21 August 2012

GEM DIAMONDS HALF YEAR 2012 RESULTS

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Company" or the "Group") today announces its half year results for the six months ending 30 June 2012 ("H1 2012" or "the Period").

FINANCIAL RESULTS:

- Revenue of US$ 180.2 million (US$ 196.5 million in H1 2011).
- Underlying EBITDA of US$ 52.7 million (US$ 90.8 million in H1 2011).
- Attributable net profit of US$ 14.3 million (US$ 28.9 million in H1 2011).
- Basic EPS of 10.36 US cents (21.76 US cents in H1 2011).
- Cash on hand of US$ 139.0 million as at 30 June 2012 (US$ 127.7 million attributable to Gem Diamonds).

OPERATIONAL RESULTS:

- Continued solid performance at Letšeng with carat production of 57 116 carats, up 8% from H1 2011 and recovered grade of 1.68 carats per hundred tonnes ("cpht"), up 8% from H1 2011.
- Letšeng ore mined of 3.3 million tonnes and ore treated of 3.4 million tonnes.
- Good progress made on the Letšeng production expansion project (Project Kholo) which commenced in January 2012.
- Ellendale ore mined of 2.0 million tonnes, up 234% and ore treated of 2.1 million tonnes, up 44% from H1 2011.
- Ellendale carat production of 78 881 carats, up 51% from H1 2011.
- Ghaghoo mine development project underway with US$ 37 million of the capital budget spent to date.

UPDATE ON PROJECT REVIEW:

- Review of development projects at Letšeng and Ghaghoo announced in July 2012.
- The Company remains committed to doubling production at Project Kholo and the development of Ghaghoo but, in light of the current economic climate and to maintain the Company's strong balance sheet, the Board has taken the decision to extend the completion dates of Project Kholo and Ghaghoo and will keep the global economic environment under review. Should market conditions improve materially, the project execution will be accelerated.

Commenting on the results today, Clifford Elphick, Chief Executive of Gem Diamonds, said:

"Against a challenging price backdrop for the diamond industry, the first half of 2012 was marked by strong operating performance by both Gem Diamonds' producing mines, the Letšeng mine in Lesotho and the Ellendale mine in Australia. Letšeng reported an increase in both carats recovered and recovered grade compared to H1 2011, with cash costs being held in line with management estimates. Ellendale reported a significant increase in both ore mined and treated and carats produced, which achieved strong prices during the Period despite the challenging market conditions."

"Gem Diamonds maintains a strong balance sheet, with US$ 139 million of cash as at 30 June 2012, no debt and strong operating cashflows. This positions the Company well to weather the current downturn in the diamond market. In the interests of preserving this strong financial position, whilst remaining committed to its strategic growth projects, the Board has taken the decision to extend the delivery of its development projects at Letšeng and Ghaghoo. Should there be improvement in the global economic climate, there is sufficient flexibility to allow for the delivery of the projects to be accelerated."

The Company will be hosting an audio presentation on its half year results today at 9:30 am BST. A live audio webcast of this presentation will be available on the Company's website: www.gemdiamonds.com

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ABOUT GEM DIAMONDS:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns two production mines, the Letšeng mine in Lesotho and the Ellendale mine in Australia, as well as the Ghaghoo mine, currently in development in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the twenty largest white gem quality diamonds ever recorded.

Gem Diamonds has a growth strategy based on the expansion of the Letšeng mine to double its production capacity by mid-2015 and the development of the Ghaghoo mine. The Company seeks to maximise revenue and margin from its rough diamond production by pursuing cutting, polishing and sales and marketing initiatives further along the diamond value chain. With favourable supply/demand dynamics expected to benefit the industry over the medium to long term, particularly at the high end of the market supplied by Gem Diamonds, this strategy positions the Company well to generate attractive returns for shareholders in the coming years.

www.gemdiamonds.com

INTERIM BUSINESS REVIEW

INTRODUCTION

The first half of 2012 saw a strong operating performance by both Gem Diamonds' producing mines, the Letšeng mine in Lesotho and the Ellendale mine in Australia. Letšeng continued to produce some of the world's finest high quality diamonds, reporting an increase in both carats recovered and recovered grade compared to the corresponding period and direct cash costs held in line with management estimates. Ellendale reported a significant increase in both ore mined and treated and carats produced and continued to produce its rare fancy yellow diamonds which achieved strong prices during the Period despite the challenging economic climate.

DIAMOND MARKET

The beginning of the year saw diamond prices rising steadily following the 30% downward price correction experienced in September 2011. However, since May, reduced liquidity across the diamond industry and reduced demand in the emerging markets, particularly in India, have created challenging trading conditions, resulting in increased stock levels of rough and polished diamonds in the manufacturing sector. Gem Diamonds' rough diamond price indices saw their first negative movements in May and June as prices declined. Prices for the larger high end diamonds remained mostly unaffected during the Period and largely held their value, whilst prices for the smaller lower quality production dropped off from May. The diamond market is expected to continue its short term volatility; however, with supply forecast to remain tight and continued demand growth expected to put upward pressure on diamond prices, the longer term outlook remains positive.

PROJECTS

Gem Diamonds remains committed to its strategic growth projects and views the doubling of production at Letšeng (Project Kholo) in Lesotho as a key catalyst for growth; and the development of its Ghaghoo mine in Botswana as an important addition to its portfolio. The challenging global macroeconomic climate with the ongoing financial downturn in the Eurozone continued to impact the diamond industry in the Period. In light of this economic uncertainty and in order to protect its strong balance sheet in the event of further deterioration in market conditions, the Company announced in July 2012 that its Directors had initiated a review of the Company's capital expenditure for Project Kholo and the Ghaghoo mine development.

The review which focused on the possibility of extending the period over which capital is expended, and therefore the rate of expenditure on Project Kholo and on Ghaghoo, has now been completed. The Board has decided that the delivery period for both of these projects be extended with sufficient flexibility to allow for the project timelines to be accelerated should market conditions improve.

MINERAL RESOURCE AND RESERVE STATEMENT

Gem Diamonds released a revised Resource and Reserve statement as at 1 January 2012 on 25 July 2012. This is available on the Company's website, http://www.gemdiamonds.com/gem/en/investors/resource_reserve/

OPERATING REVIEW: LETŠENG

The Letšeng mine is famous for its large, top quality diamonds, with the greatest proportion of large, high value diamonds of any kimberlite mine, and is the highest average dollar per carat kimberlite diamond mine in the world. Gem Diamonds owns 70% of Letšeng Diamonds (Letšeng) in partnership with the government of the Kingdom of Lesotho, which owns the remaining 30%. Letšeng was acquired in July 2006 and has continued to deliver exceptional returns for its shareholders.

DIAMOND SALES

	6 months ended 30 June 2012	6 months ended 30 June 2011
Carats sold*	**58 725**	52 614
Average US$ per carat*	**2 133**	3 052

*includes carats extracted for polishing at rough valuation.

OPERATIONAL HIGHLIGHTS

- Waste tonnes mined: 7.8 million (8.5 million tonnes in H1 2011).
- Tonnes treated: 3.4 million (3.4 million tonnes in H1 2011).
- Carats recovered: 57 116 (52 798 carats in H1 2011).
- Grade recovered: 1.68 cpht (1.56 cpht in H1 2011).

SUSTAINABILITY HIGHLIGHTS

- Achieved 7 months LTI-free in June 2012.
- Zero major environmental incidents recorded in H1 2012.
- On schedule execution of corporate social investment projects.
- Lost Time Injury Frequency Rate (“LTIFR”) 0.00.

