GEM DIAMONDS

ANNUAL REPORT
2008

Gem Diamonds is a global diamond company that has been pursuing a long term growth strategy through targeted acquisitions and the development of existing assets. Under current market conditions, the Group is focused on the development of its cash generative assets and has curtailed all non-essential capital and development expenditure.

The Group's portfolio comprises producing kimberlite and lamproite mines, development projects and exploration assets, as well as diamond beneficiation centres. Operations and projects are situated in Angola, Australia, Botswana, the Central African Republic, the Democratic Republic of Congo, Dubai, Lesotho, Mauritius and Indonesia.

With Letšeng's production of the world's most remarkable white diamonds and Ellendale's production of rare fancy yellow diamonds, Gem Diamonds is focused towards higher value diamonds. This segment of the market is expected to deliver attractive long term returns.

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Cover: Light of Letšeng 478 cts, recovered at Letšeng mine in September 2008.

GEM DIAMONDS

Highlights

- Robust operational performance in 2008
  - Letšeng doubling of production
  - Ellendale production ramp up
- Recovery and sale of Light of Letšeng for US$18.4 million
- Strong diamond prices for the first eight months, negated by significant price decline in last quarter
- Rapid response to economic environment through cost and operating expenditure reduction as well as capital preservation
- Placing announced to raise approximately US$107 million
- Group poised to emerge from downturn in position of strength

Board of Directors

NON-EXECUTIVE DIRECTORS

Roger Davis (52)
non-Executive Chairman

Roger spent eight years at Barclays, latterly as the CEO of the UK banking operation and as a member of the Board of Barclays Plc. Under his leadership, the UK business was significantly restructured. Prior to that he spent ten years in investment banking in London and various positions in China and India for Flemings and BZW. Roger started his career with a 12-year service in the British Army. He joined Gem Diamonds in February 2007.

Mike Salamon (54)
Senior Independent Director

Mike is a mining engineer MBA with over 30 years experience in the mining sector. He was a founding director of Billiton and was instrumental in Billiton's IPO on the London Stock Exchange in 1997 and subsequent merger with BHP in 2001. Mike retired from his position of Executive Director at BHP Billiton in 2006 and is now the Chairman of New World Resources, a non-Executive Director of Central Rand Gold, Ferrexpo plc and Co-president of private equity fund AMCI Capital. Mike joined Gem Diamonds in February 2008.

Gavin Beevers (59)
non-Executive Director

Gavin was the Director of Operations at De Beers from April 2000 until his retirement in 2004. He joined De Beers in 1979 in Botswana for 11 years. Thereafter, he was appointed Assistant General Manager at De Beers Marine in Cape Town until 1994, whereafter he returned to Botswana as General Manager at Orapa and Letlhakane Mines. From January 1996 to March 2000, Gavin held the position of Deputy Managing Director of Debswana Diamond Company. Gavin joined Gem Diamonds in February 2007.

Dave Elzas (42)
non-Executive Director

Dave has over 15 years' working experience in international investment banking. Between 1994 and 2000, Dave served as a senior executive and subsequently Managing Director of the Beny Steinmetz Group. Dave is currently the Senior Partner and CEO of the Geneva Management Group, an international wealth management and financial services company. Dave joined Gem Diamonds in October 2005.

Lord Robin Renwick (71)
non-Executive Director

Lord Renwick spent the majority of his career representing Britain in the ambassadorial service. He served in the United States from 1991 to 1995 and in South Africa from 1987 to 1991. He is Vice-Chairman of J.P. Morgan Cazenove and Vice-Chairman, Investment Banking, of J.P. Morgan Europe, Chairman of Fluor Ltd and a non-executive Director of Compagnie Financiere Richemont and Kazakhmys plc, having previously served on the Boards of BHP Billiton, British Airways and SABMiller. Lord Renwick joined Gem Diamonds in September 2007.

Richard Williams MBE MC **(42)**
non-Executive Director

Richard spent 20 years in the British Army, latterly as the Commanding Officer of 22 SAS Regiment, during which time he saw service across the Middle East, Latin America and Africa. Richard has an MBA from Cranfield University and a Masters in International Security Studies from Kings College, London. Richard is the CEO of Chakata Ltd, an investment management company focused on defence and security technologies. Richard joined Gem Diamonds in February 2008.

EXECUTIVE DIRECTORS

Clifford Elphick (48)
Chief Executive Officer

Clifford joined Anglo American Corporation in 1986 and was seconded to E Oppenheimer and Son as Harry Oppenheimer's personal assistant in 1988. In 1990, he was appointed managing director of E Oppenheimer and Son, a position he held until leaving in December 2004. During that time, Clifford was also a director of Central Holdings, Anglo American and DB Investments. Following the buy-out of De Beers in 2000, Clifford served on the De Beers Executive Committee. Clifford formed Gem Diamonds in July 2005.

Alan Ashworth (54)
Chief Operating Officer

Alan holds a BSc in Mining Engineering and has 32 years' experience in the mining industry. During his career he has worked in various countries, including South Africa, Namibia, Botswana, Guinea, Ghana and Russia. He spent 28 years within the De Beers group, including four years as the General Manager of the Namdeb Diamond Corporation and four years as the Group Manager, Operations and Head of Operations for DBCM. From March 2006 until August 2007, he was the Managing Director of Gold Fields Ghana operations in West Africa. Alan joined Gem Diamonds in November 2007 and was appointed to the Board in April 2008.

Kevin Burford (50)
Chief Financial Officer

Kevin has over 20 years' experience in the mining industry having worked for De Beers and Anglo American between 1985 and 2005, and Xstrata in 2005. Kevin has held various strategic leadership positions covering finance, supply chain, IT, risk management, internal audit and business strategy. Kevin completed his articles with Coopers and Lybrand in 1984 and is a registered Chartered Accountant. Kevin joined Gem Diamonds in January 2006.

Glenn Turner (49)
Chief Legal and Commercial Officer

Glenn was called to the Johannesburg Bar in 1987 where he spent 14 years practising as an advocate specialising in general commercial and competition law, and took silk in 2002. Glenn was appointed De Beers' first General Counsel in 2002 and was also a member of their Executive Committee. Glenn was responsible for a number of key initiatives during this tenure, including overseeing their re-entry into the USA. Glenn joined Gem Diamonds in May 2006 and was appointed to the Board in April 2008.

Graham Wheelock (51)
Chief Mineral Resources Manager

Graham spent 23 years at Anglo American and De Beers, working on gold, diamonds and heavy mineral sands projects. He served as Mineral Resources Manager at Namdeb and Namaqualand diamond mines and in alluvial exploration projects across the globe. Graham led the De Beers Global Exploration Targeting Team for both kimberlites and alluvials from 2004 to 2005. Graham joined Gem Diamonds in August 2005 and was subsequently appointed to the Board. Graham resigned from the Board in April 2008 but remains a member of the Gem Diamonds management team.

Chairman's Review

Established in 2005, Gem Diamonds was listed on the LSE in February 2007 raising US$635 million and had at that time one producing asset, the Letšeng mine in Lesotho.

Gem Diamonds started 2008 in pursuit of rapid growth with a portfolio of producing mines, development projects and exploration assets. The first eight months of 2008 saw a strong rise in rough diamond prices, especially for large high quality diamonds, fuelled by continued economic growth and rising global jewellery consumption.

In the last four months of 2008, rough diamond prices fell suddenly and significantly as the global banking crisis severely curtailed financial liquidity in the diamond manufacturing pipeline, most notably in the already highly indebted trading and manufacturing businesses. The diamond lending banks reduced their credit lines which has exacerbated the problems for diamantaires and reduced demand for rough diamonds still further. Furthermore, the anticipated reduction in consumer demand created concerns in the cutting and polishing centres that large amounts of diamond jewellery inventory in retail stores on consignment, would be returned to trading and manufacturing businesses after the Thanksgiving and Christmas period in the United States.

In light of the extent of this negative turn in the macro environment it became clear to Gem Diamonds' Board that much of the growth portfolio acquired since the IPO could well be compromised in these circumstances.

Thus the Directors of Gem Diamonds carried out a review of all projects within the Group to re-evaluate and agree short and medium term objectives in light of the very difficult climate in which the industry found itself during the last quarter of 2008. The decisions resulting from this review were aimed at optimising returns from producing assets and minimising all non-essential capital expenditure and development. Gem Diamonds is now primarily focused on its two strongest producing assets, the Letšeng mine and the mining operations at the Ellendale 9 pipe at the Ellendale mine. Mining operations were ceased at the Ellendale 4 pipe, and placed on care and maintenance. The Cempaka mine in Indonesia and all alluvial mining operations in the DRC and CAR were also placed on care and maintenance. As a result of these actions and in accordance with the Group's accounting policies, assets were regretfully impaired at the year end.

The Letšeng mine in Lesotho remains a Best in Class asset in the diamond industry. Commissioning of its second plant commenced in March 2008 and production reached name plate capacity in July 2008. The Letšeng mine continues to produce diamonds of the highest quality, strong operational and financial results and remains the core asset in the Group. The Letšeng mine has now produced four of the twenty largest diamonds ever discovered – three within the last three years.

At the Ellendale mine in Australia, the world's largest producer of fancy yellow diamonds, management achieved the targets of higher tonnage throughput and reduced cash costs. In August, the Ellendale mine entered into a sales agreement with a high end US jewellery manufacturer and retailer for its entire fancy yellow production and a small quantity of its better quality white diamonds. Since January 2009, negotiations have been ongoing to turn this into a long term agreement for the fancy yellow production from the Ellendale 9 pipe and non-binding agreement has been reached.

Operationally, the expansion at Letšeng and the turnaround at Ellendale proceeded in line with the Group's business plan. The reduction in costs at Ellendale was slower than envisioned in the first half of the year primarily due to the much stronger than anticipated Australian dollar: US dollar exchange rate and record global oil prices. Mining at Cempaka was suspended from April to early September 2008 as a result of alleged environmental problems, during which period significant costs were incurred but with no revenue to offset these against.

Gem Diamonds is negotiating with the Government of Botswana for the award of a mining licence at Gope in Botswana which remains a project with strong long term potential. Botswana is a politically stable country with a long history of diamond mining.

During 2008 Gem Diamonds continued to invest in its beneficiation activities with the purchase of Calibrated Diamonds, with its state of the art diamond processing and cutting technology and the securing of the services of key personnel from Matrix Diamond Technology with their unique diamond mapping and analysis technology.

Gem Diamonds is now focussed on generating and protecting cash and lowering cash outflows. Significant steps have been taken to lower overheads and operating costs. At the end of 2008 Gem Diamonds had US$61.4 million of cash on its balance sheet and net cash of circa US$19.9 million.

Trading conditions weakened during January 2009 though the Letšeng February tender achieved a price that was 9.7% up on January. The Board believes that it is important to provide the Company with the ability to survive any likely diamond price scenarios, including further reduction in sales prices.

In line with the actions already taken by management and the continued weakness in rough diamond prices the Company has announced a share placing to raise US$107 million. The net proceeds of the capital raising will enable Gem Diamonds to repay existing debt and fund working capital. As a result, net debt is expected to reduce to zero following completion of the proposed placing.

With the appointment as non-Executive Directors in February 2008 of Mike Salamon and Richard Williams MBE MC, the Board of Gem Diamonds has been further strengthened. Subsequent to this, at the Board meeting in April 2008, Glenn Turner (Chief Legal and Commercial Officer) and Alan Ashworth (Chief Operating Officer) were appointed to the Board of Directors. In line with his appointment to the Board, Glenn Turner was requested to relocate to the Company's head office in London. At the same board meeting Graham Wheelock resigned from the Board. The Board would like to express its thanks to Graham Wheelock for his commitment and contribution during this tenure as a Director. The Board remains committed to maintaining the highest standards of corporate governance and currently complies with the best practise governance provisions of the Combined Code.

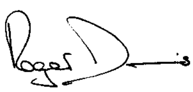
Prioritising the health and safety of all employees remains a social and financial imperative for the Group. In 2008, the Group's operations were challenged to meet a LTIFR of 1.0. Through the concerted efforts of management and the health and safety officers, a LTIFR of 0.48 was achieved in 2008 over 8 267 700 man-hours worked, exceeding the targets for the year. 2008 is the second consecutive year that the Group has outperformed its LTIFR targets.

Gem Diamonds remains determined to operate to the highest environmental and ethical standards. Every operation is required to maintain an appropriate environmental management system, in compliance with the Group HSSE policy. More information on the Group's Sustainability Report can be found on pages 30 through to 36.

It has been more than eight years since the Kimberley Process was introduced to the diamond industry. The scheme has grown in reputation and has contributed to the marked reduction in the trade in conflict diamonds. Gem Diamonds is committed to the principles inherent to this scheme and can confirm that all diamonds sold by the Group are Kimberley Process certified.

Gem Diamonds entered 2008 with a broad portfolio of assets positioned for growth. The Company reacted quickly to the global downturn and the consequential fall in rough diamond prices. The Board and I believe that the management of Gem Diamonds is ensuring that it enters the very different world of 2009 in the best position to emerge from this period in a position of strength.

The long term outlook for diamond prices is underpinned by what all the main producers and market commentators recognise as a significant long term supply/demand imbalance and we expect high quality diamond prices to recover strongly in the medium term.



Roger Davis
non-Executive Chairman

1 April 2009

Chief Executive Officer's Review

2008 saw Gem Diamonds' second year as an LSE listed company. In 2008 Gem Diamonds executives began implementing a three year growth plan. The overall objective continued to be that Gem Diamonds was to grow its production and generate appropriate returns. To achieve this, the Group focussed on completing the second plant expansion at the Letšeng mine, integrating operations at Kimberley and BDI Mining into the Group and the further development of projects in Botswana, DRC, Angola and CAR.

This growth strategy was actively pursued and implemented until October 2008. At which point the start of the global economic crisis, with its knock-on effect on the diamond industry, particularly with regard to prices for rough diamonds, meant that a review and implementation of an entirely different strategy became necessary.

Gem Diamonds' management responded immediately to the challenging environment and as part of an ongoing business review implemented a series of measures aimed at protecting Gem Diamonds' operating and financial positions. The Group shifted its focus to optimising the management of its strongest producing assets (the Letšeng mine and the Ellendale 9 pipe at the Ellendale mine) in order to generate maximum cash flow. All non-cash generating operations and projects were placed on care and maintenance or slowtracked where appropriate. The Group continues to seek reductions in operating costs through restructurings and a focus on cash management. There has also been a significant reduction in central costs attributable to the Company through salary reductions, cancellation of bonuses and a freeze on recruitment. In addition there has also been a substantial reduction in discretionary, sustaining and expansionary capital expenditure at the operating mines.

LESOTHO

Gem Diamonds owns 70% of Letšeng Diamonds in partnership with the Government of the Kingdom of Lesotho which owns the remaining 30%. Acquired in mid 2006 for US$118.5 million, Letšeng has to date delivered exceptional returns for its shareholders. Since Gem Diamonds took control, Letšeng's annual production has almost doubled, increasing from 55 000 carats in 2006 to 101 125 carats in 2008.

In 2008, Letšeng continued to produce some of the world's most remarkable diamonds, including the magnificent 478 carat D colour white, Light of Letšeng, the most valuable stone recovered from Letšeng to date, which sold in the difficult market conditions prevailing at the end of November 2008, for a record US$18.4 million.

Diamond prices achieved increased rapidly over the first nine months of 2008 before falling back dramatically in the last quarter of 2008. A mix of 63% Main pipe and 37% Satellite pipe ores was treated by all three plants and recovered a production mix that achieved an average revenue of US$2 123/ct, compared to US$1 976/ct in 2007.

In the first quarter of 2009 Letšeng's diamonds sold for an average of US$ 1 017/ct.

Letšeng has previously experienced scheduled power outages as a result of load shedding by South African electricity parastatal ESKOM that supplies the bulk of Letšeng's electricity. Standby electricity generating capacity sufficient to operate one of the two processing plants and the mining contractor's plant is being installed on site.

This power source, combined with the power that Lesotho Electricity Corporation has undertaken to supply to Letšeng in the event of an ESKOM power outage will enable full production to be maintained.

At the end of 2008 indicated and inferred resources amounted to 239 mt containing an estimated 4.17 million carats with an assumed in-situ value of US$6.5 billion. This resource is sufficient to sustain an open pit life of mine of 33 years at current mining rates.

LETŠENG MINE – PRODUCTION STATISTICS

	FY08	FY07
Ore mined (mt)	**7.0**	3.9
Ore processed (mt)	**6.6**	4.0
Carats produced	**101 125**	73 916
Grade (cpht)	**1.53**	1.85
Carats sold	**84 891**	76 873
Price (US$/ct)	**2 123**	1 976

AUSTRALIA

In December 2007 Gem Diamonds acquired Kimberley Diamond Company. Kimberley Diamonds owns 100% of the Ellendale mine. The Ellendale mine is the world's leading producer of fancy and vivid yellow diamonds. Kimberley Diamonds also holds a 39% interest in Blina Diamonds, a listed alluvial diamond mining and diamond exploration company adjacent to the Ellendale mine.

In early 2008, Kimberley Diamonds was recapitalised, modifications were made to the processing plants and the sales methods were improved. The objective was to turn a a loss making business into a low margin high volume profitable operation. Two challenges that Kimberley Diamonds faced in this period were the strength of the Australian dollar relative to the US dollar and the high price of fuel, both of which significantly impacted costs. These cost factors were reduced in the second half of 2008 but, from October 2008 diamond prices suffered a dramatic slide.

In operational terms the mine delivered a satisfactory performance for the year. After a comprehensive review of the mining operation, capital was invested in plant modifications and waste stripping. A total of 14.8 mt of waste was removed from the Ellendale 4 and Ellendale 9 pits in conjunction with 9.4 mt of ore mined. This represented a significant improvement in mining performance. Production reached 589 000 carats and 8.3 mt of ore was treated with a number of production records being achieved at the mine in the second half of the year. The sales and marketing strategy for Ellendale's diamonds showed good results in the first half of the year with average prices of US$207/ct achieved. In the second half of 2008 Kimberley Diamonds entered into a six month sales agreement with a high end jewellery manufacturer for the supply of its renowned fancy yellow production. Discussions are ongoing to extend the term of this agreement and non-binding agreement has been reached. Despite the impact of the economic downturn, Ellendale still managed to achieve an average US$185/ct for the full year versus US$137/ct in 2007. Prices of US$103/ct achieved in the first quarter of 2009 are reflective of both production mix as well as the continued weak demand seen in January and February 2009.

In November 2008, it was decided that production from the lower value Ellendale 4 pit would be curtailed and limited to treating ore that was currently on stockpile and presently accessible for mining within the confines of the existing pit shell. This ultimately lead to the Company ceasing its mining operations at the Ellendale 4 pipe in February 2009 and it has since been placed on care and maintenance. Mining at the Ellendale 9 pipe continues.

ELLENDALE MINE – PRODUCTION STATISTICS

	FY08	FY07
Ore mined (mt)	**9.4**	6.1
Ore processed (mt)	**8.3**	6.3
Carats produced	**588 645**	475 306
Grade (cpht)	**7.08**	7.51
Carats sold	**537 082**	462 016
Price (US$/ct)	**185**	137

INDONESIA

BDI Mining was acquired by Gem Diamonds in May 2007. It owns 80% of the Cempaka alluvial diamond mine in south Kalimantan, Indonesia in partnership with the Government of Indonesia which owns the remaining 20%. BDI Mining also owned the Woodlark Gold Project which was subsequently sold for US$27 million.

The alluvial deposits at the Cempaka mine consist of the Danau Seran and Cempaka paleo-channels. The former, which is significantly smaller but was of a higher grade, was mined since the commencement of the operations in 2004, and is now depleted. Mining started in the Cempaka channel in the second half of 2007.

During 2008, mining was focused on depleting the last blocks of higher grade Danau Seran channel. This progressed well during the first two months of 2008 with throughput budgeted tonnes being achieved in February. In March, the area experienced extreme rain conditions which resulted in flooding of the Danau Seran channel mining area. Mining was

Chief Executive Officer's Review continued

then moved to the Cempaka channel while the pit was being dewatered. In April 2008, the mine was temporarily suspended due to an environmental concern. This suspension was lifted in September 2008. Once mining recommenced, tonnage throughput was ramped up. In November 2008 it became clear that the Cempaka mine was not economic and it is considered unlikely that diamond prices will recover sufficiently in the short term such that Cempaka could profitably return to operation. It was decided to place the mine on care and maintenance as from January 2009.

A total of 32 748 carats were sold during 2008, with the first parcel 15 040 carats achieving US$331/ct and the last parcel, in November, only achieving US$89/ct. The average price for 2008 was accordingly US$233/ct.

BOTSWANA

Gem Diamonds acquired Gope Exploration Company from De Beers and Xstrata in May 2007 for US$34.1 million. Gope Exploration is the holder of a retention licence covering the Gope 25 kimberlite deposit in the Central Kalahari Game Reserve ('CKGR'). A Mining Licence Application was submitted in July 2007 and negotiations with the Government of Botswana regarding the terms of the mining licence are in progress.

Should a mining licence be granted on acceptable terms, given the current state of the financial markets, Gem Diamonds intends to develop Gope at an appropriate time in the future. The plan envisages starting to mine at a rate of 5 mpta,

KEY STRATEGIC OBJECTIVES 2008 – 2010

For the period 2008 – 2010 Gem Diamonds' executives were charged with achieving the following:

1	Maintain appropriate health and safety standards and manage environmental obligations.
2	Identify and conclude acquisitions that are likely to have a positive influence on earnings and share price and increase the critical mass of production.
3	Successfully implement the downstream process.
4	Successfully conclude the pre-feasibility study on the Chiri deposit and potential acquisition of an equity stake in the Chiri project.
5	Successfully conclude the mining licence application for Gope, secure funding and commence the project.
6	Successfully integrate the Kimberley Diamond acquisition.
7	Maximise mine-gate revenue through optimised sales processes.
8	Increase the confidence in the diamond resource base.
9	Commission the second plant at Letšeng within budget and achieve rapid production build-up.
10	Achieve planned throughput of tonnes treated at all mining operations.
11	Achieve budgeted recovery of carats at all mining operations.
12	Achieve budgeted earnings before interest, tax, depreciation and amortisations ('EBITDA').

increasing to 8 mtpa, to produce over a million carats per annum. The capital estimate remains approximately US$500 million. The raising of debt financing for this project was suspended due to the current lack of debt capital.

The Environmental Impact Assessment ('EIA'), based on the 2005 EIA Act was completed and approved during 2008. This included a Social and Environmental Impact Assessment ('SEIA') as part of the EIA. Public Participation meetings, which form an integral part of the SEIA, were held with all interested and affected parties, including communities inside and around the CKGR. A record of decision was issued in October 2008, approving the SEIA for Gope.

Marsh Environmental Services, an independent consultant group, was engaged to conduct the EIA. A number of impacts were identified in the SEIA, all of which can be satisfactory mitigated.

DRC

Gem Diamonds' operations in the DRC comprise a number of alluvial diamond projects and a kimberlite exploration programme across three broad areas, namely Mbelenge, Lubembe and Longatshimo. These interests are held via a number of companies in which Gem Diamonds holds between an 80% and 100% shareholding.

The grades realised in the terraces of the Kasaï River to the north and south of Mbelenge were lower than expected and work there was terminated in February 2008. Better grades were recorded from the bulk sampling of the river flats adjacent to the Kasaï River further upstream. A partial river diversion was constructed that allowed dredging to be undertaken in an otherwise inaccessible part of the Kasaï River where improved grades were achieved. However, the decline in the sales price for these types of diamonds made the project uneconomic and in November, operations at Mbelenge were suspended.

The dredging operations in the Lubembe River near the Nsumbula camp yielded areas of very high grades. However, the distribution of these high grade pockets is highly sporadic and until a geophysical system can be developed to locate them and a mass mining technique can be developed to exploit them, the operation has been suspended. Under current market conditions these deposits remain sub-economic for Gem Diamonds.

The resource definition of river terraces and floodplains that was taking place in the Longatshimo area through systematic field mapping and limited sampling had reached a natural point of suspension pending the results of the proposed bulk evaluation programme. Subsequently, this evaluation programme was also suspended in response to the fall in the sale price for these diamonds. No further terrestrial alluvial work is envisaged in the near future.

The gravel sampling in the Longatshimo River progressed well and good average grades were recorded. In response to the decline in the sale price for these diamonds, a decision was taken to suspend all dredging operations. Prior to the termination, the operation had produced 2 136 cts. The current valuation of this parcel is circa 25% of the price used for resource development modelling.

In the light of the downturn in the markets, Gem Diamonds decided to proceed only with a limited kimberlite exploration programme in the DRC, which has now been placed on care and maintenance.

CAR

Gem Diamonds holds a 75% interest in Gem Diamonds Centrafrique SA, in partnership with the Government of the CAR which holds the remaining 25%. Gem Diamonds Centrafrique holds exclusive exploration and mining rights to the 800km^2 Mambéré Concession.

In the target area on the Mambéré River known locally as le Buckle, a sampling campaign was carried out across the alluvial terrace and modern river gravels in 2007. At 1.19 cpht the diamond grades from the terraces were determined sub-economic at the current cost base. Sampling moved downstream of le Buckle in early 2008, into gneiss basement trap sites within the modern river. To date the primary targets have been the Danki Island complex with three major diversions completed during 2008.

Chief Executive Officer's Review continued

Estimates of the diamond value varied between US$140/ct and US$175/ct during 2008. As no stones have yet been sold, a firm value has not been obtained. The current sampling parcel of approximately 4 000 carats will be valued and sold in early 2009.

Due to current market conditions, continued exploration and sampling activities were suspended in November 2008. The mining site has been placed on care and maintenance with adequate security to ensure the protection of assets, whilst a much reduced office remains in Bangui to maintain state relations, legal and fiscal compliance.

ANGOLA

The Cooperation Agreement was signed in January 2007 between Gem Diamonds and Avantis Angola with respect to a preliminary feasibility report to be produced on the Chiri kimberlite deposit in the Lunda Sul Province of Angola. An Option Agreement whereby Gem Diamonds can acquire an effective 11.25% interest in Chiri from Avantis Angola was signed at the same time. A further option to increase Gem Diamonds' interest to 20% was also agreed.

A preliminary feasibility exercise comprising geophysics, diamond drilling, large diameter drilling and bulk sampling was initiated in January 2008 and was completed in March 2009. This has shown a large kimberlite with an area of approximately 60 hectares. Interesting grades have been returned in the north west, south west and south east margins of the pipe. Sub economic fine grained kimberlite occupies a significant position of the pipe to depths exceeding 200 m.

The Chiri technical committee is expected to meet in April 2009 in order to consider the preliminary feasibility report.

BENEFICIATION

Throughout 2008, a number of beneficiation trials on Gem Diamonds' production were undertaken. A total of 714 carats of top quality white and fancy yellow diamonds were extracted from both Letšeng and Kimberley's run of mine production. These diamonds were analysed, cut and polished by Matrix Diamond Technology and Calibrated Diamonds on a trial basis into 257 carats of polished diamonds at an average yield of 36%. A total of 109 top quality white and fancy yellow carats were sold during 2008, achieving an average US dollar per carat of US$101 000 and US$29 000, respectively. All polished diamond sales to date have been on tender in Antwerp. The polished diamonds sold prior to the rapid decline in diamond prices in October 2008, achieved significant additional margins. As a result of the downturn late in 2008, and the decision to defer Letšeng's December tender, a total of 228 carats of polished diamonds, was held over for sale in 2009.

In August 2008 Gem Diamonds secured the services of the founding executives of Matrix Diamond Technology, together with a team of engineers and master polishers, to establish and operate a Gem Diamonds' beneficiation facility. This high tech facility uses sophisticated rough diamond mapping and analysis technology to analyse, cut and polish the highest quality +10.8 carat rough diamonds.

In September 2008, Gem Diamonds acquired Calibrated Diamonds for US$5.9 million, together with its state-of -the-art diamond processing assets, intellectual property and management expertise. Calibrated Diamonds makes use of a proprietary technology process and computer software to manufacture perfectly symmetrical diamonds to a high degree of accuracy that require minimal manual polishing. The process reduces cutting and polishing time, maximises the polished yield and produces symmetrical polished diamonds to a very high and consistent standard.

The addition of Calibrated Diamonds' advanced proprietary laser cutting technology and management expertise, will compliment the sophisticated Matrix Diamond Technology rough diamond mapping and analysing. The implementation of these beneficiation projects has been delayed due to the world economic crisis and consequent pressures on capital availability.

OUTLOOK

Gem Diamonds continues to believe that the medium to long term trend for increased demand for quality diamonds remains intact because of the globalisation of the diamond engagement ring concept, the increase in High Net Worth Individuals ('HNWIs') relative portion of global wealth as well as the economic growth and urbanisation of emerging Brazil, India and China ('BRIC') economies. The long term positive outlook for diamonds is further underpinned by what all the main producers and market commentators recognise as a long term supply demand imbalance. Recent falls in demand have prompted a response from the supply side, with the larger producers, notably De Beers, announcing major production cuts and Alrosa announcing a halt to trading. Funding constraints are inhibiting smaller producers from continuing to run loss-making operations for any extended period thereby reducing the supply from these operations. Rapid reductions in higher cost production, ongoing curtailments in exploration expenditure and the deferral or cancellation of numerous growth projects are all likely to limit the extent to which diamond inventories are built-up and will contribute to even greater supply-side constraints when demand from developed and developing economies increases, as it inevitably will. Combined with what Gem Diamonds views as the long term positive supply demand trends, these circumstances should result in higher average diamond prices over the long term than are currently being experienced or were experienced in late 2008.

The Directors of Gem Diamonds have moved swiftly to meet the new challenges caused by recent economic turbulence. Gem Diamonds is focussing on its strongest producing assets, the Letšeng Mine in Lesotho and the Ellendale 9 pipe at the Ellendale mine in Australia. Gem Diamonds will continue to conserve cash in the short term through reduced expenditure on exploration and resource development and cut-backs on all non-essential capital expenditure. These efforts combined with the placing to raise approximately US$107 million announced 1 April 2009, will position Gem Diamonds to emerge from the current economic downturn in a position to take advantage of the anticipated medium to long term shortage of quality rough diamonds.

Clifford Elphick
Chief Executive Officer

1 April 2009

Chief Financial Officer's Review

TRADING CONDITIONS

During the year, market conditions for the sale of diamonds were highly variable. The first half of the year saw strong diamond price growth, with record prices achieved on sales of rough diamonds from the Letšeng, Ellendale and Cempaka mines. Up to the third quarter, diamond prices significantly outperformed most asset classes and commodities despite the emerging global economic crisis. The last quarter of the year saw rough diamond prices decline dramatically. The Company considers this principally to be the result of a series of related events:

- The global economic crisis deepened during the course of the year and placed severe liquidity constraints on the banking sector;
- This in turn severely curtailed financial liquidity in the diamond pipeline, most notably in the trading and manufacturing businesses, restricting the capacity of these businesses to grow inventory; and
- Lastly, the reduction in consumer demand created concerns that large amounts of diamond jewellery inventory in retail stores on consignment, would be returned, further reducing demand.

