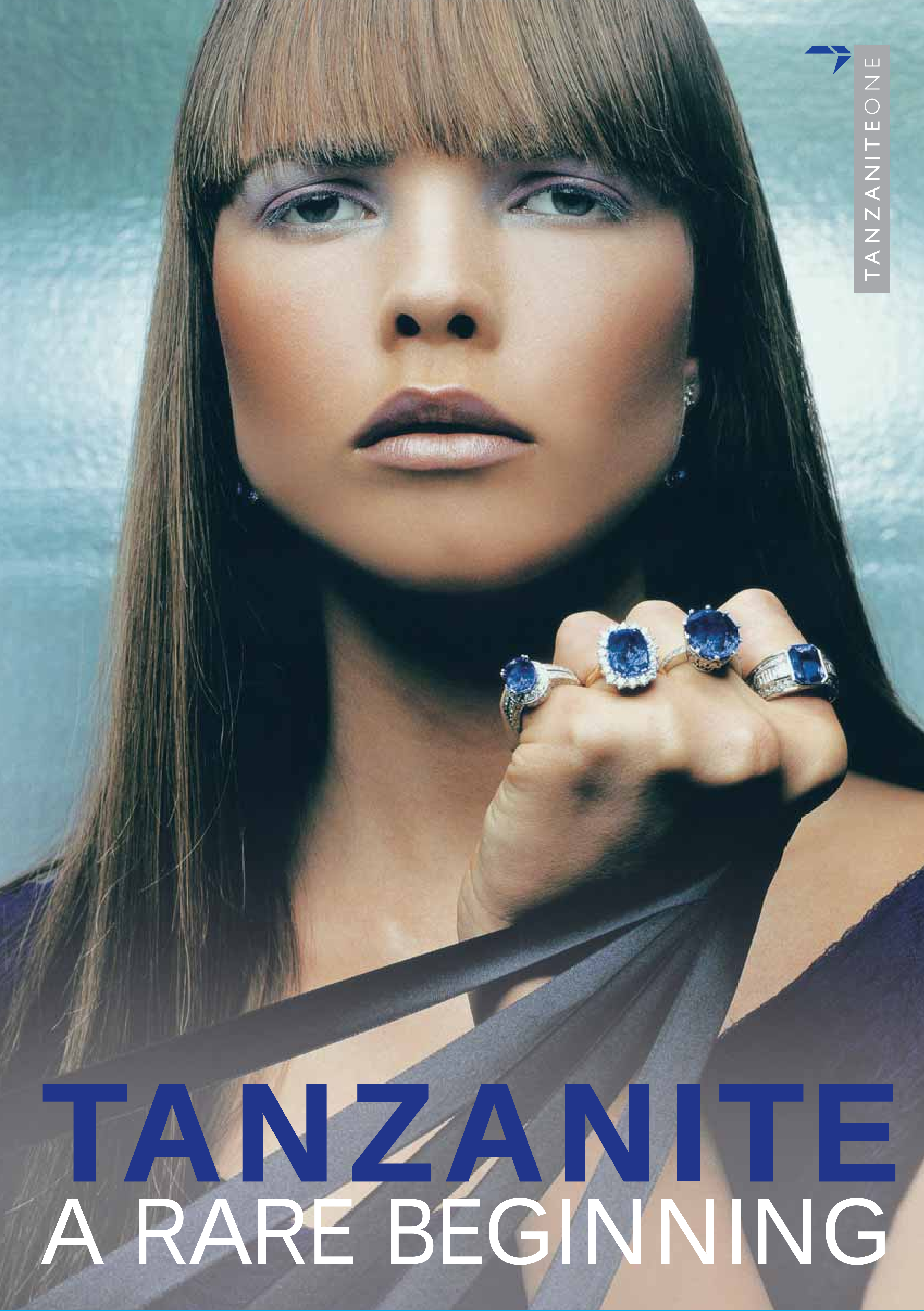
TANZANITEONE



TANZANITE
A RARE BEGINNING

TANZANITEONE – the world's tanzanite supplier

A VERTICALLY INTEGRATED GROUP that explores, mines, beneficiates and markets rough and polished tanzanite and set tanzanite jewellery

A MINING COMPANY that holds extensive mining and prospecting licences over a large portion of the world's only known tanzanite resource

A MARKETING COMPANY that through progressive strategies, based on true partnership, is pioneering positive change in the tanzanite industry

Chief Executive's message

A RARE BEGINNING ... Our business' first seven months of operation and our first set of results have been very satisfactory. We have comfortably achieved our overall objectives in line with expectations and the declaration of a maiden dividend is testament to this.

Save for normal operational issues, we have encountered no unexpected challenges or obstacles. Accordingly, our tanzanite mining, trading and marketing divisions have generally reported revenues and profits in line with planning. That said, we acknowledge we have a long road to travel in order to take tanzanite and our business to where we want it to be.

GROUP STRUCTURE

TanzaniteOne Ltd

- **TanzaniteOne Mining Ltd** – Mining & Exploration
- **TanzaniteOne Trading Ltd** – Outside Buying
- **TanzaniteOne Marketing Ltd** – Rough Sales
- **The Tanzanite Company** – Polished Sales
- TANZANITE – Industry Organisation

MIKE NUNN
Chief Executive,
TanzaniteOne Ltd

MINE DEVELOPMENT NEAR COMPLETION

With our mine development almost complete, we tested all aspects of our ore treatment and tanzanite recovery systems. Overall, results were good. In late 2004, we reached approximately 20% utilisation of our processing capacity, as mining is still restricted by ongoing shaft development. Production will be ramped up during the year and allow us to reach our 2005 targets with significant processing capacity to spare. Our overall grade was below our sampling grade due to dilution from development waste. This was anticipated and we expect this to continue to be a factor until shaft sinking is complete, after which the grades should improve.

Our mine will be officially opened in the second half of 2005 and we look forward to celebrating this event with our Tanzanian staff, the local community and all of the Tanzanian authorities and businesses that have been so integral to the building of what can now be regarded as a world class mining and processing facility.

GRADE PREDICTABILITY AND FURTHER RESOURCES TARGETED

Our geological understanding of the tanzanite ore body has proved adequate, however we continue to strive to further refine its interpretation and predictability. We are currently at an advanced stage of a fluid inclusion study, the results of which will further enhance grade management. Shaft development to below drilled depth is currently underway, with the ore body remaining fully open, suggesting the potential for an extension to the estimated life of mine. Our exploration programme in various neighbouring properties, over which we either own rights or are in the process of finalising options, is in its final planning stages and is expected to begin during the first half of 2005. Although we expect our exploration

programme (both at depth and on neighbouring properties) to yield additional resource, our short term planning is prudent and therefore does not take such prospects into account. That said, we have an estimated twelve years of resources which we would ideally like to increase to 20 years; also factoring in a faster growing market than previously planned for.

RECOVERY IMPROVEMENT INITIATIVES

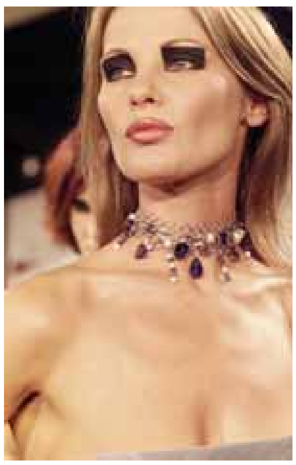
On the technical front, we have made good progress, particularly with our HOSGARS (Hands Off Sorting Grading and Reporting System) initiative, by which we expect to have fully automated optical sorting of rough tanzanite commissioned and operational by mid 2005. This, together with the installation programme of X-Scann body x-ray technology, aims to significantly enhance our final recovery and security systems.

our formalisation and development of the tanzanite industry. Indeed, large and small scale tanzanite mining operations can constructively co-exist, not only to their mutual benefit, but to the greater benefit of the industry as a whole.

TANZANITE MARKET

Whilst we advocate that tanzanite is a gemstone category distinct from diamonds and coloured stones, in considering our market dynamics we look to the gemstone and jewellery industries for trends that may affect the tanzanite business. In 2004, diamond prices rose by approximately 15% and global retail sales of jewellery rose 8%. Top-end jewellers, such as Tiffany & Co, reported revenue increases of more than 10% and the Japanese market, after ten years of contraction, reported a modest rise. The diamond industry again reported increased industry-wide advertising spend and noted that diamond jewellery was competing more effectively in the luxury goods sector. This boded well for the overall jewellery industry, which had a reasonably good

TANZANITE *on the catwalk*



Our mining team comprises approximately 500 employees, inspiringly led by Joe Kimble who heads up TanzaniteOne Mining in Tanzania. Cross-skilling is allowing us to redeploy staff from mine construction and shaft development to mining and processing, as we move from a mine development phase to a production growth phase. As such, from a human resources perspective, we run a lean operation, based on efficiency optimisation. Staff turnover is low, with a high degree of morale, motivation and job satisfaction registered in our internal perception audits.

Relationships with both the local communities surrounding our mine as well as with the small scale mining community have gone from strength to strength. Regular dialogue has led to an increasingly widespread recognition that all responsible stakeholders really do benefit from

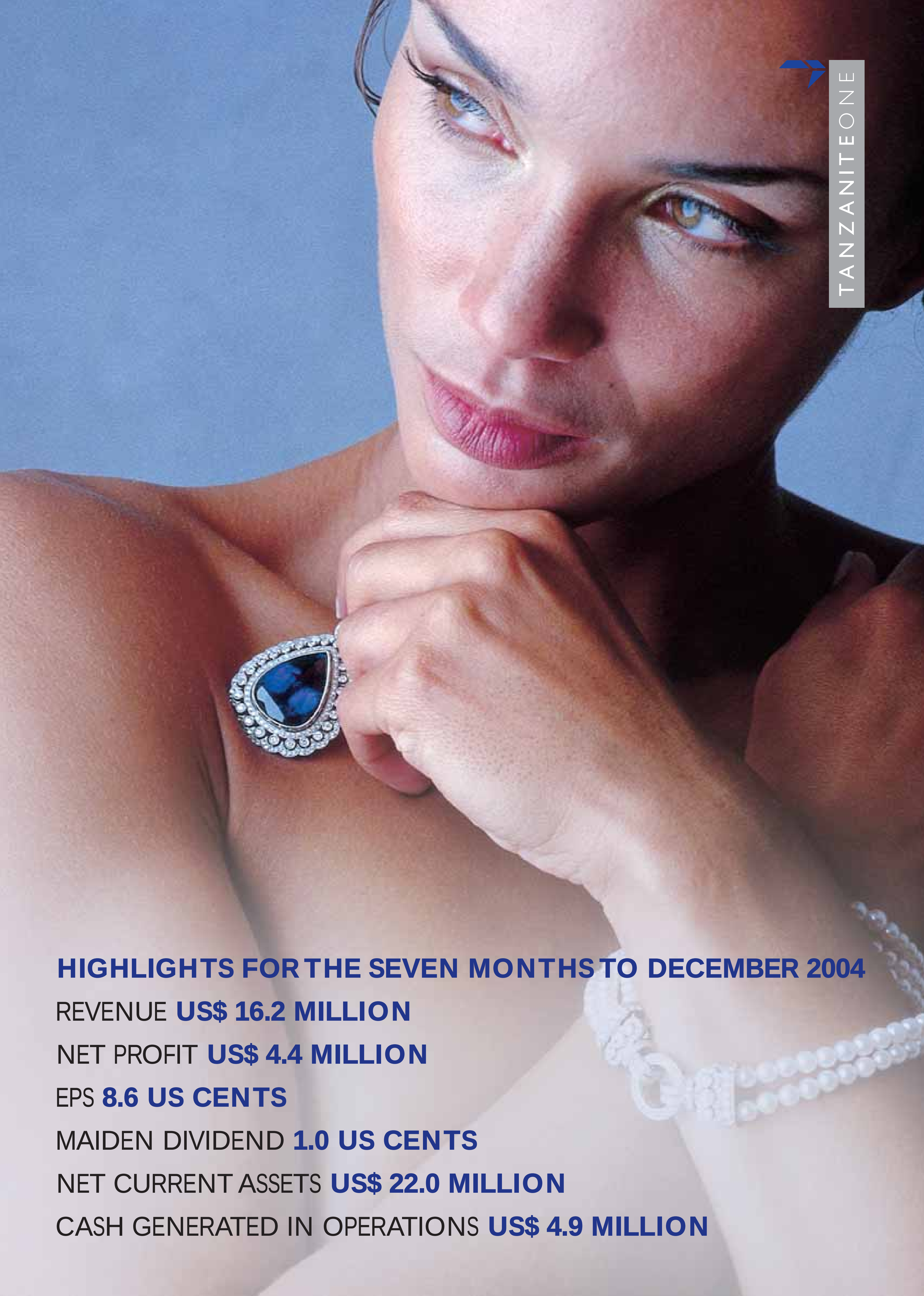
year. Similar trends were evident in the tanzanite industry.

GOOD DEMAND OUTLOOK, PRICES SET TO RISE

With demand continuing to outstrip supply, tanzanite slightly out-performed the overall jewellery sector, supporting an approximate 25% price rise across most qualities during the year. We expect prices to increase at an average of about 10% during 2005, with prices of very fine qualities potentially increasing more, and lower qualities weakening slightly against 2004 prices.

UNITED STATES: TANZANITE'S PRIMARY MARKET

The United States remains tanzanite's primary market, with an estimated 70% of all tanzanite consumed there in 2004. The majority of goods in the medium to low quality range were sold



HIGHLIGHTS FOR THE SEVEN MONTHS TO DECEMBER 2004

REVENUE **US$ 16.2 MILLION**

NET PROFIT **US$ 4.4 MILLION**

EPS **8.6 US CENTS**

MAIDEN DIVIDEND **1.0 US CENTS**

NET CURRENT ASSETS **US$ 22.0 MILLION**

CASH GENERATED IN OPERATIONS **US$ 4.9 MILLION**

in the Caribbean and Alaskan cruise markets and on home shopping television networks. Better quality goods were in demand from top-end jewellery retailers and exceptional qualities were in short supply, not only in the United States but worldwide.

