GEM DIAMONDS ANNUAL REPORT 2009

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Front cover image: +10ct emerald cut D IF diamond, cut from Letšeng rough.

Inside front cover image: Ellendale fancy yellow diamonds.

Gem Diamonds is a global diamond mining company that has pursued a long term growth strategy through targeted acquisitions and the development of its existing assets. Under the depressed market conditions of late 2008 and early 2009, the Company focused its strategy on developing its cash generating assets and curtailing all non-essential capital and development expenditure.

The Company's portfolio comprises producing kimberlite and lamproite mines in Lesotho and Australia, as well as operations, development projects and exploration assets in Angola, Botswana, the Central African Republic 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 remains focused on higher value diamonds. This segment of the market is expected to deliver attractive long term returns.

HIGHLIGHTS

- Revenue of US$244.4 million
- EBITDA of US$53.4 million
- Capital raising via a Placing of 75 million shares raised a net US$98.8 million
- Year end cash on hand of US$113.8 million and no debt outstanding
- Strong recovery in prices for rough diamonds in second quarter and second half of 2009
- Total in situ resource carats maintained at circa 30 million carats
- Letšeng and Ellendale remained profitable for the year
- Ellendale E9 operation set new production records and generated a profit for the year
- Tiffany & Co. life of mine off-take agreement in place for Ellendale's production of fancy yellow diamonds
- Lowest LTIFR since listing
- Fatality free year over 4.4 million man-hours

Board of Directors

Non-Executive

Chairman – Roger Davis
Mike Salamon
Gavin Beevers
Dave Elzas
Richard Williams

Roger Davis (53)
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 held 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 (55)
Senior Independent Director
Mike is a mining engineer with an MBA and has 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 the 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.

Executive

CEO – Clifford Elphick
Alan Ashworth
Kevin Burford
Glenn Turner

Clifford Elphick (49)
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 privatisation of De Beers in 2000, Clifford served on the De Beers Executive Committee. Clifford formed Gem Diamonds in July 2005. He was appointed Chairman of Jumelles Holdings Ltd on 26 November 2009.

Alan Ashworth (55)
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 as 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.

Gavin Beevers (60)
non-Executive Director
Gavin was the Director of Operations at De Beers from April 2000 until his retirement in 2004. He had joined De Beers in 1979 and was based 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 the Orapa and Lethlakane 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 (43)
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.

Richard Williams MBE MC (43)
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.

Kevin Burford (51)
Chief Financial Officer
Kevin has 25 years experience in the mining industry having worked for De Beers and Anglo American between 1985 and 2005, and Xstrata in 2005. Previously he was the Group Manager – Finance in De Beers where he had responsibility for the financial aspects of all De Beers' operations and exploration activities across the globe. In addition he has held strategic leadership positions covering 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 the Executive Committee. Glenn was responsible for a number of key initiatives during his tenure, including overseeing De Beers' re-entry into the USA. Glenn joined Gem Diamonds in May 2006 and was appointed to the Board in April 2008.

Chairman's Review

2009 was an extremely challenging year for the global diamond industry, Gem Diamonds, its management and its shareholders. The negative impact of the global financial crisis on rough prices at the end of 2008 continued into early 2009 and by the end of the first quarter of 2009, rough diamond prices had fallen by more than 60% in certain categories from their 2008 highs. Whilst the "global consumer" continued to purchase diamond jewellery at the retail level, especially in the core diamond wedding market, the total level of sales in the major US and Japanese markets fell from the equivalent periods in the previous year. The combination of these lower diamond jewellery retail sales, a lack of bank credit available to diamantaires in the cutting centres and the selling down of diamond jewellery inventories at the retail level in the US, put additional pressure on rough diamond prices in early 2009.

In response to this economic challenge, Gem Diamonds continued in 2009 to implement the strategy which it had adopted almost immediately after the start of the crisis in late 2008. Gem Diamonds continued to reposition the overall business with an emphasis on reducing costs and cash preservation. The operational focus was on producing cash flow from its higher values assets, the Letšeng mine in Lesotho and the E9 pipe at Kimberley Diamonds' Ellendale mine in Australia, whilst the lower value E4 pipe was placed on care and maintenance in February 2009. In line with this strategy, most non-cash generating projects were placed on, or remained on care and maintenance. There also followed a substantial reduction in capital expenditure at the producing mines and a programme of cost cutting and retrenchments across all non-cash generating projects and offices.

The Board of Gem Diamonds took the decision to raise equity capital in order to strengthen the balance sheet and pay down existing debt. With the support of our shareholders, Gem Diamonds raised a net US$98.8 million via a firm Placing of 75 million new shares which were listed in April 2009 on the London Stock Exchange. Gem Diamonds took steps to pay down its then existing debt obligations and as at 31 December 2009 has gross cash of US$113.8 million and no outstanding debt obligations.

However, whilst the weakness in rough diamond prices in early 2009 was partly a reflection of lower diamond jewellery sales in the main traditional consuming markets, diamond jewellery consumption in the markets of China and India grew strongly in 2009. This rising consumption in the East, together with the curtailing of substantial supplies of rough diamonds by the two major producers in the first half of the year and better than expected US Christmas sales at the end of 2009, has resulted in firmer rough and polished diamond markets, albeit at levels still below the 2008 highs. From April 2009 onwards, rough diamond prices have improved substantially, especially for the better qualities and larger sizes.

Gem Diamonds' flagship mine, the Letšeng mine in Lesotho, continues to produce large diamonds of the very highest quality. Independent research commissioned has demonstrated that the Letšeng mine produces approximately 30% of all rough gem quality diamonds over 25 carats in size. At the mine itself, a number of work streams were started in 2009 and are currently being pursued in order to deliver optimal value to all stakeholders.

The operational improvements and efficiencies at Kimberley Diamonds in Australia have been very pleasing and Ellendale is now generating positive operating cash flows. Kimberley Diamonds continues to be a major producer of rare fancy yellow diamonds and in December 2009 signed a long-term supply agreement to sell its fancy yellow diamonds exclusively to a subsidiary of Tiffany & Co. This agreement assures Kimberley Diamonds of a long-term market price and revenue stream and allows its fancy yellow diamonds to benefit from Tiffany's substantial global marketing reach. There will be regular price reviews commencing in September 2010.

At the Gope project in Botswana, Gem Diamonds' management continues to carefully assess both the appropriate strategy to be adopted and the appropriate mining methodology, particularly in light of the improvement in diamond prices over the last nine months. Negotiations for a mining license for Gope are continuing.

In line with Gem Diamonds' strategy of focusing on core assets and kimberlite opportunities, the alluvial assets in the Democratic Republic of Congo ('DRC') were sold. However, importantly, the Company retains a 65% interest in any kimberlites that may yet be discovered and developed on these concessions. It also retains a 3% royalty in any diamonds produced from these kimberlites.

Gem Diamonds purchased two rough Letšeng diamonds in 2009 and beneficiated them successfully. This has established a better understanding of the true marketing potential of the high value Letšeng goods. It has also provided a significant uplift in the value of the Letšeng stones beneficiated, paving the way for adding greater value to Letšeng's unique production.

Responsible care in the fields of occupational health, safety, environmental management and community matters, remains an imperative for the Group at all levels of operation. A determined resolve to ensure continuous improvement of health and safety performance, resulted in zero fatalities and the achievement of a LTIFR of 0.45 (ceiling 0.5) as a Group. This marks the third year in a row that the Group performed better than its LTIFR ceiling. No occupational disease incidents were recorded at any of the operations. Development and implementation of the Group's Triple Bottom Line focused Corporate Social Responsibility strategy continues to evolve and to be embedded in the organisational system and culture of the Group. The Sustainable Development Report, based on the Global Reporting Initiative (G3) guideline is presented on pages 19 to 37. I am proud to report that both the Letšeng and Ellendale mines received international recognition for their HSSE management systems as detailed in the Sustainable Development Report.

Gem Diamonds remains committed to operate to the highest environmental and ethical standards. In compliance with the Group's HSSE policy, every operation is required to maintain a sustainable environmental management system. More information on this can be found in the Group's Sustainability Report.

It is almost 10 years since the Kimberley Process was introduced to the diamond industry. The process has grown in reputation and has contributed to the virtual eradication of the trade in conflict diamonds. Gem Diamonds is firmly committed to the principles of the Kimberley Process and all diamonds sold by the Group are Kimberley Process certified.

On 30 June 2009, Lord Robin Renwick of Clifton retired as a non-Executive Director from the Board of Gem Diamonds. I would like to thank Robin for his substantial contribution during his tenure. With his retirement, non-Executive Director Richard Williams MBE MC has taken over as Chairman of the Remuneration Committee.

I would like to take this opportunity to thank Gem Diamonds' Shareholders, Board and employees for their commitment in ensuring the sustainability of the Company in the wake of the global financial crisis. Gem Diamonds was created in order to provide a growth platform for investors in the diamond sector and as we enter 2010 and beyond, the Board is fully committed to turning that vision into reality.

Roger Davis
non-Executive Chairman
15 March 2010

Chief Executive Officer's Review

From its listing in 2007 until late 2008, Gem Diamonds pursued a strategy of asset and production growth. However, this strategy underwent a radical change with the onset of the global financial crisis and its immediate and severe impact on prices of all rough diamonds. Prices continued to fall through the first quarter of 2009, but as confidence and the availability of credit returned to the diamond market, prices strengthened substantially throughout the remainder of 2009, though they remained below the highs of 2008.

From late 2008 and throughout 2009, Gem Diamonds' management implemented a strategy to ensure sustainability of the business and to best protect the Group's operating and financial position. The Group pursued measures focused on generating maximum cash flow from its producing mines, Letšeng in Lesotho and Ellendale in Australia. With a group-wide emphasis on cost cutting and cash preservation, the majority of the Group's other assets were placed on care and maintenance and its assets in the DRC subsequently sold. Corporate costs were reduced and there has also been a substantial reduction in discretionary, sustaining and expansion capital expenditure. Corporate costs, excluding depreciation, are down from US$20.9 million in 2008 to US$13.2 million in 2009.

In order to strengthen the balance sheet and pay down existing debt, the Company raised new capital from its shareholders via a Placing on the London Stock Exchange. On 22 April 2009, 75 million new shares were admitted to the Official List and to trading, raising a net US$98.8 million. Gem Diamonds now has no debt obligations and had gross cash of US$113.8 million as at 31 December 2009. The Group reports no impairments for 2009.

During the year, substantial progress was made in gaining an improved understanding of the mineral resources at both the Ellendale and Letšeng mines. This has enabled management to better optimise and reconcile the mining plan against the actual mining operations, as well as providing a more accurate means of forecasting expected production ahead of the actual mining. Letšeng and Ellendale continue to produce amongst the world's finest white and fancy yellow diamonds respectively.

LESOTHO

Gem Diamonds owns 70% of Letšeng Diamonds in partnership with the Government of the Kingdom of Lesotho which owns the remaining 30%. Letšeng Diamonds was acquired in mid 2006 and has continued to deliver exceptional returns for its shareholders. Since Gem Diamonds took control, Letšeng's annual production has risen from 55 000 carats in 2006 to 90 878 carats in 2009.

The Letšeng mine continues to produce the world's most remarkable diamonds. During 2009, Letšeng produced over 700 rough diamonds, each in excess of 10.8 carats in size ('special stones') which represented 78% of Letšeng's total annual mine revenue. Of these, a total of 68 rough diamonds sold for more than US$20 000 per carat each. In the final quarter of the year Letšeng sold a 35.51 carat D colour, type IIa rough diamond for US$51 253 per carat. The fact that 33 of these 68 diamonds were sold in the fourth quarter of 2009 alone, is testimony to the remarkable increase in the prices of large diamonds towards the end of 2009.

From an average of US$2 687 per carat in the second quarter of 2008, Letšeng achieved an average of only US$1 017 per carat in the first quarter of 2009, a fall of 62% on average, reflecting the severe impact of the global financial crisis on diamond prices. However from April 2009 onwards, prices for rough diamonds improved swiftly. In the last quarter of 2009, Letšeng's diamonds achieved an average price of US$1 894 per carat, with the December 2009 tender achieving US$2 070 per carat resulting in an average of US$1 534 per carat for the full year.

In line with the group-wide strategy, Letšeng's management adjusted their 2009 mining plan to optimise the balance between revenue generation and cash preservation. The key areas of the adjusted mining plan were:

- the commencement in the ramp-up of waste stripping which had been previously planned to begin in early 2009 was delayed until the end of 2009 and continues into early 2010;
- a shift in production towards the lower cost, lower value Main pipe whilst diamond prices were at their lowest levels; and
- a balancing of mineral resource risk (higher cost, higher confidence ore versus lower cost, lower confidence ore) whilst achieving the targets.

This plan was successfully implemented although it led to lower planned grades being recovered for the full year (compared to 2008) due to the change in mining mix. The impact of the lower grade was partly offset by the increased tonnage treated and the mine remained profitable throughout the whole of 2009.

As prices continued to improve in the second half of 2009, the strategy changed and reverted to a new balance between Satellite and Main pipes. The ramp-up of waste stripping commenced with the introduction of larger, more cost effective, rigid frame dump trucks.

It is anticipated that there will be a brief strategy transition period in early 2010, during which time production will only be from the Main pipe and not from the Satellite pipe. This presents the mine with an opportunity to carry out production bulk sampling of the Main pipe to improve resource knowledge.

The majority of Letšeng's electricity is supplied by South African electricity parastatal, ESKOM. As a result of load shedding by ESKOM in previous years, Letšeng had experienced scheduled power outages. Standby electricity generating capacity was installed on site. This capacity is sufficient to operate one of the two processing plants and the mining contractor's plant, and was effectively used in the few instances of power outages experienced during 2009.

At the end of 2009, indicated and inferred resources at Letšeng amounted to 222.6 million tonnes containing an estimated 3.7 million carats with an assumed in situ value of US$6.5 billion. Based on 2009 prices and exchange rates, the economic life of mine remains in excess of 25 years.

In October 2009, Keith Whitelock resigned from his position of Chief Executive Officer of Letšeng Diamonds. He also stood down from the Board of Letšeng Diamonds and was succeeded as CEO by Ms. Manthethe (Mazvi) Maharasoa, who remains a Director of the Board of Letšeng Diamonds.

AUSTRALIA

In December 2007, Gem Diamonds acquired Kimberley Diamond Company NL. Kimberley Diamonds owns 100% of the Ellendale mine in the North of Western Australia. The Ellendale mine is a major producer of fancy and vivid yellow diamonds. Kimberley Diamonds also held a 39% interest (which reduced to 34% during the year) in Blina Diamonds, a listed alluvial diamond mining and diamond exploration company adjacent to the Ellendale mine.

In February 2009, the lower value E4 operation at Ellendale was placed on care and maintenance in line with management's policy to focus exclusively on generating positive cash flow from the higher value E9 operation. This resulted in a significant reduction in the scale of operations at Ellendale as a whole. However, the ongoing operation at E9 continued to report improvements throughout the year and all aspects of the E9 operation achieved its 2009 targets.

During 2009, the Ellendale mine treated 4 159 482 tonnes of ore and 198 825 carats of rough diamonds were recovered. Sales of rough diamonds in 2009 (312 450 carats) were substantially higher than the number of carats mined because it included a significant volume of commercial diamond inventories mined in the previous year and which were sold in the first half of 2009.

In July 2008, Kimberley Diamonds entered into a formal six month supply arrangement for Kimberley's fancy yellow production with Laurelton Diamonds Inc., the diamond sourcing and polishing subsidiary of global high end jeweller, Tiffany & Co. Even though this agreement expired in early January 2009, sales to Laurelton continued through 2009 on a non-contractual basis. In December 2009, Kimberley Diamonds entered into a formal life of mine agreement with Laurelton Diamonds for the supply of its fancy yellow diamond production at a new price of less than 10% below the 2008 peak prices, which includes a regular price review mechanism. In 2009, fancy yellow diamonds accounted for 20 711 carats (7%) of Ellendale's diamonds sold and achieved an average price US$2 480 per carat.

The remaining commercial production from the Ellendale mine, which includes diamonds not covered in this agreement, will continue to be marketed through existing channels, including tender, auction and select direct sales. Prices for these commercial goods fell from a high of US$86 per carat in the third quarter of 2008 to just below US$40 per carat in the last quarter of 2008 and the first quarter of 2009. As confidence has returned to the diamond market, the prices for these commercial goods have encouragingly increased by circa 200% on average. In the most recent sale in March 2010, the Kimberley commercial goods achieved an increase of 20% on average over the December 2009 average tender price.

The sale of fancy yellow diamonds to Tiffany & Co. and the focus on the higher value E9 pipe for the majority of the year meant that despite the global financial crisis, the Ellendale operations achieved an average price of US$232 per carat for 2009 as opposed to US$185 per carat for 2008.

In a similar manner to Letšeng, Kimberley was quick to respond to the impact of the global economic crisis and took the following steps to ensure the profitability of the Ellendale mine:

- the suspension of operations at the lower value E4 pipe with the associated reduction in staff and overheads;
- the relocation of a DMS module from the E4 plant to the E9 plant to increase treatment capacity for the higher value E9 pipe ore;
- a focus during the first half of 2009, on the east side of the E9 pipe to maximise revenues from the fancy yellow diamonds;
- optimisation of the mining fleet to reduce overall mining costs;
- ongoing negotiation and finalisation of the off-take agreement with Tiffany & Co. for the fancy yellow component of production;
- a full review of the mineral resource and the associated mine planning together with the development of a resource extension strategy;
- a renewed focus on cost and financial management; and
- changes to senior on-site management to ensure the embedding of the necessary organisation culture to effect the changed strategy.

Again, it is pleasing to report that the new strategy was successful and Ellendale, together with setting several new production records throughout the year, generated a profit in 2009.

At the end of 2009, indicated and inferred resources amounted to 90.1 million tonnes containing an estimated 4.9 million carats with an assumed in-situ value of US$85.8 million. This resource is sufficient to sustain a life of mine of 3.5 years at current production rates at E9 (the lower grade E4 pipe is on care and maintenance and the E4 Satellite pipe has not been developed at this stage).

INDONESIA

BDI Mining was acquired by Gem Diamonds in May 2007. It owns 80% of the Cempaka, the alluvial diamond mine in South Kalimantan, Indonesia in partnership with the Government of Indonesia which owns the remaining 20%.

Chief Executive Officer's Review continued

The mine was placed on care and maintenance at the beginning of 2009 and has remained as such throughout 2009. During that period, environmental rehabilitation was undertaken and all other legal obligations were met.

BOTSWANA

Gem Diamonds acquired Gope Exploration Company from De Beers and Xstrata in May 2007. Gope Exploration is the holder of a retention licence covering the Gope 25 kimberlite deposit in the Central Kalahari Game Reserve. During 2009 all efforts were focused on minimising ongoing expenditure on the project whilst continuing to meet all legal obligations associated with tenure until the market recovers sufficiently to recommence the project.

Work in terms of refining the geological model on the Gope project has continued. Revenue estimates and size frequency distributions have been reassessed and remodelled. The feasibility study and capital estimate is currently under review.

DRC

Gem Diamonds' operations in the DRC comprised a number of alluvial diamond projects and a kimberlite exploration programme across three broad areas. These interests were held via a number of companies in which Gem Diamonds held between an 80% and 100% shareholding.

Contracts for the sale of Gem Diamonds' three DRC companies were concluded with Kasai Resource Mining Limited ('KRM') at the end of 2009, for a consideration of US$5.0 million. Under the terms and conditions of the sale agreements entered into with KRM, Gem Diamonds retains the right, at no further cost, to an additional 65% interest in any economic kimberlite that may be discovered on the concessions currently owned by these DRC companies. In addition, Gem Diamonds will be entitled to a 3% royalty on the revenue from any diamonds extracted from any kimberlite discovery on these concessions.

CAR

Gem Diamonds holds a 75% interest in Gem Diamonds Centrafrique SA, in partnership with the Government of the Central African Republic (CAR), which holds the remaining 25%. Gem Diamonds Centrafrique holds exclusive exploration and mining rights to the Mambéré Concession.

All exploration and sampling activities were suspended in November 2008. Throughout 2009, the mining site has remained on care and maintenance whilst opportunities for disposal have been pursued.

ANGOLA

In January 2007, Gem Diamonds and Avantis Angola signed a Co-operation Agreement with respect to a preliminary feasibility report to be produced on the Chiri kimberlite deposit in the Lunda Sul Province of Angola. The preliminary exercise was completed in March 2009. From the date of completion of this report, the project has remained on care and maintenance.

An Option Agreement whereby Gem Diamonds can acquire an effective 11.25% interest in Chiri from Avantis Angola was also signed at the same time and remains in place.

BENEFICIATION

In January 2009, diamonds totalling 180.9 carats, polished in the second half of 2008, were sold at an average price of US$55 348 per carat. However, because of adverse market conditions, the beneficiation strategy was suspended during the first half of 2009.

In the third quarter of 2009, Gem Diamonds recommenced its beneficiation operation in order to take advantage of the value opportunity. Two rough diamonds were purchased by Gem Diamonds at Letšeng tenders for a total of US$1.8 million and were analysed, cut and polished by Matrix Diamond Technology in Antwerp. The resultant three exceptional D colour, internally flawless, polished diamonds, weighing a total of 25.7 carats, were sold for US$2.5 million, at an average price of US$97 234 per carat.

During 2009 as a whole, Gem Diamonds sold a total of 206.6 carats of polished diamonds, for a consideration of US$12.5 million at an average price of US$60 560 per carat.

OUTLOOK

Diamond prices have continued to improve in early 2010 following a better than expected 2009 Christmas season in the US, albeit relative to the post crisis fourth quarter sales in 2008. In addition evidence suggests that demand for diamond jewellery in India and China continues to grow strongly, although not making up for the slowdown in US consumption of diamond jewellery. Prices for rough diamonds in 2009 were driven by lower retail sales in some markets and by destocking in the major US market. In general retailers stock according to expectations and these expectations have improved. The production cutbacks by the major producers in 2009 allied to anecdotal evidence which suggests that capacity in India, the largest cutting centre, has not returned to pre crash levels, has meant that stocks of rough and polished have not grown substantially by the end of 2009. At the top end of the market, amongst larger, better quality goods, there appears to be a shortage of supply.

Whilst I would not want to predict where the major global economies will stand at the end of 2010, the medium and long-term shortage in diamond supply created by falling production from existing mines, a lack of new mines coming on stream and growth in the Indian and Chinese markets impacting on demand, is positively impacting the market.

KEY PERFORMANCE INDICATORS

The Board and Executive Committee of Gem Diamonds monitor the Group's performance over time using a range of key performance indicators ('KPIs'). These KPIs are reported on regularly by management and provide a useful measure of the Group's operational, financial and safety performance. They are reported in this Annual Report to enable all stakeholders to assess the Group's performance and results on a clear and consistent basis.

Safety:

- Fatalities – Work related fatal accidents (ceiling 0 fatalities, achieved)
- LTIFR – Lost time injury frequency rate (ceiling 0.50, achieved 0.45)

Operational Performance:

- Tonnes mined – (target 11.6 mt, achieved 11.5 mt)
- Ore treated – (target 11.7 mt, achieved 11.7mt)
- Carats produced – (target 275 265 cts, achieved 289 703 cts)
- Carats sold – (target 392 526 cts, achieved 414 049 cts)

Financial Performance:

- Earnings before interest, tax, depreciation and amortisation ('EBITDA') (budget US$37.3 million, achieved US$53.4 million)

I would like to thank the Board, management and staff of Gem Diamonds and its subsidiaries. Their combined efforts and commitment ensured that the Group's revised operational strategies in response to the market downturn were implemented timeously and efficiently across all aspects of the operations, whilst continuing to maintain imperatives such as occupational health, safety, environmental management and community matters during an extremely challenging year.