PRODUCTION

During the Period Letšeng performed well operationally and continued to recover some of the world’s highest value diamonds. Total tonnes mined and treated through all plants were similar to that of the corresponding period. Mining of the high grade K6 facies in the Main pipe has been deferred to the second half of the year.

During the Period, 3.4 million tonnes of ore were treated (3.4 million tonnes in the corresponding period). Of the total ore processed for the Period, 67% was sourced from the Main pipe and 33% was sourced from the Satellite pipe. The plants ran well during the Period, achieving good availabilities, recovering 57 116 carats, an increase of 8% over the corresponding period. The continued over-performance of the resource in terms of grade has been included in the revised resource statement which was published on 25 July 2012.

Waste mined during the Period of 7.8 million tonnes was below the corresponding period of 8.5 million tonnes due to lower than planned fleet availability. In order to achieve the planned annual waste profile, additional waste stripping equipment was brought to site and commissioned in April 2012.

RESOURCE

The deep drilling programme to extend the resource at Letšeng continues to produce encouraging results and during the Period kimberlite was intersected at 204m below the current Inferred resource limit in the Satellite pipe and 321m below the current inferred resource limit in the Main pipe. Once the deep drilling programme has been completed in the fourth quarter of 2012, the results will be made available.

PROJECT KHOLO

Letšeng’s expansion project, Project Kholo aims to increase production through the construction of a third processing plant and other operational improvements. This will see a ramp-up to full production of 10 million tonnes. Planned carat output for the completed project will increase to circa 180 000 to 200 000 carats per annum (112 367 carats produced in 2011).

Project Kholo commenced in January 2012 with site work and geotechnical drilling which confirmed the suitability of the ground conditions for construction of the third processing plant. Good progress was made during the Period with the detailed design phase continuing in conjunction with the commencement of the early works. The early earthworks contract was awarded in April and the contractor began work on schedule. Early works on additional accommodation units and the initial design phase of the project have also both been completed. The major earthworks contract has commenced.

Work on increasing the power supply to the mine commenced during the Period, with the appointment of the design engineers and environmental consultants. Good progress has been made on the design and the environmental approval process is ahead of schedule.

Due to the continuing challenging global financial market conditions and its impact on the diamond market, the Directors conducted a review of the timeline for Project Kholo with a view to extending the period over which the capital is expended. Following this review, in order to protect the Company's strong balance sheet in the event of further deterioration in diamond market conditions, development at Project Kholo will be extended by 12 months.

Whilst the total project cost is anticipated to increase marginally, the project will continue to be funded out of (i) existing and future operating cashflows and (ii) debt facilities (the Company announced in March 2012 that it was reviewing additional project funding facilities), which are currently being re-evaluated following the revision of the capital cash flows and timeline. For the year to date US$ 6 million has been spent and a further US$ 15 million is still to be expended in 2012; with approximately US$ 69 million forecast to be spent in 2013; US$ 180 million in 2014; and US$ 22 million in 2015, at current exchange rates.

SALES AND MARKETING

Letšeng's production is sold through Gem Diamonds Marketing Services BVBA (Gem Diamonds Marketing), an Antwerp-based 100% held subsidiary, which provides Letšeng with complete flexibility over the marketing of its rough production as well as access to diamond polishing opportunities to generate additional margins.

Gem Diamonds Marketing held five tenders during the Period, two in the first quarter and three in the second quarter. The average value for Letšeng's export of diamonds for the Period was US$ 2 133 per carat (including the carats extracted from the rough production for manufacturing at their fair market valuation), compared to the average price of US$ 3 052 per carat achieved in the corresponding period (which included the recovery of five outstanding diamonds which alone contributed US$ 27 million to revenue) and US$ 2 543 per carat for the previous six month period, H2 2011.

During the Period, 361 rough diamonds greater than 10.8 carats in size were recovered, contributing 72% of total rough diamond revenue. A total of 82 individual diamonds recorded prices greater than US$ 20 000 per carat, contributing rough revenue of US$ 74.3 million or 59% of revenue for the Period.

Diamond prices for Letšeng's high quality diamond production remained robust for the first four months of 2012. As a result of the difficult trading conditions mid-way through the second quarter, diamond prices began to soften with price reductions being more prevalent in the smaller diamond categories. Prices for Letšeng's larger, higher value production which have been stable for the last 12 months were slightly weaker in June 2012.

OWN MANUFACTURING AND PARTNERSHIP

In line with the Company's strategy to increase its participation in downstream cutting and polishing for own and partnered goods, during the Period, a total of 611 carats of select diamonds were extracted for own and partnered manufacturing at a fair market rough value of US$ 19.5 million. Of these diamonds extracted, US$3.5 million remained in inventory at the end of the Period.

The development of the manufacturing and further downstream sales initiatives continues to progress well.

During the Period, the Group acquired intellectual assets and established the capability to study, analyse and polish Letšeng's high end diamonds through the use of advanced technologies and specific skills. This capability provides Gem Diamonds with a more detailed understanding of the downstream value that can be derived from high end rough production. This information is used to actively assess the most value accretive channel in which to market such production - whether through the sale of rough diamonds, own manufacturing or partnered manufacturing. Designs for the in-country manufacturing facility in Lesotho are complete and building works commenced in the second quarter of 2012.

FINANCIAL PERFORMANCE

Letšeng Diamonds continues to deliver strong operational and financial results generating revenue of US$ 123.6 million from diamond sales and underlying EBITDA of US$ 56.3 million. This reflects a 45% decrease in underlying EBITDA as compared to H1 2011, which was an exceptional period for the Group.

US$ (millions)	**6 months ended 30 June 2012**	6 months ended 30 June 2011
Sales	**123.6**	160.9
Cost of sales*	**(57.2)**	(45.7)
Royalty and selling costs	**(10.1)**	(13.2)
Underlying EBITDA[1]	**56.3**	102.0
Physicals		
Tonnes treated	**3 373 110**	3 392 188
Waste tonnes mined[2]	**7 818 727**	8 543 937
Carats recovered	**57 116**	52 798
Carats sold[3]	**58 725**	52 614
US$ (per unit)		
Exchange rate (average)	**7.94**	6.89
Average price per carat (rough)	**2 133**	3 052
Direct cash cost (before waste) per tonne treated[4]	**12.74**	13.09
Operating cost per tonne treated[5]	**17.00**	13.57
Waste cash cost per waste tonne mined	**3.20**	2.95
Local currency (per unit) Lesotho loti		
Direct cash cost (before waste) per tonne treated[4]	**101.14**	90.19
Operating cost per tonne treated[5]	**135.02**	93.54
Waste cash cost per waste tonne mined	**25.44**	20.32
Other operating information (US$ millions)		
Waste capitalised	**28.7**	29.6
Waste amortised	**16.4**	6.5
Depreciation and amortisation	**9.2**	11.2
Capital expenditure	**9.4**	8.1

* Excluding depreciation and amortisation.

1 Included in underlying EBITDA is US$ 4.4 million (30 June 2011: US$ 4.7 million) profit generated on the portion of diamonds sold to Gem Diamonds Marketing Services and not sold outside of the Group by the end of June. These values have been eliminated in the consolidated Group results.

2 A survey error for recording waste mined during 2011 and prior has been identified and a review of the implications thereof will be concluded in H2 2012.