TANZANITEONE TRADING MAKES ITS MARK

Adrian Banks and his team in Arusha, Tanzania, have done a remarkable job of establishing TanzaniteOne Trading, our outside buying business that purchases select qualities of rough tanzanite in the open market. With almost a hundred tanzanite trading licences in issue in Tanzania and approximately the same number of active trading offices, we have developed superb supply relationships with small scale miners and dealers in this highly competitive environment. Although margins in our trading business will remain tight, it is expected that outside buying will make a meaningful contribution to the supply side of our business in the year ahead, although an overall imbalance in favour of demand is still anticipated.

Our trading business is also working closely with the Tanzanite Foundation's™ SMAP (Small Mines Assistance Programme) initiative to ensure that all of its outside buying activities are fully compliant with the Tanzanite Foundation's™ ethical route to market (Mark of Rarity™) endorsement requirements, as well as the Tucson Tanzanite Protocols.

ROUGH TANZANITE SALES AND OUR PREFERRED SUPPLY STRATEGY

With an intimate understanding of the rough tanzanite market, Candice Nunn, who runs our rough tanzanite selling arm, TanzaniteOne Marketing, recently launched our Preferred Supply Strategy. This strategy involves the adoption of a system of rough tanzanite sales similar to that used in the diamond industry. Pre-qualified customers, sightholders, will enter into an offtake agreement for a specified number of parcels of rough tanzanite over three years, at market prices based on supply and demand dynamics. Apart from facilitating supply continuity and price stability, this strategy is expected to significantly enhance our customers' confidence in the growth potential and long term sustainability of the tanzanite industry, ultimately stimulating vertical integration and investment in branding and marketing. We have initially appointed six sightholders and will expand this number as our production profile increases.

To stimulate demand further, we will be rolling out various marketing initiatives during 2005, conducting research to better understand market dynamics and globalising and refining our advertising and promotional activities and communication effectiveness.

POLISHED TANZANITE SALES

The Tanzanite Company, TanzaniteOne's polished tanzanite marketing arm, is a sightholder of TanzaniteOne Marketing, our rough selling business. It was established as part of our vertical integration strategy, with the intention of giving us a 'finger on the pulse' of the downstream aspects of the tanzanite supply chain, namely cut and polished tanzanite and tanzanite jewellery. The Tanzanite Company has a cutting and polishing facility, a tanzanite jewellery outsourcing network and a polished and set tanzanite jewellery sales infrastructure. The jewellery sales infrastructure has become the market leader in Africa, successfully competing with diamonds in terms of point of sale space and actual sales in several jewellery retail outlets and surpassing diamond sales at certain key international duty free sales points in 2004.

Under the competent leadership of Jason Krause, with the support of a dedicated and dynamic team, The Tanzanite Company recently launched in the United Kingdom and Europe, with plans to launch in the Middle East during the year ahead. Product ranges and routes to market are expected to be further expanded during 2005 and we are optimistic that the success we have seen in Africa can be repeated in these new markets. As part of its downstream value-add strategy. The Tanzanite Company has developed TanzaniteBlue™, a brand of tanzanite jewellery, which has shown high levels of initial acceptance in key markets.

TANZANITE FOUNDATION™ POSITIONING REFINED

Late 2004 saw Sarah Cort begin the process of re-positioning the Tanzanite Foundation™ as an industry-supported non-profit organisation. The Tanzanite Foundation™ is dedicated to the development of the tanzanite industry by growing demand and creating value for all ethical and socially conscious industry stakeholders in the tanzanite value chain. Apart from channeling value back into the local community adjacent to tanzanite's source, a key objective of the Tanzanite Foundation™ is the development of consistent and sustainable demand growth for tanzanite.

Tanzanite Foundation's™ plans to develop a ubiquitous grading system for tanzanite are expected to progress significantly this year through strategic licensing agreements with recognised gemstone grading laboratories. This will afford stakeholders global access to the system developed by the Tanzanite Foundation™. Over time, this should facilitate ease of trade amongst tanzanite dealers, contribute to retailers' understanding of polished tanzanite qualities and underpin

SU-ELISE OF MISTEEQ *and* **DAMON DASH** *premiere tanzanite at the 2004 Academy Awards*

TANZANITEONE

consumer confidence in and demand for tanzanite jewellery. Probably the biggest impact of a ubiquitous grading system will be the de-commoditisation of tanzanite which, we expect, will see prices better reflect qualities and their relative rarities.

DIVIDEND POLICY AND PAYMENT OF MAIDEN DIVIDEND

As it is the intention of TanzaniteOne to distribute dividends to shareholders, we have decided to distribute a notional maiden dividend for our first seven months of operation. Despite being in the early stages of development, our business is already cash-generative and is in a position of being almost debt free. Capital expenditure projects, exploration, acquisitions and other expansion projects have been planned for and will be financed out of existing resources, or funded as is appropriate for each specific requirement. It is expected that the dividend cover will reduce over time as the business matures, allowing dividends to become increasingly meaningful.

TANZANIA

The decision by the Tanzanian Monitory Authorities to defer our application to dual list onto the DSE (Dar es Salaam Stock Exchange) simultaneous to our listing on AIM (Alternative Investment Market) was a disappointment. However, with the support of the Tanzanian central bank, we were able to invite several Tanzanian institutions and individuals to participate in our IPO, allowing us to partially fulfil our loyal Deputy Chairman, Ami Mpungwe's, dream of TanzaniteOne becoming 'truly Tanzanian'. In the future, we may revisit the possibility of a secondary listing onto the DSE. In the meantime, it is more than appropriate that I take this opportunity to thank Tanzania, its Government and its wonderful people for their support of our company and of our efforts to fomalise and develop their most prized industry. With its progressive mining legislation and favourable investment policies, Tanzania remains one of Africa's premier investment destinations and it is our privilege to be able to operate in that environment. It is our intention to continue to invest into the country, not only in tanzanite exploration and mining, but into its beneficiation and value add.

I would also like to thank Michael Adams and our board for their invaluable input and support. I would particularly like to express my sincere gratitude to Ian Harebottle, my Chief Operations Officer, and Mark Summers, my Chief Financial Officer, for the initial fruits of their endless labour and passion. Finally, I would especially like to thank our shareholders for their enthusiasm for our business and their faith in our ability to deliver.

PROSPECTS

We have a large portion of the world's known tanzanite resource and the most modern mining and processing facility, now commissioned and operational. We are focused, vertically integrated and our marketing strategies for tanzanite are working. We are profitable across all our operations, cash flow positive in our first seven months and we have very little gearing. We have a strong team of people who are passionate about tanzanite and about our business. *Now*, it really is all about execution.

MIKE NUNN
Chief Executive

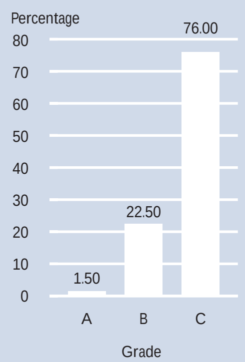
TOP 5 SELLING GEMSTONES IN THE UNITED STATES

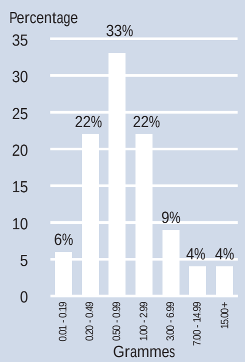
2001	2002	2003	2004
Blue Sapphire	Blue Sapphire	Blue Sapphire	Blue Sapphire
Pearl	Ruby	Ruby	Fancy sapphire
Tanzanite	Emerald	**Tanzanite**	Ruby
Ruby	**Tanzanite**	Emerald	**Tanzanite**
Emerald	Amethyst	Amethyst	Emerald

TRUE UNDERSTANDING IS RARE In 2005 we will conduct research to better understand market dynamics and refine our advertising and promotional activities for greater communication effectiveness

Operational review - TanzaniteOne Mining Ltd, Mining and Exploration

JOE KIMBLE, *General Manager, TanzaniteOne Mining Ltd, and* **IAN HAREBOTTLE**, *President and Chief Operating Officer, TanzaniteOne Ltd*





TANZANITEONE MINING LTD, the TanzaniteOne Group's Tanzanian mining and exploration unit,

holds a special mining licence over Block C Merelani in Northern Tanzania. Block C is the largest and most productive of the tanzanite producing blocks.

In excess of 2 000 meters of underground development was completed during the seven months to December 2004. Whilst overall grade results (49cpt) were lower than sampled due to development waste dilution, the interception of well mineralised areas in two of our primary shafts, supported by firm demand and prices, resulted in the mine being able to reach its targets comfortably. Our safety record was exceptional, with no reportable accidents.

MINING STILL RESTRICTED DUE TO ONGOING DEVELOPMENT

During the seven months our two fully operational shafts delivered mixed results. Main shaft, approximately in the middle of our licence area, produced in-line with expectations, despite ongoing shaft sinking to target beyond drilled depths. Bravo shaft, on the southern boundary of our licence area, produced below expectations but is expected to improve. Main shaft is being equipped with upgraded track, skips and winder, due to be commissioned by mid 2005. A second shaft will be upgraded to the same specification by end 2005.

As part of our programme to improve ore handling between production drive faces and skip loading points we are currently testing vacumation equipment, which if successful will reduce ore handling costs and improve efficiencies at the same time as enhancing security.

PROCESSING CAPACITY REMAINS UNDER-UTILISED

Our ore treatment plant is now fully commissioned and operational. Head feed is rated at 50tph and DMS capacity at approximately 30tph, with sufficient surge capacity between. Water consumption is stable and well within planning and tailings management is not presenting any challenges. Single shift capacity is estimated at approximately 10 000 tonnes per month. However, the plant has only been run up to 4 000 tonnes due to ongoing shaft sinking and mining development restricting the supply of ore. Our expected ramp up in production will therefore comfortably be accommodated.

FINAL RECOVERY SET FOR IMPROVEMENTS

In conjunction with our HOSGARS (Hands Off Sorting And Grading System) initiative, we are due to complete the installation and commissioning of fully automated optical identification, separation and primary sorting of rough tanzanite post the DMS plant. This technology is expected to significantly improve security whilst simultaneously enhancing final grade recovered.

EXPLORATION TARGETS FURTHER RESOURCES

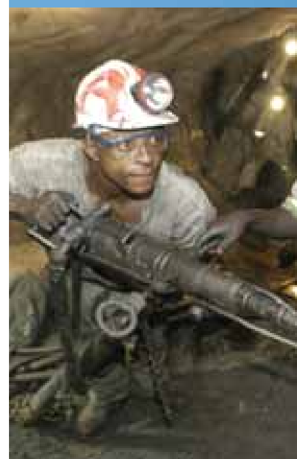
Further exploration is taking place on three fronts. On our known ore body below the original drilled depth of 300m (Main shaft is now planned to a depth of 600m), on a potential second horizon (repeat ore body) on our mining licence area, and on various neighbouring properties. We are confident that potentially all of the targets currently under investigation will be tanzanite bearing. However the extent of their economic viability and contribution to our resource/life of mine is as yet unknown.

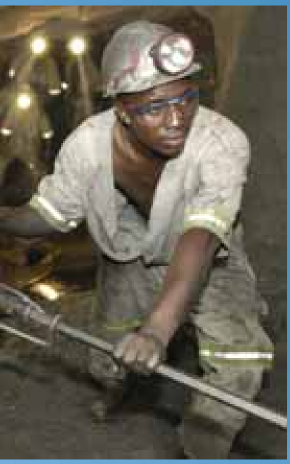
SECURITY RE-EVALUATED

Security measures are continuously being re-evaluated with the intention of containing shrinkage to less than 5% of total production. Best practice multi-level systems have been adopted from the diamond mining industry and adapted to suit our environment. This includes the introduction of X-Scann, a body x-ray machine that can identify down to a 1/4 carat of rough tanzanite inside the human body.

The ongoing prevention of illegal under-mining emanating from neighbouring small-scale miners and surface intrusions continues to be a challenge.

Overall our general understanding of tanzanite geology, mining and processing continues to improve and we expect this to become even more evident in our results going forward.





TRUE FOCUS IS RARE The CPR conducted in mid 2004, indicated a resource of 0.95 million tonnes for 63 million carats to 1.26 million tonnes for 83 million carats, representing the majority of the world's only known tanzanite resource

ADRIAN BANKS,
Managing Director,
TanzaniteOne Trading Ltd

TANZANITEONE TRADING LTD is the TanzaniteOne Group's 75% held Arusha based rough tanzanite buying operation. The remaining 25% is held by our Tanzanian partners who play an integral role in the managing of this business.

In the seven months to December 2004, TanzaniteOne Trading successfully established itself as one of Tanzania's top tanzanite trading operations and comfortably achieved its targets. The latter half of 2004 was successful in terms of developing relationships with miners, brokers and dealers – all of which remain critical to building a powerful trading operation over the long term.

Our trading business plays a strategic role in our broader business as it provides us with an up-to-date perspective on market dynamics and a complete understanding of real time pricing in the rough tanzanite market. Furthermore it introduces a key element of stability to the value chain across which we operate.

Supply of rough tanzanite from small mines proved to be sporadic and on very few occasions through the year was material freely available. The consensus view in Arusha is that production of good quality tanzanite from our neighbouring blocks is decreasing. Our buying process involves the cobbing (preparation and grading of rough tanzanite) of rough material brought for sale. This enhances the brokers' understanding of the value of grading and improves our competitive offering to these brokers.

As global demand for tanzanite continues to grow, demand from manufacturers has been extremely strong. This has promoted a very competitive environment for rough tanzanite; an effect felt from broker all the way through to jewellery manufacturer level. The highest demand is for fine quality ranging from two carats and up, and prices rose by approximately 25% during 2004.