Clifford Elphick
Chief Executive Officer
15 March 2010

Key Strategic Objectives 2008 – 2010

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

		2009
1.	Maintain appropriate health and safety standards and manage environmental obligations	Achieved and ongoing
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	Ongoing
3.	Successfully implement the beneficiation process	Commenced and ongoing
4.	(i) Successfully conclude the pre-feasibility study on the Chiri deposit	Achieved
	(ii) Potential acquisition of an equity stake in the Chiri project	On care and maintenance
5.	Successfully conclude the mining licence application for Gope and secure funding and commence the project	Ongoing assessment
6.	Successfully integrate the Kimberley Diamond acquisition	Achieved in 2008
7.	Maximise mine-gate revenue through optimised sale process	Achieved and ongoing (Tiffany & Co. agreement)
8.	Increase the confidence in the diamond resource base	Partially achieved, work ongoing
9.	Commission the second plant at Letšeng within budget and achieve rapid production build-up	Achieved in 2008
10.	Achieve planned throughput tonnes treated at all mining operations	Achieved and ongoing
11.	Achieve budgeted recovery of carats at all mining operations	Achieved for 2009 and ongoing
12.	Achieve budgeted earnings before interest, tax, depreciation and amortisations ('EBITDA')	Exceeded in 2009

Chief Financial Officer's Review

FINANCIAL HIGHLIGHTS

- Revenue of US$244.4 million generated in challenging trading conditions
- EBITDA of US$53.4 million
- Profit before tax from continuing operations of US$37.1 million
- Attributable earnings of US$15.5 million (14 US cents per share)
- Gross cash generated from operating activities of US$47.5 million
- Cash on hand of US$113.8 million

(US$ millions)	**12 months ended 31 December 2009**	12 months ended 31 December 2008[1]
Revenue	244.4	296.9
Cost of sales	(155.3)	(187.4)
Royalty and selling costs	(22.5)	(27.1)
Corporate expenses	(13.2)	(20.9)
EBITDA	53.4	61.5
Depreciation and amortisation	(25.3)	(61.0)
Share based payments	(5.6)	(10.4)
Impairment	0.2	(338.2)
Other income	0.3	–
Foreign exchange gain/(loss)	14.4	(19.3)
Net finance costs	(0.3)	(0.1)
Profit before tax/(loss)	37.1	(367.4)
Attributable profit/(loss)	15.5	(552.8)
Earnings/(loss) per share (US cents)	14	(884)
Earnings/(loss) per share – continuing operations (US cents)	15	(597)

[1] The prior year's figures have been restated for the reclassification for the impact of accounting for discontinued operations.

FINANCIAL RESULTS

The Group has traded profitably for the current year in spite of the global financial crisis that has severely affected the diamond industry both at the rough trading and polished sales levels. The Board and management's response to the situation, commencing in late 2008, which included the implementation of its cash preservation and cost reduction strategies, as well as a capital raising, resulted in the Group generating positive earnings, eliminating all debt and ending the year with US$113.8 million cash on hand.

For the current year, the Group reports earnings before interest, tax, depreciation and amortisation ('EBITDA') of US$53.4 million, earnings from continuing operations of US$26.9 million and attributable profit of US$15.5 million.

CAPITAL RAISING

On the back of the global financial crisis and its adverse effect on the diamond market, the Company concluded a firm placement on 22 April 2009, raising US$98.8 million (net) to settle outstanding debt and maintain sufficient working capital. The Company issued 75 million new ordinary shares at 100 pence each, resulting in total shares in issue of 138.3 million and a weighted average number of shares in issue for the year of 114.9 million.

FINANCIAL PERFORMANCE

Revenue of US$244.4 million was generated during the year primarily from the sale of rough diamonds recovered at the Letšeng and Ellendale mines. Prices have increased steadily over the year after confidence in the rough diamond market improved. This has resulted in an 8% increase in revenue in the second half of the year over the first six months. Included in revenue for the first six months, is the sale of Letšeng and Ellendale rough diamonds held over from 2008, the sale of a small number of Cempaka diamonds, a once-off royalty payment received from an off-take agreement then in place and the sale of polished diamonds produced in beneficiation trials by Letšeng. Therefore, on a comparable basis, revenue has increased in the second half of the year by 52%. This is evidenced by the US$ per carat achieved by Letšeng and Ellendale in the second half of the year of US$1 818 and US$348 per carat respectively compared to US$1 308 and US$160 per carat in the first half.

Cost of sales for the year was US$155.3 million before non-cash costs of depreciation of US$16.8 million and amortisation on mining assets of US$6.8 million. The Lesotho loti (pegged to the South African rand) and the Australian dollar both strengthened significantly against the US dollar during 2009, effectively increasing dollar input costs over the year. The South African rand relative to the US dollar started the year at ZAR9.25, reached a high of ZAR10.70 in the first quarter of 2009, before strengthening and ending the year at ZAR7.36. The Australian dollar, similarly, commenced the year at AU$1.43, reached a high of AU$1.60 and strengthened to AU$1.11 by year end.

Royalties and selling costs of US$22.5 million comprise sales commissions and royalties paid to the Lesotho Revenue Authority of 8% and the Australian Government of 5% on the sale of diamonds in these respective territories.

Corporate expenses relate to central costs incurred by the Company and its services subsidiary, Gem Diamond Technical Services. Significant cost reduction initiatives were implemented during the year, which resulted in a 37% cost saving relative to 2008.

EBITDA for the year rose to US$53.4 million from US$25.1 million at June 2009, an increase of 13% in the last six months relative to the first half of the year. In difficult trading conditions and off the back of a decrease of 18% in Group revenue from 2008, Letšeng generated EBITDA of US$58.5 million, reaffirming the quality of the asset, and pleasingly, Kimberley Diamonds generated US$11.0 million highlighting the value of the Ellendale E9 operation.

Share-based payment costs of US$5.6 million comprise the allocation of the share awards to the non-Executive Directors as set out in the IPO Prospectus and share/option awards to staff. Of this cost, US$2.8 million relates to the share awards granted to the non-Executive Directors and US$1.5 million to the Executive Share Growth Plan which ended in February 2010. Based on the Company's share performance, no vesting and payment relating to the Executive Share Growth Plan will take place.

Foreign exchange gains relate to realised hedges entered into by Kimberley Diamonds in 2008 and gains on exchange rate fluctuations on Sterling denominated cash held by the Company and foreign currency denominated loan balances within its Australian operation. It is Group policy to not actively hedge.

Net finance costs comprise interest received of US$2.8 million. This was predominantly generated on surplus cash from the Letšeng operation against interest paid of US$3.1 million charged on the Société Générale debt in Kimberley and the convertible bonds in the Company, both of which were settled during the first half of the year.

The effective tax rate in the year for the Group is 27.5% from continuing operations, slightly

The following table details the relative exchange rates for 2008 and 2009:

	FY 2009	H2 2009	H1 2009	FY 2008
Lesotho loti per US$1.00				
Average exchange rate for the year/period	8.42	7.67	9.20	8.26
Year/period end exchange rate	7.36	7.36	7.72	9.25
Australian dollar per US$1.00				
Average exchange rate for the year/period	1.28	1.15	1.41	1.20
Year/period end exchange rate	1.11	1.11	1.24	1.43

Chief Financial Officer's Review continued

lower than the UK statutory tax rate of 28%. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds, withholding tax of 10% on dividends and deferred tax assets not recognised on losses incurred in non-trading operations. These were offset by the release of a current tax liability.

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

Profit attributable to shareholders increased significantly from US$3.3 million at June 2009 to US$15.5 million for the year equating to 14 US cents per share on a weighted average number of shares of 114.9 million. Earnings per share from continuing operations amounted to 15 US cents per share.

SEGMENTAL FINANCIAL PERFORMANCE

US$ (millions)	Letšeng Diamonds	Kimberley Diamonds
Sales	163.9	76.7
Cost of sales	(87.7)	(61.0)
Royalty and selling costs	(17.7)	(4.7)
EBITDA	58.5	11.0
Physicals		
Tonnes treated	7 549 386	4 159 482
Waste tonnes mined	8 072 032	3 956 957
Carats recovered	90 878	198 825
Carats sold[3]	101 599	312 450
US$ (per unit)		
Average price per carat (rough)	1 534	232
Cash cost per tonne[1]	10.80	13.82
Operating cost per tonne[2]	11.66	14.71

Local currency (per unit)	Lešotho loti	Australian dollar
Cash cost per tonne[1]	90.90	17.68
Operating cost per tonne[2]	98.14	18.82

[1] Cash costs represents all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.
[2] Operating costs excludes royalty and selling costs and includes inventory, waste and ore stockpile adjustments and excludes depreciation and mine amortisation.
[3] Excludes sale of polished diamonds

LETŠENG DIAMONDS

Letšeng Diamonds continues to deliver strong operational and financial results in spite of challenging economic circumstances, generating EBITDA of US$58.5 million. The average revenue per carat for the year was US$1 534, up 17% from the first half of the year of US$1 308.

The effect of the second plant operating for the full year during 2009 resulted in production throughput increasing to 7.5 million tonnes compared to 6.6 million tonnes in 2008. This increased throughput combined with various cash reduction initiatives, reduced the cash costs per tonne to Maloti 90.90 (US$10.80) from Maloti 96.53 (US$11.69), relative to the 2008 year. Total operating costs per tonne in 2009 increased to Maloti 98.14 (US$11.66) from Maloti 84.78 (US$10.27) in 2008, predominantly due to waste costs incurred in 2008 being amortised in the current year and the impact of reduced diamond inventory levels at the end of the year compared to the end of 2008. The maintaining of local currency unit costs at similar levels to 2008 is indicative of the results achieved from the Groups cash preservation and cost reduction strategy.

KIMBERLEY DIAMONDS

In February 2009, the Group announced that, as part of its ongoing review of the operation, and combined with poor market conditions, the lower value E4 mining operation would be placed on care and maintenance. In January and February, operations at E4 were limited to the treatment of ore from the stockpile. Since then, production has been focused solely on the E9 operation. As a result, total tonnes treated during the year reduced to 4.2 million tonnes from 8.3 million tonnes in 2008.

Despite current market conditions and having carried the costs of operations and the placement of E4 on care and maintenance in early 2009, Kimberley has generated EBITDA of US$11.0 million and an operating profit of US$6.8 million against an EBITDA of US$5.2 million and a loss of US$60.5 million (pre-impairments) in the prior year. Furthermore, the potential of the higher value E9 pipe is further demonstrated as the E9 operation, on a stand alone basis, generated an EBITDA of US$13.3 million.

The table below reflects a segmental performance analysis between the E4 operation (including the impact of the inventory carry-over from 2008) and the E9 operation. As noted previously, on a stand alone basis, E9 has generated a positive return, offset by the losses generated by E4 and the inventory carry over, which were not repeated in the second half of the year.

Sales during the year of US$76.7 million include the sale of inventory carried over from 2008 of 131 950 carats, comprising diamonds from the lower value E4 pipe and carats recovered from mining the E4 stockpile. The value of the E9 pipe is demonstrated by the average price achieved of US$382 per carat. The average price achieved in the fourth quarter was positively impacted by the formalising of an existing supply arrangement with Laurelton Diamonds Inc., the diamond sourcing and polishing subsidiary of Tiffany & Co. for the supply and sale of Kimberley Diamond's fancy yellow diamond production. This contract, for which the pricing is subject to regular pricing reviews, is for the life of the mine and provides certainty to the revenue streams to the operation as well as a regular cash inflow.

Cash costs per tonne have increased slightly over the corresponding 2008 year from AU$16.96 to AU$17.68. This increase in cash costs is due to the operational fixed costs, being absorbed by a lower tonnage in this year. US dollar unit cash costs reduced to US$13.82 in the current year from US$14.16.

Local currency operating costs per tonne treated have remained relatively flat in the year, AU$18.82 (US$14.71) compared to AU$18.52 (US$15.46) in 2008. However, the two years are not directly comparable, as in 2008 there was an increase in waste mining and ore treated associated with the E4 production build up, whilst in 2009 there were costs associated in winding down the E4 operation combined with lower overall tonne volumes from focusing on the E9 operation only.

(US$ millions)	Kimberley E4 and inventory carry-over	Kimberley E9	Total
Revenue	12.3	64.4	**76.7**
Operating costs	(13.7)	(47.3)	**(61.0)**
Royalty and selling costs	(0.9)	(3.8)	**(4.7)**
EBITDA	(2.3)	13.3	**11.0**
Tonnes treated	276 709	3 882 773	**4 159 482**
Waste tonnes mined	–	3 956 958	**3 956 958**
Carats recovered	23 063	162 762	**198 825**
Carats sold	155 012	157 438	**312 450**
Average price per carat (US$)	79	382	**232**

DISCONTINUED OPERATIONS

Due to the poor market conditions experienced in the second half of 2008, the Group took immediate action to place the operations in the DRC and CAR on care and maintenance. This resulted in all operating costs of the DRC and CAR operations no longer being capitalised to exploration and resource development assets but expensed in the Income Statement. In December 2009, the Group disposed of the three DRC companies for a consideration of US$5.0 million. Under the terms and conditions of the agreements entered into with Kasai Resource Management Limited ('KRM') in Q4 2009 in relation to the sale of each of Gem Diamonds' three DRC companies, Gem Diamonds retains the right, at no further cost, to a 65% interest in any economic kimberlite that may be discovered on the concessions owned by these DRC companies at the time of the sale to KRM. In addition, Gem Diamonds is entitled to a 3% royalty on the revenue from any diamonds extracted from any kimberlite discovery on these concessions. This resulted in a combined profit on sale of subsidiaries of US$4.4 million. The Group is actively seeking to dispose of the CAR operation and accordingly it has been classified as 'Assets Held for Sale' on the Group's Balance Sheet.

All care and maintenance costs incurred during the year at the operations in the DRC and CAR have been disclosed separately in the Income Statement under Discontinued Operations. The Group has expensed US$5.9 million on these operations prior to the recovery of the profit on the sale of the DRC operations. The total net impact resulted in a 1 US cent impact on the overall earnings per share.

IMPAIRMENTS

Following the substantial impairments incurred in December 2008 arising out of the economic downturn, the Group has assessed its current asset base for any additional impairment. No such impairments were identified in the current year. In the event of a significant downturn in current economic circumstances for the diamond market, further impairments may arise in the future.

CASH AND DEBT

The Group raised US$98.8 million (net) on conclusion of its placement on 22 April 2009. As set out in the Prospectus, the proceeds were utilised to settle the debt with Société Généralé (US$21.3 million) and redeem the convertible bonds (US$15.8 million). The Group is free from any debt at the end of the year. The Group ended the year with US$113.8 million cash on hand (of this U$97.7 million is attributable and US$5.1 million is restricted).

Chief Financial Officer's Review continued

Group cash was supplemented by a net cash inflow from operations for the year of US$47.5 million. Investments in property, plant and equipment of US$58.8 million were incurred. In Letšeng, this relates predominantly to the final costs associated with the life of mine extension programme. In Kimberley Diamonds, the increased treatment rate at the Ellendale E9 plant required additional slimes capacity. In addition, US$33.8 million was invested in waste stripping in both mining operations.

The disposal of the three DRC companies further contributed US$3.8 million in 2009, with the balance of US$1.2 million being received in early January 2010.

INVENTORY

Group diamond inventory from continuing operations at year end was US$14.1 million, down from US$22.0 million at the previous year end. Diamond inventories at both Letšeng and Ellendale were higher at the end of 2008 than at the end of the current year due to the difficult trading conditions at the end of that year.

ACQUISITIONS

During the year, the Company did not enter into any acquisition transactions. The purchase price allocation relating to the Calibrated Diamonds Group was finalised. This resulted in an increase in goodwill of US$0.1 million and had no impact on the Income Statement.

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.

RISKS TO OUR BUSINESS

The Group's operational and growth performance is influenced and impacted by a number of risks. Many of these risks are beyond the control of the Group but a formal risk management process exists to assist in identifying and reviewing potential risks. Mitigating plans are formulated and reviewed regularly to understand their effectiveness and progress. The Group is focused on continuously analysing and assessing the risks faced and improving the risk management process accordingly. The following key risks have been identified by the Group. The list is by no means exhaustive and may change over a period of time, as the impact and likelihood of the risks is assessed as part of the risk management process.

- MARKET RISKS PERTINENT TO THE GROUP

  The period and stability of the recovery of the financial markets and the impact on the consumer preferences post the global economic crisis impacts the Group and the industry as a whole. This potentially compounds the existing short term imbalance between demand and supply and the impact that this has on the diamond pipeline. Although the Group cannot materially influence the situation, the market conditions are continually monitored to identify current trends that will pose a threat or create an opportunity for the Group.

  A change in consumer preferences away from diamonds due to negative sentiment towards diamonds and/or diamond mining is a continuing risk.

- OPERATIONAL RISKS PERTINENT TO THE GROUP

  A major production interruption at either Kimberley Diamonds or Letšeng Diamonds.

  The Group may experience material mine and/or plant shutdowns or periods of decreased production due to a number of different events. Any such events could negatively affect the Group's operations and impact both profitability and cash flows. The continual review of the likelihood of possible different events and ensuring that the appropriate management controls, processes and business continuity plans are in place mitigate this risk.

Mineral resource risk

The Group's ability to operate profitability in the medium to long-term depends heavily on knowledge of the Group's mineral resource, which influences the operational mine plans and the generation of sufficient margins. Various bulk sampling programmes combined with geological mapping and modelling methods significantly improve the Group's understanding of the mineral resources and assist in mining the existing mineral resources profitably.

Life of mine at Kimberley

The Ellendale E9 pipe has a relatively short remaining life. As highlighted, the E9 operation makes an important contribution to the Group. The Group continues to review the current geological information and current lamproite resources with a view of identifying opportunities to extend the life of the Kimberley Diamonds' operation.

Health, safety, social and environmental responsibility related risks

The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining operations. The Group has formulated and published policies in this regard and significant resource has been allocated to review, recommend, implement and monitor compliance throughout the various operations within the Group. Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place.

- POLITICAL RISKS PERTINENT TO THE GROUP

  The political environments of the various jurisdictions that the Group operates within may adversely impact the ability to operate effectively and profitably. However, the geographical disbursement of the Groups' operations internationally mitigates the impact of this on the Group.

- FINANCIAL RISKS PERTINENT TO THE GROUP

  Exchange Rates

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

  Inability to achieve profitability in the medium to long-term

  The financial impact of the risks that may affect the Group may individually, or in a combination, affect the ability of the Group to operate profitably in the medium to long-term. The various risk management processes described above provided a substantial base from which to assess, monitor and mitigate this risk.

EVENTS SUBSEQUENT TO THE YEAR END

During February 2010, Blina Diamonds NL, a Listed Company on the Australian Stock Exchange and a subsidiary of Kimberley Diamonds raised AU$1.5 million by way of a placement. As a result, the Group's shareholding in the company has decreased to 23.11%. The Group is reviewing its options with regards to the future activities of the company.

CONCLUSION

Management placed certain operations on care and maintenance, reduced costs in various development projects and at the centre. Together with the successful conclusion of the placement in April 2009 and the settlement of all long-term debt, these actions have enabled the Group to significantly improve and strengthen its financial position. The ability to generate positive earnings and net cash inflows from operations during the current year highlights the quality of the operating assets in the Group's portfolio. The Group is well placed, with sufficient cash resources on hand, to pursue growth opportunities emerging in the current economic climate.

Kevin Burford
Chief Financial Officer
15 March 2010

Annual Resource and Reserve Statement

Total in situ resource carats maintained at circa 30 million carats

Total resource value has reduced by only 1.6% to US$10.5 billion

Disposal of DRC resource assets completed

58% of the carat inventory is at Indicated Resource level (compared to 56% in the 2008 statement)

Reserve base has reduced in carat terms by 11% from the 2008 level

- The annual resource statement summarised in the following tables is based on independent resource statements approved by Venmyn Rand (Pty) Limited for all of the Group's operations.
- The resource statement of 31 December 2009 is compared to the previous Gem Diamonds' resource statement dated 31 December 2008. Resources stated are either SAMREC or JORC compliant as determined by Venmyn Rand.

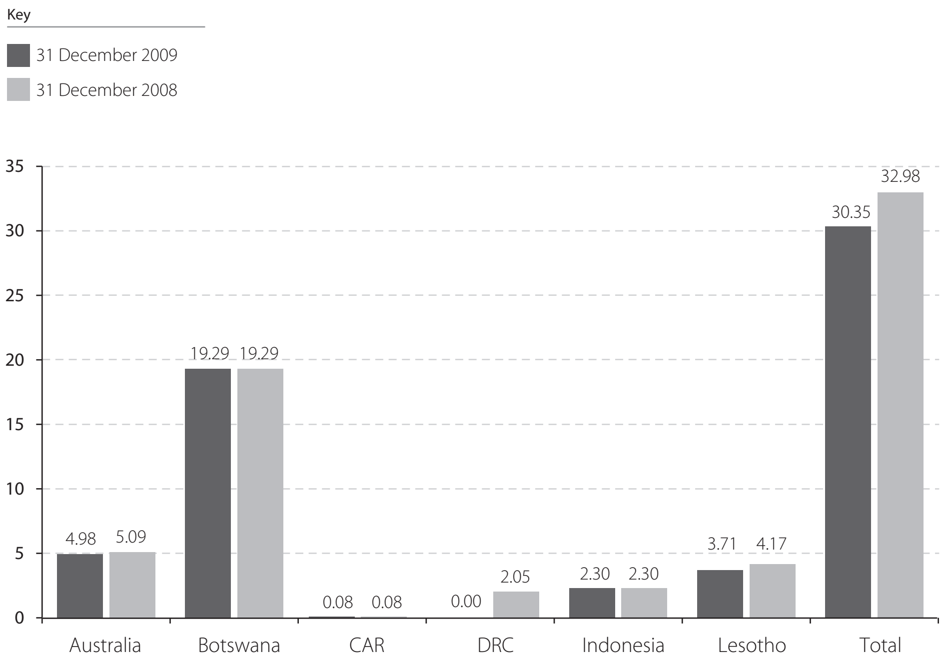
  The major changes in the resource statement are:

  - the reduction of the Letšeng resource base by approximately 460 000 carats. This is a function of both depletion, improved resource volume model accuracy, and minor grade and density changes; and
  - the reduction of confidence levels (resource category reduced from 37% Indicated in 2008 to 25% in 2009) of some of the Ellendale resource.
- Resources stated are inclusive of reserves and represent the total (not attributable) global resource at zero cut-off grades.
- 2009 resource statements have been updated for Letšeng and Ellendale only. The remaining reported resources are based on the previous 2008 figures as insufficient work/depletion has occurred in these resources to warrant an updated statement. The Gope resource is being remodelled and a revised resource statement will be finalised in the second quarter of 2010.
- Reserves have been calculated by Gem Diamonds' in-house Competent Person, William Morrell Pr.Eng., in compliance with SAMREC Code 2007.

AS AT 31st DECEMBER 2009

	Probable Reserves				Indicated Resources				Inferred Resources				Total Resources				
Country	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	In Situ Revenue ($mm)
Lešotho																	
– Letšeng	68.7	1.59	1.09	1 753	68.7	1.59	1.09	1 753	153.9	1.70	2.62	1 761	222.6	1.67	3.71	1 759	6 520
Car																	
– Mambere	–	–	–	–	–	–	–	–	3.6	2.24	0.08	149	3.6	2.24	0.08	149	12
Indonesia																	
– Cempaka	–	–	–	–	17.9	2.10	0.38	198	93.1	2.06	1.92	177	111.0	2.07	2.30	180	414
Botswana																	
– Gope	–	–	–	–	78.8	19.02	14.99	136	26.5	16.23	4.30	136	105.3	18.32	19.29	136	2 625
Australia																	
– Ellendale	8.3	5.31	0.44	318	20.1	6.14	1.24	212	70.0	5.16	3.61	165	90.1	5.38	4.85	177	858
– Blina	–	–	–	–	0.8	3.85	0.03	420	3.6	2.68	0.10	245	4.4	2.90	0.13	289	37
Total	77.0	1.99	1.53	1 338	186.4	9.51	17.72	243	350.6	3.60	12.63	488	537.0	5.65	30.35	345	10 466

RESOURCE CARATS (millions)

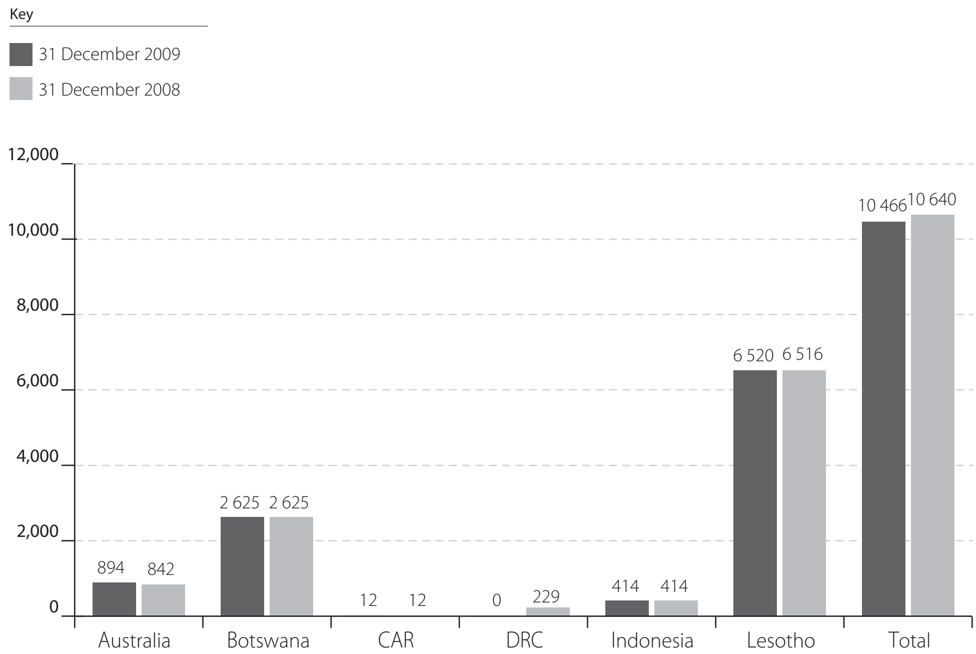


Annual Resource and Reserve Statement continued

AS AT 31st DECEMBER 2008

Country	Probable Reserves Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Indicated Resources Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Inferred Resources Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Total Resources Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	In Situ Revenue ($mm)
Lesotho																	
– Letseng	78.8	1.68	1.32	1 499	78.9	1.67	1.32	1 502	160.1	1.78	2.85	1 592	239.0	1.74	4.17	1 563	6 516
DRC																	
– Mbelenge	–	–	–	–	–	–	–	–	3.0	12.13	0.37	91	3.0	12.13	0.37	91	34
– Longatshimo	–	–	–	–	–	–	–	–	4.4	23.86	1.06	126	4.4	23.86	1.06	126	133
– Lubembe	–	–	–	–	–	–	–	–	0.5	136.59	0.63	100	0.5	136.59	0.63	100	63
DRC Total	–	–	–	–	–	–	–	–	7.9	25.87	2.05	112	7.9	25.87	2.05	112	229
CAR																	
– Mambare	–	–	–	–	–	–	–	–	3.6	2.24	0.08	149	3.6	2.24	0.08	149	12
Indonesia																	
– Cempaka	–	–	–	–	17.9	2.10	0.38	198	93.1	2.06	1.92	177	111.0	2.07	2.30	180	414
Botswana																	
– Gope	–	–	–	–	78.8	19.02	14.99	136	26.5	16.23	4.30	136	105.3	18.32	19.29	136	2 625
Australia																	
– Ellendale	8.3	4.71	0.39	291	36.6	4.98	1.82	168	61.5	5.11	3.14	159	98.0	5.06	4.97	162	806
– Blina	–	–	–	–	0.8	3.85	0.03	420	3.6	2.68	0.10	245	4.4	2.90	0.13	289	37
Total	87.1	1.96	1.71	1 224	213.1	8.70	18.54	238	356.2	4.05	14.44	431	569.3	5.79	32.98	323	10 640

RESOURCE IN SITU REVENUE (US$ million)



Sustainable Development Report

Despite the difficulties of the 2009 financial year resulting from the global recession, Gem Diamonds remains deeply committed to exercise its duty of care towards its employees, the receiving environment, project-affected communities and its shareholders.