3 Represents all goods sold to Gem Diamonds Marketing Services in the Period.

4 Direct cash costs represents all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.

5 Operating costs exclude royalty and selling costs and depreciation and mine amortisation, and include inventory, waste and ore stockpile adjustments.

COSTS

Cost management has continued to be a key focus and Letšeng has managed to maintain its costs within expected targets notwithstanding the fuel and power increases experienced during the Period. Local currency direct unit cash costs (before waste) per tonne treated for the Period were Maloti 101.14 relative to the corresponding period of Maloti 90.19, the increase driven by inflation and growth in operational requirements. Total operating costs per tonne treated for the Period increased to Maloti 135.02 per tonne from Maloti 93.54 per tonne, mainly as a result of an increase in waste amortisation costs (driven by the different waste-to-ore strip ratios for the particular ore processed) during the Period. Waste amortisation is currently only associated with the Satellite pipe. During the Period, 33% of the ore processed was sourced from the Satellite pipe, compared to 11% in H1 2011. As a result, the overall increase in total cost of sales from US$ 45.7 million to US$ 57.2 million is driven by the additional waste amortisation charge which increased from US$ 6.5 million to US$ 16.4 million. The overall Satellite mining ratio for the full year is anticipated to be approximately 25%.

All full year costs are expected to be broadly in line with the guidance previously provided.

HEALTH, SAFETY, SOCIAL AND ENVIRONMENT (HSSE)

The health and safety record at Letšeng was excellent for the Period, with the operation recording 7 months Lost Time Injury (LTI) free in June 2012. No major or significant environmental or stakeholder incidents were recorded for the operation during the Period. Corporate Social Investment (CSI) at Letšeng continues to positively impact the lives of the project affected communities. The Company's flagship CSI projects, the Wool & Mohair and the Livelihoods projects remain on target, while several smaller projects remain ongoing.

OPERATING REVIEW ELLENDALE

Ellendale is renowned for its fancy and vivid yellow diamonds which are greatly sought after for their rarity. Ellendale contributes an estimated 50% of the world's supply of these fancy yellow diamonds. In December 2007, Gem Diamonds acquired Kimberley Diamond Company NL (Kimberley Diamonds). Kimberley Diamonds owns 100% of the Ellendale Mine in the north of Western Australia.

DIAMOND SALES

	6 months ended 30 June 2012	6 months ended 30 June 2011
Carats sold	**74 580**	57 874
Average US$ per carat	**772**	573

OPERATIONAL HIGHLIGHTS

- Waste tonnes mined: 3.1 million (2.3 million tonnes in H1 2011).
- Tonnes treated: 2.1 million (1.4 million tonnes in H1 2011).
- Carats recovered: 78 881 (52 349 carats in H1 2011).
- Grade Recovered: 3.80 cpht (3.63 cpht in H1 2011).

SUSTAINABILITY HIGHLIGHTS

- Fatality free since Gem Diamonds' acquisition in 2007.
- Achieved 1000 LTI-free days during May 2012.
- Zero major environmental incidents.
- LTIFR 0.00.

PRODUCTION

Ellendale had a considerably improved first half of the year, reporting significantly higher ore and waste mined as well as ore treated and carats recovered against the corresponding period. During the Period all mining and processing activities at Ellendale were from ore sourced from the E9 pipe. This pipe is renowned worldwide for its production of rare fancy yellow diamonds, comprising approximately 14% of Ellendale's total carats sold during the Period. These rare fancy yellow diamonds are sold under an off-take agreement to Tiffany & Co. and accounted for 80% of Ellendale's total revenue in the Period. The lower value E4 pipe, which was placed on care and maintenance in early 2009 as a result of the global financial downturn, continues to remain as such.

Historically, Ellendale has not mined during the wet season. This year however, wet season mining took place from January to March of 2012 and as a result, ore mined at Ellendale was 234% above the corresponding period levels. Waste mining for the Period was 3.1 million tonnes, exceeding waste mined in the corresponding period by 34%.

The commissioning of the primary feed section of the processing plant in January and February 2012 has had a large impact on the increased tonnes treated during the Period relative to the poor performance reported in the first half of 2011. Average tonnes treated have been circa 0.3 million tonnes per month compared to the corresponding period of 0.2 million tonnes per month. This increased throughput has positively impacted carats recovered and sold in the Period.

Ellendale's improved production in the first half of the year has led to a review of the full year forecast, with upwardly revised full year guidance given to the market in July 2012.

SALES AND MARKETING

Kimberley Diamonds continues to market its rare fancy yellow diamonds under the life of mine off-take agreement to Laurelton Diamonds, Inc., the diamond sourcing and manufacturing subsidiary of global high-end jeweller Tiffany & Co. Ellendale's commercial diamonds continue to be sold on an electronic auction platform in Antwerp. Viewings for these commercial diamonds now take place in two jurisdictions, Belgium and Israel. The multi-jurisdictional viewings have had a positive effect on the auction dynamics considering the prevailing market uncertainty.

For the Period, Kimberley Diamonds achieved an overall average price of US$ 772 per carat for its production, an increase of 35% from the average price of US$ 573 per carat achieved in the corresponding period.

Kimberley Diamonds achieved an average of US$ 4 315 per carat for Ellendale's fancy yellow diamonds sold to Tiffany & Co., representing an increase of 7% against the average price per carat of US$ 4 045 in H1 2011. These fancy yellow diamonds continue to be priced monthly against an agreed composite index. During the Period, Ellendale's commercial diamond production achieved an average price of US$ 180 per carat, a decrease of 8% over the average price achieved in H1 2011 of US$ 195 per carat, reflective of the challenging market conditions during the Period.

FINANCIAL PERFORMANCE

Kimberley Diamonds generated revenue of US$ 57.6 million compared to US$ 33.3 million achieved in the corresponding period. Kimberley Diamonds has generated a positive underlying EBITDA of US$ 6.8 million, reflecting a significant increase over the first half of 2011.

US$ (millions)	**6 months ended 30 June 2012**	6 months ended 30 June 2011
Sales	**57.6**	33.3
Cost of sales*	**(47.4)**	(35.2)
Royalty and selling costs	**(3.4)**	(2.2)
Underlying EBITDA	**6.8**	(4.1)
Physicals		
Tonnes treated	**2 073 793**	1 441 506
Waste tonnes mined	**3 091 828**	2 303 449
Carats recovered	**78 881**	52 349
Carats sold	**74 580**	57 874
US$ (per unit)		
Exchange rate (average)	**0.97**	0.97
Average price per carat (rough)	**772**	573
Direct cash cost (before waste) per tonne treated[1]	**16.79**	17.87
Operating cost per tonne treated[2]	**22.85**	24.52
Waste cash cost per waste tonne mined	**4.61**	4.72
Local currency (per unit) Australian dollar (AU$)		
Direct cash cost (before waste) per tonne treated[1]	**16.27**	17.30
Operating cost per tonne treated[2]	**22.14**	23.73
Waste cash cost per waste tonne mined	**4.47**	4.57
Other operating information (US$ million)		
Waste capitalised	**17.4**	12.9
Waste amortised	**13.7**	6.5
Depreciation and amortisation	**8.4**	4.3
Capital expenditure	**2.4**	1.6

* Excluding depreciation and amortisation.

1 Direct cash costs represent all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.

2 Operating costs exclude royalty and selling costs and depreciation and mine amortisation, and include inventory, waste and ore stockpile adjustments.

