Circular dated 3 April 2009

THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent professional adviser, who is authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser in your own jurisdiction.

If you sell or have sold or otherwise transferred all of your Ordinary Shares or Depositary Interests, please send this Circular, together with the accompanying documents, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee, except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to, subject to certain exceptions, the United States, Australia, Canada, Japan and any Restricted Jurisdiction. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares or Depositary Interests, you should retain this Circular and the accompanying Form of Proxy or the Form of Direction, as appropriate.

GEM DIAMONDS LIMITED

(incorporated in the British Virgin Islands in accordance with the laws of the British Virgin Islands with number 669758)

Circular to Shareholders relating to a
Placing of 75,000,000 New Shares
at 100 pence per New Share
and
Notice of General Meeting

This Circular does not constitute an offer to sell, or a solicitation of an offer to subscribe for the New Shares or the New Depositary Interests in any jurisdiction.

This Circular does not constitute a prospectus or a prospectus equivalent document. The Prospectus containing details of the Placing, the Company and the New Shares accompanies this Circular. Investors should not subscribe for any New Shares or New Depositary Interests referred to in this Circular except on the basis of the information contained in the Prospectus. The distribution of this Circular and the Prospectus into any jurisdiction (including, but not limited to, the United States, Australia, Canada, Japan and any Restricted Jurisdiction) other than the United Kingdom may be restricted by law. Persons into whose possession this Circular comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, this Circular and the Prospectus should not be distributed, forwarded to or transmitted in or into the United States, Australia, Canada, Japan or any Restricted Jurisdiction.
The Placing is conditional, amongst other things, upon the approval of Shareholders at the General Meeting, notice of which is set out at the end of this Circular. Your attention is drawn to the letter from the Chairman of Gem Diamonds Limited on pages 8 to 23 of this Circular, recommending that you vote in favour of the Resolutions to be proposed at the General Meeting. You should read this Circular in its entirety, not rely solely on summarised information, and should consider whether to vote in favour of the Resolutions in light of the information contained in, and incorporated by reference into, this Circular.

Neither the New Shares nor the New Depositary Interests have been, or will be, registered under the U.S. Securities Act or under the securities laws of any state or other jurisdiction of the United States or under the securities laws of Australia, Canada, Japan or any Restricted Jurisdiction. The New Shares and the New Depositary Interests may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, in or within the United States, Australia, Canada, Japan or any Restricted Jurisdiction except pursuant to an applicable exemption from any registration requirements and in compliance with any applicable securities laws. There will be no public offer of the New Shares or the New Depositary Interests in the United States, Australia, Canada, Japan or any Restricted Jurisdiction or any other jurisdiction where the extension or the availability of the Placing (and any transaction contemplated thereby) would breach any applicable law or regulation.

Notice of a General Meeting of the Company, to be held at the offices of J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 10.30 a.m. (London time) on 20 April 2009, is set out at the end of this Circular, and a Form of Proxy (for holders of Ordinary Shares) or a Form of Direction (for holders of Depositary Interests) for use in connection with the General Meeting accompanies this document. Shareholders are requested to complete and return the Form of Proxy, or Form of Direction, as appropriate, whether or not they intend to be present at the General Meeting. To be valid, the Form of Proxy should be completed and signed in accordance with the instructions printed on it and returned by post or by hand so as to reach Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible and in any event no later than 10.30 a.m. on 18 April 2009. The completion and return of a Form of Proxy will not preclude a Shareholder from attending and voting at the General Meeting. Depositary Interest Holders wishing to vote on the Resolutions are required to instruct the Depositary to vote on their behalf, either in person or by proxy, in accordance with the enclosed Form of Direction. The completed and signed Form of Direction must be received by Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, as soon as possible and in any event so as to arrive no later than 10.30 a.m. on 17 April 2009.