Last year was a year of positive growth and evolution for the Group in every aspect of Health, Safety, Corporate Social Responsibility and Environmental ('HSSE') performance, management and the systems that underpin these practices at the Group's operations. The resulting achievements and areas in which the Group have grown are outlined in this report.

1 REPORT PARAMETERS

Gem Diamonds published its first Global Reporting Initiative (GRI) version 3 (G3) based Sustainable Development report in 2008. Since that time, the organisation has increased the suite of Performance Indicators ('PI's) being monitored and reported on as well as the depth of this reporting. Gem Diamonds set a target to develop capacity to implement the full GRI reporting standard throughout the organisation over a five year period, in order to ensure that each sustainability principle is fully embedded into the operational philosophy and methodology. The Company is pleased to report that all operations are on track to meet this target. Refer to Section 13 of this report for the 2009 reporting scorecard.

The global financial crisis had a significant impact upon the diamond industry resulting in several of Gem Diamonds' operations and/or projects being placed on care and maintenance, with the Letšeng mine and Ellendale E9 operation continuing to operate as normal. However, in order to ensure reporting consistency, this Sustainable Development report continues to take all operations into consideration, except where specific exclusions are indicated in this report.

2 HSSE GOVERNANCE

HSSE matters are managed at the appropriate level throughout the operations, with strategic direction being provided by the HSSE Committee (the 'Committee'). This Board sub-committee remains unchanged from 2008 and comprises:

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

Alan Ashworth (Chief Operating Officer) and Anneli Botha (Group HSSE Manager) are invited to the meeting for reporting purposes, while Andre Confavreux (Company Secretary) acts as the Committee Secretary.

The Committee meets on a quarterly basis and member attendance is tabled below:

	Attendance			
Committee Member	30/03	01/06	25/08	24/11
GA Beevers	✓	✓	✓	✓
M Salamon	✓	✓	✓	✓
GE Turner	✓	✓	✓	✓
Quorum Achieved	✓	✓	✓	✓

The HSSE Committee has been tasked with the responsibility of providing assurance to the Gem Diamonds Board that an adequate understanding of the operational HSSE risk profiles are in place, and that these are supported by corresponding and appropriate systems to manage and mitigate these risks accordingly. The Committee also provides strategic advice to the management team both at corporate and operational levels in terms of HSSE aspects. The Committee reports directly to the Gem Diamonds Board.

Sustainable Development Report continued

3 2009 KEY PERFORMANCE INDICATORS

The Committee has established several group-wide HSSE Key Performance Indicators ('KPIs') for 2009 as were reported in the Group's 2008 Sustainable Development report. The aim of the development of the KPIs, was to ensure that each aspect of the Triple Bottom Line was addressed in a measureable manner. Gem Diamonds' HSSE KPI scorecard is presented below, evidencing the Groups improved HSSE performance:

KPI	Group Target	Target Achieved?	Actual Achieved
Fatalities	0 Fatalities	✓	0 Fatalities
Lost Time Injury Frequency Rate (LTIFR)	0.50	✓	0.45
Pre-employment medicals	100% of staff	✓	100%
Provision of Voluntary Counselling and Testing (VCT)	Provide VCT at appropriate operations	✓	100%
Developing and Implementing Social and Environmental Impact Assessments (SEIAs) and Management Plans (SEMPs)	Develop and implement for each operating site	✓	100%
Waste management plan	Develop and implement for each operating site	✗	50%
Land clearance footprint	Ensure that the total land disturbed does not exceed the mine and rehabilitation plans and is in compliance with the SEMP	✓	100%
Corporate Social Responsibility (CSR) and Sustainability strategy	Develop and implement for each operating site	✗	50%
Corporate Social Investment (CSI) Programmes	Formalise CSI programmes to align with Group policy	✗	50%

Each of these KPIs is discussed in detail in the remainder of this report.

4 GEM DIAMONDS HSSE MANAGEMENT SYSTEM

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

Gem Diamonds ensures the development and implementation of a comprehensive HSSE Management System, underpinned by the Triple Bottom Line. The Group is dedicated to keeping its staff, immediate environment and project-affected communities safe, healthy and protected, and is furthermore sensitive to its wider impacts upon all bio-physical and socio-economic systems. Gem Diamonds' revised Corporate Social Responsibility and Sustainability Policy are available on the website (www.gemdiamonds.com).

4.1 External Assurance

2009 marked the second year in which independent, external HSSE audits were conducted by IRCA Global. Due to all other operations and projects being placed on care and maintenance, only Letšeng and Ellendale underwent this external audit in 2009. Both of these operations achieved a significant improvement compared to the previous audit.

During the 2008 external HSSE audits, certain areas of improvement were identified for the Gem Diamonds operations and each operation attended to these.

Ellendale improved from a total audit score of 51% and a Level 2 Star rating in 2008, to a score of 79% and a 4 star rating in 2009. Letšeng improved from a total audit score of 72% and a Level 3 Star rating in 2008, to a score of 81% and a 4 star rating in 2009. These advances were the result of the ongoing dedication of the operational HSSE teams, increased management commitment, as well as a general expansion in awareness and buy-in of staff with regard to the health and safety of themselves and their colleagues, as well as care for the environment.

As a result, Letšeng was awarded the 'Best overall score on the IRCA rating system' with Ellendale in second place in the IRCA Global, Opencast Mine category.

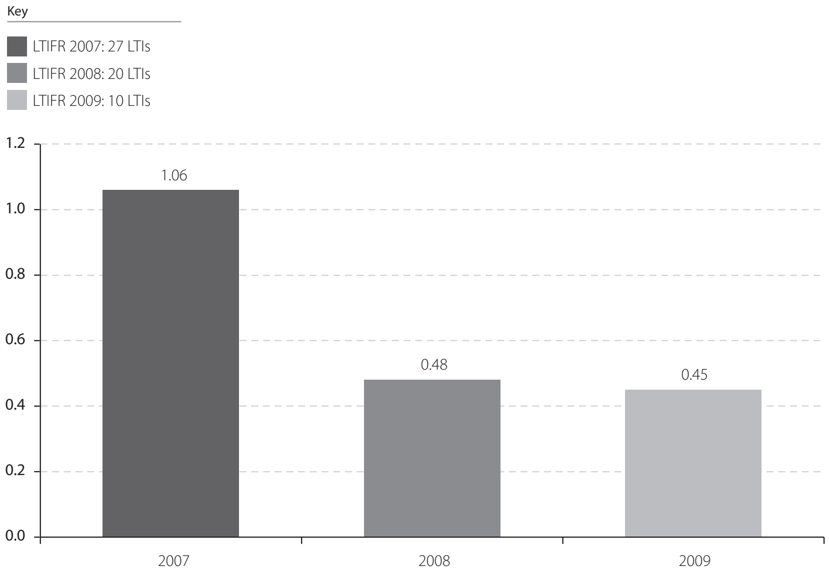
These external audits will continue in 2010.

5 HEALTH AND SAFETY REPORT

During the course of 2009, Gem Diamonds employees completed 4.43 million man-hours of work around the world. Gem Diamonds is pleased to report that no fatalities occurred at any of the operations during 2009.

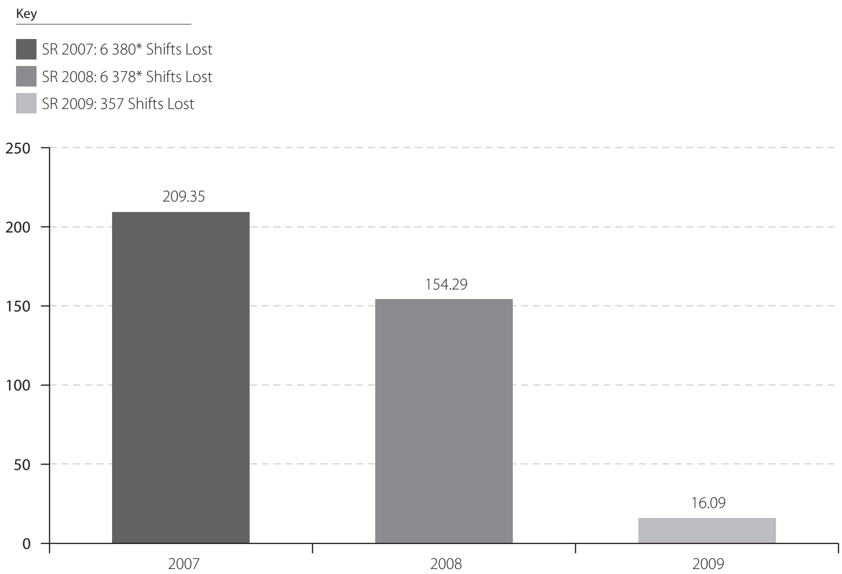
For a third year in a row, Gem Diamonds surpassed its LTIFR ceiling. In 2009, the Group achieved an LTIFR of 0.45[1] – a 10% improvement on the Group ceiling for the year and a 6% improvement on the 2008 LTIFR. These continued advances are the result of increased health and safety vigilance and awareness, ensuring that a health and safety culture is thoroughly embedded throughout the organisation. In order to ensure continuous improvement, an ever more stringent LTIFR ceiling of 0.40 has been set for the operations in 2010. It is Gem Diamonds' firm belief that no task is important enough to be done unsafely and that all accidents are preventable.

Group-wide LTIFR Trend 2007 – 2009



2009 saw a significant reduction in the Group's severity rate compared to both 2008 and 2007 (one fatality was recorded in each 2007 and 2008, but pleasingly there were no fatalities which occurred in 2009).

Group-wide Severity Rate Trend 2007 – 2009



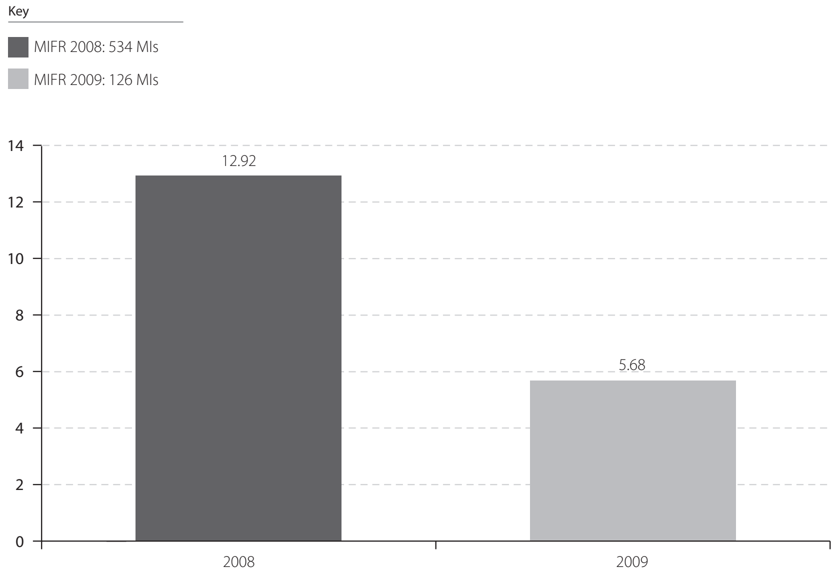
[1] All frequency rates quoted in this report are calculated over 200 000 hours.

* Includes one fatality, booked as 6 000 shifts lost.

Sustainable Development Report continued

Minor Injury Frequency Rate ('MIFR') is also monitored on a monthly basis across the Group. A cumulative Group-wide improvement of 44% was achieved from 2008 to 2009

Group-wide Minor Injury Frequency Rate Trend 2008 – 2009



Gem Diamonds' monthly monitoring programme serves as an early detection system to track the development trends of occupational diseases at its operations. In order to improve this system, a comprehensive risk-based analysis of potential occupational diseases that could occur at the Group's operations was conducted and certain diseases identified as posing a potential high risk to employees. These were included into the monitoring programme. For the third year in a row, no occupational diseases were recorded during 2009. Based on each of the operating sites' risk profiles, the relevant occupational monitoring is carried out at regular intervals in order to ensure that any potential increases in risks can be identified and appropriately managed and/or mitigated. The following occupational samples were taken during the course of 2009:

Sample Type	Number of Samples Taken
Environmental water sample	1 204
Drinking water sample	174
Occupational dust sample	59

Illumination and noise sampling was also undertaken in various work environments at both Ellendale and Letšeng in order to ensure that health risks are appropriately managed and/or mitigated.

Pre-employment medical examinations were another focus area for improvement at the operating sites. Both Ellendale and Letšeng have conducted 100% pre-employment medical examinations, the majority of which were performed by medical staff located at each site.

Malaria and other tropical diseases have historically been a high risk aspect for the operations in Africa and with the majority of the Group's African operations being placed on care and maintenance, the number of cases of malaria recorded and treated decreased significantly from 744 (or a frequency rate of 17.97) in 2008 to 104 (or a frequency rate of 4.68) in 2009. However, staff overseeing care and maintenance activities continued to receive first class medical treatment.

HIV/Aids remains another health risk, especially at the Letšeng operation. Extensive HIV/Aids awareness and education campaigns continue, as does Voluntary Counselling and Testing ('VCT'), provision of Antiretroviral ('ARV') treatment and condom distribution. Details of HIV/Aids prevalence at the Letšeng operation is detailed in Section 6.1.

Each operation has developed emergency preparedness and response programmes, based on the operation's risk profile. Apart from dealing with these procedures in the induction programme, regular awareness training and drills are conducted. Community members who may be affected in certain emergency scenarios, have been informed of and trained in emergency procedures, as such measures may apply to them.

6 ECONOMIC SUSTAINABILITY AND SOCIETY

Data pertaining to Gem Diamonds' financial performance is reported in the financial section of this annual report and a summary provided in the Chief Financial Officer's report (refer to pages 10 to 15).

The creation of wealth for all stakeholders is key to ensuring the sustainability of Gem Diamonds' operations and its philosophy of leaving a positive legacy. The Group places significant emphasis on optimizing the in-country benefits derived from a country's mineral wealth in order for a positive contribution to be made with regard to improving the living standards, health and prosperity of the citizens and in particular the project affected communities, in these countries.

Economic sustainability is supported through the Group's commitment to paying appropriate local taxes and royalties; investing in infrastructure and enterprise; prioritising job creation and skills development, supporting local suppliers and procurement as far as practicable; as well as identifying and embarking on community development, health and education initiatives that will directly benefit project-affected communities.

The global economic crisis of late 2008 severely impacted the diamond mining industry well into 2009 due to the resulting decline in diamond prices. A number of the large diamond mining companies were forced to curtail production during 2009. Gem Diamonds also was forced to suspend some of its lower margin operations and projects or place them on care and maintenance. Throughout the crisis, however, Gem Diamonds continued to operate its two largest assets in Lesotho and Australia, providing employment and paying appropriate local taxes and royalties in these countries. While the economic crisis has necessitated cash preservation, reduced capital expenditure and cost containment, the Group has continued to maintain appropriate levels of operations and remains committed to its planned expenditure on sustainable development in its project-affected communities.

On a macroeconomic scale, Letšeng continues to be the second biggest employer in the Kingdom of Lesotho and as a result, continues to have a pronounced positive impact on the economy of the country as a whole.

In addition to a variety of localised economic impacts resulting from operations being placed on care and maintenance, Corporate Social Investments ('CSI') in the affected local communities were also influenced.

Gem Diamonds was not involved in any relocation programmes of project-affected communities during the course of the 2009 financial year and does not anticipate any such programmes in the foreseeable future.

6.1 Corporate Social Investment

Despite the financial constraints, the Group maintained its CSI implementation strategy and its operations remained committed to assisting the communities where practicable and according to their available means. In keeping with the CSI implementation strategy, the operations focused their resources on projects related to health, education, infrastructure, small to medium enterprises ('SMEs') and donations.

	CSI Expenditure (US$)					
Year	Health	Education	Infrastructure	Donations	SMEs	Total
2008	29 391	124 129	993 895	227 780	5 276	1 380 473
2009	32 022	155 854	272 536	209 584	67 721	737 716

In order to improve its effective contribution to the sustainability of its project-affected communities, Letšeng undertook a detailed community needs analysis in late 2009. This study commenced with a detailed delineation of the project-affected community and identified the community residing in the Mokhotlong district and Butha-Buthe town as the operation's project-affected community. However, with Lesotho being a small country, all its citizens are affected to some extent by the operation. The project team then identified socio-economic aspects in the above-mentioned affected areas that require development in order to ensure long-term and independent sustainability of these communities. With these critical factors identified, the next step in the programme will be to develop projects that can be rolled out in these communities.

Health:

Letšeng hosted a successful HIV/Aids awareness day on 1 December 2009 – World Aids Day – in conjunction with the Lesotho Ministry of Health and two local hospitals. A total of 221 people were tested on the day, of which 130 employees were tested for the first time. Of the 130 newly tested employees, 32 tested positive for HIV/Aids. This brings the total number of employees at Letšeng who have tested positively for HIV/Aids to 114 (18.45% of those checked) as at December 2009. Of this number, 21 employees have chosen to receive ARV treatment from the on-site clinic.

Sustainable Development Report continued

6.1 Corporate Social Investment continued

Letšeng purchased and donated a mobile X-ray machine to the Seboche Hospital, located in Butha-Buthe. This mobile unit will enable the hospital to expand their mobile services to the community in assisting an increasing number of people residing in the mountainous area in which the hospital staff operates.

During 2008, for the Group as a whole, a total of 2 129 members of the local communities were treated at the site clinics of the various operations. During 2009, this number reduced to 15 community members treated at the operations' on-site clinics, as a result of the scope of the operations being reduced. With Gem Diamonds selling its assets in the Democratic Republic of Congo, all viable medical supplies were donated to local clinics in the vicinity of the operations.

Education:

Letšeng continues to sponsor the tertiary education of 20 Basotho students at various tertiary institutions across Southern Africa. The aim of the programme is to educate and empower young Basotho nationals to become the business leaders of the future in Lesotho and hence, they are encouraged to study in areas where they can be employed by the mine once they have successfully completed their studies. One student from the programme, a geology graduate, is already employed by Letšeng.

Infrastructure:

Several infrastructure projects were also undertaken. At Letšeng, access to the site is gained via a public road which also services the Mokhotlong district. Because of the high altitude and extreme weather conditions, this road deteriorates rapidly especially during times of high snow or rainfall. Because of the remoteness of the area, maintenance on this access road is infrequent and often of poor quality. As a result, Letšeng has taken on much of the maintenance on this road and undertook several rescue missions for civilians trapped on the road during the winter period.

During the course of 2008, it was established that there was a need in the Mapoka community for a footbridge crossing the Khubelu river, in order to ensure safe passage for the villagers. A large number of children are required to cross the river daily on their way to school and were especially vulnerable during times of increased water flow and flooding. Construction of the bridge was completed in 2009.

During the 2008/2009 rainy season, the Gibb River Road, the main public road in the vicinity of the Ellendale operation, became flooded as a result of higher than average rainfall, which led to significant damage to the road. The Ellendale mine contributed US$215 000 to the repair and improvement of the road.

During its operation of the DRC projects, Gem Diamonds completed several community projects, including the construction of two community clinics in 2008 at Ndjoko-Punda and Kadiadia respectively. Both these clinics are run by the NGO Caritas. In addition, three schools were build in and around Ndjoko-Punda, operated on a two-shift basis with morning and afternoon sessions and is also operated by Caritas. A fourth school was constructed at Kamako. Several local roads were upgraded and a ferry crossing the river, was built and is operational at Tshiumbe.

A primary school, ablution facilities and a house for the school headmaster were constructed at the Likaya village, adjacent to the Mambere operation in the Central African Republic. The school is managed by the district education department. The village borehole and pump constructed and equipped by Gem Diamonds, continue to provide the entire community of Likaya village with fresh water.

Small and Medium Enterprises:

Despite the largely negative impact of the worldwide recession, some communities showed remarkable resilience, notably, the Palam and Guntung Manggis village communities in Indonesia. One of the main factors of success in the community committee's structure is that any project funded through this body has a limited time in which an investment loan has to be repaid, depending on the time required to make a particular project viable. Not only did the vast majority of projects established in the preceding years survive the economic downturn, they fared so well that all those scheduled to do so, repaid their investment loans and in many cases, expanded their membership (the number of beneficiaries of the project) by as much as 150%. This has enabled the community committee to re-invest the initial community investments from Cempaka into new projects, resulting in an ever growing number of sustainable businesses being established in the village. In these communities, even the most humble vegetable farms, provide a snowball effect of income to those less fortunate.

Other Projects:

The Letšeng sponsored High Altitude Summer Marathon was held in the project-affected community town of Mokhotlong in December 2009. The race comprised a 42.2 km marathon and 21.1 km and 10 km developmental races and approximately 800 local and international runners competed in the event. Apart from the direct economic impacts on Mokhotlong and surrounding villages, 125 volunteers were recruited from the project-affected community and provided with skills training.

Various smaller donations have been made towards community causes at several of the operations.

6.2 Stakeholder Communication and Engagement

Gem Diamonds maintains open and transparent relationships with regulators, local, regional and national government bodies at an operational as well as corporate level. Communication with the operations' project-affected communities takes cognisance of relevant traditional/customary structures and is directed through community elected representatives. All of Gem Diamonds' operations kept the project-affected communities informed and updated of the latest developments at its operations throughout 2009.

Two community complaints were received during the course of 2009, one at Cempaka and one at Letšeng.

The Cempaka management team held meetings with the project-affected community and government representatives, who complained that mining infrastructure was resulting in upstream flooding during heavy rainfall periods. The matter was resolved to the satisfaction of the community, once it was proven to the community that the mine was not the cause of the flooding.

An uncontrolled release of water from the Main pipe at Letšeng, resulted in the second community complaint received in 2009 (refer to Section 7.6 for full details on the incident). The community were pleased with corrective and preventative actions taken by Letšeng management, bringing the matter to a close.

6.3 Local Procurement

In order to ensure consistent application, for the duration of the 2009 financial year, all procurement based within the borders of the company's operating countries was regarded as local procurement. The application of local procurement will be further refined in the 2010 financial year.

Letšeng has a policy in place giving preference to locally based procurement in as far as is practicable, subject to the quality of goods and services available within the Kingdom of Lesotho. The operation also allows for a price differential between local and other suppliers. At Letšeng, a total of US$79 million or 81% of all procurement was spent with local suppliers including capital, operational expenses and services for the duration of the 2009 financial year.

Although not stipulated in any specific policy document, the operating philosophy of the Ellendale mine is to procure products and services from local suppliers in as far as is practicable, at a reasonable cost. A total of US$78 million was spent with local suppliers, which approximates 100% local procurement.