COSTS

Cost management continues to be a key focus for Ellendale. As a result of the revised production and the impact of mining during the wet season, revised full year cost guidance has been provided in July 2012 with reference to mining waste cash costs per waste tonne mined and operating costs per tonne treated. Direct cash costs were maintained within expected targets.

A large portion of Ellendale's cost structure is fixed. Local currency direct cash costs (before waste) per tonne treated for the Period amounted to AU$ 16.27 relative to the corresponding period of AU$ 17.30. Waste cash costs per tonne of waste moved was AU$ 4.47, down from the corresponding period of AU$ 4.57. Total operating costs per tonne treated for the Period decreased to AU$ 22.14 per tonne from AU$ 23.73 per tonne. The additional throughput during the Period has resulted in an overall decrease in the unit costs, in spite of the high fixed costs. As a result of mining in the wet season, mining volumes have increased, and therefore overall cost of sales increased from US$ 35.2 million to US$ 47.4 million and includes an increase in waste amortisation of US$ 7.2 million over the corresponding period.

HSSE

Ellendale continues to achieve a high standard in HSSE management. The operation has remained fatality-free since it was taken over by Gem Diamonds and achieved 1 000 LTI-free days in May 2012. Ellendale recorded zero major environmental incidents or significant stakeholder incidents during the Period. The Company continues to contribute to the progress of its project-affected communities through supporting projects related to education, healthy lifestyles and regional environmental initiatives.

STRATEGIC REVIEW UPDATE

In November 2011, the Company announced that it was considering all of its options regarding the Ellendale mine and that it had appointed advisors to assist in this regard. Gem Diamonds has since suspended the formal process but continues to explore all options for Ellendale.

OPERATING REVIEW: GHAGHOO

DEVELOPMENT

The Ghaghoo diamond mine in Botswana is currently being developed by the Company's wholly owned subsidiary, Gem Diamonds Botswana, which is the holder of a 25 year mining licence. Phase 1 of the Ghaghoo underground mine, which is planned to have a production capacity of 720 000 tonnes per annum, commenced in mid-2011. The objective of Phase 1 is to confirm the grade, diamond prices and the recovery processes, including the use of autogenous milling, which is expected to increase diamond liberation. Results from Phase 1 will underpin a study aimed at defining the way forward for mining at Ghaghoo.

During the Period, Phase 1 of the Ghaghoo underground mine in Botswana progressed with the construction of the decline tunnel using an open face tunnel shield through the sand overburden. Progress for the decline tunnel was slower than planned through an area of unconsolidated sand, interspersed with unanticipated harder material. Approximately 150 meters of tunnel have been completed to date and a further 350 meters of tunnel development is required to reach the basalt country rock. Thereafter 650 meters of basalt development will be required to reach the planned bottom of the decline. Construction of the processing plant has progressed pleasingly during the Period and is now well advanced.

In May, a tragic accident involving a sudden and rapid inrush of sand at the face of the tunnel development tragically resulted in two fatalities. Following a detailed investigation, with additional safety precautions having been agreed to, the Department of Mines gave its permission for the project to continue. Tunnel development is expected to re-commence in the third quarter of 2012.

In light of the current economic climate, the Directors have reviewed the Ghaghoo project to extend the project's development period in order to optimise the Company's capital expenditure profile and maintain its strong balance sheet in the event of any further deterioration in market conditions.

Approximately US$ 37 million of the overall budget has been spent to date. It is anticipated that 2012 will see a further US$ 15 million expended; with the balance of costs being incurred thereafter.

HSSE

The development of the Ghaghoo HSSE system remains ongoing as construction and operational activities expand. In addition to the two fatalities, one LTI was recorded at the operation during the Period (in the same accident as the two fatalities), while zero major or significant environmental or stakeholder incidents were recorded in the reporting Period.

OPERATING REVIEW: GEM DIAMONDS MARKETING

Gem Diamonds maximises revenue from actively managing its own multi-channel strategy and markets its rough diamonds through a combination of channels, including tenders, auctions, direct sales, off-take arrangements and partnerships, and continues to pursue additional initiatives further down the diamond pipeline. Strong emphasis is placed on developing existing relationships with clients and establishing relationships with new clients.

The Group's rough diamond production is marketed primarily in Antwerp through the use of electronic sales (eSales) technology platforms (eTender and eAuction) which are designed to enhance engagement with customers. eSales technology enables Gem Diamonds to interact with its customers securely, more frequently, dynamically and transparently, and helps ensure the achievement of fair market-driven prices for its diamond production.

The Letšeng diamond production is sold on eTender and is marketed by Gem Diamonds Marketing Services BVBA, a wholly owned Group subsidiary based in Antwerp, Belgium. The Kimberley Diamonds' commercial diamond production is marketed through an outsourced service provider via eAuctions in Antwerp and Kimberley Diamonds' higher value qualifying fancy yellow diamond production continues to be sold to Tiffany & Co. through the Life of Mine off-take agreement.

BAOBAB TECHNOLOGIES

On 9 May 2012, Baobab Technologies BVBA ("Baobab Technologies"), a newly formed 100% held company within Gem Diamonds Investment Limited, acquired certain intellectual property of Matrix Diamond Technology BVBA ("Matrix"), a company based in Belgium, specialising in the study, analysis and cutting and polishing of rough diamonds, for a cash consideration of US$ 0.8 million. The acquisition forms part of the Group's sales and marketing strategy to grow its cutting and polishing capability and capacity internally.

OPERATING REVIEW: OTHER ASSETS

The Chiri Project in Angola remains under review, although opportunities continue to be explored in terms of the future of Gem Diamonds' involvement in this project. Negotiations with the Company's partner are expected to be concluded by September 2012. The carrying value of the Group's investment into the Chiri Project as at June 2012 amounts to US$ 13.6 million representing loans advanced and options of US$ 5.9 million, capital assets injected of US$ 0.3 million and development costs incurred of US$ 7.4 million. Should the opportunities to further the project not materialise, Management would be required to reassess the carrying value of this investment.

GROUP FINANCIAL PERFORMANCE

For the first half of 2012, the Group reports revenue of US$ 180.2 million and underlying EBITDA of US$ 52.7 million, pre-tax earnings of US$ 36.3 million, profit for the Period of US$ 24.9 million and attributable profit of US$ 14.3 million.

(US$ millions)	**6 months ended 30 June 2012**	6 months ended 30 June 2011
Revenue	**180.2**	196.5
Cost of sales*	**(105.4)**	(82.6)
Royalty and selling costs	**(15.0)**	(15.4)
Corporate expenses	**(7.1)**	(7.7)
Underlying EBITDA	**52.7**	90.8
Depreciation and amortisation	**(18.3)**	(16.5)
Share-based payments	**(1.1)**	(0.8)
Other income	**0.4**	–
Foreign exchange gain	**2.4**	4.4
Net finance income	**0.2**	1.1
Profit before tax	**36.3**	79.0
Income tax expense	**(11.4)**	(26.9)
Profit for the Period from continuing operations	**24.9**	52.1
Profit/(loss) from discontinued operations	**–**	(1.2)
Non-controlling interests	**(10.6)**	(22.0)
Attributable profit	**14.3**	28.9
Earnings per share (US cents)	**10.36**	20.89
Earnings per share – (continuing operations (US cents)	**10.36**	21.76

*Excluding depreciation and amortisation.

Revenue was generated primarily from the sale of rough diamonds recovered at the Letšeng and Ellendale mines. In addition, revenue includes US$ 2.1 million generated from the cutting and polishing business.