J.P. Morgan Cazenove, which is authorised and regulated in the United Kingdom by the FSA, has been appointed as Financial Adviser, Sponsor and Bookrunner. J.P. Morgan Cazenove is acting for the Company and no one else in connection with the Placing, will not regard any other person (whether or not a recipient of this document) as a client in relation to the Placing and will not be responsible to anyone other than the Company for providing the protections afforded to the clients of J.P. Morgan Cazenove or for providing advice in relation to the Placing or any matters referred to in this document. J.P. Morgan Cazenove has given and not withdrawn its written consent to the inclusion herein of the references to its name in the form and context in which they appear.

Apart from any responsibilities and liabilities, if any, which may be imposed on J.P. Morgan Cazenove by FSMA or the regulatory regime established thereunder, J.P. Morgan Cazenove accepts no responsibility whatsoever and makes no representation or warranty express or implied, for the contents of this document, including its accuracy, completeness or verification or for any other statement made or purport to be made by it, or on its behalf, in connection with the Company, the New Shares, the New Depositary Interests, or the Placing. J.P. Morgan Cazenove accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.
Forward-looking statements

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “plans”, “goal”, “target”, “aim”, “may”, “will”, “would”, “could” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They may appear in this Circular and include statements regarding the intentions, beliefs or current expectations of the Directors, the Company or the Group concerning, among other things, the results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy of the Group and the industry in which the Group operates. These forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Company and are difficult to predict, that may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements.

These forward-looking statements speak only as at the date of this document. Except as required by the FSA, the London Stock Exchange, the Part VI Rules or applicable law, the Company does not have any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, further events or otherwise. Except as required by the FSA, the London Stock Exchange, the Prospectus Rules, the Listing Rules, the Disclosure and Transparency Rules or applicable law, the Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.
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PLACING STATISTICS

Number of New Shares ................................................................. 75,000,000
Issue Price per New Share .......................................................... 100 pence
Number of Ordinary Shares in issue at the date of this Circular .......... 62,977,853
Number of Ordinary Shares in issue immediately following
completion of the Placing ............................................................ 137,977,853
New Shares as a percentage of enlarged issued shares of the
Company immediately following completion of the Placing(1) .............. 54 per cent.
Estimated net proceeds of the Placing receivable by
the Company after expenses ........................................................ 68.4 million
Estimated expenses of the Placing .................................................. 6.6 million

Note:
(1) Assuming that: (i) no options or awards are exercised under the ESOP or the Growth Plan; (ii) no Bonds are converted; (iii) no
Ordinary Shares are issued under the Chiri Option Agreement, in each case, between 31 March 2009, being the latest practicable
date prior to the publication of this Circular, and Admission; and (iv) all the Resolutions are passed at the General Meeting.
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.

Latest time and date for receipt of Forms of Direction................................. 10.30 a.m. on 17 April 2009
Latest time and date for receipt of Forms of Proxy ..................................... 10.30 a.m. on 18 April 2009

**General Meeting** ........................................................................................................ 10.30 a.m. on 20 April 2009
Admission and commencement of dealings in New Shares on the London Stock Exchange ................................................................. 8.00 a.m. on 22 April 2009

Notes:

(1) References to times in this timetable are to London (BST) times unless otherwise stated.

(2) The timing and occurrence of Admission is dependent upon, and subject to, the approval of all of the Resolutions at the General Meeting.
RELEVANT DOCUMENTATION AND INCORPORATION BY REFERENCE

The following sections of the Prospectus are incorporated by reference into this Circular so as to provide information in respect of the Placing.

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Proposed Placing and General Meeting

1. Introduction and overview

Gem Diamonds Limited announced on 1 April 2009 a proposed Placing to raise net proceeds of approximately £68.4 million (after costs and expenses of approximately £6.6 million).

The Board is proposing the Placing principally to raise new equity capital (i) to redeem its outstanding Bonds (amounting to approximately U.S.$16.5 million due in October 2009); (ii) to repay the amounts drawn down under the Société Générale Facility Agreement in the amount of A$30 million (approximately U.S.$21 million) which will (unless Kimberley, the Company and Société Générale have agreed certain covenant amendments) be required to be repaid by 1 May 2009; (iii) to finance the posting of the substitute Kimberley environmental bonds (currently amounting to approximately A$6.4 million (approximately U.S.$4.5 million)) due in September 2009 and (iv) to pay outstanding amounts owing to trade creditors of Kimberley.