All other operations that were on care and maintenance during the course of the year, relied almost exclusively on local procurement, largely due to significant financial constraints.

6.4 Corruption

An independent corruption reporting hotline is in place for both Ellendale and Letšeng in order for employees and other stakeholders to report any suspicion of corruption on an anonymous basis. All employees are made aware of each operation's anti-corruption policies and reporting procedures as part of their full site induction. No incidents of corruption were recorded at any of the operations.

7 ENVIRONMENTAL SUSTAINABILITY

Environmental management is afforded a high priority within Gem Diamonds and appropriate policies and procedures have been implemented to ensure that the operations exercise their "Duty of Care" towards the receiving environments. Letšeng received the honour of 'The Best Environmental Management System' award from IRCA Global in the category, Opencast Mines, based on the operation's high score in this section of the external HSSE audit conducted in 2009.

7.1 Materials, Energy and Water

Diamondiferous ore and mineralogical waste material, water, diesel and oil are the major raw materials consumed at Gem Diamonds' operations.

During 2009, mining only took place at the Letšeng mine and Ellendale's E9 operation. Figures of ore and waste mined for the year are presented below:

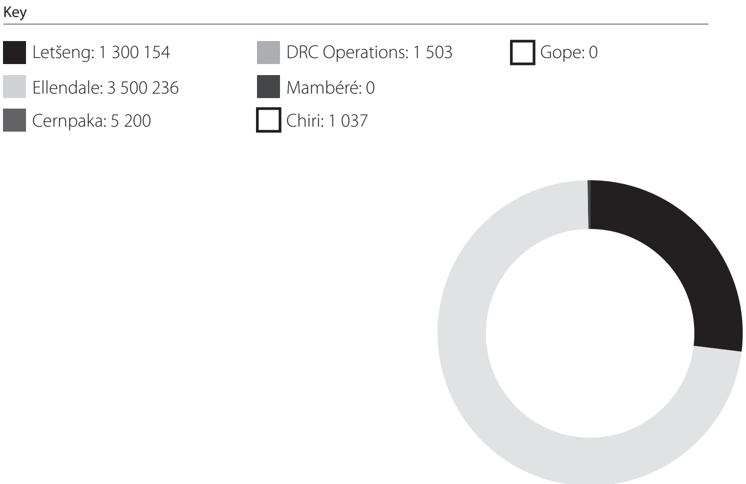
Aspect	Resource Consumption – Mining Letšeng	Ellendale	Total
Waste mined (tonnes)	8 072 032	3 956 957	12 028 989
Ore mined (tonnes)	7 459 796	4 080 076	11 539 872

Although large quantities of ore and waste are mined at the operations, direct materials comprise the actual diamonds only. During 2009, a total of 90 878 cts were recovered at Letšeng, while 198 825 cts were recovered at Ellendale.

Sustainable Development Report continued

7.1 Materials, Energy and Water continued

Water Volume Consumed (m^3)



The majority of the Group's water consumption takes place at Ellendale at 3.5 million cubic meters, followed by Letšeng at 1.3 million cubic meters. At Ellendale, all water is sourced from the groundwater aquifer through a series of boreholes located on the property. Careful monitoring of the aquifer is undertaken on a continuous basis in terms of water levels and the impact on the ecosystems involved. Raw water at Letšeng is sourced from the operation's freshwater dam located within the mine boundary, which captures rain water from the mine's footprint and its immediate surrounding catchment area. At Ellendale an average of 87% of all raw water is re-used per annum, while at Letšeng, an average of 78% of all water was recycled.

Water consumption at the remaining operations and projects was minimal due to most of the projects being on care and maintenance and with water consumption being limited to domestic water use.

A dewatering plan commenced during the latter part of 2009 at Letšeng. Details are provided in Section 7.5 below.

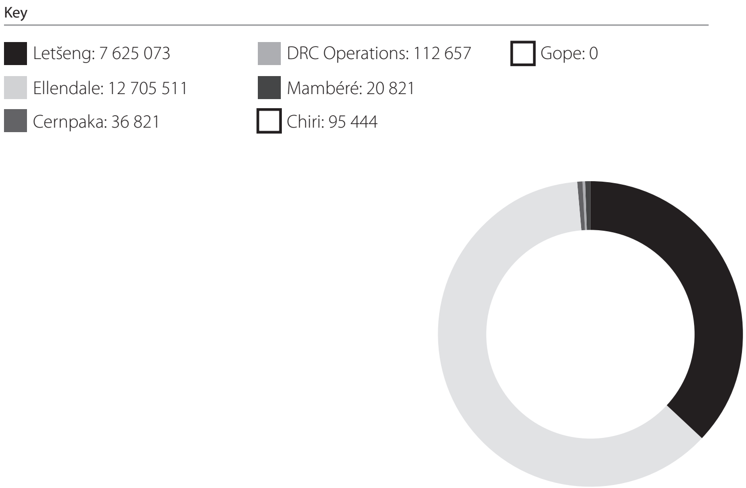
Water quality related impacts remain a low risk for all of Gem Diamonds' operating sites, although surface and groundwater monitoring continues. Monthly water quality monitoring at Letšeng revealed increased levels of nitrates and coliform bacteria counts in surface water draining from the site. Investigation into these elevated levels of coliform bacteria counts revealed two potential sources – one being the local herdsmen grazing livestock on and around the property and the other being chemical lavatories placed around the site. This led the development and implementation of a cleanup operation and consolidation project of the sewerage system at the site. However, the problem continues in certain streams where local cattle graze. A detailed investigation into the occurrence and spatial distribution of nitrates commenced in late 2009 and is expected to conclude in early 2010. A suitable management and/or mitigation programme will be compiled and implemented based on the findings of the study.

Letšeng undertook a grey water optimisation programme during the course of 2009 in which all conventional laundry detergents were replaced by bio-degradable products. This ensures not only a lowering in cost of grey water treatment, but contributes to the general health of the water resource itself.

Water quality monitoring continued at Cempaka throughout 2009 due to this operation's potentially acid forming ('PAF') mineralogy. Results from this monitoring programme indicate that the pH of water in the Cempaka pit has rebounded to the ambient levels. Inspections have revealed the return of several species of local fauna and flora, including several fish species to the Cempaka pit. Water contained in the Danau Seran pit remains marginally under the natural pH levels. However, with the site being on care and maintenance, no water is being discharged from the Danau Seran pit and therefore does not pose any risk to the surrounding communities and/or receiving environment.

Both Letšeng and Ellendale comprise open pit operations, resulting in a high level of direct and indirect energy consumption. Letšeng uses indirect energy obtained from the Lesotho national power grid. The operation consumed a total of 108 643 KWh of electricity during the course of 2009. Due to a lack of bulk power infrastructure in the vicinity of the Ellendale mine, the operation generates electrical power using diesel generators installed on site (5 744 960 litres of diesel consumed in 2009). Generators are used at Letšeng in emergency conditions and power outages only. Diesel is trucked to each of the operations and stored on site for consumption. A total of 20 million litres of diesel was consumed during the year, with 99% of this being used at Ellendale and Letšeng. Gem Diamonds is committed to investigating ways in which to reduce the consumption of fossil fuels and corresponding emissions. Such investigation commenced in early 2009 at the Letšeng operation, but given the high altitude and lower ambient oxygen levels, progress has been slow. However, Gem Diamonds remains optimistic that positive results will be achieved and will result in the operations improving energy efficiency.

Fossil Fuels Volume Consumed (ℓ)



Other direct energy sources used includes Liquefied Petroleum Gas ('LPG') and minor use of industrial gasses. The volumes of these energy sources are extremely small and will not be reported in detail. During 2009, no direct renewable energy sources were used at any of the operations.

7.2 Biodiversity

Several of Gem Diamonds' operations are located in sensitive and remote environments. In order to optimise impact mitigation upon the receiving environment, 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 sites.

Operation	Biome	Total Land Owned/Leased (in hectares) (end 2009)	Area Disturbed (in hectares) (end 2009)	Percentage of Total Land Disturbed (end 2009)
Mambéré	Riverine and Tropical Rain Forest	85 500	3	**0.1%**
Chiri	Savannah	103	3	**2.9%**
Gope	Desert	4 500	2	**0.1%**
Letšeng	Alpine	1 674	202	**12.1%**
Cempaka	Marsh land	747	204	**27.3%**
Ellendale	Savannah	70 280	1 213	**1.8%**
Total		162 804	1 627	**1.0%**

An extensive assessment of the total land disturbed at the Ellendale operation was undertaken during 2009 in order to ensure a more accurate record of such disturbances. A total of 79 hectares (ha) were cleared during the course of 2009 for infrastructure such as new product and topsoil stockpiles, a new tailings dam cell, access roads and drill and borehole sites. No active rehabilitation was undertaken during 2009 at this operation.

At Letšeng, 2.2 ha of land were cleared during 2009, mainly for expansion of the waste rock dump and the construction of the Patiseng Valley slimes dam. No active rehabilitation was undertaken at Letšeng during 2009.

Sustainable Development Report continued

7.2 **Biodiversity** continued

Environmental rehabilitation of the Danau Seran channel at the Cempaka operations continues, with a total of 80.3 ha having already undergone rehabilitation since Gem Diamonds acquired the operation. An external specialist continues to treat the soils and plant a combination of trees, grasses and cover crops on contoured overburden which was backfilled into the worked out open pits. Trees and cover crops planted during the 2008 rehabilitation programme at the Danau Seran channel suffered severely due to the harsher than normal, prolonged dry season. However older and more established rehabilitation areas were able to sustain continued growth. Monitoring, additional planting and/or replanting of less successful areas, is ongoing. Rehabilitation at the Cempaka channel has not commenced due to the volume of material that still has to be mined. However, natural ecosystem functionality has started to return to this section of the operation as a result of the natural rebound of the ambient pH of the water in the pit lake. Several species of fish, crustaceans and aquatic invertebrates, as well as a variety of aquatic flora, have been observed living and breeding in this lake.

Natural progression of rehabilitated areas at the DRC operations, Mambéré, Chiri and Gope, continued throughout 2009. Where necessary and practicable, given the majority of the operation's care and maintenance status, limited pro-active rehabilitation was undertaken.

During 2008, a Short Range Endemic survey and Stygofauna survey was conducted at Ellendale. Invader species (flora and fauna) were identified and action plans developed to eradicate and/or manage these species accordingly. The surveys also identified two previously undescribed fauna species, some rare and some seemingly genetically distinct species. All these species are considered in the operation's environmental management plan, although none are actively managed. The occurrence of these species show that although the operation has a direct impact on the ecosystem where human activities are concentrated, ecosystems in areas that remain undisturbed continue uninterrupted.

The Devonian Reef Conservation Reserve, established subsequent to the identification of the mineral reserve known as E4 Satellite, is located adjacent to and overlapping the Ellendale lease area. As part of the mine's management strategy of this reserve, access by mine personnel to these areas is strictly prohibited. Ellendale is currently working with the Government of Australia to determine if there is a viable biodiversity off-set opportunity available, should mine management elect to exploit the E4 Satellite mineral reserve. In addition, extensive consultation with the traditional land owners will be undertaken prior to any development.

None of the Gem Diamond operations affect any Ramsar[2]-listed wetlands or any other water related proclaimed conservation areas.

7.3 **Waste Management**

Due to the remoteness of the Gem Diamonds' operations, conventional waste management practices are implemented at the majority of the sites, while at Letšeng and Ellendale, waste separation and recycling receive significant attention. In 2008 a target was set for the operations to develop and implement site specific waste management plans. The existing waste management plan at Ellendale was improved upon and accordingly implemented. This plan still requires finalisation for the Letšeng operation.

Both Letšeng and Ellendale mines have on-site clinics and medical waste is stored according to the operating country's legislative requirements and appropriately disposed of at the closest registered medical facility. No hazardous waste generated at any of the operations requires trans-boundary transportation and is disposed of appropriately in country. No waste generation measurement was undertaken for offices located in municipal areas.

The following volumes of waste were disposed of in 2009:

Waste Type	Letšeng	Ellendale
Domestic waste (m^3)	69 568	1 556
Sewage and grey water (m^3)	691	367
Medical waste (kg)	304	15
Hazardous waste (m^3)	1 565	–
Waste incinerated (kg)	30 553	–
Waste recycled (kg)	35 950	70 747

Radioactive waste generated at the operations remains exceptionally small and occurrence of such waste is rare, due to the limited number of materials on site. Although policies and procedures are in place to manage these radioactive sources on site, removal of these sources from their location in the operations is undertaken by qualified personnel from the Original Equipment Manufacturers ('OEM's) only and recycled by the responsible organisations.

[2] Ramsar Convention: An intergovernmental treaty on The Convention on Wetlands of International Importance.

Mining waste is managed on site at all Gem Diamonds operations and generally comprises waste rock, fine slimes and course tailings management facilities. All such facilities are designed according to legislated parameters and where practicable, industry best practice standards. Regular risk assessment and monitoring of these facilities ensure ongoing safety of employees, potentially affected communities and the environment. Due to the inert mineralogical and chemical properties of the kimberlite and lamproite mined at Letšeng and Ellendale respectively, no leaching of hazardous chemicals are associated with any of the mining waste management structures.

7.4 Emissions

Emissions quantification was undertaken at both Letšeng and Ellendale during 2009. The calculations were based on the total volume of diesel consumed and only major mobile and stationary sources located on site were taken into consideration over this reporting period. The Australian Greenhouse Office Factors and Methods Workbook (December 2005) was used to calculate the operation's emissions, with an adjustment made for the Letšeng figures to compensate for the fuel quality. These data will be utilised as baseline data for future comparative analysis.

	Carbon Emissions (tonnes)				
Operation	Q1	Q2	Q3	Q4	Total
Letšeng	4 932	5 336	6 189	5 814	22 271
Ellendale	2 518	3 079	4 047	8 600	18 244

7.5 Effluents

During the latter part of 2009, Letšeng commenced with a dewatering programme of the deepest part of the Main pipe in order to prepare for future mining activities. This discharge programme marks the first discharge of water from the site since Gem Diamonds acquired the operation in 2006. A total of 226 647 cubic meters of water was discharged in a controlled manner from the Main pipe from August to December. Prior to pumping commencing, chemical analysis of the water quality was undertaken in order to ensure that the water was of drinking water quality prior to discharge into the valley streams, which drain to the Khubelu river. Water pumped from the Main pipe adit, treated with a flocculent and was thereafter allowed adequate residence time to settle in a series of three settling dams. Daily monitoring of various parameters was undertaken for the duration of the discharge period to ensure continued compliance with the discharge standard.

Ellendale conducted controlled releases of excess rain, ground and surface water collected in the E9 pit, via the tailings facility decant point into a natural creek line. Water quality was tested prior to release to be within the permit conditions and the Department of Environment and Conservation notified prior to the release. A total volume of 154 233 m^3 was discharged during 2009.

Two very small, uncontrolled effluent release incidents were recorded at Ellendale, where fine tailings (slimes) were released into the ambient environment. Both the spills were effectively contained to a small footprint area and rehabilitated immediately after the occurrence of the incident.

7.6 Environmental Incidents

No major environmental incidents occurred at any of the Group's operations, while only one significant environmental incident was recorded at Letšeng, when blasting resulted in a surge of water exiting the Main Pit, via the settling dam system. This water flowed in an uncontrolled manner into the receiving stream, but dissipated shortly after entering the stream. This incident was observed by some members of the community, prompting a stakeholder enquiry to the operation's management team as was mentioned in Section 6.2 of this report. An incident investigation was undertaken and as a result, blasting methods were revised and the settling pond walls increased in size and reinforced to ensure the adequate control of water in emergency situations.

8 LEGAL COMPLIANCE

During 2009, Gem Diamonds recorded only one incident of legal non-compliance at its Ellendale E9 operation. The non-compliance comprised outstanding documents for the site's tailings storage facilities. The relevant government departments were kept informed of the operation's progress to develop the reports and all matters relating to outstanding permits and the relevant supporting documentation was corrected and closed out by the end of the first quarter.

No fines were imposed on any of the Gem Diamonds operations.

All operations remain vigilant in adhering to the legislative requirements of the countries in which they are located and ensure that systems are embedded in the organisation to keep abreast of legislative requirements and changes.

Sustainable Development Report continued

9 LABOUR PRACTICES AND DECENT WORK

In January 2009, Gem Diamonds employed a total of 551 own employees and 1 282 contractors, and closed the year with 471 own employees and 1 132 contractors. The majority of these employees, whether contractor or Gem Diamonds' employed staff, are permanent employees, with only 5% (December 2009) being temporary workers. Below is a breakdown of employee numbers and status per country:

	Employee Numbers									
	Own Employees		Contractor Employees		Permanent Employees		Temporary Employees		Total	
Operation	Jan 09	Dec 09	Jan 09	Dec 09	Jan 09	Dec 09	Jan 09	Dec 09	Jan 09	Dec 09
Letšeng	141	159	922	924	1 007	1 046	56	37	1 063	1 083
Ellendale	189	163	164	175	353	335	–	3	353	338
Mambéré	17	18	–	–	17	18	–	–	17	18
DRC Operations	69	–	103	–	69	–	103	–	172	–
Chiri	35	34	35	25	35	35	35	25	70	59
Gope	10	5	11	–	10	5	11	–	21	5
Cempaka	52	66	47	13	52	66	47	13	99	79
GDL (London)	5	5	–	–	5	5	–	–	5	5
GDTS (Johannesburg)	33	21	–	–	33	21	–	–	33	21

Seasonality of employment occurs only at Ellendale, where the mining contractor moves its employees off site for the duration of the wet season. This is done because of the inaccessibility of the open pits during this time of the year and the associated unsafe working conditions created by these circumstances. These employees are either deployed at other operations of this contractor, take annual leave or conduct work at other mining operations during this time.

Each operation and/or office focuses on maximising the employment of local people. To this effect, local salaries at Ellendale comprised an amount of US$14 122 839 while a total of US$18 844 638 was spent on local employee salaries at Letšeng. These amounts include both own and contractor employees.

Remuneration structures vary across the Gem Diamonds Group in order to ensure compliance with local legislation and standard practice in the different countries in which the Company operates, and in those jurisdictions where relevant, legislated obligations and benefits are provided to both own and contractor employees. Notice periods vary between one and six months, depending the level of seniority. The Company honours contractual agreements with its employees.

Training and education of employees is a priority for the Gem Diamonds' Group – especially in the area of HSSE. During 2009, a total of 813 employees at the operating sites underwent training, while a total of 5 547 work hours were dedicated to such training.

Gem Diamonds is committed to ensuring that all staff derives optimal professional exposure and personal growth during their employment in the Company. Regular performance reviews and career counselling is encouraged and staff based in the Gem Diamond Technical Services and Gem Diamonds Limited offices, as well as the Company's own employees at the Ellendale operation (approximately 10% of the total Gem Diamonds staff complement) underwent performance reviews during 2009. This will be continued, and where practicable, improved on in the future.

A major contractor of Letšeng's operation concluded an agreement and full registration with a local union in November 2009. Approximately 200 employees elected to become part of the union's representation. This makes a total of 18.5% of Letšeng employees and a total of 12.44% employees at all operations. Although no bargaining agreements were developed during 2009, it is anticipated that such agreements would be finalised in early 2010. None of the other Gem Diamonds operations are unionised.

10 HUMAN RIGHTS

Human rights are appropriately addressed as are relevant in other policies and procedures, both at corporate and operational level. The operations actively monitor potential human rights incidents. No incidents relating to human rights and/ or indigenous peoples rights abuses, child labour, forced and/or compulsory labour or discrimination were recorded in the 2009 financial year.

All employees across the Gem Diamonds Group are encouraged to exercise their freedom of association without any prior authorisation from management.

To illustrate Gem Diamonds' commitment to upholding indigenous rights, the Bunuba Aboriginal community members, from Fitzroy Crossing, the traditional land owners of the Ellendale lease area, are invited to conduct heritage surveys for any land clearance applications on the lease area. Bunuba Elders, elected by the community, are transported to and accommodated at the site for the period in which they undertake the on-foot survey of the area to be cleared. Agreement is reached between the Bunuba Elders and the operation on the management, mitigation and/or preservation measures to be developed and implemented before any further action is taken.

An area identified by the Bunuba, located in close proximity to the E4 slimes dam, is regarded as a sacred site. This area has been cordoned off and access prohibited for all mining employees and visitors, whilst the Bunuba people have free access to this site.

11 PRODUCT RESPONSIBILITY

Due to the nature of the Company's products, diamonds, the organisation does not report on any of the Product Responsibility Performance Indicators.

However, Gem Diamonds subscribes to and actively practices the enforcement of the conditions outlined by the Kimberley Process as part of everyday business conduct.

12 KPIs 2010

As part of Gem Diamonds' ongoing drive for continued improvement and the philosophy of proactive evolution of HSSE management, the following KPIs have been set for the 2010 financial year:

KPI	Group Target
Fatalities	0 Fatalities
Lost Time Injury Frequency Rate (LTIFR)	0.40
Pre-employment medicals	100% of staff
Provision of Voluntary Counselling and Testing (VCT)	Provide VCT at appropriate operations
External HSSE audit score	Maintain at least a 4 Star Rating
Sustainable Development Reporting	Ensure the development of full capability to report on selected GRI PIs by year end across the Group
Land clearance	Ensure compliance with permitted land clearance authorisations at all times
Rehabilitation plan	Ensure 85% and above compliance to rehabilitation plans

13 Reporting Scorecard

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 Commentary/PIs (Version 1.0)

The level of reporting is indicated as follows:

● Full reporting of PI
⊙ Partial reporting of PI
○ Statement pertaining to PI only
NA Not addressed or not applicable

Sustainable Development Report continued

Performance Indicator	Reported on in 2009 Report?	Level of Reporting	Reference
Economic Performance Indicators			
EC1: Direct economic value generated and distributed.	Yes	●	Financial Section, page 57 – 106; CFO report, page 10 – 15; Section 6 of SD report, page 23 – 25
EC2: Financial implications, other risks and opportunities for the organisation's activities due to climate change.	No	N/A	N/A
EC3: Coverage of the organisation's defined benefit plan obligations.	No	N/A	N/A
EC4: Significant financial assistance received from government.	No	N/A	N/A
EC5: Range of ratios of standard entry level wage compared to local minimum wage.	No	N/A	N/A
EC6: Policy, practices and proportion of spending on locally based suppliers.	Yes	●	Section 6.3, page 25
EC7: Procedures for hiring local and proportion of senior management hired from the local community.	No	N/A	N/A
EC8: Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	Yes	●	Section 6.1, page 23 – 24
EC9: Understanding and describing significant indirect economic impacts, including the extent of impacts.	No	N/A	N/A
MM1: Identification of sites where the local economic contribution and development impact is of particular significance and interest to stakeholders (i.e. remote sites) and outline policies with respect to assessing this contribution.	Yes	●	Section 6.1, page 23 – 24; Section 6.3, page 25; Section 9, page 30
MM2: Value added disaggregated to country level.	Yes	●	Financial Section, page 57 – 106; CFO report, page 10 – 15; Section 6 of SD report, page 23 – 25
Environmental Performance Indicators			
EN1: Materials used by weight or volume.	Yes	●	Section 7.1, page 25 – 27
EN2: Percentage of materials used that are recycled input materials.	No	N/A	N/A
EN3: Direct energy consumption by primary energy source.	Yes	●	Section 7.1, page 25 – 27
EN4: Indirect energy consumption by primary source.	Yes	●	Section 7.1, page 25 – 27
EN5: Energy saved due to conservation and energy improvements.	No	N/A	N/A
EN6: Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.	No	N/A	N/A
EN7: Initiatives to reduce indirect energy consumption and reductions achieved.	No	N/A	N/A
EN8: Total water withdrawal by source.	Yes	●	Section 7.1, page 25 – 27
EN9: Water sources significantly affected by withdrawal of water.	Yes	⊙	Section 7.1, page 25 – 27
EN10: Percentage and total volume of water recycled or reused.	Yes	●	Section 7.1, page 25 – 27
EN11: Location and size of land owned, leased, managed in, or adjacent to protected areas and areas of high biodiversity value outside protected areas.	Yes	⊙	Section 7.2, page 27 – 28
EN12: Description of significant impacts of activities on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Yes	⊙	Section 7.2, page 27 – 28
MM: Land disturbance and rehabilitation.	Yes	●	Section 7.2, page 27 – 28
EN13: Habitats protected or restored.	No	N/A	N/A
EN14: Strategies, current actions and future plans for managing impacts on biodiversity.	No	N/A	N/A
EN15: Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	No	N/A	N/A