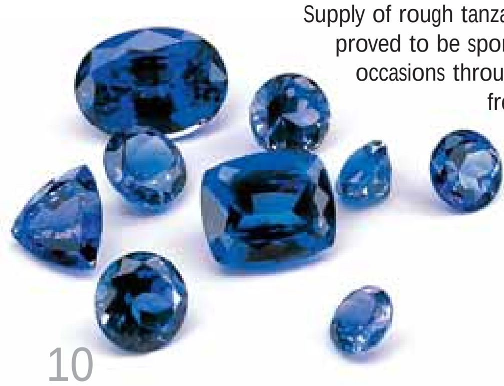
TanzaniteOne Trading is a founding member of the Tanzanite Foundation™ and works closely with the Tanzanite Foundation™ to assist with their SMAP (Small Mines Assistance Programme) initiative. Adherence to the Tucson Tanzanite Protocols is crucial to TanzaniteOne Trading, which has become the second largest contributor of royalties on tanzanite to the Tanzanian Government, after TanzaniteOne Mining.

Blue

Violet

Burgundy

TANZANITE *is uniquely trichroic – radiating different colours from its three chrystallographic axes*



TRUE INTEGRITY IS RARE 2004 was successful in terms of developing relationships with miners, brokers and dealers – all of which are critical to building a powerful trading operation

CANDICE NUNN, *Managing Director, TanzaniteOne Marketing Ltd*

TANZANITEONE MARKETING LTD is the rough tanzanite marketing arm of the TanzaniteOne Group.

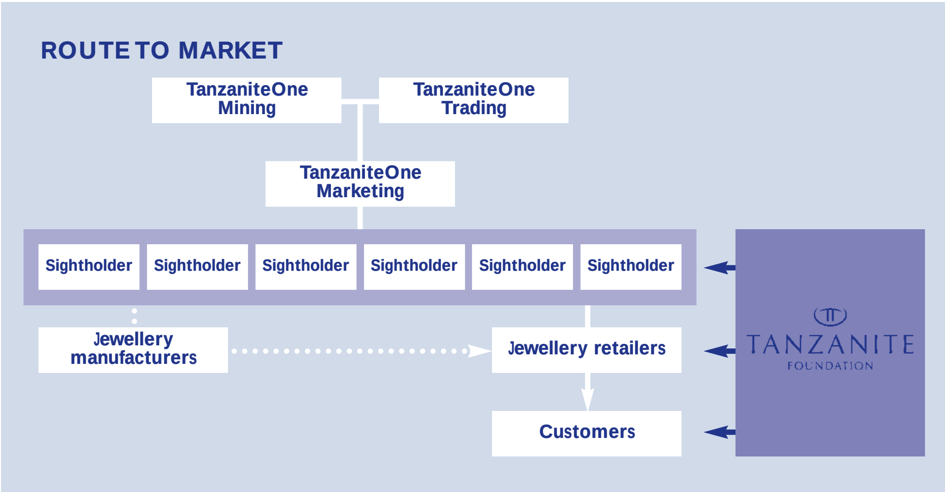
Over the seven months to December 2004, three auction sales were held. The August sale was the first to be attended by a retailer and delivered record rough tanzanite prices. This lent credence to TanzaniteOne's growing appreciation of the importance of vertical integration in the tanzanite industry. As seen in our outside buying business, these prices depreciated slightly towards year end and subsequently rebounded but were stable overall. The availability of high grade tanzanite was extremely limited in 2004. This hampered the marketability of tanzanite as buyers generally required a cross section of sizes and grades.

To support the more accurate pricing of all material, the development of a comprehensive rough tanzanite grading system was commissioned. This system comprehensively provides for 896 different categories of rough tanzanite across size, clarity, colour and shape and will allow for very accurate pricing and preparation of rough parcels – beneficial to sellers, buyers and ultimately consumers.

Whilst demand from our primary markets remained strong, flaws inherent in the auction system frustrated our rough tanzanite customers' commitment to tanzanite as a gemstone category. Many buyers would attend auctions with no guarantee of purchasing a parcel at a price acceptable to them. This made forward planning for our customers difficult. In response to this our Preferred Supply Strategy was announced in February 2005. This strategy, based on the principle of partnering with customers, involves the adoption of a system of rough tanzanite sales similar to that used in the diamond industry. Pre-qualified customers, 'sightholders', enter into offtake agreements for 18 parcels of rough tanzanite over three years, at market prices based on supply and demand dynamics. The system is expected to facilitate supply continuity and price stability, whilst enhancing the confidence of our sightholders in the growth potential and long term sustainability of the tanzanite industry.

Six sightholders have been appointed to date. These tanzanite focused organisations range from companies that are totally vertically integrated right through to retailing, to large cutting houses that manufacture jewellery for wholesale and have branding and vertical integration plans in the pipeline. The Tanzanite Company is one of TanzaniteOne Marketing's sightholders.

TanzaniteOne Marketing's Preferred Supply Strategy is seen as a win-win for the entire industry. Our business benefits from solid relationships with our customers and price stability. Our customers profit from supply continuity on which they can grow their businesses. Small scale miners, brokers and dealers, manufacturers and retailers gain from a stable but increasing price that better reflects tanzanite's rarity and underpins investment in both the industry and tanzanite itself.



TRUE PARTNERSHIPS ARE RARE

Our Preferred Supply Strategy facilitates supply continuity and price stability and, through the process of partnering, enhances confidence in the tanzanite industry

THE TANZANITE COMPANY markets and sells polished tanzanite and branded tanzanite jewellery.

JANET SILK, *Sales Director, The Tanzanite Company and* **JASON KRAUSE**, *Managing Director, The Tanzanite Company.*

Operations include our cutting and polishing facility where rough tanzanite is beneficiated. This last leg of our vertically integrated group gives us a "finger on the pulse" of the jewellery industry and facilitates an understanding of the consumer market that is shared all the way through our business.

Sales over the seven months were in line with expectations. Of total sales, 56% was comprised of polished tanzanite and the remainder in set tanzanite jewellery.

Set jewellery commands higher margins and as such The Tanzanite Company intends to increase this as a percentage of sales. The Tanzanite Company reviews its pricing on a quarterly basis and adjusts its wholesale price to take into account increases in the price of rough tanzanite. Margins grew across the board over the seven months. In tanzanite jewellery they rose due to increased branding and greater control over jewellery manufacturing costs.

Demand in our primary market increased, primarily due to marketing initiatives by The Tanzanite Company and retailers alike. The company's jewellery range, TanzaniteBlue™, has been well received and the year ahead will see the company expand this product line to target a broader range of consumers.

Relative success in our primary market gave us the confidence to expand into the United Kingdom in the latter half of 2004, which proved very rewarding. Of total sales, 13% was contributed by this market. This was achieved off a very low infrastructure and marketing cost which is encouraging considering that tanzanite is a relatively new product to this country. High receptiveness to tanzanite jewellery by retail jewellers in the United Kingdom suggests that this is a good growth point for the company and significant expansion plans are in place for 2005.

In July 2004, The Tanzanite Company exhibited at Johannesburg's Jewellex International where it launched the TanzaniteBlue™ brand to the retail trade. The company also exhibited at International Jewellery London in September 2004 and the Spring Fair, Birmingham in February this year to promote its entry into the UK market. The Tanzanite Company will participate in these exhibitions again in the year ahead and in addition at BaselWorld in April.

In early 2005, The Tanzanite Company was awarded a sightholder position from TanzaniteOne Marketing. This gives the company an enormous strategic advantage. Not only because the company will be able to source more directly but because it will be able to supply at a greater level of consistency both on price and volume; reducing risk both to the company and its customers. Over time this ability will enhance The Tanzanite Company's profile as a reliable source of product - a prestige appropriately associated with being a sightholder.

As an independent sightholder, The Tanzanite Company will purchase rough tanzanite at the same price as all sightholders. However, relationships with other sightholders should deliver the ability to source polished tanzanite and manufactured jewellery from those companies.

Co-operation with the Tanzanite Foundation™ continues to bear fruit. The company's status as a founding member of the Tanzanite Foundation™, increasingly recognised by retailers around the world as a critical prerequisite in the tanzanite industry, enhances its brand both at a wholesale and retail level. The Tanzanite Company, all of whose sales to date comprise graded and certified tanzanite, recognises the benefit of the Tanzanite Foundation's™ efforts to entrench a globally accepted grading system.

The year ahead will be focused predominantly on expanding The Tanzanite Company's customer base and continuously improving jewellery quality and designs. Branding and marketing, specifically collaborations with high-end jewellery designers and other luxury brands are also planned.

The success of our expansion drive into the United Kingdom provides us with a spring board into continental Europe – a region with relatively little exposure to tanzanite and potential for high growth over time. Other initiatives are underway that will hopefully result in a key break through into the Middle Eastern market.


TANZANITE FOUNDATION
TANZANITE
BLUE
CHARLES
GREIG

TANZANITE
FOUNDATION

SARAH CORT, *Operations Director, The Tanzanite Foundation™*

THE TANZANITE FOUNDATION™ is an industry supported, non-profit organisation established to guard and champion the tanzanite industry.

Focusing on the promotion of ethically acquired tanzanite, information dissemination, industry formalisation and meaningfully channeling value back into the community at tanzanite's source, the Tanzanite Foundation™ aims to achieve global awareness and industry appreciation whilst encouraging long term commitment to the tanzanite industry.

The Tanzanite Foundation™ has been proactive in its communication efforts and announced itself in the United States to members of the trade and press at the Tucson Gem Show in February 2005 and to the United Kingdom in March 2005.

Creating aspiration for ethically acquired tanzanite is a priority. 2005 will see the launch of new trade and consumer marketing campaigns, an internationally showcased tanzanite jewellery exhibition, collaborations

NATASHA McELHONE *displaying her heart shaped tanzanite ring at The Aviator premiere*

TERRI HATCHER *and her tanzanite at the BAFTA awards*

GEORGE CLOONEY & LISA SNOWDON *at the premiere of Oceans 12*

LISA SNOWDON *shows her tanzanite to the papparazzi*

with high-end, cutting edge jewellery designers and an announcement of chosen patrons, founding corporate and individual members.

The Tanzanite Foundation's™ symbol of quality assurance, ethics and grade, the Mark of Rarity™, is highlighted in all communications. The Tanzanite Foundation™ has developed a tanzanite specific grading and certification system which it intends to make ubiquitous through licensing its use to international gemmological laboratories.

This system will help achieve global understanding of quality comparability and consistency and in turn trade and consumer confidence should be enhanced. The globally applied grading system will unite and formalise the tanzanite industry as we know it, benefiting stakeholders by standardising quality definitions and distinctions between grades. In essence this will result in tanzanite being decommoditised, which will, we expect, see prices better reflect qualities and their relative rarities.

TANZANITEONE is a founding member and primary funder of the Tanzanite Foundation™. As such most corporate social investment spend that TanzaniteOne makes is channeled through the Tanzanite Foundation™.

GLEN SHAW, *TanzaniteOne Mining Ltd, Plant Manager and Community Liaison Officer with members of the local Maasai community*

SOCIAL INVESTMENT The Tanzanite Foundation™ is committed to making a meaningful and sustainable difference to the quality of life of the communities at which tanzanite is mined by contributing to social and economic upliftment in the area. Primary recipients of the Tanzanite Foundation's™ social investment are those that reside in the neighbouring communities surrounding the tanzanite mining area. The Tanzanite Foundation™, in consultation with community leaders, coordinates a Community Development Fund. Through this, the Tanzanite Foundation™ has made significant investment into grass roots infrastructure programmes. The provision and maintenance of this basic infrastructure has created an environment in which communities can grow and develop in a self sustaining manner.

Projects completed to date include:

- the construction of a 400m² Community Centre for the residents of Nasinyai, the village bordering the tanzanite mining area;
- the renovation and installation of electricity to the Nasinyai Medi-Clinic;
- the upgrading and maintenance to the road leading to the tanzanite mining area, thereby ensuring that miners, dealers and villagers have a safer and more reliable travel route;
- the active participation in the establishment of the Merelani Controlled Area. In compliance with the Tucson Tanzanite Protocols the Tanzanite Foundation™ provided funding and support for the establishment of a satellite police station in the mining area and donated a police vehicle to local authorities;
- the provision of water to over 2 000 villagers and 4 500 head of cattle on a daily basis in the severely drought stricken region surrounding the tanzanite mining area;
- the refurbishment and extensive expansion of the Nasinyai Primary School, which has seen school attendance quadruple to a current figure of 432 enrolled students. Furthermore, the Tanzanite Foundation™ has embarked on a joint venture initiative with two local partners, namely World Vision and the Nasinyai Community to build the Nasinyai Secondary School, which will be the largest and most advanced of its kind in the Merelani area; and
- the development and initiation of SMAP (Small Mines Assistance Programme). SMAP provides geological, mining, survey, safety, logistical, operational and other guidance and support to small mines with the aim of building and developing the entire tanzanite mining industry and sound stakeholder relations.

HEALTH AND SAFETY By December 2004, TanzaniteOne Mining's operations achieved 4.4 million accident-free hours. In fact, TanzaniteOne's strict safety protocol and ongoing safety evaluation efforts, combined with the relatively stable geological environment in which we operate has resulted in no fatalities nor any serious injuries to date. Safety continues to receive management's highest priority.

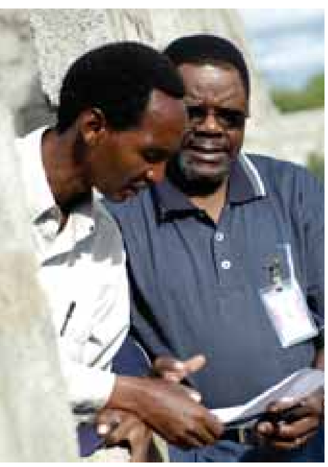
TanzaniteOne has recognised the potential impact of HIV/AIDS on its employees and operations. In response to this a comprehensive HIV/AIDS and Life Threatening

TRUE COMMITMENT IS RARE Water is provided to over 2 000 villagers and 4 500 head of cattle on a daily basis in the severely drought stricken region surrounding the tanzanite mining area

Diseases Policy has been put in place. This policy is the driving force behind TanzaniteOne's joint venture HIV/AIDS response. In conjunction with employee representatives, World Vision and local communities, TanzaniteOne has undertaken such initiatives as prevalence surveys, prevention training, peer educator programmes, and access to voluntary counselling, testing and access to anti retro-viral treatments.