The combined effect of these and other relevant factors was that rough diamond prices across the industry dropped by an estimated 50% from prices prevailing in early 2008.

Throughout this period, Gem Diamonds sought new ways to market its production more effectively. An offtake agreement for the high quality yellow diamond production from Ellendale was entered into, lower quality Ellendale goods were sold on electronic auction and direct sales avenues were sought for other production.

Rough diamond prices achieved across the Group's operating mines were between 7 and 34% higher than in 2007, notwithstanding the rapid decline in diamond prices by up to 70% in some categories between the first and fourth quarter of 2008.

KEY FINANCIAL RESULTS 2008

	2008			2007
(US$ million)	Pre-exceptional items	Exceptional items	Total	
Revenue	296.9	–	296.9	152.7
Cost of sales	(167.7)	(20.5)	(188.2)	(44.2)
Royalty and selling costs	(27.1)	–	(27.1)	(16.6)
Corporate expenses	(19.1)	(1.8)	(20.9)	(17.4)
Share of loss of an associate	–	–	–	(1.0)
EBITDA(1)	83.0	(22.3)	60.7	73.5
Depreciation	(41.6)	–	(41.6)	(7.6)
Amortisation	(19.4)	–	(19.4)	(13.0)
Share based payments	(10.4)	–	(10.4)	(19.5)
Impairment	–	(546.5)	(546.5)	–
Foreign exchange gain	(19.4)	–	(19.4)	14.7
Finance income	(0.1)	–	(0.1)	20.1
Profit before tax	(7.9)	(568.8)	(576.7)	68.4

(1) EBITDA unless indicated to the contrary, is before exceptional items and share based payments. Exceptional items are significant items of income and expense which due to their nature or expected infrequency are presented separately in the Income Statement.

FINANCIAL PERFORMANCE

The following is a review of the key items of the Group Income Statement:

Revenue of US$296.9 million was generated in 2008 from the sale of rough diamonds recovered at Letšeng, Ellendale and Cempaka as well as the sale of polished diamonds manufactured in beneficiation trials.

Royalties and selling costs of 9% relate predominantly to a 2.5% commission paid to agents based in Antwerp, as well as royalties of between 5 – 8% payable to the Lesotho Revenue Authority, Australian Tax Office and Indonesian Government on the recovery of diamonds in these respective territories.

Cost of sales for the year, before exceptional items, were US$167.7 million before non-cash costs of depreciation of US$41.6 million and amortisation on mining assets of US$19.4 million. Costs in US dollar associated with mining and recovering diamonds declined over the course of the period. Despite US dollar weakness earlier in the year, the Lesotho Maloti (pegged to the South African Rand) and the Australian dollar both devalued significantly against the US dollar later in the year, effectively reducing US dollar input costs.

EXCHANGE RATES

	As at and for the year ended 31 December 2008	As at and for the year ended 31 December 2007
Lesotho Maloti per US$1.00		
Average rate	**8.26**	7.05
Year end rate	**9.25**	6.83
Australian dollar per US$1.00		
Average rate	**1.18**	1.19
Year end rate	**1.43**	1.14

From its peak in July 2008, the subsequent decline in the oil price also resulted in lower fuel costs in the latter part of the year.

Corporate expenses relate to central costs incurred by Gem Diamonds and its services subsidiary Gem Diamond Technical Services. Central costs were in line with those budgeted for the year and are expected to be significantly reduced in 2009.

Exceptional items relate to impairment of assets, reflecting the write down in the valuation of certain subsidiary company assets and investments, inventory write downs to net realisable values due to reduced diamond values at year end, restructuring and closure costs as well as the once off costs relating to the acquisition and establishment of the Group's beneficiation operations. These are discussed in more detail below.

Foreign exchange losses relate to realised and unrealised losses on funds held in currencies other than US dollar, as well as hedges entered into by Letšeng Diamonds and Kimberley Diamonds to protect against rising US dollar denominated costs.

As set out in the Company's Prospectus, the Company is authorised to issue up to 2.5% of shares in issue at IPO Admission (i.e. 2.5% of 57 865 209) to non-Executive Directors of which 1.75% (1 012 644) have been allocated to date.

US$18.9 million of the total tax charge before exceptional items relates to corporate income tax and withholding taxes paid by the Group to the relevant revenue authorities. The balance before exceptional items of US$4.4 million relates to deferred tax.

Minority interests predominantly represent the 30% of the profits in Letšeng Diamonds which are attributable to the Company's partner, the Government of Lesotho as well as the portion of the impairment of P.T. Galuh Cempaka's book value that is attributable to this company's minority shareholders.

Losses attributable to shareholders for the year were US$31.3 million equating to 74 US cents per share on a weighted average basis before exceptional items. The impact of exceptional items resulted in a total loss attributable

Chief Financial Officer's Review continued

to shareholders of 884 US cents per share. The weighted average number of shares in issue during the year was 62.6 million. At year end there were 62.9 million shares in issue.

SEGMENTAL FINANCIAL PERFORMANCE

US$ (millions)	Letšeng Diamonds	Kimberley Diamonds	P.T. Galuh Cempaka
Sales	188.8	99.5	8.0
Cost of Sales(1)	55.2	88.6	23.6
Royalty and selling costs	20.7	5.8	0.6
EBITDA	112.9	5.2	(16.3)
Average price per ct	2 123	185	233
Cash cost per ct	763.4	210.7	555.4
Cash cost per tonne	11.69	14.16	15.61

(1) Excluding depreciation, on mine amortisation and exceptional items.

Letšeng Diamonds' revenue grew by 24% to US$188.8 million as a result of production and price increases and the sale of the Light of Letšeng at US$38 400 per carat. The average price per carat achieved was US$2 123 relative to US$1 977 in 2007. Cost of sales rose because of increased production, but costs per tonne declined relative to 2007 due to weaker average operating currency and increased throughput. Income statement unit costs in 2008 dropped to US$10.27 per tonne from US$13.79 per tonne in 2007. Cash costs per tonne declined from US$14.39 per tonne in the first half of 2008 to US$9.72 per tonne in the second half of 2008, resulting in an overall cash cost per tonne of US$11.69 for the full year. The current tax charge is in line with the corporate income tax rate of 25% in Lesotho.

Kimberley Diamonds sold diamonds in 2008 for the first time since the acquisition by Gem Diamonds. Overall diamond prices for the year of US$185 per carat are 34% higher than those achieved prior to the company's acquisition. Income statement unit costs in the second half of 2008 dropped to US$12.86 per tonne from US$21.80 per tonne in the first half, largely as a result of the devaluation of the Australian dollar against the US dollar in the second half of 2008, the decline in the oil price and an increase in throughput. Similarly, cash costs per tonne declined from US$15.61 per tonne in the first half to US$12.99 per tonne in the second half of 2008. For the full year, cash costs per tonne were US$14.16.

Kimberley Diamonds currently has tax losses of US$136.5 million which may be utilised against future profits. No deferred tax assets have been recognised in respect of these losses.

Limited revenue was generated by PT Galuh Cempaka, where the mine was only in operation for seven months of the year. Diamonds sold for US$233 per carat during the year, an increase of 7% over the prior period. Operating costs at Cempaka were high relative to production due to the fact that during the suspension of mining activities in the middle of the year, the full staff complement was kept on the payroll. Prices for Cempaka diamonds declined to below their estimated future cost of production in late 2008 resulting in this operation being put on care and maintenance from January 2009 until further notice.

IMPAIRMENTS AND EXCEPTIONAL ITEMS

The Group's strategy of accelerated growth in a constrained supply and increased demand market has resulted in investments in operating mines and exploration and resource development projects.

The Group undertakes impairment testing annually, or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment test involves comparing the value in use of an asset with its carrying value. In determining value in use, the Group uses assumptions including the expected carats recoverable, expected grades achievable, expected plant throughput and costs of extracting and processing, expected prices per carat achievable on sale and appropriate discount rates.

As a result of declining market prices for rough diamonds, the Group determined that certain of its operations were not economically sustainable at current prices. A review of these carrying values was undertaken at year end. The result of this was impairments to assets after tax and minorities across the Group of US$484.0 million, the detail of which is as follows:

US$ (millions)	Impairment
Australia – Kimberley Diamonds	233.8
Indonesia – PT Galuh Cempaka	71.9
CAR – Mambéré	17.4
DRC – Mbelenge, Lubembe, Longatshimo	160.9

The resource and exploration costs and assets in the DRC and CAR amounting to US$208.3 million were impaired, including goodwill of US$26.1 million, as a result of the decision taken in November 2008 to place all alluvial exploration activities in the DRC and CAR on care and maintenance.

In January 2009, the Cempaka mine was placed on care and maintenance. It is considered unlikely that diamond prices will recover sufficiently in the short to medium term such that Cempaka could return to operation, indicating that a full impairment on the goodwill and mining assets be taken at the end of 2008 amounting to US$95.3 million.

Kimberley Diamonds' key asset the Ellendale mine has two lamproite pipes on which mining has taken place to date – the Ellendale 4 and the Ellendale 9 pipes. Due to its lower revenue per tonne profile, Ellendale 4 mining ceased in February 2009 and the plant was placed on care and maintenance. Mining on the Ellendale 9 pit continues. The current pricing environment, together with the mining costs at the Ellendale mine prompted the Group to impair this asset by US$242.9 million. This includes goodwill of US$25.8 million. The bulk of the balance of this impairment relates to mining assets and capitalised deferred stripping at both Ellendale 4 and Ellendale 9 pipes and capital assets at Ellendale 4.

Notwithstanding the impairment charges, the Group has not relinquished any of its licences, tenements, assets or properties.

The Group will continue to test its other assets for impairment at least on an annual basis and may in future record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

GROUP TAXATION

The Income Statement tax charges of US$26.8 million mainly relate to taxation charged on the profit generated at Letšeng Diamonds. A further US$4.2 million of taxation arose in respect of withholding taxes charged on extracting dividends from Lesotho.

Although the Group has incurred a loss during the year, the impact of the tax charge in Letšeng Diamonds and the withholding tax on the dividends from Letšeng Diamonds resulted in a total Group tax charge of US$23.3 million.

In accordance with IFRS, deferred tax assets have not been recognised in respect of the losses arising of Kimberley Diamonds and Cempaka. Tax credits of US$47.9 million predominantly relate to the goodwill assets that have been impaired in the DRC and Cempaka.

CASH

Cash on hand at the beginning of the year of US$181.8 million was supplemented by cash flow from operations for the year of US$88.1 million. After investments in property, plant and equipment of US$137.8 million, predominantly relating to the second plant at the Letšeng mine, capital improvements at Kimberley Diamonds, investment in resource development costs in the DRC, CAR and Botswana, investments in the Company's newly established cutting and polishing businesses of US$93.4 million and investments in waste stripping of US$44.4 million, cash at year end was US$61.4 million. Of this US$51.9 million is attributable to the Group.

DEBT

As at year end the Group had outstanding debt of US$41.7 million. Of this US$16.1 million relates to convertible bonds that mature in October 2009. The bulk of the remaining debt relates to a loan and security extended by Société Générale to Kimberley Diamonds, a significant portion of which was in place prior to Gem Diamonds' acquisition of this company.

Chief Financial Officer's Review continued

INVENTORY

Group diamond inventory which is valued at the lower of cost or net realisable value at year end was US$22.0 million, down from US$24.9 million at the prior year end. Physical diamond inventories at both Letšeng and Ellendale were significantly higher at the end of 2008 than at the end of 2007 due to production ramp ups at both operations as well the deferral of the Letšeng December tender to 2009. A write down in diamond inventory valuation and ore stockpiles of US$19.3 million was made at year end, in line with decreasing diamond prices and the implementation of the Ellendale 4 care and maintenance plan.

ACQUISITIONS

During the period, the Company acquired Calibrated Diamonds for US$5.9 million. In addition to this a further US$0.8 million was expended on set up costs relating to Calibrated Diamonds and Gem Diamonds Technology Dubai DMCC, all of which were charged to the income statement.

CAPITAL RAISING

In light of the trading circumstances and the Group's obligations to settle its short term debt, the Directors believe that the Group will require additional capital funding.

The Directors have proposed to raise equity capital by way of a placing of shares to existing and strategic share-holders to meet these liabilities and to create a suitable capital structure.

The Company intends to place 75 million shares at 100 pence per share, a discount of 33% to the closing price of the Company's shares on 31 March 2009 ('the Placing'). The Placing is subject to amongst other things, shareholder approval in a general meeting.

Should the Placing succeed, the Company expects to raise US$98 million net of expenses.

Should the Placing not succeed, the Company could seek to negotiate an extension of payment on both its convertible bonds and Kimberley Diamonds' outstanding Société

KEY GROUP RISKS

In 2008, the Board and Senior Executives considered the position of the Group and the potential risks to achieving its stated strategy. The following key risks were identified:

1. The global economic crisis and its impact on consumer preferences and expenditure.
2. The short term imbalance between demand and supply and the impact that this has on the diamond pipeline.
3. A potential lack of funding for the Group to extinguish debt due in 2009.
4. An inability to sell production at or above break even point, resulting in inadequate cash flow to sustain operations.
5. A major production interruption at either Kimberley Diamonds or Letšeng Diamonds.
6. A major health, safety and environmental incident.
7. A change in consumer preferences away from diamonds due to negative sentiment towards diamonds and/or diamond mining.

Générale borrowings. In the current economic and financial environment, the cost of extending such facilities, assuming they are capable of being extended, would be expensive, and most likely would result in the imposition of significantly more onerous obligations on the Group.

Alternatively the Company may be able to access alternative funds, whether in the debt or equity capital markets or by other third party borrowings for the purposes of repaying its liabilities. A further option available to the Company might be to enter into offtake agreements at Letšeng and Ellendale at prices that can sustain these operations for the near to medium term.

GOING CONCERN

These financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

As detailed in this report, the current economic environment is challenging and the Group has reported an operating loss for the year. Against the background of the current difficult trading conditions, the Directors believe that the Group will require additional funds in order to meet its liabilities as they fall due. It is against this background that the Directors are proposing to raise equity capital by way of the Placing to raise funds to meet these obligations and to create a suitable capital structure to position the Group's key operations to survive a prolonged economic downturn.

In order for the Placing to succeed, the approval of shareholders in a General Meeting, amongst other things, is required. Although alternative strategies for the Group have been considered by the Board should the capital raising not succeed, the Directors have concluded that these circumstances, represent a significant material uncertainty that casts a significant doubt on the Group's ability to continue as a going concern. Nevertheless the Directors have a reasonable expectation that the Group will have adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts. Reference to this is made in the emphasis of matter paragraph in the Auditors' Report.

GOVERNANCE

Gem Diamonds receives no financial assistance from the government of any country in which it operates. No actions relating to anti-competitive behaviour, anti-trust and/or monopoly practices have been taken against Gem Diamonds.

Kevin Burford
Chief Financial Officer

1 April 2009

Annual Resource and Reserve Statement

- Total resource carats maintained at circa 33 million carats.
- Total resource revenue has reduced by 7% to US$10.6 billion, due to the recent decline in diamond prices.
- 56% of inventory and 41% of value is at Indicated Resource level.
- Changes in the method of estimating diamond resources has resulted in resource downgrades.

The annual resource and reserve statements summarised in the following tables are based on independent resource statements provided by Venmyn Rand for all of the Group's operations. The resource statement of 31 December 2008 is compared to the previous Gem Diamonds' resource statement dated 31 December 2007. Resources stated are either SAMREC or JORC compliant as determined by Venmyn Rand. Valuation of diamonds is determined by valuations undertaken and actual sale prices achieved over the preceding 24 month period.

Resources stated are inclusive of reserves and represent the total global resource at zero cut-off grades.

Recent changes to mineral resource codes have resulted in a decrease in confidence and therefore a downward reclassification of resources at Ellendale and Gope. This downward reclassification is in line with Venmyn Rand's interpretation of the revised SAMREC Code 2007 and/or Venmyn Rand's revised internal classification checklist. At Gope, this downgrade was the result of clearer guidelines, provided for within the SAMREC Code 2007, concerning extrapolation below sampling depths. At Ellendale the downgrade was the result of Venmyn Rand's minimum requirements for the quantity of diamonds recovered.

The most significant change in the total resource statement is the reduction of total in-situ revenue by 7%. This reflects the decline in diamond prices achieved at Letšeng, Ellendale and Cempaka in the latter half of 2008. It is important to note that this 7% decline is based on the Venmyn Rand revenue estimates and not the most recently achieved prices as at 31 December 2008.

Increases in resources both in the DRC and the CAR are as a result of resource development undertaken in the period.

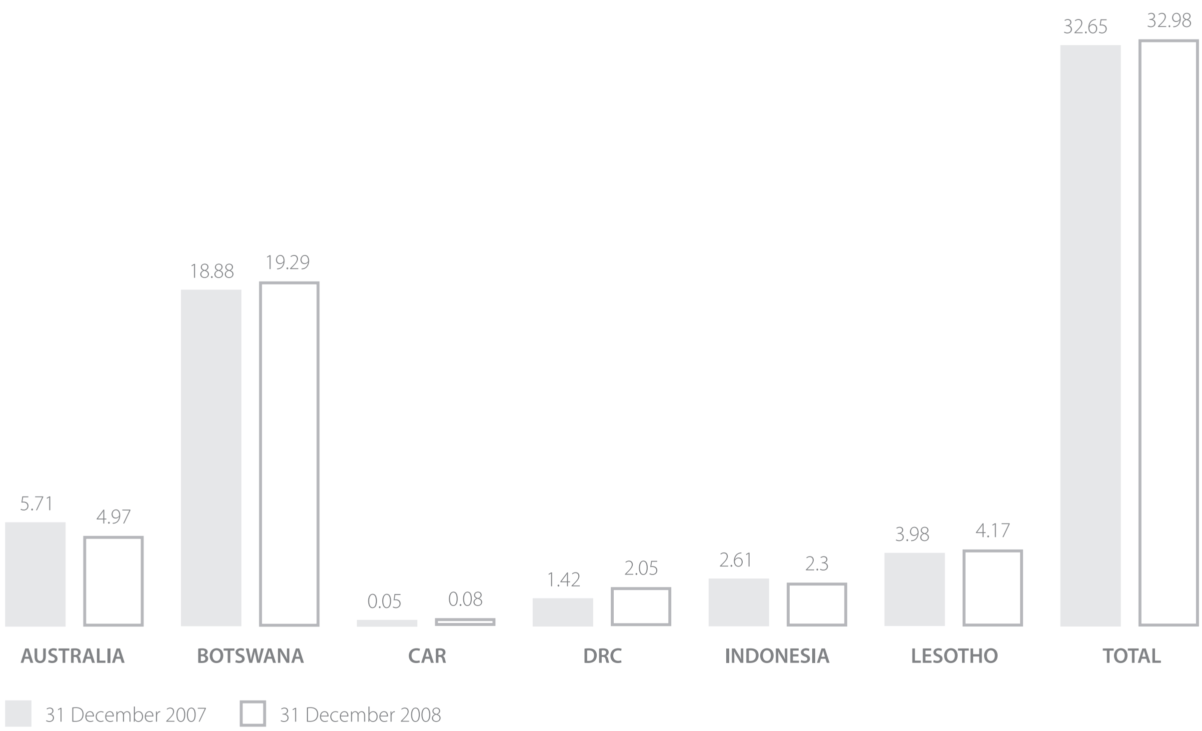
Reserves have been calculated by an in-house Competent Person and in compliance with SAMREC Code 2007.

Changes to the reserve statement are the first-time reporting of reserves for the Ellendale mine and the loss of reserves at the Cempaka mine. Kimberley Diamonds previously declined to report on reserves due to uncertain mining costs and processing capacity. The current mining method and costs at Cempaka together with diamond prices indicate that no payable reserve can be defined for Cempaka.

AS AT 31 DECEMBER 2008

Country	Probable reserves				Indicated resources				Inferred resources				Total resources				
	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	In situ revenue (US$mm)
Australia																	
– Ellendale	8.3	0.05	0.39	291	36.6	0.05	1.82	168	61.5	0.05	3.14	159	98.0	0.05	4.97	162	806
– Blina					0.8	0.04	0.03	420	3.6	0.03	0.10	245	4.4	0.03	0.13	289	37
Botswana																	
– Gope	–	–	–	–	78.8	0.19	14.99	136	26.5	0.16	4.30	136	105.3	0.18	19.29	136	2 625
CAR																	
– Mambéré	–	–	–	–	–	–	–	–	3.6	0.02	0.08	149	3.6	0.02	0.08	149	12
DRC																	
– Mbelenge	–	–	–	–	–	–	–	–	3.0	0.12	0.37	91	3.0	0.12	0.37	91	34
– Longatshimo	–	–	–	–	–	–	–	–	4.4	0.24	1.06	126	4.4	0.24	1.06	126	133
– Lubembe	–	–	–	–	–	–	–	–	0.5	1.26	0.63	100	0.5	1.26	0.63	100	63
– Tshikapa	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
DRC total	–	–	–	–	–	–	–	–	7.9	0.26	2.05	112	7.9	0.26	2.05	112	229
Indonesia																	
– Cempaka	–	–	–	–	17.9	0.02	0.38	1.98	93.1	0.02	1.92	177	111.0	0.02	2.30	180	414
Lesotho																	
– Letšeng	78.8	0.02	1.32	1 499	78.9	0.017	1.32	1 502	160.1	0.018	2.85	1 592	239.0	0.017	4.17	1 563	6 516
Total	87.1	0.02	1.71	1 224	213.1	0.09	18.54	238	356.2	0.04	14.44	431	569.3	0.06	32.98	323	10 640

RESOURCE CARATS (millions)

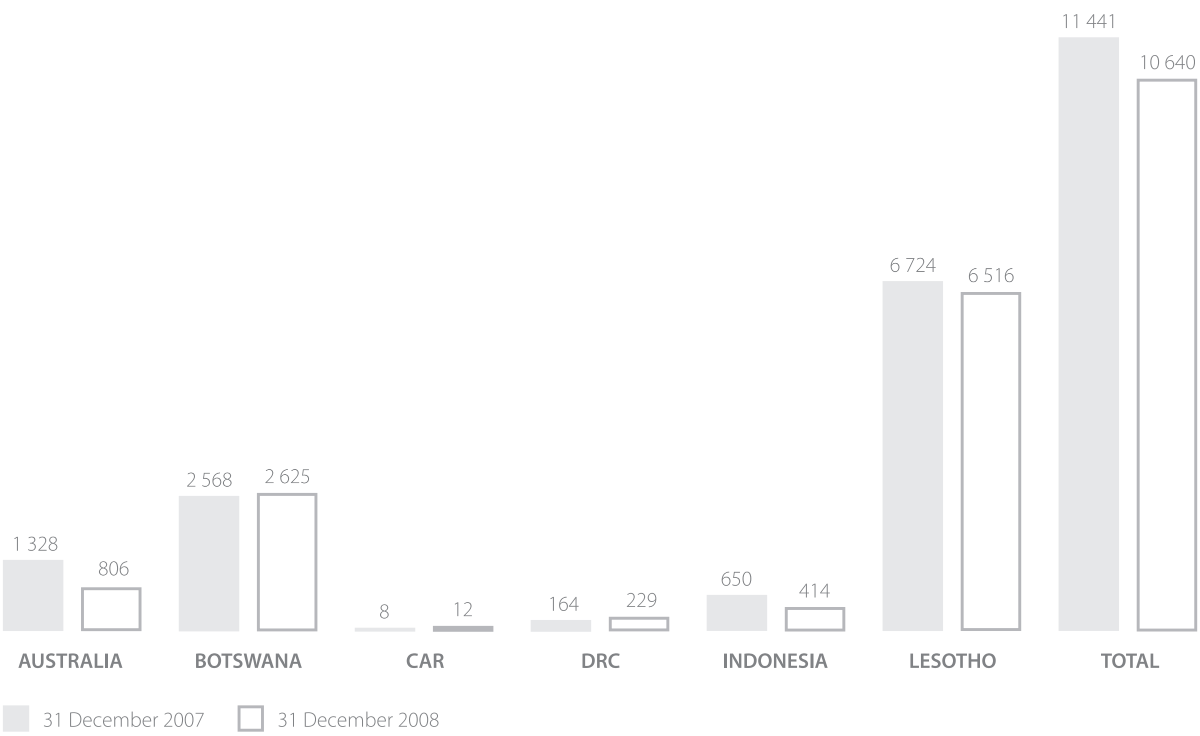


Annual Resource and Reserve Statement continued

AS AT 31 DECEMBER 2007

Country	Probable reserves				Indicated resources				Inferred resources				Total resources				
	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	Ore (mT)	Grade (cts/T)	Carats (m)	US$/ct	In situ revenue (US$mm)
Australia																	
– Ellendale	–	–	–	–	57.6	0.06	3.28	215	47.6	0.05	2.44	256	105.2	0.05	5.71	232	1 328
– Blina					–	–	–	–	–	–	–	–	–	–	–	–	–
Botswana																	
– Gope	–	–	–	–	97.1	0.19	18.88	136	–	–	–	–	97.1	0.19	18.88	136	2 568
CAR																	
– Mambéré	–	–	–	–	–	–	–	–	3.5	0.01	0.05	170	3.5	0.01	0.05	170	8
DRC																	
– Mbelenge	–	–	–	–	–	–	–	–	2.0	0.05	0.10	83	2.0	0.05	0.10	83	8
– Longatshimo	–	–	–	–	–	–	–	–	5.4	0.20	1.04	126	5.4	0.19	1.04	126	131
– Lubembe	–	–	–	–	–	–	–	–	0.5	0.61	0.29	86	0.5	0.61	0.29	86	25
– Tshikapa	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
DRC total	–	–	–	–	–	–	–	–	7.9	0.18	1.42	115	7.9	0.18	1.42	115	164
Indonesia																	
– Cempaka	4.1	0.06	0.22	261	10.2	0.04	0.41	259	77.0	0.03	2.20	247	87.2	0.03	2.61	249	650
Lesotho																	
– Letšeng	84.1	0.02	1.35	1 654	84.1	0.02	1.35	1 654	158.9	0.02	2.63	1 709	243.0	0.02	3.98	1 690	6 724
Total	88.2	0.02	1.56	1 469	249.0	0.10	23.91	234	294.8	0.03	8.74	668	543.9	0.06	32.65	350	11 441

RESOURCE IN SITU REVENUE (US$ millions)



Resource Statement Letšeng Diamonds, Letšeng mine

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Source (m)	Depth from	Depth to (m)	Resource type	Volume (m^3)	SG (kg/m^3)	Tonnage	Recov. grade (cpht)	cts	Value (US$/ct)	Process plant	Min cut-off (mm)*
Satellite pipe	0	250	Indicated	6 326 000	2.58	16 321 000	2.17	354 900	1 902	DMS**	2.00
250		656	Inferred	22 029 000	2.58	56 834 000	2.17	1 235 800	1 902	DMS**	2.00
Subtotal satellite pipe				**28 355 000**	**2.58**	**73 155 000**	**2.17**	**1 590 700**	**1 902**		
Main pipe	0	28	Indicated	183 000	2.46	450 000	1.26	5 600	1 354	Pan	2.70
28		112	Indicated	9 650 000	2.61	25 186 000	1.50	377 000	1 354	DMS**	2.00
112		196	Indicated	12 983 000	2.61	33 885 000	1.61	543 900	1 354	DMS**	2.00
196		490	Inferred	39 563 000	2.61	103 259 000	1.56	1 611 500	1 354	DMS**	2.00
Subtotal main pipe				**62 379 000**	**2.61**	**162 780 000**	**1.56**	**2 538 000**	**1 354**		

Source	Stockpile (m)	Resource type	Volume (m^3)	Recov. SG (kg/m^3)	Tonnage	Grade (cpht)	Process cts	Min value (US$/ct)	Plant	Cut-off (mm)*
Stockpile	De Beers	Indicated	1 299 000	2.03	2 632 000	1.26	33 000	1 354	Pan	2.70
	Alluvial Ventures oversize stockpile (Main pipe)	Indicated	197 000	1.68	330 000	1.26	4 100	1 354	DMS**	2.00
	Main pipe low grade stockpile	Indicated	10 000	1.68	16 000	1.43	200	1 354	DMS**	2.00
	Satellite ROM stockpile	Indicated	10 000	1.68	16 000	2.17	300	1 902	DMS**	2.00
	Crushed ore stockpile	Indicated	52 000	1.68	87 000	2.14	1 800	1 875	DMS**	2.00
Subtotal stockpile			**1 568 000**	**1.96**	**3 081 000**	**1.28**	**39 400**	**1 382**		
Grand total/ average			**92 302 000**	**2.59**	**239 016 000**	**1.74**	**4 168 100**	**1 564**		

Notes:
(1) Inclusive of Reserves.
(2) Grades quoted as pre-acid wash.
(3) ** 22 mm re-crush screen aperture width.
(4) *** At 31 December 2008 the crushed ore stockpile is comprised of 95 per cent. Satellite pipe and 5 per cent. Main pipe.
(5) Rounding down of volume and tonnage to the nearest 1 000 t and carats to the nearest 100 cts may result in computational discrepancies.
(6) The diamond price is estimated using the Dr. Lemmer price curve using sales data from January 2007 – December 2008, from production sourced from each pipe separately. These do not reflect spot prices currently being obtained by the mine, but do take into account the price since the global economic downturn in September 2008.

Annual Resource and Reserve Statement continued

Reserve Statement Letšeng Diamonds, Letšeng mine

RESERVES AS AT 31 DECEMBER 2008

	Source	Reserve type	Volume (m^3)	Sg (kg/ m^3)	Tonnage	Recov. grade (cpht)	Cts	Value (US$/ct)	Process plant	Bottom screen size (mm)
Satellite pipe	0 to 250 m	Probable	6 299 000	2.58	16 252 000	2.14	347 793	1 902	DMS**	2.00
Subtotal satellite			**6 299 000**	**2.58**	**16 252 000**	**2.14**	**347 793**	**1 902**		
Main pipe	0 to 28 m	Probable	183 000	2.46	452 000	1.26	5 681	1 354	Pan	2.70
	28 to 196 m	Probable	22 613 000	2.61	59 021 000	1.57	928 839	1 354	DMS**	2.00
			22 796 000	**2.61**	**59 473 000**	**1.57**	**934 520**	**1 354**		
Stockpiles	De Beers stockpile	Probable	1 299 000	2.03	2 634 000	1.26	33 105	1 354	Pan	2.70
	Alluvial Ventures oversize stockpile (main pipe)	Probable	197 000	1.68	331 000	1.26	4 160	1 354	Pan	2.70
	Main pipe low grade stockpile	Probable	10 000	1.68	17 000	1.43	242	1 354	DMS**	2.00
	Satellite ROM stockpile	Probable	10 000	1.68	17 000	2.14	364	1 902	DMS**	2.00
	Crushed ore stockpile	Probable	52 000	1.68	88 000	2.14	1 883	1 875	DMS**	2.00
Subtotal stockpile			**1 568 000**	**1.97**	**3 087 000**	**1.29**	**39 753**	**1 384**		
Grand total/average			**30 663 000**	**2.57**	**78 812 000**	**1.68**	**1 322 066**	**1 499**		

Notes:
(1) Rounding of volume is to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.
(2) Diamond values are based on the Venmyn estimation methodology.

