PALLINGHURST RESOURCES

PALLINGHURST RESOURCES (GUERNSEY) LIMITED

A specialist natural resources investment company

Pursuing strategic partnerships and investments in the natural resources sector

annual report 2008

PALLINGHURST

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Company information

Directors	Administrator and Secretary
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Investment Manager	Registered Office
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Introduction

Structure

Pallinghurst Resources (Guernsey) Limited ("the Company") was incorporated on 4 September 2007 in accordance with Guernsey Law. The company initially listed on the Bermuda Stock Exchange ("BSX") on 26 September 2007. The Company subsequently inward listed on the securities exchange of the JSE Limited ("JSE") on 20 August 2008, with the JSE becoming the primary listing and the BSX becoming the secondary listing. The Company's main objective is to carry on the business of an investment holding company in investments falling within its Investment Scope (see below).

Investment Objectives

On the advice of the Investment Manager, the Company, either alone or with selected strategic equity partners, on a case-by-case basis, utilises its financial ability and unique expertise and execution skill in the natural resources sector to participate in investments falling within the Investment Scope, with the principal objective of providing investors with a high overall rate of return.

Investment Scope

The Company monitors opportunities across the commodities spectrum, with a primary focus on underperforming assets, businesses that lack direction, are poorly managed, stranded or distressed. The Investment Manager, on behalf of the Company, seeks to develop strategic platforms in pursuit of consolidation, vertical integration and turn-around opportunities and expansion projects. The Company targets investments in businesses that hold mines, smelters, refineries and processing plants. The preference is for brown-fields opportunities, although investments in businesses with attractive development opportunities are also considered.

Investment Policy

The Company invests in investments falling within the Investment Scope as detailed above. In addition the Company has invested in Fabergé Limited. The Company's Investment Policy was set out in the prospectus dated 5 September 2007, the pre-listing statement dated 13 August 2008, and the financial statements for the period ended 31 December 2007. The Investment Policy has not changed, and the Directors do not anticipate that it is likely to change in the foreseeable future.

Relationship with strategic equity partners

The Company has invested alongside certain strategic equity partners in a number of the investments, and may, on a case-by-case basis, invest alongside these or other strategic equity partners in the future. The Investment Manager acts as Investment Manager for both the Company and these strategic equity partners (collectively, the "Pallinghurst Investors"). In such cases, the Investment Manager negotiates on behalf of the Pallinghurst Investors, and not solely on behalf of the Company. However, each Pallinghurst Investor including the Company, retains legal title and influence over their individual shareholdings in such investment. The Pallinghurst Investors cooperate to achieve the strategic objectives set for each investment opportunity, under the management of the Investment Manager, both in the initial pursuit of and management of investments within the portfolio.

There are a number of key benefits for each Pallinghurst Investor, including the Company, for those investments where such cooperation exists;

- the Investment Manager is able to access much higher levels of funding than if they were acting solely on behalf of the Company, meaning that a wider scope of investments can be contemplated;
- this funding scope makes an approach by the Pallinghurst Investors much more attractive to a potential portfolio company or target group;
- the Pallinghurst Investors are able to exercise a greater level of influence or control over each investment than if they were acting alone; and
- the Company is able to able to further diversity its portfolio risk by participating in a larger number of investments, due to not having to fund the entire amounts necessary for each investment.

Private equity status

The Company is considered by the Directors to be a venture capital[1]/private equity[1] organisation. The Directors have considered the following key factors in making this determination;

- the stakes taken in many of the investments are significant, although not controlling. The Directors and/or the Investment Manager usually participate in the management of each investment;
- the investments are generally innovative in nature; and
- the investments typically have defined exit strategies.

As a result of being a venture capital organisation, the Company is able to make certain accounting policy choices under International Financial Reporting Standards ("IFRS"). The most important of these is the election to account for associate entities under International Accounting Standard ("IAS") 39 *Financial Instruments: Recognition and Measurement*, as a financial instrument at fair value through the profit and loss account, rather than equity accounting under IAS 28 *Investments in Associates*. A similar exemption exists in IAS 31 *Interests in Joint Ventures*, and the Company chooses to use this exemption in the same way. See Note 2 *Accounting Policies* for further details of how the exemption applies.

Number of investments in the portfolio

The Company may invest in more than ten investments, however the Directors currently expect to invest in between five to ten investments. At 31 December 2008, the Company had entered into seven investments, one of which had been realised.

1 The Directors use the terms "private equity" and "venture capital" interchangeably throughout this document. The Directors acknowledge that the terms may have different nuances to certain users of the financial statements, but these distinctions are not relevant to the Group.

Investment Manager's report

Summary

The year to 31 December 2008 is likely to be remembered as one of the more turbulent in recorded economic history. As the full magnitude of the international banking crisis and the severe deterioration in the global economy emerged during the second half of the year, the prices of traded assets tumbled, currencies fluctuated, and traditional sources of financing (particularly banking) dried up. Few if any escaped the carnage. Even long-established major mining companies saw their revenues fall and their market values slashed, and a number have had to seek new funding to shore up stretched balance sheets. Amongst smaller developing companies, the casualty rate has been high, and few have been able to persist on their pre-crisis paths.

Your Company has come through this turmoil in relatively good shape, though its share price and those of the listed companies in its portfolio have also fallen dramatically. As there is no sign yet of an early recovery in the global economy, caution must be the basis of every corporate plan. With that in mind we have reviewed the intentions for each of our five projects; happily the planning adjustments needed have been relatively small, for our ventures remain essentially robust.

The turbulent economic times have not only dictated caution, but have also brought remarkable opportunities. In the years ahead, when the world's economic growth resumes, we shall look back and marvel at today's low valuations for irreplaceable assets. The acquisition of a controlling stake in Platmin, in which your Company participated in December 2008, was such an opportunity.

Against that economic backdrop, your Directors have taken a conservative approach in the valuations of the Company's investments. In consequence, the consolidated income statement reflects substantial unrealised losses in the fair value of the investments, and in foreign exchange conversions. The bottom line consequence is a net loss of $46.5 million for the financial year.

The following rank among the highlights of the year:

- A capital raising of $15.1 million for Fabergé, increasing the valuation of the Fabergé investment to $78.7 million in May 2008;
- The reverse takeover of Gemfields, accompanied by a GBP30 million share placing, in June 2008;
- The acquisition of significant positions in Australian iron ore explorers Jupiter Mines and Mindax by July 2008;
- A further $15 million investment into Fabergé by the Company in July 2008;
- The listing of the Company on the JSE on 20 August 2008;
- The exercising of entitlements to manganese and Platinum Group Metals ("PGM") joint venture investments in August 2008;
- An oversubscribed vendor consideration placing raised US$34.3 million to participate in the acquisition of a controlling interest in Platmin Limited in December 2008.

Since year-end, 2009 has seen:

- The completion of the acquisition of 33.4% in the Magazynskraal PGM exploration prospect in February 2009.
- Shareholders of Jupiter Mines approve a transaction, in March 2009, to issue further shares to the Company and joint venture partner, Red Rock Resources plc ("RRR"), in exchange for the Company's Mindax shares, A$1 million of cash, and certain of RRR's assets. The transaction will result in the Company and RRR owning up to 55% of Jupiter Mines; and
- The successful start-up of Pilanesberg Platinum Mine and commencement of ore processing through its UG2 circuit, in March 2009. Commissioning continues, so far without setback.

Platinum – African Queen

African Queen strategy

The Investment Manager is seeking to create a significant PGM platform through the potential consolidation of a number of PGM properties in the Bushveld Igneous Complex of South Africa ("BIC"). The strategy is being pursued via a unique relationship with the Bakgatla-Ba-Kgafela Tribe ("Bakgatla"). The Bakgatla Pallinghurst Joint Venture ("BPJV"), owned 50.1% by the Bakgatla and 49.9% by the Pallinghurst Investors, has been formed to hold some of the parties' PGM interests.

Overview of PGM industry

PGMs are essential to a wide range of industries and it is estimated that 20% of all consumer products either contain PGMs or require them in their production. The uses of PGMs are primarily industrial, with the largest demand from the automotive industry, which uses PGMs in catalytic converters, spark plugs and sensors. The Platinum 2008 interim review by Johnson Matthey expects platinum demand in the automotive industry to have risen by 2.1% to 4.23 million ounces in 2008, with lower sales in North America outweighed by greater demand for vehicular diesel particulate filters in Europe, and by growth in vehicle production in China and the rest of the world. However, lower demand in other areas, including jewellery, suggests that total demand is likely to have fallen by 2.3% to 6.52 million ounces in 2008.

For the past 10 years, South Africa has consistently produced between 70-80% of the world's primary PGMs. According to the South African Department of Minerals & Energy, 87.7% of the world's platinum reserves are located in South Africa.

Combined demand pressures and supply constraints led to a series of record prices for platinum and other PGMs during 2008, with the former rising to a peak of $2,280 per ounce in March 2008. Although the supply constraints continued, with a number of the key platinum producers lowering their actual and estimated production figures, collapsing economic growth across the world resulted in significant falls in PGM prices, with platinum declining to $700 per ounce in October 2008. Since then, an element of stability seems to have returned and platinum has slowly risen again to the recent level of $1,100.

The valuation methodologies adopted by the Directors recognise the fall in the platinum price since certain of the PGM investments were concluded. However, notwithstanding the current impact of the economic crisis on a number of the key industries that use platinum (automobile and jewellery), supply constraints and moves in many countries to further reduce automobile emissions indicate sound long-term prospects for both the industry, and for the Company's PGM investments.

Acquisition of initial stake in Boynton Investments (Pty) Limited ("Boynton")

The first step in the African Queen strategy was the acquisition by the Pallinghurst Investors of an indirect 27.61% interest (25.13% effective interest) in Boynton, via the Moepi Group of companies. Boynton is a private company, 72.39% owned by Platmin Limited ("Platmin") (TSX/AIM:PPN). All of Boynton's projects are located in the BIC. Boynton's primary assets include the Tuschenkomst and Ruighoek properties on the Western Limb of the BIC ("Pilanesberg Platinum Mines" or "PPM"), and also the M'phahlele, Grootboom and Loskop prospects which are on the Eastern Limb of the BIC, and offer long-term growth potential.

The negotiation for the acquisition of this stake was concluded in December 2007, and was subject to certain conditions; the Company exercised its right to acquire 9.26% of the stake following the inward listing on the JSE on 20 August 2008.

Acquisition of controlling interest in Platmin by Pallinghurst Investors

In December 2008, as credit markets deteriorated and PGM prices fell, Platmin's intended debt facility to fund the final stage of the PPM project failed to materialise. As a key shareholder in Boynton, the parent company of PPM, Pallinghurst approached Platmin to offer immediate equity funding to enable Platmin to avoid insolvency. Platmin applied to the TSX for approval of the significant equity injection under the TSX financial hardship exemption, i.e. without the need for shareholder approval.

The transaction was structured in three tranches. The first tranche involved the Pallinghurst Investors injecting US$125 million, to subscribe for 184,886,627 common shares in Platmin at CAD0.85 per share, equivalent to 62.36% of the increased total issued share capital of Platmin. The second tranche envisaged either the Bakgatla or the Pallinghurst Investors injecting a further ZAR500 million or US$50 million by 31 March 2009, to subscribe for a further 73,529,411 common shares at CAD0.85 per share, increasing the total interest by the Pallinghurst Investors and the Bakgatla to 69.84% of the increased total issued share capital of Platmin. The third tranche involves a share for share exchange of the Moepi Group's 27.61% interest in Boynton, in exchange for a further interest of up to 27.61% of the then issued share capital of Platmin, by 31 March 2010.

The transaction was approved by the TSX, and the first tranche was completed on 19 December 2008. Brian Gilbertson and Arne Frandsen, Directors of the Company, were immediately appointed as directors of Platmin. The Company conducted a vendor consideration placing to fund its participation in the transaction, which raised more capital than was anticipated. Accordingly, the Company acquired an indirect 25.85% interest in the stake collectively acquired by the Pallinghurst Investors, a see-through effective 16.12% interest in Platmin, for an acquisition consideration of US$32.3 million. See Note 17 *Headline earnings per share and NAV per share* for further details on the vendor consideration placing.

The second tranche was completed in February 2009 with the injection of ZAR500m by the Pallinghurst Investors. Upon the inward listing of Platmin on the JSE, which is expected during the second quarter of 2009, the Pallinghurst Investors will transfer the 73,529,411 common shares issued on completion of the second tranche to the Bakgatla. The shares will be transferred at cost, in satisfaction of the final payment for the Magazynskraal transaction. The Company's see-through effective interest in Platmin will accordingly fall to approximately 13%. See Note 19 *Contingent liabilities and contingent assets* for more details.

As announced by Platmin on 23 March 2009, the UG2 section of the milling and flotation plant at PPM has been successfully commissioned, Eskom power has been connected and the treatment of ore has commenced. This is significant progress, on time and within budget, but mining start-ups are difficult, and uncertainties will remain for some months yet.

Magazynskraal

The Magazynskraal farm is also located on the Western Limb of the BIC, close to PPM. The most recent study suggests that the property has some 23 million ounces of inferred resources. The company that owns the new order prospecting rights to the Magazynskraal property is called Richtrau No. 123 (Proprietary) Limited ("Richtrau"). The Bakgatla previously owned 26% of Richtrau, but had the option to increase this to 80% subject to the payment of ZAR161 million, being the estimated costs to complete a bankable feasibility study ("BFS") on the property. The 74% balance of Richtrau was owned by Rustenburg Platinum Mines Limited, a subsidiary of Anglo Platinum, whose ownership would be diluted to 20% upon payment to Richtrau of the BFS funding.