Underlying EBITDA for the Period was US$ 52.7 million, down US$ 38.1 million against the corresponding period of US$ 90.8 million. Profit attributable to shareholders for the Period was US$ 14.3 million, equating to 10.36 US cents per share on a weighted average number of shares in issue of 138.2 million.

Cost of sales for the Period was US$ 105.4 million before non-cash costs of depreciation of US$ 16.3 million and amortisation on mining assets of US$ 2.0 million.

The Lesotho Loti (pegged to the South African rand) was significantly weaker than the corresponding period, positively impacting US dollar reported costs during the Period. The Australian dollar maintained its strong trading levels during the Period.

The following table details the relative exchange rates for 2012 compared to 2011:

	H1 2012	H1 2011	Variance H1 2012 to H1 2011	FY 2011	Variance H1 2012 to FY 2011
Lesotho loti per US$ 1.00					
Average exchange rate for the year/period	**7.94**	6.89	15%	7.26	9%
Year/period end exchange rate	**8.18**	6.78	21%	8.07	1%
Australian dollar per US$ 1.00					
Average exchange rate for the year/period	**0.97**	0.97	0%	0.97	0%
Year/period end exchange rate	**0.98**	0.93	(5%)	0.98	0%

Royalties and selling costs of US$ 15.0 million mainly comprise royalties paid to the Lesotho Revenue Authority of 8% and to the Australian Government of 5% on the sale of diamonds from these respective territories and diamond marketing related expenses.

Corporate expenses relate to central costs incurred by the Company and its services subsidiary, Gem Diamond Technical Services. Corporate expenses were US$ 7.1 million (30 June 2011 US$ 7.7 million) which include US$ 0.7 million for once-off project costs (30 June 2011: US$ 0.8 million), impacted by the stronger US dollar during the Period (a large portion of corporate costs are based in South African rand).

SHARE-BASED PAYMENTS

Share-based payment costs for the Period amount to US$ 1.1 million. During March 2012, 1 347 000 options were granted to certain key employees under the LTIP of the Company. These options comprised of 449 000 Nil Value Options and 898 000 Market Value Options. The exercise price of the Market Value Options equals the market price of the shares on the date of the grant which is £ 3.00 (US$ 4.76). The options only vest if certain performance criterion are met over a three year period. If the performance conditions are not met the options lapse and there are no cash settlement options. The contractual life of each option granted is three years. The share-based payment cost associated with the new award had no material impact on the current Period charge.

FOREX

Foreign exchange gains relate to gains on the conversion of US dollar revenue into local currency at Letšeng, gains on exchange rate fluctuations on Sterling denominated cash held by the Company and realised hedges entered into by the Group during the Period.

NET FINANCE INCOME

Net finance income comprises the net interest received of US$ 1.6 million, predominantly generated on surplus cash from the Letšeng operation, against US$ 1.4 million charged to the Income Statement, representing the impact of unwinding the current environmental provisions and fair valuing of financial assets (the Chiri loan).

TAX

The effective tax rate in the Period for the Group is 31.5%, above the UK statutory tax rate of 24.5%. The increase over the statutory rate is predominantly driven by deferred tax assets not recognised on losses incurred in non-trading operations. On 3 July 2012, the UK Statutory tax rate was changed to 23.0%. The new tax rate will not impact on deferred tax assets and liabilities as the companies to which the rate would apply do not have any such assets or liabilities recognised. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds; withholding tax of 10% on dividends; and deferred tax assets not recognised on losses incurred in non-trading operations.

NON-CONTROLLING INTERESTS

Non-controlling interests represent 30% of the profits in Letšeng Diamonds, which are attributable to the Company's partner, the Government of the Kingdom of Lesotho.

IMPAIRMENTS

No impairments on non-current assets were identified in the Period.

CASH AND DEBT

The Group had US$ 139.0 million cash on hand at the Period end (of which US$ 127.7 million is attributable and US$ 1.6 million is restricted).

Group cash was supplemented by a cash inflow from operations for the Period of US$ 89.4 million. Investments in property, plant and equipment amounted to US$ 75.8 million. The largest component of this investment was US$ 46.1 million, incurred in waste stripping at both mining operations. For Letšeng, property, plant and equipment investment relates to costs associated with Project Kholo and acquisition of pre-crushing equipment previously outsourced. For Kimberley Diamonds, this relates to the increased treatment rate at the Ellendale E9 plant which required additional slimes capacity and the modifications to the primary plant feed section of the processing plant. For Ghaghoo this relates to the Phase 1 costs incurred.

Letšeng has a three year revolving working capital facility of Maloti 250 million with Standard Lesotho Bank. This facility became available for draw-down from January 2012, but this facility was not used during the Period ended 30 June 2012.

Australia and New Zealand Banking Group Limited (ANZ Bank) has issued performance guarantees on behalf of Kimberley Diamonds to the amount of US$ 9.8 million, of which US$ 8.9 million is cash-backed to support environmental obligations for protection of the land on which mining, mining related activities or exploration is conducted.

INVENTORY

Group inventory at Period end was US$ 38.1 million (31 December 2011: US$ 39.2 million) of which US$ 18.4 million related to diamond inventory (31 December 2011: US$ 21.2 million). Included in diamond inventory, and in the process of being manufactured is US$ 4.5 million (31 December 2011: US$ 1.2 million) worth of diamonds at rough value, of which US$1.0 million relates to the prior year. As a result, the Group has eliminated this revenue on consolidation and underlying EBITDA has been reduced by US$ 4.4 million representing intergroup unrealised rough profit thereon. Attributable profit has been reduced by US$ 2.3 million.

EVENTS SUBSEQUENT TO THE PERIOD END

No other fact or circumstance has taken place during the Period covered by the financial statements and up to the date of this report which, in our opinion, is of significance in assessing the state of the Group's affairs.

RISKS TO OUR BUSINESS

Many of these risks are beyond the control of the Group but a formal risk management process exists to assist in identifying and reviewing potential risks. Mitigating plans are formulated and reviewed regularly to understand their effectiveness and progress. The Group is focused on continuously analysing and assessing the risks faced and improving the risk management process accordingly.

A reassessment of the risks, which have been previously reported in the Business Review in the 2011 Annual Report, has identified that the principal risks and uncertainties have not changed. These may impact the Group over the medium to long term; however the following key risks have been identified which may impact the Group over the next six months.

1. Short term demand and prices (Market and Price Risk)

The current downturn in the global financial markets and the impact thereof on consumer preferences, impacts the Group and the industry as a whole by potentially altering demand fundamentals in the diamond pipeline. Although the Group cannot materially influence the situation, market conditions are constantly monitored to identify current trends that will pose a threat or create an opportunity for the Group. In this regard, management have taken all reasonable measures to preserve its cash position by extending the delivery of its capital projects.

2. Exchange Rates (Financial Risk)

The Group receives its revenue in US dollars while its cost base arises in local currencies based on the various countries within which the Group operates. The weakening of the US dollar relative to these local currencies and the volatility of these currencies trading against the US dollar will impact the Group's profitability. The impact of the exchange rates and fluctuations are closely monitored.

CONCLUSION

Despite the current economic uncertainty and the anticipated short term volatility in the diamond market, our view on the long term outlook for the diamond market remains positive, with supply forecast to remain tight and growing demand in key markets expected to put upward pressure on diamond prices in due course. Having put prudent measures in place to extend its capital investment in its key growth projects in order to protect its strong balance sheet, Gem Diamonds is well placed to withstand this economic downturn.