Resource Statement Kimberley Diamonds, Ellendale mine

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Source	Resource classification	Tonnage	Grade (cpht)	Carats	Value (US$/ct)	Bottom screen size cut-off (mm)
Ellendale 4	Measured	3 337 000	7.60	253 700	99	1.20
Ellendale 9 West	Measured	2 067 000	5.27	109 000	256	1.20
Ellendale 9 East	Measured	384 000	5.60	21 500	446	1.20
Total measured		5 788 000	6.64	384 200	163	
Ellendale 4	Indicated	18 246 000	4.57	833 400	99	1.20
Ellendale 9 West	Indicated	7 719 000	4.61	355 500	256	1.20
Ellendale 9 East	Indicated	2 365 000	4.40	104 100	446	1.20
ROM stockpiles	Indicated	2 444 000	5.92	144 600	162	1.20
Total indicated		30 774 000	4.67	1 437 600	169	
Ellendale 4	Inferred	28 076 000	5.14	1 444 500	99	1.20
Ellendale 4 Satellite	Inferred	16 481 000	6.22	1 025 000	120	1.20
Ellendale 9 West	Inferred	4 684 000	5.03	235 700	256	1.20
Ellendale 9 East	Inferred	8 542 000	3.88	331 800	446	1.20
Low grade stockpiles	Inferred	3 697 000	2.88	106 400	239	
Total inferred		61 480 000	5.11	3 143 400	159	
Total resources		98 042 000	5.06	4 965 200	162	

Notes:

(1) Rounding of tonnage to the nearest 1 000 t and carats to the nearest 100 cts may result in computational discrepancies.

(2) Ellendale 4 resource calculated to depth of 130 m below original surface, Ellendale 9 resource calculated to depth of 180 m below original surface, Ellendale 4 Satellite calculated to 220 m below original surface.

(3) All UBX (breccia) material has been classified as Inferred Mineral Resource, due to the inherent uncertainties concerning grade distribution of this lithology.

(4) Kimberley Diamonds conduct in-house valuations on their parcels which can be demonstrated to have agreement with the actual prices fetched at tenders. These in-house valuations are therefore considered as a proxy for the market. Provenance price was calculated by assessing the weighted average in-house diamond price for the past 24 months. Since these diamond prices represent a mix of production, provenance values were estimated by consideration of the ore splits and percentage of carats contributed by each source for a typical ore mix that would result in the same weighted average diamond value. Since September 2008 the diamond market has experienced a significant downturn related to the 2008/2009 global economic crisis. Nevertheless, Venmyn Rand expect diamond prices to recover in the medium term and still consider these prices to reflect reasonable expectations of future prices, based on their current information.

Annual Resource and Reserve Statement continued

Reserve Statement Kimberley Diamonds, Ellendale mine

RESERVES AS AT 31 DECEMBER 2008

Source	Reserve type	Volume (m^3)	Sg (kg/m^3)	Tonnage	Recov. grade (cpht)	Cts	Value (US$/ct)	Bottom screen size (mm)
Ellendale 9 West	Proven	801 000	2.02	1 615 000	5.13	82 000	256	1.2
Ellendale 9 East	Proven	95 000	1.99	189 000	5.13	11 000	446	1.2
Total proven		**896 000**	**2.01**	**1 804 000**	**5.22**	**93 000**	**279**	
Ellendale 9 West	Probable	2 179 000	2.08	4 522 000	4.93	220 000	256	1.2
Ellendale 9 East	Probable	522 000	2.01	1 048 000	4.33	45 000	446	1.2
ROM stockpiles	Probable	590 000	1.52	897 000	3.33	29 000	351	1.2
Total probable		**3 291 000**	**1.96**	**6 467 000**	**4.57**	**294 000**	**295**	
Grand total/average		**4 187 000**	**1.98**	**8 272 000**	**4.71**	**389 000**	**291**	

Notes:
(1) Rounding of volume is to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.
(2) Diamond values are based on the Venmyn Rand's estimation methodology.

Resource Statement Blina Diamonds

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Resource block	Deposit	Gravel type	Resource category	In Situ over-burden volume (m^3)	In Situ gravel volume (m^3)	Recovered grade ($ct/100m^3$)	Carats	Diamond value (US$/ct)	Bottom screen size (mm)
E9 North Western channel	E9	Alluvial	Indicated	60 000	16 000	29.32	4 600	162	1.0 – 1.5
E9 North Eastern channel	E9	Alluvial	Indicated	66 000	16 000	9.11	1 400	426	1.0 – 1.5
E9 Far East	E9	Eluvial	Indicated	0	1 996	10.94	200	466	1.0 – 1.5
Total alluvial indicated				**126 000**	**33 996**	**18.24**	**6 200**	**231**	
Cut 2 – Cut 1	T5	Alluvial	Inferred	3 422 000	560 000	3.60	20 100	248	1.0 – 1.5
Cut 1 – E12	T5	Alluvial	Inferred	9 800 000	612 000	4.89	29 900	248	1.0 – 1.5
E12 (Alluvials)	T5	Alluvial	Inferred	1 387 000	155 000	6.95	10 700	453	1.0 – 1.5
E12 (Upstream extension)	T5	Alluvial	Inferred	800 000	100 000	6.95	6 900	453	1.0 – 1.5
Total alluvial inferred				**15 409 000**	**1 427 000**	**4.74**	**67 600**	**302**	
E9 Far East	E9	Lamproite	Indicated	0	376 000	6.78	25 400	466	1.0 – 1.5
Total lamproite indicated				**0**	**376 000**	**6.76**	**25 400**	**466**	
E11	E11	Eluvial	Inferred	264 000	107 000	0.69	700	180	1.0 – 1.5
E7	E7	Eluvial	Inferred	2 380 000	102 000	3.99	4 000	99	1.0 – 1.5
E4 Satellite	E4	Eluvial	Inferred	0	87 000	11.93	10 300	120	1.0 – 1.5
E4 Area 5	E4	Eluvial	Inferred	0	55 000	23.21	12 700	99	1.0 – 1.5
Total eluvial inferred				**2 644 000**	**351 000**	**7.89**	**27 700**	**109**	
Grand total Blina				**18 179 000**	**2 187 996**	**5.80**	**126 900**	**289**	

Notes:
(1) Rounding down of volume to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.
(2) All measurements through processing plants are carried out using tonnes. Densities are measured in most trenches.
(3) Note that Alluvial and Eluvial deposits over a lamproite includes the gravel lag and 1.0 m into the footwall.
(4) Diamond prices are based upon the weighted average of valuations and/or sales in the last 24 months, except for Terrace 5 which includes a sale from April 2006. Since September 2008 the diamond market has experienced a significant downturn related to the 2008/2009 global economic crisis. Nevertheless, Venmyn Rand expect diamond prices to recover in the medium term and still consider these prices to reflect reasonable expectations of future prices, based on their current information. Note that the average prices received for parcels sold in 2008/2009 reflect a combination of Ellendale 9 North West and Ellendale North East stones.

Resource Statement P.T. Galuh Cempaka, Cempaka mine

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Paleo-channel	Resource category	Over-burden volume (m^3)	Gravel volume (m^3)	Strip ratio (m^3:m^3)	Grade (ct/100m^3)	Carats	Diamond value (US$/ct)	Bottom screen size (mm)
Danau Seran	Indicated	1 234 000	127 000	9.72	17.52	22 200	207	1.20
Cempaka	Indicated	42 902 000	6 516 000	6.58	5.44	354 600	197	1.20
Total indicated		**44 136 000**	**6 643 000**	**6.64**	**5.67**	**376 800**	**197**	
Cempaka	Inferred	263 381 000	33 439 000	7.88	5.57	1 863 700	176	1.20
Baruh Bada	Inferred	1 122 000	1 034 000	1.09	5.53	57 100	207	1.20
Total inferred		**264 503 000**	**34 473 000**	**7.67**	**5.57**	**1 920 800**	**177**	
Total resources		**308 639 000**	**41 116 000**	**7.51**	**5.59**	**2 297 600**	**180**	

Notes:

(1) Rounding of volume is to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.

(2) Diamond value has been based on the average diamond values achieved from diamond sales over the past 24 months. Since September 2008 the diamond market has experienced a significant downturn related to the 2008/2009 global economic crisis. Nevertheless, Venmyn Rand expect diamond prices to recover in the medium term and still consider these prices to reflect reasonable expectations of future prices, based on their current information.

Resource Statement Mambéré

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Project area	Resource classification	Gravel type	Gravel volume (m^3)	Rec. grade (ct/100m^3)	Carats	Diamond value (US$/ct)	Bottom screen size (mm)
RC-11	Inferred	River Channel	29 000	3.20	900	160	1.6
RC-16	Inferred	River Channel	60 000	38.00	22 800	160	1.6
RC-17	Inferred	River Channel	37 000	26.00	9 600	160	1.6
RR-02	Inferred	River Channel	6 000	46.00	2 700	160	1.6
T1-R-01	Inferred	Terrace	548 000	3.00	16 400	140	1.6
T1-R-02	Inferred	Terrace	92 000	4.00	3 600	140	1.6
T1-L-02	Inferred	Terrace	101 000	3.00	3 000	140	1.6
T2-R-01	Inferred	Terrace	268 000	0.40	1 000	140	1.6
T3-R-01	Inferred	Terrace	190 000	1.00	1 900	140	1.6
T4 East	Inferred	Terrace	457 000	4.00	18 200	140	1.6
Grand total/ave inferred resources			**1 788 000**	**4.50**	**80 100**	**149**	

Notes:

(1) Rounding of volume to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.

(2) Recovered grades take into account volume loss due to oversize and undersize material.

(3) No diamond sales have been made and no formal diamond valuations of the Mambéré goods have been carried out. Diamond values have been assumed based on comparisons with Dimbi goods which have consistently averaged US$166/ct. Empirical observations of the Mambéré goods by an independent valuator have suggested a price range of between US$145/ct – US$150/ct for the terrace diamonds. Since September 2008, the diamond market has experienced a significant downturn related to the 2008/2009 global economic crisis. Nevertheless, Venmyn expect diamond prices to recover in the medium term and still consider these prices to reflect reasonable expectations of future prices based on their current information.

Annual Resource and Reserve Statement continued

Resource Statement Mbelenge

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Project area	Resource block	Type	Resource category	Gravel volume (m^3)	Recovered grade ($ct/100m^3$)	Carats	Value (US$/ct)	Bottom screen size (mm)
Mbelenge-629	KT-05	Terrace	Inferred	427 000	10.00	42 700	98	1.00
	Bar-98	River	Inferred	110 000	174.00	191 400	88	1.60
	Ela Menji Islands	River	Inferred	63 000	82.00	51 600	88	1.60
Mbelenge-633	KT-01	Terrace	Inferred	279 000	9.80	27 300	98	1.00
	KT-02	Terrace	Inferred	159 000	7.69	12 200	98	1.00
	KT-03	Terrace	Inferred	125 000	10.00	12 500	98	1.00
	KL-01	Floodplain	Inferred	303 000	9.97	30 200	88	1.00
	KL-02	Floodplain	Inferred	55 000	1.90	1 000	88	1.00
Total inferred resources				**1 521 000**	**24.27**	**368 900**	**91**	
Total resources				**1 521 000**	**24.27**	**368 900**	**91**	

Notes:
(1) Rounding of volume to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.
(2) Recovered grades take into account volume loss due to oversize and undersize material. For Bar 98, for example, it is expected that only 25 per cent. of the in-situ gravel will be processed. The allocated grade therefore reflects actual recovered grades for this material.
(3) Diamond values reflect the weighted average values achieved from diamond sales (11 770.30 cts) during the previous 24 months. Since KDC have an offtake agreement with Almesta, who then sell the diamonds on for a profit, Venmyn Rand have estimated the market value of the goods as the received value plus 10%. The value of the River and Floodplain diamonds have been estimated to average US$10/ct less than that of the Terraces, based on their respective size frequency distributions. Since September 2008, the diamond market has experienced a significant downturn related to the 2008/2009 global economic crisis. Nevertheless, Venmyn Rand expect diamond prices to recover in the medium term and still consider these prices to reflect reasonable expectations of future prices, based on their current information.

Resource Statement Longatshimo

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Project	Project area	Resource classification	Gravel type	Gravel volume (m^3)	Rec. grade ($ct/100m^3$)	Carats	Value (US$/ct)	Bottom screen size (mm)
Longatshimo – 484	Lupemba 3 T1	Inferred	Flats + lower	44 000	10.99	4 800	126	1.0
	Kamakenza 3 T1	Inferred	Middle terrace	17 000	16.40	2 700	126	1.0
	Kanal T2	Inferred	Flats + lower	88 000	50.06	44 000	126	1.0
	Lupemba Reach	Inferred	Channel	139 000	200.00	278 000	126	1.0
Longatshimo – 485	Kamakelekesse Flats	Inferred	Flats	104 000	12.98	13 500	126	1.0
	Kamakelekesse Tributary	Inferred	Tributary	243 000	81.28	197 500	126	1.0
	Kamakelekesse C Kwango 485	Inferred	High terrace	34 000	77.35	26 300	126	1.0
	Kamakelekesse North Terrace	Inferred	High terrace	83 000	86.27	71 600	126	1.0
	Mwali Tributary 485	Inferred	Tributary	290 000	66.00	191 400	126	1.0
Longatshimo – 487	487 Left Bank High Terrace	Inferred	High terrace	83 000	54.22	45 000	126	1.0
	487 Left Bank Mid Terrace	Inferred	Mid terrace	86 000	53.95	46 400	126	1.0
	Kanal Low Terrace	Inferred	Low terrace	24 000	50.83	12 200	126	1.0
	Kanal High Terrace	Inferred	High terrace	62 000	75.00	46 500	126	1.0
	487 North Reach Terrace	Inferred	Mid terrace	23 000	54.78	12 600	126	1.0
	487 South Reach RB Terrace	Inferred	Low terrace	59 000	35.42	20 900	126	1.0
	487 South Reach RB Flats	Inferred	Flats	3 000	53.33	1 600	126	1.0
Longatshimo – 1315	Mwali Tributary 1315	Inferred	Tributary	832 000	5.00	41 600	126	1.0
Grand total/ave inferred resources				**2 214 000**	**47.73**	**1 056 600**		

Notes:

(1) Rounding of volume to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.

(2) Recovered grades take into account volume loss due to oversize and undersize material.

(3) No diamond sales have taken place. The only other formal valuation of these goods was done by WWW in 2006 on 208 cts recovered from the terraces. From these diamonds a value of US$126/ct was determined. Since November 2008, the diamond market has experienced a significant downturn related to the 2008/2009 global economic crisis. Nevertheless, Venmyn Rand expect diamond prices to recover in the medium term and still consider these prices to reflect reasonable expectations of future prices, based on their current information.

Annual Resource and Reserve Statement continued

Resource Statement Lubembe

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Project	Project area	Resource classifi-cation	Gravel type	Gravel volume (m^3)	Rec. grade	Carats	Diamond value (US$/ct)	Bottom screen size (mm)	Top screen size (mm)
Lubembe – 515	Tshambaluka Reach	Inferred	Channel	36 000	88.61	31 900	100	1.6	16.0
Lubembe – 607	Lona main channel	Inferred	Channel	31 000	102.58	31 800	100	1.6	16.0
	Maxrock Reach	Inferred	Rapids	7 000	212.86	14 900	100	1.6	16.0
Lubembe – 609	Lubembe 609 Crossing	Inferred	Channel	19 000	500.00	95 000	100	1.6	16.0
	Lufalanka Rapids	Inferred	Rapids	24 000	500.00	120 000	100	1.6	16.0
	Tshimpulumba Reach	Inferred	Channel	7 000	500.00	35 000	100	1.6	16.0
	Lubembe 609 Reach	Inferred	Channel	71 000	340.00	241 400	100	1.6	16.0
Lubembe – 630	Katoka Kwango	Inferred	Basal Kwango	34 000	163.53	55 600	100	1.6	16.0
Grand total/ave inferred resources					**229 000**	**273.19**	**625 600**		

Notes:

(1) Rounding of volume to the nearest 1 000 m^3 and carats to the nearest 100 cts may result in computational discrepancies.

(2) Recovered grades take into account volume loss due to oversize and undersize material.

(3) Diamond values reflect the weighted average values achieved from diamond sales (11 475.21 cts) during the previous 24 months. Since KDC have an offtake agreement with Almesta, who then sell the diamonds on for a profit, Venmyn Rand have estimated the market value of the goods as the received value plus 10%. Since September 2008, the diamond market has experienced a significant downturn related to the 2008/2009 global economic crisis. Nevertheless, Venmyn expect diamond prices to recover in the medium term and still consider these prices to reflect reasonable expectations of future prices, based on their current information.

Resource Statement Gope

AS AT 31 DECEMBER 2008 (INCLUSIVE OF RESERVES)

Resource classification	Depth (m)	Facies	Volume (m^3)	Density	Tonnage (t/m^3)	Grade (cpht)	Contained carats	Value (US$/ct)	Bottom size cut-off (mm)
Indicated	Base of crater – 300 m	TKB SE	5 376 032	2.53	13 601 000	28.13	3 826 000	147	1.5
	Base of crater – 300 m	TKB Main	8 533 736	2.47	21 078 000	16.95	3 573 100	138	1.5
	Base of crater – 300 m	HK	2 504 419	2.59	6 486 000	20.15	1 306 600	119	1.5
	Base of crater – 300 m	BXTKB	723 082	2.59	1 872 000	9.91	185 500	138	1.5
	Base of crater – 300 m	BXHK	4 589 311	2.63	12 069 000	10.96	1 322 700	119	1.5
Total/Ave			**21 726 580**	**2.54**	**55 106 000**	**18.54**	**10 213 900**	**136**	
Indicated	300 – 400 m	TKB SE	2 202 761	2.65	5 837 000	29.46	1 719 800	147	1.5
	300 – 400 m	TKB Main	3 292 909	2.50	8 232 000	19.84	1 632 800	138	1.5
	300 – 400 m	HK	807 218	2.62	2 114 000	17.57	371 300	119	1.5
	300 – 400 m	BXTKB	78 113	2.60	203 000	18.56	37 600	138	1.5
	300 – 400 m	BXHK	2 788 939	2.63	7 334 000	13.85	1 015 400	119	1.5
Total/ave			**9 169 941**	**2.59**	**23 720 000**	**20.14**	**4 776 900**	**136**	
Total/ave indicated			**30 896 521**	**2.55**	**78 826 000**	**19.02**	**14 990 800**	**136**	
Inferred	NA	Crater	3 168 687	2.59	8 206 000	5.02	411 900	133	
Total/ave			**3 168 687**	**2.59**	**8 206 000**	**5.02**	**411 900**	**133**	
Inferred	400 – 500 m	TKB SE	1 664 468	2.66	4 427 000	30.83	1 364 700	147	1.5
	400 – 500 m	TKB Main	3 031 401	2.50	7 578 000	19.00	1 439 800	138	1.5
	400 – 500 m	HK	397 611	2.62	1 041 000	15.89	165 400	119	1.5
	400 – 500 m	BXHK	2 004 601	2.62	5 252 000	17.50	919 000	119	1.5
Total/ave			**7 098 082**	**2.58**	**18 298 000**	**21.25**	**3 888 900**	**136**	
Total/ave inferred			**10 266 769**	**2.58**	**26 504 000**	**16.23**	**4 300 800**	**136**	
Total/ave inferred (excluding crater)			**7 098 082**	**2.58**	**18 298 000**	**21.25**	**3 888 900**	**136**	
Grand total/ave			**41 163 290**	**2.56**	**105 330 000**	**18.32**	**19 291 600**	**136**	
Grand total/ave (excluding crater)			**37 994 603**	**2.56**	**97 124 000**	**19.44**	**18 879 700**	**136**	

Notes:
(1) Recoverable grade and carats based on a conventional diamond processing circuit employing crushing re-crushing and DMS.
(2) Rounding of tonnage to the nearest 1 000 t and carats to the nearest 100 cts may result in computational discrepancies.
(3) The most recent format diamond valuation was done by WWW as at September 2008. Subsequent to this valuation, the diamond market has experienced a significant downturn related to the 2008/2009 global financial crisis. Nevertheless, Venmyn expect diamond prices to recover in the medium term and in order to better reflect this downturn, have discounted these most recent values by 15 per cent. (which equals the effective loss in value in consideration of the average diamond valuations during 2007 and 2008. This effectively represents, therefore a two-year average value.

Sustainable Development Report

At the core of Gem Diamonds' operational philosophy and business practice, is its commitment to continuously exercise a duty of care with regard to the health and safety of its employees, project-affected communities, stakeholders and the general public, as well as the environment in which it operates. To this end, Gem Diamonds has instituted appropriate Health, Safety, Corporate Social Initiative ('CSI') and Environmental (collectively 'HSSE') policies and procedures that are implemented throughout the organisation.

REPORT PARAMETERS

This report covering all operations for the full 2008 year is the first dedicated Sustainable Development report published by Gem Diamonds since the Company's inception in July 2005. In an effort to continuously improve its HSSE reporting, this report is aligned with the reporting criteria as outlined in the Global Reporting Initiative Version 3 (GRI v3). Certain Performance Indicators ('PIs'), as referenced by their number and category, have been selected for inclusion in this report and the Company has committed to increasing over time the number of PIs that are monitored, recorded and reported on.

PIs are indicated throughout the report. The level of reporting is indicated as follows:

- ● Full reporting of PI
- ⦿ Partial reporting of PI
- ○ Statement around PI

PI categories are abbreviated and referenced in the report as follows:
EC: Economic PIs
EN: Environmental PIs
LA: Labour Practices and Decent Work PIs
HR: Human Rights PIs
SO: Society PIs
PR: Product Responsibility PIs
MM: Mining and Metals Sector Supplement PIs

HSSE COMMITTEE PROFILE AND STRATEGY

The HSSE Committee (the 'Committee') comprises the following members:

- GA Beevers Chairman (non-Executive Director)
- M Salamon (non-Executive Director)
- GE Turner (Chief Legal and Commercial Officer)

	2009 KEY PERFORMANCE TARGETS
1	Achieving zero fatalities groupwide.
2	Achieving a Group Lost Time Injury Frequency Rate ('LTIFR') of 0.50.
3	Ensuring that 100% of operational staff receive pre-employment medicals.
4	Providing voluntary counselling and testing for HIV/AIDS to maximise coverage of employees based on the specific country risk and need.
5	Developing and implementing an approved Social and Environmental Impact Assessment ('SEIA')/Social and Environmental Management Plan ('SEMP') for each operation.
6	Developing and implementing a practical, site specific waste management plan for each operation.
7	Ensuring that the total land disturbed does not exceed the mine and rehabilitation plans and is in compliance with the SEMP.
8	Developing and implementing a Corporate Social Responsibility and Sustainability strategy for each subsidiary and the Group.
9	Formalising CSI programmes and investments at each operation in order to ensure alignment with the Group policy.

Alan Ashworth (Chief Operating Officer) is invited to the meeting for reporting purposes, while Andre Confavreux (Company Secretary) acts as the Committee Secretary.

The Committee meets quarterly with the purpose of assisting the Board in obtaining assurance that appropriate systems are in place to deal with the management of health, safety, environmental and community related risks and opportunities. The Committee reports directly to the Board.

HSSE SYSTEM

Gem Diamonds has implemented and maintains a group-wide HSSE system, underpinned by international standards including ISO, World Bank and International Finance Corporation ('IFC') standards. Local legislation pertinent to each country in which operations are located is adhered to, incorporated into and reflected in the country specific HSSE standards, procedures and staff training. (LA6 ○)

External HSSE Audits

Independent HSSE audits of all the operations are conducted annually by IRCA Global.

Ellendale and the DRC operations both achieved 2 Star ratings during the 2008 external IRCA audits, while Letšeng achieved a 3 Star rating.

The following areas for improvement, which were identified during the 2008 audits, will be addressed during the 2009 financial year:

- Enhance HSSE legal registers;
- Refine baseline HSSE risk registers;
- Improve HSSE management system structure and level of integration; and
- Increase control over corrective actions and close outs.

Health and Safety Report

A groupwide LTIFR of 0.48 was achieved in 2008 with over eight million man-hours worked, thereby bettering the annual target, for the second year in a row. Monthly statistics are reflected below. (LA7 ⦿) These achievements were made possible through continuous and relevant health and safety training and awareness campaigns undertaken at every level of the organisation, based on pertinent risk areas.

Regrettably, one fatality occurred at Gem Diamonds Centrafrique operations during March 2008 when an exploration sampling pit collapsed. A detailed assessment of the causes of this accident was undertaken and contributory factors immediately addressed. (LA7 ⦿)

As in 2007, no occupational diseases were recorded during 2008. Malaria and other tropical diseases remain a high risk at African operations. The Group has contracted qualified medical and paramedical service providers to ensure the provision of a high level of care to all its employees at these operations, with suitable equipment and supplies available on site. The introduction of the CyScope malaria testing machines, coupled with the provision of mosquito nets and prophylaxes have resulted in the significant reduction of lost time from malaria.

HIV/AIDS remains a health risk. Extensive HIV/AIDS awareness and education campaigns continue, as does voluntary testing, treatment and condom distribution.

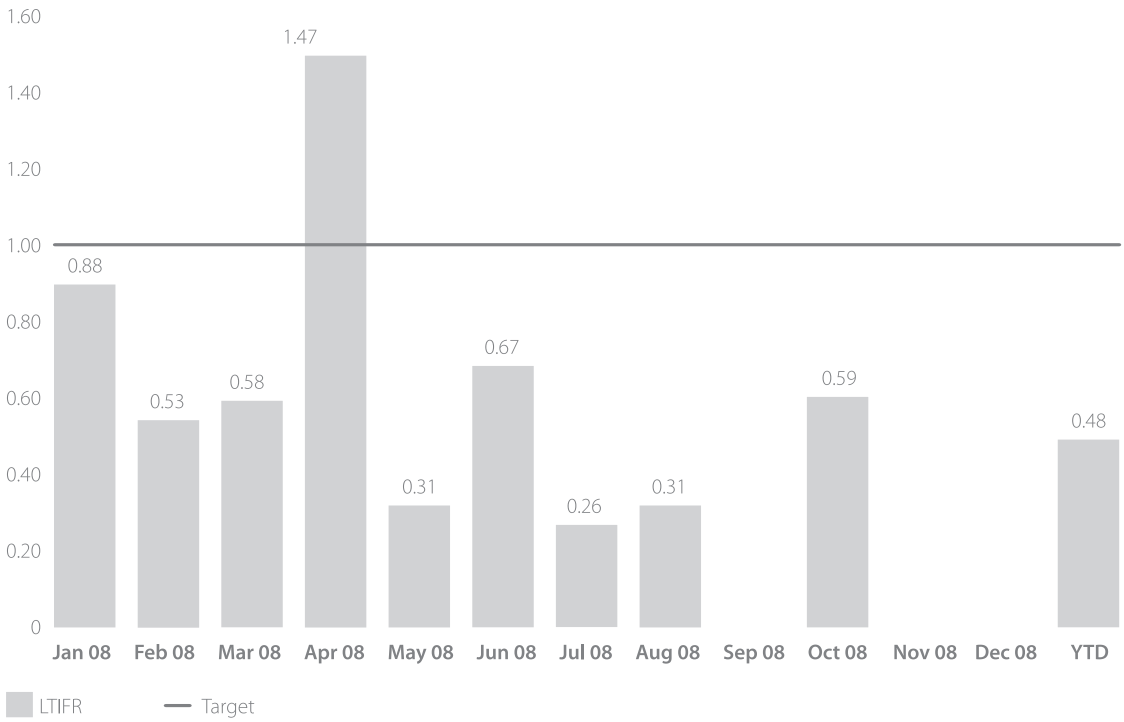
ECONOMIC SUSTAINABILITY AND SOCIETY

Data pertaining to the Group's economic sustainability is reported in the Chief Financial Officer's Report as well as the Annual Financial Statements and notes thereto. (EC1 ⦿)

Gem Diamonds has committed to various levels of CSI spending across its operations and several projects were successfully completed in 2008. The operations are encouraged to spend available CSI funding on health, education, infrastructure development, the development of small to medium enterprises and general donations to relevant causes in the project-affected communities. (MM1 ⦿)

Sustainable Development Report continued

Gem Diamonds 200 Lost time Injury Frequency Rate ('LTIFR')(1)



(1) LTIFR is defined as lost time injuries for every 2 000 man hours worked

CSI expenditure during 2008 was:

- Health US$29 000
- Education US$124 000
- Infrastructure US$1 million
- Donations US$227 000
- SME US$5 000
- Other US$206 000

During 2008, a total of 2 129 members of local communities were treated at the site clinics of the various operations.

Other CSI initiatives include the scholarship programme for 15 tertiary students in Lesotho, the completion of the Khubelu Valley ecotourism chalets and camping facility near the Letšeng mine, the construction of four schools and a clinic in the DRC, the completion of a school near the Likaya camp in CAR, the establishment of various vegetable farms and nurseries near the Cempaka mine and the continued skills training and employment of the Bunuba people from Fitzroy Crossing near the Ellendale mine. Various other infrastructure projects, including roads and ferries have been constructed in the vicinity of the operations for use by both the Group's operations and the project-affected communities.

Gem Diamonds has developed a seven step CSI process that includes a detailed sustainability needs analysis process in order for the project-affected communities to have more influence over CSI projects that are developed and implemented. The process will be implemented at all operating mines in 2009. The CSI budget for each operation depends on the type of project identified and the associated funding requirements. It is anticipated that this bottom-up approach will ensure community buy-in from the earliest stages of the projects.

Due to the onset of the global economic crisis in late 2008, several of Gem Diamonds' operations were placed on care

Gem Diamonds maintains open communication channels with its project-affected communities. (MM11 ○) During 2008, Gem Diamonds undertook the SEIA for the proposed development of a mine at Gope in the CKGR. A project communication strategy was compiled and approved by the Government of Botswana prior to commencement of the project. This strategy was based on the IFC Stakeholder Engagement (2007) and IFC Doing Better Business through Effective Public Consultation and Disclosure (1998) guideline documents. The EIA Act of Botswana required the Company to hold one public meeting during the scoping phase of the EIA project. Due to the lack of reliable local transport, Gem Diamonds conducted public meetings in eight locations in and around the CKGR as part of the scoping phase of the project. Approximately 590 people attended these meetings and shared their thoughts, comments and concerns around the project with the team. These comments were incorporated into the scope of the twelve specialist investigations that formed part of the SEIA and SEMP. Upon completion of the specialist investigations, a second round of feedback meetings were held with the project affected communities. Project-affected communities expressed their overwhelming support of the project and also expressed their gratitude to the project team for the consultation process and the open and transparent manner in which information was shared.