The remainder of the net proceeds of the Placing will be used to fund working capital for the principal operations of the Group.

The first quarter of 2009 has seen the trading conditions experienced in late 2008 persist. Management has taken action to respond to these current challenging operating conditions, including placing the Group’s operations at Cempaka and the Ellendale 4 pipe on care and maintenance, and is continuing with initiatives to reduce operating and central costs. Against the background of the current difficult trading conditions, the Board has concluded that the Placing provide the means which are in the best interests of Shareholders for the Group to satisfy its upcoming Bond and bank related financing obligations. As further explained in paragraph 18 “Importance of the Resolutions and risks relating to the Placing”, the failure to complete the Placing would require the Company to implement alternative strategies in order to be in a position to satisfy these obligations, the effect of which could be damaging to the Group and its prospects. There is also no certainty that any such alternative strategies would be implemented in such a way as to enable the Group to continue to operate its principal operations on the current basis, which would result in a material adverse effect on the value of the Shares.

The audit reports on the 2008 financial statements of the Group contained an “emphasis of matter” statement, which drew attention to material uncertainties which cast significant doubt over the Company’s ability to continue as a going concern. The Directors believe that, if completed, the Placing will meet the Group’s financing requirements and will enable the Company to continue as a going concern.
If the Placing is not completed, the Company would be required to implement alternative strategies in order to be in a position to satisfy its obligations when due, the effect of which could be damaging to the Group and its prospects. Such alternative strategies, which may be available to the Company include:

- seeking to negotiate an extension of both its Bonds and Kimberley’s outstanding Société Générale borrowings or seeking to raise credit from alternative finance providers; and
- entering into further offtake agreements.

The Directors have a limited level of confidence in the Group’s ability to negotiate an extension of its existing borrowings or to raise credit from alternative finance providers. They have a higher level of confidence that the Group would be able to secure further off take agreements, and, although signing such an offtake agreement may not on its own provide sufficient short term cash to meet the Group’s obligations as they fall due, the Directors believe that it would provide a more certain stream of contracted and profitable revenues from which to seek alternative funding.

The Company estimates the shortfall between the estimated aggregate amounts that would be required to be paid by the Group described above (assuming the Kimberley environmental bonds were then called) and the amount of available (and unrestricted) cash and cash equivalents which are expected to be available to the Group for such purposes, in each case as at 1 May 2009, being the date on which, unless the contingencies to rolling over amounts drawn down under the Société Générale Facility Agreement referred to above are satisfied, such amounts would likely be required to be paid, to be in excess of U.S.$25 million.

Failure to complete the Placing or, in such circumstances, successfully to implement alternative strategies prior to 1 May 2009 (the date when amounts drawn down under the Société Générale Facility Agreement would likely be required to be paid) could result in the Company facing the risk of insolvency.

It is against this background that your approval is being sought for the Placing.

The Placing will involve the subscription by the Placees of 75,000,000 New Shares at an Issue Price of 100 pence per New Share. The Placing represents approximately 119 per cent. of Gem Diamonds’ existing issued Ordinary Shares (representing approximately 54 per cent. of the expected enlarged number of issued Ordinary Shares immediately following completion of the Placing) and will raise £75 million (before expenses).

The Issue Price represents a discount of 33 per cent. to the Closing Price of 149 pence per existing Ordinary Share on 31 March 2009, which was the last business day prior to the announcement of the Placing.