Performance Indicator	Reported on in 2009 Report?	Level of Reporting	Reference
Environmental Performance Indicators continued			
EN16: Total direct and indirect greenhouse gas emissions by weight.	Yes	⊙	Section 7.4, page 29
EN17: Other relevant indirect greenhouse gas emissions.	No	N/A	N/A
EN18: Initiatives to reduce greenhouse gas emissions and reductions achieved.	No	N/A	N/A
EN19: Emissions of ozone depleting substances by weight.	No	N/A	N/A
EN20 and MM: NOx, SOx and other significant air emissions by type and weight.	No	N/A	N/A
EN21: Total water discharge by quality and destination.	Yes	●	Section 6.2, page 25; 7.5 & 7.6, page 29
EN22 and MM: Total weight of waste by type and disposal method.	Yes	⊙	Section 7.1, page 25 – 27; 7.3, page 28 – 29
EN23 and MM: Total number and volume of significant spills.	Yes	●	Section 7.6, page 29
EN24: Weight of hazardous waste transported, imported, exported or treated.	Yes	⊙	Section 7.3, page 28 – 29
EN25: Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by discharges of water and runoff.	No	N/A	N/A
EN26: Initiatives to mitigate environmental impacts or products and services and extent of impact mitigation.	No	N/A	N/A
EN27: Percentage of products sold and their packaging materials that are reclaimed by category.	No	N/A	N/A
EN28: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Yes	●	Section 8, page 29
EN29: Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	No	N/A	N/A
EN30: Total environmental protection expenditures and investments by type.	No	N/A	N/A
MM3: Number / percentage of sites identified as requiring biodiversity management plant, and the number/ percentage of sites with plans in place. Also include criteria for deciding that a biodiversity management plan is required and the key components of a plan.	No	N/A	N/A
MM4: Percentage of products derived from secondary materials	No	N/A	N/A
MM5: Describe policies for assessing the eco-efficiency and sustainability attributes of products.	No	N/A	N/A
MM6: Describe approach to management of overburden, rocks, tailings and sludges/residues.	Yes	⊙	Section 7.3, page 28 – 29

Sustainable Development Report continued

Performance Indicator	Reported on in 2009 Report?	Level of Reporting	Reference
Labour Practices and Decent Work Performance Indicators			
LA1: Total workforce by employment type, employment contract and region.	Yes	⊙	Section 9, page 30
LA2: Total number and rate of employee turnover by age group, gender and region.	No	N/A	N/A
LA3: Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Yes	⊙	Section 9, page 30
LA4: Percentage of employees covered by collective bargaining agreements.	Yes	●	Section 9, page 30
LA5: Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	Yes	●	Section 9, page 30
LA6: Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	No	N/A	N/A
LA7: Rates of injury, occupational diseases, lost days and absenteeism, and number of work related fatalities by region.	Yes	●	Section 5, page 21 – 22
LA8: Education, training, counselling, prevention and risk control. programmes in place to assist workforce members, their families or community members regarding serious diseases	No	N/A	N/A
LA9: Health and safety topics covered in formal agreements with trade unions.	No	N/A	N/A
LA10: Average hours of training per year per employee by employee category.	Yes	⊙	Section 9, page 30
LA11: Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	No	N/A	N/A
LA12: Percentage of employees receiving regular performance and career development reviews.	Yes	●	Section 9, page 30
LA13: Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group members, and other indicators of diversity.	No	N/A	N/A
LA14: Ratio of basic salary of men to women by employee category.	No	N/A	N/A
MM12: Approach to identifying, preparing for and responding to emergency situations affecting employees, communities or the environment.	No	N/A	N/A
MM13: Number of new cases of occupational disease by type.	Yes	●	Section 5, page 21 – 22

Performance Indicator	Reported on in 2009 Report?	Level of Reporting	Reference
Human Rights Performance Indicators			
HR1: Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	No	N/A	N/A
HR2: Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	No	N/A	N/A
HR3: Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	No	N/A	N/A
HR4: Total number of incidents of discrimination and actions taken.	Yes	●	Section 10, page 30 – 31
HR5: Operations identified in which the right to exercise freedom of association and collective bargaining may be a significant risk, and actions taken to support these rights.	Yes	●	Section 10, page 30 – 31
HR6: Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	Yes	●	Section 10, page 30 – 31
HR7: Operations identified as having significant risk for incidents of forced labour or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	Yes	●	Section 10, page 30 – 31
HR8 and MM: Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	No	N/A	N/A
HR9: Total number of incidents of violations involving rights of indigenous people and actions taken.	Yes	●	Section 10, page 30 – 31

Sustainable Development Report continued

Performance Indicator	Reported on in 2009 Report?	Level of Reporting	Reference
Society Performance Indicators			
SO1: Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	Yes	⊙	Section 6.2, page 25; 7.2, page 27 – 28
SO2: Percentage and total number of business units analysed for risks related to corruption.	No	N/A	N/A
SO3: Percentage of employees trained in organization's anti-corruption policies and procedures.	Yes	⊙	Section 6.4, page 25
SO4: Actions taken in response to incidents of corruption.	Yes	●	Section 6.4, page 25
SO5: Public policy positions and participation in public policy development and lobbying.	No	N/A	N/A
SO6: Total value of financial and in-kind contributions to political parties, politicians and related institutions by country.	No	N/A	N/A
SO7: Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes.	No	N/A	N/A
SO8: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Yes	⊙	Section 8, page 29
MM7: Describe significant incidents affecting communities during the reporting period and grievance mechanisms used to resolve the incidents and their outcomes.	Yes	●	Section 6.2, page 25
MM8: Describe programmes in which the reporting organization has been involved that addressed artisanal and small scale mining within company areas of operation.	No	N/A	N/A
MM9: Describe resettlement policies and activities.	Yes	●	Section 6, page 25
MM10: Number or percentage of operations with closure plans, covering social (including labour transition), environmental and economic aspects.	No	N/A	N/A
MM11: Describe processes for identifying local communities' land and customary rights, including those of indigenous peoples and grievance mechanisms used to resolve any disputes.	Yes	⊙	Section 6, page 25

Performance Indicator	Reported on in 2009 Report?	Level of Reporting	Reference
Product Responsibility Performance Indicators			
PR1: Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to procedures.	No	N/A	N/A
PR2: Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	No	N/A	N/A
PR3: Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.	No	N/A	N/A
PR4: Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	No	N/A	N/A
PR5: Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	No	N/A	N/A
PR6: Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	No	N/A	N/A
PR7: Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.	No	N/A	N/A
PR8: Total number of substantiated complaints regarding breaches of customer privacy and loss of customer data.	No	N/A	N/A
PR9: Monetary value of significant fines and non-compliance with laws and regulations concerning the provision and use of products and services.	No	N/A	N/A

Directors' Report

The Directors have pleasure in submitting the financial statements of the Group for the year ended 31 December 2009. For the purpose of DTR 4.1.8R this report will be deemed the 'management report' plus any cross references made herein.

PRINCIPAL ACTIVITIES

The Company is a global diamond mining company, listed on the main market of the London Stock Exchange. More detailed information on the Group's operations, activities and financial performance is incorporated into this report by reference and can be found in the Chief Executive Officer's and Chief Financial Officer's Review on pages 6 to 15.

On 22 April 2009 the Company issued 75 million new ordinary shares of US$0.01 par value each in a Placing, at an issue price of 100 pence per share which raised approximately US$98.8 million after expenses.

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

As a BVI registered company, Gem Diamonds Ltd is not required to comply with the Companies Act 2006, however the Directors have voluntarily elected to conform to Section 417 of the Companies Act 2006, which requires that the Directors present a Business Review in this report to inform shareholders of the Company and help them assess how the Directors have performed their duty to promote the success of the Company. Information that fulfils this requirement can be found in the sections set out below and is incorporated by reference in this report:

- The Chairman's Review on pages 4 to 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) on pages 6 to 9; and incorporating the key performance indicators together with the key Operational Statistics;
- The Chief Financial Officer's Review incorporating the principal risks and uncertainties on pages 10 to 15;
- The key performance indicators on pages 8 and 9 together with the key Operational Statistics on page 12;
- The discussion of Corporate Social Responsibility (CSR), including matters related to environmental, health and safety, as well as social and community risk, is addressed in the Sustainable Development report on pages 19 to 37; 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 and uncertainties 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 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 been audited or otherwise independently verified.

Acquisitions together with disposals, and changes to companies undertaken during the year, (such as they were) including post balance sheet events, are included in the Chief Financial Officer's Review on pages 10 to 15.

RESULTS AND DIVIDENDS

The Group's financial results are set out in the Financial Information section on pages 57 to 106.

The Board recommends that no final dividend be declared, in accordance with the intention set out in the latest Prospectus to shareholders published on 1 April 2009. The Board keeps the Company's dividend policy under review. The factors which are most likely to influence a change in its current policy will be the Company's financial and cash position. Other factors may also have a bearing and these will be taken into account at the time.

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 to conserve cash have lead to the decision to curtail exploration and resource development, place operations or development projects onto care and maintenance for the near-term future or dispose of them. More details on this can be found on pages 16 and 18.

FINANCIAL RISK MANAGEMENT

The Group's key risks are detailed on pages 14 and 15 of the Chief Financial Officer's Review.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

A review of Health, Safety, Corporate Social Responsibility and Environmental performance and community participation is presented in the Sustainable Development report on pages 19 to 37.

POLITICAL AND CHARITABLE DONATIONS

No political donations were made in 2009. 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 ('SME's) and general donations to relevant causes in project-affected communities. In 2009, the Company contributed approximately US$737 716 to these social initiatives.

EMPLOYEE POLICIES AND INVOLVEMENT

This report is to be read with the information on employment matters contained in the Sustainable Development Report on page 30. 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 health, 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 involvement 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. The Company always seeks to have a direct relationship between its employees and business function management, founded on quality, leadership, effective communication and trust.

The Group sets guidelines and frameworks in respect of Company policy on remuneration, performance management, career development and succession planning, recruitment and expatriate employment 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 Group'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 50 to 56.

DISCLOSURE OF INFORMATION TO AUDITORS

The lead audit partner is based in London, UK and supported by a second audit partner based in Johannesburg, South Africa. As required under section 418 of the Companies Act 2006, to which the Directors have voluntarily elected to conform, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the auditor's 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.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 15. The financial position of the Company, its cash flows and liquidity position are described in the Chief Financial Officer's Review on pages 10 to 15. In addition, Note 26 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

After making enquiries, and considering the uncertainties described in this report either directly or by cross reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and accounts of the Company.

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 pages 48 and 49.

DIRECTORS' APPOINTMENTS

Name	Date of appointment	Date of resignation
CT Elphick	20.01.2006	N/A
KM Burford	20.01.2006	N/A
RW Davis	01.02.2007	N/A
DJ Elzas	18.10.2005	N/A
GA Beevers	01.02.2007	N/A
RW Renwick	24.09.2007	30.06.2009
M Salamon	03.02.2008	N/A
RJ Williams	03.02.2008	N/A
GE Turner	22.04.2008	N/A
AR Ashworth	22.04.2008	N/A

The Articles of Association (81) 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 CT Elphick, GA Beevers and GE Turner will retire by rotation and being eligible, offer themselves for re-election. Each has been the subject of a Board evaluation and their performance is judged as being constructive and proactive.

Details of the resolutions which will be put to the Annual General Meeting are given in the notice of the AGM, which is contained in a separate document.

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 Note 16 to the Financial Statements.

Directors' Report continued

MAJOR INTERESTS IN SHARES

On 11 March 2010, the following major interests (at or above 3%) in the issued ordinary shares of the Company had been notified to the Company in accordance with the DTR 5:

	Number of Ordinary Shares	% Shareholding
Capital Group Companies Inc	21 253 169	15.37
Lansdowne Partners Ltd	17 056 193	12.34
Black Rock Inc	16 224 631	11.73
Graff Diamonds International Ltd	14 206 860	10.27
Gem Diamonds Holdings Ltd	9 325 000	6.79
Miraud Investment Management	6 880 572	4.98
Legal & General Investment Management Ltd	5 750 494	4.16
TT International Investment Management	5 104 359	3.69

DIRECTORS INTERESTS

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

On 11 December 2007, the Company entered into a deposit agreement with Investec Bank (UK) Limited ('Investec') pursuant to which the Company deposited £4.7 million into the Investec nominated account as security for all monies and liabilities owing or incurred by Mr Glenn Turner and Mrs Gill Turner to Investec in respect of a loan offer made to Mr Glenn Turner and Mrs Gill Turner relating to their relocation to the UK from South Africa. In June 2009 £2.2 million of this loan was repaid and at 31 December 2009 £2.5 million was outstanding.

CREDITORS' PAYMENT PRACTICE

In view of the international nature of the Group's operations there is no specific Group-wide 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. Trade creditors at 31 December 2009 represented 6.5 days of the Company's annual purchases.

ELECTRONIC COPIES OF DOCUMENTS

Copies of the 2009 Annual Report, HSSE policies and other corporate publications, reports, press releases and announcements are available on the Company's website at www.gemdiamonds.com.

AMENDMENT TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

A special resolution proposing the adoption of new Memorandum and Articles of Association to accommodate the final provision within the Companies Act 2006 (where relative to BVI Company Law) will be proposed at the Annual General Meeting. Details will be set out in the Notice of the Annual General Meeting.

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 auditor's remuneration. In the absence of any regulation, no policy has been adopted by the Company to rotate audit firms periodically. However, in accordance with Ethical Standard 3 (Revised) "Long Association with the Audit Engagement" issued by the Auditing Practices Board for use in the United Kingdom and Ernst & Young LLP's internal firm policy, the senior partner is rotated every five years.

By order of the Board

André Confavreux

André Confavreux
Company Secretary
15 March 2010

Remuneration Report

COMPOSITION OF THE COMMITTEE

The Committee comprises the following members:

- Richard Williams MBE MC: Committee Chairman from 30 June 2009 (date of appointment to the Committee)
- Roger Davis
- Dave Elzas
- Mike Salamon
- Lord Robin Renwick: Committee Chairman up to 30 June 2009

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

Since February 2007, the Human Capital Resources Division of Ernst & Young LLP has supported the Remuneration Committee and attended Committee meetings. The Committee is aware that it is considered best practice for the Company's auditors (Ernst & Young LLP) not to fulfil the role of remuneration advisors and consequently appointed Kepler Associates to provide independent remuneration advice, replacing Ernst & Young LLP. Kepler Associates provide no other services to the Company.

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 arrangements of the Chairman, Executive Directors and the senior management 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-based incentive plans and approve the awards to be made.

Roger Davis's remuneration is determined by the Committee in his absence.

The Committee's policy is to provide an open and transparent dialogue with shareholders on remuneration matters.

ACTIVITIES OF THE COMMITTEE

During the year, the Committee met four times and it:

- Reviewed market trends in executive remuneration and benefits and approved revisions to the remuneration of Executive Directors and senior management;
- Approved a 10% salary reduction for the Executive Directors;
- Approved a 25% salary reduction for the non-Executive Directors;
- Approved a policy of no bonus payments in lieu of 2008 financial year or ESOP awards during 2009 for the Executive Directors;
- Approved the Directors' Remuneration Report and all relevant AGM business; and
- Approved a 25% reduction in the Chairman's remuneration.

Performance Evaluation

The Committee regularly undertakes a performance evaluation, as is described more fully on page 52 in the main body of this Annual Report.

ATTENDANCE AT THE COMMITTEE'S MEETINGS DURING 2009:

	Number of meetings held during time in office	Number of meetings attended
RJ Williams	2	2
RW Davis	4	4
DJ Elzas	4	3
M Salamon	4	4
RW Renwick[(1)]	2	2

[1] Retired 30 June 2009

Remuneration Report continued

STATEMENT OF POLICY ON DIRECTORS' REMUNERATION

Non-Executive Directors

The Executive Directors approve the fees of the non-Executive Directors. The Committee approves the fees of the Chairman. Gem Diamonds' director fee policy takes into account the number of meetings, the time required for reading Board and other papers, the duties associated with membership or Chairmanship of the Board committees and fees paid by other relevant companies. The director fees for 2009 are summarised in the Details of Directors' Remuneration table on page 47.

Taking account of the exceptional and difficult economic conditions in the diamond mining sector during 2009, the Remuneration Committee and Executive Directors consulted with the Chairman and non-Executive Directors respectively, who volunteered a 25% reduction in fees effective from 1 April 2009.

Executive Directors and Senior Management

The Company's remuneration policy is designed to provide a level of remuneration which attracts, retains and motivates 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 takes into account the UK Listing Rules, the provisions of the Combined Code and the guidance provided by institutional investor representative bodies in determining executive remuneration arrangements. In determining the appropriate structure and quantum of remuneration, the Committee reviews remuneration practices at comparator companies, comprising mining companies and UK-listed companies of a similar size to ensure remuneration policies reflect, as appropriate, prevailing industry and market conditions. Furthermore, remuneration policies have and will continue to take account of pay and employment conditions elsewhere in the Company.

The remuneration policy is supported by the following principles:

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

Taking account of the exceptional and difficult economic conditions in the diamond mining sector during 2009, the Remuneration Committee consulted with the Executive Directors, who volunteered a 10% reduction in base salaries and to receive no bonus in 2009 (for the 2008 financial year) or Employee Share Option Plan ('ESOP') awards during 2009.

ELEMENTS OF EXECUTIVE DIRECTORS' REMUNERATION

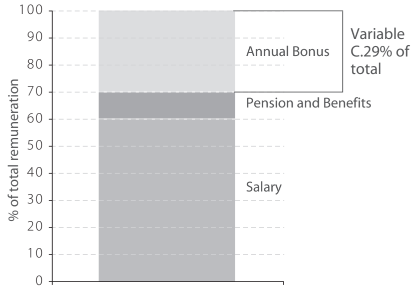
The remuneration package for the Executive Directors comprises the following elements:

- 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 Employee Share Option Plan and the Executive Share Growth Plan

There is no explicit shareholding requirement as each founder Executive Director acquired and continues to hold a significant stake in the Company. Furthermore, the remuneration structure is designed to align the interests of existing and new Executive Directors with those of shareholders by delivering a significant proportion of the remuneration package in share-based incentives.

In 2009 the Executive Directors' total compensation was in the following proportions.

EXECUTIVE DIRECTOR PAY MIX (% of total remuneration)



Base salary

Base salaries are reviewed annually against comparable roles at mining companies and UK-listed companies of similar size, and take into account individual performance, experience and market competitiveness. Salaries are reviewed with any changes being effective from 1 April. For reasons stated above, the Executive Directors volunteered a 10% salary reduction effective 1 April 2009. The Committee reviewed salaries during March 2010 and has approved the following salaries – Clifford Elphick (£400 000); Alan Ashworth (£296 180); Kevin Burford (£267 960) and Glenn Turner (£267 960), effective 1 April 2010.

Pensions and other benefits

Executive Directors do not receive any non-cash benefits as part of their employment. The Executive Directors receive a cash allowance in lieu of pension equivalent to 14% and 12.5% of base salary for the Chief Executive Officer and other Executive Directors respectively. In addition, the Executive Directors receive a cash payment in lieu of other non-cash benefits, equivalent to 5.5% and 6% of base salary for the Chief Executive Officer and other Executive Directors respectively.

Annual Bonus

Executive Directors and Senior Executives participate in a discretionary annual bonus arrangement designed to focus participants on business-critical outcomes. The maximum bonus payable under the annual bonus scheme for Executive Directors is 100% of base salary.

Specific corporate and individual objectives are discussed and agreed at the start of each year, and levels of attainment evaluated by the Committee. For 2009, Executive Director bonuses were linked to the following targets:

- Operational performance, including Health, Safety, Corporate Social Responsibility and Environment (30%);
- Business development (30%); and
- Financial performance of the Company (40%).

For the 2009 financial year, the Committee assessed the degree to which the bonus targets had been achieved and approved bonuses of between 50% and 55% of base salary for the Executive Directors.

Long-term incentives

The Executive Directors are eligible to participate in the Company's long-term incentive arrangements, as described below.

Long-term incentive awards are satisfied with newly-issued shares subject to aggregate dilution limits. The issue of shares to satisfy awards under the Company's share schemes will not exceed 10% of the company's issued ordinary share capital in any rolling 10-year period. As of 31 December 2009, 342 729 shares (0.25% of issued share capital) have been, or may be issued, pursuant to awards made.

Awards granted under the ESGP are excluded when calculating compliance with this dilution limit. However, the Company's performance against the stretching targets set for the ESGP awards was insufficient to justify any vesting and, hence, no dilution shall occur through the ESGP as all outstanding ESGP awards have now lapsed.

Full details of all outstanding employee share awards are given in Note 27 to the Financial Statements.

Employee Share Option Plan ('ESOP')

The ESOP provides for annual grants of conditional shares ('Performance Shares') and fair market value share options ('Options'), the relative proportions of which are determined by the Committee on the occasion of each grant. The aggregate value of awards granted to Executive Directors in any one year will not, in normal circumstances, exceed one times base salary. Lower limits apply to other participants.

No ESOP awards were granted to the Executive Directors or any other employee in 2009. ESOP awards were last granted to the Executive Directors in April 2008 based on an award of Performance Shares.

Vesting of ESOP awards is subject to the achievement of challenging performance conditions based on the Company's three year relative total shareholder return ('TSR'). TSR performance is measured relative to two comparator groups as follows:

- 50% of the award vests according to performance relative to the FTSE 250 Index (excluding investment trusts)
- 50% vests according to performance relative to a peer group[1] of global diamond mining and exploration companies. Vesting of this part of the award is also subject to the Committee being satisfied that there has been demonstrable value creation for the Company's shareholders as measured by shareholder return, strategic development, asset values and the financial performance of the Company.

The constituents of the diamond-sector peer group are:

- Harry Winston Diamond Corporation;
- Shore Gold Inc.;
- Petra Diamonds Limited;
- Namakwa Diamonds Limited;
- Mountain Province Diamonds Inc.;
- Rockwell Diamonds Inc.;
- Trans Hex Group Limited; and
- Vaaldiam Resources Limited.

The Committee considers TSR relative to a global diamond mining peer group to be an appropriate performance measure given the extent to which the Company's share price and those of its peers are significantly influenced by diamond prices. The Committee recognises that the number of comparators in this specialised market is limited, but believes this provides the fairest basis for comparison as it considers the diamond industry to be subject to very different market pressures compared to other extractive industries. The Committee believes an element based on a broad market index helps provide robustness in light of the small number of companies in the diamond mining comparator group and uses the FTSE 250 for 2008 ESOP awards as the Company was, at the date of grant, a member of this index and it captures companies with whom Gem Diamonds competes for capital.

[1] African Minerals Ltd, a constituent of the diamond mining comparator group at the start of the 2008 ESOP cycle is no longer considered by the Committee to be a relevant comparator company because of its now diverse activities. The Committee is satisfied that the performance condition will be no easier, nor more difficult, to achieve.

Remuneration Report continued

The ESOP vesting schedule is as follows, expressed as a percentage of the award vesting on performance versus the relevant comparator group, with linear vesting applying between these two points:

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

TSR is calculated using one month average share prices and includes reinvested net dividends paid during the performance period.

In the event that the calculation is affected by a significant corporate event which the Committee considers 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. The Committee may also adopt different performance conditions during the life of the ESOP and may vary the ratio of Options and Performance Shares.

The Committee intends to grant ESOP awards in 2010 to the Executive Directors and other senior managers. The Committee is currently reviewing the performance conditions governing the vesting of the ESOP awards to ensure they remain relevant and robust. Details of any changes to the ESOP will be included in the Notice of the Annual General Meeting for approval at that meeting.

Executive Share Growth Plan ('ESGP')

The ESGP is a separate, remuneration arrangement adopted at the time of the IPO. Its purpose was to reward very superior performance in the three year period following Admission on 14 February 2007.

Vesting of ESGP awards is subject to very demanding targets for share price growth to ensure that participants are rewarded only if significant value is created for the Company's shareholders in the three year period following admission. For the purposes of the performance criterion, the final share price is the volume-weighted average share price calculated over a 30 day period beginning 15 days prior to the third anniversary of Admission (i.e. beginning 31 January 2010).

Dependent on performance, a fixed number of shares would 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 entitled participants to an award of shares from the pool. The Company's commitment to issue new shares in respect of the ESGP, if the ESGP had vested in full, represented 4.18% of the issued share capital as at the date of this report.

The Company's share price performance since the Admission has been such that there will be no vesting on the third anniversary when the entitlements will lapse.

Payment to former directors

There were no significant payments to former Directors of the Company.

External appointments

Apart from private company interests listed in the Prospectus dated 1 April 2009, no Executive Director holds any significant executive directorship or appointment outside the Group with the exception of Clifford Elphick who was appointed non-Executive Chairman of Jumelles Holdings Ltd on 26 November 2009.

ENTITLEMENTS UNDER SERVICE CONTRACTS

The details of service contracts and appointment letters are as follows:

THE EXECUTIVE DIRECTORS' SERVICE CONTRACTS:

Director	Contract date	Unexpired term	Notice period	Contractual termination payment
CT Elphick	13 February 2007	Rolling contract	6 months	Pay salary and benefits on summary termination
KM Burford	13 February 2007	Rolling contract	6 months	
GE Turner	21 January 2008	Rolling contract	6 months	
AR Ashworth	1 January 2008	Rolling contract	6 months	

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

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.