An agreement between the Bakgatla and the Pallinghurst Investors in respect of Magazynskraal was concluded and signed in May 2008 whereby the Pallinghurst Investors would provide the necessary funding of the BFS and acquire a stake in Richtrau from the Bakgatla. The Department of Minerals and Energy, South Africa gave their approval to the transaction on 9 December 2008, at which the point the purchase became unconditional. The Pallinghurst Investors collectively acquired a 33.4% see-through interest in Richtrau, and the Company's 18.56% share equates to a see-through interest of 6.19% interest in Magazynskraal. The outstanding payments of US$22.5 million for Magazynskraal were made in January and February 2009, although a contingent liability exists in the unlikely event that Platmin do not complete their inward listing on the JSE or a structure cannot be identified that would allow the Bakgatla to be the long-term beneficial shareholders of the Platmin shares. The risk of the contingent liability materialising is extremely low, but further details can be found in Note 20 *Events occurring after the end of the year*.

Gemfields plc

(previously Gemfields Resources)

Reverse takeover of Gemfields and share placing

In October 2007, the Pallinghurst Investors acquired a controlling interest in the Kagem emerald mine via Rox Limited, a vehicle controlled by the Pallinghurst Investors. In June 2008, the shareholders of London-listed Gemfields (AIM:GEM) approved a reverse takeover by Rox Limited, whereby the Kagem emerald mine (together with options over gemstone exploration licences in Madagascar and a licence to use the Fabergé name on coloured gemstones) was vended into Gemfields by Rox Limited in exchange for a fully diluted interest of approximately 55% of the enlarged group. The Kagem mine is the largest emerald mine in Africa, and is Gemfields' key asset. Gemfields simultaneously completed a GBP30 million share placing, and Rox Limited followed its subscription rights for GBP16.3 million (US$32.0 million) of new Gemfields shares at 45 pence (88 US cents) per share.

Update on the Kagem emerald mine

A number of key operational changes have been made at Kagem. These include a major improvement in the capacity and condition of mining machinery, a revamping of management and security, and a significant infrastructure upgrade. The sorting facility has been expanded and the capacity of the washing plant improved. These improvements have resulted in significant increases in the amount of ore mined and gemstones produced.

During the period 1 July 2008 to 31 December 2008, Kagem produced 14.7 million gemstone carats (comprising emerald and beryl), a significant increase over comparable periods for the previous two years, and an average of 2.4 million carats per month. For the same period in 2007, production totalled 3.7 million carats and, in 2006, 5.5 million carats (an average of 0.6 and 0.9 million carats per month respectively).

Mining efficiencies and operating costs have also shown an ongoing improving trend.

Other Gemfields developments

Other developments in the year include:

- The directors of Gemfields elected to mothball operations at the Mbuva-Chibolele emerald mine, and as a result machinery and personnel were transferred to Kagem to focus on its superior deposit;
- In August 2008, Gemfields opened its new cutting and polishing facility in Jaipur, India. Gemfields has been processing high grade emeralds from Kagem in the facility, and an initial polished collection was showcased to the Indian media in February 2009; and
- In September 2008, Gemfields finalised the agreement to implement a 15 year licence to use the Fabergé name in branding, marketing, and selling coloured gemstones (excluding diamonds).

Takeover bid for Tanzanite One Limited ("T1")

Gemfields announced details of a proposed offer for T1 on 12 September 2008. A successful bid would have created an enlarged gemstone group with both open-cast (Gemfields) and underground (T1) mining expertise, positioning the company well for future consolidation, and releasing synergies in processing, sales, branding and marketing.

After a stakebuilding exercise in T1, Gemfields made a "first come first served" tender offer for 30,754,970 T1 shares on 21 October 2008. The offer was oversubscribed within four days of its announcement. The T1 board responded by issuing new shares in T1 (constituting more than 50% of the enlarged voting share capital) to a T1 subsidiary. This prevented Gemfields from acquiring a controlling stake in T1 and therefore the offer lapsed.

Gemfields currently has no intention of making any revised or further offer for T1.

Impact of economic climate on Gemfields

On 3 February 2009, Gemfields released a production and economic climate update. The current global financial crisis and the sharp falls in gemstone prices experienced since October 2008 have resulted in significant uncertainty about emerald prices and demand for the remainder of 2009.

Gemfields has taken a number of actions to address this situation, including a reduction in the scale of its mining activity at Kagem and a focus on higher grade areas. In addition, and until the prospects for a recovery in the gemstone market become clearer, Gemfields will minimise all non-essential capital, project development and exploration expenditure.

On 12 February 2009, Gemfields announced the appointment of Ian Harebottle as Chief Executive Officer. Mr Harebottle, a veteran of the coloured gemstone industry, joined what became T1 as Operations Director in September 2001. He was appointed CEO of T1 in April 2005 and served in that capacity until February 2008.

Given the weak markets and the associated uncertainty, Gemfields’ performance during 2009 is likely to be significantly worse than projected during 2008, at the time of readmission to AIM, and likely to result in a loss for Gemfields’ financial year ending 30 June 2009.

Fabergé Limited (Fabergé)

Fabergé acquired the global portfolio of trademarks, licences and associated rights relating to the Fabergé brand name from Unilever in January 2007. The Company acquired its interest in Fabergé in September 2007.

Although more than ninety years have passed since the visionary artist-jeweller Peter Carl Fabergé created his last masterpiece, the Fabergé name remains synonymous today with artistry and craftsmanship of the highest order. Fabergé’s intent is to bring those attributes back to life in a 21st century reincarnation of Peter Carl Fabergé’s legacy, focussing on high jewellery and objets d’art.

Fabergé is led by Mark Dunhill, the former President of Alfred Dunhill Ltd, who has built a strong team of luxury sector specialists, including Katharina Flohr as Creative Director.

One of the first steps undertaken by the new team was to reunite the Fabergé name with the Fabergé family after more than 50 years of separation. This was a key move in reawakening the ethos and philosophy of Peter Carl Fabergé and ensuring the necessary integrity and authenticity of the new masterpieces. The Fabergé Heritage Council, which includes members of the Fabergé family, has been established to assist in adhering to Peter Carl Fabergé’s relentless pursuit of excellence and his original values of refined and cultivated artistry, underpinned by superlative craftsmanship.

Over the years, Peter Carl Fabergé collaborated with more than 40 “workmasters” such as Henrik Wigström and Michael Perchin. The workmaster concept remains unique to Fabergé and this tradition will be an important element of Fabergé’s future.

An experienced artist of international renown has been engaged as Head of High Jewellery and is currently developing the first Fabergé Collection, which is due to be unveiled during 2009.

The valuation methodology adopted by the Directors uses as reference the valuation implied by an investment made by an independent sophisticated investor during the year, and then adjusts for the decline in the share prices of a basket of listed luxury goods companies since that investment.

Steel Feed Corporation

Upon its JSE listing, the Company stated that one of its strategic objectives was to establish a platform from which to supply raw materials to the steel industry. The Company is currently pursuing two such “Steel Feed investments”.

Kalahari joint venture (manganese)

The Pallinghurst Investors have formed a joint venture with Ntsimbintle, a Black Economic Empowerment group with manganese exploration rights within the Kalahari Basin of South Africa. The Kalahari Basin is the primary manganese region of the world, and contains approximately 80% of the world’s known mineable manganese reserves. The joint venture aims to create a world-class manganese producer within the next three years.

A company named Tshipi é Ntle Manganese Mining (Pty) Ltd (“Tshipi JV”) has been incorporated and will formally assume the business of the joint venture on 31 March 2009. The joint venture is owned, and Tshipi JV will be owned, 50.1% by Ntsimbintle, and 49.9% by the Pallinghurst Investors, of which the Company’s indirect see-through interest is 9.98%.

The investment consists of the rights over two manganese properties, located in the north and south of the Kalahari Basin. The key property is in the south of the Basin and is adjacent to, and indicates very similar geology to, Samancor’s Mamatwan Mine. The second property, Kalahari North, is adjacent to Samancor’s Wessels mine, and is expected to share similar geological characteristics.

Following the recommendations of an independent scoping study, and pre-feasibility study, a BFS has been initiated on the southern property in the Kalahari Basin, and this is expected to be completed by May 2009.

There has been significant interest in the acquisition of a portion of this investment by a third party strategic investor. Negotiations over the exact terms of the agreement are continuing and it is expected that payment will be made in the coming weeks.

Steel Feed Corporation Australia (SFC Australia)

A second initiative in the Group’s SFC strategy is an iron ore opportunity in the Central Yilgarn of Western Australia (“SFC Australia”). The Company has so far invested US$10 million into various iron ore explorers in the Yilgarn, including Mindax Limited (“Mindax”) (ASX:MDX) and Jupiter Mines Limited (“Jupiter”) (ASX:JMS). A joint venture with RRR was entered into during May 2008 to pursue the iron ore and other base metals strategy.

In March 2009, the joint venture was successful in acquiring a stake of up to 55% of Jupiter, in exchange for the Company’s Mindax shares and A$1 million of cash, and RRR’s Mindax shares, Mt Alfred iron ore and Oakover manganese projects. The transaction will result in a significant expansion and diversification of Jupiter’s asset base, and the new assets will complement Jupiter’s existing iron ore and nickel exploration portfolio in Western Australia. See Note 20 *Events occurring after the end of the year* for a description of the impact of this non-adjusting event.

Consolidated Minerals

In 2007, the Company, along with certain strategic equity partners, acquired a stake in Consolidated Minerals Limited shares and convertible bonds. The Company also realised this investment during 2007, however the proceeds of US$25.6 million were received during the year. The overall profit from the investment to the Company was US$6.2 million, achieving an IRR in excess of 150%. This represents the first realisation of an investment by the Company.

Outlook

Your Company has invested in a set of robust ventures, each pursuing strategies designed for long-term value creation. Notwithstanding the current turbulent economic environment, we expect to unlock significant value as those strategies are realised, and particularly when global economic growth resumes.

Pallinghurst (Cayman) GP L.P.
Investment Manager
30 March 2009

Directors

Executive Directors

Brian Gilbertson (BSc (Maths & Physics), BSc (Hons) and MSc in Physics, MBL, and PMD from Harvard)

Mr Gilbertson has extensive experience in the global natural resources industry. He was Managing Director of Rustenburg Platinum Mines Limited, which gained recognition as the world's foremost producer of platinum in the 1980s. Later, as Executive Chairman of Gencor Limited, Mr Gilbertson led the restructuring of the South African mining industry into the post-Apartheid era, transforming Gencor Limited into a focused minerals and mining group. During this period he held ultimate responsibility for Impala Platinum Holdings, and of Samancor Limited, the world's largest producer of manganese and chrome ore and alloys. Important initiatives included the Hillside and Mozal aluminium projects and the purchase of the international mining assets (Billiton plc) of the Royal Dutch Shell Group. In 1997, Gencor Limited restructured its non-precious metals interests as Billiton plc and, with Mr Gilbertson as Executive Chairman, Billiton plc raised US$1.5 billion in an initial public offering on the LSE, taking the company into the FTSE100. In 2001, Billiton plc merged with BHP Limited to create what is widely regarded as the world's premier resources company, BHP Billiton plc. In late 2003, Mr Gilbertson led the mining group Vedanta Resources Plc to the first primary listing of an Indian company on the London Stock Exchange in the second largest IPO of the year. He was Chairman of Vedanta until July 2004. In 2004 he initiated the foundation of Incwala Resources, a pioneering Black Economic Empowerment Corporation in South Africa, and was its first Chairman until March 2006. In 2004, Mr Gilbertson joined Sibirsko-Uralskaya Aluminum Company (SUAL), the smaller aluminium producer in Russia and led the company into the US$30 billion merger with RUSAL and the alumina assets of Glencore International A.G., creating the largest aluminium company in the world. Mr Gilbertson established the Investment Adviser and the Investment Manager during 2006 and 2007, respectively, and is the Chairman of and a partner in both entities. Mr Gilbertson is a British and South African citizen.

Arne H Frandsen (BA, LLB, Master in Law from University of Copenhagen, Postgraduate Research and Studies in Japan and South Africa)

Following completion of his degrees, Mr Frandsen undertook extensive legal research in Europe, Japan and South Africa, leading to the publishing of a number of articles as well as a book. Once his research was successfully completed, Mr Frandsen moved to London to start a professional career as an Investment Banker. Mr Frandsen has over 10 years of investment banking experience with Goldman Sachs and JPMorganChase, providing strategic advice and structuring mergers and acquisitions as well as corporate finance transactions for clients in 30 different countries, raising in excess of US$20 billion of capital. From 2004, Mr Frandsen acted as Client Executive for JPMorganChase in South Africa, followed by a year as Chief Executive Officer of Incwala Resources, one of South Africa's leading BEE mining companies. Mr Frandsen joined the Investment Adviser in 2006 and is a partner of the limited liability partnership and the Investment Manager. In addition, Mr. Frandsen is a non-executive director of most of the companies in which the Company has invested. Mr Frandsen is a Danish citizen.

Andrew Willis (MBA, INSEAD Business School, BA Japanese, BCOM Accounting University of Auckland)

Mr Willis has over ten years experience in international finance, structuring and private equity, and spent three years with pan-European private equity investment manager Candover Investments plc. Mr Willis is the Finance Director of a number of resource related companies advised by Pallinghurst Advisers LLP. Mr Willis joined the Investment Adviser in 2006 and is a partner of the limited liability partnership and the Investment Manager. Mr Willis is a British and New Zealand citizen.