Clifford Elphick

Chief Executive Officer

20 August 2012

GEM DIAMONDS LIMITED

HALF-YEARLY FINANCIAL STATEMENTS
30 JUNE 2012

CONTENTS

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY REPORT AND FINANCIAL STATEMENTS

PURSUANT TO DISCLOSURE AND TRANSPARENCY RULES (DTR) 4.2.10

The Directors confirm that, to the best of their knowledge this condensed set of financial statements has been prepared in accordance with IAS 34, 'Interim Financial Reporting' and that the Half-yearly Report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

(a) an indication of important events that have occurred during the first six months of the financial year and their impact on this condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) material related party transactions in the first six months of the year and any material changes in the related party transactions described in the Gem Diamonds Limited Annual Report 2011.

The names and functions of the Directors of Gem Diamonds are listed in the Annual Report for the year ended 31 December 2011.

For and on behalf of the Board

Kevin Burford

Chief Financial Officer

20 August 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEM DIAMONDS LIMITED

We have been engaged by Gem Diamonds Limited (the 'Company') to review the consolidated set of financial statements of the Company and its subsidiaries (the 'Group") in the half year report for the six months ended 30 June 2012 which comprises interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of financial position, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and the related explanatory notes 1 to 17. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2.1, the annual financial statements of the group are prepared in accordance with IFRSs. The condensed set of financial statements included in this half year report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half year report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom.

A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

London

20 August 2012

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June

	Notes	**30 June 2012[1] US$'000**	30 June 2011[1] US$'000
CONTINUING OPERATIONS			
Revenue	4	**180 188**	196 531
Cost of sales		**(123 018)**	(98 081)
GROSS PROFIT		**57 170**	98 450
Other operating income		**391**	113
Royalties and selling costs		**(14 956)**	(15 371)
Corporate expenses		**(7 835)**	(8 786)
Share-based payments	13	**(1 057)**	(822)
Foreign exchange gain		**2 359**	4 391
OPERATING PROFIT	4	**36 072**	77 975
Net finance income		**247**	1 087
Finance income		**1 607**	2 088
Finance costs		**(1 360)**	(1 001)
Share of post tax loss of associate		**–**	(107)
PROFIT BEFORE TAX FOR THE PERIOD FROM CONTINUING OPERATIONS		**36 319**	78 955
Income tax expense	6	**(11 432)**	(26 858)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**24 887**	52 097
DISCONTINUED OPERATIONS			
Loss after tax for the period from discontinued operations	7	**–**	(1 205)
PROFIT FOR THE PERIOD		**24 887**	50 892
Attributable to:			
Equity holders of parent		**14 320**	28 868
Non-controlling interests		**10 567**	22 024
PROFIT FOR THE PERIOD		**24 887**	50 892
Earnings per share (cents)			
– Basic earnings for the period attributable to ordinary equity holders of the parent		**10.36**	20.89
– Diluted earnings for the period attributable to ordinary equity holders of the parent		**10.11**	20.50
Earnings per share for continuing operations (cents)			
– Basic earnings for continuing operations attributable to ordinary equity holders of the parent		**10.36**	21.76
– Diluted earnings for continuing operations attributable to ordinary equity holders of the parent		**10.11**	21.35

[1] Unaudited

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

	30 June 2012[1] US$'000	30 June 2011[1] US$'000
PROFIT FOR THE PERIOD	**24 887**	50 892
Loss on valuation of available-for-sale financial asset	**(201)**	–
Exchange differences on translation of foreign operations	**(8 852)**	(8 589)
Other comprehensive loss for the period, net of tax	**(9 053)**	(8 589)
Total comprehensive income for the period	**15 834**	42 303
Attributable to:		
Equity holders of parent	**3 420**	27 053
Non-controlling interests	**12 414**	15 250
Total comprehensive income for the period, net of tax	**15 834**	42 303

[1] Unaudited

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

	Notes	30 June 2012[1] US$'000	31 December 2011[2] US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**445 878**	424 937
Investment property		**616**	617
Intangible assets		**25 961**	25 529
Other financial assets	10	**15 838**	14 587
		488 293	465 670
Current assets			
Inventories		**38 145**	39 222
Receivables		**9 557**	10 145
Other financial assets	10	**261**	9
Cash and short term deposits	11	**138 960**	158 750
		186 923	208 126
TOTAL ASSETS		**675 216**	673 796
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	12	**1 383**	1 383
Share premium		**885 648**	885 648
Own shares[3]		**(1)**	(1)
Other reserves		**(58 461)**	(48 720)
Accumulated losses		**(407 086)**	(421 406)
		421 483	416 904
Non-controlling interests		**79 293**	66 879
TOTAL EQUITY		**500 776**	483 783
Non-current liabilities			
Trade and other payables		**900**	667
Provisions		**43 366**	43 201
Deferred tax liabilities		**68 907**	68 061
		113 173	111 929
Current liabilities			
Trade and other payables		**53 782**	57 098
Income tax payable		**7 485**	20 986
		61 267	78 084
TOTAL LIABILITIES		**174 440**	190 013
TOTAL EQUITY AND LIABILITIES		**675 216**	673 796

[1] Unaudited

[2] Audited

[3] Being shares held by Gem Diamonds Limited Employee Share Trust

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June

				Attributable to the equity **holders of the parent**						
	Issued capital	**Share premium**	**Own shares[1]**	**Foreign currency translation reserve**	**Share based equity reserve**	**Revaluation reserve**	**Accumulated losses)/ retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2012	**1 383**	**885 648**	**(1)**	**(90 573)**	**42 555**	**(702)**	**(421 406)**	**416 904**	**66 879**	**483 783**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**14 320**	**14 320**	**10 567**	**24 887**
Other comprehensive income	**–**	**–**	**–**	**(10 699)**	**–**	**(201)**	**–**	**(10 900)**	**1 847**	**(9 053)**
Total comprehensive income	**–**	**–**	**–**	**(10 699)**	**–**	**(201)**	**14 320**	**3 420**	**12 414**	**15 834**
Share-based payments (Note 13)	**–**	**–**	**–**	**–**	**1 159**	**–**	**–**	**1 159**	**–**	**1 159**
Balance at 30 June 2012[2]	**1 383**	**885 648**	**(1)**	**(101 272)**	**43 714**	**(903)**	**(407 086)**	**421 483**	**79 293**	**500 776**
Balance at 1 January 2011	1 383	885 648	(1)	(39 649)	40 974	–	(489 075)	399 280	84 791	484 071
Profit for the year	–	–	–	–	–	–	28 868	28 868	22 024	50 892
Other comprehensive income	–	–	–	(1 815)	–	–	–	(1 815)	(6 774)	(8 589)
Total comprehensive income	–	–	–	(1 815)	–	–	28 868	27 053	15 250	42 303
Share-based payments (Note 13)	–	–	–	–	878	–	–	878	–	878
Dividends paid	–	–	–	–	–	–	–	–	(12 352)	(12 352)
Balance at 30 June 2011	1 383	885 648	(1)	(41 464)	41 852		(460 207)	427 211	87 689	514 900