The non-Executive Directors are not eligible to participate in the annual bonus, ESOP, ESGP or any other performance related incentive.

In accordance with the IPO Prospectus as part of the appointment of non-Executive Directors, each non-Executive Director was entitled to acquire shares, which each has now taken up in full. It is considered that this aligns their interest with the shareholders and does not compromise their independence. This entitlement only applies to the present 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 appointment of non-Executive Directors, who do not have service contracts, typically runs for three years after which the Director 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.

The non-Executive Director fees were reviewed in early 2009 following which the fees were reduced by 25%, effective 1 April 2009, to £90 000 for the Chairman of the Board and to £52 000 for all other non-Executive Directors.

Non-Executive Directors' appointment terms:

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

(1) Retired 30 June 2009

Remuneration Report continued

Performance graph

The graph below shows the total shareholder return on a holding of the Company's ordinary shares compared to a hypothetical holding of shares in the FTSE250 index. The FTSE250 has been selected as it comprises companies which represent possible alternative investment opportunities for the Company's shareholders. The graph no longer shows the Company's comparative performance against the FTSE350 index, disclosed in the 2008 Directors' Remuneration Report, as performance of the FTSE350 is closely correlated to that of the FTSE250 and to improve the clarity of the chart. The Company's comparative performance declined at the beginning of the fourth quarter of 2008 as a result of the significant impact of the global economic downturn on the diamond mining sector.

Total Shareholder Return Performance: GEM DIAMONDS vs FTSE 250 since Gem Diamonds' IPO in February 2007

THE FOLLOWING INFORMATION IS SUBJECT TO AUDIT

EMOLUMENTS AND COMPENSATION

Details of the remuneration settled in cash or at a cash cost to the Company of each Director who has served in the year 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 2009[(4)] £	Full year Total 2008 £
Executives					
CT Elphick[(5)]	370 000	72 150	198 000	640 150	462 187
AR Ashworth	273 959	50 682	133 326	457 967	336 710
KM Burford	247 866	45 855	120 582	414 303	308 852
GE Turner	247 866	45 855	120 582	414 303	362 434
Non-Executives[(6)]					
RW Davis	97 500	–		97 500	120 000
GA Beevers	56 875	–		56 875	70 000
DJ Elzas	56 875	–		56 875	70 000
M Salamon	56 875	–		56 875	63 764
RJ Williams	56 875	–		56 875	63 764
RJ Renwick[(7)]	30 625	–		30 625	70 000
	1 495 316	214 542	572 490	2 282 348	1 927 711

(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.
(4) The Directors' total emoluments for the year do not include any fair value share option/award charges.
(5) Highest paid Director.
(6) The fees payable to non-Executive Directors are not broken down to reflect particular responsibilities.
(7) RW Renwick retired from the Board on 30 June 2009.
(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.

Remuneration Report continued

ENTITLEMENTS UNDER LONG-TERM INCENTIVES

There were no long-term incentives awarded to Directors during 2009 but awards would be made post the announcement of results on 16 March 2010. In respect of prior awards, nothing is payable on grant and no exercise price is payable to acquire the shares underlying these awards (save for nominal value where shares are newly issued).

Details of awards to Directors under the ESOP

ESOP Awards made to Executive Directors in 2008

Executives	Date of grant	Number of performance shares awarded	Vesting date	Final date of exercise	Market value of shares at date of award (£)
CT Elphick	30 April 2008	34 667	30 April 2011	30 April 2018	356 387
AR Ashworth	30 April 2008	43 057	30 April 2011	30 April 2018	297 100
KM Burford	30 April 2008	24 009	30 April 2011	30 April 2018	246 813
GE Turner	30 April 2008	24 009	30 April 2011	30 April 2018	246 813
G Wheelock	30 April 2008	24 533	30 April 2011	30 April 2018	252 200

Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included on pages 43 to 44 of the Annual Report

Details of awards to Directors under the ESGP

It should be noted that none of the awards below vested on the maturity dates in 2010.

ESGP Awards made to the Executive Directors in 2007

Executives	Date of grant	Proportion of the pool subject to award	The share price on admission (pence)	Date that qualifying conditions must be met
CT Elphick	20 December 2007	8.33	950	14 February 2010
AR Ashworth	20 December 2007	6.20	950	14 February 2010
KM Burford	20 December 2007	8.33	950	14 February 2010
GE Turner	20 December 2007	8.33	950	14 February 2010

1. The market price of an ordinary share at the year end was 227 pence. The highest and lowest prices in the year were 327 pence and 121 pence.
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 950 pence 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 2009 and the date of their lapse (14 February 2010).

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 2009 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2009 and the date of this report. No Director was interested in the shares of any subsidiary company.

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 27.

Executives	Number of shares held at 1 January 2009	Numbers of shares held at 31 December 2009
CT Elphick(1)	9 325 000	9 325 000
AR Ashworth(2)	10 000	21 900
KM Burford	458 333	458 333
GE Turner	600 000	600 000

(1) Clifford 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) In the Placing on the 22 April 2009, Alan Ashworth purchased 11 900 shares.

Non-Executives

Non-Executive Directors' Shareholdings and interest in shares

	Number of shares held as at 1 January 2009	Purchased on 22 April 2009 following Placing	Allotted following exercise of right to to take up shares as non-Executive Director on 25 June 2009	Sale of shares in 2009	Number of shares held as at 31 December 2009
RW Davis	578 652	689 100	–	–	1 267 752
GA Beevers	148 164	40 000	–	43 000	145 164
DJ Elzas	144 664	–	–	–	144 664
M Salamon	144 664	172 280	–	–	316 944
RJ Williams	–	20 000	144 664	–	164 664
RJ Renwick[1]	–	60 000	144 664	–	204 664

[1] As at date of leaving – 30 June 2009

PENSIONS

No pension contributions were made to any registered pension scheme or pension fund in respect of Executive Directors during the year, and no retirement benefits were paid.

By order of the Board

Richard Williams
Chairman, Remuneration Committee
15 March 2010

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, the latest version of which was issued in June 2008 ('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 has fully complied with the best practice governance provisions as set out in Section 1 of the Combined Code for the year up to 31 December 2009 with two exceptions and notes below these periods during the year and subsequently when it was not fully compliant:

- Lord Renwick retired on 30 June 2009. He was Chairman of the Remuneration Committee which position was filled by Richard Williams MBE MC. He was also a member of the Audit and Nominations Committee. His position on the Audit Committee was taken by Roger Davis on 25 August 2009, who it is believed has the most appropriate experience to make a positive contribution. As Roger Davis is also Chairman of the Board, this is not in compliance with Section C.3.1 of the Combined Code. This situation will continue for the foreseeable future. The situation will be kept under review. In this regard the Chairman is considered to be independent.
- It has been decided that Lord Renwick's position on the Nominations Committee will not be filled as the conduct and performance of the Committee is seen as working effectively with its present membership (Roger Davis, Clifford Elphick and Mike Salamon) and the Committee does not feel that filling the vacancy in the short-term simply to comply with Combined Code (A.4.1) would improve the performance of the Committee. The situation will be kept under review.

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 identification 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 and changes during the year are as follows:

- The Board, chaired by Roger Davis, is nine in number, comprising four Executive Directors and five 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); 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 (Chairman of the Remuneration Committee).
- Lord Renwick retired as a Director on 30 June 2009.
- All of the non-Executive Directors are regarded as independent by the Board as defined in the Combined Code under A.3.1, as was the Chairman on his appointment.

Attendance at Board meetings and Committees of the Board

Four scheduled Board meetings and four meetings connected to the Placing were held during 2009. Attendance by Directors at Board and Committee meetings is shown below. All Board meetings were held in the United Kingdom.

There are six formally constituted committees of the Board, each of which has formal terms of reference. Those for the Audit; Remuneration; HSSE; Nomination Committee's can be viewed on the Company's website.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS DURING 2009

Number of meetings held	Board (8)	Audit (4)	Remuneration (4)	HSSE (4)	Nominations (3)
RW Davis	8	1	4	N/A	3
CT Elphick	7	N/A	N/A	N/A	3
GA Beevers	7	N/A	N/A	4	N/A
DJ Elzas	6	3	3	N/A	N/A
M Salamon	7	N/A	4	4	3
RW Renwick[(1)]	4	2	2	N/A	1
RJ Williams	7	4	2	N/A	N/A
AR Ashworth	7	N/A	N/A	N/A	N/A
KM Burford	7	N/A	N/A	N/A	N/A
GE Turner	8	N/A	N/A	4	N/A

(1) Retired 30 June 2009.

A further 5 ad hoc meetings were held to issue formal approvals or deal with relevant Board matters which had been delegated.

Before each Board meeting the non-Executives meet independent of the Executive Directors, in accordance with a practice which many listed companies have adopted.

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 of 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 of the Company.

Led by the Chief Executive Officer, the executive management are responsible for developing strategy for consideration by the Board as a whole, the implementation of that strategy, once approved, and furnishing the Board with information reasonably required to monitor the efficient and effective conduct of the business.

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 current five 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.

In accordance with the IPO Prospectus and referred to in the Directors' Remuneration Report, as part of the appointment of non-Executive Directors, each non-Executive Director was entitled to acquire shares which each Director has now taken up in full. It is considered that this aligns their interest with the shareholders and does not compromise their independence. This entitlement only applies to the present 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 primary 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. Since 2007, recruitment to the Board has been on the basis of recommendation, thus no outside consultants have been employed. The 'pool' of appropriately qualified individuals is small and suitable candidates are known to management. The Nomination Committee's section of this report is set out on page 55. The Board currently has no plans for changing its composition.

Corporate Governance Report continued

Information and professional development

All Directors are 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. To date they 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 operation particularly its commitment to and application of the Company's Corporate Social Responsibility policies, which includes health and safety; and opportunities for professional and skills training such as Committee Chairmanship.

Performance evaluation

In 2008, a Board Performance evaluation was undertaken. The review facilitated debate around identified key issues.

During 2009 the recommendations of the 2008 evaluation were implemented and in November 2009 Board members were asked and confirmed their satisfaction with the implementation of the recommendations.

The results of the 2009 evaluation were disseminated to all Board members. Where specific issues were raised, none of which were identified as significant, these were referred to the responsible director(s).

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

In 2009 an individual performance evaluation was undertaken. This comprised a structured review with each director, by an outside consultant, the results of which were given to the Chairman. In respect of the Chairman, the results were discussed with the Senior Independent Director. The results were discussed with each member of the Board individually. The Board has formally reviewed succession plans for key executive management roles and the Chairman. This is regarded as an important feature of the Nomination Committee function and is routinely reviewed to ensure its appropriateness.

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 Annual General Meeting ('AGM') three Directors will retire, in accordance with the provisions of the Combined Code and the Company's Articles of Association. The whole board was elected at the AGM in 2008. Sufficient biographical and other information is 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 and the Chairman in his absence. The details of all Directors' Remuneration is covered in the Remuneration Report on page 47.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Board is conscious 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 58.

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 revised Guidance of the Turnbull Committee on Internal Control published in October 2005, 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 (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 and have not identified any significant failings or weaknesses.

Risk management

The Board considers effective risk management as an essential element of professional management and has implemented a structured and comprehensive system across the Company utilising the services of KPMG Services (Proprietary) Ltd. 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 and protecting the Company's assets, the environment in those locations in which it operates, its reputation and its staff. 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 thereafter to the Board's Audit Committee and as appropriate to the Board.

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

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 ('Plan'). The Board reviews and approves the annual budget and Plan. The Plan 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 the monthly reporting of key performance indicators and updated forecasts for the year, together with information on the key risk areas.

In addition, routine 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 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 an 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 and disposals 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 function was established in 2007. A risk-based internal audit programme was prepared for 2009 and approved by the Audit Committee and reports on achievement of the programme and findings were presented to the Audit Committee for consideration and approval.

The programme 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 Services (Proprietary) Ltd as an outsourced service provider.

Whistleblowing programme

There is a formal mechanism to report fraud, suspected corruption and irregularities and investigate reports. These are independently operated confidential free phone 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 local boards and to the Group's Audit Committee. 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 on pages 54 to 55.

RELATIONS WITH SHAREHOLDERS

Dialogue with shareholders

The Board places 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 to analysts and institutional investors. Presentations are given by the Executive Directors 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.

On a day to day basis the Investor Relations Manager keeps in contact with the Company's

Corporate Governance Report continued

institutional and other shareholders plus industry experts. It is his task to ensure a good flow of reliable information between the Company and its investors.

The Senior Independent Director, Mike Salamon, is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact would be inappropriate.

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

Constructive use of the AGM

All Directors attend the AGM, where shareholders are 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, plus percentages for and against 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 Company 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 a minimum of 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 to the Terms of Reference, if appropriate. The Terms of Reference for each committee requires members to be re-nominated after 3 years. This was done in respect of Gavin Beevers (Chairman HSSE Committee), Roger Davis (Chairman of the Nominations and member of the Remuneration Committee), Clifford Elphick (member of the Nominations Committee) and Dave Elzas (member of the Remuneration and Chairman of the Audit Committee).

Board committees

Subject to those matters reserved for its decision, the Board delegates certain responsibilities to a number of 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 an appropriate risk management and internal financial 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 and reviewing significant financial reporting judgements; considering the scope of the Company's annual external audit and the extent of non-audit work undertaken by external auditors; approving and monitoring the effectiveness of the internal audit programme and reviewing its material findings; advising on the appointment of external auditors, overseeing this relationship including remuneration and terms of engagement, monitoring independence, annual review of auditor's performance; and reviewing the effectiveness of the Company's internal financial control and risk management 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 non-Executive Directors, Dave Elzas (Chairman of the Committee), Roger Davis and Richard Williams MBE MC. Dave Elzas is considered to be independent. The association of Dave Elzas and GMG in no way compromises his independence. The fees for the work performed by GMG for the Company are immaterial in relation to the overall income of GMG.

The Committee met four times in the year. Four meetings are scheduled for 2010.

The Chief Executive, the Chief Financial Officer and a representative of the Company's internal and external auditors normally attend each meeting. 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 2008 annual financial statements, the 2009 interim results and reviewed the external auditor's 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, which would be assessed;
- Reviewed reports from the external auditor on issues arising from their work;
- Reviewed the external auditor's plan and scope for the audit of the Group's financial statements, 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;
- Reviewed management's assessment of the internal control framework;
- Examined the effectiveness of the Company's risk management system, including its risk management process, and profile and the Company's internal control systems. The Committee received reports of the internal control environment in place at its subsidiaries which were considered to be effective;
- Approved the statement on the process by which the Committee and the Board reviews the effectiveness of internal control;

- Reviewed the nature and limits of the Company's insurance policies which were considered to be appropriate;
- Reviewed and approved the internal audit plans for 2010 and the effectiveness of the internal audit function;
- Evaluated the performance of the Committee and its Terms of Reference;
- Reviewed the "going concern" statement;
- Reviewed the Whistleblowing arrangement throughout the Company and received reports as appropriate; and
- Reviewed and approved the adoption of a Policy on the provision for non-Audit Services.

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

During the year the Audit Committee approved a formal policy governing the conduct of non-audit work by the external auditors which ensures that the Company is in compliance with the requirements of the Combined Code and the Ethical Standards for Auditors published by the Auditing Practices Board. While there have been no instances of threats to independence, in accordance with the policy, Kepler Associates were appointed as independent advisers to the Remuneration Committee on remuneration matters in place of Ernst & Young's Human Capital Division.

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 the external auditors.

The Committee's assessment of the external auditor's 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 2011. Resolutions to authorise the Board to re-appoint and determine their remuneration will be proposed at the AGM on 9 June 2010.

Remuneration Committee

The details of the Remuneration Committee and its operation can be found on page 41 of the Remuneration Report.

Nominations Committee

The Nominations Committee comprises two non-Executive Directors and one Executive Director. The non-Executive Directors are Roger Davis (Chairman of the Committee) 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 2009. All recommendations for Board appointments are made on merit and against objective criteria. So far the committee has not employed outside consultants as appropriate candidates were known to the Board.

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

- Succession planning;
- The composition of various committees;
- Board composition;
- The effectiveness of the Nominations Committee (there were no matters of note arising from the exercise); and
- Assess the effectiveness of those seeking re-election at the AGM and make recommendations to the Board.

HSSE Committee

In addition to the formal committees recommended by the Combined Code, the Board has established an HSSE Committee. It assists the Board in developing and monitoring policies and guidelines for the management on corporate social responsibility and sustainable development matters, including health, safety, CSI and environmental issues, and to ensure their implementation as well as correct and legal maintenance throughout the Group. Additionally, the HSSE has developed a system of internal controls and risk management policies and procedures which aim to ensure the Group's strategy is cognisant of and takes account of the best corporate social responsibility practice, the details of which are more fully described in the Sustainability Development Report to be found on pages 19 to 37. The HSSE Committee provides the Board with additional focus and guidance on key global HSSE issues. Four meetings were held in 2009.

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

The primary purpose of the Committee is to:

- Have oversight of and provide advice to the Board and, as necessary, to the Audit Committee, on all Corporate Social Responsibility matters which will embrace such issues as safety and sustainability including health, environment and community matters, and particularly as pertaining to the risk and management of these issues within the Group;
- Have oversight of and provide advice to the Board on the Group's compliance with applicable legal and regulatory requirements associated with Corporate Social Responsibility which includes safety and sustainability;
- Assess periodically the effectiveness of management's attitudes and approach towards, and activities in, managing safety and sustainability related risk as part of Corporate Social Responsibility;
- Review significant safety and environmental incidents and consider causative factors, consequences and actions including the impact on employees and third parties and reputational risk;
- Review the Group's performance indicators in connection with safety and sustainability matters;
- Review the Group's public disclosures on safety and sustainability matters and approve these as necessary; and
- Report to the Board on developments, trends and / or forthcoming significant legislation on safety and sustainability matter which may be relevant to the Group's operations, it assets or employees.

Corporate Governance Report continued

During the year, the HSSE Committee has:

- Revisited and inspected most of the Group's operating sites.
- 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 HSSE incidents;
- Received legal advice on HSSE obligations and HSSE governance arrangements across the business;
- Reviewed the HSSE Committee's effectiveness and terms of reference, which are available on the Company's website
- Monitored and evaluated new developments, issues and/or relevant legislation on HSSE matters;
- Reviewed and updated the HSSE policies which are available on the Company's website; and
- Reviewed expenditure and progress on community projects and approved CSI expenditure.

By order of the Board

André Confavreux

André Confavreux
Company Secretary
15 March 2010

Annual Financial Statements

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Responsibility Statement of the Directors in Respect of the Annual Report and Financial Statements

The Directors confirm that, to the best of our knowledge and subject to any material departures disclosed and explained in the financial statements, the Group has complied with International Financial Reporting Standards ('IFRS') and suitable accounting policies have been selected and applied consistently in the preparation of this annual report and the annual financial statements contained therein.

Information, including accounting policies, has been presented in a manner that provides relevant, reliable, comparable and understandable information and additional disclosures have been provided when compliance with the specific requirements in IFRS has been insufficient to enable users to understand the financial impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

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
15 March 2010

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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards (IFRSs).

This report is made solely to the Company's members 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 58, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

The directors are also responsible for the preparation of the Corporate Governance Report and the Remuneration Report, which they have chosen to prepare as if the Company were required to comply with relevant requirements of the Listing Rules and Disclosure and Transparency Rules of the Financial Services Authority as well as the companies legislation in the UK.

The Company has also instructed us to perform work on matters (with which it has complied with voluntarily) which an auditor of a UK-incorporated company would be required to perform either in accordance with companies legislation in the UK or requirements of the Listing Rules of the UK Financial Services Authority. We report on these matters in the sections "Opinion on other matters as per our terms of engagement with the Company" and "Matters on which we report by exception as per our terms of engagement with the Company".

Scope of the audit and the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRSs.

Opinion on other matters as per our terms of engagement with the Company

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the financial statements;
- the information given in the Corporate Governance Statement set out on pages 52 to 54 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements; and
- the part of the Remuneration Report of the Company that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

Matters on which we report by exception as per our terms of engagement with the Company

We have nothing to report in respect of the following:

Under the terms of our engagement we agreed to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the accounts are not in agreement with the records and returns; or
- we have not obtained all the information and explanations which we consider necessary for the purpose of the audit; or
- certain disclosures of directors' remuneration which the Company has made voluntarily as if it were subject to UK companies legislation are not made.

Independent Auditor's Report to the Members of GEM Diamonds Limited
continued

We have nothing to report in respect of the following:

- the directors' statement, set out on pages 38 and 39, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code which for a listed UK-incorporated company, are specified in the Listing Rules of the Financial Services Authority for review by the company's auditor.

Ernst & Young LLP
1 More London Place
London
15 March 2010

The maintenance and integrity of the Gem Diamonds Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Consolidated Income Statement

For the year ended 31 December 2009

(US$'000)	Notes	2009	2008*
CONTINUING OPERATIONS			
Revenue	2	244 396	296 881
Cost of sales		(178 849)	(247 409)
GROSS PROFIT		65 547	49 472
Other operating income		321	210
Royalties and selling costs		(22 500)	(27 067)
Corporate expenses		(14 937)	(22 188)
Share-based payments	27	(5 629)	(10 410)
Reversal of impairment/(impairment)		170	(338 197)
Foreign exchange gain/(loss)		14 399	(19 347)
OPERATING PROFIT/(LOSS)	3	37 371	(367 527)
Net finance costs	4	(271)	(74)
Finance income		2 851	3 840
Finance costs		(3 122)	(3 914)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		37 100	(367 601)
Income tax expense	5	(10 214)	(5 251)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		26 886	(372 852)
DISCONTINUED OPERATIONS Loss after tax for the year from discontinued operations	6	(1 517)	(179 314)
PROFIT/(LOSS) FOR THE YEAR		25 369	(552 166)
Attributable to: Equity holders of parent		15 531	(552 817)
Minority interests		9 838	651
PROFIT/(LOSS) FOR THE YEAR		25 369	(552 166)
Earnings per share (cents)	7		
– Basic, profit/(loss) for the year attributable to ordinary equity holders of the parent		14	(884)
– Diluted, profit/(loss) for the year attributable to ordinary equity holders of the parent		13	(884)
Earnings per share for continuing operations (cents)			
– Basic, profit/(loss) for continuing operations attributable to ordinary equity holders of the parent		15	(597)
– Diluted, profit/(loss) for continuing operations attributable to ordinary equity holders of the parent		14	(597)

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

(US$'000)	2009	2008*
PROFIT/(LOSS) FOR THE YEAR	25 369	(552 166)
Fair value adjustments[1]	–	(123)
Exchange differences on translation of foreign operations	46 056	(129 337)
Other comprehensive income/(loss) for the year, net of tax	46 056	(129 460)
Total comprehensive income/(loss) for the year, net of tax	71 425	(681 626)
Attributable to:		
Equity holders of parent	48 163	(663 671)
Minority interests	23 262	(17 955)
Total comprehensive income/(loss) for the year, net of tax	71 425	(681 626)

* The prior year figures have been restated for the revisions to the provisional Purchase Price Accounting for the Calibrated Diamonds acquisition (Refer Note 1.1.4, Acquisitions).
1. Refer to Note 16, Other Reserves for additional information.