As our mining operation is situated in a relatively remote area and given that infectious and vector borne diseases including malaria, are prevalent around the mining area, all employees undergo regular medical examinations.

An on-site medi-clinic caters for primary health care and acts as a stabilising centre for emergency treatment.



ERNEST MTAWALI, *TanzaniteOne Mining Construction Manager, and Assistant Community Liaison Officer*

ENVIRONMENTAL REVIEW

TanzaniteOne's environmental efforts are conducted both in house and through the Tanzanite Foundation™. An environmental impact plan has been developed and TanzaniteOne has been instrumental in effecting the actions outlined therein. These include the following:

- mitigation of acid mine drainage by appropriate design of waste rock and tailings disposal systems and monitoring of water quality. Regular water analysis indicates that TanzaniteOne is well within the recommended pH levels;
- the donation of tailings to local communities, which also operates as a community upliftment project. Tailings have a recognised and measured tanzanite content which is uneconomical for TanzaniteOne to extract. Local communities extract this tanzanite, which is generally sold back to TanzaniteOne Trading. The remaining tailings are used as building material. This system reduces waste and encourages economic activity;
- rendering old mine workings and tailings dams safe, and continuously monitoring the same;
- closing up numerous old mine workings on TanzaniteOne's property and in common areas around our mining licence that were deemed safety hazards. This was done in conjunction with the local authorities and community leaders. These areas will be covered with top-soil and re-vegetated;
- minimisation of environmental disturbance during construction, followed by re-vegetation with indigenous species;
- recycling processed water, monitoring borehole capacity so as to ensure continuous supply to local residents; and
- taking active measures to prevent pollution by hydrocarbons from oil and fuel.

TRUE COMMUNITY IS RARE The refurbishment and expansion of the Nasinyai Primary School has seen school attendance quadruple to 432 enrolled students

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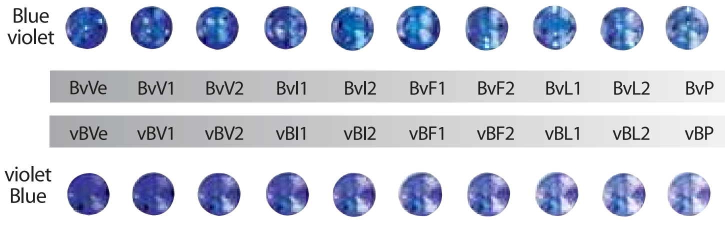
www.tanzaniteone.com

TANZANITE QUALITY SCALE™ Industry members involved in the trade of cut and polished tanzanite and/or tanzanite jewellery are encouraged to make use of the Tanzanite Foundation's™ grading system: the Tanzanite Quality Scale™.

Colour (Bv or vB plus:)		Clarity		Cut	
Ve	Vivid exceptional	IF	Internally Flawless	A	Excellent
V1	Vivid 1	VS	Very Small Inclusion	B	Fine
V2	Vivid 2	LI	Lightly Included	C	Good
I1	Intense 1	MI	Moderately Included	D	Fair
I2	Intense 2	HI	Heavily Included	E	Poor
F1	Fancy 1				
F2	Fancy 2				
L1	Light 1				
L2	Light 2				
P	Pale				

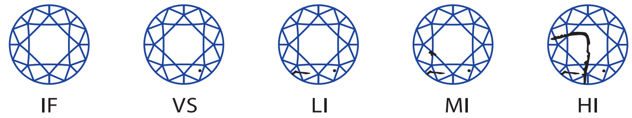
COLOUR

Colour refers to the blue in tanzanite and its degree of violet saturation. The depth of colour ranges from Vivid to Pale, with a 'B' or 'v' preceding to indicate a predominance of blue or violet hues. The deeper the colour, the more valuable the tanzanite.



CLARITY

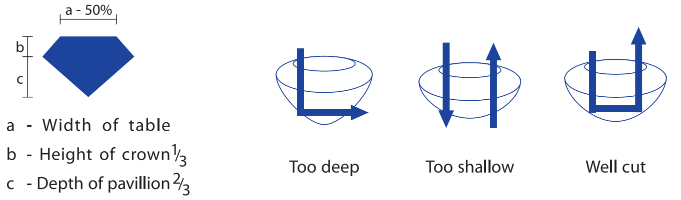
Clarity refers to any natural flaws or inclusions in a tanzanite. Tanzanite ranges from Internally Flawless to Heavily Included. The more flawless the stone, the more valuable it is.



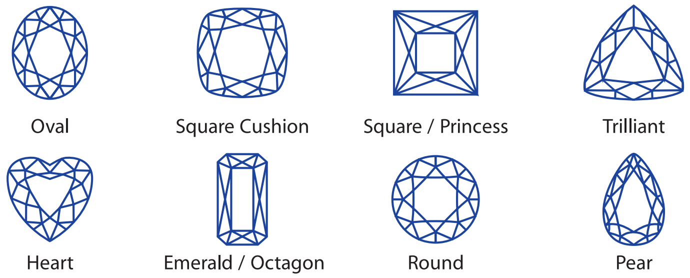
CUT

Cut refers to the shape, facets and proportion of a tanzanite. A 'fine' cut ensures that the stone's facets reflect light to create maximum brilliance. The more precise the craftsman's cutting, the more valuable the tanzanite.

IDEAL PROPORTIONS

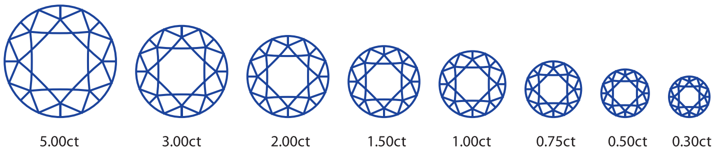


SHAPES



CARAT

Carat is the term used to measure a tanzanite's weight. One carat has 100 points and weighs ⅕ of a gramme. Two seemingly identical stones will have different carat weights if they vary in depth.



TANZANITEONE

TANZANITEONE GROUP LIMITED
FINANCIAL STATEMENTS 2004

Index to the financial statements

TANZANITEONE Ltd's ("TanzaniteOne" or "the Group") financial review should be read in conjunction with the consolidated financial statements and notes appearing with these financial statements.

MARK SUMMERS
Chief Financial Officer

These maiden financial statements have been prepared in accordance with International Financial Reporting Standards. The reporting currency is US Dollars, the dominant currency in which TanzaniteOne operates.

TanzaniteOne was incorporated on 20 February 2003 and acquired the tanzanite assets from African Gem Resources Ltd ("Afgem") with effect from 1 June 2004; accordingly these financial statements represent the results of the tanzanite operations for the seven month period ended 31 December 2004. No comparative figures are provided as this is the first reporting period of TanzaniteOne since listing on AIM (the Alternative Investment Market) on 20 August 2004.

For the period ended 31 December 2004, the Group achieved a profit attributable to common shareholders of US$4.4 million or 8.59 US cents a share.

A gross profit margin of 55% was achieved on total revenue of US$16.2 million. After operating expenses of US$4.4 million and net financing income of US$0.1 million, a net profit before tax of US$4.6 million was reported.

These results are analysed as follows:

Revenue

Revenue comprised rough tanzanite sales of US$12.2 million and cut and polished tanzanite and jewellery sales of US$3.9 million. It is anticipated that the contribution of rough tanzanite sales will increase as a percentage of total revenue over the medium term. The demand for rough tanzanite remains strong and our Preferred Supply Strategy gives us greater leverage to maximise this. Our marketing efforts on polished tanzanite and set tanzanite jewellery are becoming more apparent as demand in South Africa continues to grow and the United Kingdom begins to pick up. Sales in the United Kingdom represent 13% of total polished tanzanite and set tanzanite jewellery sales; an encouraging contribution from a market that has only recently been introduced to tanzanite. The year ahead will see us focusing our marketing efforts on entrenching our foothold in South Africa and the United Kingdom and growing into new territories.

Cost of sales

Cost of sales, which consists of mining costs in Tanzania and purchases of rough tanzanite in our Tanzanian trading operation, amounted to US$7.3 million. Mining costs are currently well managed with a cash cost per carat at US$1.84. We are currently only utilising approximately 20% of capacity at our plant and as such savings through economies of scale are expected as production increases. Further savings are expected from improved extraction techniques.

Our trading operation is by nature a low margin capital intensive business. Its strategic market position ensures that it remains a critical element to the Group. It is our intention to grow this business significantly over the short to medium term; as such there will be a resulting downward pressure on gross margins for the Group.

Operating expenses

Operating expenses amounted to US$4.4 million, the major components being salaries and wages of US$1.5 million, net foreign exchange and translation differences of US$0.8 million, depreciation and amortisation of US$1.0 million, royalties of US$0.4 million, directors' emoluments and consulting fees of US$0.3 million, commissions of US$0.3 million and advertising and travel expenditure of US$0.3 million each. Included in operating expenses are US$0.4 million representing costs associated with the acquisition by TanzaniteOne of Afgem's tanzanite assets and an impairment of the Group's aircraft of US$0.2 million. Subsequent to the period end, the Group disposed of its aircraft and the elimination of the operating expenses associated with the aircraft will be evident in the forthcoming year. The disposal of surplus assets for their carrying values and non-recurring operating expenditure will result in savings of US$0.9 million in the 2005 financial year.

Net financing income

Interest received on cash balances of US$0.2 million was offset by finance charges of US$0.1 million on interest-bearing borrowings.

Inventory

Inventory on hand at the end of the period was US$12.6 million, of which 39% related to rough inventory stock, 56% to cut and polished tanzanite and set tanzanite jewellery and 5% to consumable stores. Inventory levels are considered to be adequate for the current level of business activity and are expected to remain fairly constant at this level.

Cash balance

TanzaniteOne raised US$7.6 million (net of expenses) upon admission to AIM on 20 August 2004. Increased capital expenditure and an investment in working capital, mainly in inventory resulted in a decrease in cash balances to US$6.9 million. The Group is cash generative and the cash flow of the Group is healthy.

Receivables and payables

Trade receivables amounted to US$4.4 million, of this amount, US$1.9 million related to receivables in respect of rough tanzanite customers and US$2 million in respect of polished tanzanite and set tanzanite jewellery customers. Payables of US$1.9 million comprise predominantly trade creditors.

Borrowings

Non-current borrowings of US$2.1 million and current borrowings of US$0.4 million are in respect of the Group's aircraft. Post the sale of the aircraft in January 2005, for its carrying value and repayment of the associated debt, the Group is almost debt free and we are evaluating ways of introducing debt to the Group.

Translation of foreign subsidiaries

The exchange rates used to translate foreign subsidiaries were as follows:

	ZAR: USD	GBP: USD
Exchange rate at year end	5.68	1.92
Average exchange rate for the period	6.26	1.92

MARK

MARK SUMMERS
Chief Financial Officer

Statement of the directors' responsibility

International Financial Reporting Standards ("IFRS") require the directors to prepare financial statements for each year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the directors have:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Complied with applicable accounting standards; and
- Prepared the financial statements on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any point in time, the financial position of the Group and to enable them to ensure that the financial statements comply with IFRS. 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.

Directors' declaration

In accordance with a resolution of the Board of Directors of TanzaniteOne, I state that in the opinion of the directors:

a) the financial statements and notes of the consolidated entity:
   i give a true and fair view of the financial position as at 31 December2004 and the performance for the period ended on that date of the consolidated entity; and
   ii comply with the International Financial Reporting Standards; and

b) they are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Mike

MIKE NUNN
Director 11 April 2005

Independent Auditors' report

TO THE MEMBERS OF TANZANITEONE

We have audited the Group financial statements of TanzaniteOne set out on pages 5 to 48 for the period ended 31 December 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2004, and of the results of its operations and cash flows for the period then ended in accordance with International Financial Reporting Standards.

KPMG Inc

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)

11 April 2005

The directors have pleasure in submitting this report, together with the audited financial statements for the financial period ended 31 December 2004. Readers are reminded that these results only reflect seven months of operations, as the Group only took control of the tanzanite business and assets at the end of May 2004, having bought this business from the South African company Afgem at that time.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

TanzaniteOne is a Bermudian registered holding company of a group involved in the mining and marketing of the rare gemstone tanzanite. Through its subsidiary, TanzaniteOne Mining Ltd, the Group holds the mining licence over a property containing a significant portion of the world's known tanzanite resource, as well as extensive prospecting licences over potential tanzanite producing properties adjoining its mining licence area. The Group also conducts outside buying, operates beneficiation facilities, manages tanzanite grading and certification and markets both rough and polished tanzanite. For further information concerning the activities of the Group and its future prospects please consult the Chief Executive's message and Operational review on pages 1 to 17 of the main section of this report.

GOING CONCERN

The financial statements are prepared under the assumption that the Group is a going concern on the basis that the directors are satisfied that sufficient financial resources will be available to meet the Group's current and foreseeable working capital requirements.

RESULTS

The income statement for the period ended 31 December 2004 and the balance sheet at that date are set out on pages 16 and 17 respectively. The Group recorded a profit of US$4.4 million for the financial period. Taking into account this profit and the net proceeds of the shares issued in August of 2004, shareholders' funds are, at 31 December 2004 US$40.1 million.

The Directors have declared a dividend of 1 US cent per share be paid.

SHARE CAPITAL AND CHANGES THERETO

Prior to engaging in the process of its initial public offering, the authorised share capital of the Group comprised of 166 666 667 common shares of US$0.0003 and issued share capital of 40 000 000 common shares of US$0.0003. The authorised share capital of the Group has not changed. The issued share capital is currently 70 149 113 common shares of US$0.0003. For a reconciliation of the changes in issued share capital please refer to note 15 on page 35 of these financial statements.

A CLASS SHARE CAPITAL

At the time of TanzaniteOne acquiring the tanzanite assets from Afgem, a mechanism was put into place to accommodate any of Afgem's South African shareholders' desire to maintain their investment in the tanzanite assets. The mechanism involved the creation of TanzaniteOne SA Limited ("TanzaniteOne SA"), a South African domiciled wholly owned subsidiary of TanzaniteOne. TanzaniteOne SA has in issue A class shares, the value of which is directly linked to the value of the TanzaniteOne shares traded on the Alternative Investment Market and therefore denominated in British Sterling. Consequently, all South African shareholders of Afgem that elected to remain invested, received TanzaniteOne SA A class shares, the rights of which are set out in the Share capital notes to the financial statements.