[1] Being shares held by Gem Diamonds Limited Employee Share Trust

[2] Unaudited

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June

	Notes	30 June 2012[1] US$'000	30 June 2011[1] US$'000
CASHFLOWS FROM OPERATING ACTIVITIES		**57 902**	102 139
Cash generated by operations	14.1	**89 410**	111 320
Working capital adjustments	14.2	**(9 737)**	(3 004)
		79 673	108 316
Interest received		**1 607**	2 081
Interest paid		**(11)**	(13)
Income tax paid		**(23 367)**	(8 245)
CASHFLOWS USED IN INVESTING ACTIVITIES		**(77 360)**	(52 421)
Purchase of property, plant and equipment		**(75 758)**	(54 880)
Proceeds from sale of property, plant and equipment		**924**	2 599
Purchase price of business combination	3	**(786)**	–
Purchase of other financial assets	10	**(1 740)**	(140)
CASHFLOWS USED IN FINANCING ACTIVITIES		**–**	(12 352)
Dividends paid to non-controlling interests		**–**	(12 352)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(19 458)**	37 366
Cash and cash equivalents at the beginning of the period – continuing operations		**158 750**	129 849
Cash and cash equivalents at the beginning of the period – discontinued operations		**–**	78
Foreign exchange differences		**(332)**	(1 631)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**138 960**	165 662
Cash and cash equivalents at end of the period held with banks		**137 358**	164 308
Restricted cash at end of the period		**1 602**	1 354
Less: cash and cash equivalents from discontinued operations at end of period		**–**	(101)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	11	**138 960**	165 561

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

1. Corporate information

1.1 Incorporation and authorisation

The holding company, Gem Diamonds Limited (the 'Company'), was incorporated on 29 July 2005 in the British Virgin Islands. The Company's registration number is 669758.

The financial information shown in this report, which was approved by the Board of Directors on 20 August 2012, is unaudited and does not constitute statutory financial statements. The report of the auditors on the Company's 2011 Annual Report and Accounts was unqualified.

2. Basis of preparation and accounting policies

2.1 Basis of presentation

The condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Interim Business Review on pages 3 to 10. The financial position of the Company, its cashflows and liquidity position are described in the Interim Business Report on pages 11 to 13.

After making enquiries which include reviews of forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing this half-yearly report and accounts of the Company.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new Standards and Interpretations as of 1 January 2012, noted below:

IAS 12 Deferred taxes: Recovery of underlying assets (Amendment)

The IASB has issued an amendment to IAS 12 that introduces a rebuttable presumption that deferred tax on investment properties measured at fair value be recognized on a sale basis. The presumption can be rebutted if the entity applies a business model that would indicate that substantially all of the investment property will be consumed in the business, in which case an own-use basis must be adopted. The Group measures its investment property at cost and therefore this amendment had no effect on the financial position or performance of the Group.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

3. Business Combination

On 9 May 2012, Baobab Technologies BVBA (a newly formed 100% held company within Gem Diamonds Investment Limited) acquired certain intellectual property (staff and know-how) from and entered into a short-term lease agreement for the use of equipment and premises with Matrix Diamond Technology BVBA ('Matrix'), an unlisted company based in Belgium, specialising in cutting and polishing of rough diamonds. The cash consideration paid for the intellectual property was US$ 0.8m. The acquisition was done as part of the Group's sales and marketing strategy and growth in its cutting and polishing business. The provisional fair value of the assets acquired as at the date of acquisition was:

Provisional fair value recognition on acquisition	Total (US$'000)[1]
Assets	
Intangible asset	**786**
	786
Purchase consideration in cash transferred	**786**

[1] Unaudited

4. Segment information

For management purposes, the Group is organised into geographical units as the Group's risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates. Other regions where no direct mining activities take place are organised into geographical regions in the areas where the projects are based. The main geographical regions are:

Lesotho (Mining activities)

Australia (Mining activities)

Botswana (Mining activities)

Belgium (Sales and marketing for the sale of diamonds in Antwerp)

BVI, RSA and UK (Technical and administrative services)

Management monitors the operating results of the geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. However, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Inter-segment transactions are entered into under normal arm's length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities and group services.

The following table presents revenue and profit, asset and liability information from continuing operations regarding the Group's geographical segments:

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

4. Segment information (continued)

6 months ended 30 June 2012[1]	**Lesotho (US$'000)**	**Australia (US$'000)**	**Botswana (US$'000)**	**Belgium (US$'000)**	**BVI, RSA and UK (US$'000)**	**Total (US$'000)**
Sales						
Total sales	**123 578**	**57 612**	**–**	**122 494**	**5 382**	**309 066**
Inter-segment sales	**(123 578)**	**–**	**–**	**(295)**	**(5 005)**	**(128 878)**
Sales to external customers	**–**	**57 612**	**–**	**122 199**	**377**	**180 188**
Segment operating profit/(loss)	**46 252**	**(1 663)**	**(60)**	**630**	**(9 087)**	**36 072**
Net finance income						**247**
Profit before tax						**36 319**
Income tax expense						**(11 432)**
Profit for the period						**24 887**
Segment assets						
At 30 June 2012[1]	**358 677**	**114 246**	**88 287**	**37 589**	**76 417**	**675 216**
At 31 December 2011[2]	**371 503**	**117 896**	**66 749**	**3 966**	**113 682**	**673 796**

Revenue from two customers amounted to US$ 57.9 million (30 June 2011: US$ 82.5 million) arising from sales reported in the Lesotho, Belgium and Australian segments.

6 months ended 30 June 2011[1]	Lesotho (US$'000)	Australia (US$'000)	Botswana (US$'000)	Belgium (US$'000)	BVI, RSA and UK (US$'000)	Total (US$'000)
Sales						
Total sales	160 877	33 262	–	159 693	6 944	360 776
Inter-segment sales	(159 168)	–	–	(39)	(5 038)	(164 245)
Sales to external customers	1 709	33 262	–	159 654	1 906	196 531
Segment operating profit/(loss)	95 328	(8 521)	(20)	1 389	(10 201)	77 975
Net finance income						1 087
Share of loss of associate						(107)
Profit before tax from continuing operations						78 955
Income tax expense						(26 858)
Profit for the period from continuing operations						52 097

The decrease in total sales for the period compared to the corresponding prior period is as a result of lower diamond prices at the Lesotho operation, offset by slightly higher diamond prices at the Australian operation and increased number of carats recovered and sold at both operations.

Operating profits have decreased compared to the corresponding prior period as a result of increased costs. Other than inflationary increases, in Kimberley costs increased as a result of mining that took place during the wet season in the first three months of the year, previously not done. In Letšeng, costs increased as a result of an increase in waste amortisation costs, driven by the different waste to ore strip ratios for the particular ore processed during the period.

[1] Unaudited

[2] Audited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

5. SEASONALITY OF OPERATIONS

The Groups' sales environment with regards to its diamond sales is not materially impacted by seasonal and cyclical fluctuations. The mining operations may be impacted by seasonal weather conditions. Appropriate mine planning and ore stockpile build-up ensures that mining can continue during adverse weather conditions.

6. INCOME TAX EXPENSE

	30 June 2012[1] US$'000	30 June 2011[1] US$'000
Income statement		
Current		
– Overseas	**(9 681)**	(19 392)
Withholding tax		
– Overseas	**(47)**	(2 922)
Deferred		
– Overseas	**(1 704)**	(4 544)
	(11 432)	(26 858)

[1] Unaudited

The forecast effective tax rate for the full year for the Group is 31.5%, which has been applied to the actual results of the interim period. This is above the UK statutory tax rate of 24.5% and is predominantly driven by deferred tax assets not recognised on losses incurred in non-trading operations. On 3 July 2012, the UK statutory tax rate was changed to 23.0%. The new tax rate will not impact on deferred tax assets and liabilities as the companies to which the rate would apply do not have any such assets or liabilities recognised. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds; withholding tax of 10% on dividends; and deferred tax assets not recognised on losses incurred in non-trading operations.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

7. DISCONTINUED OPERATIONS

Indonesia
During the prior year, the Group completed the sale of its Indonesian operation.