Independent non-executive directors

Stuart Platt-Ransom

Mr Platt-Ransom is the Managing Director of the Legis Group, a role to which he was appointed in July 2007. Mr Platt-Ransom spent the previous 12 years with State Street Bank & Trust Company in its South African, Luxembourg, Dublin, London and Guernsey offices in various management, operational, business development and relationship management roles. Prior to that, Mr Platt-Ransom worked for Global Asset Management in the Isle of Man. Most recently, Mr Platt-Ransom was the Managing Director of State Street's business in Guernsey and was responsible for its business in Africa from 2002 to 2006. Mr Platt-Ransom is a British and South African citizen and is a resident of Guernsey.

Clive Harris (BSc (Econ), ICAEW)

Mr Harris is a British and Cayman Islands citizen, and is resident in the Cayman Islands. He is a Chartered Accountant (England and Wales) and a member of the Society of Trust and Estate Practitioners. Mr Harris graduated in 1976 from The University of Wales with a BSc.(Econ) with combined honours in Accountancy and Law. In 1979 he qualified as a Chartered Accountant with the City of London Office of Deloitte Haskins & Sells. He has resided in the Cayman Islands since December 1979 where he was employed for some 20 years as a director and Managing Director of International Management Services Limited, an independent Cayman Islands based firm of company and insurance managers, and was a partner in its associated accounting firm. In 2001 Mr Harris took up a consulting position with the Bank of Bermuda (Cayman) Limited and was subsequently appointed Managing Director and head of Global Fund Services during a time of reorganisation, leaving the Bank on its completion in 2003. Mr Harris has extensive and in depth knowledge and experience in the fields of company management, investment services, and the management and administration of Hedge Funds and Special Purpose Vehicles, and since 2004 has been self-employed, serving as an independent non-executive director to a number of Cayman Island funds, managers and other regulated entities.

Martin Tolcher (FSI)

Mr Tolcher is a Fellow of the Securities Institute (FSI) and has been involved within the fund administration industry in Guernsey for over 20 years. He has gained considerable experience in the administration of a wide range of fund and private equity structures. He is Managing Director of Legis Fund Services Limited, the Company's Administrator. He holds directorships on a number of other Guernsey domiciled funds as well as Guernsey management companies. Mr Tolcher is a British citizen and a resident of Guernsey.

All Directors are also directors of the General Partner.

Corporate Governance report

Principles

The Company is incorporated in Guernsey. The Company follows principles the Board believes to be appropriate with respect to corporate governance and best practice. The Board also supports the principles of good governance contained in the King Report on Corporate Governance for South Africa ("King II"). The Board complies with King II where it believes this to be commercially justified, allowing for the practical limitations relating to the Company's size and activities.

Board of Directors

The Board is the focal point of the Company's corporate governance system and is ultimately accountable and responsible for the key processes and the performance and affairs of the Company and the Group.

Board Responsibilities

The Board's responsibilities include providing the Group with clear strategic direction, evaluating potential investments identified by the Investment Manager, and overseeing the performance of the Company's investments. The Board is also responsible for determining policies and processes which seek to ensure the integrity of the Company's risk management and internal controls, implementing and maintaining the Company's communication strategy and for ensuring the integrity and effectiveness of the Company's governance processes.

Chairman and Board Composition

Mr Brian Gilbertson, an executive director, has been the Chairman of the Company since its incorporation on 4 September 2007.

The Board presently comprises three executive and three non-executive directors. As well as Mr Gilbertson, the two other executive directors are Mr Arne Frandsen, the Chief Executive and Mr Andrew Willis, the Finance Director.

The three non-executive Directors, Clive Harris, Stuart Platt-Ransom and Martin Tolcher are considered independent in terms of the definitions contained in King II.

Andrew Willis was appointed as Finance Director on 25 November 2008. Martin Tolcher was appointed as permanent alternate to Stuart Platt-Ransom on 3 June 2008, and appointed as a Director on 25 November 2008.

Board Meetings

A minimum of four Board meetings are scheduled each year to consider strategic and financial issues and the quarterly performance of the Company. Additional Board meetings are convened on an ad hoc basis, if necessary, to deal with certain issues which require attention or urgent decisions.

Directors are required to use their best endeavours to be present at Board meetings and to participate fully, frankly and constructively in discussions and to bring the benefit of their particular knowledge and expertise to the Board meetings.

Matters are decided at Board meetings by a majority of votes. In case of an equality of votes the chairman at the meeting shall have a second or casting vote. This ensures that no one individual has unfettered powers of decision making. All Board decisions taken to date have been unanimous.

Four Board meetings were held during the 2008 financial year. Each Board meeting was fully attended by all of the Directors (or their nominated alternates).

Board Committees

Prior to listing on the JSE, given the size and nature of the Company's operations, it was not considered appropriate to have separate audit, remuneration and nomination committees. However, in line with the Board's stated aim of complying with the recommendations of King II, and the increase in the number of investments, an Audit Committee and Remuneration Committee has been established which meets at least once per year or more frequently if necessary.

The Audit Committee consists of three of the independent, non-executive Directors being Messrs Harris, Platt-Ransom and Tolcher. The Audit Committee considers the appointment and reappointment of external auditors, the appropriateness of engaging the external auditors for non-audit services, and compliance with laws and regulations. The Audit Committee considers and reviews the interim and annual financial statements of the Company, and reports its findings to the board to enable further consideration and ultimate approval of the same. Where appropriate, the Audit Committee meets separately with the external auditors without other Board members present.

The effectiveness, quality, integrity and reliability of the Group's risk management processes and internal controls have not been delegated to the Audit Committee, and remain the responsibility of the full Board.

In accordance with the Articles, Directors are each entitled to receive fees for their services as determined by the Remuneration Committee, provided that the amount shall not exceed US$10,000 per annum. Investors may by way of Ordinary Resolution increase this amount. The three executive Directors, namely Messrs Gilbertson, Frandsen, and Willis have agreed not to receive any fees for their services as Directors. As a result, being non-conflicted, Messrs Gilbertson and Frandsen form the Remuneration Committee.

In accordance with the Articles, Directors have authority to appoint any person as a Director to fill a casual vacancy. Any Director appointed in this manner will hold office only until the next annual general meeting and will then be eligible for re-election by Special Resolution. Investors may, by Special Resolution, appoint any person as Director or remove any Director from office.

Dealing in Listed Securities

Directors may not deal in the shares of the Company during certain closed periods which fall on the following dates:

- between 1 January and the date on which the annual results are published;
- between 1 July and the date on which the interim results are published; and
- outside of the above closed periods while the Company is in the process of price sensitive negotiations, acquisitions, or while the Company is trading under cautionary or pending any price sensitive announcements.

Directors are required to obtain prior clearance in writing of any proposed share transactions from the Chairman and Finance Director before dealing outside of the closed periods to ensure there are no price sensitive negotiations taking place.

Details of any transactions by Directors in the shares of the Company are advised to the JSE, through the sponsor, for publication on SENS, and are also advised to the BSX for publication on the BSX website. There have been no dealings by Directors in the shares of the Company since the Company listed on the BSX in 2007.

Insurance

A directors' and officers' liabilities insurance policy is maintained by the Company.

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2008.

Results and dividends

The results for the year are shown in the consolidated income statement on page 14. The Directors do not recommend the payment of a dividend.

Principal activities and review of the business

The Group makes investments within the metals and mining sector, and also holds an investment in Fabergé Limited. The year to 31 December 2008 has seen significant activity with new investments in the manganese, iron ore, and platinum sectors. For further information please refer to the Investment Manager's Report.

Omission of Company only financial information

The Directors believe that the consolidated financial statements provide all material information to users of the financial statements and have satisfied themselves that the listed Company's own financial statements do not contain any significant additional information which would be of use to shareholders. Accordingly, Company only financial information has been omitted from these consolidated financial statements, as permitted by The Companies (Guernsey) Law, 2008, Section 244, and the JSE Listing Requirements 8.62(a) and 8.62(d).

Directors

The Directors who served the Company during the year and to date were as shown on page 1.

Auditor

Each of the Directors at the date of approval of the financial statements, confirm that:

1. So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. They have taken all steps he ought to have taken as Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of The Companies (Guernsey) Law, 2008.

Saffery Champness has been appointed as the Company's auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Brian Gilbertson
Chairman

Arne H. Frandsen
Chief Executive

30 March 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards. The Directors are required by The Companies (Guernsey) Law, 2008 to prepare financial statements for each financial 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 those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error, or non-compliance with law and regulations.

Independent auditor's report

To the Shareholders of Pallinghurst Resources (Guernsey) Limited

We have audited the financial statements of Pallinghurst Resources (Guernsey) Limited for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows and the related notes.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As described in the Statement of Directors' Responsibilities, the Company's directors are responsible for the preparation of financial statements in accordance with applicable law and International Financial Reporting Standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 2008. We also report to you if in our opinion the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises the Introduction, the Investment Manager's Report, the Directors' information, the Corporate Governance Report, and the Shareholder information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

Saffery Champness
Chartered Accountants
Guernsey

30 March 2009

Consolidated income statement

for the year ended 31 December 2008

	Notes	1 Jan 2008 to 31 Dec 2008 US$	4 Sept 2007 to 31 Dec 2007 US$ (restated)
INCOME			
(Losses)/revenue on investments			
Realised profits on disposal of investments		–	4,876,409
Dividends received from financial asset investment		84,000	–
Unrealised net losses in the fair value of investments	**7**	(27,466,529)	–
Unrealised net foreign exchange losses in the portfolio of investments	**7**	(10,940,413)	–
		(38,322,942)	4,876,409
Portfolio income			
Break fee income		–	2,025,736
Loan interest income	**8**	497,433	10,561
		497,433	2,036,297
(Losses)/revenue on investments and income from operations		**(37,825,509)**	**6,912,706**
EXPENSES			
Investment Manager's Benefit	**4**	(2,556,643)	(2,328,095)
Operating expenses	**5**	(2,476,545)	(330,787)
Net foreign exchange losses		(2,037,036)	–
		(7,070,224)	(2,658,882)
(Loss)/profit from operations		**(44,895,733)**	**4,253,824**
Net finance income	**6**	1,349,047	1,202,830
(Loss)/profit before share in loss of associates		**(43,546,686)**	**5,456,654**
Share in loss of associates	**10**	(2,883,815)	(7,871)
(Loss)/profit before tax		**(46,430,501)**	**5,448,783**
Income tax expense		(144)	–
NET (LOSS)/PROFIT FOR THE FINANCIAL YEAR/PERIOD		**(46,430,645)**	**5,448,783**
(Loss)/earnings, diluted (loss)/earnings and headline (loss)/earnings per share	**17**	**(0.19)**	**0.03**

The accompanying notes form part of these financial statements.

Consolidated balance sheet
as at 31 December 2008

	Notes	2008 US$	2007 US$ (restated)
ASSETS			
Non-current assets			
Investments in associates	**10**	1,804,765	193,257
		1,804,765	193,257
Investment portfolio			
Quoted investments	**7,8**	48,617,689	–
Unquoted investments	**7,8**	101,795,361	58,401,505
Loan receivable	**7,8**	519,327	2,298,490
		150,932,377	60,699,995
Total non-current assets		152,737,142	60,893,252
Current assets			
Trade and other receivables	**12**	764,546	25,609,537
Loan receivable from associate	**11**	11,127,017	–
Cash and cash equivalents		20,939,970	86,113,647
		32,831,533	111,723,184
		185,568,675	**172,616,436**
LIABILITIES			
Current liabilities			
Trade and other payables	**13**	25,841,436	219,718
		25,841,436	**219,718**
Net assets		159,727,239	172,396,718
EQUITY			
Share capital	**14**	2,474	1,695
Share premium	**14**	200,689,164	166,928,777
Cumulative translation adjustment reserve		17,463	17,463
Retained earnings		(40,981,862)	5,448,783
		159,727,239	**172,396,718**
NAV and tangible NAV per share	**17**	**0.65**	**1.02***

**As restated see note 17.*

The financial statements on pages 14 to 42 were approved and authorised for issue by the Board of Directors on 30 March 2009 and were signed on its behalf by:

Brian Gilbertson
Chairman

Arne H. Frandsen
Chief Executive

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2008

	1 Jan 08 to 31 Dec 08 US$	4 Sept 07 to 31 Dec 07 US$ (restated)
Net(loss)/profit for the year/period	**(46,430,645)**	**5,448,783**
Adjustments for:		
Additions to investments	(128,602,782)	(104,711,568)
Loan interest reinvested	(36,542)	–
Fair value net losses in investment portfolio	27,466,529	–
Unrealised foreign exchange losses on Investment portfolio	10,940,413	–
Loans extended to investments	(29,012,464)	(2,287,929)
Loan repayments from investments	15,622,082	–
Revaluation of loan to Rox Conduit	2,358,776	–
Accrued interest on loan to Rox Conduit	(95,411)	–
Part disposal of investments	–	51,186,594
Gain on return of capital and sale of investments	–	(4,876,409)
Net finance income	(1,349,047)	(1,202,830)
Share in loss of associates	2,883,815	7,871
Cash flows from operating activities before changes in working capital and provisions	**(146,255,276)**	**(56,435,488)**
Decrease/(increase) in trade and other receivables	24,844,991	(25,620,098)
Increase in trade and other payables	25,621,718	175,286
Cash flows from operating activities	**(95,788,567)**	**(81,880,300)**
Investing activities		
Investments in associates	(4,495,323)	(156,818)
Net cash used in investing activities	**(4,495,323)**	**(156,818)**
Financing activities		
Issue of ordinary and management shares	33,761,166	166,930,472
Net finance income	1,349,047	1,202,830
Net cash generated from financing activities	**35,110,213**	**168,133,302**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(65,173,677)**	**86,096,184**
Cash and cash equivalents at the beginning of the year/period	86,113,647	–
Foreign exchange translation	–	17,463
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	**20,939,970**	**86,113,647**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2008

	Share capital US$	Share premium US$	Retained earnings US$	Cumulative translation adjustment reserve US$	Total US$
2008					
Balance at 1 January 2008	1,695	166,928,777	5,448,783	17,463	172,396,718
Vendor consideration placing	779	33,760,387	–	–	33,761,166
Total recognised (expense)	–	–	(46,430,645)	–	(46,430,645)
Balance at 31 December 2008	**2,474**	**200,689,164**	**(40,981,862)**	**17,463**	**159,727,239**
2007 (restated)					
Balance at 4 September 2007	–	–	–	–	–
Issue of share capital	1,695	166,928,777	–	–	166,930,472
Total recognised income	–	–	5,448,783	17,463	5,466,246
Balance at 31 December 2007	**1,695**	**166,928,777**	**5,448,783**	**17,463**	**172,396,718**

The accompanying notes form part of these financial statements.