So as to facilitate an exit for those TanzaniteOne SA A class shareholders, TanzaniteOne made an offer to acquire all or a portion of their A class shares, which offer shall be binding on TanzaniteOne for a period of 20 years from April 2004.

Upon valid acceptance of the offer by a TanzaniteOne SA A class shareholder, a share sale agreement comes into force between the disposing A class shareholder and TanzaniteOne.

The disposing shareholder has a choice of making a Cash Acceptance or a Share Acceptance in respect of their A class shares. If the acceptance is a:

a) Share Acceptance, the disposing A class shareholder shall have the election to implement the purchase of their shares by exchanging one TanzaniteOne share for each A class share disposed of;

b) Cash Acceptance, TanzaniteOne shall procure the sale of the number of TanzaniteOne shares, out of Rembrandt Nominees Limited, equal to the number of A class shares that the disposing A class shareholder wishes to sell. As such , the number of shares held by Rembrandt Nominees Limited will at all times equal the number of TanzaniteOne SA A class shares in issue.

Sale costs incurred in the implementation of the TanzaniteOne offer shall be for the account of the disposing A class shareholder.

SIGNIFICANT SHAREHOLDINGS

As at 31 December 2004, the following interests in the common shares of the Company represented more than 3% of the issued share capital:

Shareholder	% Holdings	Number of shares
Rembrandt Nominees Limited	33,08	23 204 945
Wilbro Nominees Limited	24,40	17 118 567
Pictet & Cie Banquiers	10,76	7 549 221
Bona Fide Nominees Limited	4,50	3 155 003
Tomori Enterprises Limited	4,69	3 288 007
Ruffer Investment Management	3,75	2 630 952
Cayenne Asset Management	3,68	2 580 867

DIRECTORS

Michael Adams (56), Non-executive Chairman

Mr Adams graduated from Cambridge University in 1969. He has 34 years experience in the financial services sector including 31 years in senior management. During this time he has been directly involved in a broad spectrum of industry since his private investment group, the MAA Group began to focus on direct investment activities in 1982. The MAA Group, has interests in mining, heavy industry and information technology. He is, or has been, the Chairman, Vice Chairman, President or Director of a wide range of public and private companies.

Ami Mpungwe (54), Non-executive Deputy Chairman

Mr Mpungwe has been chairman of the Group's Tanzanian subsidiary since March 2000 and has been integral to its establishment and development. He has an Honours degree in International Relations and Political Science, a diploma in International Law and has spent 25 years in the diplomatic service, including six years as Tanzanian Ambassador to South Africa. He holds directorships with numerous companies, including Illovo Sugar (South Africa), National Bank of Commerce (ABSA, Tanzania), Tanzanian Breweries (Tanzania), Multichoice (Tanzania) Limited and Air Tanzania (Tanzania).

Mike Nunn (45), Chief Executive Officer

Mr Nunn founded the business in 1998 and has been involved in the gemstone industry since 1993. He has extensive experience in mining operations and management, beneficiation, grading and marketing of high value gemstones. He was a founding member of the Diamond Merchant's Association of South Africa and is the International Colored Stone Association's Ambassador to South Africa.

Ian Harebottle (42), President and Chief Operating Officer

Mr Harebottle joined the business as Operations Director of its tanzanite business in September 2001, after consulting to the business on strategic and operational issues prior to that. He has vast experience in consulting to the mining industry. Mr Harebottle graduated from the Witwatersrand Technical College in 1985 and received his Graduate Diploma in Management from Henley Management College in 1992.

Mark Summers (35), Chief Financial Officer

Mr Summers is a Chartered Accountant and a Chartered Management Accountant. After completing his articles at Coopers and Lybrand, he joined Anglo American's Corporate and International Finance Department. From 1999 to 2002 he was an associate director in the Mining Corporate Finance division at HSBC, where his corporate clients included Afgem, De Beers, Kroondal Platinum and the Industrial Development Corporation of South Africa. In April 2002, Mr Summers joined the business as Chief Financial Officer.

Edward Nealon (54), Non-executive Director

Mr Nealon is a geologist with 30 years experience in the mining and exploration industry. After graduating in 1974, he commenced his career in South Africa with Anglo American Corporation, before moving to Australia in 1980 where he spent two years in exploration with Rio Tinto. He founded his own consulting company in 1983 and has practiced in most of the worlds major mining centres. Mr Nealon was responsible for Aquarius' introduction into the platinum industry and served on its board for a number of years. He holds a Masters degree in Geology and is a member of the Australian Institute of Mining and Metallurgy.

Nicholas Sibley (66), Non-executive Director

Mr Sibley is a Chartered Accountant. He was formerly Chairman of Wheelock Capital from 1994 to 1997 and Executive Chairman of Barclays de Zoete Wedd (Asia Pacific) Limited from 1989 to 1993. He is a former managing director of Jardine Fleming Holdings and director of Robert Fleming Holdings and Barclays de Zoete Wedd Holdings. He is presently chairman of Aquarius Platinum and a director of Corney and Barrow Group and Asia Pacific Fund Inc.

Robert Bruce Sutherland (69), Non-executive Director

Mr Sutherland has 45 years experience in the mining industry including 20 years with the Johannesburg Consolidated Investment Group (JCI) during which time Mr Sutherland worked in a variety of senior engineering, technical and management positions in JCI's base metal and platinum divisions prior to retiring as an Executive Director of JCI in 1994. Mr Sutherland currently provides consultancy services to the mining industry and is a director of Aquarius Platinum (South Africa). Mr Sutherland holds a Masters degree in Engineering and is a member of the Engineering Council of South Africa.

Georg von Opel (39), Non-executive Director

Mr von Opel is the owner and a member of the Board of Directors of Hansa Aktiengesellschaft, Basel, a Swiss holding Group. He is also non-executive member of the Board of Jelmoli Holdings, Zurich and TD Esop Holdings, Cayman Islands. Hansa owns a majority stake in Pelham Investments, Geneva and a minority stake in ENR Russia Invest, Geneva. Mr von Opel has studied at the University of Rhode Island and at the American Inter Continental University, London.

Gustav Oivind Stenbolt (48), Alternate Director for Georg von Opel

Mr Stenbolt is an executive member of the Board of Jelmoli Holdings, Zurich and President of the Board Committee of Jelmoli Holdings. He is Chairman of the board of MC Trustco, Geneva, which among other functions, is the management group of Hansa Aktiengesellschaft, Basel and Pelham Investments, Geneva. Mr Stenbolt studied economics and graduated from Fribourg University.

Directors' attendance at board meetings has been as follows:

	Number of meetings held while in office	Number of meetings attended
Michael Adams	2	2
Ami Mpungwe	1	1
Mike Nunn	2	2
Ian Harebottle	2	2
Mark Summers	2	2
Edward Nealon	2	2
Nicholas Sibley	1	1
Bruce Sutherland	1	1
Georg von Opel	1	–

Colin Curtis resigned on 24 June 2004.

DIRECTORS' INTERESTS

The beneficial interests of the directors in the issued capital of the Group as at the date of this report were as follows:

	Common shares	A class shares	Total shares
Michael Adams[1]	9 572 230	–	9 572 230
Ami Mpungwe[2]	3 155 003	4 546	3 159 549
Mike Nunn	–	14 328 227	14 328 227
Ian Harebottle	–	166 667	166 667
Mark Summers	–	83 333	83 333
Edward Nealon	–	–	–
Nicholas Sibley	1 747 778	–	1 747 778
Bruce Sutherland	–	–	–
Georg von Opel[3]	6 792 747	–	6 792 747
Gustav Stenbolt[3]	756 474	–	756 474

[1] Mr Adams' interest arises through his beneficial holdings in MAA Securities Limited, which is the beneficial holder of 508 559 common shares, Jade Pacific Resources Limited, which is the beneficial holder of 14 246 376 common shares and Tomori Enterprises Limited which is the beneficial holder of 3 288 007 common shares.

[2] Mr Mpungwe's interest arises through his beneficial holding in Bona Fide Nominees Limited which is the registered holder of 3 155 003 common shares.

[3] Mr von Opel and Mr Stenbolt's interests arise through the custodian relationship with Pictet & Cie Banquiers, which is the registered holder of 7 549 221 common shares.

A class share options in issue to directors at 31 December 2004 were as follows:[1]

Exercise Date	30 Jun 2005	30 Nov 2005	30 Jun 2006	30 Nov 2006	30 Jun 2007	30 Nov 2007	30 Nov 2008	Total
Ami Mpungwe		90 925 at 55,5p						90 925
Mike Nunn	133 333 at 30,2p	181 850 at 34,7p	200 000 at 30,2p	181 850 at 34,7p 60 000 at 70,2p	333 317 at 30,2p	90 000 at 70,2p	150 000 at 70,2p	1 330 350
Ian Harebottle	66 667 at 30,2p	181 850 at 27,2p 109 110 at 55,5p 45 463 at 34,7p	100 000 at 30,2p	45 462 at 34,7p 40 000 at 70,2p	166 666 at 30,2p	60 000 at 70,2p	100 000 at 70,2p	915 218
Mark Summers	66 667 at 30,2p	90 925 at 27,2p 109 110 at 55,5p 45 463 at 34,7p	100 000 at 30,2p	45 462 at 34,7p 40 000 at 70,2p	166 666 at 30,2p	60 000 at 70,2p	100 000 at 70,2p	824 293

[1]Option strike prices are denominated in South African cents. Strike prices listed above are calculated at an exchange rate of ZAR10,82 to the Pound Sterling as at 31 December 2004.

DIRECTORS' INTERESTS IN CONTRACTS

A consultancy services agreement dated 30 July 2004 was entered into between Amari Management Services (Proprietary) Limited ("Amari") and TanzaniteOne SA, wherein Amari has agreed to provide the services of Mike Nunn as Chief Executive Officer to TanzaniteOne SA, the services being terminable on six months written notice and which are provided at an estimated annual fee (exclusive of VAT) of ZAR1 040 000. Similarly a consultancy services agreement dated 30 July 2004 between Amari and TanzaniteOne SA has been entered into wherein Amari has agreed to provide the services of Mark Summers as Chief Financial Officer to TanzaniteOne SA, the services being terminable on six months written notice and which are provided at an estimated annual fee (exclusive of VAT) of ZAR603 200.

DIRECTORS' AND OFFICERS' INSURANCE

During the period the parent entity has paid an insurance premium in respect of a contract insuring against liability of current directors and officers. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract, as disclosure is prohibited under the terms of the contract.

CORPORATE GOVERNANCE

The directors have prioritised support for high standards of corporate governance. Insofar as possible given the Group's size the Board intends to comply with the Combined Code and follow the recommendations on corporate governance of the Quoted Companies Alliance wherever possible given the Group's size. In this regard the Group has established four board committees, namely the Remuneration and Succession Planning Committee, the Nominations Committee, the Audit and Risk Committee and the Mining and Geology Committee.

Remuneration and Succession Planning Committee

Chairman: Michael Adams
Members: Edward Nealon
Ami Mpungwe
All members are non-executive directors.
Mandate: To review and make recommendations to the Board in respect of the level of remuneration and other compensation (including share options) to be made available to the executive officers of the Group.
Meetings: One meeting has been held to date.
Attendance: All members attended this meeting.

Nominations Committee

Chairman: Michael Adams
Members: The committee comprises the full Board.
Mandate: To monitor the size and composition of the Board, to review Board succession plans and recommend individuals for nomination as members of the Board and its committees.
Meetings: The necessity for this committee to meet has not arisen to date.

Audit and Risk Committee

Chairman: Nicholas Sibley
Members: Michael Adams
Gustav Stenbolt
All members are non-executive directors.
Mandate: The Audit Committee has been established to assist the Board of the Group in fulfilling its corporate governance and oversight responsibilities in relation to the Group's financial reports and financial reporting process, internal control structure, risk management systems (financial and non-financial) and the internal and external audit process.
Meetings: The committee has met twice to date (to evaluate the interim results and this set of maiden results).
Attendance: All members were in attendance.

Mining and Geology Committee

Chairman: Edward Nealon

Members: Bruce Sutherland
Ian Harebottle

Mandate: To provide guidance and technical expertise to the mining team to assist in developing the Group's mining assets.

Meetings: The committee meets on a quarterly basis or as otherwise indicated by current developments. The committee has had three meetings to date.

Attendance: All members attended all meetings.

Securities Trading Policy

The Board has adopted a policy covering dealings in securities by directors and relevant employees. The policy is designed to reinforce to shareholders, customers and the international community that directors and relevant employees are expected to comply with the law and best practice recommendations with regard to dealing in securities of the Group.

Directors and relevant employees must comply with the Model Code on directors' dealings in securities, as set out in the Appendix to Chapter 16 of the Listing Rules of the London Stock Exchange.

In addition to restrictions on dealing in closed periods, a director and relevant employees must not deal in any securities of the Group on considerations of a short-term nature and must take reasonable steps to prevent and dealings by or on behalf of any person connected with him in any securities of the company on consideration of a short -term nature. All dealings by directors in the securities of the company are announced to the market.

RISK FACTORS AND MANAGEMENT

The Group has identified the following risks to the ongoing success of the business and has taken various steps to mitigate these, the details of which are as follows:

Special Mining Licence ("SML")

A SML was granted to TanzaniteOne Mining in March 2000 and was valid for a period of twelve years and four months. This licence will only be extended for a further 25 years provided that TanzaniteOne Mining complies with Tanzanian Mining Act.

Whilst there is no guarantee that the licence will be renewed, management are confident that the Group is in compliance with these requirements.

Estimates of reserves, resources and production costs

Although reserve and resource figures have been prepared, reviewed and verified by various independent mining experts, these values, given the unique operating environment, remain best estimates only. The Group continues to make efforts to further refine its interpretation and understanding of the ore body. In this regard fluid inclusion and other technical analysis and scientific studies are currently underway. Through these initiatives, risks associated with the mining licence area's geology are reduced.