The issue of the New Shares to Placees under the Placing has been partially underwritten by J.P. Morgan Cazenove, subject to certain conditions as set out in the Placing and Underwriting Agreement. The Directors believe the Placing discount and size together create an opportunity for new shareholders to be able to gain a material ownership exposure to Gem Diamonds in a single step, and in so doing add to a supportive investor base from which to pursue the Company’s continued development. Lansdowne Partners Limited, an existing significant Shareholder has agreed to participate in the Placing and thereby increase its investment in the Company. Lansdowne Partners Limited’s participation in the Placing is a related party transaction for the purposes of the Listing Rules and is therefore conditional, amongst other things, upon the approval of the Company’s Shareholders.

The Placing is conditional, amongst other things, on Shareholder approval, which will be sought at a General Meeting convened for 10.30 a.m. (London time) on 20 April 2009. A notice convening the General Meeting at which the Resolutions are to be proposed is set out at the end of this Circular.

The purpose of this Circular is:

- to provide you with details of, background to and reasons for the Placing;
- to explain why the Board of Directors of the Company believes that the Placing is in the best interests of the Company and Shareholders as a whole; and
- to seek your approval for the Placing by passing the Resolutions at the General Meeting.
The Resolutions are required to enable the Placing to proceed. The Resolutions:

- increase the maximum number of authorised shares of the Company to provide sufficient New Shares for issue in the Placing, which under the existing Memorandum of Association would otherwise not be available for issue;

- authorise the Directors to allot the New Shares, which authority is required under the Articles of Association;

- grant the Directors authority to allot the New Shares for cash on a non pre-emptive basis, which authority is required under the Articles of Association;

- approve the Placing at the Issue Price which, as the Issue Price represents a discount of more than 10 per cent. to the Closing Price of the Ordinary Shares on 31 March 2009, the last business day prior to the announcement of the Placing, is required under the Listing Rules;

- approve the participation of Lansdowne Partners Limited in the Placing as a related party transaction for the purposes of the Listing Rules; and

- waive any obligation on J.P. Morgan Cazenove (as underwriter) to make a mandatory bid for the remaining Shares if, as a result of partially underwriting the Placing, any such person acquires 30 per cent. or more of the total voting rights in the Company and thereby would otherwise become required to make such a bid under the provisions of the Articles of Association.

All Qualifying Shareholders and Qualifying Depositary Interest Holders (other than, subject to certain exceptions, those Shareholders and Depositary Interest Holders with registered addresses in the United States, Australia, Canada, Japan and any Restricted Jurisdiction) have been sent this Circular and have also been sent the Prospectus in relation to the Placing.

2. Information on Gem Diamonds

Gem Diamonds is a global diamond mining business with a specific focus on higher value gem quality diamonds. The Group’s portfolio comprises producing kimberlite and lamproite mines, development projects, long term prospects and diamond beneficiation capabilities. Its projects, assets and operations are situated in Angola, Australia, Botswana, the CAR, the DRC, Dubai, Lesotho, Mauritius and Indonesia.

Subsequent to its IPO, Gem Diamonds pursued a growth strategy through the development of existing assets and acquisitions that has significantly changed the Company’s diamond production profile.

Gem Diamonds has grown organically through the development of its Letšeng mine. Gem Diamonds took the decision to build a second processing plant at the Letšeng mine in October 2006, doubling its processing capacity. The plant was completed and commissioned on time in March 2008. Full capacity at the second plant was reached on schedule in July 2008.

In November 2007, the Group acquired a 100 per cent. interest in Kimberley for a net cost of U.S.$208.5 million. Kimberley owns the Ellendale mine, renowned for its production of fancy and vivid yellow diamonds, as well as a 39 per cent. interest in Blina Diamonds, an alluvial diamond mining and exploration company with tenements located adjacent to the Ellendale mine.

In October 2007, the Company acquired the remaining 50.01 per cent. of KDC that it did not already own for U.S.$56.2 million. KDC holds all of the concessions on which Gem Diamonds has conducted operations at Mbelenge and Tshikapa and the majority of the concessions at Lubembe and Longatshimo, located in the Kasaï Occidental Province of the DRC.