Consolidated Statement of Financial Position

As at 31 December 2009

(US$'000)	Notes	2009	2008*
ASSETS			
Non-current assets			
Property, plant and equipment	8	356 554	292 716
Intangible assets	9	27 990	22 294
Other financial assets	11	12 578	5 641
		397 122	320 651
Current assets			
Inventories	13	31 395	36 303
Receivables	14	6 995	14 218
Other financial assets	11	535	655
Income tax receivable		92	–
Cash and short term deposits	15	113 827	61 436
		152 844	112 612
Assets of disposal group classified as held for sale	6	140	–
TOTAL ASSETS		550 106	433 263
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	16	1 383	629
Share premium		885 648	787 487
Treasury shares[1]		(1)	(2)
Other reserves	16	(26 551)	(64 929)
Accumulated losses		(509 260)	(524 791)
		351 219	198 394
Minority interests		68 043	48 068
TOTAL EQUITY		419 262	246 462
Non-current liabilities			
Interest bearing loans and borrowings	17	–	361
Trade and other payables	18	1 584	451
Provisions	19	30 183	25 240
Deferred tax liabilities	12	60 549	49 745
		92 316	75 797
Current liabilities			
Interest bearing loans and borrowings	17	204	37 474
Other financial liabilities	20	–	3 853
Trade and other payables	18	36 842	55 405
Income tax payable		1 274	14 272
		38 320	111 004
Liabilities directly associated with the assets of the disposal group classified as held for sale	6	208	–
TOTAL LIABILITIES		130 844	186 801
TOTAL EQUITY AND LIABILITIES		550 106	433 263

* The prior year figures have been restated for the revisions to the provisional Purchase Price Accounting for the Calibrated Diamonds acquisition (Refer Note 1.1.4, Acquisitions). The restatement of the prior year figures did not impact the opening statement of financial position at 1 January 2008 and hence it has not been presented.
1. Being shares held by Gem Diamonds Limited Employee Share Trust.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(US$'000)	Attributable to the equity holders of the parent: Issued capital[1]	Share premium[1]	Treasury shares[2]	Other reserves[1]	(Accumulated losses)/retained earnings	Total	Minority interests	Total equity
Balance at 1 January 2009	629	787 487	(2)	(64 929)	(524 791)	198 394	48 068	246 462
Profit for the year	–	–	–	–	15 531	15 531	9 838	25 369
Other comprehensive income	–	–	–	32 632	–	32 632	13 424	46 056
Total comprehensive income	–	–	–	32 632	15 531	48 163	23 262	71 425
Share capital issued	754	108 016	1	–	–	108 771	–	108 771
Transaction costs on share capital issued	–	(9 855)	–	–	–	(9 855)	–	(9 855)
Share-based payments (Note 27)	–	–	–	5 746	–	5 746	–	5 746
Dividends paid	–	–	–	–	–	–	(3 287)	(3 287)
Balance at 31 December 2009	1 383	885 648	(1)	(26 551)	(509 260)	351 219	68 043	419 262
Balance at 1 January 2008	624	787 487	(3)	54 874	8 243	851 225	83 123	934 348
(Loss)/Profit for the year	–	–	–	–	(552 817)	(552 817)	651	(552 166)
Other comprehensive (loss)/income	–	–	–	(130 637)	19 783	(110 854)	(18 606)	(129 460)
Total comprehensive income	–	–	–	(130 637)	(533 034)	(663 671)	(17 955)	(681 626)
Share capital issued	5	–	1	–	–	6	–	6
Share-based payments	–	–	–	10 834	–	10 834	–	10 834
Dividends paid	–	–	–	–	–	–	(17 100)	(17 100)
Balance at 31 December 2008*	629	787 487	(2)	(64 929)	(524 791)	198 394	48 068	246 462

1. Refer to Note 16, Issued Capital and Reserves for further detail.
2. Being shares held by Gem Diamonds Limited Employee Share Trust.
* The prior year figures have been restated for the revisions to the provisional Purchase Price Accounting for the Calibrated Diamonds acquisition (Refer Note 1.1.4, Acquisitions).

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

(US$'000)	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		47 451	59 095
Cash generated by operations	21.1	74 736	88 123
Working capital adjustments	21.2	(2 503)	(18 611)
		72 233	69 512
Interest received		2 851	3 840
Interest paid		(1 918)	(2 188)
Income tax paid		(25 715)	(12 069)
CASH FLOWS USED IN INVESTING ACTIVITIES		(61 027)	(159 407)
Purchase of property, plant and equipment		(58 856)	(137 872)
Proceeds from sale of property, plant and equipment		20	1 632
Purchase of intangible assets		–	(293)
Proceeds from disposal of other financial assets		321	1 234
Purchase of other financial assets		(6 301)	(4 391)
Acquisitions, net of cash acquired	21.3	–	(19 717)
Proceeds from sale of subsidiary, net of cash disposed	21.4	3 789	–
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		54 130	(5 126)
Proceeds from share capital issued		108 771	6
Transaction costs from share capital issued		(9 855)	–
Repayment of bonds		(15 760)	(961)
Financial liabilities (repaid)/raised		(25 739)	12 929
Dividends paid to non-controlling interests		(3 287)	(17 100)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		40 554	(105 438)
Cash and cash equivalents at the beginning of the year		61 436	181 834
Foreign exchange differences		11 852	(14 960)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		113 842	61 436
Less: cash and equivalents from discontinued operations at end of the year		(15)	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	15	113 827	61 436

Notes to the Annual Financial Statements

For the year ended 31 December 2009

1. NOTES TO THE FINANCIAL STATEMENTS

1.1 Corporate information

1.1.1 Incorporation

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 15 March 2010.

1.1.2 Operational information

The financial results for the year ended 31 December 2009 are fully disclosed in the attached financial statements.

The Company has the following investments directly in subsidiaries at 31 December 2009:

Name of company	Share holding	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 Equity Group Limited[1]	100%	US$50 000	BVI	Dormant investment company holding 1% in Gope Exploration Company (Proprietary) Limited.
Gem Diamond Centrafrique SARL[1]	75%	US$96 022	CAR	Diamond mining, evaluation and development, and holder of mining licenses and concessions.
Letšeng Diamonds (Proprietary) Limited[1]	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights.
Gope Exploration Company (Proprietary) Limited[1]	100%	US$27 752 144	Botswana	Diamond mining, evaluation and development, and holder of suspended mining licenses and concessions.
BDI Mining Corp1	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$17 510 827	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 change in the shareholding since the prior year.
2. During the year, Gem Diamonds Investments Limited's authorised share capital was increased and additional shares were acquired.
3. During the year, the shareholding in Gem Diamond Mining Company of Africa (RDC) SPRL, Gem Diamonds Longatshimo Mining Company (RDC) SPRL and Kabongo Development Company (RDC) SPRL were disposed of.

1.1.3 Segment information

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

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

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.1.3 Segment information continued

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

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

Segment revenue is derived from mining activities and group services.

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

Year ended 31 December 2009 (US$'000)	Lesotho	Australia	Indonesia	Botswana	BVI, RSA and UK	Total
Sales						
Total sales	163 881	76 705	1 058	3	11 690	253 337
Inter-segment sales	–	–	–	–	(8 941)	(8 941)
Sales to external customers	163 881	76 705	1 058	3	2 749	244 396
Results						
Depreciation	42 635	13 822	–	–	1775	58 232
Share-based equity transactions	189	219	9	–	5 212	5 629
Segment profit/(loss)	40 104	8 090	(2 107)	(10)	(8 706)	37 371
Segment assets	341 872	76 078	2 986	48 904	80 126	549 966
Segment liabilities	25 231	35 804	3 679	1 373	4 000	70 087
Other segment information						
Capital expenditure						
– Property, plant and equipment	34 425	20 692	–	3 874	1 467	60 458

Profit for each operating segment does not include finance income (US$2.9 million) and finance costs (US$3.1 million).

Based on all available information to the Group, no single customer contributed more than 10% to the Group's revenue.

Segment assets do not include assets of the disposal group classified as held for sale (US$0.1 million).

Segment liabilities do not include deferred tax liabilities (US$60.5 million) and liabilities directly associated with the assets of the disposal group classified as held for sale (US$0.2 million).

Year ended 31 December 2008* (US$'000)	Lesotho	Australia	Indonesia	Botswana	BVI, RSA and UK	Total
Sales						
Total sales	188 827	99 534	8 003	–	16 294	312 658
Inter-segment sales	–	–	–	–	(15 777)	(15 777)
Sales to external customers	188 827	99 534	8 003	–	517	296 881
Results						
Depreciation	22 054	40 547	11 526	–	1 221	75 348
Share-based equity transactions	573	183	111	–	9 513	10 380
Segment profit/(loss)	98 905	(303 293)	(121 706)	27	(41 460)	(367 527)
Segment assets	275 702	60 429	5 324	42 755	46 783	430 993
Segment liabilities	35 324	70 279	5 553	2 270	21 276	134 702
Other segment information						
Capital expenditure						
– Property, plant and equipment	50 656	45 850	8 000	11 070	9 090	124 666
– Intangible assets	–	–	–	–	1 893	1 893

* Prior year figures have been restated for the reclassification impact for accounting for discontinued operations (Refer Note 6, Discontinued Operations).

Notes to the Annual Financial Statements
continued

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.1.3 Segment information continued

Profit for each operating segment does not include finance income (US$3.8 million) and finance costs (US$3.9 million).

Segment liabilities do not include deferred tax liabilities (US$49.7 million) and liabilities directly associated with the assets of the disposal groups classified as held for sale (US$0.2 million).

1.1.4 Acquisitions

Acquisition of Calibrated Diamonds Investment Holdings ('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 intellectual property rights to certain key polishing processes.

The final fair value of the identifiable assets and liabilities of Calibrated Diamonds as at the date of acquisition were finalised during the year as follows:

(US$'000)	Provisional fair value as reported 31 December 2008	Fair value adjustments	Final fair value at acquisition
Property, plant and equipment	17	–	17
Goodwill/Intangible assets	9	–	9
Inventories	211	–	211
Receivables	27	–	27
Cash and cash equivalents	75	–	75
	339	–	339
Financial liabilities	4	–	4
Trade and other payables	175	–	175
Provisions	4	360	364
Income tax payable	286	(286)	–
	469	74	543
Net liabilities	(130)	(74)	(204)
Fair value of net liabilities	(130)	(74)	(204)
	(130)	(74)	(204)
Plus: Goodwill on acquisition	1 815	74	1 889
Cost	1 685	–	1 685
Cost			
Purchase consideration	1641	–	1 641
Costs associated with the acquisition	44	–	44
	1 685	–	1 685
Cash outflow on acquisition			
Purchase consideration	1 685	–	1 685
Net cash acquired with the subsidiary	(75)	–	(75)
Net cash paid	1 610	–	1 610

From the date of acquisition until 31 December 2008, Calibrated Diamonds had not contributed to revenue and had incurred a loss of US$0.5 million.

If the combination had taken place at the beginning of 2008, Calibrated Diamonds would have contributed US$5.3 million to revenue and a profit of US$0.9 million to the Group until 31 December 2008.

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.

1. NOTES TO THE FINANCIAL STATEMENTS 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 except for the adoption of the new standards and interpretations detailed below.

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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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 judgments.

The Group has also adopted the following standards and interpretations from 1 January 2009:

– IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group or any additional disclosure requirements.

– IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as for significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

– IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 1.1.3. Segment information.

– IAS 1 Revised Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income. It presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

– IAS 23 Borrowing costs (Revised)

The standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirement of the Standard this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

Improvements to IFRS

In May 2008 the International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group and did not have any additional disclosure requirements other than those detailed below.

Notes to the Annual Financial Statements
continued

1. **NOTES TO THE FINANCIAL STATEMENTS** continued

1.2.1 Basis of presentation continued

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 16 Hedges of a Net Investment in a Foreign Operation

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	Amendments to IFRS 2 Share-Based Payments: Group cash settled share-based payment transactions	January 2010
IFRS 3	(Revised) Business Combinations	July 2009
IFRS 9	Financial Instruments (Phase 1 of new standard to replace IAS 39)	January 2013
IAS 24	Amendments to IAS 24 – Related Party Disclosures	January 2011
IAS 27	(Amended) Consolidated and Separate Financial Statements'	July 2009
IAS 32	Amendments to IAS 32 – Classification of Rights Issues denominated in a Foreign Currency	February 2010
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	July 2009
IFRIC 14	Amendments to IFRIC 14 – Prepayments of a minimum Funding Requirement	January 2011
IFRIC 17	Distributions of Non-Cash Assets to Owners	July 2009
IFRIC 18	Transfers of Assets from Customers	July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 2010
Improvements to IFRS (April 2009)		January 2010

** Annual periods beginning on or after.

The Group has not early adopted any of these standards or amendments. 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.

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 reflects management's assessment of the impact of these 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.

Following the Capital Raising concluded in April 2009 of US$98.8 million and the settlement of all significant debt, the Group has ended the year with US$113.8 million cash on hand.

Refer to Note 26, Financial Risk Management for statements on the Company's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; its exposures to market risk in relation to commodity price and foreign exchange risks; cash flow interest rate risk; credit risk and liquidity risk.

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.

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.3 Basis of consolidation continued

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.

Subsidiaries

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 their accounting policies 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 their accounting policies 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. License 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.

Notes to the Annual Financial Statements
continued

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.4 Exploration and evaluation expenditure continued

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	Lesser of period of lease or 5 years
Other assets	Straight line	2 – 5 years

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

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.6 Property, plant and equipment continued

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 Licenses

Concessions and licenses are shown at cost. Concessions and licenses have a finite 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 licenses over the shorter of the life of mine or term of the license 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 uncollectible.

Notes to the Annual Financial Statements
continued

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.8 Impairments continued

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 of equity instruments 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.

Where financial assets are recognised initially, they are measured at fair value plus, in the case of investments, not at fair value though 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 twelve 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 those with maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate 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 rate 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.

Cash flow hedges

For cash flow hedges, the effective portions of the fair value gains and 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 and 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.

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.9 Other financial assets continued

Hedge accounting is applied provided certain criteria are met. At the inception of a hedging relationship, the relationship between the hedging instruments and 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 rate method less any allowance for impairment. The calculation takes into account any premium or 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 at 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 consists 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 for each balance sheet presented 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

Notes to the Annual Financial Statements
continued

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.14 Foreign currency translation reserve continued

- 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 16, Issued 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 re-measured 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.

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 rate 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.

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.16 Financial liabilities continued

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 program 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 operation 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.

Notes to the Annual Financial Statements
continued

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.19 Taxation continued

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 fulfillment 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 fulfillment 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).

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. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.22 Revenue

Revenue is measured at 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 and can be measured reliably and receipt of future economic benefits is probable.

Rendering of service

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 reliably measured 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 judgments

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

Judgment 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.

Notes to the Annual Financial Statements
continued

1. NOTES TO THE FINANCIAL STATEMENTS continued

1.2.25 Critical accounting estimates and judgments continued

Property, plant and equipment – recoverable amount

The calculation of the recoverable amount of an asset requires significant judgments, 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 fair value 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.

(US$'000)		2009	2008
2.	REVENUE		
	Sale of goods	242 053	296 368
	Royalty refund received	2 036	–
	Rendering of services	307	513
		244 396	296 881
	Finance revenue is reflected in Note 4, Net finance costs.		
3.	OPERATING PROFIT/(LOSS)		
	Operating profit/(loss) includes the following:		
	Other operating income		
	Profit/(loss) on disposal of property, plant and equipment	2	(3)
	Depreciation and amortisation		
	Depreciation of property, plant and equipment – continuing operations	(58 284)	(75 375)
	Depreciation of property, plant and equipment – discontinued operations	–	(3 498)
	Less: Depreciation capitalised to exploration assets – continuing operations	52	596
	Less: Depreciation capitalised to exploration assets – discontinued operations	–	3 498
	Less: Depreciation and amortisation capitalised to inventory	105	1 868
		(58 127)	(72 911)
	Amortisation of intangible assets – discontinued operations	–	(43)
	Less: Amortisation capitalised to exploration assets – discontinued operations	–	43
		–	–
		(58 127)	(72 911)
	Inventories		
	Cost of inventories recognised as an expense	(178 849)	(247 409)
	Write-down of inventories to net realisable value	–	(19 278)
	Foreign exchange gain/(loss)	14 399	(19 347)
	Exceptional items[1]		
	Retrenchment costs	–	(445)
	Reversal of impairment/(impairment)		
	– Property, plant and equipment – continuing operations	149	(295 704)
	– Property, plant and equipment – discontinued operations	–	(180 333)
	– Intangible assets	–	(70 464)
	– Other financial assets – continuing operations	21	(1 060)
	– Other financial assets – discontinued operations	–	(697)
	– Cost of acquisition related activities	–	(816)
		170	(549 519)

Notes to the Annual Financial Statements
continued

(US$'000)		2009	2008*
3.	OPERATING PROFIT/(LOSS) continued		
	Operating lease expenses as a lessee		
	Lease payments recognised in the income statement		
	– Mine site property	(1 966)	(402)
	– Equipment and service leases	(254)	(2 204)
	– Contingent rental – alluvial deposits	(6 053)	(11 667)
	– Vehicles	(41)	–
	– Leased premises	(636)	(1 233)
		(8 950)	(15 506)
	Auditor's remuneration – Ernst & Young		
	Audit fee		
	– Group financial statements	(1 091)	(2 503)
	– Statutory	(354)	(445)
		(1 445)	(2 948)
	Other non-audit fees Ernst & Young		
	Tax services	(102)	(717)
	Other Services[2]	(82)	–
		(184)	(717)
		(1 629)	(3 665)
	Employee benefits expense		
	Salaries and wages	(31 921)	(35 168)

Directors' remuneration

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

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).
1. Included in operating profit/(loss), are significant items of income and expense, which are presented separately due to their nature or the expected infrequency of the events giving rise to them.
2. Other services for non-audit work for the amount of US$1.0 million was incurred during the year. These costs related to the Placement in April 2009 and all the costs, together with other legal and professional fees, were set-off against the Share Premium account.

		2009	2008*
4.	NET FINANCE COSTS		
	Finance income		
	Bank deposits	2 695	3 840
	Other	156	–
	Total finance income	2 851	3 840
	Finance costs		
	Bank overdraft	(90)	(60)
	Interest on debt and borrowings	(1 529)	(2 286)
	Finance costs on unwinding of rehabilitation provision	(1 456)	(1 445)
	Finance lease	(47)	(123)
	Total finance costs	(3 122)	(3 914)
		(271)	(74)

(US$'000)	2009	2008*
5. INCOME TAX EXPENSE		
Income statement		
Current		
– Overseas	(12 495)	(19 511)
– Adjustments in respect of prior year	2 070	1 895
	(10 425)	(17 616)
Withholding tax		
– Overseas	(821)	(4 163)
– Adjustments in respect of prior year	–	2 893
	(821)	(1 270)
Deferred		
– Overseas	1 032	13 635
	1 032	13 635
	(10 214)	(5 251)
Reconciliation of tax rate:		
Profit/(loss) before taxation from continuing operations	37 100	(367 601)
Loss before taxation from discontinued operations	(1 607)	(209 136)
Profit/(loss) before taxation	35 493	(576 737)
	%	%
Expected income tax rate	28	29
Permanent differences	7	(2)
Unrecognised deferred tax assets	(2)	(24)
Effect of overseas tax at different rates	(2)	2
Utilisation of previously unrecognised deferred tax assets	–	(1)
Effect of deferred tax on unremitted earnings	3	–
Withholding tax	2	–
Adjustments in respect of prior years	(6)	–
Other	(1)	–
Effective tax rate	29	4
Income tax expense reported in the consolidated income statement	(10 214)	(5 251)
Income tax attributable to discontinued operations	90	29 822
	(10 124)	24 571

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

Notes to the Annual Financial Statements
continued

(US$'000)		2009	2008
6.	DISCONTINUED OPERATIONS		
	Central Africa		
	During 2009, the decision was made to dispose of the operations in the DRC and the CAR. Management has been committed to a plan to sell the operations and an active programme to locate a buyer and complete the plan has been initiated. Prior to year end, the operations in the DRC were disposed of, for US$5.0 million of which US$3.8 million was received in December 2009 and US$1.2 million received in January 2010 (Refer Note 14, Receivables).		
	The results of the Central African operations for the year ended 31 December 2009 and 31 December 2008 are as follows:		
	Revenue	804	–
	Cost of sales and other operating costs	(6 801)	(739)
	Gross loss	**(5 997)**	(739)
	Other operating income	97	3
	Share-based payments	(15)	–
	Impairments	–	(208 303)
	Foreign exchange loss	(79)	(97)
	Gain on disposal of subsidiaries	4 387	–
	Loss before tax from discontinued operations	**(1 607)**	(209 136)
	Tax expense	90	29 822
	– related to current pre-tax loss	3	–
	– related to changes in deferred tax	87	29 822
	Loss after tax for the year from discontinued operations	**(1 517)**	(179 314)
	Loss per share from discontinued operations (cents)		
	– Basic	(1)	(287)
	– Diluted	(1)	(287)
	The major classes of assets and liabilities classified as held for sale at 31 December 2009 are as follows:		
	Non-current assets	10	–
	Current assets	130	–
	Assets of the disposal group classified as held for sale	140	–
	Non-current liabilities	129	–
	Current liabilities	79	–
	Liabilities directly associated with the assets of the disposal group classified as held for sale	208	–
	The net cash flows attributable to the discontinued operations are as follows:		
	Operating	(3 276)	(1 720)
	Investing	1 244	(24 358)
	Financing	(194)	(130)
	Net cash outflow	(2 226)	(26 208)

(US$'000)	2009	2008*
7. EARNINGS PER SHARE (CENTS)		
The following reflects the income and share data used in the basic and diluted earnings per share computations:		
Profit/(loss) for the year from continuing operations	26 886	(372 852)
Loss for the year from discontinued operations	(1 517)	(179 314)
	25 369	(552 166)
Less: minority interests	(9 838)	(651)
Net profit/(loss) attributable to equity holders of the parent for basic and diluted earnings	**15 531**	(552 817)
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 year ('000)	114 913	62 563
Profit/(loss) per share amounts are calculated by dividing profit/(loss) for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.		
Diluted profit/(loss) 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 the ordinary shares.		

	Number of shares ('000)	Number of shares ('000)
Weighted average number of ordinary shares in issue during the year	114 913	62 563
Effect of dilution:		
– Future share awards to Executive Directors and senior executives under the Executive Share Growth Plan	5 587	–
– Future share awards under the Employee Share Option Programme	465	–
Weighted average number of ordinary shares in issue during the year adjusted for the effect of dilution	**120 965**	62 563

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.

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 6, Discontinued Operations).

Notes to the Annual Financial Statements
continued

8. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2009 (US$'000)	Mining assets	Exploration costs	Decommissioning assets	Leasehold improvements	Plant and equipment	Finance lease assets	Other assets	Total
Cost								
Balance at 1 January 2009	442 133	125 358	16 320	57 495	197 211	2 063	20 116	860 696
Additions	35 412	5 089	1 771	9 831	7 655	–	700	60 458
Disposals	–	(13 472)	(2 969)	–	(5 340)	–	(2 189)	(23 970)
Disposal of subsidiaries	(100 932)	(42 774)	(617)	–	(14 481)	–	(8 098)	(166 902)
Reclassifications	1 452	–	–	–	(15)	–	(1 437)	–
Foreign exchange differences	79 290	10 851	4 106	17 245	45 081	141	2 400	159 114
Balance at 31 December 2009	457 355	85 052	18 611	84 571	230 111	2 204	11 492	889 396
Accumulated depreciation/ amortisation/impairment								
Balance at 1 January 2009	302 030	81 825	1 865	41 639	125 506	430	14 685	567 980
Depreciation and amortisation charge	39 704	–	1 734	4 823	10 590	–	1 433	58 284
Disposals	–	(13 472)	–	–	(4 854)	–	(2 167)	(20 493)
Disposal of subsidiaries	(100 932)	(42 774)	(617)	–	(13 481)	–	(8 098)	(165 902)
Reclassifications	482	(392)	2 990	188	(4 564)	1 364	(65)	–
Reversal of impairment[1]	–	–	–	–	(149)	–	–	(149)
Foreign exchange differences	42 292	7 713	1 044	12 591	28 660	72	750	93 122
Balance at 31 December 2009	283 576	32 900	7 016	59 241	141 708	1 866	6 535	532 842
Net book value at 31 December 2009	173 779	52 152	11 595	25 330	88 403	338	4 957	356 554

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/impairment								
Balance at 1 January 2008	20 144	47	493	1 052	6 798	696	1 627	30 857
Depreciation and amortisation charge	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[1]	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[1]	140 103	43 533	14 455	15 856	71 705	1 633	5 431	292 716

1. Refer to Note 3, Operating profit/(loss) for additional information on impairments.

The finance lease assets are used as security for the interest-bearing borrowings disclosed in Note 17, Interest bearing loans and 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$4.1 million (31 December 2008: US$7.8 million).

Included in mining asset is deferred stripping of US$37.1 million (31 December 2008: US$24.0 million) capitalised.

9. INTANGIBLE ASSETS

As at 31 December 2009 (US$'000)	Other Intangibles	Goodwill	Total
Cost			
Balance at 1 January 2009	1 896	90 921	92 817
Disposal of subsidiaries	(1 709)	(445)	(2 154)
Foreign exchange differences	4	12 239	12 243
Balance at 31 December 2009	191	102 715	102 906
Accumulated amortisation/impairment			
Balance at 1 January 2009	1 896	68 627	70 523
Disposal of subsidiaries	(1 709)	(445)	(2 154)
Foreign exchange differences	4	6 543	6 547
Balance at 31 December 2009	191	74 725	74 916
Net book value at 31 December 2009	–	27 990	27 990

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 subsidiaries	–	1 898	1 898
Additions	293	–	293
Foreign exchange differences	(8)	(13 394)	(13 402)
Balance at 31 December 2008	1 896	90 921	92 817
Accumulated amortisation/impairment			
Balance at 1 January 2008	16	–	16
Amortisation charge	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[1]	–	22 294	22 294

1. The prior year figures have been restated for the revisions to the provisional Purchase Price Accounting for the Calibrated Diamonds acquisition (Refer Note 1.1.4, Acquisitions).

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 10, Impairment testing for further details.