A positive record of decision for the SEIA was granted by the Botswana Government in late 2008.

and maintenance. Ownership of the relevant community projects was transferred to the local communities and their respective structures, local government or reputable NGOs as deemed appropriate. It is intended that this will ensure their continued benefit to the project-affected communities.

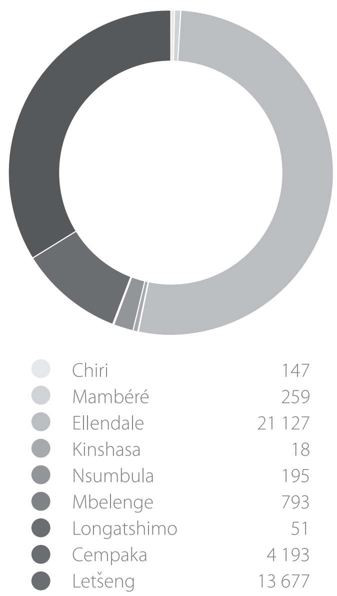
ENVIRONMENTAL SUSTAINABILITY

Environmental management takes a high priority within Gem Diamonds and appropriate policies and procedures have been implemented to ensure that each operation can/will comply with ISO14001, World Bank and IFC standards.

Materials, Energy and Water

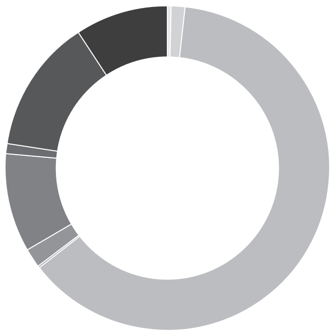
Water, diesel and oil are the major raw materials used at Gem Diamonds' operations. Volumes of these materials consumed during 2008 are detailed below. (EN1 ⊙)

Fossil fuels volume consumed (litres 000s)



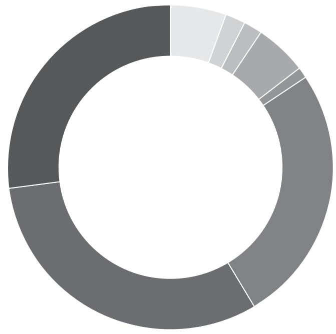
Sustainable Development Report continued

Oil volume consumed (litres 000s)



Chiri	1.0
Mambera	3.5
Ellendale	162.1
Kinshasa	0.5
Nsumbula	5.0
Mbelenge	25.4
Longatshimo	2.6
Cempaka	34.5
Letšeng	23.9

Water volume consumed (m^3 000s)



Chiri	1 491
Kinshasa	537
Nsumbula	492
Mbelenge	1 377
Longatshimo	293
Cempaka	6 892
Letšeng	8 444
Ellendale	7 245

Water related impacts (EN8 ○; EN9 ○) are limited in the diamond mining process and it is considered to be an extremely clean mining process. Chemicals used in the diamond mineral processing, including Ferrous Silicon (FeSi), flocculants and coagulants are inert and stable. Therefore, very little pollution results from the diamond mining process, and water related impact is generally limited to increased sedimentation where inadequate settling facilities are provided for.

Potentially acid forming mineralogies are seldom associated with diamond deposits. However, at Cempaka, pyrite does occur in the alluvial deposit, leading to a naturally low ground and surface water pH, which in turn results in the dissolution of heavy metals. Water quality management is a key environmental risk at Cempaka and an aspect that is carefully studied and managed.

Water quality management remains a low risk at Gem Diamonds' other operations but adequate management plans are in place to ensure the prevention and mitigation of any impact on water resources. High levels of water recycling have been achieved at both the Letšeng and Ellendale mines with up to 70% of water being recycled per annum.

Where possible, Gem Diamonds uses bulk power at its operations. However, where suitable infrastructure does not exist, diesel generators are used to power staff camps, plant and equipment. (EN3 ○)

A variety of IUCN Red List species do occur on and in the vicinity of most of Gem Diamonds' operations. One such species is the chimpanzee that occurs at the Mambéré site in CAR. Gem Diamonds rescued a baby female chimpanzee that was orphaned as a result of the prolific bush meat trade. Staff at the operation have been caring for Claudine, nursing her back to health on a diet recommended by Chimp Eden (part of the Jane Goodall Institute). Gem Diamonds Centrafrique has been working with Chimp Eden to obtain the required CITES permits to relocate Claudine to a suitable and accredited rehabilitation sanctuary. She is expected to be transferred to a sanctuary during the course of 2009, in order to ensure that she can live out her days as part of an integrated family group.

Biodiversity

Several of Gem Diamonds' operations are located in sensitive environments. Gem Diamonds takes the utmost care in minimising its footprint in its concession or lease areas and disturbs only areas that are essential to the successful operation of the site (EN11 ⦿)

Operation	Biome	Total land owned/leased ha (end 2008)	Area disturbed ha (end 2008)	Percentage disturbed (end 2008)
CAR	Riverine and tropical rain forest	85 500	5	0.005%
DRC	Tropical rain forest	168 680	23	0.014%
Angola	Savannah	104	4	4.07%
Botswana	Desert	4 500	1.5	0.033%
Lesotho	Alpine	1 674	209	12.49%
Indonesia	Marsh land	747	211	28.29%
Australia	Savannah	70 280	264	0.38%
Total		331 486	718	0.216%

In order to ensure that environmental and social impacts which occur as a result of the Company's operations are well understood, SEIAs and appropriate SEMPs have been completed for all of the Group's operations, except for Chiri in Angola, where an assessment is currently underway. (EN12 ○; SO1 ⦿).

Rehabilitation programmes have been developed for each operation. Extensive rehabilitation is presently undertaken at sites that have been placed on care and maintenance. These programmes have been compiled in such a manner that the sites can either be re-opened or final closure practices be applied with ease. Progressive rehabilitation of operational sites is ongoing.

Emissions, Effluents and Waste

Conventional waste management practices are implemented at Gem Diamonds' operations, but due to the remoteness of some of the Company's operations, the development and implementation of innovative and improved waste reduction, management and disposal practices remain an area of focus.

The Company has set a target for all operations to finalise and implement appropriately improved waste management plans during the course of 2009.

Research into innovative technologies to reduce air emissions, especially from heavy vehicles used in open pit operations have commenced and trials will be undertaken in 2009 to quantify the effectiveness of such products. Should these prove successful, the technology will be rolled out to all operations.

Environmental pollution incidents are actively monitored at all operations. The most significant incidents that occurred in 2008 were the contained spillage of hydrocarbon substances of circa 60 litres at Ellendale and 21 litres at Letšeng. Each of these spills was bio-remediated and appropriate corrective action was taken to ensure no recurrence of these incidents.

Environmental Compliance

Gem Diamonds recorded four incidents of legal environmental non-compliance at its operations in 2008. (EN28 ●) Three of these were recorded at Ellendale for warnings received by the competent authorities for release of effluent without the required permits in place and two discharges of effluent containing high levels of suspended sediments. No fines were issued and the required remedial actions were taken to prevent the recurrence of these incidents.

Sustainable Development Report continued

The fourth incident occurred at the Cempaka mine when the effluent discharge permit was suspended in April 2008 for exceeding the allowable pH limit for industrial water. Independent investigations were conducted by an internationally recognised consulting group and the problem was rectified. Cempaka's discharge permit was reinstated in September 2008.

LABOUR PRACTICES AND DECENT WORK

During 2008, Gem Diamonds employed a maximum number of 1 558 own employees as at May 2008, and 1 842 contractors as at April 2008 worldwide. (LA1 ⦿) However, retrenchments at various operational sites during November and December 2008 resulted in these numbers decreasing to 1 198 own employees and 1 215 contractors by year end. All retrenchments undertaken complied with and/or exceeded local legislative requirement with due regard taken of individual contract obligations.

Gem Diamonds' remuneration policy stipulates cost to company salary packages as per the individual's contract agreement, therefore no additional benefits are provided to either own or contracted employees except in countries where statutory obligations are relevant and applies to both groups of employees. (EC3 ○; LA3 ○) Notice periods vary between one and six months depending on the level of seniority and are strictly adhered to. (LA5 ○)

None of Gem Diamonds' operations have recognised bargaining agreements in place, but the Company maintains open relations and communication channels with employees and stakeholders at each local operation. Gem Diamonds encourages its staff's freedom of association. (LA4 ○; HR5 ○)

No discrimination is tolerated at any of Gem Diamonds' operations.

HUMAN RIGHTS

Gem Diamonds does not have any specific human rights policies. (HR1-3 ○) However, the Company's operational philosophy supports the upholding of all human rights and these aspects are addressed throughout the HSSE system. The potential risk of child labour attaches to all operations located in developing countries, however, no child labour is tolerated at any of the Group's operations. (HR6 ⦿)

No incidents of human rights violation have been recorded at any of the Group's operations and no fines or sanctions were brought against the Company in this regard. (HR4 ●; SO8 ●)

All staff are bound by employment contracts and therefore no forced or compulsory labour takes place. It is required of the Group's contractors and suppliers to abide by the same standards. (HR7 ●)

Particular focus is given to understanding the culture of local and indigenous tribes and to always operate within the acceptable norms and customs of those cultures.

PRODUCT RESPONSIBILITY

The Group recognises the importance of the Kimberley Process, established to stop the trade in conflict diamonds (diamonds that originate from areas controlled by forces or factions opposed to legitimate, internationally recognised governments, and used to fund military action in opposition to such governments) and complies with all necessary requirements. This process, initiated by the World Diamond Council and the United Nations, and implemented by a United Nations vote in 2003, requires the certification of all diamonds mined and upon every transfer of ownership of the diamonds. Lesotho, Australia, Indonesia, Botswana, Angola, the DRC and the CAR have all met the minimum country requirements for the Kimberley Process Certification as do all diamonds recovered at the Group's operations in these countries.

Directors' Report

REVIEW OF THE BUSINESS, FUTURE DEVELOPMENTS AND POST BALANCE SHEET EVENTS

The Company has elected to compile a Business Review detailed in the United Kingdom Companies Act 2006, Section 417. The information that fulfils this requirement can be found in the sections set below and is incorporated by reference in this report:

- The Chairman's Review on pages 4 and 5;
- The Chief Executive Officer's Review (including discussion of the main trends and factors likely to affect the future development, performance and position of the Company's business and key performance indicators) on pages 6 to 11; and incorporating the key performance indicators together with the key operational statistics;
- The Chief Financial Officer's Review incorporating the principal risks on pages 12 to 17;
- The discussion of environmental matters, employees and social and community issues in the Sustainability Report on pages 30 to 36; and
- The disclosure of contractual arrangements below.

The Business Review has been prepared to provide the Company's shareholders with a fair review of the business of the Company and a description of the principal risks facing it. It may not be relied upon by anyone, including the Company's shareholders, for any other purpose.

The Business Review and other sections of this report may contain forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties and future assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed or implied by the forward looking statements. No assurance can be given that the forward looking statements in the Business Review will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and they are based on expectations and assumptions as to future events, circumstances and other factors which are in some cases outside the Company's control. The information contained in the Business Review has been prepared on the basis of the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise this Business Review during the financial year ahead. It is believed that the expectations set out in these forward looking statements are reasonable but they may be affected by a wide range of variables which could cause actual results or trends to differ materially. The forward looking statements should be read in particular in the context of the specific risk factors affecting the Company identified in the Business Review. The Company's shareholders are cautioned not to place undue reliance on the forward looking statements. Shareholders should note that the Business Review has not be audited or otherwise independently verified.

Acquisitions and changes to companies undertaken during the year, including post balance sheet events, such as they were, are included in the Chief Financial Officer's Review on pages 12 to 17.

RESULTS AND DIVIDENDS

The Group's financial results are set out in the Annual Financial Statements.

The Board recommends no final dividend in accordance with the intention set out in the Prospectus to shareholders published on 1 April 2009.

EXPLORATION AND RESOURCE DEVELOPMENT

The Group carries out exploration and resource development activities that are necessary to support and expand its operations. Recent market conditions and a desire on the part of the Group to conserve cash, lead to the decision to severely curtail exploration and resource development and place these operations on care and maintenance for the foreseeable future.

Directors' Report continued

FINANCIAL RISK MANAGEMENT

The Group's key risks are detailed on page 16 of the Chief Financial Officer's Review.

HEALTH, SAFETY, SOCIAL AND ENVIRONMENT

A review of health, safety, social and environmental performance and community participation is presented in the Sustainability Report on pages 30 to 36.

POLITICAL AND CHARITABLE DONATIONS

No political donations were made in 2008. The Group's Corporate Social Initiative ('CSI') expenditure supports initiatives that benefit the communities local to the Company's operations in the areas of health, education, infrastructure development, development of small to medium enterprises and general donations to relevant causes in project-affected communities. In 2008, the Company contributed approximately US$1.6 million to these social and environmental initiatives.

EMPLOYEE POLICIES AND INVOLVEMENT

The Group's employment practices have been developed to ensure that the Group attracts and retains the required calibre of management and staff by creating an environment that incentivises enhanced performance. The safety and effective performance of employees, together with the maintenance of positive employee relations are of key importance across the Group's operations.

Employees' engagement continues to be a focus of the Group. Employees are kept informed of the performance and objectives of the Group through direct correspondence and access to the Group's website, published information and the circulation of press cuttings and Group announcements.

It is the Group's policy to communicate openly with employees and encourage consultation between employees and management. No form of workplace discrimination or harassment is tolerated and the Group is committed to the principle of equal opportunity in employment irrespective of gender, religion, race, age, mental or physical disability, sexual orientation or marital status.

As at 31 December 2008, the Group employs a global work-force of approximately 2413 employees and long term contractors globally. The management of labour relations at each location is the responsibility of operational management. The Company always seeks to have a direct relationship between its employees and business function management, founded on quality, leadership, effective communication and trust. All employees are free to join a union of their choice and to be represented collectively.

The Group Human Resources Manager is responsible for setting guidelines and frameworks in respect of Company policy on remuneration, performance management, career development and succession planning, recruitment and expatriate management and for the alignment of human resources management and policy with international best practice. Each operating unit manages its human resources requirements locally, within the Company's guidelines and framework.

CORPORATE GOVERNANCE

A report on corporate governance and compliance with the provisions of the Combined Code is set out on pages 52 to 59.

DISCLOSURE OF INFORMATION TO AUDITORS

Having made enquiries of fellow Directors and of the Company's auditors, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the auditors' report of which the Company's auditors are unaware and that each Director has taken all reasonable steps as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

SHARE CAPITAL

Details of the authorised and issued share capital of the Company, including the rights pertaining to each share class, are set out in the Notes to the Financial Statements.

Subsequent to the year end, the issued share capital was increased on 19 February 2009.

The share capital was increased when the Share Scheme Committee allotted 72 332 new ordinary shares of US$0.01 each to Mike Salamon. These new ordinary shares rank pari passu with the existing ordinary shares and have been admitted to the Official List of the LSE.

The ordinary issued share capital of the Company at the date of this report is 62 977 853 ordinary shares.

DIRECTORS

The Directors, as at the date of this report, are listed on pages 2 and 3 together with their biographical details.

Details of Directors' interests in shares and share options of the Company can be found in the Remuneration Report on page 51.

Mike Salamon and Richard Williams MBE MC, joined the Board as non-Executive Directors on 3 February 2008. On 22 April 2008 Glenn Turner and Alan Ashworth joined the Board as Executive Directors and Graham Wheelock stepped down.

DIRECTORS' APPOINTMENTS

Name	Date of appointment	Date of resignation
RW Davis	1 February 2007	N/A
CT Elphick	20 January 2006	N/A
AR Ashworth	22 April 2008	N/A
KM Burford	20 January 2006	N/A
GE Turner	22 April 2008	N/A
DJ Elzas	18 October 2005	N/A
GA Beevers	1 February 2007	N/A
RW Renwick	24 September 2007	N/A
M Salamon	3 February 2008	N/A
RJ Williams	3 February 2008	N/A
G Wheelock	22 January 2007	22 April 2008

The Articles of Association (83) and the Combined Code (A.7) provide that a third of Directors retire by rotation and being eligible, offer themselves for re-election. At this year's AGM Glenn Turner, Gavin Beevers and Dave Elzas will retire by rotation and being eligible offer themselves for re-election.

Details of the resolutions that will be put to the AGM are given in the notice of the AGM.

MAJOR INTERESTS IN SHARES

On 30 March 2009, the following major interests (at or above 3%) in the ordinary issued shares of US$0.01 each of the Company had been notified to the Company in accordance with the DTR 5:

MAJOR INTERESTS IN SHARES AS AT 30 MARCH 2009

Shareholder	Number of ordinary shares	% Share-holding
Gem Diamonds Holdings Ltd	9 325 000	14.81
Lansdowne Partners	7 352 651	11.67
BlackRock	6 170 285	9.80
Graff Diamonds	6 241 543	9.91
Capital Group	5 125 071	8.14
Legal & General	2 666 226	4.23
Baille Gifford & Co	2 443 977	3.88
F&C Asset Management	2 128 025	3.38

Directors' Report continued

DIRECTORS INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director had at any time during the year a material interest in any contract of significance in relation to the Company's business.

Before joining the Board, GE Turner was required by the Company to relocate to the United Kingdom. As disclosed in the 2008 Half Yearly Report, US$9.5 million (£4.7 million) was held in terms of a deposit agreement and is security on a debt owing by Glenn Turner to a financial institution. This amount will be reduced to £2.5 million by 30 June 2009 and will be extinguished by the year end.

CREDITORS' PAYMENT PRACTICE

In view of the international nature of the Group's operations there is no specific groupwide policy in respect of payments to suppliers. Individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment. It is Group practice that payments are made in accordance with those terms, provided that all trading terms and conditions have been met by the supplier.

ELECTRONIC COPIES OF DOCUMENTS

Copies of the 2008 Annual and Half Yearly Reports, HSSE policies and other corporate publications, reports, press releases and announcements are available on the Company's website at www.gemdiamonds.com.

AUDITORS

A resolution will be put to the shareholders at the forthcoming Annual General Meeting to re-appoint Ernst & Young LLP as the Company's auditors and to authorise the Board to determine the auditors' remuneration.

By order of the Board

André Confavreux

André Confavreux
Company Secretary

1 April 2009

Remuneration Report

SUMMARY

Taking account of the recent market conditions and share price performance of the Company, the Remuneration Committee consulted with the Executive Directors, who volunteered a 10% reduction in base salaries from 1 April 2009, which has been agreed, and to receive no bonuses or Employee Share Option Plan ('ESOP') awards in respect of 2008. The non-Executive Directors have elected to reduce their fees by 25%. This is consistent with the policy of aligning the interests of Executive Directors with those of the Company's shareholders.

ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee ('the Committee') is a formal committee of the Board. Its terms of reference are available on the Company's website and conform to the Combined Code.

The principal roles of the Committee are to:

- Consider and scrutinise all elements of the remuneration of the Chief Executive Officer, the Chief Financial Officer and the Senior Executive team;
- Monitor and recommend the level and structure of remuneration for senior management;
- Approve the design of performance related pay schemes operated by the Company and approve total annual payments; and
- Review the design of all share incentive plans and approve the awards to be made.

COMPOSITION OF THE COMMITTEE

The Committee comprised the following members during the year and to the date of this report:

- RW Renwick: non-Executive Director who chairs the Committee;
- RW Davis: Company Chairman;
- M Salamon: non-Executive Director (appointed 27 November 2008); and
- DJ Elzas: non-Executive Director.

The remuneration of non-Executive Directors, other than the Chairman, is considered by the Chairman and the Executive Directors and is not considered by the Committee. The Chairman's remuneration is determined by the Committee while the Chairman is absent. The fees receivable by each member and chairman of the Committee are included in this report.

In addition, the Chief Executive Officer and the Chief Financial Officer attend the Committee meetings by invitation and assist the Committee in its considerations, except when issues relating to their own remuneration are discussed.

SERVICES PROVIDED TO THE COMMITTEE

Ernst & Young Human Capital provided advice to the Committee on executive remuneration and long term incentives. This work comprised the provision of market data, comments on market trends and associated technical advice. All decisions on the quantum of remuneration and the detail of performance conditions as they apply to Executive Directors were taken by the Committee.

ACTIVITIES OF THE COMMITTEE

During the year under review, the Committee met six times and it:

- Reviewed market trends in executive remuneration and benefits and approved revisions to the remuneration of Executive Directors and Senior Executives;
- Approved the rules and performance measures for the long term incentive plan operated by the Company (namely its ESOP) and consulted with principal shareholders on the same;
- Approved the awards proposed under the ESOP; and
- Approved the Remuneration Report.

ATTENDANCE AT THE COMMITTEE'S MEETINGS IN THE YEAR WAS AS FOLLOWS:

	Number of meetings held during time in office	Number of meetings attended
RW Renwick	6	6
RW Davis	6	6
DJ Elzas	6	6
M Salamon(1)	0	0

(1) M Salamon became a member of the Committee in November 2008 and no meetings were held subsequent to his appointment.

Remuneration Report continued

RELATIONS WITH SHAREHOLDERS

The Committee is committed to open and transparent dialogue with shareholders on remuneration matters. During the year, the Committee consulted with key shareholders and various representative bodies to obtain their views on, and support for, proposals for the long term incentive elements of Directors' and Senior Executives' remuneration and the associated performance conditions.

STATEMENT OF POLICY ON DIRECTORS' REMUNERATION

Non-Executive Directors

The Board determines the fees of non-Executive Directors. When deciding an appropriate level of fee for the responsibilities undertaken by the non-Executive Directors, the Board considers the responsibility and commitment required to fulfil the role, taking into account the number of meetings required to be attended, the time required for reading Board and other papers, the duties associated with membership or chairmanship of the Board committees or (in the case of Roger Davis) Chairmanship of the Board.

Executive Directors and Senior Executives

The Committee's remuneration policy is designed to provide a level of remuneration which attracts, retains and motivates Directors and Senior Executives of a suitable calibre to execute the Company's business strategy and maximise long term shareholder wealth. It is intended that, as far as possible, remuneration policies and practices will conform to best practice in the markets in which the Company operates and will be aligned with shareholder interests. The Committee intends that the same remuneration policy will be applied in 2009, but will review the policy and the Committee's terms of reference for subsequent years in the light of matters that affect its competitiveness. In doing so, the Committee will take into account the UK Listing Rules, the provisions of the Combined Code and the guidance provided by institutional investor representative bodies on the design of performance-related remuneration. Policies will take account of pay and employment conditions elsewhere in the Company, as well as prevailing market conditions.

This policy is supported by the following principles:

- Base reward should be set at a level which is competitive with other comparator companies;
- A significant proportion of total remuneration should be 'at risk' and conditional on the performance of the Group; and
- Performance-related payments will be subject to the satisfaction of challenging performance targets over the short and long term. These performance targets will be set at an appropriate level to reflect the competitive global market in which the Group operates and take into account the prospects of the Group, the prevailing economic environment, as well as the relative performance of comparator companies.

Policy on composition of Executive Directors' Remuneration:

In 2008 the actual composition of the Executive Directors' total compensation was in the following proportions. The figures for ESOP awards reflects the underlying value of the shares at the date of grant and awards were made in recognition of strong performance in 2007 and subject to further performance conditions in respect of vesting. There is no performance bonus element evident by virtue of agreed performance levels not having been met.

There is no explicit policy of encouraging Executive Directors to maintain a long term shareholding because each founder Director acquired and continues to hold a significant stake in the Company. The remuneration policy is considered sufficient to achieve a continued alignment with shareholders interests for existing Directors and any new Directors.

During the second half of 2007, the Board appointed Alan Ashworth as Chief Operations Officer and he was subsequently appointed to the Board in April 2008. His unique combination of practical experience and technical skills are essential to the business in its present stage of development. His wealth of experience in the mining sector makes him a key resource which the Board feels must be appropriately rewarded, incentivised and retained.

In view of this, Alan Ashworth received an increase in base salary greater than that given to the other Executives for 2008. He also received a commensurate ESOP award.

Unlike the other Executive Directors, Alan Ashworth does not have a significant shareholding. Therefore it was agreed that he should be given the opportunity to build up a similar holding, subject to personal and Company performance. For this reason, the share awards made to him in 2008 were higher than those made to the other Executive Directors, but in line with his base salary.

Benchmarking methodology

In determining the appropriate structure and quantum of remuneration, the Committee reviews remuneration practices in comparable companies. This comprises United Kingdom listed businesses of similar size to the Company as well as other mining companies, where the information was accessible. The aim of the Committee is to ensure that remuneration packages are competitive within the context of the prevailing market conditions.

Performance graph

The primary role of the Directors is to deliver value to shareholders and it is against this backdrop that their remuneration is determined.

The performance graph tracks the movement of the Gem Diamonds share price relative to the movement of the FTSE 250 and FTSE 350 indices for the calendar year 2008. As can be seen from the graph, comparative performance worsened at the beginning of the fourth quarter as a result of the Company's vulnerability to the impact of the global economic crisis which has been documented elsewhere in this Annual Report.

ELEMENTS OF EXECUTIVE DIRECTORS' REMUNERATION

Make up of Executive Directors' remuneration

The total remuneration package for Executive Directors comprises the following principal elements:

- Base salary;
- A cash allowance in lieu of pension and other benefits.
- Participation in short term incentives in the form of an annual bonus;
- Participation in long term incentives in the form of the ESOP and the Employee Share Growth Plan ('ESGP').

Full details of each element of the Directors' remuneration packages are set out on page 49.

Executive Directors' remuneration (%)

Base salary

The base salary of the Executive Directors is subject to annual review by the Committee. The Committee reviews, relevant, external pay data to ensure that the levels of remuneration remain competitive and appropriate in the light of the Company's remuneration policy. The Committee is also responsible for ensuring that the positioning of the Company's remuneration relative to its peers does not result in increases in remuneration without a corresponding increase in performance or responsibilities.

In setting base salary levels, the Committee uses the benchmarking methodology described earlier in this Remuneration Report. Whilst the business of the Committee tends to focus on the performance-related elements of remuneration, it considers that the Company needs to offer fixed pay at this level to attract and retain suitable Directors and Senior Executives and to ensure that bonus and incentive arrangements can be operated flexibly with due regard to performance.

Remuneration Report continued

Salaries are based in Sterling and were increased with effect from March 2008 commensurate with market movement up to that date. Taking into account the negative economic conditions and the effect on shareholder value, a 10% reduction to the salaries of Executive Directors will be implemented from 1 April 2009.

Pensions

The Company does not operate any pension schemes of which any Director is a member and does not intend to start a pension scheme for these individuals, in the immediate future. Executive Directors are not provided with any non-cash benefits as part of their employment. Instead, they are given a cash payment equivalent to a percentage of their base salary, which they can use to purchase pension benefits as they wish. During the year, the level of cash payments equivalent was reviewed and raised from 7.5% of base salary to 14% and 12.5%, for the Chief Executive Officer and the other Executive Directors respectively, to provide a level of pension entitlement that is at the market median.

Other Benefits

In addition to the cash benefits received in lieu of pension, a cash payment equivalent to a percentage of base salary was made to the Executive Directors pay in March 2008, based on the review of the market undertaken.

Annual Bonus

Executive Directors and Senior Executives have the opportunity to earn an annual cash bonus determined by assessing corporate and individual performance against a range of annually determined objectives. The Committee considers that eligibility for short term incentives enhances the focus of participants on business-critical outcomes. Specific objectives were agreed with each participant, and levels of attainment were evaluated by the Committee.

The maximum bonus payable under the annual bonus for Executive Directors is capped at 100% of base salary. For 2008 it was intended that the payment of bonuses to Executive Directors and Senior Executives would be linked to the following targets (with percentage weightings that may vary according to role):

- Operational performance, including safety (30%);
- Business development (30%); and
- Financial performance of the Company (40%).

The relative levels of achievement against these targets, and consequent levels of payment, were to have been disclosed in the Remuneration Report, following such payments. However in the light of the global economic crisis and the effect this has had on shareholder value and will continue to have on the Company's performance going forward, the Committee recommended that no bonuses be paid for 2008.

Long term incentives

The Executive Directors are eligible to participate in two long term incentive arrangements, namely the ESOP and the ESGP. Each arrangement serves a specific purpose within the Company's overall remuneration policy and the principal terms of each arrangement and the extent of participation are explained below. The Committee does not currently propose any amendments to the rules of these plans.

The intention is for all long term incentive awards to be satisfied with newly issued shares. Full details of all outstanding employee share awards are given in Note 26 to the accounts.

ESOP

Executive Directors are eligible to participate in the ESOP. The aim of the ESOP is to provide incentives to ensure that those best placed to deliver value for shareholders have a direct personal interest in doing so.

The ESOP provides for the grant of both conditional awards of free shares ('Performance Shares') and share options with an exercise price not less than the market value at grant date of the underlying shares ('Options'), the relative proportions of which are to be determined by the Committee on the occasion of each grant. For both awards, vesting would be made subject to the achievement of challenging performance conditions.

The aggregate value of awards granted to Executive Directors in any one year will not, in normal circumstances, exceed an amount equal to one times their annual basic salary on the date of grant. The policy of the Committee is that lower limits are to apply to other tiers of participating management. Awards made under the ESOP are not currently granted under any tax-approved share scheme.

The Committee exercised its discretion to vary the form of the award and resolved that the award made to Executive Directors following announcement of the Company's results in April 2008 was delivered in the form of Performance Shares only. It was considered that an award consisting solely of Performance Shares better aligns the Company with current market practice.

The Company made an award under the ESOP on 30 April 2008 and at the time intended to make annual awards to Executive Directors and Senior Executives in order to help align the interests of management with those of shareholders by encouraging them to build a shareholding in the Company provided always that this was justified by performance. The Committee does not envisage that ESOP awards will be made in 2009.

ESOP performance condition

Awards were made to Executive Directors and Senior Executives in April 2008 and are subject to the satisfaction of performance conditions over a three-year period that are considered appropriately stretching. The performance conditions were set by the Committee at the time of grant, and are not capable of being retested at the end of the performance period, so that any Performance Shares which do not vest after three years will lapse.

Since the Company's share price, and those of its peers, is significantly influenced by diamond prices, the Committee still considers total shareholder return ('TSR') relative to an appropriately defined peer group to be an appropriate performance measure, with a requirement also for demonstrable value creation. The Committee is satisfied that TSR links the creation of shareholder value with Directors' remuneration earned through the successful delivery of the business strategy.

TSR performance is measured relative to two comparator groups as follows:

- 50% of the award will vest according to performance relative to the FTSE 250 Index (with any investment trusts removed). The rationale for this is that the Company was part of the FTSE 250 at grant date, and use of this index provides a fair reflection of its performance against companies of similar scale.

  Given the change in market capitalisation, a change to the comparator to the FTSE 350 index will be considered.