1. Basis of preparation

The financial statements have been prepared in accordance with IFRS issued by, or adopted by, the International Accounting Standards Board (the "IASB"), interpretations issued by the International Financial Reporting Interpretation Committee, applicable legal and regulatory requirements of Guernsey Law. These financial statements cover the Group. The "Group" is defined as Pallinghurst Resources (Guernsey) Limited and all entities under its common control.

The financial statements are prepared on the historical cost basis, except for the revaluation of certain financial instruments, including the investments within the investment portfolio, which are fair valued in accordance with IAS 39.

2. Accounting policies

A summary of the principal Group accounting policies is set out below.

Basis of consolidation

Subsidiaries

The financial statements incorporate a consolidation of the financial statements of the Company and entities controlled by the Company (its subsidiaries). Entities are subsidiaries where the Company has the power to govern the financial and operating policies of the entity.

Where subsidiaries are acquired or disposed of during the year, the results are consolidated only from the effective date of acquisition, or up to the date of disposal, as appropriate.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The Group's associate entities include those associates that are held as part of the Group's investment portfolio, and associate entities through which the Group carries on its business.

Change in accounting policy for associates held within the investment portfolio

The accounting policies applied are consistent with those adopted and disclosed in the Group's annual financial statements for the period ended 31 December 2007, with the exception of a change in accounting policy to take advantage of the exemption from equity accounting for venture capital organisations contained within IAS 28, and to instead account for associate investments under IAS 39 at fair value through profit and loss. The change in accounting policy was adopted and disclosed in the 30 June 2008 interim financial statements. The explanation for this change in accounting policy is set out below.

The Group's accounting policy for investments was not described in detail in the 31 December 2007 financial statements, as there were only two investments at that date, both of which were associates that were equity accounted. Due to the change in accounting policy described below, and the acquisition during the current year of new investments in which stakes lower than 20% are held, the Group is now disclosing more information on the recognition and measurement criteria used for the investment portfolio than in the prior year.

IAS 28 allows investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change.

This treatment permitted by IAS 28 has been applied to the year to 31 December 2008 and therefore associates that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value per IAS 39, although the Group has significant influence over those investments.

This accounting policy choice was not made at 31 December 2007 and instead the balance sheet included the equity accounted net asset value of associates held as part of the Group's investment portfolio. Accordingly, the Group has retrospectively accounted for those associates within the investment portfolio at 31 December 2007 as investments at fair value through profit and loss, under IAS 39, and has restated the comparative figures accordingly. The two investments at 31 December 2007 are considered to have had a fair value equal to cost at that date, as the investments were made relatively close to the year-end, and cost is considered by the Directors to be the best measure of fair value for very recent investments unless any specific circumstances suggest otherwise. The balance sheet as at 31 December 2007 has been restated accordingly; the impact in the balance sheet in the comparative period is not material. The restatement was fully disclosed in the 30 June 2008 interim financial statements.

The impact on the income statement comparative figures is the removal of the equity accounted profit/loss for those associates within the investment portfolio for the period to 31 December 2007. The presentation of the income statement has also been changed to clearly indicate which items of income and expense relate directly to the investment portfolio and which do not.

The cash flow statement has also been restated as investments into associates that are part of the investment portfolio are classified as investments within operating activities. Furthermore, all cash movements relating to the investment portfolio, including part disposal of investments, are now included within operating cash flows, not investing cash flows, in line with standard practice in the venture capital industry.

Explanation for change in accounting policy

The election to use the exemption in IAS 28 was considered by the Directors to provide investors with the most relevant information with respect to the performance of each investment and the overall investment portfolio. The change brings the accounting in line with standard practice in the venture capital industry, and gives users of the financial statements more reliable and relevant information.

To give users of the financial statements a full and comparable picture of the overall performance of the investment portfolio, it is felt that a single, consistent basis should be used to account for each and every investment; the most suitable basis is therefore to account for each investment at fair value under IAS 39. Where stakes of between 0%-20% are held, investments are designated as at fair value through profit and loss and accounted for under IAS 39. Where a stake of between 20%-50% is held (assuming this stake gives significant influence), the Company takes advantage of the exemption from equity accounting included within IAS 28 and also accounts for these investments at fair value through profit and loss and accounted for under IAS 39. Accounting for all investments in which non-controlling stakes are held in a similar way enables investors to more easily compare the performance of each investment in the portfolio.

The accounting policy change brings the Company into line with normal practice in the venture capital industry, and therefore makes the financial statements more comparable with other similar venture capital organisations. Many difficulties can be encountered by venture capital organisations that do not take advantage of the exemption to account for investments in associates under IAS 39 at fair value through profit and loss account, such as the associate entities having non-contiguous period ends, using different GAAPs, or having made different accounting policy choices. Such difficulties could affect the accuracy and timeliness of the Group's financial reporting.

It is therefore considered that applying this change in accounting policy to the financial statements means that the users of the financial statements will be provided with more reliable and more relevant information about the Group's financial position and financial performance, and users should be aware that the change complies with IFRS, specifically IAS 8 *Accounting Policy, Changes in Accounting Estimates and Errors*.

Accounting for associates through which the Group carries on its business

Where the Group has interests in associates through which it carries on its business, and are part of the capital structure of the Group (as opposed to associates which are part of the investment portfolio) the Group has continued to equity account for these associates, per the requirements of IAS 28.

Accounting for interests in joint venture

Where the Group has interests in joint ventures through which it carries on its business, it elects to proportionately consolidate these interests in line with IAS 31 *Interests in Joint Ventures*.

Where the Group has interests in joint ventures which are part of the investment portfolio, the Group takes advantage of the exemption contained within IAS 31 for venture capital organisations and accounts for these investments in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change.

Accounting for the investment portfolio

(i) Recognition

Investments are recognised and de-recognised on the date where the purchase or sale of an investment is under a contract whose terms require the unconditional delivery or settlement of the investment.

(ii) Measurement

The Directors determine the measurement of each investment at fair value, using the most appropriate basis to determine fair value. Fair value is the value of an asset or liability in an arm's length transaction between two willing and knowledgeable parties. Where no such transaction exists an estimate of fair value is made by the Directors. This generally provides the best estimate of what the Group would receive if the Group sold the investment at the date of valuation.

In addition, the Group complies with all material aspects of the International Private Equity and Venture Capital ("IPEVC") valuation guidelines when determining what method to use to determine fair value. The IPEVC valuation guidelines specify the valuation methodology which is the most appropriate to use for each individual investment, at each point in time in the lifecycle of the investment.

All investments are initially recognised at the fair value of the consideration given, and held at this cost until it is appropriate to measure fair value on a different basis.

Generally, quoted investments are valued at closing bid price at the date of valuation, unless another measure of fair value is more appropriate. This could be the case particularly if a significant stake is taken in a listed entity very close to the end of a reporting period; in this circumstance, it may be more appropriate to use cost as a measure of fair value, not the listed price.

In line with the IPEVC valuation guidelines, a number of different valuation methods can be used for unquoted investments. These include the cost of investment, which is normally used for recent investments, or valuing the investment in line with the price of a recent investment by an external party in an arm's length transaction. Discounts for illiquidity are applied to investment valuations where appropriate.

Other valuation methodologies recommended by the IPEVC valuation guidelines include using earnings multiples, net assets, or discounted cash flows of the underlying business, or the investment, to determine the fair value of an investment. The Directors may use any of these other valuation methodologies if deemed appropriate.

The Directors also consider whether there are any factors that could indicate that a diminution of value in a particular investment has occurred, including but not limited to the following:

- Whether the performance of the business has been worse than the original expectations when the investment was made;
- Whether there has been any unexpected deterioration in the cash position of the underlying business;
- Whether there have been any adverse or unexpected results from drilling or exploration activities in the particular investments; and
- Whether external factors such as deterioration in the global economy or in industry conditions, could have had a material impact on the value of the investment.

(iii) Loans and receivables
The investment portfolio, in non-current assets, includes loans made to portfolio companies.

Where a loan is made to a portfolio company, it is often the case that the loan will be extended at the end of its official term, and/or could be converted into an equity stake, so in reality the repayment date may not be anticipated by the Directors to be within one year, despite the legal terms. Accordingly loans made to portfolio companies may be repayable within one year, or after one year. It is considered more useful to investors to show all equity investments and all loans to portfolio companies within the investment portfolio so that a true picture of the whole investment portfolio is given. This is consistent with typical practice in the venture capital industry.

(iv) Role of the independent valuer
The Directors have estimated the fair value of the individual investments. The Company has, in addition, engaged an independent valuer who has provided an opinion that the valuations of the investments as determined by the Directors have been prepared using a methodology and approach which are reasonable and consistent with the concept of fair value, and are in accordance with the IPEVC valuation guidelines.

Cash and cash equivalents
Cash and cash equivalents represent cash held at bank by the Company and its subsidiaries.

Trade and other receivables
The trade and other receivables balance usually relates to balances receivable upon the exit from an investment.

The Group's operating activities are the entering into and exit from investments; it does not carry out other trading activities.

Foreign currency transactions and translation
Transactions entered into by Group entities are booked in their functional currencies at the exchange rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised in the income statement.

Derivative financial instruments

Derivative financial instruments are used by the Group to manage the risk associated with foreign currency fluctuations of the investment portfolio, particularly when entering into and exiting from investments. This is normally achieved by the use of foreign currency contracts. The Group also consider the use of currency swaps in some circumstances. The Group do not currently use any other derivative financial instruments. Many of these instruments are held within equity accounted associate entities.

All derivative financial instruments are held at fair value. Derivative financial instruments are recognised initially at fair value on the contract date and subsequently remeasured to the fair value at each reporting date. All changes in the fair value of financial instruments are taken to the income statement.

Revenue including gains/(losses) on investments

Profits and losses realised on the disposal of investments are calculated as the net proceeds of the disposal less the carrying value of the asset in the balance sheet.

Revenue includes dividends received from entities not within the investment portfolio.

Unrealised movements in the fair value of investments relate to changes in the fair value of investments between the opening and closing balance sheet date. Unrealised net foreign exchange movements occur when investments are denominated in currencies other than US$, and relate to the movement in exchange rates between the opening and closing balance sheet date.

Portfolio income

Portfolio income is directly related to the return from individual investments within the investment portfolio. The balance includes fee income earned directly from portfolio companies, interest on loans made to portfolio companies, and dividends received from portfolio companies.

Fee income is included in portfolio income between from when an investment is first made and through the life of the investment.

Trade payables

Trade payables are not interest bearing, and are stated at their nominal amount. They are translated into US$ at the foreign exchange rate at the balance sheet date.

Headline earnings

"Headline earnings" is a JSE defined performance measure which is intended to give a single, comparable earnings number for companies listed on the JSE. Headline earnings are equivalent to earnings as determined in IAS 33 *Earnings per Share* and therefore the Group's headline earnings and its earnings as stated in the income statement are the same.

The gain or loss on disposal of associates is normally excluded from headline earnings (and headline earnings per share). However, per the circular on Headline Earnings issued in July 2007 by the South African Institute of Chartered Accountants ("SAICA"), private equity companies should include gains or losses on disposal of associates because any profit realised on the disposal of these investments is considered to be part of the trading results of private equity operations and the profit does not relate to the capital platform of the business as would normally be the case. The circular further explains that in this context the choice to recognise an investment in an associate at fair value through profit or loss instead of applying equity accounting does not imply that the investment is part of the capital or platform of the business and should not have any impact on the decision to include the gain or loss on disposal of associates within Headline earnings. Therefore where a gain or loss is made on the disposal of an associate that is part of the investment portfolio the item is included within headline earnings. If an associate that is part of the capital structure of the Group were to be disposed of the arising gain or loss would be excluded from headline earnings in line with the guidance from SAICA.

Segmental reporting

As the Group's portfolio of investments has increased in size, the nature of internal reporting on investment performance has also developed, and new business segments are now also being reported where appropriate.

In line with the requirements of IAS 14 *Segment Reporting*, the Group's segmental reporting has been amended to give users of the financial statements information that is similar to that used by management and the comparative figures have been restated accordingly.

Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The key area of risk/judgement is the valuation of the investment portfolio. As discussed above, the Directors assess each investment on a regular basis to ensure that the valuation included in the balance sheet is materially accurate. The IPEVC valuation guidelines mandate that where equity investments are in listed entities, the valuation should be based on the closing bid price, and as such the valuation of the listed investments do not involve the same level of judgements/estimates by the Directors. However, the application of the IPEVC guidelines to the valuation of a listed investment does not mean these valuations are free of risk. The unlisted investments make up a material element of the portfolio, and the valuations involve judgements and estimates by the Directors. The Directors use a wide variety of means to ensure that the valuations of the investment portfolio are materially accurate, including but not limited to the review of business plans, cash flow forecasts, and reports on likely reserves/resources from third parties where relevant. The Directors continue to believe in the long-term prospects for each investment in the portfolio.