In May 2007, Gem Diamonds acquired a 100 per cent. interest in BDI, an investment company with an 80 per cent. holding in PT Galuh Cempaka for a net cost of U.S.$51.2 million. PT Galuh Cempaka, operates the Cempaka mine in Kalimantan, Indonesia. Cempaka, an alluvial mine located in a coastal swamp, has historically produced high quality white diamonds and an array of coloured diamonds.
In May 2007, Gope Exploration was acquired for U.S.$34.1 million. Gope Exploration holds a retention licence over, and is in discussions with the Government of Botswana in relation to a mining licence to develop, the Gope kimberlite, a proven resource of circa 20 million carats in the Central Kalahari in Botswana. Subject to the award of the mining licence and the terms thereof, the availability of finance and diamond prices, the Directors consider that Gope could be developed into a mine producing circa 1 million carats annually.

Gem Diamonds has also pursued margin growth by expanding its operations down the value chain. During the course of 2008, a number of beneficiation trials were undertaken on some of Letšeng and Ellendale’s run of mine production. These diamonds were analysed, cut and polished by Matrix Diamond Technology and Calibrated Diamonds on a trial basis. The polished diamonds sold before the rapid decline in diamond prices in the last four months of 2008 achieved significant additional margins. In light of this, Gem Diamonds has proceeded with the establishment of its cutting and polishing facilities in Dubai and Mauritius.

3. Recent developments and current trading

During 2008, market conditions for the sale of diamonds were highly variable. During the first eight months of 2008, economic conditions were relatively stable in the Group’s markets. Demand for diamonds was robust and diamond prices continued to grow, especially for large high quality diamonds with record prices achieved on sales of rough and polished diamonds. Over the two years up to September 2008, diamond prices significantly outperformed most asset classes and commodities despite the emerging global economic crisis. However, in the latter four months of the year, rough diamond prices declined significantly.

The Directors consider this principally to be the result of a series of related factors:

- the global financial crisis deepened during the course of the year and placed liquidity constraints on the banking sector;
- this in turn severely curtailed financial liquidity in the diamond pipeline, most notably in the already highly indebted trading and manufacturing businesses, restricting the capacity of these businesses to grow inventory; and
- furthermore, the actual and anticipated reduction in consumer demand created concerns in the trading and manufacturing businesses that large amounts of diamond jewellery inventory in retail stores on consignment would be returned, further reducing their already limited demand.

During 2008, the Group generated revenue of U.S.$296.9 million from the sale of rough diamonds recovered at Letšeng, Ellendale and Cempaka as well as polished diamond sales in the course of its beneficiation trials. Relative to 2007, rough diamond prices achieved across the Group’s producing mines increased in 2008 by between 7 and 34 per cent., notwithstanding the rapid decline in diamond prices by up to 70 per cent. between the first and fourth quarters of 2008.

Throughout this period, Gem Diamonds sought new ways to market its production more effectively: an offtake agreement for the high quality yellow diamond production from Ellendale was entered into; Ellendale white and commercial quality diamonds were sold by electronic auction; and direct sales avenues were sought.

In line with the changing economic environment, costs associated with mining and recovering diamonds increased significantly in the early part of 2008 and subsequently declined to relatively low levels where they presently remain. Despite U.S. dollar weakness, and conversely a strengthening in the operating currencies of most diamond mines earlier in the year, the U.S. dollar rebounded strongly in the latter part of 2008 reducing input costs for Letšeng in 2008 and going forward. Similarly, from their peak in July 2008, subsequently declining oil prices have resulted in lower fuel associated costs. Combined, these influences are expected to depress operating costs for the near to medium term.