Risks of development, construction, mining operations and uninsured risks

The Group's ability to meet production, timing and cost estimates for its properties cannot be assured. Furthermore, the business of tanzanite mining is subject to a variety of risks such as cave-ins and other hazards. While numerous steps are in place to limit these risks, the chance occurrence of such incidents does exist and should be noted.

Currency risk

The Group reports its financial results and maintains its accounts in United States Dollars, the dominant currency in which the Group operates. The Group's operations in Tanzania and South Africa make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Group's financial position and results. The Group does not have any currency hedges in place.

Tanzanite price volatility

The profitability of the Group's operations is significantly affected by changes in realisable tanzanite prices. The price of tanzanite can fluctuate widely and is affected by numerous factors beyond the Group's control, including jewellery demand, inflation and expectations with respect to the rate of inflation, the strength of the United States Dollar and of other currencies, interest rates, global or regional political or financial events, and production and cost levels.

Through the introduction of the Preferred Supply Strategy, supply irregularity and concomitant price instability are being addressed and should be alleviated. Global marketing campaigns, initiated during 2004 are affording the Group better market penetration potential.

Economic, political, judicial, administrative, taxation or other regulatory factors

The Group's most important assets are located in Tanzania and while Tanzania has a track record of stability and is a signatory to the Multilateral Investment Guarantee Agency, mineral exploration and mining activities may be affected to varying degrees by political stability and government regulations relating to the mining industry.

Local disturbances

The Group's mining operations in Tanzania have been and continue to be subject to various surface and underground disturbances in the nature of illegal trespass and mining within the Group's mining licence area. The Group has taken measures to protect the mine and the mining licence area from these risks, including the employment of trained security personnel and the installation of perimeter fencing.

Competition

The Group competes with numerous other companies and individuals, in the search for and acquisition of exploration and development rights on attractive mineral properties and also in relation to the purchase, marketing and sale of gemstones. There is no assurance that the Group will continue to be able to compete successfully with its competitors in acquiring exploration and development rights on such properties and also in relation to the purchase, marketing and sale of gemstones.

Dependence on key personnel

The success of the Group is, and will continue to be to a significant extent, dependent on retaining the services of the directors and senior management and the loss of one or more could have a materially adverse affect on the Group.

A group-wide share incentive scheme has been implemented for all staff. This has proven to be effective through all levels of management. The Group's human resources department has identified succession planning as a key imperative for the forthcoming year and will look for ways to reduce this potential exposure.

Additional Financing

The Group's operations may require additional financing to meet future expenditures and there is no assurance that the Group will be successful in obtaining the required financing.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Apart from events as disclosed in note 25 of the accounts there has been no other significant event that has occurred since the end of the financial period.

Signed in accordance with a resolution of the directors.

Mike

MIKE NUNN
Director
11 April 2005

Income statement

for the period ended 31 December 2004

	Note	Group US$ 31 Dec 2004
Revenue	1.15	16 168 657
Cost of sales		7 273 173
Gross profit		8 895 484
Operating expenses	4	4 373 601
Operating profit before net financing income		4 521 883
Net financing income	5	115 611
Profit before tax		4 637 494
Income tax expense	6	220 212
Profit for the period		4 417 282
Attributable to:		
Common shareholders of the parent		4 411 147
Minority interest	17	6 135
Profit for the period		4 417 282
Basic earnings per common share (US cents/share)	18.1	8.59
Diluted earnings per common share (US cents/share)	18.2	8.34

Balance sheet

at 31 December 2004

	Note	Group US$ 31 Dec 2004
Assets		
Non-current assets		
Property, plant and equipment	8	20 288 065
Intangible assets	9	2 000 000
Long-term loans	10	163 992
Deferred tax assets	11	274 148
Total non-current assets		22 726 205
Current assets		
Inventories	12	12 621 534
Income tax receivable	7	662 915
Trade and other receivables	13	4 383 946
Cash and cash equivalents	14	6 909 008
Total current assets		24 577 403
Total assets		47 303 608
Equity		
Issued capital	15	22 112
Share premium	16	35 674 622
Retained earnings		4 411 147
Total equity attributable to common shareholders		40 107 881
Minority interest	17	197 859
Total equity		40 305 740
Non-current liabilities		
Interest-bearing borrowings	19	2 149 489
Provisions	20	81 850
Deferred tax liabilities	11	2 157 592
Total non-current liabilities		4 388 931
Current liabilities		
Interest-bearing borrowings	19	458 589
Income tax payable	7	272 899
Trade and other payables	21	1 877 449
Total current liabilities		2 608 937
Total equity and liabilities		47 303 608

Statement of changes in equity

for the period ended 31 December 2004

	Note	Common share capital US$	A class share capital US$	Total share capital US$	Share premium US$	Retained earnings US$	Total US$	Minority interest US$	Total equity US$
Group									
Issue of share capital									
– Common share capital	15.1	21 045	–	21 045	25 372 677	–	25 393 722	–	25 393 722
– A class share capital	15.2	–	1 067	1 067	13 063 573	–	13 064 640	–	13 064 640
Share issue expenses charged against share premium	16	–	–	–	(2 761 628)	–	(2 761 628)	–	(2 761 628)
Minority interest acquired		–	–	–	–	–	–	191 724	191 724
Profit for the period		–	–	–	–	4 411 147	4 411 147	6 135	4 417 282
Balance at 31 December 2004		21 045	1 067	22 112	35 674 622	4 411 147	40 107 881	197 859	40 305 740

Cash flow statement

for the period ended 31 December 2004

	Note	Group US$ 31 Dec 2004
Cash flows from operating activities		
Cash utilised in operations	22.1	(1 552 558)
Net financing income		115 611
Taxation paid	22.2	(146 437)
Net cash utilised in operations		(1 583 384)
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	3	4 634 529
Acquisition of property, plant and equipment		(3 118 862)
Proceeds on disposal of property, plant and equipment		6 971
Net cash from investing activities		1 522 638
Cash flows from financing activities		
Net proceeds from the issue of share capital	22.3	12 296 018
Repayment of loans from African Gem Resources Limited		(5 368 471)
Repayment of long-term loans		(163 992)
Increase in interest-bearing borrowings – current		458 589
Repayment of interest-bearing borrowings – non-current		(252 390)
Net cash from financing activities		6 969 754
Cash and cash equivalents at 31 December 2004	14	6 909 008

Notes to the financial statements

for the period ended 31 December 2004

1. ACCOUNTING POLICIES

TanzaniteOne Limited (the "Company") is a company domiciled in Bermuda. The consolidated financial statements for the period ended 31 December 2004 comprise the Company and its subsidiaries (together referred to as the "Group").

1.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB). These are the Group's first consolidated financial statements and IFRS 1 has been applied.

The Group has elected to early adopt the following standards which are effective for periods commencing on or after 1 January 2005:

- IAS 1 (revised) Presentation of financial statements;
- IAS 10 (revised) Inventories;
- IAS 7 (revised) Leases;
- IAS 24 (revised) Related party disclosures;
- IAS 27 (revised) Consolidated and separate financial statements;
- IAS 33 (revised) Earnings per share;

and standards which are effective for periods commencing on or after 31 March 2004;

- IAS 36 (revised) Impairment of assets;
- IAS 38 (revised) Intangible assets;
- IFRS 3 Business combinations; and
- IFRS 6 Exploration for and evaluation of mineral resources (effective 1 January 2006).

The Group has elected not to early adopt the following standards which are effective for periods commencing as indicated below:

	Period of commencement
• IAS 16 (revised) Property, plant and equipment;	1 January 2005
• IAS 19 (revised) Employee benefits	1 January 2006
• IAS 21 (revised) The effects of foreign exchange rates	1 January 2005
• IAS 32 (revised) Financial instruments: Disclosure and presention	1 January 2005
• IAS 39 (revised) Financial instruments: Recognition and measurement	1 January 2005
• IFRS 2 Share base payments	1 January 2005

1.2 Basis of preparation

The consolidated financial statements are presented in United States Dollars (US$). They are prepared on the historical cost basis modified for financial instruments which are stated at their fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The

1.2 Basis of preparation (continued)

estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently in these consolidated financial statements.

1.3 Basis of consolidation

1.3.1 Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

1.3.2 Transactions eliminated on consolidation

Intergroup balances and any unrealised gains and losses or income and expenses arising from intergroup transactions, are eliminated in preparing the consolidated financial statements.

1.4 Foreign currency

1.4.1 Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US$ at the foreign exchange rate ruling at that date.

1.4.2 Foreign operations

The foreign subsidiaries are determined to be integral foreign operations. Foreign operations are operations of which the activities are an integral part of those of the Group. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US$ at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised directly in the income statement.

1.5 Derivative financial instruments

The Group currently does not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operations, financing and investment activities. Furthermore, the Group does not hold or issue derivative financial instruments for trading purposes.

1.6 Property, plant and equipment

1.6.1 Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

1.6.2 Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

1.6.3 Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

1.6.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The depreciation rates are as follows:

• aircraft	Life of components
• computer and other equipment	33,3%
• cutting and gemmological equipment	25%
• development costs	Units of production
• earthmoving equipment	25%
• furniture, fittings and improvements to leased premises	16,7%
• infrastructure and surface buildings	8,3%
• plant, machinery and mining equipment	25%
• motor vehicles	20%
• office equipment	16,7%
• mining licences	Units of production
• pre-production expenditure	Units of production
• research and development costs capitalised	20%

1.6.4 Depreciation (continued)

Aircraft

Depreciation is provided for over the estimated life of the aircraft's three major components: the engine, airframe and undercarriage, based on the current usage of the aircraft. The engine and undercarriage are depreciated over the remaining hours prior to a major overhaul being required. The airframe is depreciated over the anticipated life of the airframe, currently 16,5 years.

Development costs, mining licence and pre-production expenditure

Feasibility, development, exploration and all other costs relating to the development of a shaft are capitalised until full commercial production commences. When commercial production commences, these costs will be amortised over the life of mine on the units of production method.

Assets under construction

No depreciation is provided for assets under construction until the assets have been completed and brought into use.

1.7 Intangible assets

Intangible assets are not depreciated. The carrying amounts of the intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indications exist, the assets' fair value is estimated.

1.8 Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is determined as follows:

- rough gemstone costs comprise all mining and production costs incurred in relation to such inventory;
- cut and polished gemstones and jewellery costs comprise all costs of purchase, conversion and other costs incurred in bringing the inventory to its present location and condition; and
- consumables are carried at average weighted purchase prices.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Where necessary, provision is made for obsolete, slow moving and/or defective stock.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in process, costs includes an appropriate share of overheads based on normal operating capacity.

1.9 Trade and other receivables

Trade and other receivables are stated at their cost less provisions for doubtful debts.

1.10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

1.11 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement.

1.11.1 Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price 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 an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1.11.2 Reversal of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.12 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1.13 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

1.13.1 Environmental rehabilitation

The Group has recorded a provision for environmental rehabilitation liabilities based on management's estimates of these costs. Such estimates are subject to adjustments based on changes in laws and regulations and as additional information become available. When material, the provision is discounted. Estimated future costs will be charged against earnings when determined.

1.14 Trade and other payables

Trade and other payables are stated at cost.

1.15 Revenue

1.15.1 Goods sold

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

1.16 Expenses

1.16.1 Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

1.16.2 Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.16.3 Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and interest receivable on funds invested.

Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

1.17 Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

1.17 Income tax (continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rate enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products, or in providing products within a particular economic environment, which is subject to risks and rewards that are different from those in other segments.

2. SEGMENT REPORTING

Segment information is prepared in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structures. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following main business segments:

- *Rough tanzanite:* The extraction and sale of rough tanzanite; and
- *Cut and polished tanzanite and jewellery:* The purchase and resale of cut and polished tanzanite and jewellery.

Geographical segments

The rough tanzanite and cut and polished tanzanite and jewellery segments operate in three principal geographical areas:

- South Africa;
- Tanzania; and
- Mauritius.

Business segments

31 Dec 2004	Rough US$	Cut and polished and jewellery US$	Total US$
Revenue	12 206 230	3 962 427	16 168 657
Operating profit before net financing income	3 329 907	1 191 976	4 521 883
Net financing income	–	–	115 611
Income tax expense	–	–	(220 212)
Minority interest	–	–	(6 135)
Profit for the period attributable to common shareholders of the parent			4 411 147
Segment assets	32 630 320	14 673 288	47 303 608
Segment liabilities	5 538 753	1 459 115	6 997 868
Capital expenditure	19 144 808	599 454	19 744 262
Unallocated capital expenditure	–	–	1 762 726
Impairment losses	–	–	(233 311)

Geographical segments

	South Africa US$	Mauritius US$	Tanzania US$	Total US$
Revenue	3 615 329	13 375 192	11 011 190	28 001 711
Intergroup revenue elimination	–	–	–	(11 833 054)
				16 168 657
Segment assets	19 128 362	6 833 380	16 764 417	42 726 159
Unallocated assets	–	–	–	4 577 449
				47 303 608
Segment liabilities	4 422 954	829 465	1 686 655	6 939 074
Unallocated liabilities	–	–	–	58 794
				6 997 868
Capital expenditure	5 868 083	1 889	15 392 192	21 262 164
Unallocated capital expenditure	–	–	–	244 824
Impairment losses	(233 311)	–	–	(233 311)

3. ACQUISITION OF SUBSIDIARIES

On 1 June 2004, the Company, through its subsidiary undertaking TanzaniteOne (SA) Limited, acquired the whole of the issued share capital of the following companies, together with their subsidiaries:

- TanzaniteOne Mining Limited (including 75% interest in TanzaniteOne Trading Limited);
- The Tanzanite Company (Proprietary) Limited (including 100% interest in Afgem Logistics (Proprietary) Limited); and
- Afgem International Limited (including 100% interest in TanzaniteOne Marketing Limited).

In addition the Company acquired certain assets, liabilities and commitments from African Gem Resources Limited.

During the period 1 June 2004 to 31 December 2004 the acquired subsidiaries contributed net profit of US$4 430 327 to the consolidated profit for the period.