New standards and interpretations not yet adopted

The IASB has issued the following standards, interpretations and amendments to standards, to be applied to financial statements with periods commencing on or after the following dates:

Amendment	Effective for periods beginning on or after
IFRS 1 *First –time Adoption of International Financial Reporting Standards* – amendment relating to cost of an investment on first-time adoption	1 January 2009
IFRS 2 *Share –based payment* – amendment relating to vesting conditions and cancellations	1 January 2009
IFRS 3 *Business Combinations* – comprehensive revision	1 July 2009
IFRS 7 *Financial Instruments*: Disclosures – presentation of finance costs	1 January 2009
IFRS 8 *Operating Segments* – new standard	1 January 2009
IAS 1 *Amendment to Presentation of Financial Statements* (comprehensive revision including statement of comprehensive income;	1 January 2009
and disclosure of puttable instruments and obligations arising on liquidation)	1 January 2009
IAS 14 *Segment Reporting* – replaced by IFRS8 *Operating Segments*	1 January 2009
IAS 23 Amendment to *Borrowing Costs (Revised)*	1 January 2009
IAS 27 *Consolidated and Separate Financial Statements*; amendment – arising from revised IFRS 3 and;	1 July 2009
Amendments relating to cost of an investment on first time adoption	1 January 2009
IAS 28 *Investments in Associates*; amendments arising from Revised IFRS 3	1 July 2009
IAS 31 *Interests in Joint Ventures*; amendments arising from Revised IFRS 3	1 July 2009
IAS 32 *Financial instruments: Presentation*; amendments to accounting for puttable instruments and obligations arising on liquidation	1 January 2009
IAS 34 *Interim Financial Reporting* – affected by IFRS 8	1 January 2009
IAS 39 *Financial instruments*: Recognition and measurement; amendment in July 2008 relating to eligible hedged items;	1 January 2009
and in October 2008 on reclassification of financial assets	1 January 2009
IFRIC 17 *Distribution of Non –cash Assets to Owners*	1 July 2009
IFRIC 18 *Interim Financial Reporting and Impairment*	1 July 2009

The Directors have not early adopted any of these standards or interpretations. The Directors do not anticipate that the adoption of any of these standards and interpretations will have a material impact on the financial statements. Users of the financial statements should note the following points:

The 2007 *Comprehensive revision to IAS 1*, including a statement of comprehensive income, will have an affect on the presentation of various aspects of the financial statements.

The replacement of IAS 14 *Segment Reporting* with IFRS 8 *Operating Segments* requires that the amounts disclosed in the financial statements should be the measures reported to the Chief Operating Decision Maker ("CODM"), with a reconciliation (where necessary) to the measuring amounts in the financial statements. The CODM is Brian Gilbertson, the Chairman, who uses more than one measure to assess the performance of the various operating segments, including the fair value of the investments per the balance sheet, and also the management accounts of the entities (containing costs, revenues etc). The reported measures in the Group's segmental reporting will be the fair value measurements for the investments, as these are consistent with what is reported in the income statement and balance sheet; as such, the introduction of IFRS 8 is not expected to have a significant impact.

3. Segmental reporting

Primary reporting format – by business segment

	Luxury brands US$	**Steel Feed Corporation US$**	**Coloured Gemstones US$**	**Platinum US$**	**Other US$**	**Group US$**
2008						
Realised profits on disposal of investments	–	–	–	–	–	–
Unrealised fair value/ FX gains/(losses) of investments	5,396,651	22,233,185	(41,083,300)	(24,953,478)	–	(38,406,942)
Dividend income	–	–	–	–	84,000	84,000
Portfolio income	182,243	213,272	101,918	–	–	497,433
Revenue and income from operations	5,578,894	22,446,457	(40,981,382)	(24,953,478)	84,000	(37,825,509)
Other expenses, net finance income and share of loss of associates	–	–	–	–	(8,605,136)	(8,605,136)
Net profit/(loss) for the year	**5,578,894**	**22,446,457**	**(40,981,382)**	**(24,953,478)**	**(8,521,136)**	**(46,430,645)**
Valuation of investment portfolio[1]	46,858,032	33,398,544	13,317,430	57,358,371	–	150,932,377
Other net assets	–	–	–	–	8,794,862	8,794,862
Total net assets	**46,858,032**	**33,398,544**	**13,317,430**	**57,358,371**	**8,794,862**	**159,727,239**

[1] *The portfolio includes both equity investments and loans made to the investments.*

3. Segmental reporting (continued)

Primary reporting format – by business segment (continued)

	Luxury brands	Steel Feed Corporation	Coloured Gemstones	Platinum	Other	Group
2007 (restated)						
Realised profits on disposal of investments	473,624	4,402,785	–	–	–	4,876,409
Unrealised fair value/FX gains of investments	–	–	–	–	–	–
Dividend income	–	–	–	–	–	–
Portfolio income	–	2,036,297	–	–	–	2,036,297
Revenue and income from operations	473,624	6,439,082	–	–	–	6,912,706
Other expenses, net finance income and share of loss of associates	–	–	–	–	(1,463,923)	(1,463,923)
Net profit/(loss) for the period	**473,624**	**6,439,082**	**–**	**–**	**(1,463,923)**	**5,448,783**
Valuation of investment portfolio[1]	25,986,846	2,298,490	32,414,659	60,699,995	–	–
Other net assets	–	25,608,459	–	–	86,088,264	111,696,723
Total net assets	**25,986,846**	**27,906,949**	**32,414,659**	**–**	**86,088,264**	**172,396,718**

[1] *The portfolio includes both equity investments and loans made to the investments.*

3. Segmental reporting (continued)

Secondary reporting format – by geography

	Africa US$	Australasia US$	Other US$	Group US$
2008				
Change in fair value of investments	(38,134,874)	(5,668,719)	5,396,651	(38,406,942)
Portfolio income	315,190	–	266,243	581,433
Revenue and income from operations	(37,819,684)	(5,668,719)	5,662,894	(37,825,509)
Other expenses, net finance income and share of loss in associates	–	–	(8,605,136)	(8,605,136)
Net profit/(loss) for the year	**(37,819,684)**	**(5,668,719)**	**(2,942,242)**	**(46,430,645)**
Valuation of investment portfolio[1]	101,135,128	2,939,217	46,858,032	150,932,377
Other net assets	(25,334,688)	861,984	33,267,536	8,794,862
Total net assets	**75,800,440**	**3,801,201**	**80,125,568**	**159,727,239**
2007 (restated)				
Realised profits on disposal of investments	–	4,402,785	473,624	4,876,409
Portfolio income	10,561	2,025,736	–	2,036,297
Revenue and income from operations	10,561	6,428,521	473,624	6,912,706
Other expenses, net finance income and share of loss in associates	–	–	(1,463,923)	(1,463,923)
Net profit/(loss) for the period	**10,561**	**6,428,521**	**(990,299)**	**5,448,783**
Valuation of investment portfolio[1]	34,713,149	–	25,986,846	60,699,995
Other net assets	–	25,801,716	85,895,007	111,696,723
Total net assets	**34,713,149**	**25,801,716**	**111,881,853**	**172,396,718**

[1] *The portfolio includes both equity investments and loans made to the investments.*

4. Investment Manager

Investment Manager

Pallinghurst (Cayman) GP L.P. was appointed as Investment Manager to the Company on 4 September 2007 by the Board. The Investment Manager has been appointed in order to provide the Company with investment advisory and management services in relation to investments falling within the Investment Scope.

The executives of the Investment Manager have extensive experience in creating value in the mining industry with in-depth knowledge of the assets, companies, people and trends. The senior executives are recognised for their strategic insight and vision, are highly regarded by international investors, and are renowned for pioneering innovative transactions. The executives of the Investment Manager consist of the following:

Mr. Brian Gilbertson (former Chairman of Gencor, former Chief Executive of BHP Billiton, former CEO of SUAL, current Chairman of Pallinghurst Advisers LLP), Arne H. Frandsen (former CEO of Incwala and senior banker with Goldman Sachs and JPMorganChase), Sean Gilbertson (former CEO of globalCOAL and investment banker with Deutsche Bank), Priyank Thapliyal (former executive of Vedanta plc and investment banker with CIBC) and Andrew Willis (former executive of Candover Investments plc).

The Investment Manager has over 70 years of collective experience in the resources sector.

Investment Manager's Benefit and Performance Incentive

The Investment Manager is entitled to an Investment Manager's Benefit of 1.5% per annum of the funds subscribed for in the Company during the Investment Period. With effect from the end of the Investment Period, the Investment Manager is entitled to an amount of 1.5% per annum of the lesser of the aggregate acquisition cost or fair value (as determined by the most recent valuation) of the unrealised investments of the Company during the relevant accounting period.

The vendor consideration placing on 19 December 2008 (see the Investment Manager's Report for further detail) subscribed for US$34,274,931 of new funds in the Company, and has therefore increased the amount of the Investment Manager's Benefit per annum. The total charge to the Income Statement during the year was US$2,556,643 (2007: US$2,328,095) for the Investment Manager's Benefit. It is anticipated that the Investment Manager's Benefit for 2009 will be US$3,053,864.

In addition, and subject to certain conditions, the Investment Manager is entitled to a Performance Incentive. The conditions, and the terms for the calculation of the Performance Incentive, were set out in the Prospectus of the Company, the Company's Pre-Listing Statement dated 13 August 2008, and in the 31 December 2007 financial statements, and have not been changed. The Company has not made an accrual for the Performance Incentive in the current year.

5. Administrative expenses

	1 Jan 08 to 31 Dec 08 US$	**4 Sept 07 to 31 Dec 07 US$ (restated)**
Amounts payable to auditors	121,844	25,000
Independent valuers' fees	139,594	–
JSE listing expenses	599,082	–
JSE listing – structuring costs	1,017,164	–
Directors' fees	22,667	5,333
Legal & professional fees	57,787	148,820
Management and administration fees	456,696	108,299
Formation fees	–	25,230
Listing, sponsor, regulatory filing fees	61,711	18,105
	2,476,545	330,787

6. Net finance income

	1 Jan 08 to 31 Dec 08 US$	4 Sept 07 to 31 Dec 07 US$ (restated)
Finance income		
Interest received on bank deposits	1,383,199	1,202,830
Interest paid on finance activities	(34,152)	–
Net finance income	**1,349,047**	**1,202,830**

7. Fair valuation of investments

Investment	Current cost US$	Unrealised fair value adjustments US$	Unrealised FX gains/(losses) US$	Accrued interest US$	Total valuation US$
2008					
Quoted equity investments					
Platmin Limited	32,317,190	–	43,852	–	32,361,042
Gemfields plc	54,400,730	(34,559,320)	(6,523,980)	–	13,317,430
Jupiter Mines Ltd	5,196,693	(3,028,782)	(1,384,154)	–	783,757
Mindax Ltd	3,349,775	(293,469)	(909,047)	–	2,147,259
Iron Mountain Mining Ltd	61,468	(36,644)	(16,623)	–	8,201
	95,325,856	**(37,918,215)**	**(8,789,952)**	**–**	**48,617,689**
Unquoted equity investments					
Fabergé Ltd[1]	41,461,381	5,396,651	–	–	46,858,032
Moepi Group (Boynton)	13,373,316	(6,686,658)	–	–	6,686,657
Richtrau No. 123 Ltd (Magazynskraal)	36,621,344	(16,084,951)	(2,225,721)	–	18,310,672
Kalahari joint venture[2]	2,000,000	27,826,644	113,356	–	29,940,000
	93,456,041	**10,451,686**	**(2,112,365)**	**–**	**101,795,361**
Loan investments					
Kalahari joint venture[3]	**520,881**	**–**	**(38,096)**	**36,542**	**519,327**
Total investment portfolio	**189,302,778**	**(27,466,529)**	**(10,940,413)**	**36,542**	**150,932,377**

1 *The investment in Fabergé was revalued in May 2008 in line with a third party round of funding, at US$78.7 million, significantly above cost of US$26.1 million. In August 2008, the Company invested a further US$15 million, at this price per share, increasing the total cost of investment to US$41.4 million and valuation to US$93.7m. In line with the IPEVC guidelines and IFRS, the valuation was then impaired by 50% from that level to US$46.9 million.*

2 *The Kalahari joint venture relates to an unincorporated manganese joint venture in the Kalahari Basin. The joint venture agreement gives the Company the right to take an equity interest in Tshipi é Ntle Manganese Mining (Pty) Ltd, the entity which will hold the relevant Mining Rights. The entity has been incorporated and will assume the interests of the joint venture on 31 March 2009.*

3 *The loan was provided to the joint venture in terms of the agreement concluded with Ntsimbintle Limited, for the joint venture's prospecting and exploration expenditure and working capital requirements. The terms of the loan are that it is unsecured, and earns interest at the South African Prime Rate.*

7. Fair valuation of investments (continued)

Investment	Current cost US$	Unrealised fair value adjustments US$	Unrealised FX gains US$	Accrued interest US$	Total valuation US$
2007 (restated)					
Unquoted equity investments					
Fabergé Limited	26,461,381	–	–	–	26,461,381
Rox Limited (relating to Gemfields)	31,940,124	–	–	–	31,940,124
	58,401,505	**–**	**–**	**–**	**58,401,505**
Loan investments					
Pallinghurst Kalahari[1]	**2,287,929**	**–**	**–**	**10,561**	**2,298,490**
Total investment portfolio	**60,689,434**	**–**	**–**	**10,561**	**60,699,995**

1 The loan was provided to Pallinghurst Kalahari (Mauritius) Limited ("Pallinghurst Kalahari") to enable the latter to acquire an initial equity participation in the joint venture, per the terms of the agreement concluded with Ntsimbintle Limited. The terms of the loan were interest bearing (at a rate of 1 month US$ LIBOR +2%), unsecured and repayable within twelve months. The loan has now been repaid.