Due to the weaker trading environment experienced across the Group’s operations, in accordance with the Group’s accounting policies, the carrying value of many of the Group’s assets was impaired as at 31 December 2008. Kimberley’s principal asset is the Ellendale mine, where mining has taken place on two
lamproite pipes, the Ellendale 4 and the Ellendale 9 pipes. Due to its lower revenue per tonne mined profile, mining of the Ellendale 4 pipe ceased in February 2009 and the pipe was placed on care and maintenance. Current pricing levels, together with estimated mining costs at Ellendale, resulted in the Group making impairments in respect of the Ellendale mine of U.S.$242.8 million. In January 2009, the Cempaka mine was placed on care and maintenance. The Directors consider it unlikely that diamond prices will recover sufficiently in the short to medium term such that Cempaka could return to operation. As such, the full value of the Group’s assets at Cempaka was impaired resulting in a charge of U.S.$95.3 million. At the time of the Group’s operational review in November 2008, all alluvial exploration projects in the DRC and the CAR were placed on care and maintenance. The Directors therefore considered it appropriate to impair the full value of the assets at these operations, resulting in an impairment charge of U.S.$208.3 million.

Overall impairments to Group operations at the end of 2008 amounted to U.S.$546.5 million. Notwithstanding the impairment charges and inventory writedowns recorded by the Group for the year ended 31 December 2008, the Group has not relinquished any of its licences, tenements, assets or properties, other than those it would have relinquished in the normal course of its business.

Trading conditions experienced in late 2008 persisted during the first quarter of 2009. In January 2009 diamond prices achieved in sales of Letšeng, Cempaka and the lower quality Ellendale diamonds were lower than in 2008. However, prices obtained at the February/March 2009 tender of Letšeng diamonds increased by 9.7 per cent. relative to the January 2009 tender. The Group postponed a diamond tender scheduled for December 2008 due to the adverse trading conditions seeking to benefit from improvements in diamond pricing in 2009. As a result of the sales in January, the Group’s consolidated inventories were U.S.$14.6 million lower as at 31 January 2009 than levels at 31 December 2008.

Ellendale’s high quality diamond sales remained stable during the first quarter of 2009 largely due to the existence of an offtake agreement with a high end jewellery retailer with a global retail network. Although this arrangement ended in February 2009, the relationship has continued and the parties have recently signed a non-binding heads of terms in respect of an offtake agreement. The agreement the parties intend to enter into covers production from the Ellendale 9 pipe which at current prices represents approximately 80 to 90 per cent. by value of the pipe’s planned production.

The terms of the Société Générale Facility Agreement require Kimberley to obtain the prior written consent of Société Générale to place all or any part of the Project (as defined in the Société Générale Facility Agreement and which includes the Ellendale 4 pipe) on a care and maintenance programme. Although discussions were held between Kimberley and Société Générale prior to the placing of the Ellendale 4 pipe on a care and maintenance programme, Kimberley had not received prior written consent from Société Générale. Société Générale has, however, subsequently provided Kimberley with an unconditional waiver in respect of such consent not having been obtained pursuant to the Société Générale Facility Agreement on the terms described below.

Kimberley is also required to submit to Société Générale quarterly certificates of compliance with respect to certain covenants contained in the Société Générale Facility Agreement. Due to the recent reduction in diamond prices achieved on Kimberley’s diamonds and the placement of the Ellendale 4 pipe onto care and maintenance, cash flows into Kimberley have been significantly reduced and, accordingly, the ability of Kimberley to comply with all of such covenants has been adversely affected. The Company and Kimberley have held discussions with Société Générale in relation to covenant compliance and Société Générale has provided, on the terms described below, waivers in respect of non-compliance with the affected covenants in respect of each of the six month periods ended 31 December 2008 and 31 March 2009.

The principal amounts owing to Société Générale under the Société Générale Facility Agreement represent drawings under a 364 day revolving credit facility comprised in the Société Générale Facility Agreement, originally advanced for a six month funding period commencing on 29 September 2008 with the Company being entitled, subject, \emph{inter alia}, to there being no default under the Société Générale Facility Agreement and the representations and warranties given by Kimberley and the Company under the Société Générale Facility Agreement being true at the time of any such rollover, to roll over such drawn down amount for further funding periods ending not later than 25 September 2009.
Following the granting of the waivers referred to above, Kimberley rolled over the drawn down amount under the Société Générale Facility Agreement on the basis that the funding period in respect of such rollover should end on 1 May 2009 and, accordingly (and in the absence of the Placing), unless any further rollover occurs in respect of a funding period ending after that date and prior to the facility ceasing to be available in September 2009, Kimberley will become required to repay the amount currently drawn down (approximately A$30 million (approximately U.S.$21 million)) on 1 May 2009. In addition, prior to the facilities under the Société Générale Facility Agreement finally ceasing to be available, which will be in September 2009, Kimberley will be required to finance the posting of the substitute Kimberley environmental bonds (currently amounting to approximately A$6.4 million (approximately U.S.$4.5 million)).