The acquisition was accounted for using the purchase method of consolidation.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Acquisition US$
Property, plant and equipment	18 390 501
Intangible assets	2 000 000
Deferred tax assets	487 420
Inventories	8 150 942
Income tax receivable	430 664
Trade and other receivables	1 990 865
Cash and cash equivalents	4 634 529
Minority interest	(191 724)
Interest-bearing borrowings	(2 401 879)
Long-term loans	(5 368 471)
Provisions	(81 850)
Deferred tax liabilities	(2 337 737)
Trade and other payables	(2 302 544)
Net assets and liabilities acquired	23 400 716
Consideration settlement	(23 400 716)
• Issue of TanzaniteOne Limited common shares	(23 399 623)
• Issue of TanzaniteOne (SA) Limited A class shares	(1 093)
Cash and cash equivalents acquired	(4 634 529)
Net cash acquired	(4 634 529)

		Group US$ 31 Dec 2004
4.	OPERATING EXPENSES	
	Operating expenses include:	
	Auditors' remuneration	
	– audit fees	86 103
	– other services	28 063
	Royalties	441 954
	Depreciation of property, plant and equipment	985 611
	Impairment of property, plant and equipment	233 311
	Net foreign exchange difference	(1 856 804)
	Net translation difference	1 015 653
	Directors' emoluments and consulting fees	345 142
	Operating leases	117 677
	Salaries and wages	1 485 093
	Profit on disposal of property, plant and equipment	(4 595)
5.	NET FINANCING INCOME	
	Interest income	212 687
	Financing costs	(97 076)
		115 611
6.	INCOME TAX EXPENSE	
	Recognised in the income statement	
	Normal tax expense	
	Current period	187 085
	Deferred tax expense	
	Origination and reversal of temporary differences	33 127
	Total income tax expense in the income statement	220 212
	Reconciliation of effective tax rate	
	The effective tax rate has been reconciled to 30%, which is the tax rate applicable to the Group's primary operating location.	
	Profit before tax	4 637 494
	Current period's charge as % of profit before tax	4,8%
	Non-deductible expenses	(3,4%)
	Foreign tax effects	16,0%
	Deferred tax assets not recognised	(3,2%)
	Other allowances	15,8%
	Group's primary operating tax rate	30,0%

7. INCOME TAX RECEIVABLE AND PAYABLE

The net income tax receivable of US$390 016 represents the net amount of taxation refunds due to the Group.

8. PROPERTY, PLANT AND EQUIPMENT

Group	Depreciation rate %	Cost US$	Accumulated depreciation and impairments US$	Carrying value US$
			31 Dec 2004	
Aircraft	Life of components	2 189 583	395 104	1 794 479
Computer and other equipment	33,3	84 528	23 276	61 252
Cutting and gemmological equipment	25	166 712	32 686	134 026
Development costs	Units of production*	5 342 334	62 316	5 280 018
Earthmoving equipment	25	4 119	4 119	–
Furniture, fittings and improvement to leased premises	16,7	101 946	16 066	85 880
Infrastructure and surface buildings	8,3	1 560 531	123 058	1 437 473
Plant, machinery and mining equipment	25	3 447 582	354 306	3 093 276
Motor vehicles	20	127 625	31 064	96 561
Office equipment	16,7	88 376	11 787	76 589
Mining licences	Units of production*	3 984 969	99 384	3 885 585
Pre-production expenditure	Units of production*	3 444 678	63 427	3 381 251
Research and development costs capitalised	20	9 313	2 330	6 983
Assets under construction	–	954 692	–	954 692
Total property, plant and equipment		**21 506 988**	**1 218 923**	**20 288 065**

8. PROPERTY, PLANT AND EQUIPMENT (continued)

*Units of production	Carats
Total units remaining at 31 December 2004	47 374 110
Produced in 2004	984 049
Numbers based on feasibility study conducted in 2000.	

Assets under construction comprise of the following capital projects:	Cost US$	Estimated date of commissioning
• Optical sorting (machines and related infrastructure)	524 415	May 2005
• X-ray security system	160 732	May 2005
• Main shaft upgrade	201 560	June 2005
• Various small capital projects	67 985	Various dates
	954 692	

	Group US$ 31 Dec 2004
Acquisitions	21 509 363
– Acquisition of subsidiaries	18 390 501
– Acquisitions subsequent to acquisition of subsidiaries	3 118 862
Disposal	(2 376)
Depreciation	(985 611)
Impairment loss (see note below)	(233 311)
Balance at 31 December 2004	20 288 065

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment loss of aircraft

An impairment loss has been recognised against the Group's aircraft as the aircraft was sold subsequent to balance sheet date.

Leased equipment

The Group leases the equipment under a number of finance lease arrangements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2004, the net carrying amount of leased equipment was US$1 802 084. The leased equipment secures the lease obligations (refer note 19).

Security

At 31 December, the aircraft with a carrying amount of US$1 794 479 is subject to a registered Stannic loan agreement.

There are no other restrictions on title and no property, plant and equipment has been pledged as security for liabilities.

		Group US$ 31 Dec 2004
9.	INTANGIBLE ASSETS	
	Management's estimate of the fair market valuation of various brand names within the TanzaniteOne Group	2 000 000
	Management consider the various brand names to have an infinite life and accordingly intangible assets are not depreciated as it is tested for impairment at each balance sheet date.	
10.	LONG-TERM LOANS	
	Loan to African Gem Resources Limited	98 622
	Loan to Abdulakim Mulla (minority shareholder in TanzaniteOne Trading Limited)	65 370
		163 992

Both long-term loans are interest free and unsecured. The loan to African Gem Resources Limited has no fixed terms of repayment. The loan to Abdulakim Mulla (the 25% minority shareholder in TanzaniteOne Trading Limited) will be repaid out of his 25% profit share in Tanzanite One Trading Limited.

	Group US$ 31 Dec 2004
11. DEFERRED TAX ASSETS AND LIABILITIES	
Recognised deferred tax assets and liabilities	
Entities with net deferred tax assets comprise of the following temporary differences:	
Translation differences	71 517
Provisions	16 628
Prepayments	(5 436)
Property, plant and equipment	12 980
Foreign exchange differences	(152 971)
Assessed losses	331 430
	274 148
Entities with net deferred tax liabilities comprise of the following temporary differences:	
Translation differences	233 179
Inventory	498 054
Property, plant and equipment	(3 409 310)
Assessed losses	866 844
Foreign exchange differences	(323 681)
Provisions	10 409
Prepayments	(33 087)
	(2 157 592)
Net deferred tax liability	(1 883 444)
Unrecognised deferred tax assets	
Deferred tax assets have not been recognised in respect of the following items:	
Tax losses incurred in Afgem Logistics (Proprietary) Limited	4 125 592

Deferred tax assets have not been recognised in respect of the tax losses in Afgem Logistics (Proprietary) Limited as it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom. Deferred tax assets not recognised have been translated at the 31 December 2004 closing foreign exchange rate.

11. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences

	Acquired	Recognised in the income statement	Balance at 31 Dec 2004
Inventories	–	498 054	498 054
Provisions	–	27 037	27 037
Foreign exchange differences	2 646	(479 298)	(476 652)
Assessed losses	1 654 836	(456 562)	1 198 274
Translation differences	–	304 696	304 696
Property, plant and equipment	(3 507 799)	111 469	(3 396 330)
Prepayments	–	(38 523)	(38 523)
	(1 850 317)	(33 127)	(1 883 444)

	Group US$ 31 Dec 2004
12. INVENTORIES	
Rough gemstones	4 875 089
Cut and polished gemstones	4 826 757
Jewellery	2 243 888
Consumables	675 800
	12 621 534
No inventories have been pledged as security for liabilities.	
13. TRADE AND OTHER RECEIVABLES	
Trade and other receivables from customers	4 383 946
Trade and other receivables consists of balances receivable in the following currencies:	
United States Dollars	1 933 429
South African Rands	1 705 237
Tanzanian Shillings	210 865
Great British Pounds	534 415
	4 383 946

		Group US$ 31 Dec 2004
14.	CASH AND CASH EQUIVALENTS	
	Bank balances	2 403 147
	Call deposits	4 505 861
	Cash and cash equivalents	6 909 008
	ABSA Bank Limited has provided guarantees to Sentinel Mining Industry Retirement Fund for US$18 496 in respect of the rental agreement for the Melrose Arch premises and US$440 to the South African Customs and Excise Authority in respect of the Tanzanite Company (Proprietary) Limited's bond store.	
	Cash and cash equivalents consists of balances receivable in the following currencies:	
	United States Dollars	5 203 437
	South African Rands	1 451 066
	Tanzanian Shillings	153 271
	Great British Pounds	101 234
		6 909 008
15.	CAPITAL AND RESERVES	
	Common shares	21 045
	A class shares	1 067
		22 112
15.1	Common share capital	
	Authorised	
	166 666 667 common shares of US$0,0003	50 000
	Issued	
	70 149 113 common shares of US$0,0003	21 045

15. CAPITAL AND RESERVES (continued)

Reconciliation of number of common shares in issue

	Date	Common shares
Common shares in issue at 1 January 2004		120 000 000
3 for 1 consolidation of common shares	July 2004	40 000 000
Repurchase of common shares	August 2004	(40 000 000)
Common shares issued pursuant to acquisition of tanzanite assets	August 2004	57 609 839
Common shares issued pursuant to advisory agreement relating to the admission to AIM	August 2004	473 333
Common shares issued pursuant to placing	August 2004	11 904 761
Issued pursuant to share option plan	December 2004	161 180
Common shares in issue at 31 December 2004		70 149 113

		Group US$ 31 Dec 2004
15.2	**A class share capital**	
	Authorised	
	66 666 667 A class shares of ZAR0,0003	3 067
	Issued	
	26 010 934 A class shares of ZAR0,0003	1 197
	2 820 938 A class shares held by TanzaniteOne following acceptance by South African shareholders of the TanzaniteOne offer	(130)
		1 067
	A class shares have been converted at the historical rate at 1 June 2004 of ZAR6,52 to the US Dollar	

	Date	A class shares
Reconciliation of A class share capital		
Issued to South African residents upon acquisition of the tanzanite business from African Gem Resources Limited	June 2004	25 849 754
Issued pursuant to share option plan	December 2004	161 180
		26 010 934

Rights attaching to A class shares
The following rights, privileges and conditions attach to the TanzaniteOne SA A class shares:

Each TanzaniteOne SA A class share will be issued on the basis that:

1. if the TanzaniteOne common shares are consolidated or subdivided, the same will apply, *mutatas mutandis*, to the TanzaniteOne SA A class Shares;
2. if any rights issue is implemented by TanzaniteOne, TanzaniteOne SA will automatically have a rights issue in respect of the TanzaniteOne SA A class shares on identical terms to the rights issue implemented by TanzaniteOne, which will include but not be limited to the price per rights issue share and ratio of rights shares to exiting shares; and
3. if the common shareholders of TanzaniteOne receive shares in substitution for all their TanzaniteOne common shares then the number of TanzaniteOne SA A class shares will be automatically adjusted such that each TanzaniteOne SA A class shareholder will own the number of TanzaniteOne SA A class shares as equals their existing number of TanzaniteOne SA A class shares, multiplied by the common number of substitution shares issued for each TanzaniteOne common shares.

The holders of the TanzaniteOne SA A class shares will only be entitled to a dividend if TanzaniteOne declares dividends in respect of any year, and then the TanzaniteOne SA A class shares will be entitled to a preference dividend out of the profits of TanzaniteOne SA available for distribution per TanzaniteOne SA A class share equal to "D" calculated in accordance with the following formula :

$$D = A \times F$$

where

A = the dividend declared and payable by TanzaniteOne in respect of each TanzaniteOne common share; and

F = the spot foreign exchange rate quoted by Standard Bank of South Africa Limited on the date upon which the relevant TanzaniteOne dividend is payable to TanzaniteOne common shareholders.

TanzaniteOne SA in general meeting or the directors of TanzaniteOne SA shall be entitled to declare preference dividends in respect of the TanzaniteOne SA A class shares on the basis that the preference dividend payable shall be payable, within four months after the date upon which the relevant dividend is declared to the shareholders of TanzaniteOne, to the holders of the TanzaniteOne SA A class shares registered as such on the declaration date of the relevant TanzaniteOne dividend.

With respect to voting rights in TanzaniteOne SA, each TanzaniteOne SA ordinary share shall have 1 000 000 votes and each TanzaniteOne SA A class share shall have one vote. The holders of TanzaniteOne SA A class shares will be entitled to receive notice of and to attend and vote at any general meeting of TanzaniteOne SA.

Payment in respect of preference dividends and any other payments will be made in the currency of South African Rands at the risk of the relevant holder of TanzaniteOne SA A class shares either by cheque sent by prepaid registered post to the address of each holder of TanzaniteOne SA A class shares as recorded in the register of TanzaniteOne SA's shareholders or by electronic transfer to such bank account nominated in writing by any holder of TanzaniteOne SA A class shares for such purpose.

All or any of the rights attaching to the issued TanzaniteOne SA A class shares may not be modified, altered, varied, added to or abrogated, without the prior written consent of the:

1. holders of at least three-quarters of the issued TanzaniteOne SA A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA A class shares holding in the aggregate not less than one-quarter of the total votes of all the holders of the TanzaniteOne SA A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three-quarters of the total votes to which the holders of the TanzaniteOne SA A class shares present in person or by proxy are entitled to vote; and
2. holders of three quarters of the ordinary shares.

No shares in the capital of TanzaniteOne SA, ranking in priority to or *pari passu* with the TanzaniteOne SA A class shares of any class but excluding the issue of ordinary shares, shall be created or issued, without the prior written consent of the holders of at least three-quarters of the issued TanzaniteOne SA A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA A class shares holding in the aggregate not less than one-quarter of the total votes of all the holders of the TanzaniteOne SA A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three-quarters of the total votes to which the holders of the TanzaniteOne SA A class shares present in person or by proxy are entitled to vote.