There are no discontinued operations for the period.

The results of the Indonesian operation for the six months ended 30 June are as follows:

	30 June 2012[1] US$'000	30 June 2011[1] US$'000
Revenue	–	–
Cost of sales and other operating costs	–	(1 205)
Gross loss	–	(1 205)
Share-based payments	–	(3)
Foreign exchange gain	–	3
Loss before tax from discontinued operations	–	(1 205)
Tax expense	–	–
– related to current pre-tax loss	–	–
Loss after tax for the period from discontinued operations	–	(1 205)
Earnings per share from discontinued operations (cents)		
– Basic	–	(0.87)
– Diluted	–	(0.86)
The net cash flows attributable to the discontinued operations are as follows:		
Operating	–	(1 136)
Investing	–	1 527
Financing	–	(370)
Net cash inflow	–	21

[1] Unaudited

8. DIVIDENDS PAID AND PROPOSED

The Directors do not intend recommending the declaration of a dividend. The Directors will reconsider the Company's dividend policy as the current market conditions unfold. The Directors envisage that, at such time, the Company's dividend policy will be determined based on, and dependent on, the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired assets of US$ 29.7 million (30 June 2011: US$ 12.4 million) and capitalised deferred stripping of US$ 46.1million (30 June 2011: US$ 42.5 million).

In addition to the above, foreign exchange movements on translation were US$ (5.7) million (30 June 2011: US$ (5.0) million).

Depreciation and amortisation (including amortisation of deferred stripping of US$30.0 million) of US$ 50.5 million (30 June 2011: US$ 28.5 million) was charged to the income statement during the period.

10. OTHER FINANCIAL ASSETS

Included in other financial assets are environmental bonds of US$ 8.9 million (31 December 2011: US$ 7.3 million), which include an additional amount of US$ 1.5 million lodged during the period. Also included in other financial assets is the Chiri project loan of US$ 5.4 million (31 December 2011: US$ 5.6 million) which has been fair valued.

11. CASH AND SHORT TERM DEPOSITS

	30 June 2012[1] US$'000	31 December 2011[2] US$'000
Cash at bank and on hand	**73 220**	62 016
Short term bank deposits	**65 740**	96 734
Bank balances	**138 960**	158 750

At 30 June 2012, the Group had restricted cash of US$ 1.6 million (31 December 2011: US$ 1.6 million).

At 30 June 2012 no funds had been drawn against the Maloti 250 million three year revolving working capital facility reported at 31 December 2011.

12. ISSUED CAPITAL AND RESERVES

	30 June 2012[1]		31 December 2011[2]	
	Number of shares '000	**US$'000**	Number of shares '000	US$'000
Authorised – ordinary shares of US$ 0.01 each				
As at period/year end	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of period	**138 267**	**1 383**	138 267	1 383
Allotments during the period	**–**	**–**	–	–
Balance at end of period/year	**138 267**	**1 383**	**138 267**	**1 383**

[1] Unaudited

[2] Audited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

13. SHARE-BASED PAYMENTS

Long term Incentive Plan ('LTIP')

On 20 March 2012, 1 347 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 449 000 were Nil Value Options and 898 000 were Market Value Options. The exercise price of the Market Value Options is £3.00 (US$ 4.76), which was equal to the market price of the shares on the date of the grant. The vesting of the options will be subject to the satisfaction of performance conditions over a three year period that is considered appropriately stretching. If the performance conditions are not met the options lapse. The fair value of the options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. The contractual life of each option granted is three years. There are no cash settlement options. The fair value of the options granted during the six months ended 30 June 2012 was estimated on the date of grant using the following assumptions:

	30 June 2012 LTIP 2012
Employee Share-Option Plan	
Dividend yield (%)	–
Expected volatility (%)	**63.88**
Risk-free interest rate (%)	**1.20**
Expected life of option (years)	**3.00**
Weighted average share price (US$)	**4.76**
Fair value of Nil Value Options (US$)	**3.76**
Fair value of Market Value Options (US$)	**2.27**
Model used	**Monte Carlo**

14. CASHFLOW NOTES

14.1 Cash generated by operations

	30 June 2012[1] US$'000	30 June 2011[1] US$'000
Profit before tax for the period from continuing operations	**36 319**	78 955
Loss before tax for the period from discontinued operations	–	(1 205)
Adjustments for:		
Depreciation and amortisation on property, plant and equipment	**50 496**	30 283
Write down of inventory	**5 949**	2 530
Finance income	**(1 607)**	(2 088)
Finance costs	**1 360**	1 001
Movement in provisions	**(1 454)**	616
Mark to market revaluations	**(258)**	36
Share of loss in associate	–	107
Unrealised foreign exchange differences	**(2 422)**	(3 340)
Profit on disposal of property, plant and equipment	**(107)**	(210)
Movements in prepayments	**72**	135
Other non-cash movements	**5**	3 678
Share-based equity transaction	**1 057**	822
	89 410	111 320

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

14. CASHFLOW NOTES (continued)

14.2 Working capital adjustments

	30 June 2012[1] US$'000	30 June 2011[1] US$'000
Increase in inventories	**(4 893)**	(2 470)
Increase in receivables	**(627)**	(6 928)
(Decrease)/increase in trade and other payables	**(4 217)**	6 394
	(9 737)	(3 004)

15. COMMITMENTS AND CONTINGENCIES

The Board has approved capital projects of US$ 377.0 million (31 December 2011: US$ 352.3 million) of which US$ 80.0 million has been contracted at 30 June 2012 (31 December 2011: US$ 29.6 million).

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes and tax claims within the various jurisdictions in which the Group operates approximating US$ 13.6 million (31 December 2011: US$ 7.6 million).

16. RELATED PARTIES

Related party	Relationship
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest
Geneva Management Group (UK) Limited	Common director
Blina Minerals NL	Associate (during prior period)

	30 June 2012[1] US$'000	30 June 2011[1] US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**785**	347
Short-term employee benefits	**4 939**	4 381
	5 724	4 728

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2012

16. RELATED PARTIES (continued)

	30 June 2012[1] US$'000	30 June 2011[1] US$'000
Royalties paid to related parties		
Government of Lesotho	**(9 974)**	(12 966)
Lease and licence payments to related parties		
Government of Lesotho	**(42)**	(46)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**(197)**	(57)
Jemax Aviation (Proprietary) Limited	**153**	193
Jemax Management (Proprietary) Limited	**(50)**	(51)
Geneva Management Group (UK) Limited	**(9)**	(11)
Blina Minerals NL[3]	**–**	322
Dividends paid		
Government of Lesotho	**–**	(12 352)

Amount included in trade receivables owing by/(to) related parties	**30 June 2012[1] US$'000**	31 December 2011[2] US$'000
Jemax Aviation (Proprietary) Limited	**(35)**	(50)
Jemax Management (Proprietary) Limited	**(9)**	(9)
Amounts owing by/(to) related parties		
Government of Lesotho	**(2 381)**	(2 012)
Blina Minerals NL[3]	**–**	366

[1] Unaudited

[2] Audited

[3] Blina Minerals NL no longer considered a related party in the Period.

17. POST BALANCE SHEET EVENTS

No other fact or circumstance has taken place between the period end and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs.

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