8. Largest investments

In accordance with the listing requirements of the JSE, the Company has disclosed the following information for the ten largest investments within its investment portfolio. Fewer than ten separate investments have been entered into both in the current and prior periods and accordingly the following details are included for each investment in the investment portfolio.

Investment	Date of original investment	Sector	Listing	% shares held	Current cost US$	Income US$	Total valuation US$
2008							
African Queen							
Boynton	Aug-08	Platinum	n/a				
Private company, owns platinum interests in South Africa, including PPM on the Western Limb of the BIC							
Equity shares				2.33%	13,373,316	–	6,686,657
Platmin Limited	Dec-08	Platinum	TSX/AIM				
Listed platinum producer, primary asset is 72.39% share of Boynton							
Equity shares				16.12%	32,317,190	–	32,361,042
Magazynskraal	Dec-08	Platinum	n/a				
Platinum prospect on Western Limb of BIC, close to PPM							
Equity shares				6.19%	36,621,344	–	18,310,672
Coloured Gemstones							
Gemfields plc	Oct-07	Precious stones	AIM				
Leading international coloured gemstone producer, mainly focused on emeralds							
Equity shares				29.24%	54,400,730	–	13,317,430
Loans				–	–	101,918	–

8. Largest investments (continued)

Investment	Date of original investment	Sector	Listing	% shares held	Current cost US$	Income US$	Total valuation US$
Luxury Brands							
Fabergé Limited	Sep-07	Luxury goods	n/a				
Owner of Fabergé luxury goods brand and trademarks							
Equity shares				47.55%	41,461,381	–	46,858,032
Loans				–	–	182,243	–
Steel Feed Corporation							
Jupiter Mines	May-08	SFC–iron ore	ASX				
Junior mining explorer with assets in Western Australia including the Yilgarn							
Equity shares				11.06%	5,196,693	–	783,757
Mindax	Jun-08	SFC–iron ore	ASX				
Mineral exploration company based in Western Australia							
Equity shares				9.04%	3,349,775	–	2,147,259
Iron Mountain Mining Ltd	Jun-08	SFC–iron ore	ASX				
Mineral exploration company focused on iron ore exploration in Australia							
Equity shares				0.37%	61,468	–	8,201
Kalahari joint venture	Aug-08	SFC–manganese	n/a				
Manganese explorer in Kalahari Basin of South Africa							
JV interest				9.98%	2,000,000	–	29,940,000
Loans				–	520,881	213,272	519,327
Total investment portfolio					189,302,778	497,433	150,932,377
2007 (restated)							
Rox Limited (relating to Gemfields)	Oct-07	Precious stones	n/a				
Leading international coloured gemstone producer, mainly focused on emeralds							
Equity shares				44.07%	31,940,124	–	31,940,124
Luxury Brands							
Fabergé Limited	Sep-07	Luxury goods	n/a				
Owner of Fabergé luxury goods brand and trademarks							
Equity shares				46.77%	26,461,381	–	26,461,381
Steel Feed Corporation							
Consolidated Minerals	Sep-07	Nickel and iron ore producer	ASX				
Diversified producer of mineral resources in Australia							
Equity shares- break fee income				–	–	2,025,736	–
Project Kalahari	Oct-07	SFC–manganese	n/a				
Manganese explorer in Kalahari Basin of South Africa							
Loans				–	2,287,929	10,561	2,298,490
Total investment portfolio					60,689,434	2,036,297	60,699,995

9. Taxation

The Company pays an annual exempt tax fee of £600, as it is an 'Exempt Collective Investment Scheme' under the Income Tax (Zero-10) (Guernsey) (No 2) Law 2007. This is included in operating costs.

The Group's subsidiaries, associates and joint ventures pay corporation tax in the jurisdictions they operate in where applicable.

10. Investments in associates

	Rox Conduit Limited US$	Rox Limited US$	Pallinghurst Kalahari (Mauritius) Limited US$	Ivy Lane Capital Limited US$	Other associates US$	Total US$
2008						
Loss for the year	(516,312)	(682,935)	(947,924)	(734,683)	(1,961)	(2,883,815)
Assets	386,165	1,553,602	131,891	–	20,555	2,092,213
Liabilities	(74,199)	(232,553)	(696)	–	–	(307,448)
Net Assets	331,966	1,321,049	131,195	–	20,555	1,804,765
2007 (restated)						
Loss for the period	–	–	–	–	(7,871)	(7,871)
Assets	–	–	–	–	193,257	2,092,213
Liabilities	–	–	–	–	–	(307,448)
Net Assets	–	–	–	–	193,257	193,257

All associates' financial year-ends are 31 December. None of the associates has any revenue.

The fair value of each associate is considered to be equal to the net asset value as consolidated. None of the associates have a listed share price.

11. Loan to Rox Conduit (associate)

As per the Investment Manager's Report, during the year, Gemfields, in which the Group owns a 27% stake, made a proposed bid for TanzaniteOne. The proposed bid was to be partially funded by the Group, along with other Pallinghurst Investors; Gemfields were expected to buy TanzaniteOne shares partially using cash raised by issuing new Gemfields shares to investors, including the Group.

Accordingly, in September 2008, the Group made a GBP denominated loan of £10,166,966, at a cost of US$18,117,534, to Rox Conduit Limited, its associate, to facilitate the proposed bid. Rox Conduit is the controlling shareholder of Rox Limited, which is the controlling shareholder of Gemfields. Rox Conduit purchased TanzaniteOne shares which were then transferred to Gemfields in return for new Gemfields shares.

Interest income on the loan was accrued at the prevailing GBP interest rate during the period and is included in net finance costs. The outstanding loan including interest was repaid on 11 February 2009. The loan was unsecured.

	2008 US$	2007 US$ (restated)
Loan advanced	18,117,534	–
Repayment of loan in return for Gemfields shares	(4,727,152)	–
Foreign exchange loss	(2,358,776)	–
Accrued interest	95,411	–
Outstanding loan at 31 December 2008	11,127,017	–

12. Trade and other receivables

	2008 US$	2007 US$ (restated)
Amount receivable for the sale of Consolidated Minerals Limited	–	25,608,459
Prepaid Annual Management Benefit	763,466	–
Other amounts receivable	1,080	1,078
	764,546	**25,609,537**

13. Trade and other payables

	2008 US$	2007 US$ (restated)
Amounts payable for Magazynskraal purchase	23,900,190	–
Accrual for African Queen transaction costs	599,054	–
Amounts payable for Moepi Group purchase	835,444	–
Directors' fees payable	10,667	2,000
Administration fees payable	41,788	64,133
Reimbursable expenses owed to the Investment Manager	–	73,111
Amounts owed to other Pallinghurst strategic equity partners	112,343	–
Audit fee accrual	55,385	25,000
Fee payable to independent valuer	51,135	–
Other payables	235,430	55,474
	25,841,436	**219,718**

14. Share capital

The authorised share capital of the Company is as follows:

	2008 US$	2007 US$ (restated)
Authorised		
10 Management shares of US$1 each	10	10
999,000 Ordinary shares of US$0.01 each	–	9,990
999,000,000 Ordinary shares of US$0.00001 each	9,990	–
	10,000	10,000

Management Shares each carry the right to receive notice of, attend and vote at any general meeting of the Company, provided that no Shares are in issue at such date. When such rights exist, each holder of a Management Share who is present or by proxy at a general meeting will have 10,000 votes in respect of each Management Share held by them.

14. Share capital (continued)

Since incorporation, there have been two amendments to the Company's issued ordinary share capital:

The 1000-for-1 share split was approved by investors on 9 June 2008.

A vendor consideration placing occurred on 19 December 2008 to raise capital to fund the new investment in Platmin, the listed platinum developer. The Company allotted and issued 77,916,484 new Pallinghurst shares on 19 December 2008 at an issue price of ZAR4.30 per share, raising a total of ZAR335 million/US$34,274,931. The issue price represents a discount of 4.23% and 4.66% to the 3 business day volume weighted average closing price of the Company of ZAR4.44 and ZAR4.51 respectively, being the closing prices on the JSE on 9 December 2008 (the date of signature of the Platmin Investors and Subscription Agreement) and 28 November 2008 (the business day immediately prior to the approval by Directors of the vendor consideration placing).

Neither of these amendments had any effect on the Company's authorised share capital.

The effect on the issued share capital is set out below:

Issued and fully paid up	No.	Share capital US$	Share premium US$
Management shares of US$1 each			
Balance at 4 September 2007	–	–	–
Issued	2	2	–
Redeemed	–	–	–
Balance at 31 December 2007	**2**	**2**	**–**
Issued	–	–	–
Redeemed	–	–	–
Balance at 31 December 2008	**2**	**2**	**–**
Ordinary shares of US$0.01 each			
Balance at 4 September 2007	–	–	–
Issued	169,316	1,693	169,314,307
Share issue costs	–	–	(2,385,530)
Redeemed	–	–	–
Balance at 31 December 2007	**169,316**	**1,693**	**166,928,777**
Ordinary shares of US$0.00001			
Issued by way of stock split	169,146,684	–	–
Issued in vendor consideration placing	77,916,484	779	34,274,152
Share issue costs	–	–	(513,765)
Balance at 31 December 2008	**247,232,484**	**2,472**	**200,689,164**

15. Financial instruments and financial risk management

Financial instruments and risk profile

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Board monitors each of these risks, and an approved risk management policy is in place. The types of risk exposure and quantification of the level of exposure in the balance sheet is provided as follows:

- credit risk;
- liquidity risk; and
- market risk (including interest rate risk, foreign exchange rate risk, and price risk on the investment portfolio).

The Group's principal financial assets are trade and other receivables, cash, equity investments, and loans made to investments within the portfolio. The Group currently does not have any borrowing or borrowing facilities.

Credit risk

Credit risk is the risk of loss due to a debtor's non-payment or the failure of a counterparty with whom cash balances are held. The Group's credit risk primarily arises on the trade and other receivables and cash balances.

The trade and other receivables balance usually relates to balances receivable upon the exit from an investment and as such is concentrated into a small number of counterparties. The Directors monitor these counterparties closely and believe that the danger of default in these situations is low. If an exit from an investment occurs the counterparty's creditworthiness is assessed before any commitment to sell is made. The Group does not carry out trading activities other than entering into and exiting from investments and there are no other material trade and other receivables. As such, the Group's exposure to credit risk from this balance is not considered to be significant. The Group currently holds no provisions against bad or doubtful debtors.

Substantially all the cash of the Company is held with Investec Bank (Channel Islands) Limited ("Investec"). The Group's subsidiary, Pallinghurst Resources (Australia) Limited, holds its cash balance with National Australia Bank. The Group's associates hold cash balances with various other banks.

Bankruptcy or insolvency of any of these entities, but particularly Investec, may affect the Group's rights with respect to the cash held. The Directors closely monitor the credit rating of Investec, and are satisfied that Investec has high levels of both capital and liquidity. Nonetheless, due to current market conditions, and the increased level of risk associated with all companies in the banking sector, the Group may extend its range of counterparties to minimise its credit/counterparty risk.

The Group's other loan receivable balances are part of the investment portfolio, and have been made to existing equity investments, for example, where it is chosen to fund short-term working capital requirements through loans rather than further equity investment. The Directors believe in the long-term prospects of all of the investments, and are involved in the strategic planning of the investments, so are aware of the financial position of the investments, and why they may require loan funding. As such, the danger of default on these loans is considered to be an acceptable risk.

Maximum exposure to credit risk

	2008 US$	2007 US$ (restated)
Investment portfolio		
Loan receivable	519,327	2,298,490
Current assets		
Trade and other receivables	764,546	25,609,537
Loan Receivable from associates	11,127,017	–
Cash and cash equivalents	20,939,970	86,113,647
Less prepayments	(763,466)	–
	32,587,394	114,021,674

Although the Group's credit risk on loans to the investment portfolio is considered to be low, clearly there are risks associated with the investment portfolio. (See the Market risk and Price risk sections below for more detail on the price risks affecting the investment portfolio.)

15. Financial instruments and financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities.

The Group does not hold any financial liabilities at discounted values. As such, the expected undiscounted cash flow of the Group's financial liabilities at the balance sheet date is as follows:

	2008		2007	
	1 year or less	**more than 1 year**	**1 year or less**	**more than 1 year**
Non-derivative financial liabilities	25,841,346	–	219,718	–
Derivative liabilities	–	–	–	–
	25,841,346	–	219,718	–

The Group has not utilised any overdrafts since incorporation. The Group ensures that there are sufficient levels of cash for any investment commitments and expenses as they fall due and does not anticipate entering into significant borrowing in the future.

As referred to in the Investment Manager's Report, the Group conducted a vendor consideration placing in December 2008, to participate in the Platmin investment. If required, the Group will consider all alternatives to raise further capital in the future, ensuring that any actions comply with relevant legislation and the requirements of the JSE and BSX. Any such actions are likely to have an impact on the Group's liquidity risk in the future.