As part of the agreements reached between Kimberley, the Company and Société Générale in relation to the waivers referred to above, in light of the continuing circumstances which resulted in such waivers being sought and obtained, Kimberley, the Company and Société Générale have agreed to use reasonable endeavours to agree an amendment to the Société Générale Facility Agreement in respect of the relevant covenants to reflect such circumstances on or before 1 May 2009. The parties have also agreed that the next period by reference to which the waived covenants will be measured, will end on 30 April 2009, with the certificate of compliance required to be delivered by 8 May 2009. The Company has also agreed to maintain at all times unencumbered cash balances in bank accounts of the Group in an amount of U.S.$25 million (or its equivalent in other currencies), of which U.S.$10 million (or its equivalent in other currencies) is required to be maintained in bank accounts of the Company; and to the cancellation of undrawn commitments under the facility.

The holders of the Bonds have agreed to waive the cross default under the terms of the Bonds arising as a result of the defaults which have arisen under the Société Générale Facility Agreement.

4. Prospects and strategy

Gem Diamonds Limited’s strategic intent remains to be one of the world’s leading diamond companies with a specific focus towards higher value gem quality diamonds. Principally through Letšeng and Ellendale, the Group has moved a long way to implementing that strategy in the rough diamond market. Over the medium to long term, development of the Group’s cutting and polishing business to beneficiate only high quality diamonds will see this strategy being pursued in the polished diamond market as and when market conditions allow.

The Directors continue to believe that the medium to long term trend of increased demand for diamonds remains positive due to the globalisation of the diamond engagement ring concept, the increase in high net worth individuals’ relative portion of global wealth as well as the economic growth and urbanisation of emerging BRIC economies. The Directors are of the opinion that the long-term positive outlook for diamonds is further underpinned by what most of the main producers and market commentators recognise as a long term supply-demand imbalance. Recent falls in demand for diamonds and consequently prices have prompted a response from the supply side, with the larger producers, notably De Beers and Alrosa, making major production cuts and significantly reducing trading levels. Funding constraints are inhibiting smaller producers from continuing to run now loss-making operations for any extended period thereby reducing the supply from these operations. Rapid reductions in higher cost production, ongoing curtailments in exploration expenditure and the deferral or cancellation of numerous growth projects are all likely to limit the extent to which diamond inventories are built-up and will contribute to greater supply-side constraints. The Directors believe that combined with the long-term positive supply-demand trends, these circumstances should result in higher average diamond prices over the long term than are currently being experienced.

The Directors believe that there will continue to be an element of de-stocking in the cutting centres and the global economic downturn will result in possible bankruptcies in the cutting centres. The Directors believe that a reduced supply of diamonds, together with continued levels of demand for retail jewellery, will result in prices for larger diamonds stabilising at or around current levels in the short to medium term. WWW Diamond Forecasts Ltd forecasts that rough diamond prices in the fine large category (the majority of Letšeng’s production) in 2009 will be 39.6 per cent. below 2008 levels and diamond prices for 2010 will be 11.0 per cent. below 2009 levels. The Directors consider the long-term outlook for diamond prices to remain positive.
The Directors believe that the Group is well placed to benefit from an improved industry environment. In particular:

- Gem Diamonds’ Executive Directors and Senior Management have considerable combined experience in all major aspects of diamond mining, from prospecting and evaluating projects and prospects through to production, as well as identifying and executing transactions in the diamond mining sector and in integrating acquisitions and working with joint venture partners to extract optimal value from an asset;

