follows:

166,667 Ordinary shares of 1p at 13.5p each;
 36,166,665 Ordinary shares of 1p at 1.5p each;
 4,000,000 Ordinary shares of 1p at 1p each;
 2,170,000 Ordinary shares of 1p at 1.4285p each.

The Company issued 33,333,333 Ordinary shares of 1p each in a share exchange agreement to purchase 500,000 shares in The Jubilee Investment Trust plc.

Warrants

During the year the following movements occurred on the warrants to purchase 1p ordinary shares in the company.

	<i>Number Of warrants</i>	<i>Exercised</i>	<i>Exercise price per share</i>
At 1 September 2002	41,900,000	5,000,000	1p
Granted	4,000,000		1p
Issued	5,000,000		1p

Warrants remain outstanding at 31 August 2003: 45,900,000 (2002: 41,900,000).

15. Statement of movements on reserves

	<i>Group Share premium account 2003 £</i>	<i>Company Share premium account 2003 £</i>	<i>Group Profit and loss account 2003 £</i>	<i>Company Profit and loss account 2003 £</i>
Balance at 1 September 2002	–	–	(780,035)	(750,067)
Loss for the year	–	–	(758,704)	(677,849)
Premium on shares issued during the year	210,967	210,967	–	–
Balance at 31 August 2003	<u>210,967</u>	<u>210,967</u>	<u>(1,538,739)</u>	<u>(1,427,916)</u>

16. Reconciliation of movement in shareholders' funds

	<i>Group 2003 £</i>	<i>Company 2003 £</i>	<i>Group 2002 £</i>	<i>Company 2002 £</i>
Loss for the year	(758,704)	(677,849)	(375,553)	(345,585)
Proceeds from issue of shares	636,000	636,000	409,000	409,000
Net addition to shareholders' funds	(122,704)	(41,849)	33,447	53,415
Opening shareholders' funds	208,965	238,933	175,518	175,518
Closing shareholders' funds	<u>86,261</u>	<u>197,084</u>	<u>208,965</u>	<u>238,933</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 August 2003

17. Cash flows

a Reconciliation of operating loss to net cash flow from operating activities

	2003	2002
	£	£
Operating loss	(332,144)	(374,601)
Depreciation	64,084	62,880
(Increase)/decrease in debtors	(76,309)	13,814
Increase in creditors	109,192	15,520
Net cash outflow from operating activities	<u>(235,177)</u>	<u>(282,387)</u>

b Analysis of cash flows

Returns on investment and servicing of finance

Interest received	98	3
Interest paid	<u>(2,331)</u>	<u>(955)</u>

Net cash outflow for returns on investment and servicing of finance	<u>(2,233)</u>	<u>(952)</u>
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Capital expenditure and financial investment

Purchase of fixed assets	<u>10,506</u>	<u>82,004</u>
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Management of liquid resources

Current asset investment	<u>98,672</u>	<u>(100,000)</u>
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Financing

Net receipts from issue of shares	<u>136,000</u>	<u>409,000</u>
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Net cash inflow from financing	<u>136,000</u>	<u>409,000</u>
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c Analysis of changes in net debt

	At 31 August 2002	Cash flow	At 31 August 2003
	£	£	£
Cash at bank and in hand	15,600	(5,909)	9,691
Overdraft	(20,706)	(7,335)	(28,041)
Net funds	<u>(5,106)</u>	<u>(13,244)</u>	<u>(18,350)</u>

d Non cash movement

During the year, the group entered into a £500,000 share for share investment in Jubilee Investment Trust plc. The shares were subsequently disposed of during the year.

18. Related party transactions

At 31 August 2003, an amount of £60,221 (2002: £24,516) was owed by the Group to I C Orr-Ewing, a director of River Diamonds Limited.

19. Ultimate controlling party

There was no ultimate controlling party during the year.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF ANNUAL GENERAL MEETING

of RIVER DIAMONDS LIMITED ("the Company")

NOTICE is hereby given that an Annual General Meeting of the Company will be held at the offices of Laytons at Carmelite, 50 Victoria Embankment, Blackfriars, London EC4Y 0LS on 19 April 2004 at 10.50am to consider and if thought fit pass the following resolutions:

Ordinary Business

1. Adopt accounts

To receive and adopt the Directors' Report and the Accounts for the period from 1 September 2002 to 31 August 2003.

2. Appoint auditors

To appoint MRI Moores Rowland LLP as auditors of the Company to hold office until the conclusion of the next annual general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors.

3. Re-election of Directors

The following Director having been appointed since the last Annual General Meeting retires but, being eligible, will be proposed for election:

- A D N Balme

4. Directors' Authority to Allot Shares

To consider and, if thought fit, pass an ordinary resolution THAT the directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £250,000 provided that this authority is for a period expiring the sooner of the conclusion of the Company's next AGM and fifteen months from the passing of this resolution but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired. This authority is in substitution for all subsisting authorities, to the extent unused.

Special Business

5. Disapplication of pre-emption rights

To consider and, if thought fit, pass as a special resolution THAT subject to the passing of the previous resolution the directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by the previous resolution as if Article 2.3.2 of the Articles of Association of the Company did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
- (b) otherwise than pursuant to paragraph (a) above up to an aggregate nominal amount of £250,000.

and shall expire on the sooner of the conclusion of the next Annual General Meeting of the Company and fifteen months from the passing of this resolution save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired.

BY ORDER OF THE BOARD

Bart Secretaries Limited, Secretary

Registered office: Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0LS

Dated: 22 March 2004

Note

Any member of the Company entitled to attend and vote at this meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member. To be effective, the white form of proxy must be deposited at the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent, BR3 4BR (or if lodging in person, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU) not later than 48 hours before the time of the meeting. Lodgement of the white form of proxy will not prevent a member from attending and (to the extent so entitled) voting in person if so derived.



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