Market risk

Market risk is the risk that the values of financial instruments fluctuate due to changes in market prices. As the Group has significant investments in mining assets, changes in commodity prices are a key risk to the business. However, the Group does not consolidate any mining assets or hold any physical commodities on its balance sheet, so commodity price changes have no direct impact on the financial statements. The impact of commodity prices is therefore omitted from this analysis (as there would be no disclosable impact). Nonetheless, users of the financial statements should be aware that commodity price movements, particularly of PGMs, manganese and iron ore, and coloured gemstone prices, are likely to have an impact on the valuation of the Group's investments.

The other significant market risks affecting the Group are foreign exchange risk, interest rate risk and market price risk (relating to the investment portfolio).

The sensitivity analysis tables enclosed below show the potential impact of possible changes in the relevant foreign exchange rates, interest rates and quoted/unquoted equity prices on the Group's financial instruments at the year-end. The only material assumption that has been made is that all income statement sensitivities also impact equity.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group has entered into various equity and loan investments, denominated in currencies other than the US Dollar ("US$"), including in the Australian Dollar ("AUD"), South African Rand ("ZAR"), Canadian Dollar ("CAD") and the British Pound ("GBP"). These are translated each financial period end with the foreign exchange gain or loss reflected in the income statement. The Board consider the relevant foreign exchange exposure when assessing each investment decision.

The Group's current policy is to hold all cash balances in US$ at all times, other than when allocated for a specific investment or for specific material expenses. Cash balances are translated into a currency other than US$ only when an outflow of cash is imminent, or if required for legal or statutory reasons.

The cash outflows on an investment may be significantly later than the approval of the initial investment amount and translation out of US$, meaning the Group is at risk of fluctuations in the relevant exchange rate. For example, a portion of the initial cash allocated for investment into the Australian SFC investment is not invested at 31 December 2008 and is held in AUD. This has resulted in an FX loss from the strengthening of the US$ against the AUD since the initial investment allocation in May 2008.

The Group may occasionally hold balances in currencies other than the US$ for a material investment which is considered likely but is not yet certain, meaning there is some foreign exchange risk if the investment does not occur and the balance is translated back into US$ at a different exchange rate. Alternatively, for specific material investments (or expenses) the Group may choose to enter into appropriate hedging strategies eg forward contracts or options to minimise the Group's foreign exchange exposure. The Group does not hold any such derivatives at the year-end, although it did enter into certain derivatives during the year, particularly forward contracts to purchase ZAR for investments located in South Africa.

The Group's liabilities mainly relate to outstanding payments for investments. The most material balance is payable to the Bakgatla for the sale of the Magazynskraal asset (in ZAR). The Group's other liabilities at the year-end relate to various US$ expenses; as such there is no foreign exchange risk attached to these balances.

The Group's exposure to foreign exchange risk on its assets and liabilities is as follows:

Financial assets at 31 December 2008:

Currency	**Financial assets excluding derivatives US$**	**Impact of currency derivatives US$**	**Derivative assets US$**	**Total financial asset exposure to currency risk US$**
US$	50,589,715	–	–	50,589,715
GBP	24,444,447	–	–	24,444,447
ZAR	71,600,766	–	–	71,600,766
CAD	32,361,042	–	–	32,361,042
AUD	4,004,475	–	–	4,004,475
Total financial assets	183,000,444	–	–	183,000,444
At 31 December 2007:				
US$	114,874,596	–	–	114,874,596
GBP	31,940,124	–	–	31,940,124
ZAR	–	–	–	–
CAD	–	–	–	–
AUD	25,608,459	–	–	25,608,459
Total financial assets	172,423,179	–	–	172,423,179

Financial liabilities at 31 December 2008:

Currency	**Financial liabilities excluding derivatives US$**	**Impact of currency derivatives US$**	**Derivative assets US$**	**Total financial liabilities exposure to currency risk US$**
US$	400,228	–	–	400,228
GBP	106,520	–	–	106,520
ZAR	25,334,688	–	–	25,334,688
Total financial liabilities	25,841,436	–	–	25,841,436
At 31 December 2007				
US$	219,718	–	–	219,718
GBP	–	–	–	–
ZAR	–	–	–	–
Total financial liabilities	219,718	–	–	219,718

15. Financial instruments and financial risk management (continued)

Foreign exchange risk – sensitivity analysis

If the US$ strengthens relative to the various currencies in which the Group's financial assets are held, the Group's assets denominated in currencies other than US$ would decline in the value. Sensitivity to various potential changes in foreign exchange rates is as follows:

2008	
+10% US$ to GBP	-2,444,445
+5% US$ to ZAR	-2,313,304
+5% US$ to CAD	-1,618,052
+10% US$ to AUD	-400,447
2007	
+5% US$ to GBP	-1,597,006
+5% US$ to ZAR	–
+5% US$ to CAD	–
+5% US$ to AUD	-1,280,423

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its cash balances and interest bearing loans made to companies within the investment portfolio.

The Group's policy is to invest cash at floating rates of interest and to maintain cash reserves in short-term investments (less than one year) in order to maintain liquidity, while achieving a satisfactory return for shareholders. The Group may amend these policies in the future; for example if the Company raises further equity via a Second Equity Raising or by any other means, it may be appropriate to hold some cash balances in longer-term investments in order to increase the return for shareholders on uninvested cash. During the current and prior period all uninvested cash was held in short-term investments.

The Group makes loans to companies within the investment portfolio, which may be in either US$ or local currency. These loans are usually based on the relevant national inter-bank rates and accordingly any changes in these rates would have an impact on the consolidated income statement.

The Group may make non-interesting bearing loans to companies within the investment portfolio in specific circumstances.

	Financial assets; interest bearing		**Financial assets; non–interest bearing**		
2008	**Floating rate financial assets US$**	**Fixed rate financial assets US$**	**Portfolio of equity investments US$**	**Other non–interest bearing financial assets US$**	**Total US$**
Financial assets (excluding derivatives)	32,586,314	–	150,413,051	1,080	183,000,445
Derivative financial assets	–	–	–	–	–
	32,586,314	–	150,413,051	1,080	183,000,445
2007					
Financial assets (excluding derivatives)	88,412,137	–	58,401,505	25,609,537	172,423,179
Derivative financial assets	–	–	–	–	–
	88,412,137	–	58,401,505	25,609,537	172,423,179

Interest rate risk- sensitivity analysis
The Group's sensitivity to potential changes in interest rates is as follows:

2008	
50 basis points fall in US interest rates	-76,879
50 basis points fall in ZAR interest rates	-86,052
2007	
50 basis points fall in US interest rates	-114,555

Price risk
Price risk is the risk that the price for listed investments fluctuates with a corresponding impact on the income statement. The Directors' valuations for unlisted investments are also likely to increase or decrease over time. These changes will be linked to the performance of the underlying investments. The performance of investments could be affected by factors including but not limited to relevant commodity prices, results from exploration/drilling, global or regional political events, or specific developments relating to the investment, all of which could impact on the valuation of the investments.

The quoted/unquoted investments in the balance sheet subject to price risk are set out in Note 7 *Fair valuation of investments*.

Price risk- sensitivity analysis
A 10% decrease in the fair value of the Group's quoted investments, and a 25% decrease in the unquoted investments, would have the following impacts on the income statement:

US$	2008	2007
Quoted	-4,861,769	–
Unquoted	-25,448,840	-5,840,151
	-30,410,609	-5,840,151

The fair value of each of the Group's quoted/unquoted investments could vary significantly from period to period. The sensitivity analysis shows the results of a potential 10% movement in quoted investments, which is considered to be a likely potential movement in the overall portfolio of quoted investments in the next six or twelve months. The valuation of the investment in Gemfields has fallen significantly since the year-end; see Note 20 *Events occurring after the end of the year* for more details.

Sensitivity analysis has been disclosed for 25% movement in unquoted investments. Any material change in global economic conditions would be likely to impact the valuations of the Group's unquoted investments. Per the IPEVC guidelines, any impairments or impairment reversals would be made in 25% tranches.

Other price risk disclosures
The price risk sensitivity analysis above may not be fully representative of the risks the Group is subject to, for the reasons set out below as required by IFRS 7 *Financial Instruments: Disclosures*.

The unquoted investments are illiquid and there are no regular transactions in these shares. As such the Group may find it difficult to exit these assets at the current valuations as stated in the balance sheet, and may be unable to sell partial stakes easily, as there may be a shortage of willing buyers.

Similarly, although the markets for the Company's quoted investments are more active, the shares are not fully liquid. The Group owns significant stakes in some of its investments, for example 29.24% of Gemfields, plus other Pallinghurst investors hold further significant stakes. As such, if the Group wished to exit an investment in its entirety, it may be necessary for the Group to sell its stakes at a discount to market price, which could be higher than the 10% discount included in the sensitivity analysis above.

However, the Directors believe in the future prospects all of the Group's investments, which are all still at an early stage, and therefore it is unlikely that such an exit at a discounted price will occur. Accordingly, the Directors do not attempt to hedge this risk.

Sensitivity analysis representative for the position throughout the year
All the sensitivity analysis enclosed above is based on the financial instruments held at the year-end. The mix of financial instruments has changed significantly over the course of the year and the sensitivity analysis does not fully represent the risks the Group has been subject to over the past year (or anticipates as the likely risks over the next). This section explains why not, as required by IFRS 7, and discloses more representative sensitivity disclosures, where relevant.

15. Financial instruments and financial risk management (continued)

Over the year the cash balances have decreased significantly and there have been material cash outflows on new investments, mostly in currencies other than US$. In particular, during the year further investment in Gemfields has occurred (GBP), plus new investments have been made into the Kalari joint venture (ZAR) and platinum (Boynton and Magazynskraal, both in ZAR). (The investment in Platmin was made in US$, post the vendor consideration placing which raised equity capital in ZAR).

Using a split of financial instruments earlier in 2008, the sensitivity particularly to the ZAR, and the GBP would have been materially lower. Using the 30 June 2008 mix of financial instruments as an example, the sensitivity to the same foreign exchange movements would have been as follows:

Financial assets as at 30 June 2008	
+ 10% US$ to GBP	6,175,252
+ 5% US$ to ZAR	–
+10% Euro to US$	–
+10% US$ to AUD	1,037,557

Similarly, the lower cash position at the year-end means that the sensitivity of the balance sheet to changes in interest rates is also currently much lower. Using the 30 June 2008 balance sheet (US$41,606,595 of cash plus US$ interest bearing loans to Fabergé and Pallinghurst Kalahari (Mauritius) Limited) as an example, the sensitivity to a 50 basis points fall in US interest rates (annualised) would have been US$287,887. The impact of the same fall in the ZAR rate would have been zero (there were no ZAR loans at 30 June 2008).

As the Group has become fully invested during 2008, the sensitivity to share price movements in quoted investments (and comparable fair value movements in unquoted investments) has increased during the year. Using the 30 June 2008 balance sheet as an example, the sensitivity of the income statement to a 10% fall in the price of quoted investments would have been US$6,957,657, and for unquoted investments US$7,871,594.

The sensitivity analysis presented for December 2008 is considered likely to be representative of the risks to the balance sheet in the immediate future. However, the Group's risk profile could change over time. For example if the Group raises significant further cash through a Second Equity Raising or enters into any borrowing, future changes in interest rates would be likely to have a significant impact on the Group. The Group is also likely to make further investments in the future into both quoted and unquoted investments, in various currencies other than US$, any of which would impact the Group's split of financial assets and its sensitivity to movements in foreign exchange rates and quoted/unquoted market prices.

16. Related party transactions

The Company has significant stakes in most of the investments within the investment portfolio. Per Note 2 *Accounting policies*, where the Company owns stakes giving either significant influence or joint control, the Company accounts for these investments under IAS 39 at fair value through the profit and loss account. Nonetheless, per IAS 24 *Related Party Disclosures*, these investments are considered to be related parties, and transactions with them are related party transactions. Related party transactions include the entering into and exiting from equity investments, and also loaning cash to investment entities. See Note 7 *Fair valuation of investments* and Note 8 *Largest investments* for the detail of these transactions.

The Investment Manager, Administrator and Secretary are all related parties of the Group due to common directors. The amounts due for the Investment Manager's Benefit and the Performance Incentive are disclosed in Note 4 *Investment Manager*. The Administrator is entitled to annual minimum fees totalling US$80,000, payable quarterly in arrears.

Stuart Platt-Ransom, Clive Harris, and Martin Tolcher each receive a director's fee of US$8,000 per annum, prorated as necessary. Martin Tolcher did not receive a fee for his role as Permanent Alternate to Stuart Platt-Ransom. Brian Gilbertson, Arne Frandsen and Andrew Willis have each waived their director's fee.

In addition, Clive Harris receives fees of US$5,000 for acting as a director of subsidiaries of the Group, and a further US$24,000 in his role as Director for some of the Group's investments and equity accounted associates.

At 31 December 2008, Directors' interests in the equity shares of the Company were as follows:

- The Brian Gilbertson Discretionary Settlement, a discretionary trust of which Brian Gilbertson is a beneficiary, owns 4.05%;
- Arne Frandsen owns 0.10%;
- Andrew Willis owns 0.10%.

17. Headline earnings per share and NAV per share

The key earnings measures included in this note are earnings per share, diluted earnings per share and headline earnings per share ("HEPS"), and also Net Asset Value ("NAV") and Tangible Net Asset Value per share. The disclosure of earnings per share is required by IAS 33 *Earnings per Share*. Additionally, HEPS is a JSE-defined performance measure, the disclosure of which is also required.

There is no difference between earnings per share, diluted earnings per share and HEPS for the Group, and there is also no difference between NAV per share and tangible NAV per share, in either the current year or the comparative period.