TanzaniteOne SA cannot be put into voluntary liquidation by its shareholders, without the prior written consent of the holders of at least three-quarters of the issued TanzaniteOne SA A class shares or the sanction of a resolution of the holders of the issued TanzaniteOne SA A class shares passed at a separate general meeting of such holders and at which the holders of the TanzaniteOne SA A class shares holding in the aggregate not less than one-quarter of the total votes of all the holders of the TanzaniteOne SA A class shares holding securities entitled to vote at that meeting are present in person or by proxy and the resolution has been passed by not less than three-quarters of the total votes to which the holders of the TanzaniteOne SA A class shares present in person or by proxy are entitled to vote.

Should TanzaniteOne acquire any TanzaniteOne SA A class shares, TanzaniteOne SA will automatically redeem out of moneys which may be lawfully applied for that purpose those TanzaniteOne SA A class shares on the basis that the price payable for each TanzaniteOne SA A class share on redemption of same will be at a redemption price of 0,01 (point zero one) cent per TanzaniteOne SA A class share. Notwithstanding the provisions of this clause 9, all of the TanzaniteOne SA A class shares that are in issue at 21 April 2024 shall be automatically redeemed on the basis that the price payable for the redemption of each A share on redemption of same will be at a redemption price of 0,01 (point zero one) cents per TanzaniteOne SA A class share.

At every meeting of the holders of the TanzaniteOne SA A class shares the provisions of the articles of TanzaniteOne SA relating to general meetings of holders of ordinary shares shall apply *mutatis mutandis* except that a quorum at any such general meeting of the holders of the A shares shall be a person or persons holding or representing by proxy at least 25% (twenty five per centum) of the issued TanzaniteOne SA A class shares, provided that if at any adjournment of such meeting a quorum is not present, then the provisions of the relevant articles of TanzaniteOne SA relating to adjourned meetings shall, *mutatis mutandis*, apply.

Upon the date of redemption of any TanzaniteOne SA A class shares, there shall be paid on any TanzaniteOne SA A class shares redeemed, all preference dividends (including any which are in arrear) accrued in respect of the same, up to the date fixed for redemption thereof, and the preference dividends thereon shall cease to accrue from that date unless, upon surrender of the share certificate in respect of the TanzaniteOne SA A class shares, payment of the redemption moneys is not affected by TanzaniteOne SA. The holders of the TanzaniteOne SA A class shares shall deliver the certificate/s representing those TanzaniteOne SA A class shares which are to be redeemed to TanzaniteOne SA at its registered office. Upon such delivery of the share certificate/s TanzaniteOne SA shall pay to the holders of the TanzaniteOne SA A class shares the amount due in respect of the redemption and shall then be entitled to cancel the relevant TanzaniteOne SA A class shares.

TanzaniteOne SA shall not be liable to a shareholders of TanzaniteOne SA A class shares for interest on any unclaimed redemption moneys and arrears of dividends.

Any dividends payable in respect of TanzaniteOne SA A class shares (including any which are in arrear) that remain unclaimed for 3 (three) years may become the property of TanzaniteOne SA.

The holders of the TanzaniteOne SA A class shares shall not be entitled to dispose of any TanzaniteOne SA A class shares to any party other than TanzaniteOne and the share certificates issued in respect of the TanzaniteOne SA A class shares shall be endorsed to this effect. Notwithstanding the provisions of this clause 15, a holder of the TanzaniteOne SA A class shares shall be entitled to transfer the relevant TanzaniteOne SA A class shares to a family entity or a family member provided that they pay any and all costs relating to the transfer.

No additional shares in the capital of TanzaniteOne SA of the same or similar nature as the TanzaniteOne SA A class shares shall be issued save as provided for in clause 1 above.

		Group US$ 31 Dec 2004
16.	SHARE PREMIUM	
	Arising on the issue of shares to acquire the tanzanite business	
	– common shares	16 328 630
	– A class shares	13 063 573
	Arising on issue of common shares in terms of the fundraising prior to admission to the Alternative Investment Market	9 044 047
	Share issue expenses charged against share premium	(2 761 628)
		35 674 622
17.	MINORITY INTEREST	
	25% outside equity interest in the equity of TanzaniteOne Trading Limited	197 859
	25% outside equity interest in the profit after tax of TanzaniteOne Trading Limited	6 135

18. EARNINGS PER COMMON SHARE

18.1 Basic earnings per common share

The calculation of basic earnings per common share at 31 December 2004 was based on the profit attributable to common shareholders of US$4 411 147 and a weighted average number of common shares outstanding during the period ended 31 December 2004 of 51 335 308 calculated as follows:

	US$
Profits attributable to common shareholders	4 411 147
Weighted average number of common shares	**Shares**
Effect of common shares in issue on 1 January 2004	23 561 644
Effect of common shares issued on 4 August 2004	23 295 782
Effect of common shares issued at listing on 21 August 2004	4 464 231
Effect of common shares issued per share option plan on 30 November 2004	13 651
Weighted average number of common shares	51 335 308
Basic earnings per common share (US cents/share)	8.59

18. EARNINGS PER COMMON SHARE (continued)

18.2 Diluted earnings per common share

The calculation of diluted earnings per share at 31 December 2004 was based on the profit attributable to common shareholders of US$4 411 147 and a weighted average number of common shares outstanding during the period ended 31 December 2004 of 51 335 308 and a weighted average number of share options outstanding during the period ended 31 December 2004 of 1 574 591 calculated as follows:

Weighted average number of common shares	Shares
Effect of common shares in issue on 1 January 2004	23 561 644
Effect of common shares issued on 4 August 2004	23 295 782
Effect of common shares issued at listing on 21 August 2004	4 464 231
Effect of common shares issued per share option plan on 30 November 2004	13 651
Weighted average number of common shares	51 335 308
Weighted average number of share options	**Options**
Effect of options issued on 1 June 2004	1 023 953
Effect of options issued at listing on 21 August 2004	516 204
Effect of options issued on 23 December 2004	34 434
Weighted average number of share options	1 574 591
Total weighted average number of common shares and share options for purposes of diluted earnings per share calculation	52 908 899
Diluted earnings per common share (US cents/share)	8.34

18.3 Dividends per common share

Dividends per common share declared after balance sheet date (US cents/share)	1.00
Dividends declared after balance sheet date	701 491

18.4 Net asset value per common share

Net asset value per common share (US cents/share)	57.46

		Group US$ 31 Dec 2004
19.	INTEREST-BEARING BORROWINGS	
19.1	African Development Bank and the Eastern and Southern African Trade and Development Bank	100 000
	Less: Current portion transferred to current liabilities	(100 000)
		–

The loan is payable to the above financial institution pursuant to an agreement between the financial institution and the company's subsidiary, TanzaniteOne Mining Limited, and will be settled out of the annual gross profit, defined in the agreement, at 5% per annum for five years subject to a minimum payment of US$100 000 per annum. TanzaniteOne Limited guarantees the loan. Interest at 15% per annum will only be charged on the loan, should the repayment terms not be met. The loan is unsecured.

19.2	Stannic instalment sale agreement	33 096
	Less: Current portion transferred to current liabilities	(4 165)
	Balance payable between one and five years	28 931

The Stannic instalment sale agreement is secured over certain property, plant and equipment with a carrying value of US$7 605, bearing interest at varying rates and is repayable over a period of five years to 2006.

19.3	Stannic loan agreement	2 474 982
	Less: Current portion transferred to current liabilities	(354 424)
	Balance payable between one and five years	2 120 558

The Stannic loan agreement is secured over the aircraft with a carrying value of US$1 794 479, bearing interest at the prime South African overdraft rate less 3,3% and is currently repayable over a period of five years to 2006.

		Group US$ 31 Dec 2004
19.	INTEREST-BEARING BORROWINGS (continued)	
19.3	Stannic loan agreement (continued)	2 474 982
	The loan was repaid in February 2005 after the sale of the aircraft.	
	Total interest-bearing borrowings	2 608 078
	Less: Current portion	458 589
	Non-current interest-bearing	2 149 489
	Interest-bearing borrowings consists of balances payable in the following currencies:	
	United States Dollars	100 000
	South African Rands	2 508 078
		2 608 078
20.	PROVISIONS	
	Environmental rehabilitation provision acquired	81 850
	Provision made during the period	–
		81 850
	Estimated liability on closure	81 850
	An Environmental Impact Assessment was conducted by an independent party during the 2001 financial year of TanzaniteOne Mining Limited and a management plan based on the findings was generated. The resultant plan was costed during the period under review.	
21.	TRADE AND OTHER PAYABLES	
	Trade and other payables	1 877 449
	Trade and other payables consists of balances payable in the following currencies:	
	United States Dollars	892 965
	South African Rands	460 360
	Tanzanian Shillings	511 653
	Great British Pounds	12 471
		1 877 449

		Group US$ 31 Dec 2004
22.	NOTES TO THE CASH FLOW STATEMENT	
22.1	Cash utilised in operations	
	Operating profit before net financing income	4 521 883
	Adjusted for:	
	• Depreciation of property, plant and equipment	985 611
	• Impairment of property, plant and equipment	233 311
	• Profit on disposal of property, plant and equipment	(4 595)
	• Net foreign exchange difference	(1 856 804)
	• Net translation difference	1 015 653
	Cash flow from operations before working capital changes	4 895 059
	Inventories	(4 470 592)
	Trade and other receivables	(2 393 081)
	Trade and other payables	(425 095)
	Net foreign exchange and translation difference	841 151
		(1 552 558)
22.2	Taxation paid	
	Income tax receivables acquired	430 664
	Current taxation charge	(187 085)
	Income tax receivable at 31 December 2004	(662 915)
	Income tax payable at 31 December 2004	272 899
		(146 437)
22.3	Net proceeds from the issue of share capital	
	Issue of common share capital	25 393 722
	Issue of A class share capital	13 064 640
	Paid for the acquisition of the tanzanite business	(23 400 716)
	Share issue expenses paid	(2 761 628)
		12 296 018

23. FINANCIAL INSTRUMENTS

In the normal course of its operations, the Group is exposed to tanzanite prices, currency, interest rate, liquidity and credit risk. General corporate hedging unrelated to any specific project is not undertaken. The Group also does not issue or acquire derivative instruments for trading purposes.

23.1 Concentration of credit risk

The Group's financial instruments do not represent a concentration of credit risk as the Group deals with a number of major banks. Debtors are regularly monitored and assessed and where necessary an adequate level of provision is maintained.

23.2 Foreign currency and commodity price risk

In the normal course of business, the Group enters into transactions primarily for the sale of its gemstones, denominated in US$. In addition, the Group has investments and liabilities in a number of different currencies. As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates.

The Group does not currently hedge its exposure to foreign currency exchange rates.

23.3 Interest rate and liquidity risk

The Group is not exposed to significant interest rate risks as interest-bearing borrowings and investments are mainly of a short to medium term nature. Liquidity risk is actively managed through cash flow projections. At present, no liquidity risk is foreseen.

23.4 Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Note	Carrying value	Fair value
Long-term loans	10	163 992	147 078
Trade and other receivables	13	4 383 946	4 383 946
Cash and cash equivalents	14	6 909 008	6 909 008
Interest-bearing borrowings	19	2 608 078	2 608 078
Trade and other payables	21	1 877 449	1 877 449

23. FINANCIAL INSTRUMENTS (continued)

23.4 Fair value of financial instruments (continued)

Trade and other receivables/payables

For receivables/payables with a remaining life less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Interest-bearing borrowings

The fair values of finance lease liabilities are estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease arrangements. The estimated fair values reflect change in interest rates.

24. CAPITAL COMMITMENTS

No capital commitments existed at balance sheet date.

25. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to the period end, Afgem Logistics (Proprietary) Limited entered into an agreement to sell, for its carrying value, the Pilatus PC-12 Aircraft which was this company's sole asset. The proceeds were transferred to Standard Bank of South Africa Limited, Stannic Division, in repayment of the loan which was expressly entered into for the purpose of financing the purchase of this aircraft.

26. RELATED PARTIES

Identity of related parties

The Group has a related party relationship with its subsidiaries, directors and executive officers as disclosed in the directors report.

Related party transactions

During the period, the Company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with one another. These transactions occurred under terms and conditions that are no less favourable than those arranged with third parties.

Directors of the holding company and their immediate relatives control 52% of the voting shares of TanzaniteOne Limited.

26. RELATED PARTIES (continued)

	US$
Sales commission paid to C Nunn (spouse of Chief Executive Officer)	314 872
Directors' emoluments for the period ended 31 December 2004	
Services as directors of the Company	
– *Non-executive directors*	
CM Curtis (resigned)	27 000
M Adams	7 292
A Mpungwe	4 167
N Sibley	4 167
E Nealon	3 125
G Von Opel	3 125
B Sutherland	7 500
	56 376
– *Executive directors*	
M Nunn	24 267
I Harebottle	16 275
M Summers	14 088
	54 630
Services as directors of the subsidiaries	
– *Non-executive directors*	
A Mpungwe	17 500
– *Executive directors*	
I Harebottle	64 983
Consulting fees paid to Amari Management Services in respect of	
M Nunn	96 019
M Summers	55 634
	151 653

27. GROUP ENTITIES

Significant subsidiaries	Country of incorporation	Products/ Services	Functional currency	Share holding %
TanzaniteOne (UK) Limited	Great Britain	Polished gemstone and jewellery sales	GBP	100%
TanzaniteOne (SA) Limited	Republic of South Africa	Management services	ZAR	100%
The Tanzanite Company (Proprietary) Limited	Republic of South Africa	Polished gemstone and jewellery sales	ZAR	100%
Afgem Logistics (Proprietary) Limited	Republic of South Africa	Logistical support/ Aircraft owner	ZAR	100%
Afgem International Limited	Republic of Mauritius	Holding company	US$	100%
TanzaniteOne Marketing Limited	Republic of Mauritius	Rough and polished tanzanite sales	US$	100%
TanzaniteOne Mining Limited	United Republic of Tanzania	Tanzanite mining	US$/TSH	100%
TanzaniteOne Trading Limited	United Republic of Tanzania	Rough and polished tanzanite trading	US$/TSH	75%

All transfers of funds between South African entities and non-South African entities are monitored and approved by the South African Reserve Bank, and all necessary approvals have been obtained from the South African Reserve Bank.

28. CONTINGENT LIABILITIES

No contingent liabilities existed at balance sheet date.

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