- 50% will vest according to performance relative to a peer group of nine global diamond mining and exploration companies and the creation of demonstrable value as measured by shareholder return, strategic development, asset values and the financial performance of the Company. The constituents of the peer group are set out as follows:
  - Harry Winston Diamond Corporation;
  - Shore Gold Inc.;
  - Petra Diamonds Limited;
  - African Minerals Limited;
  - Namakwa Diamonds Limited;
  - Mountain Province Diamonds Inc.;
  - Rockwell Diamonds Inc.;
  - Trans Hex Group Limited; and
  - Vaaldiam Resources Limited.

In respect of the peer group, the Committee recognises that the number of comparators in this specialised market is limited, but considers the diamond industry to be subject to very different market pressures compared to the other extractive industries and that this is, therefore, the fairest basis of comparison. The bespoke peer group referred to above was preferred to an established mining index (e.g. the HSBC Diamond Sub-index) on the basis that it provided greater coverage of the diamond mining sector and therefore a more robust benchmark for performance. As indicated, vesting in relation to this peer group will also depend on the creation of demonstrable value.

Remuneration Report continued

Total shareholder return performance: Gem Diamonds vs FTSE 250 and FTSE 350 indices

The vesting schedule for awards is as follows, expressed as percentages of the component of the award vesting, with linear vesting applying between these two points:

VESTING SCHEDULE FOR AWARDS IS AS FOLLOWS:

	FTSE 250 peer group	Global diamond mining and exploration peer group
Median (threshold)	30%	30%
Upper quartile	100%	100%

The TSR of the Company and each member of the peer group over any performance period is calculated by taking the growth between the closing value and the base value of the shares (in each case averaged over a one-month period) expressed as a percentage of the base value. Any net dividend per share paid by any company during the relevant performance period is treated as being reinvested in shares.

In the event that the calculation is affected by significant corporate events, that in view of the Committee, materially distorts the performance comparison, the Committee may make suitable adjustments, provided that it is satisfied that any new or varied performance conditions would be no less demanding. Any such adjustments would be disclosed to shareholders in the Remuneration Report. The Committee may also adopt different performance conditions during the life of the ESOP and may vary the ratio of Options and Performance Shares, with any proposed changes being considered in consultation with shareholders. During 2008 no change was made to performance conditions or existing awards.

ESGP

The ESGP is a separate, and once-off, remuneration arrangement, the details of which were set out in the IPO Prospectus. Its purpose is to reward very superior performance in the event that it was achieved by the Company in the three-year period following IPO Admission. As such, the vesting of awards under the ESGP are subject to very demanding targets for share price growth, which were chosen as the performance measure on the basis that participants will only be rewarded if significant value has been created for the shareholders. For the purposes of the performance criterion, the final share price will be the volume weighted average price of shares calculated over a 30-day period beginning 15 days prior to the third anniversary of Admission (i.e. beginning 4 February 2010). No retesting of performance will be allowed.

Depending on performance, a fixed number of shares will be issued to form a 'pool' for the benefit of participants. The Company made a single grant of awards under the ESGP in 2007 which entitles participants to shares in the pool at no cost in proportions set out in their awards under the plan. The Company's current commitment to issue new shares in respect of the ESGP, if the ESGP were to vest in full, represents 7.61% of issued share capital as the date of this report. Further awards will only be made in exceptional circumstances or if there is a change in the senior team within the performance period.

Payment to former directors

There were no awards to former directors of the Company.

External appointments

Apart from some private company interests, no Executive Director holds any significant executive directorship or appointment outside the Group. Clifford Elphick is a director of various private companies as listed in the IPO Prospectus.

Reduction of fees for non-Executive Directors

The fees for non-Executive Directors are set at the level considered necessary to obtain the services of individuals with the relevant skills and experience to bring added depth and breadth to the composition of the Board.

Non-Executive Directors' fees are reviewed regularly by the Chairman and the Executive Directors based on the roles they perform and the fees payable to non-Executive Directors of comparable companies. As set out in the IPO Prospectus, in order to help attract individuals to the Board who could contribute actively to the development of the business and to align the interests of non-Executive Directors with the other shareholders, the non-Executive Directors were invited to subscribe for shares at nominal value. Lord Renwick and Richard Williams MBE MC have elected not to receive any shares at this time. The non-Executive Directors shall not be eligible to participate in the annual bonus, ESOP or ESGP or any other performance-related incentive arrangements which may be introduced by the Company from time to time.

Mike Salamon and Richard Williams MBE MC were appointed as non-Executive Directors of the Board during the year. Their remuneration is determined under the same policy that applies to existing non-Executive Directors.

In keeping with the decision on the pay of the Executive Directors in 2009, it has also been agreed that the fees of non-Executive Directors will be reduced by some 25% in 2009.

Remuneration Report continued

ENTITLEMENTS UNDER SERVICE CONTRACTS

The Company's policy is to comply fully with the provisions of the Combined Code. The details of service contracts and appointment letters are as follows:

THE EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Director	Salary £	Contract date	Unexpired term	Notice period	Contractual termination payment
CT Elphick	400 000	13 February 2007	Rolling contract	6 months	Pay salary and benefits on summary termination
KM Burford	267 960	13 February 2007	Rolling contract	6 months	
G Wheelock	267 960	13 February 2007	Rolling contract	6 months	
GE Turner	267 960	21 January 2008	Rolling contract	6 months	
AR Ashworth	296 180	01 January 2008	Rolling contract	6 months	

There are no special provisions in the contracts extending notice periods on a change of control or other corporate event.

A 10% reduction to the base remuneration currently being paid to the Executive Directors, is to be implemented with effect from 1 April 2009.

NON-EXECUTIVE DIRECTORS' APPOINTMENT LETTERS

Director	Fee £	Appointment date	Unexpired term	Notice period	Contractual termination payment
RW Davis	120 000	1 February 2007	Rolling contract	3 months	No provision for payment of compensation
RW Renwick	70 000	24 September 2007	Rolling contract	3 months	
DJ Elzas	70 000	1 February 2007	Rolling contract	3 months	
GA Beevers	70 000	1 February 2007	Rolling contract	3 months	
M Salamon	70 000	3 February 2008	Rolling contract	3 months	
RJ Williams	70 000	3 February 2008	Rolling contract	3 months	

The non-Executive Directors do not have service contracts but their appointment will typically run for three years after which they will be required to retire at the Annual General Meeting ('AGM') held in the third calendar year following the AGM at which the Director was elected. However, the Board may invite the Director to serve for an additional period subject to re-election by shareholders. Different provisions apply if the Director remains in office for a period longer than nine years, consistent with the Combined Code.

A 25% reduction to the fees currently being paid to the non-Executive Directors, is to be implemented with effect from 1 April 2009.

INFORMATION SUBJECT TO AUDIT

EMOLUMENTS AND COMPENSATION

Details of the remuneration of each Director who has served in the year settled in cash or at a cash cost to the Company are shown below. The following table and accompanying notes have been audited.

DETAILS OF THE DIRECTORS' REMUNERATION

	Salary and fees(1) £	Cash payments in lieu of non-cash benefits(2) £	Bonuses(3) £	Total 2008(4) £	Full year total 2007 £
Executive					
CT Elphick(5)	392 731	69 456	Nil	462 187	612 092
KM Burford	264 436	44 416	Nil	308 852	413 416
G Wheelock	265 334	44 473	Nil	309 807	397 215
GE Turner(6)	264 436	97 996	Nil	362 432	
AR Ashworth	287 953	48 757	Nil	336 710	
Non-Executive(4)					
RW Davis	120 000	–	–	120 000	97 051
RW Renwick	70 000	–	–	70 000	18 846
DJ Elzas	70 000	–	–	70 000	55 916
GA Beevers	70 000	–	–	70 000	64 167
M Salamon	63 764			63 764	
RJ Williams	63 764			63 764	
	1 932 418	305 098		2 237 516	1 658 703

(1) All salaries and fees are paid in cash.
(2) Payments are made in cash to Directors who may purchase benefits.
(3) Bonuses are in respect of the year under review and there were none earned or paid in 2008
(4) The Directors' total emoluments for the year do not include any fair value share option/award charges.
(5) Highest paid Director.
(6) A resettlement allowance of £53 580 was paid to GE Turner in July 2008. Before joining the Board, GE Turner was required by the Company to relocate to the United Kingdom. As disclosed in the 2008 Half Yearly Report, US$9.5 million (£4.7 million) was held in terms of a deposit agreement and is security on a debt owing by Glenn Turner to a financial institution. This amount will be reduced to £2.5 million by 30 June 2009 and will be extinguished by the year end.
(7) The fees payable to non-Executive Directors are not broken down to reflect particular responsibilities.
(8) No Director received or is due to receive any compensation for loss of office during the year.
(9) Although the Company's reporting currency is US Dollars, these figures are stated in Sterling as the Directors' emoluments are paid in this currency.
(10) No Director received any expense allowances.
(11) AR Ashworth and GE Turner were appointed as Directors in 2008
(12) M Salamon and RJ Williams were appointed as non-Executive Directors in 2008

Remuneration Report continued

ENTITLEMENTS UNDER LONG TERM INCENTIVES

Details of long term incentives awarded to Directors during the year are set out below. Nothing was payable on the grant and no exercise price is payable to acquire the shares underlying these awards (save for nominal value where shares are newly issued). No such entitlements existed at the beginning of the year.

ESGP AWARDS MADE TO EXECUTIVE DIRECTORS

Executive	Date awarded	Proportion of the pool subject to award %	Market price of shares at date of award (pence)	Date that qualifying conditions must be met
CT Elphick	20 December 2007	8.33	972	18 February 2010
KM Burford	20 December 2007	8.33	972	18 February 2010
G Wheelock	20 December 2007	8.33	972	18 February 2010
GE Turner	20 December 2007	8.33	972	18 February 2010
AR Ashworth	20 December 2007	6.20	972	18 February 2010

No share awards have yet vested under the ESGP.

(1) The market price of a share at the year end was 250p. The highest and lowest prices in the year were 1 216p and 188p.
(2) The performance condition relating to these awards is such that awards will begin to vest if the share price increases by 100%, based on a share price of 972p in the three years following Admission and maximum vesting occurs when the share price increases by 200%. The total pool of shares at maximum vesting is equivalent to 10% of the issued share capital as at the date of Admission.
(3) No awards expired or were varied in the year.
(4) There were no changes to serving Directors' ESGP awards between 31 December 2008 and the date of this report.

ESOP AWARDS MADE TO EXECUTIVE DIRECTORS IN 2008

	Share allocation	Market value of shares at date of award (£)
CT Elphick	34 667	356 387
KM Burford	24 009	246 813
G Wheelock	24 533	252 200
GE Turner	24 009	246 813
AR Ashworth	43 057	297 100

DIRECTORS' SHAREHOLDINGS AND INTERESTS IN SHARES

Details of interests in the share capital of the Company of those Directors in office as at 31 December 2008 are given below. No Director was interested in the shares of any subsidiary company. There have been no changes to these shareholdings since that date.

In addition to these interests in shares, the Executive Directors, along with other employees, also have conditional rights to acquire shares under the Company's long term incentive plans, disclosed in Note 26.

EXECUTIVE DIRECTORS

	Number of shares held at 31 December 2008(2)	Number of shares held at 31 December 2007(3)
CT Elphick(1)	9 325 000	9 325 000
KM Burford	458 333	458 333
G Wheelock	228 333	458 333
G Turner	600 000	600 000
AR Ashworth	10 000	NIL

(1) CT Elphick is interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.
(2) G Wheelock as at date of resignation from the Board 22 April 2008, who subsequently disposed of 230 000 shares on 14 May 2008.
(3) As at date of appointment, AR Ashworth and GE Turner 22 April 2008.

NON-EXECUTIVE DIRECTORS

	Number of shares as at 31 December 2008	Allotted 19 February 2008	Market value of shares received in the period (£)	Number of Shares at as 31 December 2008	Acquired and disposed of in period	Total
RW Davis	289 326	289 326	2 713 878	578 652	Nil	578 652
RW Renwick(1)	Nil	–	–	Nil	Nil	Nil
DJ Elzas	72 332	72 332	678 474	144 664	Nil	144 664
GA Beevers(3)	72 332	72332	678 474	144 664	3 500	148 164
M Salamon(2)	Nil	72 332	678 474	72 332	Nil	72 332
RJ Williams(1)	Nil	–	–	Nil	Nil	Nil

(1) RW Renwick and RJ Williams MBE MC have elected not to receive any shares until such time as they have served on the Board for at least two years. The Remuneration Committee reserves the right to allow early vesting at its discretion.
(2) Since 31 December 2008, a further 72 332 shares have been allotted to Mike Salamon at a market value of £135 984.
(3) GA Beevers acquired 13 500 shares on 21 October 2008 and disposed of 10 000 shares on 20 May 2008.

PENSIONS

No pension contributions were made in respect of Executive Directors during the year, and no retirement benefits were paid.

By order of the Board

Robin Renwick

Lord Renwick
Chairman, Remuneration Committee

1 April 2009

Corporate Governance Report

COMBINED CODE COMPLIANCE

The Company, as a British Virgin Islands incorporated company, is not required to comply with the Combined Code on Corporate Governance issued in 2006 ('the Combined Code'). However, the Board is committed to the principle of best practice in corporate governance. This report addresses the status of the Company's compliance with the principles and provisions of the Combined Code, and details the key policies, processes and structures that apply within the Company in order to comply with the Combined Code. The Company currently complies with the best practice governance provisions as set out in Section 1 of the Combined Code and notes below those periods during the year when it was not fully compliant:

- The Audit Committee comprised two members from 28 November 2007 to 22 April 2008 whereafter Richard Williams MBE MC was appointed a member.
- The Remuneration Committee comprised two members from 19 February 2007 to 28 November 2007 whereafter Lord Renwick was appointed. To fully comply with provision B.2.1 of the Combined Code Mike Salamon was appointed member on 27 November 2008.
- The position of Senior Independent Director was vacated on 24 September 2007 when Roger Davis was appointed Chairman but was filled on 22 April 2008 when Mike Salamon was appointed to the position.
- The Board's composition was not complete until April 2008 whereafter an evaluation was undertaken. The outcome and resultant action of this evaluation are detailed below.

BOARD OF DIRECTORS

The role of the Board

The Board is responsible to shareholders for the performance and governance of the Company within a framework of policies and controls which provide for effective risk assessment and management. The Board provides leadership and articulates the Company's objectives and strategy to achieve those objectives. The Board sets standards of conduct which provide an ethical framework for all of the Company's business functions. While the Board focuses on strategic issues, financial performance, risk management and critical business issues, it also has a formal schedule of matters that it does not delegate. These reserved matters which are documented in a comprehensive list of authorisation levels and prior approval requirements for key corporate decisions and actions and are reviewed and updated annually by the Board. Such matters reserved to the Board include, but are not limited to, approval of budgets and business plans, major capital expenditure, major acquisitions and disposals.

Whilst all Directors have equal responsibility in law for managing the Company's affairs, it is the role of the executive management to run the business within the parameters laid down by the Board and to produce clear, accurate and timely reports to enable the Board to monitor and assess management's performance. The executive management draws on the expertise and experience which the non-Executive Directors bring from their various business careers.

All Directors are free to express their views and may ask that these be recorded in the minutes where appropriate. The Company maintains at its expense, a Directors and Officers liability insurance policy to afford an indemnity in certain circumstances for the benefit of Directors and other Group personnel. The insurance policy does not provide cover where the Director or Officer has acted fraudulently or dishonestly.

The composition of the Board

Changes to the Board since the Company was listed on the main market of the London Stock Exchange in February 2007 comprise:

- Two new Executive Directors appointed, namely Alan Ashworth and Glenn Turner;
- Three new non-Executive Directors, namely Richard Williams MBE MC, Mike Salamon, and Lord Renwick;
- Roger Davis appointed Chairman and;
- Graham Wheelock stepped down as a Director.
- The Board, chaired by Roger Davis, is ten in number, comprising four Executive Directors and six non-Executive Directors.
- The four Executive Directors are Clifford Elphick (Chief Executive Officer); Kevin Burford (Chief Financial Officer); Alan Ashworth (Chief Operating Officer); and Glenn Turner (Chief Legal and Commercial Officer).

- The non-Executive Directors possess a range of experience and are of a calibre to bring independent judgement to bear on issues of strategy, performance, and resources that are vital to the success of the Company. They comprise Roger Davis (Company Chairman and Chairman of the Nominations Committee); Lord Renwick (Chairman of the Remuneration Committee); Gavin Beevers (Chairman of the Health, Safety, Social and Environment ('HSSE') Committee); Dave Elzas (Chairman of the Audit Committee); Mike Salamon (Senior Independent Director) and Richard Williams MBE MC.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS DURING 2008

Director	Board (6)	Audit (4)	Remuneration (6)	HSSE (4)	Nominations (3)
RW Davis	6	N/A	6	N/A	3
CT Elphick	6	N/A	N/A	N/A	3
AR Ashworth(3)	5	N/A	N/A	N/A	N/A
KM Burford	6	N/A	N/A	N/A	N/A
GE Turner(3)	5	N/A	N/A	4	N/A
G Wheelock(1)	1	N/A	N/A	1	N/A
GA Beevers	5	N/A	N/A	4	1
DJ Elzas	6	4	6	N/A	1
RW Renwick	4	3	6	N/A	3
M Salamon(2)	4	N/A	N/A	3	2
RJ Williams(2)	5	3	N/A	N/A	N/A

(1) Resigned 22 April 2008.
(2) Appointed 3 February 2008.
(3) Appointed 22 April 2008.

Chairman and Chief Executive

A clear separation is maintained between the responsibilities of the Chairman and the Chief Executive. This separation was established during 2007 with the appointment of Roger Davis as Chairman. The Chairman is responsible for leading the Board and its effectiveness and setting its agenda and ensures a constructive relationship between the Executive and non-Executive Directors.

The Chief Executive is responsible for the overall performance of the Company, including responsibility for arranging the effective day-to-day management controls over the running of the Company.

Board balance and independence

The Company complies with the requirement of the Combined Code that there should be a balance of Executive and non-Executive Directors such that no individual or grouping can dominate the Board's decision-taking.

Of the six non-Executive Directors, all are considered by the Board to be independent of management.

Mike Salamon is the Senior Independent non-Executive Director. His role and responsibilities as the Senior Independent Director are detailed in and formalised by Board resolution and, in summary, are that he should be available to shareholders to discuss their concerns where the normal channels would not be appropriate for this purpose; to have contact with analysts and major shareholders to obtain a balanced understanding of their issues and concerns and to lead the Board and Director performance evaluation.

Lord Renwick is vice chairman of J.P. Morgan Cazenove who is broker and financial advisor to the Company. He has no involvement in the provision of broking or finance services to the Company. The Board considers him to be indisputably independent in character and judgment. These appointments have been noted in the Register of Conflicts of Interest.

Corporate Governance Report continued

In accordance with the IPO Prospectus and as noted in the Remuneration Report, as part of the appointment of non-Executive Directors, each non-Executive Director has been given an entitlement to shares. It is considered that this aligns their interest with that of the shareholders and does not compromise their independence. This entitlement only applies to the present group of non-Executive Directors and was designed to attract appropriately qualified people from a limited number of suitable individuals. This will not be repeated for new appointees.

The non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors receive appropriate and timely information and briefing papers are distributed to all Directors. The letters of appointment of the non-Executive Directors are available for inspection at the principal place of business of the Company in London.

The Board reviews annually the composition and chairmanship of its committees, namely the Audit, Remuneration, Nomination and the HSSE Committees.

Appointments to the Board

The Combined Code requires there to be a formal, rigorous and transparent procedure for the appointment of new Directors, which should be made on merit and against objective criteria. The Nomination Committee fulfils these requirements and a report of its activities during 2008 is set out on page 59.

Information and professional development

All Directors are made aware that they may take independent professional advice at the expense of the Company in the furtherance of their duties, subject to prior consultation with the Chairman, but to date have not found the need so to do. All Directors have access to management and to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that all governance matters are complied with, and assists with professional development as required.

Arrangements have been approved by the Board to ensure that new Directors should receive a full, formal and tailored induction on joining the Board. In addition, ongoing support and resources are provided to Directors in order to enable them to extend and refresh their skills, knowledge and familiarity with the Company. Professional development and training is provided in three complementary ways: regular updating with information on changes and proposed changes in laws and regulations affecting the Company or its businesses; arrangements, including site visits, to ensure Directors are familiar with the Company's operations; and opportunities for professional and skills training.

Performance evaluation

In 2008, a Board Performance evaluation was undertaken. The review comprised a tailor made questionnaire which facilitated debate around a number of key issues including strategy, Board process, succession planning and enhancing non-Executive Directors contribution to the strategic planning and decision making process. While the evaluation did not identify any significant issues, the feedback indicated a desire for an increased degree of interaction between the executive team and the non-Executives Directors plus the need for informal discussions of key business issues between Board members.

The terms of reference and the performance of each committee were reviewed during the year and changes were made as appropriate.

An individual performance evaluation will be undertaken later in 2009 after the Board has been constituted for over a year.

The Board has formally reviewed succession plans for key executive management roles and the Chairman.

Re-election of Directors

Under the Combined Code, Directors should offer themselves for re-election at regular intervals and there should be a planned and progressive refreshing of the Board.

At the AGM three Directors will retire, in accordance with the provisions of the Combined Code relating to retirement by rotation since the whole Board was elected at the AGM in 2008. Sufficient biographical and other information will be provided to enable shareholders to make an informed decision.

Dealings in shares

The Company has a policy based on the Model Code, published in the Listing Rules, which covers dealings in securities and applies to all Directors, persons discharging managerial responsibilities and employee insiders.

REMUNERATION

Whilst the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting of independent non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors. The remuneration is covered in Remuneration Report of Directors and report of the Remuneration Committee.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Board is mindful of its responsibility to present a balanced and clear assessment of the Company's position and prospects and the Board is satisfied that it has met this obligation. This assessment is primarily provided in the Chief Executive Officer's and Chief Financial Officer's Reviews contained in this report. The Statement of Directors' Responsibilities is set on page 60.

Internal control

The Board of Directors is responsible for the Company's system of internal control, which is embedded in all key operations. An ongoing process, in accordance with the Guidance of the Turnbull Committee on Internal Control, has been established for identifying, evaluating and managing the significant risks faced by the Company. The Board relies on reviews undertaken by the Audit Committee (supported by the relevant operating unit) in relation to the Company's compliance with the Turnbull Guidance throughout the year. Regular management reporting, providing a balanced assessment of key risks and controls, is an important component of Board assurance.

The Audit Committee reviewed the process by which risks are identified and assessed and the effectiveness of the system of internal control by considering the regular reports from management on the operation of the risk assessment process throughout the Company, the key risks identified, mitigating actions and controls, management representations and assertions, and reports covering the independent assessment of internal control systems from Internal Audit, the external auditors and other assurance providers such as Health, Safety, Social and Environmental.

The principal aim of the system of internal control is the management of business risks that are significant to the fulfilment of the Company's business objectives with a view to enhancing over time the value of the shareholders' investment and safeguarding the assets. The internal control systems have been designed to manage rather than eliminate the risk of failure to achieve business objectives and provide reasonable but not absolute assurance that the Company's business objectives will be achieved within the risk tolerance levels identified by the Board. The Directors confirm that they have reviewed the effectiveness of the system of internal control via the internal audit function and have identified any significant failings or weaknesses.

Risk management

The Board considers effective risk management as essential element of effective management and has implemented a structured and comprehensive system across the Company utilising the services of KPMG LLP. The Company's risk management policy aims to cover all significant business risks faced by the Company, including operational, financial and compliance risks, which could undermine the Company's ability to achieve its business objectives.

The Company's approach to risk management is value driven and has the stated objective of ensuring 'an environment in which it can grow shareholder value through developing

Corporate Governance Report continued

and protecting staff, the Company's assets, the environment in those locations in which it operates, and its reputation'. The process is thorough and robust and is an essential element of the Company's approach to business planning.

Each operating unit carries out a comprehensive annual risk review and updates its risk register accordingly. Objectives in the business plan are aligned with risks and a summary of the key risks, related internal controls, accountabilities and further mitigating actions, is reviewed and approved by the Board.

Progress against plans, significant changes in the business risk profile and actions taken to address controls and mitigate risks are reported at each operating unit board and the Board's Audit Committee and to the Board.

The output of the process has been reviewed by the Company and the respective operating units and accords with the Turnbull Guidance.

Information and financial reporting systems

Financial reporting to the Board is continuously modified and enhanced to cater for changing circumstances. The Company's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead and a three-year rolling plan. The Board reviews and approves the annual budget and plan. Plans and budgets are prepared on the basis of consistent economic assumptions determined by the Company's finance function. Performance is monitored and relevant action taken throughout the year through regular reporting of key performance indicators and updated forecasts for the year, together with information on the key risk areas.

In addition, routine comprehensive management reports on an operational and consolidated basis, including updated forecasts for the year, are prepared and presented to the Board and form a cornerstone of the system of internal control. Detailed consolidated management accounts, together with an executive summary, are circulated to Directors prior to each scheduled Board meeting.

Investment appraisal

A budgetary process and authorisation levels regulate capital expenditure. For expenditure beyond specified levels, detailed written proposals are submitted to the Board. There is a standardised approval procedure for investment appraisal which includes a detailed calculation of return based on economic assumptions that are consistent with those included in management reports. Reviews are carried out after the project is complete and, for some projects, during the construction period, to monitor progress against plan and all major overruns are investigated. Commercial, legal and financial due diligence work, using outside consultants, is undertaken in respect of acquisitions as appropriate.

Internal audit

Internal audit is an important element of the overall process by which the Audit Committee and the Board obtains the assurance it requires that risks are being properly identified, managed and controlled. An internal audit capability was established in 2007. Risk-based internal audit plans were prepared for 2008 and approved by the Audit Committee and reports on achievement of the plans and findings are presented to the Audit Committee.

The programme going forward covers all operating units, focusing in particular on the more significant risks and related internal controls identified in the risk self-assessment process. Findings and agreed actions are reported to management and the Audit Committee.

The internal audit function is provided by KPMG LLP as an outsourced service provider.

Whistleblowing programme

There is a formal mechanism to report fraud and irregularities and investigate reports. These are independently operated confidential toll-free hotlines, in each country in which the Company operates, through which employees can report any breach of the Company's business principles, including fraud.

All incidents reported are fully investigated and the results are reported to the Audit Committee. During the year there were two instances reported using the Whistleblowing procedure. These were fully investigated and the findings reported to the Audit committee. Neither instance revealed any weakness in the Company's procedures or a lack of correct response. The Whistleblowing procedures are routinely reviewed to make sure they are current and up to date.

External audit

A principle of the Combined Code is that the Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the external auditors, Ernst & Young LLP. These responsibilities are delegated to and are discharged by the Audit Committee whose work is described below.

RELATIONS WITH SHAREHOLDERS

Dialogue with shareholders

The Board places considerable importance on effective communication with shareholders. The Chairman, the Chief Executive Officer and Chief Financial Officer, assisted by the Investor Relations Manager, maintain regular dialogue with and give briefings throughout the year to analysts and shareholders. Presentations are given by the Chief Executive Officer and Chief Financial Officer after the Company's announcement of the year end and half year results. Any concerns raised by a shareholder in relation to the Company and its affairs are communicated to the Board as a whole. Care is taken to ensure that any price-sensitive information is released to all shareholders, institutional and private shareholders, at the same time in accordance with the Disclosure and Transparency Rules.

All shareholders can obtain access to the Annual and Half Yearly Reports and other current information about the Company through the Company's website at www.gemdiamonds.com.

Constructive use of the AGM

All Directors will attend the AGM, where shareholders will be invited to ask questions during the meeting and to meet Directors after the formal proceedings have ended. Shareholders at the meeting will be advised as to the level of proxy votes received, including percentages for and against and the abstentions in respect of each resolution. The results of the resolutions will be announced through the Regulatory News Service and on the Company's website.

The Board uses the AGM to communicate with institutional and private investors and welcomes their participation. At the AGM the Chairman and the Chairmen of the Audit, Remuneration, Nomination and HSSE Committees will be present to answer questions. Details of the resolutions to be proposed at the AGM can be found in the Notice of the Meeting. In accordance with the Combined Code, notice of the AGM and related papers will be sent to shareholders at least 20 working days before the meeting.

COMMITTEES

The Terms of Reference of each committee and the performance of each were reviewed during the year and changes were made, as appropriate

Board Committees

Subject to those matters reserved for its decision, the Board delegates certain responsibilities to a number of standing committees – the Audit, Remuneration, Nomination and HSSE Committees. The terms of reference of these Committees are available on the Company's website.

Audit Committee

The Audit Committee's primary role is to ensure the integrity of financial reporting and the audit process and that a good risk management and internal control system is maintained. In doing so, the Audit Committee assists the Board of Directors in discharging its responsibilities with regard to financial reporting, external and internal audits and controls. These include but are not limited to reviewing the annual financial statements; considering the scope of the Company's annual external audit and the extent of non-audit work undertaken by external auditors; approving the internal audit programme; advising on the appointment of external

Corporate Governance Report continued

auditors; and reviewing the effectiveness of the Company's internal control systems.

The Combined Code recommends that all members of the Audit Committee should be non-Executive Directors, all of whom are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. The Audit Committee comprises three independent non-Executive Directors, Dave Elzas (Chairman of the Committee), Lord Renwick and Richard Williams MBE MC.

The Committee met four times in the year. Four meetings are scheduled for 2009.

The Chief Executive, the Chief Financial Officer and a representative of the Company's internal and external auditors normally attend the meetings. Other Directors of the Company and Senior Executives may, by invitation, also attend and speak, but not vote at any meeting of the Audit Committee.

During the year, the Audit Committee:

- Reviewed, for submission to the Board, the 2007 annual financial statements, the 2008 interim results and reviewed the external auditors' detailed reports thereon;
- Reviewed the appropriateness of the Company's accounting policies;
- Reviewed Management Reports prior to approval of the interim and annual accounts and before the audit. The Management Report covers areas involving significant judgement, estimation or uncertainty, including assessment of fair values, impairment of goodwill, quality of earnings, taxation, treasury, reserves and resources, legal matters and the appropriateness of preparing the financial statements on a going-concern basis;
- Reviewed reports from the external auditor on issues arising from their work;
- Reviewed the external auditors' plan and scope for the audit of the Company accounts, including updated plans following the Company's various acquisitions and integration thereof, and approved their remuneration both for audit and non-audit work, and their terms of engagement;
- Recommended to the Board the re-appointment of the external auditors following an evaluation of their effectiveness and confirmation of auditor objectivity and independence;
- Examined the effectiveness of the Company's risk management system, including its risk management process and profile and the Company's internal control systems and operations, and received reports on internal control raised in operating unit management representation letters. The Committee received reports of the internal control environment at various acquisitions which was considered to be effective;
- Reviewed the structure and limits of the Company's insurance policies which were considered to be appropriate;
- Evaluated the performance of the Committee; and
- Reviewed the Whistleblowing arrangement throughout the Company and received reports as appropriate.