As disclosed in Note 2 *Accounting Policies*, a change in accounting policy has been implemented to account for investments in associates that are part of the investment portfolio at fair value through the profit and loss account. This has had an impact on earnings, diluted earnings and headline earnings per share, and also on NAV and tangible NAV per share, in the comparative period.

As disclosed in Note 14 *Share Capital*, a 1000-for-1 share split was approved by Investors on 9 June 2008. The share split has also had an impact on earnings, diluted earnings and headline earnings per share, and also on NAV and tangible NAV per share, in the comparative period.

As disclosed in Note 14 *Share Capital*, a vendor consideration placing occurred on 19 December 2008 to raise capital to pay for the new investment in Platmin. The transaction changed the number of shares in issue, impacting on HEPS and NAV per share. It does not have any impact on the comparative figures for EPS and NAV per share.

The table below includes HEPS and NAV for the year to 31 December 2008. It also includes for reference the restated HEPS and NAV per share.

Headline (loss)/earnings per share	**1 Jan 08 to 31 Dec 08 US$**	**4 Sept 07 to 31 Dec 07 (restated) US$**
Headline (loss)/headline earnings	(46,430,645)	5,448,783
Number of shares in issue	247,232,484[1]	169,316,000[2]
HEPS after change in accounting policy, effect of 1000-for-1 share split and vendor consideration placing (see Note 14)	(0.19)	0.03[3]

1 *A vendor consideration placing occurred on 19 December 2008, issuing 77,916,484 new shares, and changing the number of shares for the HEPS calculation in the current year. This transaction does not have any impact on the comparative figures for HEPS.*

2 *A 1000-for-1 share split was approved on 9 June 2008. For the purpose of calculating the comparative HEPS figure it has been assumed that the share split occurred before 31 December 2007.*

3 *The HEPS per the 2007 financial statements was US$24.40. The HEPS assuming that the change in accounting policy had occurred before 31 December 2007, but the share split had not occurred, would have been US$32.18 (this is US$0.03 after taking into account the 1000-for-1 share split).*

17. Headline earnings per share and NAV per share (continued)

NAV per share	2008 US$	2007 US$ (restated)
Net assets	159,727,239	172,396,718
Number of shares in issue	247,232,484[1]	169,316,000[2]
NAV per share after change in accounting policy and effect of 1000-for-1 share split and vendor consideration placing (see Note 14)	0.65	1.02[3]

1 *A vendor consideration placing occurred on 19 December 2008, issuing 77,916,484 new shares, and changing the number of shares for the NAV calculation in the current year. This transaction does not have any impact on the comparative figures for NAV per share.*

2 *A 1000-for-1 share split was approved by Investors on 9 June 2008; for the purpose of calculating NAV per share it has been assumed that the share split occurred before 31 December 2007.*

3 *The NAV per share per the 2007 financial statements was US$1,010.41. The NAV per share assuming that the change in accounting policy had occurred before 31 December 2007, but the share split had not occurred, would have been US$1,018.20 (this is US$1.02 after taking into account the 1000-for-1 share split).*

18. Commitments

The Investment Manager has negotiated a deal to take up to a combined 55% controlling stake in Jupiter Mines, under a joint venture with Red Rock Resources, as referred to in Note 20 *Events occurring after the end of the year*. The Group has committed to provide a further AUD5 million to Jupiter for working capital purposes, which is subject to the investment criteria of the Group.

19. Contingent liabilities and contingent assets

Contingent liabilities

Group's share of the Platmin Guarantee
As disclosed in the Investment Manager's Report, on 19 December 2008, the Company and certain other strategic equity partners acquired a controlling 62.36% interest in Platmin, through the issue of new Platmin shares.

As part of this agreement the Bakgatla also agreed to invest ZAR500 million and subscribe for further shares (the "Bakgatla subscription") in Platmin at the same price as the other Pallinghurst Investors, including the Company. This second tranche of 73,529,411 shares was to increase the ownership of Platmin by the Company and its strategic partners, including the Bakgatla, to 69.84%.

The total acquisition price for the Platmin transaction (US$125 million plus US$50 million/ZAR500 million) was negotiated based on the total anticipated amount required for Platmin to complete the construction of PPM. Accordingly, the other Pallinghurst investors, including the Company, guaranteed the payment would be made to Platmin by 31 March 2009 if the Bakgatla were unable to do so (the "Platmin Guarantee").

The Company's relevant proportion of this funding was 18.56% or US$9.3 million which was a contingent liability at the balance sheet date. This contingent liability was not secured on any assets held by the Group.

Since the year-end, the conditions for the Bakgatla to invest had not been met and accordingly the Platmin Guarantee became due and was paid on 12 February 2009. A further contingent liability for the amount payable to the Bakgatla for Magazynskraal now exists, see Note 20 *Events occurring after end of year*.

No other contingent liabilities existed at the balance sheet date.

Contingent assets
There were no significant contingent assets in the Group at 31 December 2008 or 31 December 2007.

Contingent liabilities and assets of associates
There were no contingent liabilities for any of the Group's associate entities.

20. Events occurring after the end of the year

Potential further diminution in valuation of investment in Gemfields

The share price of Gemfields plc has fallen significantly since the balance sheet date, and has traded well below the its average traded price in 2008.

As per the Investment Manager's report, and given poor markets for precious stones, the directors of Gemfields are taking steps to rationalise the scale of mining activity at the Kagem emerald mine and to minimise all non-essential capital, project development and exploration expenditure.

The Directors consider this diminution in value to be of a short-term nature and believe that in the medium term, Gemfields will be a successful business with a correlating recovery in the Gemfields share price.

In line with the disclosure requirements of IAS 10, *Events After The Reporting Period*, an estimate of the impact of this non-adjusting event is as follows:

The share price of Gemfields plc on 17 March 2009 was 3.5p, and the GBP/US$ exchange rate was GBP1=US$1.406. Using the updated share price and foreign exchange rate to value the Gemfields year-end holding, the fair value of the Company's see-through interest in Gemfields would be US$4,271,461 with an unrealised loss in fair value of US$43,308,780 and an unrealised foreign exchange loss of US$6,820,489. This valuation is US$9,045,969 lower than the valuation in the balance sheet at 31 December 2008.

Settlement of liability for Magazynskraal

As per the Investment Manager's Report, a key step in the African Queen strategy is for the Company, along with various strategic equity partners, to purchase a stake in the Magazynskraal property from the Bakgatla. This transaction was negotiated in June 2008, and all conditions were fulfilled in December 2008. Accordingly, a liability for payment of ZAR223 million/US$23,900,190 (using a year-end exchange rate of ZAR9.3378= US$1) is included in the year-end balance sheet, see Note 13 *Trade and other payables*.

The US$ strengthened against the ZAR between the balance sheet date and the dates of payment, from around US$1=9.3 to US$1=10.1, reducing the US$ outflow on these assets; the first payment was made on 22 January 2009, for the ZAR equivalent of US$12,992,055, and the second payment on 12 February 2009, for the ZAR equivalent of US$9,537,324. The second payment for Magazynskraal actually settled the Group's contingent liability for the Platmin Guarantee.

The outflow for this investment had been partially hedged through holding approximately ZAR151 million over the year-end. Due mainly to uncertainty over the exact timing of the cash outflows, the rest of the ZAR liability was not fixed at 31 December 2008. See below for more detail.

Realisation of the Platmin Guarantee and new contingent liability for further Magazynskraal payment

The Bakgatla subscription was dependent on a number of conditions being met on or before 20 March 2009 including the following;

- Platmin to inward list its shares on the securities exchange of the JSE;
- the Exchange Control Division of the South African Reserve Bank to approve various conditions of the transaction; and
- the completion of the Magazynskraal transaction.

It became clear during February 2009 that not all these conditions would be met on time. The conditions precedent for the Magazynskraal transaction occurred during December 2008 but the JSE listing of Platmin was not going to be completed before 20 March 2009.

Accordingly, the second payment for the Magazynskraal transaction described above fulfilled the obligations made under the Platmin Guarantee, and paid for the Bakgatla subscription for Platmin shares. These shares are being warehoused until Platmin's JSE listing, at which point the shares will be sold to the Bagkatla (at the same acquisition price) in order to satisfy the liability to pay the Bakgatla for the final outstanding amount for Magazynskraal.

On 12 February 2009, the contingent liability to take up more Platmin shares therefore was extinguished, and was replaced by a new contingent liability for the outstanding payment for Magazynskraal.

The new contingent liability will be extinguished upon Platmin listing on the JSE by 31 December 2009 or if a structure is identified that would allow the Bakgatla to be the long-term beneficial shareholders of the Platmin shares in the same time frame. The JSE listing is scheduled to be implemented by the second quarter of 2009.

The new contingent liability payable to the Bakgatla for the acquisition of further Magazynskraal shares has been secured on the Platmin shares purchased in December 2008 by the Group and its strategic equity partners. The Group has a see-through interest in 47,800,130 Platmin shares. The maximum amount of the Group's contingent liability is approximately US$12.9 million, using an exchange rate of ZAR10/US$1.

If this contingent liability did materialise, the payment would see the Group owning a larger stake in Platmin and Magazynskraal than currently anticipated, at the expense of the Bakgatla, until such time as all conditions are met for the Bakgatla to take up their Platmin shares.

The process for listing Platmin on the JSE is well advanced, and the Directors believe that the liability should not become due.

Repayment of loan to Rox Conduit
As disclosed in the Investment Manager's Report and Note 11 *Loan to Rox Conduit – Associate*, a loan to Rox Conduit was made during 2008 to partially fund Gemfields' proposed bid for TanzaniteOne. The outstanding amount of US$11,127,017 was repaid on 11 February 2009, including accrued interest.

Purchases of Gemfields shares by Rox Limited
As disclosed above, the Directors continue to believe in the future prospects of Gemfields, and that the current share price is artificially low. Accordingly, during January and February 2009, the Company has increased its interest in Gemfields through purchasing shares on the open market at between 2.75p and 4.25p, through its associate Rox Limited.

The Company's see-through interest in Gemfields has increased from 29.24% to 30.30% since the balance sheet date.

Approval of Jupiter mines transaction by Jupiter shareholders
The Company has completed the first stage of a transaction whereby the Company and its joint venture partner, AIM-listed Red Rock Resources plc ("RRR") take a stake of up to 55% in Jupiter Mines Limited ("Jupiter"), the iron ore explorer listed on the ASX.

The approval by the Jupiter shareholders was given on 9 March 2009, and the Company together with RRR will take a significant stake in Jupiter. Under the terms of the transaction, a subsidiary of the Group will receive 47,339,148 newly issued Jupiter shares in exchange for the 11,671,175 Mindax shares held by the Company, and AUD1 million in cash. This will increase the Group's holding of Jupiter shares from 18,715,000 to 66,054,148 shares, or approximately 26% of the then issued share capital.

Concurrently with the transfer by the Company, RRR will contribute certain iron ore exploration assets in the central Yilgarn region of Western Australia, in exchange for 23,839,183 newly issued Jupiter shares.

In addition, within two years, the Company may receive a further 26,845,017 Jupiter shares and RRR a further 54,155,579 Jupiter shares upon certain manganese tenements being granted to RRR and unencumbered title to those tenements being transferred from RRR to Jupiter (the "Manganese Option"). Furthermore, within two years, the Company and RRR could be issued, in equal proportions, up to an additional 180 million Jupiter shares depending on the amount of saleable direct shipping hematite ore resource certified to be existing on Tenement E29/581, known as the Mount Alfred Project, subject to a minimum of ten million tonnes of certified resources. The Company and RRR could together control 55% of the then issued shares of Jupiter.

Shareholder information

at 31 December 2008

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1,000 shares	174	20.94	111,234	0.04
1,001 – 10,000 shares	219	26.35	1,011,829	0.41
10,001 – 100,000 shares	300	36.1	9,482,231	3.84
100,001 – 1,000,000 shares	112	13.48	40,351,239	16.32
1,000,001 shares and over	26	3.13	196,275,951	79.39
	831	**100.00**	**247,232,484**	**100.00**
Distribution of shareholders				
Banks	15	1.81	16,001,100	6.71
Close Corporations	18	2.17	381,146	0.15
Endowment Funds	8	0.96	670,000	0.27
Individuals	483	58.12	17,504,399	7.65
Insurance Companies	3	0.36	38,546,886	15.59
Investment Companies	8	0.96	34,654,474	13.77
Mutual Funds	15	1.81	21,411,314	8.66
Nominees and Trust	212	25.51	68,812,703	27.27
Other Corporations	10	1.20	434,200	0.18
Pension Funds	12	1.44	7,415,617	3.00
Private Companies	46	5.54	41,330,645	16.72
Public Companies	1	0.12	70,000	0.03
	831	**100.00**	**247,232,484**	**100.00**

Public/Non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	**7**	**0.84**	**72,592,874**	**29.36**
Directors and Associates of the Company holdings	5	0.60	11,000,000	4.45
Strategic Holdings (more than 10%)	2	0.24	61,592,874	24.91
Public shareholders	**824**	**99.16**	**174,639,610**	**70.64**
	831	**100.00**	**247,232,484**	**100.00**

	Number of shares	%
Beneficial shareholders holding 3% or more		
Titan Resources	35,000,000	14.16
Solway Finance Ltd	26,592,874	10.76
Hlamagolo Capital (Pty) Ltd	23,255,814	9.41
Old Mutual Life Assurance Company SA Ltd	19,944,656	8.07
Metc Metlife Main Account	18,235,000	7.38
Ellerine Bros (Pty) Ltd	11,000,000	4.45
Investec Bank (Switzerland) AG	10,100,000	4.09
Brian Patrick Gilbertson Discretionary Trust	10,000,000	4.04

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