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

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(US$'000)	2009	2008
10. IMPAIRMENT TESTING		
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating units, as follows:		
Letšeng Diamonds	25 928	20 651
Calibrated Diamonds Investment Holdings	2 062	1 643
Balance at end of the year	27 990	22 294

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2009.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit is compared with its recoverable amount.

There were no impairment write offs in the current year. The goodwill impairment expense recognised as an exceptional item in the income statement (Refer Note 3, Operating profit/(loss)) for 2008, relates to the following:

	2009	2008
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 in 2009, recoverable amounts for Letšeng Diamonds and Calibrated Diamonds Investment Holdings have been determined based on fair value less costs to sell ('FVLCS') calculations. As observable market prices are not available, FVLCS was calculated for Letšeng Diamonds using a discounted cash flow model methodology, taking into account assumptions that would be made by market participants.

Fair value less costs to sell

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, and is 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 and the treatment costs.

Key assumptions used in the calculations

The key assumptions used in the calculation 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
- discount rates
- foreign exchange rates

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 independent 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.

(US$'000)	2009	2008
10. **IMPAIRMENT TESTING** continued		
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 of each 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		
Letšeng Diamonds	16.8%	17.4%
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.		
The impairment test is 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 equaling the recoverable value:		

		Change in the key assumption which would result in the recoverable amount equaling the carrying value (%)		
	Excess of recoverable amount over carrying value (US$m)	Decrease in diamond prices	Increase in discount rate[1]	Strengthening in foreign exchange rate[2]
Letšeng Diamonds	85.0	9.4%	10.1%	13.3%

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

	2009	2008
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.		
The recoverable amount of Calibrated Diamonds Investment Holdings was determined based on FVLCS. The key assumptions include management's best estimate of the recoverability of the residual value of the assets taking into account the location of the assets and the ability to dispose of the assets in the current economic climate.		
Other non-current assets		
Reversal of impairments	(149)	–
During the year, recoverable amounts of certain plant and equipment were reassessed, which resulted in a reversal of an impairment previously recognised.		
There were no impairment write offs in the current year.		
The impairment losses recognised as an exceptional item in the income statement (Refer Note 3, Operating profit/(loss)) for 2008, 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.

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 Group will continue to test its other assets for impairment where indications are identified 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.

Notes to the Annual Financial Statements
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(US$'000)		2009	2008
11.	OTHER FINANCIAL ASSETS		
	Non-current		
	Environmental bonds[1]	6 475	343
	Chiri project loan[2]	5 567	4 669
	Other assets[3]	536	629
		12 578	5 641
	Current		
	Other loans[4]	535	655
		535	655
		13 113	6 296

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 Co-operation Agreement concluded in relation to the Chiri Concession in Angola. The loan is interest free and is repayable out of the earnings generated in the project once it commences, which is not anticipated to be within the next 12 months.
3. Other assets comprise the costs associated and incurred in securing an option to acquire an indirect interest in the Chiri Concession.
4. 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.

		2009	2008
12.	DEFERRED TAXATION		
	Deferred tax assets		
	Accrued leave	68	85
	Operating lease liability	25	16
	Provisions	1 652	1 153
	Tax loss not utilised in the period	–	11
		1 745	1 265
	Deferred tax liabilities		
	Property, plant and equipment	(60 384)	(49 890)
	Prepayments	(9)	(8)
	Provisions	–	(95)
	Unremitted earnings	(1 901)	(1 017)
		(62 294)	(51 010)
	Net deferred tax liability	(60 549)	(49 745)
	Reconciliation of deferred tax liability		
	Balance at beginning of year	(49 745)	(108 992)
	Movement in current period:		
	– Accelerated depreciation for tax purposes	1 769	(6 143)
	– Deferred tax effect of exceptional items	–	47 902
	– Accrued leave	(34)	42
	– Operating lease liability	4	12
	– Unremitted earnings	(884)	636
	– Prepayments	(3)	2
	– Provisions	179	1 000
	– Tax losses utilised in the year	–	11
	– Disposal of subsidiaries	87	–
	– Foreign exchange differences	(11 922)	15 785
	Balance at end of year	(60 549)	(49 745)

(US$'000)	2009	2008

12. DEFERRED TAXATION continued

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 foreseeable 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$40.2 million (31 December 2008: US$21.2 million).

The Group has estimated tax losses of US$279.0 million (31 December 2008: US$209.1 million) and un-utilised foreign tax credits of nil (31 December 2008: US$8.0 million). No deferred tax assets have been recognised in respect of such losses at 31 December 2009 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. Due to legislative changes in the UK that repealed the utilisation of eligible unrelieved foreign tax, there are no UK tax credits carried forward as at 31 December 2009.

The Group has not recognised deferred tax assets in respect of other deductible temporary differences of US$94.0 million (31 December 2008: 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$279.0 million (31 December 2008: US$209.1 million) estimated tax losses, US$40.3 million (31 December 2008: US$44.0 million) losses in various jurisdictions expire as follows:

Year (US$'000)	2009	2008
2009	863	1 584
2010	497	1 995
2011	28	2 219
2012	2 950	8 621
2013	1 670	1 670
2014	4 034	4 004
2015	5 160	5 111
2016	18 910	18 826
2017	6 186	–
	40 298	44 030

13. INVENTORIES

	2009	2008
Diamonds on hand[1]	14 048	21 970
Ore stock piles[1]	8 061	7 273
Consumable stores[1]	9 286	7 060
	31 395	36 303
Impairments	–	19 278

1. Stated at the lower of cost or net realisable value.

14. RECEIVABLES

	2009	2008
Prepayments	1 409	2 993
Deposits	481	1 390
Royalty receivable	–	4 142
Other receivables	1 860	1 758
Vat receivable	3 245	3 935
	6 995	14 218

Included in other receivables above, is US$1.2 million relating to the disposal of the operations in the DRC, which was subsequently received in January 2010 (Refer Note 24, Post Balance Sheet Events).

Notes to the Annual Financial Statements
continued

(US$'000)		2009	2008*
14.	RECEIVABLES continued		
	The carrying amounts above approximate their 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:	11	693
	Analysis of receivables		
	Neither past due nor impaired	6 891	14 099
	Past due but not impaired:		
	< 30 days	21	33
	30 – 60 days	5	45
	60 – 90 days	22	–
	90 – 120 days	56	41
	Total receivables	6 995	14 218
	Movements in the provision against receivables were as follows:		
	Balance at beginning of year	693	239
	Charge for the year	18	693
	Utilised during the year	–	(198)
	Disposal of subsidiaries	(702)	–
	Foreign exchange differences	2	(41)
	Balance at end of year	11	693

* The provision for receivables was determined on an individual basis.

		2009	2008*
15.	CASH AND SHORT TERM DEPOSITS		
	Cash on hand	28	63
	Bank balances	77 954	53 297
	Short term bank deposits	35 845	8 076
		113 827	61 436

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$2.0 million (31 December 2008: US$1.6 million) overdraft facilities in place.

At 31 December 2009, the Group had restricted cash of US$5.1 million (31 December 2008: US$7.3 million).

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

16. ISSUED CAPITAL AND RESERVES

	2009		2008	
	Number of shares '000	US$'000	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
As at year end	200 000	2 000	125 000	1 250
Issued and fully paid				
Balance at beginning of year	62 905	629	62 399	624
Allotments during the year	75 362	754	506	5
Balance at end of year	138 267	1 383	62 905	629

During the year, the following share transactions took place:

On 19 February 2009, a non-Executive Director was issued, as part of his contract, shares in the Company. The total number of shares issued was 72 332. On 26 June 2009 two further non-Executive Directors were issued, as part of their contracts, shares in the Company. The total number of shares issued were 289 328.

On 20 April 2009, the Company increased its authorised share capital to 200 000 000 shares of US$0.01 each.

On 22 April 2009, the Company completed its placing of 75 000 000 new ordinary shares, of US$0.01 each, to existing shareholders. The Company received US$108.8 million. Share issue costs amounting to US$9.9 million were incurred.

Following the placing, the Company's share capital amounted to US$1.4 million comprising 138.3 million ordinary shares.

Share premium
Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

Treasury shares
The Company established an Employee Share Option Plan ('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, 106 540 shares were exercised (31 December 2008: 70 913). At 31 December 2009, 128 917 (31 December 2008: 234 957) shares were held by the trust.

(US$'000)	Foreign currency translation reserve	Share based equity reserve	Other reserves	Total
Balance at 1 January 2009	(98 275)	33 463	(117)	(64 929)
Other comprehensive income	32 632	–	–	32 632
Total comprehensive income	32 632	–	–	32 632
Share based payments	–	5 746	–	5 746
Balance at 31 December 2009	(65 643)	39 209	(117)	(26 551)
Balance at 1 January 2008	12 457	22 629	19 788	54 874
Other comprehensive loss	(110 732)	–	(19 905)	(130 637)
Total comprehensive loss	(110 732)	–	(19 905)	(130 637)
Share based payments	–	10 834	–	10 834
Balance at 31 December 2008	(98 275)	33 463	(117)	(64 929)

Notes to the Annual Financial Statements
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16. ISSUED 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 year, the South African, Lesotho, Botswana, Central African Republic, Australian, Mauritian and United Arab Emirate 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	2009	2008
Average rate	Maloti to 1 US$	8.42	8.26
Period end	Maloti to 1 US$	7.36	9.25
Average rate	ZAR to 1 US$	8.42	8.26
Period end	ZAR to 1 US$	7.36	9.25
Average rate	CFA to 1 US$	471.49	448.11
Period end	CFA to 1 US$	457.84	468.81
Average rate	AUD to 1 US$	1.28	1.20
Period end	AUD to 1 US$	1.11	1.43
Average rate	Pula to 1 US$	7.15	6.84
Period end	Pula to 1 US$	6.66	7.56
Average rate	Rupee to 1 US$	31.90	28.38
Period end	Rupee to 1 US$	30.35	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 27, Share-based payments.

Other reserves

This reserve relates to the at acquisition reserves arising on the acquisition of Gope. At December 2008, the assets giving rise to this reserve were written down.

Minority interests

No minority interests were acquired during the course of the year.

Capital management

For details on capital management, refer to Note 26, Financial Risk Management.

(US$'000)		2009	2008
17.	INTEREST BEARING LOANS AND BORROWINGS		
	Non-current		
	Finance lease obligations[1]	–	361
		–	361
	Current		
	Convertible bonds[2]	–	16 065
	Finance lease obligations[1]	204	493
	Working capital loan[3]	–	20 916
		204	37 474
	Total interest bearing borrowings	204	37 835

	Effective interest rate %	Maturity date
2009		
Current		
Finance lease obligations	6 – 10%	12 months
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

The carrying values of the liabilities approximate their fair values.

1. The finance leases are payable in monthly installments over a period of 12 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$0.3 million (31 December 2008: US$1.6 million) (Refer Note 8, Property, plant and equipment).
2. The Group repaid the total outstanding amount on convertible bonds of US$15.8 million, during the year. The interest rate on the convertible bonds was 6%.
3. The outstanding portion of US$21.3 million on a working capital loan bearing interest rate of 4.95%, was repaid in April 2009.

(US$'000)	2009	2008
Finance lease disclosure		
Minimum lease payments due:		
– Within one year	209	549
– After one year but not more than five years	–	385
– More than five years	–	–
	209	934
– Amounts representing finance charges	(5)	(80)
Present value of minimum lease payments	204	854
Analysis of present value of minimum lease payments		
– Within one year	204	493
– After one year but not more than five years	–	361
– More than five years	–	–
	204	854

Notes to the Annual Financial Statements
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(US$'000)		2009	2008
18.	TRADE AND OTHER PAYABLES		
	Non-current		
	Accrued expenses[1]	973	–
	Severance pay benefits[2]	611	451
		1 584	451
	Current		
	Trade payables[1]	12 046	28 889
	Accrued expenses[1]	20 101	16 104
	Leave benefits	1 862	2 021
	Royalties[1]	2 713	7 763
	Operating lease	89	57
	Other	31	571
		36 842	55 405
	Total trade and other payables	38 426	55 856

The carrying amounts above approximate fair value.
Terms and conditions of the trade and other payables:
1. These amounts are non-interest bearing and are settled in accordance with terms agreed between the parties
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

		2009	2008
19.	PROVISIONS		
	Rehabilitation provisions	29 520	24 733
	Employee entitlements	200	102
	Other	463	405
		30 183	25 240
	Reconciliation of movement in provisions		
	Balance at beginning of year	25 240	23 030
	Acquisition of subsidiaries	–	361
	Arising during the year	123	6 683
	Utilised during the year	(660)	(217)
	Disposal of subsidiaries	(779)	–
	Adjustments to PPE	(1 124)	–
	Unwinding of discount rate	1 456	1 445
	Foreign exchange differences	5 927	(6 062)
	Balance at end of year	30 183	25 240

* The prior year figures have been restated for the revisions to the provisional Purchase Price Accounting for Calibrated Diamonds acquisition (Refer Note 1.1.4, Acquisitions).

Rehabilitation provisions

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 to the amount of US$6.5 million (31 December 2008: US$7.0 million).

Employee entitlements

Employee entitlements arises predominantly on long service leave entitlements which are payable upon an employee attaining a certain period of service.

(US$'000)		Notes	2009	2008
19.	PROVISIONS continued			
	Other			
	Other provisions arise predominantly on the acquisition of Calibrated Diamonds Investment Holdings (Refer Note 1.1.4, Acquisitions for additional information).			
20.	OTHER FINANCIAL LIABILITIES			
	Current			
	Financial liabilities at fair value through profit or loss[1]		–	2 697
	Investec Bank Limited[2]		–	1 156
	Total other financial liabilities		–	3 853

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. During the year, the final outstanding amount of US$1.6 million was settled with Investec Bank Limited.

		Notes	2009	2008
21.	CASH FLOW NOTES			
21.1	Cash generated by operations			
	Profit/(loss) before tax for the year from continuing operations		37 100	(367 601)
	Loss before tax for the year from discontinued operations		(1 607)	(209 136)
	Adjustments for:			
	– Depreciation and amortisation on property, plant and equipment	3	58 127	72 911
	– (Reversal of impairment)/impairment on assets	3	(170)	548 258
	– Write down of inventory	3	–	19 278
	– Finance income	4	(2 851)	(3 840)
	– Finance costs	4	3 122	3 914
	– Movement in provisions		(378)	1 081
	– Market to market revaluations		(2 629)	2 926
	– Foreign exchange differences		(17 687)	9 922
	– Profit on disposal of property, plant and equipment		(2)	–
	– Other non-cash movements		454	–
	– Gain on disposal of subsidiaries	6	(4 387)	–
	– Share-based equity transaction	27	5 644	10 410
			74 736	88 123
21.2	Working capital adjustments			
	Decrease/(increase) in inventories		12 296	(23 487)
	Decrease/(increase) in receivables		10 735	(5 469)
	(Decrease)/increase in trade and other payables		(25 534)	10 345
			(2 503)	(18 611)
21.3	Acquisitions, net of cash acquired			
	Net liabilities acquired		–	(1 685)
	Outstanding finance on purchase		–	(18 107)
	Cash paid		–	(19 792)
	Cash received		–	75
	Net cash paid		–	(19 717)

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(US$'000)		2009	2008
21.	CASH FLOW NOTES continued		
21.3	Acquisitions, net of cash acquired continued		
	This relates to the acquisition of Calibrated Diamonds Investment Holdings during the prior year.		
	Net cash paid is reconciled as follows:		
	Acquisition of Calibrated Diamonds Investment Holdings	–	1 610
	Acquisition of BDI Mining	–	86
	Acquisition of KDC	–	103
	Acquisition of Kimberley Diamonds	–	17 918
		–	19 717
21.4	Proceeds from sale of subsidiary, net of cash disposed		
	Property, plant and equipment	1 159	–
	Inventories	298	–
	Cash and cash equivalents	4	–
	Trade and other payables	(68)	–
	Provisions	(779)	–
	Income tax payable	(8)	–
		606	–
	Gain on disposal of subsidiaries	4 387	–
	Proceeds on sale of subsidiaries	4 993	–
	Proceeds on disposal not received	(1 200)	–
	Cash equivalents sold	(4)	–
	Net cash proceeds received	3 789	–
	This relates to the disposal of the operations in the DRC (Refer Note 6, Discontinued Operations for additional information).		
22.	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	1 225	465
	– After one year but not more than five years	1 695	1 078
	– More than five years	–	–
		2 920	1 543

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.

(US$'000)	2009	2008
22. COMMITMENTS AND CONTINGENCIES continued		
Mining leases continued		
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	2 212	1 736
After one year but not more than five years	8 918	6 699
More than five years	14 170	11 147
	25 300	19 582
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	24 449	17 177
– After one year but not more than five years	43 444	45 986
– More than five years	37	–
	67 930	63 163
Finance leases		
The Group has entered into finance leases with interest rates from 6% to 10% and payable within the next 12 months. The estimated future lease obligations are as follows:		
Within one year	204	493
After one year but not more than five years	–	361
More than five years	–	–
	204	854
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 Option Agreement		
During 2007, the Group entered into a Co-operation Agreement and Option Agreement in relation to the Chiri Concession in Angola. The Co-operation 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.		
Capital expenditure		
Approved but not contracted for	915	2 887
Approved and contracted for	15 701	22 378

The amounts are approved by the Board.

Notes to the Annual Financial Statements
continued

22. COMMITMENTS AND CONTINGENCIES continued

Restricted cash

Included in restricted cash is US$4.2 million (31 December 2008: 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

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$3.9 million (December 2008: US$1.7 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.

23. 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

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)	2009	2008
Compensation to key management personnel (including directors)		
Share-based equity transactions	2 604	3 604
Short-term employee benefits	7 244	6 779
	9 847	10 383
Related party transactions		
Royalties paid to related parties		
Government of Lesotho	(13 554)	(14 254)
Government of Indonesia	–	(367)
Lease and license payments to related parties		
Government of Lesotho	(105)	(90)
Government of CAR	(181)	(454)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	221	266
Jemax Management (Proprietary) Limited	–	(77)
Geneva Management Group (UK) Limited	(9)	(14)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	26	80
Jemax Management (Proprietary) Limited	(19)	(8)
Amounts owing to related party		
Government of Lesotho	(1 378)	(1 448)

23. RELATED PARTIES continued

Compensation to key management personnel (including directors) continued

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.

24. POST BALANCE SHEET EVENTS

The following have taken place since the balance sheet date:

- During February 2010, Blina Diamonds NL, a Company Listed on the Australian Stock Exchange and a subsidiary of Kimberley Diamonds, raised AU$1.5 million by way of a placement. As a result, the Group's shareholding has decreased in the Company from 34.04% to 23.11%. The Group is reviewing its options with regard to the future activities of the Company.
- During January 2010, the outstanding amount relating to the disposal of the operations in the DRC of US$1.2 million was received.

  Other than the 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.

25. 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)	2009	2008	2009	2008
Financial assets				
Cash	113 827	61 436	113 827	61 436
Loan notes[1]	5 567	4 669	5 567	4 669
Receivables[1]	6 995	14 218	6 995	14 218
Environmental bond facilities and bank guarantees	6 475	343	6 475	343
Other loans[1]	535	655	535	655
Other assets[2]	536	629	536	629
Financial liabilities				
Interest-bearing loans and borrowings:				
– Obligation under finance lease	204	854	204	854
– Floating rate borrowings	–	20 916	–	20 916
– Convertible bonds[1]	–	16 065	–	16 065
Trade and other payables[1]	38 426	55 856	38 426	55 856
Other financial liabilities[1]	–	3 853	–	3 853

1. The fair value approximates carrying value.
2. The option is classified as a level 3 financial instrument and the carrying value approximates fair value. Fair value techniques for level 3 financial instruments use inputs, which have a significant effect on the determined fair value, that are not based on observable market data.

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

26. 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

Notes to the Annual Financial Statements
continued

26. FINANCIAL RISK MANAGEMENT continued

Financial risk factors continued

The Group's overall risk management programme 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 treasury 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. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

(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.

During the year, Kimberley Diamonds formalised an existing supply agreement with a top-end jeweler for its fancy yellow diamond production. This contract, which is subject to an annual review, is for the life of the mine and provides certainty to the revenue flows.

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

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 2009. 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 2009, income before taxation would have been US$0.5 million higher (lower) (31 December 2008: US$2.8 million). There would be no effect on equity reserves other than those directly related to income statement movements.

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.

26. FINANCIAL RISK MANAGEMENT continued

Capital management continued

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 is 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 (decreased) by 100 basis points at 31 December 2009 or 31 December 2008, there would have been no material impact on profit in the current year or the prior year. 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.

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 table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments:

(US$'000)	2009	2008
Fixed Interest rates		
Interest bearing loans and borrowings		
Within one year	209	549
After one year but not more than five years	–	385
More than five years	–	–
Total	209	934
Convertible bonds		
Within one year	–	16 137
After one year but not more than five years	–	–
More than five years	–	–
Total	–	16 137
Other financial liabilities		
Within one year	–	3 853
After one year but not more than five years	–	–
More than five years	–	–
Total	–	3 853

Notes to the Annual Financial Statements
continued

(US$'000)		2009	2008
26.	FINANCIAL RISK MANAGEMENT continued		
	Capital management continued		
	Floating interest rates		
	Interest bearing loans and borrowings		
	Within one year	–	21 692
	After one year but not more than five years	–	–
	More than five years	–	–
	Total	–	21 692
	Trade and other payables		
	Within one year	36 842	55 405
	After one year but not more than five years	1 584	451
	More than five years	–	–
	Total	38 426	55 856
27.	SHARE-BASED PAYMENTS		
	The expense recognised for employee services received during the year is shown in the following table (US$'000):		
	Equity-settled share-based payment transactions charged to the Income statement	5 644	10 410
	Equity-settled share-based payment transactions capitalised	102	424
		5 746	10 834

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 co-variances 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

No performance shares were granted during the year. During 2008, 437 769 performance shares were granted to certain key employees under the 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 Executive Share Growth Programme ('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 was calculated based on 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). On 19 February 2010, the vesting of the awards was tested and as no vesting conditions were met, the ESGP lapsed and no shares were awarded.

27. SHARE-BASED PAYMENTS continued

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.

(US$'000)	2009	2008
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	197	264
Granted during the year	–	10
Forfeited during the year	(3)	(6)
Exercised during the year	(107)	(71)
Balance at end of year	87	197
Exercisable at end of year	–	99
The following table lists the inputs to the model used for the plan for the awards granted in 2008:		
Employee Share-Option plan		
Dividend yield (%)		–
Expected volatility (%)		22
Risk-free interest rate (%)		5
Expected life of option (years)		10
Weighted average share price		18.28
Model used		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 plan 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:

	2009	2008
Outstanding at beginning of year	417	–
Granted during the year	7	438
Forfeited during the year	(78)	(21)
Exercised during the year	–	–
Transferred during the year	–	–
Balance at end of year	346	417
Exercisable at end of year	–	–

Notes to the Annual Financial Statements
continued

27. SHARE-BASED PAYMENTS continued

Movements in the year continued

The following table lists the inputs to the model used for the four tranches of the performance share awards:

Performance Share Awards	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Dividend yield (%)	–	–	–	–
Expected volatility (%)	30.58	31.32	31.23	74.18
Risk-free interest rate (%)	2.49	2.98	2.92	1.13
Expected life of option (years)	3.00	3.00	3.00	3.00
Weighted average share price	13.60	20.34	20.51	3.96
Model used	Monte Carlo	Monte Carlo	Monte Carlo	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.

Non-Executive Share Awards

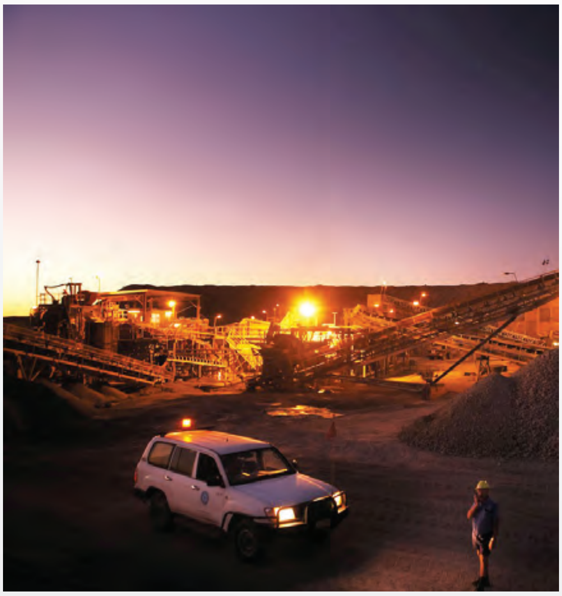
The following table illustrates the number ('000) and movement in, share awards during the year:

(US$'000)	2009	2008
Share awards issued ('000)		
Contracted for at beginning of year	362	579
Contracted for during the year	–	289
Shares issued during the year	(362)	(506)
Balance unissued at end of the year	–	362
Contracted for after year end	–	–
Weighted average share price	3.13	16.53

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

Notes

Notes



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