Audit Committee Meetings

Following each Audit Committee meeting, separate meetings were held with each of the following on their own:

- The external auditors;
- Internal auditors; and
- The executive management.

Non-audit work

The Company has a specific standard governing the conduct of non-audit work by the external auditors which ensures that the Company is in compliance with the requirements of the Code and the Ethical Standards for Auditors published by the Auditing Practices Board.

The auditors are permitted to provide non-audit services that are not in conflict with auditor independence. Periodic reports are made to the Audit Committee detailing non-audit fees paid to both the external and internal auditors.

The Committee's assessment of the external auditors' performance and their independence, underpins its recommendation to the Board to propose to shareholders the re-appointment of Ernst & Young LLP as auditors until the conclusion of the AGM in 2010. Resolutions to authorise the Board to re-appoint and determine their remuneration will be proposed at the AGM.

Remuneration Committee

The details of the Remuneration Committee and its operation can be found in the Remuneration Report.

Nominations Committee

The Nominations Committee comprises three non-Executive Directors and one Executive Director. The non-Executive Directors are Roger Davis (Chairman of the Committee), Lord Renwick and Mike Salamon with Clifford Elphick as the Executive Director. The terms of reference provide for a formal and transparent procedure. The Committee has responsibility to identify, evaluate and recommend candidates for Board vacancies and to make recommendations on Board composition and balance. Three meetings were held in 2008. No external consultants were used for the Chairman and non-executive appointments as appropriate candidates were already known to the Board as suitably qualified individuals with requisite experience are few in number and known within the industry.

During the year three meetings were held and the Nominations Committee:

- reviewed potential candidates as additional non-Executive Directors with broad international experience;
- reviewed the composition of various committees; and
- recommended the appointment of new non-Executive; and Executive Directors.

HSSE Committee

The Board has established a HSSE Committee to assist the Board in developing framework policies and guidelines for the management of sustainable development issues, including health, safety, Corporate Social Investment ('CSI') and environment issues, and to ensure their implementation throughout the Group. The HSSE Committee provides the Board with additional focus and guidance on key global HSSE issues. Four meetings were held in 2008.

The Committee comprises Gavin Beevers (non-Executive Director, who chairs the Committee) Mike Salamon who replaced Graham Wheelock and Glenn Turner (Chief Legal and Commercial Officer).

During the year, the HSSE Committee:

- Revisited and inspected most of the Group's operating sites. Individual members of the Committee visited all the sites in the previous year;
- Monitored and evaluated audit reports on the implementation and effectiveness of HSSE policy, HSSE performance and HSSE governance;
- Monitored and evaluated the implementation and effectiveness of the HSSE assurance programme;
- Monitored and evaluated reports on HSSE incidents and the results of investigations into serious HSSE incidents;
- Received legal advice on HSSE obligations and HSSE governance arrangements across the business;
- Reviewed the HSSE Committee's terms of reference; which are available on the Company's website;
- Monitored and evaluated new developments, issues and/or relevant legislation on HSSE matters; and
- Reviewed and updated the HSSE policies which are available on the Company's website.

By order of the Board

André Confavreux

André Confavreux
Company Secretary

1 April 2009

Responsibility Statement of the Directors in Respect of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with International Financial Reporting Standards ('IFRS').

The Directors are required to prepare Group financial statements for each financial year, that present fairly the financial position of the Group, the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific IFRS requirements are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group in accordance with the BVI Business Companies Act 2004. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The management report (entitled 'Business Review') includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board.

Kevin Burford
Chief Financial Officer

1 April 2009

GEM DIAMONDS

Annual Financial Statements

Contents

Independent Auditor's Report

TO THE MEMBERS OF GEM DIAMONDS LIMITED

We have audited the Group financial statements of Gem Diamonds Limited ('the Company') and its subsidiaries (together 'the Group') for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 26. These Group financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with the terms of our letter of engagement.

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') are set out in the Statement of Directors' Responsibilities.

The Directors are also responsible for the preparation of the Remuneration Report, which they have chosen to prepare, in accordance with the Companies Act 1985.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). The Company has also instructed us to audit the section of the Remuneration Report of the Company that has been described as audited.

We report to you our opinion as to whether the Group financial statements give a true and fair view. We also report to you our opinion as to whether the section of the Remuneration Report of the Company that has been described as audited has been properly prepared in accordance with the Companies Act 1985.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Review, Chief Executive Officer's Review, Chief Financial Officer's Review, Annual Resource Statement, Sustainability Review, Directors Report, the unaudited part of the Remuneration Report of the Company and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any 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 Group financial statements and the part of the Remuneration Report of the Company that has been described as audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group 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 part of the Remuneration Report of the Company to be audited has been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter – Going concern

In forming our opinion on the financial statements which is not qualified, we have considered the adequacy of the disclosure made in note 1.2.2 to the financial statements concerning the Group's ability to continue as a going concern. The conditions described in note 1.2.2 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Ernst & Young LLP

London

1 April 2009

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

(US$'000)	Notes	Before exceptional items	Exceptional items[1]	**2008**	2007
Revenue	2	296 881	–	**296 881**	152 706
Cost of sales		(227 678)	(20 471)	**(248 149)**	(64 759)
GROSS PROFIT		69 203	(20 471)	**48 732**	87 947
Other income		213	–	**213**	245
Royalties and sales costs		(27 067)	–	**(27 067)**	(16 558)
Corporate expenses		(20 363)	(1 825)	**(22 188)**	(17 371)
Share-based payments	26	(10 410)	–	**(10 410)**	(19 531)
Impairment		–	(546 499)	**(546 499)**	–
Foreign exchange (loss)/gain		(19 444)	–	**(19 444)**	14 654
OPERATING (LOSS)/PROFIT	3	(7 868)	(568 795)	**(576 663)**	49 386
Net finance (costs)/income	4	(74)	–	**(74)**	20 085
Finance income		3 840	–	**3 840**	23 363
Finance costs		(3 914)	–	**(3 914)**	(3 278)
Share of loss of an associate		–	–	**–**	(1 030)
(LOSS)/PROFIT BEFORE TAX		(7 942)	(568 795)	**(576 737)**	68 441
Income tax credit/(expense)	5	(23 331)	47 902	**24 571**	(27 941)
(LOSS)/PROFIT FOR THE YEAR		(31 273)	(520 893)	**(552 166)**	40 500
Attributable to:					
Equity holders of parent		(46 483)	(506 334)	**(552 817)**	23 227
Minority interests		15 210	(14 559)	**651**	17 273
(LOSS)/PROFIT FOR THE YEAR		(31 273)	(520 893)	**(552 166)**	40 500
Earnings per share (cents)	6				
– Basic and dilutive, (loss)/profit for the year attributable to equity holders of the parent		(74)	(809)	**(884)**	40

1. Exceptional items are significant items of income and expense, presented seperately due to their nature or the expected infrequency of the events giving rise to them (Refer Note 3, Operating (loss)/profit).

Consolidated Balance Sheet

AS AT 31 DECEMBER 2008

(US$'000)	Notes	2008	2007[1]
ASSETS			
Non-current assets			
Property, plant and equipment	7	292 716	841 832
Intangible assets	8	22 224	104 012
Other financial assets	10	5 641	2 616
Deferred tax assets	11	1 265	1 198
		321 846	949 658
Current assets			
Inventories	12	36 303	41 145
Receivables	13	14 218	12 505
Other financial assets	10	655	1 413
Cash and cash equivalents	14	61 436	183 536
		112 612	238 599
TOTAL ASSETS		434 458	1 188 257
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued share capital	15	629	624
Share premium		787 487	787 487
Treasury shares[2]		(2)	(3)
Other reserves		(81 506)	56 947
(Accumulated losses)/retained earnings		(524 791)	8 243
		181 817	853 298
Minority interests		64 602	81 051
TOTAL EQUITY		246 419	934 349
Non-current liabilities			
Interest bearing borrowings	16	361	16 688
Trade and other payables	17	451	421
Provisions	18	24 928	23 030
Deferred tax liabilities	11	51 010	110 190
		76 750	150 329
Current liabilities			
Interest bearing borrowings	16	37 474	13 766
Other financial liabilities	19	3 853	1 563
Trade and other payables	17	55 404	77 380
Income tax payable		14 558	9 168
Bank overdraft	14	–	1 702
		111 289	103 579
TOTAL LIABILITIES		188 039	253 908
TOTAL EQUITY AND LIABILITIES		434 458	1 188 257

1. Restated for revisions to the provisional accounting for BDI Mining, Kabongo Development Company and Kimberley Diamonds acquisitions (Refer Note 1.1.4, Acquisitions).
2. Being shares held by Gem Diamonds Limited Employee Share Trust.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2008

(US$'000)	Issued share capital	Share premium	Treasury shares[2]	Other reserves: FCTR[1]	Other reserves: Share-based equity reserve	Other reserves: Revaluation reserve	(Accumulated losses)/retained earnings	Minority interests	Total
Balance at 1 January 2007	253	162 775	–	2 362	2 362	–	(14 984)	45 319	198 087
Share capital issued	371	665 618	(3)	–	–	–	–	–	665 986
Total recognised income and expenses for the year	–	–	–	12 168	–	19 788	23 227	17 273	72 456
Foreign exchange differences	–	–	–	12 168	–	–	–	–	12 168
Profit for the year	–	–	–	–	–	–	23 227	17 273	40 500
Acquisition of subsidiaries	–	–	–	–	–	19 788	–	–	19 788
Transaction costs on share capital issued	–	(40 906)	–	–	–	–	–	–	(40 906)
Share-based payments	–	–	–	–	20 267	–	–	–	20 267
Acquisition of subsidiaries	–	–	–	–	–	–	–	21 759	21 759
Dividends declared	–	–	–	–	–	–	–	(3 300)	(3 300)
Balance at 31 December 2007	624	787 487	(3)	14 530	22 629	19 788	8 243	81 051	934 349
Share capital issued	5	–	–	–	–	–	–	–	5
Total recognised income and expenses for the year	–	–	–	(129 381)	–	(19 906)	(533 034)	651	(681 670)
Foreign exchange differences	–	–	–	(129 381)	–	–	–	–	(129 381)
(Loss)/profit for the year	–	–	–	–	–	–	(552 817)	651	(552 166)
Release of revaluation reserve	–	–	–	–	–	(19 906)	19 783	–	(123)
Treasury shares	–	–	1	–	–	–	–	–	1
Share-based payments	–	–	–	–	10 834	–	–	–	10 834
Dividends declared	–	–	–	–	–	–	–	(17 100)	(17 100)
Balance at 31 December 2008	629	787 487	(2)	(114 851)	33 463	(118)	(524 791)	64 602	246 419

1. Foreign currency translation reserve
2. Being shares held by Gem Diamonds Limited Employee Share Trust.

Refer to Note 15, Issued share capital and reserves for additional information.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

(US$'000)	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		59 095	49 578
Cash generated by operations	20.1	88 123	76 506
Working capital adjustments	20.2	(18 611)	(29 190)
		69 512	47 316
Finance income		3 840	23 363
Finance costs		(2 188)	(2 913)
Tax paid		(12 069)	(18 188)
CASH FLOWS FROM INVESTING ACTIVITIES		(159 407)	(513 476)
Purchase of property, plant and equipment		(137 872)	(109 621)
Proceeds on disposal of property, plant and equipment		1 632	–
Purchase of intangible assets		(293)	(683)
Other financial assets repaid		1 234	5 281
Other financial assets granted		(4 391)	(229)
Acquisitions	20.3	(19 717)	(390 624)
Loans acquired through acquisitions		–	(44 617)
Proceeds from disposal of group held for sale		–	27 017
CASH FLOWS FROM FINANCING ACTIVITIES		(5 127)	592 175
Proceeds on share capital issued		5	636 277
Repayment of bonds		(961)	–
Transaction costs on share capital issued		–	(29 340)
Financial liabilities raised/(repaid)		12 929	(8 841)
Dividends paid to minorities		(17 100)	(5 921)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(105 439)	128 277
Cash and cash equivalents at the beginning of the year		181 834	51 907
Foreign exchange differences		(14 959)	1 650
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	61 436	181 834

Notes to the Annual Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2008

1. NOTES TO THE FINANCIAL STATEMENTS

1.1 Corporate information

1.1.1 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.

These Financial Statements were authorised for issue by the Board on 1 April 2009.

1.1.2 Operational information

The financial results for the year ended 31 December 2008 are fully disclosed in the attached financial statements.

The Company has the following investments directly in subsidiaries at 31 December 2008:

Name of Company	Shareholding	Cost of investment	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited[1]	100%	US$17	RSA	Technical, financial and management consulting services to the diamond industry.
Gem Diamond Mining Company of Africa (RDC) SPRL[1]	100%	US$50 000	DRC	Diamond mining, evaluation and development, and holder of mining licences and concessions.
Gem Equity Group Limited[1]	100%	US$50 000	BVI	Dormant investment company holding 1% in Gem Diamond Mining Company of Africa (RDC) SPRL, Kabongo Development Company (RDC) SPRL and Gope Exploration Company (Proprietary) Limited.
Gem Diamond Longatshimo Mining Company (RDC) SPRL[1]	80%	US$481 000	DRC	Diamond mining, evaluation and development, and holder of mining licences and concessions.
Gem Diamond Centrafrique SARL[1]	75%	US$96 022	CAR	Diamond mining, evaluation and development, and holder of mining licences and concessions.
Letšeng Diamonds (Proprietary) Limited[1]	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights.
Kabongo Development Company (RDC) SPRL[1]	100%	US$68 484 042	DRC	Diamond mining, evaluation and development, and holder of mining licences and concessions.
Gope Exploration Company (Proprietary) Limited[1]	100%	US$27 752 144	Botswana	Diamond mining, evaluation and development, and holder of suspended mining licences and concessions.

1.1.2 *Operational information* *continued*

Name of Company	Shareholding	Cost of investment	Country of incorporation	Nature of business
BDI Mining Corp[1]	100%	US$82 064 783	BVI	Investment company holding 80% in PT Galuh Cempaka.
Gem Diamonds Australia Holdings[1]	100%	US$293 960 521	Australia	Investment company holding 100% in Kimberley Diamonds Limited.
Gem Diamonds Investments Limited[2]	100%	US$1	UK	Investment holding company holding 100% in Gem Diamonds Technology (Mauritius) Limited, Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited.

1. No changes in the shareholding since the prior period.
2. Company formed and incorporated by the Group during the year. During the year, Gem Diamonds Investments Limited acquired Calibrated Diamonds Investment Holdings (Proprietary) Limited. Refer 1.1.4, Acquisition.

1.1.3 *Segment information*

The primary segment reporting format is geographical as the Group's risks and 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 combined into a single geographical region. The main geographical regions are:

- Lesotho
- Australia
- Indonesia
- Botswana
- DRC
- CAR
- BVI, RSA and UK (Provision of technical and administrative services. Includes beneficiation projects currently being established).

Secondary segment information is reported on business activities. The main business activities are:

- Mining activities of known diamond resources. These include all elements of diamond mining, including exploitation of kimberlite pipes and alluvial deposits ('Mining activities');
- Exploration and resource development activities involving determination of technical feasibility and assessment of commercial viability of identified resources ('Exploration and resource development activities'); and
- Group function and provision of technical and administrative services as well as beneficiation projects currently being established ('Group services').

Inter-segment transactions are entered into under terms agreed between the parties. Segment revenue, segment expense and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

1.1.3 Segment information continued

Primary reporting – geographical segments:

The following table presents revenue and profit and certain asset and liability information regarding the Group's geographical segments for the years.

Year ended 31 December 2008 (US$'000)	Lesotho	Australia	Indo-nesia	Bots-wana	DRC	CAR	BVI, RSA and UK	Total
Sales								
Total sales	188 827	99 534	8 003	–	–	–	16 293	312 657
Inter-segment sales	–	–	–	–	–	–	(15 776)	(15 776)
Sales to external customers	188 827	99 534	8 003	–	–	–	517	296 881
Segment results pre exceptional items	98 905	(43 062)	(24 009)	27	–	(94)	(39 635)	(7 868)
Exceptional items								
– Cost of sales	–	(17 385)	(2 347)	–	(735)	(4)	–	(20 471)
– Corporate expenses	–	–	–	–	–	–	(1 825)	(1 825)
– Impairment	–	(242 847)	(95 350)	–	(190 740)	(17 562)	–	(546 499)
Segment results post exceptional items	98 905	(303 294)	(121 706)	27	(191 475)	(17 660)	(41 460)	(576 663)
Net finance income								(74)
Share of loss in associate								–
Loss before taxation								(576 737)
Income tax credit								24 571
Loss for the year								(552 166)
Segment assets	275 702	60 429	5 324	42 755	1 655	615	46 713	433 193
Segment liabilities	35 324	70 279	5 553	2 270	2 053	301	21 250	137 030
Other segment information								
Capital expenditure								
– Property, plant and equipment	50 656	45 850	8 000	11 070	26 083	5 770	9 090	156 519
– Intangible assets	–	–	–	–	245	48	1 823	2 116
Depreciation	22 054	40 547	11 526	27	2 583	915	1 221	78 873
Other non-cash flow items								
– Share based equity transactions	573	183	111	121	261	73	9 512	10 834

1.1.3 ***Segment information*** *continued*

Year ended 31 December 2007 (US$'000)	Lesotho	Australia	Indo-nesia	Bots-wana	DRC	CAR	BVI RSA and UK	Total
Sales								
Total sales	151 905	–	76	–	249	–	14 180	166 410
Inter-segment sales	–	–	–	–	–	–	(13 704)	(13 704)
Sales to external customers	**151 905**	**–**	**76**	**–**	**249**	**–**	**476**	**152 706**
Segment results	80 189	5 895	(6 373)	(80)	(1 632)	1 735	(30 348)	49 386
Net finance income								20 085
Share of loss in associate								(1 030)
Profit before taxation								68 441
Income tax expense								(27 941)
Profit for the year								40 500
Assets								
Segment assets	323 369	421 205	112 799	39 954	175 336	14 813	99 583	1 187 059
Investment in associate	–	–	–	–	–	–	–	–
Total assets	**323 369**	**421 205**	**112 799**	**39 954**	**175 336**	**14 813**	**99 583**	**1 187 059**
Segment liabilities	**29 293**	**67 219**	**10 334**	**1 052**	**5 518**	**293**	**30 010**	**143 719**
Other segment information								
Capital expenditure								
– Property, plant and equipment	68 357	284 625	104 691	36 823	142 737	7 459	10 891	655 583
– Intangible assets	–	29 478	16 643	–	26 794	66	–	72 981
Depreciation	14 803	3 002	4 167	3	723	733	489	23 920
Other non-cash flow items								
– Share based equity transactions	2 159	–	98	54	758	257	16 941	20 267

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for the year ended 31 December 2008 continued

1.1.3 Segment information *continued*

Secondary reporting – business segments

The following table presents revenue and certain asset information regarding the Group's business segments for the years.

Year ended 31 December 2008 (US$'000)	Mining activities	Exploration and resource development	Group services	Total
Sales				
Total sales	296 364	–	16 293	312 657
Inter-segment sales	–	–	(15 776)	(15 776)
Sales to external customers	**296 364**	**–**	**517**	**296 881**
Other segment information				
Segment assets	341 455	45 025	46 713	433 193
Capital expenditure				
– Property, plant and equipment	104 505	42 924	9 090	156 519
– Intangible assets	–	293	1 823	2 116

Year ended 31 December 2007 (US$'000)	Mining activities	Exploration and resource development	Group services	Total
Sales				
Total sales	152 230	–	14 180	166 410
Inter-segment sales	–	–	(13 704)	(13 704)
Sales to external customers	**152 230**	**–**	**476**	**152 706**
Other segment information				
Segment assets	857 373	230 102	99 584	1 187 059
Investment in associate	–	–	–	–
Total assets	**857 373**	**230 102**	**99 584**	**1 187 059**
Capital expenditure				
– Property, plant and equipment	457 671	187 020	10 892	655 583
– Intangible assets	46 121	26 860	–	72 981

1.1.4 Acquisitions

Acquisition of BDI Mining Corp ('BDI Mining')

On 29 May 2007, the Group acquired 100% of the share capital of BDI Mining, a diamond mining and gold exploration group which owned a producing alluvial diamond mine and a gold development project. BDI Mining, through its indirect wholly owned subsidiary, Ashton MMC Pte Limited, owns 80% in PT. Galuh Cempaka, which holds the mining rights to Cempaka Mine in Indonesia. BDI Mining also indirectly owned 100% of Woodlark Mining Limited, which owns the Woodlark Gold Project located in Papua New Guinea. The Group disposed of Woodlark Mining Limited on 30 June 2007.

The final fair value of the identifiable assets and liabilities of BDI Mining as at the date of acquisition were:

(US$'000)	Provisional fair value as reported at 31 December 2007	Fair value adjustments	Final fair value at acquisition
Property, plant and equipment	80 681	(1 745)	78 936
Intangible assets	42	(22)	20
Other financial assets	10	–	10
Inventories	309	–	309
Receivables	539	–	539
Cash and cash equivalents	3 739	–	3 739
	85 320	**(1 767)**	**83 553**
Held for sale assets	25 301	–	25 301
Total assets	**110 621**	**(1 767)**	**108 854**
Other financial liabilities	2 157	–	2 157
Trade and other payables	5 021	176	5 197
Deferred tax liabilities	21 315	(730)	20 585
Provisions	392	501	893
Income tax payable	4 650	(1 194)	3 456
	33 535	**(1 247)**	**32 288**
Held for sale liabilities	19	–	19
Total liabilities	**33 554**	**(1 247)**	**32 307**
Fair value of net assets	**77 067**	**(520)**	**76 547**
Fair value of net assets	77 067	(520)	76 547
Less: Minority interest	(11 172)	64	(11 108)
Attributable portion of fair value of net assets acquired	**65 895**	**(456)**	**65 439**
Plus: Goodwill on acquisition	16 083	542	16 625
Total cost	**81 978**	**86**	**82 064**
Total cost			
Purchase consideration	79 676	–	79 676
Costs associated with the acquisition	2 302	86	2 388
	81 978	**86**	**82 064**
The total cost of the combination was US$82.1 million, which comprised the purchase consideration and directly attributable costs associated with the acquisition.			
Cash outflow on acquisition			
Purchase consideration	81 978	86	82 064
Net cash acquired with the subsidiary	(3 756)	–	(3 756)
Net cash paid	**78 222**	**86**	**78 308**

From the date of acquisition to 31 December 2007, BDI Mining had contributed US$0.1 million to revenue and a loss of US$6.1 million to the net profit of the Group.

If the combination had taken place at the beginning of the 2007 year, BDI Mining would have contributed US$2.5 million to revenue and a loss of US$13.7 million to the Group for the year ended 31 December 2007.

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for the year ended 31 December 2008 continued

1.1.4 *Acquisitions* *continued*

The goodwill arises as a result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities and their tax bases.

Acquisition of Kabongo Development Company ('KDC')

During 2006 the initial 49.99% share capital of KDC was acquired for US$18.0 million. During October 2007 the Group acquired the remaining 50.01% share capital of KDC for US$56.2 million, resulting in KDC now being a wholly owned subsidiary of the Group. As part of the recent acquisition, shareholders loans of US$5.9 million were acquired, resulting in a net share purchase cost of US$50.3 million.

The final fair value of the identifiable assets and liabilities of KDC as at the date of acquisition were:

(US$'000)	Provisional fair value as reported at 31 December 2007	Fair value adjustments	Final fair value at acquisition
Property, plant and equipment	134 133	–	134 133
Intangible assets	18	–	18
Inventories	1 242	–	1 242
Receivables	530	–	530
Cash and cash equivalents	214	–	214
Total assets	**136 137**	**–**	**136 137**
Financial liabilities	43 377	–	43 377
Trade and other payables	1 813	–	1 813
Deferred tax liabilities	29 510	–	29 510
Provisions	613	–	613
Income tax payable	1	–	1
Total liabilities	**75 314**	**–**	**75 314**
Net assets	**60 823**	**–**	**60 823**
Fair value of net assets	**60 823**	**–**	**60 823**
Plus: Post acquisition loss of associate acquired	1 736	–	1 736
Less: Revaluation surplus reserve	(19 783)	–	(19 783)
Attributable portion of fair value of net assets acquired	**42 776**	**–**	**42 776**
Plus: Goodwill on acquisition	25 604	103	25 707
Total cost	**68 380**	**103**	**68 483**
Total cost			
Purchase consideration	68 300	–	68 300
Costs associated with the acquisition	80	103	183
	68 380	**103**	**68 483**
The total cost of the combination was US$68.5 million, which comprised the purchase consideration and directly attributable costs associated with the acquisition.			
Cash outflow on acquisition			
Purchase consideration	68 380	103	68 483
49.99% acquired in prior year	(18 000)	–	(18 000)
Net cash acquired with the subsidiary	(214)	–	(214)
Net cash paid	**50 166**	**103**	**50 269**

1.1.4 *Acquisitions* *continued*

From the date of acquisition to 31 December 2007, KDC had contributed US$0.3 million to revenue and incurred a loss of US$2.5 million. The entity is still in the resource development phase.

If the combination had taken place at the beginning of the 2007 year, KDC would have contributed US$0.3 million to revenue and a loss of US$7.9 million to the Group for the year ended 31 December 2007.

The goodwill arises as a result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities and their tax bases.

Acquisition of Kimberley Diamonds
On 26 November 2007, the Group acquired a controlling interest in Kimberley Diamonds, an Australian diamond mining company which owns the Ellendale Mine in Australia. Ellendale is renowned for its fancy yellow diamonds. As at 31 December 2007, the Group held an affective 96% of the issued share capital with the compulsory acquisition of the remaining 4% of the share capital completed during 2008. Kimberley Diamonds also holds a 39% interest in Blina Diamonds ('Blina') an ASX Listed alluvial diamond mining and exploration company.

Blina is consolidated on the grounds of effective control even though the Group owns less than 50% of the shares. The Group is able to govern the financial and operating policies of the company by virtue of the Group being the largest single shareholder of the company and dominating the composition of Blina's board of directors, thereby having the ability to cast the majority of the votes at meetings of the board of directors.

During 2007, the Group entered into a hedge to protect the US dollar purchase price of the acquisition of Kimberley Diamonds in Australia. The transaction closed out during 2007 and the cost of acquisition was accounted for at the hedge rate. No amounts were credited to equity or to profit and loss.

The final fair value of the identifiable assets and liabilities of Kimberley Diamonds as at the date of acquisition were:

(US$'000)	Provisional fair value as reported at 31 December 2007	Fair value adjustments	Final fair value at acquisition
Property, plant and equipment	301 225	(15 773)	285 452
Other financial assets	1 938	–	1 938
Investments	21	–	21
Inventories	14 370	–	14 370
Receivables	2 471	–	2 471
Cash and cash equivalents	659	–	659
Total assets	**320 684**	**(15 773)**	**304 911**
Financial liabilities	26 237	–	26 237
Trade and other payables	25 172	405	25 577
Provisions	8 508	–	8 508
Total liabilities	**59 917**	**405**	**60 322**
Net assets	**260 767**	**(16 178)**	**244 589**

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for the year ended 31 December 2008 continued

1.1.4 Acquisitions continued

(US$'000)	Provisional fair value as reported at 31 December 2007	Fair value adjustments	Final fair value at acquisition
Fair value of net assets	**260 767**	**(16 178)**	**244 589**
Less: Minority interest	(10 897)	246	(10 651)
Attributable portion of fair value of net assets acquired	**249 870**	**(15 932)**	**233 938**
Plus: Goodwill on acquisition	–	29 478	29 478
Total cost	**249 870**	**13 546**	**263 416**
Total cost			
Purchase consideration	249 870	–	249 870
Costs associated with the acquisition	–	13 546	13 546
	249 870	**13 546**	**263 416**
The total cost of the combination was US$263.4 million which comprised the purchase consideration and directly attributable costs associated with the acquisition.			
Cash outflow on acquisition			
Purchase consideration	249 870	13 546	263 416
Purchase consideration paid in 2008	(14 487)	14 487	–
Additional consideration	–	(10 115)	(10 115)
Net cash acquired with the subsidiary	(659)	–	(659)
Net cash paid	**234 724**	**17 918**	**252 642**

From the date of acquisition to 31 December 2007, Kimberley Diamonds had not contributed to revenue and incurred a loss of US$1.1 million.

If the combination had taken place at the beginning of the 2007 year, Kimberley Diamonds would have contributed US$68.1 million to revenue and a loss of US$36.4 million to the Group for the year ended 31 December 2007.

The goodwill balance arises primarily as a result of the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining Kimberley Diamonds with the rest of the Group and from the requirement to recognise a deferred tax liability calculated as the tax effect of the difference between the fair value of the assets and liabilities acquired and their tax bases.

1.1.4 *Acquisitions continued*

Acquisition of Calibrated Diamonds Investment Holding ('Calibrated Diamonds')
On 23 September 2008, the Group acquired 100% of the share capital of Calibrated Diamonds, an unlisted company in South Africa, which holds the intellected property rights to certain key polishing processes.

The provisional fair value of the identifiable assets and liabilities of Calibrated Diamonds as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

(US$'000)	Carrying values at acquisition	Recognised values at acquisition
Property, plant and equipment	17	17
Goodwill/Intangible Assets	332	9
Inventories	211	211
Receivables	27	27
Cash and cash equivalents	75	75
Total assets	**662**	**339**
Financial liabilities	4	4
Trade and other payables	174	175
Deferred tax liabilities	–	–
Provisions	4	4
Income tax payable	–	286
Total liabilities	**182**	**469**
Net assets	**480**	**(130)**
Fair value of net assets		**(130)**
Plus: Goodwill on acquisition		1 815
Total cost		**1 685**
Total cost		
Purchase consideration		1 641
Costs associated with the acquisition		44
		1 685
Cash outflow on acquisition		
Purchase consideration		1 685
Net cash acquired with the subsidiary		(75)
Net cash paid		**1 610**

From the date of acquisition, Calibrated Diamonds has not contributed to revenue and has incurred a loss of US$0.5 million.

If the combination had taken place at the beginning of the year, Calibrated Diamonds would have contributed US$5.3 million to revenue and a profit of US$0.9 million to the Group.

The goodwill balance arises primarily as a result of the synergies existing within the acquired business and also the synergies expected to be achieved as a result of combining Calibrated Diamonds with the rest of the Group.

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

1.2 Summary of significant accounting policies

1.2.1 Basis of presentation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS'). These financial statements have been prepared under the historical cost basis, except as modified by the revaluation of available-for-sale financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss. The accounting policies have been consistently applied.

The functional currency of the Company, and certain of its subsidiaries is the US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollars. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than the US dollar have been converted into US dollars on the basis as set out in Note 1.2.14, Foreign currency translation reserve.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.2.25, Critical accounting estimates and judgements.

The Group has also adopted the following disclosure standards from 1 January 2008. These standards affect the disclosures in the financial statements in the current or prior periods as follows:

- *IAS 39 & IFRS 7 – Reclassification of Financial Assets – Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures:*
  The Group adopted IAS 39 and IFRS 7 which details amendments to allow reclassifications of certain financial instruments from held for trading and available for sale categories. The adoption of this interpretation had no impact on Group earnings or equity in the current or prior years.
- *IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions:*
  The Group adopted IFRIC 11 which details the requirements of accounting for share-based payment arrangements that involve numerous entities within the same Group. The adoption of this interpretation had no impact on Group earnings or equity in the current or prior years.
- *IFRIC 12 – Service Concession Arrangements:*
  The Group adopted IFRIC 12 which applies to service concession operators and details how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.
- *IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction:*
  The Group adopted IFRIC 14 which details the requirements of accounting for post-employment and other long-term defined benefit plans when minimum funding requirements exist and when an entity may regard refunds or reductions in future contributions as available. The adoption of this interpretation had no impact on Group earnings or equity in the current or prior years.

Standards, interpretations and amendments to published standards that are not yet effective
The following is the present list of standards and interpretations that have been issued and are not yet effective:

Standard or Interpretation		Effective Date **
IFRS 2	Share-based Payments (Revised)	January 2009
IFRS 3	(Revised) Business Combinations	July 2009
IFRS 8	Operating Segments	January 2009
IAS 1	Presentation of Financial Statements	January 2009
IAS 23	Borrowing Costs	January 2009
IAS 27	(Amended) Consolidated and Separate Financial Statements'	July 2009
IAS 32 & IAS 1	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	January 2009
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	July 2009

1.2 Summary of significant accounting policies *continued*

1.2.1 Basis of presentation *continued*

Standard or Interpretation		Effective Date **
IFRS 1 & IAS 27	Amendments to IFRS 1 First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	January 2009
IFRIC 13	Customer Loyalty Programmes	July 2008
IFRIC 15	Agreements for the construction of real estate	January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 2008
IFRIC 17	Distributions of Non-Cash Assets to Owners	July 2009
IFRIC 18	Transfers to Assets from Customers	July 2009

** Annual periods beginning on or after.

The Group has not early adopted any of these standards. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application once adopted, notwithstanding IFRS 3 (Revised) 'Business Combinations' may impact the financial statements should there be an acquisition in the period.

Upon adoption of IFRS 8, the Group will be required to disclose segment information based on the information management uses for internally evaluating the performance of operating segments and allocation resources to those segments. This information may be different from that reported in the balance sheet and income statement. There will be no impact on earnings, net assets or equity of the Group.

Business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in certain areas of Africa, Indonesia and Australia. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

The consolidated financial information reflect management's assessment of the impact of these African business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

1.2.2 Going concern

These financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

As described in the Chief Executive Officer's Review and the Chief Financial Officer's Review, the current economic environment is challenging and the Group has reported an operating loss for the year.

Against the background of the current difficult trading conditions, the Directors believe that the Group will require additional funds in order to meet its obligations when due in terms of its outstanding Convertible Bonds and the working capital loan (refer to note 16 for details) and repay environmental bonds provided by Société Générale (refer to note 18). It is against this background that the Directors are proposing to raise equity capital by way of a Placing to raise funds to meet those obligations and to create a suitable capital structure to position the Group's key operations to survive a prolonged economic downturn.

The Company announced a Placing on 1 April 2009 and intends to post a Prospectus to shareholders on or around 2 April 2009. The Prospectus requires FSA approval. The Placing requires shareholder approval at a General Meeting of the Company to be held on or around 20 April 2009. If the Placing is not completed, the Company would be required to implement alternative strategies in order to be in a position to satisfy its obligations. Such alternative strategies, which may be available to the Company include: seeking to negotiate an extension of both the Convertible Bonds and the Kimberley Diamonds outstanding Société Générale borrowings or seeking to raise credit from alternative finance providers, and entering into further off take agreements. There is no certainty that any of these alternative strategies could be implemented successfully.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

1.2 Summary of significant accounting policies *continued*

1.2.2 Going concern continued

The Directors have concluded that these circumstances, and particularly the requirement for shareholder approval, represent a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. Nevertheless after making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate financial resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts. Failure to complete the Placing, or successfully to implement one or more alternative strategies, could result in the Group not being able to continue its operations in the current form and therefore not being able to continue as a going concern.

These financial statements do not include any adjustments that might arise if the going concern basis for the preparation of the financial statements was not appropriate.

1.2.3 Basis of consolidation

Subsidiaries
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition the Group recognises and consolidates the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, irrespective of the extent of any minority interest. Assets classified as held-for-sale are recognised at fair value less costs to sell. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The purchase method of accounting is used to account for the acquisition of subsidiaries of the Group. The cost of an investment in a subsidiary is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Associates
Associates are all entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method, except when the asset is classified as held-for-sale. Under the equity method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the profits or losses of the associate from the date acquired. The use of the equity method is discontinued from the date the Group ceases to have significant influence over an associate or it becomes a subsidiary.

The excess of the cost over the company's interests in the net fair value of an associate's identifiable assets, liabilities and contingent liabilities, at the date of acquisition, is accounted for as goodwill and is included in the carrying amount of the associate. Any impairment losses are deducted from the carrying amount of the investment in associate. Distributions received from the associate reduce the carrying amount of the investment in associate.

Where necessary, adjustments are made to the financial statements of associates to bring the accounting policies used into line with those used by the Group.

Profits and losses resulting from transactions with associates are recognised only to the extent of unrelated investors' interests in the associate.

1.2.4 Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit ('CGU')) to which the exploration is attributed. To the extent that exploration expenditure is not expected to be recovered, it is charged to the income statement. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

1.2.5 Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development, any capitalised exploration and evaluation expenditure already capitalised to development expenditure, together with the subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on the basis as laid out in Note 1.2.6, Property, plant and equipment. All development expenditure is monitored for indications of impairment annually.

1.2.6 Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, amongst others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off, and the cost of the item can be measured reliably. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. The following methods and useful lives were applied during the period:

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine and period of lease
Decommissioning assets	Straight line	Lesser of life of mine and period of lease
Leasehold improvements	Straight line	Lesser of 3 years and period of lease
Plant and equipment	Straight line	3 – 10 years
Finance lease assets	Straight line	2 – 6 years
Other assets	Straight line	2 – 5 years

Pre-production mine stripping costs are capitalised to development costs.

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

1.2 Summary of significant accounting policies *continued*

1.2.6 *Property, plant and equipment continued*

Stripping costs incurred during the production phase to remove additional overburden or waste ore are deferred when they give access to future economic benefits and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of area, per tonne of ore mined.

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne is recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the income statement.

1.2.7 *Intangible assets*

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the acquisition over the fair value of the Group's share in the net identifiable assets. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed annually for impairment. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to the cash-generating unit expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Concessions and licences

Concessions and licences are shown at cost. Concessions and licences have a definite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of concessions and licences over the shorter of the life of mine or term of the licence once production commences.

1.2.8 *Impairments*

Non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets are impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date, any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectable.

Available-for-sale financial investments
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect or equity instrument classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

1.2.9 Other financial assets

The Group classifies its financial assets in the following categories:
- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable costs.

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss. Upon initial recognition, a financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Gains and losses on investments held-for-trading are recognised in profit or loss. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest method, less any allowance for impairment, if the time value of money is significant. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the time value of money is significant, held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

1.2 Summary of significant accounting policies *continued*

1.2.9 Other financial assets continued

Cash flow hedges

For cash flow hedges, the effective portions of fair value gains or losses are recognised in equity until the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. Then, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is eventually recognised in the income statement or included in the initial measurement of covered assets and liabilities. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement and then the gains or losses are recognised in earnings or included in the initial measurement of covered assets or liabilities. The ineffective portion of fair value gains and losses is reported in earnings in the period to which they relate.

Hedge accounting is applied provided certain criteria are met. At the inception of a hedging relationship, the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge is documented. A documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the cash flows of the hedged items, is also prepared.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

1.2.10 Inventories

Inventories, which include rough diamonds, ore stock piles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses are recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the 'first-in-first-out method'. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

1.2.11 Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

1.2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short-term, highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.13 Issued share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, from the proceeds.

1.2.14 *Foreign currency translation reserve*

Functional and presentation currency
These financial statements are presented in US dollars.

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- monetary items are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as a separate component of equity; and
- non-monetary items that are measured in terms of cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Details of the rates applied at the respective balance sheet dates and for the income statement transactions are detailed in Note 15, Issued share capital and reserves.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.2.15 *Share-based payments*

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity settled transactions'). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is remeasured at each reporting date until settlement, with the changes in fair value recognised in profit or loss.

Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

1.2 Summary of significant accounting policies *continued*

1.2.16 Financial liabilities

Interest-bearing borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement, unless capitalised in accordance with Note 1.2.23, Finance costs, over the period of the borrowings, using the effective interest method.

Bank overdrafts are recognised at amortised cost.

Fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

1.2.17 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

Provisions are not recognised for future operating losses.

1.2.18 Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling; removal and treatment of waste materials; land rehabilitation; and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation programme are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. Discount rates used are specific to the country in which the operation is located. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operations to which it relates.

1.2.19 Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Royalties
Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and disclosed as part of selling and distribution costs. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

1.2.20 Employee benefits

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Bonus plans
The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

1.2.21 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c) There is a change in the determination of whether fulfilment is dependent on a specific asset; or

d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

1.2 Summary of significant accounting policies *continued*

1.2.21 *Leases continued*

Group as a lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in financial liabilities.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When the Group is a party to a lease where there is a contingent rental element associated within the agreement, a cost is recognised as and when the contingency materialises.

1.2.22 *Revenue*

Revenue is measured at the fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

Sale of goods

Sales of diamonds and other products are recognised when the significant risks and rewards of ownership have been transferred to the customer, can be measured reliably and receipts of future economic benefits are probable.

Rendering of services

Sales of services are recognised in the accounting period in which the services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Dividends

Dividends are recognised when the amount of the dividend can be measured reliably and the Group's right to receive payment is established.

1.2.23 *Finance costs*

Finance costs are generally expensed as incurred, except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Finance costs are capitalised up to the date when the asset is ready for its intended use.

1.2.24 *Dividend distribution*

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

1.2.25 *Critical accounting estimates and judgements*

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

Life of mine
There are numerous uncertainties inherent in estimating ore reserves and the associated life of mine. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated.

Exploration and evaluation expenditure
This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available.

Development expenditure
Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure.

Property, plant and equipment – recoverable amount
The calculation of the recoverable amount of an asset requires significant judgements, estimates and assumptions, including future demand, technological changes, exchange rates, interest rates and others.

Impairment of goodwill
The Group determines if goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and a market-related pre-tax discount rate in order to calculate the present value of those cash flows.

Impairment of assets
The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term diamond prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as management's best estimate of the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mine assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset using assumptions that an independent market participant may take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value.

Provision for restoration and rehabilitation
Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity.

Taxation
The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

(US$'000)	2008	2007
2. REVENUE		
Sale of goods	296 368	152 231
Rendering of services	513	475
	296 881	152 706
Finance revenue is reflected in Note 4, Net finance (costs)/income.		
3. OPERATING (LOSS)/PROFIT		
Operating (loss)/profit includes, amongst others, the following:		
Non-current assets		
Loss on disposal of invesments	–	(24)
Loss on disposal of property, plant and equipment	(3)	(25)
Depreciation and amortisation		
Depreciation of property, plant and equipment	(78 873)	(23 920)
Less: Depreciation capitalised to exploration assets	4 095	1 198
Less: Depreciation and amortisation capitalised to inventory	1 868	2 153
	(72 910)	(20 569)
Amortisation of intangible assets	(43)	(16)
Less: Amortisation capitalised to exploration assets	43	5
	–	(11)
	(72 910)	(20 580)
Inventories		
Write-down of inventories to net realisable value	(19 278)	–
Net foreign exchange (loss)/gain	(19 444)	14 654
Exceptional items		
Cost of sales		
– Receivables	(693)	–
– Other financial assets	(55)	–
– Retrenchment costs	(445)	–
Impairment		
– Property, plant and equipment	(476 037)	–
– Intangible assets	(70 464)	–
Goodwill	(68 627)	–
Other intangible assets	(1 837)	–
Corporate costs		
– Other financial assets	(1 009)	–
– Cost of acquisition related activities	(816)	–
	(549 519)	–
Lease expenses as a lessee		
Lease payments recognised in the income statement		
– Mine site property	(402)	(92)
– Equipment and service leases	(2 204)	(1 144)
– Contingent rental – alluvial deposits	(11 667)	(7 168)
– Leased premises	(1 233)	(641)
	(15 506)	(9 045)

(US$'000)	2008	2007
3. OPERATING (LOSS)/PROFIT *continued*		
Auditors' remuneration – Ernst & Young		
Audit fee		
– Group financial statements	**(2 556)**	(584)
– Statutory	**(544)**	(192)
	(3 100)	(776)
Tax services	**(717)**	(1 642)
	(3 817)	(2 418)
Staff costs		
Salaries and wages	**(38 450)**	(36 416)

Directors' remuneration
Refer to the Directors' Remuneration Report for full details of transactions with Directors.

Exceptional items
Impairment of assets
The Group completed impairment testing for all its cash-generating units at 31 December 2008 and identified, as a result of declining market prices for rough diamonds, that certain assets were impaired.

The following exceptional items were recognised in cost of sales:
Closure costs
Closure costs of US$0.5 million were recognised as the Cempaka mine was placed on prolonged care and maintenance.

Inventory write-downs
Inventory net realisable value write-downs of US$19.3 million were recognised due to declining market prices for rough diamonds at year-end.

Receivables
Receivables amounting to US$0.7 million were impaired in Central Africa.

The following exceptional items were recognised in impairments:
Property, plant and equipment and goodwill
The resource and development costs and assets in the DRC amounting to US$189.1 million and in the CAR amounting to US$17.4 million were impaired, including goodwill of US$26.2 million, as a result of the Group placing the exploration and sampling projects on care and maintenance.

Assets relating to Cempaka of US$95.3 million, including goodwill of US$10.9 were impaired following the Group's decision to place the mine on prolonged care and maintenance as a result of declining market prices for rough diamonds.

The Ellendale mine capital assets of US$242.8 million, including goodwill of US$25.9 million were impaired following the Group's decision to cease mining in the Ellendale 4 pit and place the plant on prolonged care and maintenance. The impairment charge was predominantly a result of the current pricing environment, together with the knowledge of achievable mining costs at the mine.

Intangible assets
Concessions amounting to US$1.8 million in Central Africa were written down as a result of the projects going on care and maintenance.

The following exceptional items were recognised in corporate costs:
Other financial assets
Other financial assets of US$1.0 million were written off as, the current status of the financial markets indicate that the amount would not be recovered.

Costs of acquisition-related activities
During 2008, the Group incurred once-off costs of US$0.8 million relating to acquisitions.

The following exceptional items were recognised in income tax expense:
Income tax benefit
The Group realised an exceptional tax benefit of US$47.9 million as a result of the impairment of assets, closure costs and inventory write-downs.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

(US$'000)	2008	2007
4. NET FINANCE (COSTS)/INCOME		
Finance income		
Bank deposits	3 840	23 363
	3 840	23 363
Finance costs		
Bank overdraft	(60)	(855)
Interest on debt and borrowings	(2 286)	(1 661)
Finance costs on unwinding of rehabilitation provision	(1 445)	(762)
Finance lease	(123)	–
	(3 914)	(3 278)
	(74)	20 085
5. INCOME TAX CREDIT/(EXPENSE)		
Income statement		
Current		
– UK	–	(3 891)
– Overseas	(19 516)	(11 911)
– Adjustments in respect of prior year	1 895	–
	(17 621)	(15 803)
Withholding tax		
– Overseas	(4 163)	(1 311)
– Adjustments in respect of prior year	2 893	–
	(1 270)	(1 311)
Deferred		
– Overseas	43 362	(10 827)
	43 362	(10 827)
	24 571	(27 941)
Reconciliation of tax rate:		
(Loss)/profit before taxation	(576 737)	68 441
	%	%
Expected income tax rate	29	30
Permanent differences	(2)	4
Unrecognised deferred tax assets	(24)	7
Effect of overseas tax at different rates	2	(4)
Utilisation of previously unrecognised deferred tax assets	(1)	–
Effect of deferred tax on unremitted earnings	–	2
Withholding tax	–	2
Adjustment in respect of prior years	–	4
Other	–	(4)
Effective tax rate	4	41

(US$'000)	Before exceptional items	Exceptional items	2008	2007
6. EARNINGS PER SHARE				
The following reflects the income and share data used in the basic and diluted earnings per share computations:				
(Loss)/profit for the year	(31 273)	(520 893)	(552 166)	40 500
Less: Minority interests	(15 210)	14 559	(651)	(17 273)
Net (loss)/profit attributable to equity holders of the parent	(46 483)	(506 334)	(552 817)	23 227
The weighted average number of shares takes into account the treasury shares at year-end.				
Weighted average number of ordinary shares in issue during the period ('000)	62 563	62 563	62 563	57 399
Basic and diluted (loss)/profit per share (cents)	(74)	(809)	(884)	40

(Loss)/profit per share amounts are calculated by dividing (loss)/profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted (loss)/profit per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with ordinary shares.

The future potential conversion and issue rights has an anti-dilutive impact on the basic loss attributable to the equity holders of the parent and thus no dilutive earnings per share value has been disclosed.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, other than those disclosed in Note 23, Post Balance Sheet Events.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

7. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2007 (US$'000)	Mining assets	Exploration costs	Decommissioning assets	Leasehold improvements	Plant and equipment	Finance lease assets	Other assets	Total
Cost								
Balance at 1 January 2007	163 481	3 337	1 437	4 086	22 529	1 291	3 164	199 325
Acquisition of subsidiaries	307 955	53 043	4 430	33 889	133 165	1 845	7 388	541 715
Additions	15 450	15 664	6 703	508	62 274	1 203	12 066	113 868
Disposals	(12 996)	–	–	(58)	(1 227)	(1 111)	(290)	(15 682)
Foreign exchange differences	13 646	2 918	613	3 016	12 523	77	670	33 463
Balance at 31 December 2007	487 536	74 962	13 183	41 441	229 264	3 305	22 998	872 689
Accumulated depreciation/amortisation								
Balance at 1 January 2007	4 515	–	34	744	1 141	179	380	6 993
Depreciation and amortisation for the year	15 150	47	513	336	5 568	856	1 450	23 920
Disposals	–	–	(65)	(58)	(78)	(358)	(265)	(824)
Foreign exchange differences	479	–	11	30	167	19	62	768
Balance at 31 December 2007	20 144	47	493	1 052	6 798	696	1 627	30 857
Net book value at 31 December 2007[1]	467 392	74 915	12 690	40 389	222 466	2 609	21 371	841 832

As at 31 December 2008 (US$'000)	Mining assets	Exploration costs	Decommissioning assets	Leasehold improvements	Plant and equipment	Finance lease assets	Other assets	Total
Cost								
Balance at 1 January 2008	487 536	74 962	13 183	41 441	229 264	3 305	22 998	872 689
Acquisition of subsidiaries	–	–	–	–	–	–	17	17
Additions	28 773	61 855	4 522	2 929	55 298	–	3 125	156 502
Disposals	(7 303)	(570)	–	(49)	(2 349)	–	(76)	(10 347)
Reclassifications	13 708	219	2 625	25 789	(39 279)	(936)	(2 126)	–
Foreign exchange differences	(80 581)	(11 108)	(4 010)	(12 615)	(45 723)	(306)	(3 822)	(158 165)
Balance at 31 December 2008	442 133	125 358	16 320	57 495	197 211	2 063	20 116	860 696
Accumulated depreciation/amortisation								
Balance at 1 January 2008	20 144	47	493	1 052	6 798	696	1 627	30 857
Depreciation and amortisation for the year	34 568	85	1 212	8 372	31 643	378	2 615	78 873
Disposals	(526)	(48)	–	–	–	–	(43)	(617)
Reclassifications	552	–	(70)	4 478	(5 010)	(534)	584	–
Impairment[2]	255 727	82 135	482	29 983	96 988	–	10 722	476 037
Foreign exchange differences	(8 435)	(394)	(252)	(2 246)	(4 913)	(110)	(820)	(17 170)
Balance at 31 December 2008	302 030	81 825	1 865	41 639	125 506	430	14 685	567 980
Net book value at 31 December 2008	140 103	43 533	14 455	15 856	71 705	1 633	5 431	292 716

1. Restated for revisions to the provisional accounting for BDI Mining, Kabongo Development Company and Kimberley Diamonds acquisitions (Refer to Note 1.1.4, Acquisitions).
2. Refer to Note 3, Operating (loss)/profit for additional information on impairments.

The finance lease assets are used as security for the interest-bearing borrowings disclosed in Note 16, Interest bearing borrowings. Other assets comprise motor vehicles, computer equipment, furniture and fittings and office equipment. Finance lease assets comprise motor vehicles and plant and equipment. Included in plant and equipment is capital work in progress of US$7.8 million (31 December 2007: US$60.4 million). Included in mining asset is deferred stripping of US$24.0 million (31 December 2007: US$38.7 million) capitalised.

8. INTANGIBLE ASSETS

As at 31 December 2007 (US$'000)	Other intangibles	Goodwill	Total
Cost			
Balance at 1 January 2007	880	27 079	27 959
Acquisition of subsidiary	20	72 254	72 274
Additions	707	–	707
Disposals	(7)	–	(7)
Foreign exchange differences	11	3 084	3 095
Balance at 31 December 2007	**1 611**	**102 417**	**104 028**
Accumulated amortisation			
Balance at 1 January 2007	–	–	–
Amortisation for the year	16	–	16
Balance at 31 December 2007	16	–	16
Net book value at 31 December 2007[1]	1 595	102 417	104 012

As at 31 December 2008 (US$'000)	**Other intangibles**	**Goodwill**	**Total**
Cost			
Balance at 1 January 2008	1 611	102 417	104 028
Acquisition of subsidiary	–	1 823	1 823
Additions	293	–	293
Foreign exchange differences	(8)	(13 389)	(13 397)
Balance at 31 December 2008	1 896	90 851	92 747
Accumulated amortisation			
Balance at 1 January 2008	16	–	16
Amortisation for the year	43	–	43
Impairment	1 837	68 627	70 464
Balance at 31 December 2008	1 896	68 627	70 523
Net book value at 31 December 2008	–	22 224	22 224

1. Restated for revisions to the provisional accounting for BDI Mining, Kabongo Development Company and Kimberley Diamonds acquisitions accounting (Refer to Note 1.1.4, Acquisitions).

Impairment of goodwill within the Group, was tested in accordance with the Group's policy. Refer to Note 9, Impairment testing for further details.

Other intangibles comprise of costs associated with acquiring and renewing licenses and concessions.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

(US$'000)	2008	2007
9. IMPAIRMENT TESTING		
Goodwill		
Goodwill acquired through business combinations and acquisitions has been allocated to the individual cash-generating units, as follows:		
– Letšeng Diamonds	20 651	27 935
– BDI Mining	–	16 625
– Kabongo Development Company	–	25 707
– Gem Longatshimo	–	445
– Kimberley Diamonds	–	31 705
– Calibrated Diamonds Investment Holdings	1 573	–
Balance at end of year	22 224	102 417
Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2008.		
In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit or reportable segment is compared with its recoverable amount.		
The goodwill impairment expense recognised as an exceptional item in the income statement (refer to Note 3, Operating (loss) / profit), relates to the following:		
– Kimberley Diamonds	25 850	–
– Kabongo Development Company	25 707	–
– Gem Longatshimo	445	–
– BDI Mining	16 625	–
Total charge for the year	68 627	–

For the purpose of goodwill impairment testing, recoverable amounts have been determined based on value in use calculations ('VIU') for Letšeng Diamonds and Kimberley Diamonds and fair value less cost to sell ('FVLCS') for Kabongo Development Company, BDI Mining and Gem Longatshimo.

Value in use
Cash flows are projected for periods up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing limited to the lesser of the current economic resource or the mining lease period. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices for such production and the treatment costs.

Key assumptions used in value in use calculations
The key assumptions used in the value in use calculations for goodwill asset are:

- recoverable reserves and resources
- expected carats recoverable
- expected grades achievable
- expected $/carat prices
- expected plant throughput
- costs of extracting and processing
- appropriate discount rates
- foreign exchange rates

(US$'000)	2008	2007

9. IMPAIRMENT TESTING *continued*

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's current expectation and mine plan, supported by the evaluation work undertaken by appropriately qualified persons.

Long term $/carat prices are based on external market consensus forecasts as published by independant marketing consultants adjusted for the Group's specific operations and contracted sales arrangements. Plant throughput is based on current plant facilities and processing capacities. Costs are determined on management's experience and the use of contractors over a period of time which costs are fairly reasonably determinable.

Discount rates are outlined below, and represent the real pre-tax rates. These rates are based on the weighted average cost of capital of the Group and adjusted accordingly at a risk premium per cash-generating unit, taking into account risks associated with different cash-generating units.

The foreign exchange rates have been based on external market forecasts, after considering long-term market expectations and the countries in which the Group operates.

Discount rate for each cash-generating unit	2008	2007
– Letšeng Diamonds	17.4%	10.3%
– BDI Mining	–	11.3%
– Kimberley Diamonds	8.6%	–

Sensitivity to changes in assumptions

Given the current volatility in the market, adverse changes in key assumptions as described below could result in changes to impairment charges specifically in relation to Australia.

The impairment tests are particularly sensitive to changes in commodity prices, discount rates and foreign exchange rates. Changes to these assumptions could result in changes to impairment charges. The table below summarises the change required to key assumptions that would result in the carrying value of Letšeng Diamonds equalling the recoverable value:

		Change in the key assumption which would result in the recoverable amount equalling the carrying value (%)		
	Excess of recoverable amount over carrying value (US$ million)	Decrease in diamond prices	Increase in discount rate[1]	Stregthening in foreign exchange rate[2]
– Letšeng Diamonds	95.0	28.5%	10.0%	27.5%

1. Amounts relate to absolute movement in discount rate.
2. Maloti to US dollar.

Should any of the assumptions used change adversely and the impact not be mitigated by a change in the other factors, this could result in a potential impairment of the above asset.

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

(US$'000)	2008	2007
9. IMPAIRMENT TESTING *continued*		
Fair value less cost to sell As the exploration and sampling projects were placed on care and maintenance as a result of the current decline in the economic environment, the recoverable amount was determined based on FVLCS. The key assumptions include management's best estimate of the recoverability of the residual value of the assets included in the respective cash-generating units taking into account the remote location of the assets, the costs to demobilise the assets and the ability to dispose of the assets in the current economic climate.		
Calibrated Diamonds Investment Holdings The goodwill arising as a result of the acquisition of Calibrated Diamonds Investment Holdings of US$1.6 million represents the provisional amount. This has been subject to an impairment review and no impairment has been identified.		
Other non-current assets The impairment losses recognised as an exceptional item in the income statement (refer to Note 3, Operating (loss) / profit), excluding the goodwill impairment above, relate to the following:		
– BDI Mining	78 728	–
– Kimberley Diamonds	216 996	–
– Kabongo Development Company	164 587	–
– Gem Diamond Centrafrique	17 563	–
Total charge for the year	477 874	–

In January 2009, the Cempaka mine was placed on care and maintenance. It is considered unlikely that diamond prices will recover sufficiently in the short to medium term such that Cempaka could return to operation, indicating that an impairment of mining assets be taken at the end of 2008 amounting to US$95.3 million.

Kimberley Diamonds' key asset the Ellendale mine, has two lamproite pipes in which mining has taken place to date – the Ellendale 4 and the Ellendale 9 pipes. Due to its lower revenue per tonne profile, Ellendale 4 mining ceased in February 2009 and the plant was placed on care and maintenance. Mining on the Ellendale 9 pit continues. The current pricing environment, together with the knowledge of achievable mining costs at the Ellendale mine prompted the Group to impair US$216.9 million in relation to these and other exploration target assets. The bulk of this impairment relates to mining assets and capitalised deferred stripping at both Ellendale 4 and Ellendale 9 pipes and capital assets at Ellendale 4.

The resource and exploration costs and assets in the DRC and CAR amounting to US$182.2 million were impaired. The trigger for the impairment was primarily the decision taken in November 2008 to place all alluvial exploration activities on care and maintenance due to the declining market prices for rough diamonds and world economic conditions.

Notwithstanding the impairment charges, the Group has not relinquished any of its licenses, tenements, assets or properties, other than those it would have done in the normal course of business, in conducting these reviews.

The Group will continue to test its other assets for impairment at least on an annual basis and may in future record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

(US$'000)	2008	2007
10. OTHER FINANCIAL ASSETS		
Non-current		
Environmental Bonds[1]	343	2 112
Chiri project loan[2]	4 669	250
Other assets[3]	629	254
	5 641	2 616
Current		
Government of Lesotho[4]	–	1 413
Other loans[5]	655	–
	655	1 413
	6 296	4 029

1. Environmental bonds may only be accessed when all relevant rehabilitation work is completed at the end of the project and represents restricted funds in the Group.
2. The loan represents amounts advanced to the project in terms of the Cooperation Agreement concluded in relation to the Chiri Concession in Angola. The loan is interest free and has no fixed term of repayment.
3. Other assets comprise the costs associated and incurred in securing an option to acquire an indirect interest in the Chiri Concession.
4. The loan was repaid during the course of the year.
5. Other loans comprise advances made to certain key individuals to assist with their relocation as part of setting up various operations. These loans bear interest at 4.5% per annum and have no fixed term of repayment.

(US$'000)	2008	2007[1]
11. DEFERRED TAXATION		
Deferred tax assets		
Property, plant and equipment	–	236
Accrued leave	85	–
Operating lease liability	16	7
Prepayments	–	–
Provisions	1 153	955
Tax loss not utilised in the period	11	–
	1 265	1 198
Deferred tax liabilities		
Property, plant and equipment	(49 890)	(108 093)
Prepayments	(8)	(13)
Provision	(95)	(99)
Unremitted earnings	(1 017)	(1 985)
	(51 010)	(110 190)
Net deferred tax liability	(49 745)	(108 992)

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

(US$'000)	2008	2007[1]
11. DEFERRED TAXATION *continued*		
Reconciliation of deferred tax asset/(liability)		
Balance at beginning of year	**(108 992)**	(46 278)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(6 143)**	(10 304)
– Deferred tax effect of exceptional items	**47 902**	–
– Accrued leave	**42**	–
– Operating lease liability	**12**	6
– Unremitted earnings	**636**	(1 029)
– Prepayments	**2**	(9)
– Provisions	**1 000**	430
– Tax losses utilised in the year	**11**	63
– Acquisition of subsidiary	**–**	(50 095)
– Foreign exchange differences	**15 785**	(1 776)
Balance at end of year	**(49 745)**	(108 992)

1. Restated for revisions to the provisional accounting for BDI Mining, Kabongo Development Company and Kimberley Diamonds acquisitions (Refer to Note 1.1.4, Acquisitions).

The Group has not recognised a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries because it is able to control the timing of dividends and only part of the temporary difference is expected to reverse in the forseeable future. The gross temporary difference in respect of the undistributable reserves of the Group's subsidiaries for which a deferred tax liability has not been recognised is US$21.2 million (31 December 2007: US$23.3 million).

The Group has estimated tax losses of US$209.1million (31 December 2007: US$158.0 million) and unutilised foreign tax credits of approximately US$8.0 million (31 December 2007: US$0.4 million). No deferred tax assets have been recognised in respect of such losses at 31 December 2008 as management considers that it is not probable that the losses in those entities will be utilised against taxable profits in those entities in the foreseeable future.

The Group has not recognised deferred tax assets in respect of other deductible temporary differences of US$143.6 million, since management consider that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Of the US$209.1 million estimated tax losses, US$44.0 million losses in various jurisdictions expire as follows:

Year (US$'000)	2008	2007
2009	**1 584**	1 515
2010	**1 995**	2 035
2011	**2 219**	2 219
2012	**8 621**	8 621
2013	**1 670**	1 550
2014	**4 004**	4 004
2015	**5 111**	5 111
2016	**18 826**	–
	44 031	25 055

(US$'000)	2008	2007
12. INVENTORIES		
Diamonds on hand[1]	21 970	24 875
Ore stock piles[1]	7 273	6 084
Consumable stores[1]	7 060	10 186
	36 303	41 145
Impairments	19 278	–
1 Stated at the lower of cost or net realisable value.		
The amount of write-down of inventories recognised as an expense is US$19.3 million (31 December 2007: US$- million). Refer to Note 3, Operating (loss)/profit for further details.		
13. RECEIVABLES		
Prepayments	2 993	565
Deposits	1 390	3 912
Royalty receivable	4 142	–
Other receivables	1 758	3 092
Vat receivable	3 935	4 936
	14 218	12 505
The carrying amounts above approximate the fair value.		
Terms and conditions of the receivables:		
These amounts are non-interest bearing and are settled in accordance with terms agreed between the parties.		
Provision for impairment of receivables		
Receivables (at nominal value) impaired and fully provided for:	693	239
Analysis of receivables		
Neither past due nor impaired	14 099	11 750
Past due but not impaired:		
< 30 days	33	755
30 – 60 days	45	–
60 – 90 days	–	–
90 – 120 days	41	–
Total receivables	14 218	12 505
Movements in the provision against receivables were as follows:		
Balance at beginning of year	239	894
Charge for the year	693	(662)
Utilised during the year	(198)	–
Foreign exchange differences	(41)	7
Balance at end of year	693	239

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

(US$'000)	2008	2007
14. CASH AND CASH EQUIVALENTS		
Cash on hand	**63**	176
Bank balances	**53 297**	99 433
Short term bank deposits	**8 076**	83 927
	61 436	183 536
Bank overdraft	**–**	(1 702)
	61 436	181 834

The amounts reflected in the financial statements approximate fair value.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term deposits are generally call deposit accounts and earn interest at the respective short term deposit rates. As at year end date, the Group has US$1.6 million (31 December 2007: US$2.0 million) overdraft facilities in place.

At 31 December 2008, the Group had restricted cash of US$7.3 million (31 December 2007: US$2.1 million).

The Group's cash surpluses are deposited with major financial institutions of high quality credit standing predominantly within Lesotho, Australia and Switzerland.

	2008		2007	
	Number of shares '000	(US$'000)	Number of shares '000	(US$'000)
15. ISSUED SHARE CAPITAL AND RESERVES				
Authorised – ordinary shares of US$ 0.01 each				
As at year end	**125 000**	**1 250**	125 000	1 250
Issued and fully paid				
Balance at beginning of year	**62 399**	**624**	25 343	253
Allotments during the year	**506**	**5**	37 056	371
Balance at end of year	**62 905**	**629**	62 399	624

During the year, the following share transactions took place:

On the 19th February 2008 the Non-executive directors were awarded, as part of their contracts, shares in the Company. The total number of shares awarded were 506 322 at a nominal value of US$0.01.

Share premium
Share premium comprises the excess value recognised from the issue of ordinary shares at par value. There was no movement in 2008.

Treasury shares
The Company established an ESOP on 5 February 2007. Under the terms of the ESOP, the Company granted options to employees over 376 500 ordinary shares with a nil exercise price upon listing.

At Listing, the Gem Diamonds Limited Employee Share Trust acquired 376 500 ordinary shares by subscription from the Company as part of the Initial Awards under the ESOP arrangement at nominal value of US$0.01.

During the year, 70 913 shares were exercised. At 31 December 2008, 234 957 (31 December 2007: 305 870) shares were held by the trust.

Movement in reserves
Full details of all movements in reserves are disclosed in the statement of changes in equity.

15. ISSUED SHARE CAPITAL AND RESERVES *continued*

Foreign exchange differences reserve

The Foreign exchange differences reserve comprises all foreign exchange differences arising from the translation of foreign entities. During the period, the South African, Lesotho, Botswana, Central African Republic and Australian subsidiaries' functional currencies were different to the Group. The rates used to convert the South African Rand ('ZAR'), Lesotho Loti ('Maloti'), Botswana Pula ('Pula'), the Central African Franc ('CFA'), the Australian Dollar ('AUD'), the Mauritius Rupee ('MUR') and the United Arab Emirate Dirham ('AED') into US Dollars are as follows:

	Currency	2008	2007
Average rate	Maloti to 1 US$	**8.26**	7.05
Period end	Maloti to 1 US$	**9.25**	6.83
Average rate	ZAR to 1 US$	**8.26**	7.05
Period end	ZAR to 1 US$	**9.25**	6.83
Average rate	CFA to 1 US$	**448.11**	479.43
Period end	CFA to 1 US$	**468.81**	445.59
Average rate	AUD to 1 US$	**1.20**	1.20
Period end	AUD to 1 US$	**1.43**	1.14
Average rate	Pula to 1 US$	**6.84**	6.15
Period end	Pula to 1 US$	**7.56**	6.04
Average rate	Rupee to 1 US$	**28.38**	28.38
Period end	Rupee to 1 US$	**29.83**	29.83
Average rate	Dirham to 1 US$	**3.67**	3.67
Period end	Dirham to 1 US$	**3.67**	3.67

Share-based equity reserves

For detail on the share based payment reserve refer to Note 26, Share-Based Payments.

Revaluation reserve

The revaluation reserve arose on the acquisition of KDC and represented the Group's share of the increase in the net fair value of the assets and liabilities, post the initial acquisition as detailed in Note 1.1.4, Acquisitions. The reserve has been released to retained earnings as a result of the impairment of KDC's assets at 31 December 2008.

Minority interests

No minority interests were acquired during the course of the 2008 year. Minority interest movements in the prior year relate to the acquisition of BDI Mining and Kimberley Diamonds as detailed in Note 1.1.4, Acquisitions.

Capital management

For details on capital management, refer to Note 25, Financial Risk Management.

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for the year ended 31 December 2008 continued

16. INTEREST BEARING BORROWINGS

(US$'000)	2008	2007
Non-current		
Convertible bonds[1]	–	15 834
Finance lease obligations[2]	361	854
	361	16 688
Current		
Convertible bonds[1]	16 065	960
Finance lease obligations[2]	493	1 133
Working capital loan[3]	20 916	11 673
	37 474	13 766
Total interest bearing borrowings	37 835	30 454

	Effective interest rate %	Maturity date
2008		
Non-current		
Finance lease obligations	6 – 10%	16 – 56 months
Current		
Convertible bonds	6%	October 2009
Finance lease obligations	6 – 10%	16 – 56 months
Working capital loan	5%	September 2009
2007		
Non-current		
Convertible bonds	6%	October 2009
Finance lease obligations	6 – 13%	28 – 68 months
Current		
Finance lease obligations	6 – 13%	28 – 68 months
Working capital loan	10%	April 2008

The carrying values of the liabilities approximate their fair values.

1. The bonds are convertible at the option of the holder at any time up to the repayment date of 2 October 2009. The interest rate is 6% until the date of maturity or conversion. Interest is payable six monthly from date of issue. Interest of US$1.2 million was accrued during the year (31 December 2007: US$1.6 million) and US$1.0 million was paid (31 December 2007: US$2.1 million).

   The number of shares issuable on conversion is calculated by dividing the principal amount of the bond by the conversion price at the conversion date.

   Included in convertible bonds, was an amount arising from the acquisition of BDI Mining. During the course of the year, the total outstanding amount of US$1.0 million was repaid.

2. The finance leases are payable in monthly instalments over a period of 16 to 56 months. The finance leases have an average implicit interest rate between 6 to 10%. The finance leases are secured by plant and equipment with a carrying amount of US$1.6 million (31 December 2007: US$2.6 million). Refer to Note 7, Property, plant and equipment.

3. The loan relates to a working capital facility. The facility is payable on 25 September 2009. Interest on the facility is based on normal market rates prevailing for this type of facility (floating interest). The loan is secured by a corporate guarantee from the Group.

(US$'000)	2008	2007
16. INTEREST BEARING BORROWINGS *continued*		
Finance lease disclosure		
Minimum lease payments due		
– Within one year	549	1 281
– Between one to five years	385	854
– More than five years	–	80
	934	2 215
– Amounts representing finance charges	(80)	(228)
Present value of minimum lease payments	854	1 987
Analysis of present value of minimum lease payments:		
– Within one year	493	1 133
– Between one to five years	361	778
– More than five years	–	76
	854	1 987

(US$'000)	2008	2007[1]
17. TRADE AND OTHER PAYABLES		
Non-current		
Severance pay benefits[2]	451	421
	451	421
Current		
Trade payables[3]	28 889	50 467
Accrued expenses[3]	16 104	24 025
Leave benefits	2 021	2 214
Royalties[3]	7 763	650
Operating lease	57	24
Other	570	–
	55 404	77 380
Total trade and other payables	55 855	77 801

1. Restated for revisions to the provisional accounting for BDI Mining, Kabongo Development Company and Kimberley Diamonds acquisitions (Refer to Note 1.1.4, Acquisitions).

The carrying amounts above approximate fair value.

Terms and conditions of the financial liabilities:

2. The severance pay benefits arise due to legislation requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.
3. These amounts are non-interest bearing and are settled in accordance with terms agreed between the parties.

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

(US$'000)	2008	2007[1]
18. PROVISIONS		
Rehabilitation provisions	**24 928**	23 030
Reconciliation of movement in provisions		
Balance at beginning of year	**23 030**	2 584
Acquisition of subsidiaries	**–**	9 040
Arising during the year	**6 683**	9 692
Utilised during the year	**(217)**	(93)
Unwinding of discount rate	**1 445**	762
Foreign exchange differences	**(6 013)**	1 045
Balance at end of year	**24 928**	23 030

1. Restated for revisions to the provisional accounting for BDI Mining, Kabongo Development Company and Kimberley Diamonds acquisitions (Refer to Note 1.1.4, Acquisitions).

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates are adjusted annually and reflect current market assessments.

A portion of the provisions has been secured by environmental bonds from Société Générale to the amount of US$7.0 million (31 December 2007: US$- million) and guaranteed by the Company.

(US$'000)	2008	2007[1]
19. OTHER FINANCIAL LIABILITIES		
Current		
Financial liabilities at fair value through profit or loss[1]	**2 697**	–
Investec Bank Limited[2]	**1 156**	1 563
Total other financial liabilities	**3 853**	1 563

The carrying values of the liabilities approximate their fair values.

1. The fair value of forward foreign currency exchange contracts is based on forward exchange rates. The contracts are entered into for periods consistent with currency transaction exposures, generally one to six months.
2. Investec Bank Limited is an outstanding amount in respect of the acquisition of Letšeng Diamonds and is estimated based on information available as at the balance sheet date. The amount due is interest free.

(US$'000)	Notes	2008	2007
20. CASH FLOW NOTES			
20.1. Cash generated by operations			
(Loss)/profit before taxation		(576 737)	68 441
Adjustments for:			
– Depreciation and amortisation on property, plant and equipment	3	72 910	20 569
– Impairment on assets	3	548 258	–
– Write down of inventory	3	19 278	–
– Finance income	4	(3 840)	(23 363)
– Finance costs	4	3 914	3 278
– Movement in provisions		1 081	10 645
– Market to market revaluations		2 926	–
– Share of loss in associate		–	1 030
– Foreign exchange differences		9 923	(23 649)
– Loss on disposal of property, plant and equipment		–	24
– Share-based equity transaction	26	10 410	19 531
		88 123	76 506
20.2. Working capital adjustments			
Increase in inventories		(13 653)	(15 166)
Increase in receivables		(2 378)	(7 930)
Decrease in trade and other payables		(4 220)	(4 102)
Foreign exchange differences		1 640	(1 992)
		(18 611)	(29 190)
20.3. Acquisitions			
Net assets and liabilities acquired[1]		(1 685)	(467 856)
Less:			
– Minorities' interest		–	22 069
– Revaluation surplus		–	19 783
– Carrying value of associate at acquisition		–	16 264
		(1 685)	(409 740)
Outstanding finance on purchase		(18 107)	14 487
Loans acquired		–	–
Cash paid		(19 792)	(395 253)
Cash received		75	4 629
Net cash paid		(19 717)	(390 624)

1 This relates to the acquisitions of Calibrated Diamonds Investment Holdings in the current year and BDI Mining, KDC, Kimberley Diamonds and Gope Exploration during the prior year.

		2008	2007
Net cash paid is reconciled as follows:			
Acquisition of Calibrated Diamonds Investment Holdings		1 610	–
Acquisition of BDI Mining		86	78 222
Acquisition of KDC		103	50 166
Acquisition of Kimberley Diamonds		17 918	234 724
Acquisition of net assets and liabilities of Gope Exploration		–	27 512
		19 717	390 624

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

(US$'000)	2008	2007
21. COMMITMENTS AND CONTINGENCIES		
Commitments		
Operating lease commitments – Group as lessee		
The Group has entered into commercial lease arrangements for rental of office premises. These leases have an average period of two years with an option of renewal at the end of the period. There are no restrictions placed upon the lessee by entering into these leases.		
Future minimum rentals payable under non-cancellable operating leases:		
– Within one year	465	637
– After one year but not more than five years	1 078	1 705
– More than five years	–	–
	1 543	2 342
Mining leases		
Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.		
The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods or the life of the mine. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:		
– Within one year	262	301
– After one year but not more than five years	1 282	1 269
– More than five years	4 097	4 393
	5 641	5 963
Moveable equipment lease		
The Group has entered into commercial lease arrangements which include the provision of loading, hauling and other transportation services payable at a fixed rate per ton of ore and waste mined, and power generator equipment payable based on a consumption basis:		
– Within one year	17 177	7 695
– After one year but not more than five years	45 986	28 855
– More than five years	–	–
	63 163	36 550

(US$'000)	2008	2007

21. COMMITMENTS AND CONTINGENCIES *continued*

Finance leases

The Group has entered into finance leases with interest rates from 6% to 10% and payable within the next 16 to 56 months. The estimated future lease obligations are as follows :

	2008	2007
– Within one year	493	1 133
– After one year but not more than five years	361	778
– More than five years	–	76
	854	1 987

Contingent rentals – alluvial deposits

The contingent rentals on alluvial deposits represents the Group's obligation to third parties for alluvial diamonds mined by such third parties on the Group's mining property. The rental is determined when the actual diamonds mined by such third parties are sold. The rental agreement is based on 40% of the sale of the diamonds recovered by Alluvial Ventures and will be limited to US$0.7 million per individual diamond. As at the balance sheet dates, such future sales cannot be determined.

Letšeng Diamonds Educational Trust

In terms of the mining agreement entered into between the Group and the Government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Trust Committee.

Chiri Co-operation Agreement and an Option Agreement

During 2007, the Group entered into a Cooperation Agreement and Option Agreement in relation to the Chiri Concession in Angola. The Cooperation Agreement sets out the terms on which the Group will conduct a feasibility study to assess the commercial viability of the Chiri Concession, which is believed to be a diamondiferous kimberlite. The Option Agreement gives the Group an option to acquire an indirect interest in the Chiri Concession. The commitment is included in the amounts disclosed as part of capital expenditure below.

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

(US$'000)	2008	2007
21. COMMITMENTS AND CONTINGENCIES *continued*		
Capital expenditure		
Approved but not contracted for	**2 887**	20 060
Approved and contracted for	**22 378**	23 893

The amounts are approved by the Board.

Restricted cash

Included in restricted cash is US$6.9 million, which represents funds held in terms of a deposit agreement and is security on a debt owing by a Director to a financial institution, in connection with the Directors' relocation. This arrangement is currently under review.

Contingencies

During 2007, the Group purchased 50.01% of KDC as detailed in Note 1.1.4, Acquisitions. In terms of this agreement the Group has a commitment to pay an additional amount if an economically, commercially viable diamondiferous kimberlite is discovered in any of the existing concessions. The additional purchase consideration will be 5% of the Group's attributable share of the Diamond Asset value of the diamondiferous kimberlite as determined by an independent competent person's report.

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of applicable legislation in the countries where the Group has operations. In certain specific transactions however, the relevant 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 advisors, the Group has identified possible tax claims within the various jurisdictions in which the Group operates approximating US$1.7 million (December 2007: US$2.9 million). There remains a risk that additional tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

22. 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	Minority shareholder
Geneva Management Group (UK) Limited	Common director
Government of CAR	Minority shareholder
Government of Indonesia	Minority shareholder
Franck Nyimilongo Pieme	Minority shareholder

Refer to Note 1.1.2. Operational information for information regarding shareholding in subsidiaries.

Refer to the Directors' report for information regarding the Directors.

(US$'000)	2008	2007
22. RELATED PARTIES *continued*		
Compensation to key management personnel (including directors)		
Share-based equity transactions	3 604	2 609
Short-term employee benefits	6 779	6 553
	10 383	9 162
Related party transactions		
Royalties paid to related parties		
Government of Lesotho	(14 254)	(12 123)
Government of Indonesia	(367)	–
Lease and license payments to related parties		
Government Lesotho	(90)	(92)
Government of CAR	(454)	(36)
Interest received from related parties		
Previous associate	–	1 678
Management fees received from related parties		
Previous associate	–	244
Sales to/(Purchases) from related parties		
Jemax Aviation (Proprietary) Limited	–	(336)
Jemax Aviation (Proprietary) Limited	266	183
Jemax Management (Proprietary) Limited	(77)	–
Geneva Management Group (UK) Limited	(14)	(864)
Amount included in trade receivables/payables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	80	(182)
Jemax Management (Proprietary) Limited	(8)	(1)
Amounts owing to related party		
Government of Lesotho	(1 448)	(1 385)

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regards to the mining and evaluation activities undertaken by the Group. The above transactions were made on terms agreed between the parties.

Geneva Management Group (UK) Limited provided administration, secretarial and accounting services to the Company. The above transactions were made on terms that prevail in arm's length transactions.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

23. POST BALANCE SHEET EVENTS

The following have taken place since the balance sheet date:

- The Company has issued a guarantee to Barclays Bank PLC for US$20.0 million to secure foreign exchange contracts entered into by its subsidiary, Kimberley Diamonds. The guarantee reduces on a monthly basis by US$2.5 million commencing March 2009 and it lapses on 1 November 2009.
- On 19 February 2009, the Share Scheme Committee of the Board of Directors of Gem Diamonds met and formally approved the allotment and issue of a second and final tranche of 72 333 Ordinary Shares in the capital of the Company to Mike Salamon, a Non-Executive Director, in accordance with the terms of the Share Scheme's rules. The Ordinary Shares will be subscribed for at a nominal value of US$0.01 each.
- On 26 February 2009, as part of ongoing review of operations, and in light of recent market conditions, the lower value E4 pipe at Kimberley Diamonds' Ellendale mine in Australia was put on care and maintenance.
- In the light of the current circumstances and the Group's obligations to settle its short term debt, the Directors believe that the Group will require additional capital funding. The directors have proposed to raise capital by way of a Placing. The Company intends to place up to 75 million new shares at 100 pence per share, a discount of 33% to the closing price of the Company's shares on 31 March 2009.
- Subsequent to year end, the Group failed to comply with certain terms of the facility agreement with Société Générale relating to the working capital loan. The Group has obtained waivers for the relevant non compliance and has renegotiated the terms of the loan which now falls due on 1 May 2009.

Other then those events mentioned above, 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.

24. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
(US$'000)	**2008**	2007	**2008**	2007
Financial assets				
Cash	**61 436**	183 536	**61 436**	183 536
Loan notes	**4 669**	1 663	**4 669**	1 663
Receivables	**14 218**	12 505	**14 218**	12 505
Environmental bond facilities and bank guarantees	**343**	2 112	**343**	2 112
Other loans	**655**	–	**655**	–
Other assets	**629**	254	**629**	254
Financial liabilities				
Bank overdraft	**–**	1 702	**–**	1 702
Interest-bearing loans and borrowings:				
– Obligation under finance lease	**854**	1 987	**854**	1 987
– Floating rate borrowings	**20 916**	11 673	**20 916**	11 673
– Convertible bonds[1]	**16 065**	16 794	**16 065**	16 794
Trade and other payables	**55 855**	77 801	**55 855**	77 801
Other financial liabilities	**3 853**	1 563	**3 853**	1 563

1. The fair value approximates carrying value.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets have been calculated using market interest rates where applicable.

25. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks:

a) Market risk (including commodity price risk and foreign exchange risk);
b) Cash flow interest rate risk;
c) Credit risk; and
d) Liquidity risk

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes in the financial risk management policy since the prior year.

Capital management

The capital of the Company is the issued share capital, share premium and treaury shares on the Group's balance sheet. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. The management of the Group's capital is performed by the Board.

a) Market risk

(i) Commodity price risk

The Group is subject to commodity price risk. Diamonds are not a homogenous product and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US$ and long term US$/carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations.

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho Loti, South African Rand and Australian Dollar. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's sales are denominated in US$ which is the functional currency of the Group.

The currency sensitivity analysis below is based on the following assumptions:

- Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US$, are not taken into consideration.
- The major currency exposures for the Group relate to the US$ and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US$ are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2008. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

If the US$ had appreciated (depreciated) 10% against currencies significant to the Group at 31 December 2008, income before taxation would have been US$2.8 million higher (lower) (31 December 2007: US$4.0 million). There would be no effect on equity reserves other than those directly related to income statement movements.

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

25. FINANCIAL RISK MANAGEMENT *continued*

b) Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

An analysis has been prepared which demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through impact on floating rate borrowings).

The interest rate sensitivity analysis are based on the following assumptions:

- All non-derivative financial instruments with fixed interest rate terms that are carried at amortised cost are excluded from this analysis. This is because a change in market interest rates for such non-derivative financial instruments would only affect income if these are measured at their fair value; and
- The Group does not have significant cash flow hedges related to interest rate risk. As such, movements that would occur in equity as a result of a hypothetical change in interest rates at reporting date has been excluded from this analysis.

Sensitivity analysis

If interest rates had increased or decreased by 100 basis points at 31 December 2008, there would have been no material impact on profit. There would be no effect on equity reserves other than those directly related to income statement movements.

c) Credit risk

The Group's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Group's short-term cash surpluses are placed with the banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods. No other financial assets are impaired or past due and accordingly, no additional analysis has been provided. No collateral is held in respect of the impaired receivables or receivables that are past due but not impaired.

The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet dates.

25. FINANCIAL RISK MANAGEMENT *continued*

d) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities.

The Group has borrowing facilities in certain entities. There is limited undrawn facilities at year end.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted payments.

(US$'000)	**2008**	2007
Fixed interest rates		
Interest bearing loans and borrowings		
– Within 1 year	**549**	1 281
– 1 to 5 years	**385**	854
– Greater than 5 years	**–**	80
Total	**934**	2 215
Convertible instruments		
– Within 1 year	**16 137**	959
– 1 to 5 years	**–**	16 185
– Greater than 5 years	**–**	–
Total	**16 137**	17 144
Other liabilities		
– Within 1 year	**3 853**	1 563
– 1 to 5 years	**–**	–
– Greater than 5 years	**–**	–
Total	**3 853**	1 563
Trade and other payables		
– Within 1 year	**–**	–
– 1 to 5 years	**–**	–
– Greater than 5 years	**–**	–
Total	**–**	–

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

(US$'000)	2008	2007
25. FINANCIAL RISK MANAGEMENT *continued*		
Floating interest rates		
Interest bearing loans and borrowings		
– Within 1 year	21 692	12 757
– 1 to 5 years	–	–
– Greater than 5 years	–	–
Total	21 692	12 757
Trade and other payables		
– Within 1 year	55 404	77 380
– 1 to 5 years	451	421
– Greater than 5 years	–	–
Total	55 855	77 801
Bank overdraft		
– Within 1 year	–	1 702
– 1 to 5 years	–	–
– Greater than 5 years	–	–
Total	–	1 702

(US$'000)	2008	2007

26. SHARE-BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table (US$'000):

	2008	2007
Equity-settled share-based payment transactions charged to the income statement	**10 410**	19 531
Equity-settled share-based payment transactions capitalised	**424**	736
	10 834	20 267

The long-term incentive plans are described below:

Employee Share-Option Plan
Certain key employees are entitled to a grant of options, under the Employee Share-Option Plan ("ESOP") of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation covariances of the Company.

There is a nil or nominal exercise price for the options granted at Admission of Gem Diamonds Limited. The contractual life of the options is ten years and there are no cash settlement alternatives. The Group has no past practice of cash settlement.

Performance Shares
During the year, 437 769 performance shares were granted to certain key employees under the Employee Share-Option Plan ("ESOP") of the Company in four tranches. The vesting of awards will be subject to the satisfaction of performance conditions over a three year period that are considered appropriately stretching. If the performance conditions are not met the options lapse. The fair value of share 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 option in years and the weighted average share price of the Company. The contractual life of each option granted is three years.

The exercise price of the performance shares is US$0.01, which was equal to the nominal value of the shares. There are no cash settlement options.

Executive Share Growth Programme
The ESGP is a separate, and once-off, remuneration arrangement. Its purpose is to reward very superior performance in the event that it was achieved by the Company in the three year period following Admission. As such, the vesting of awards under the ESGP are subject to very demanding targets for share price growth, which was chosen as the performance measure on the basis that participants will only be rewarded if significant value has been created for the shareholders.

For the purposes of the performance criterion, the final share price will be the volume weighted average price of shares calculated over a 30 day period beginning 15 days prior to the third anniversary of Admission (i.e. beginning 4 February 2010). No retesting of performance will be allowed.

Non-Executive Share Awards
In order to align the interests of the Chairman and independent Directors with those of the shareholders, the non-Executive Directors were invited to subscribe for shares at nominal value on terms set out in the prospectus. The non-Executive Directors shall not be eligible to participate in the STIBS, ESOP or ESGP or any other performance-related incentive arrangements which may be introduced by the Company from time to time.

Notes to the Annual Financial Statements
for the year ended 31 December 2008 continued

(US$'000)	2008	2007
26. SHARE-BASED PAYMENTS *continued*		
Movements in the year		
Employee Share-Option Plan The following table illustrates the number ('000) and movement in, share options during the year:		
Outstanding at beginning of year	264	–
Granted during the year	10	343
Forfeited during the year	(6)	(8)
Exercised during the year	(71)	(71)
Balance at end of year	197	264
Exercisable at end of year	99	42
The following table lists the inputs to the model used for the plan for the year ended 31 December 2008:		
Employee Share-Option Plan		
Dividend yield (%)	–	–
Expected volatility (%)	22	22
Risk –free interest rate (%)	5	5
Expected life of option (years)	10	10
Weighted average share price	18.28	18.51
Model used	Black Scholes	Black Scholes

The fair value of share options granted is estimated at the date of the grant using a Black Scholes 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 option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plans and the fair value is measured at the grant date.

Performance Shares
The following table illustrates the number ('000) and movement in, share options during the year:

	2008	2007
Outstanding at beginning of year	–	–
Granted during the year	438	–
Forfeited during the year	(21)	–
Exercised during the year	–	–
Transferred during the year	–	–
Balance at end of year	417	–
Exercisable at end of year	–	–

(US$'000)	2008	2007
26. SHARE-BASED PAYMENTS *continued*		
The following tables list the inputs to the model used for the four tranches of the performance share awards for the year ended 31 December 2008:		
Performance Share Awards – Tranche 1		
Dividend yield (%)	–	–
Expected volatility (%)	30.58	–
Risk –free interest rate (%)	2.49	–
Expected life of option (years)	3	–
Weighted average share price	13.60	–
Model used	Monte Carlo	–
Performance Share Awards – Tranche 2		
Dividend yield (%)	–	–
Expected volatility (%)	31.32	–
Risk –free interest rate (%)	2.98	–
Expected life of option (years)	3	–
Weighted average share price	20.34	–
Model used	Monte Carlo	–
Performance Share Awards – Tranche 3		
Dividend yield (%)	–	–
Expected volatility (%)	31.23	–
Risk –free interest rate (%)	2.92	–
Expected life of option (years)	3	–
Weighted average share price	20.51	–
Model used	Monte Carlo	–
Performance Share Awards – Tranche 4		
Dividend yield (%)	–	–
Expected volatility (%)	74.18	–
Risk –free interest rate (%)	1.13	–
Expected life of option (years)	3	–
Weighted average share price	3.96	–
Model used	Monte Carlo	–

The fair value of share 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 option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

Notes to the Annual Financial Statements

for the year ended 31 December 2008 continued

(US$'000)	2008	2007
26. SHARE-BASED PAYMENTS *continued*		
Non-Executive Share Awards		
Share Awards issued ('000)		
Contracted for at beginning of year	579	–
Contracted for during the year	289	1 013
Shares issued during the year	(506)	(434)
Balance unissued at end of the year	362	579
Contracted for after year end	–	289
Weighted average share price	16.53	19.02

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements, other than those reflected in Note 23, Post balance sheet events.

Advisors

Financial Advisor and Sponsor
JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

T: +44 20 7588 2828
F: +44 20 7155 9000

Legal Advisor
Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

T: +44 20 7456 2000
F: +44 20 7456 2222

Auditors and Reporting Accountants
Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

T: +44 20 7951 2000
F: +44 20 7951 1345

Financial PR Advisor
Pelham Public Relations
12 Arthur Street
London, EC4R 9AB

T: +44 0 20 7337 1533
F: +44 0 20 7337 1550
Mobile +44 (0)78 9446 2114
Switchboard +44 0 20 7337 1500

Contact details

Gem Diamonds Limited

Registered Office
Harbour House
Waterfront Drive
Road Town
Tortola
British Virgin Islands

Head Office
2 Eaton Gate
London SW1 W9BJ
United Kingdom
T: +44 203 043 0280
F: +44 203 043 0281

www.gemdiamonds.com