- its Letseng mine, which has historically produced large quality diamonds, including four of the top 20 largest diamonds publicly recorded, has a total resource across its two kimberlite pipes of 239 million tonnes and, on the basis of the current mine plan, an indicated life of mine of approximately 33 years. The mine now operates two plants, processing ore from two independent ore bodies, which combined significantly reduces production risk;

- the Directors believe its Ellendale mine is a leading producer of fancy and vivid yellow diamonds. This sub-sector of the diamond market has experienced relatively higher growth in demand in particular from the Far East where a diamond’s colour is of cultural significance; and

- the Group has a number of kimberlite development projects in Africa, in particular, in Botswana, where the Company owns Gope Exploration, the holder of a retention licence over the well-defined Gope deposit.

Having regard to the recent changes in the diamond market, the Directors intend to pursue a short-term plan with the aim of ensuring the Group weathers the current downturn and is well positioned when the market strengthens. This plan will include:

- continuing to mine and develop its higher margin operations at the Letseng and Ellendale mines;

- conserving cash in the short term through reduced expenditure on exploration and resource development as well as central costs and cut backs on all non-essential capital expenditure; and

- positioning Gem Diamonds to emerge from the current downturn in a position of strength.

The Company recognises the importance of creating value for Shareholders and it is the Board’s intention to return capital to Shareholders, by means the Board considers appropriate, in the medium to longer term as conditions and the Group’s development permit.

5. Management actions

Gem Diamonds’ management has responded swiftly and proactively to the current challenging operating conditions and an uncertain near-term outlook to strengthen the Group’s financial position through a series of ongoing measures. These measures have been considered against the background of the dramatic drop in rough diamond prices across the industry in the last four months of 2008 and in January 2009 and management’s expectations in relation to demand and pricing trends going forward. The measures implemented and being taken include:

- suspending unprofitable operations, including:
  - placing the Cempaka mine on care and maintenance in January 2009, which is expected to reduce monthly operating cash costs by approximately U.S.$240,000 per month in 2009; and
  - placing the Ellendale mine’s lower revenue Ellendale 4 pipe on care and maintenance in February 2009, which is expected to reduce monthly operating cash costs by approximately U.S.$5.9 million per month in 2009;

- suspending investment in development and exploration projects across central and southern Africa, including operations in the DRC (where its alluvial exploration operations were put on care and maintenance in November 2008), the CAR (where its operations were put on care and maintenance in November 2008) and Botswana. Collectively these measures are expected to reduce operating and capital expenditure across these territories by U.S.$22.1 million in 2009;
• further reducing operating expenses through restructurings, productivity improvements and commencement of lower cost, supply the financial benefits of which are not yet quantifiable;

• a significant reduction in central costs attributable to the Company and its services subsidiary GDTS where annual cash expenditure for 2009 is budgeted at approximately U.S.$13.5 million compared to U.S.$18.1 million expended in 2008;

• a substantial reduction in discretionary, sustaining and expansionary capital expenditure at the operating mines. An ongoing review of all capital expenditure projects at Letšeng and Ellendale has identified a number of capital expenditure deferrals or reductions for 2009, reducing anticipated capital expenditure for 2009 to approximately U.S.$17.2 million, a 63 per cent. reduction relative to comparable expenditure in 2008; and

• from 1 April 2009, reducing the salaries of Executive Directors by 10 per cent. compared to 2008 levels. No bonuses or share awards were made in respect of 2008. Furthermore, the Chairman’s and Non-Executive Directors’ fees have been reduced by 25 per cent. from 1 April 2009.

In addition, such measures implemented and which might be implemented include entering into discussions for and implementing offtake agreements (by which buyers would commit to purchase specified quantities of diamonds of particular carats and quality at predetermined prices) at levels that can sustain operations. As described in paragraph 3 “Recent developments and current trading”, the Company has recently signed non-binding heads of terms with a high end jewellery retailer with a view to concluding a long-term offtake agreement in respect of Ellendale’s fancy yellow diamond production. Various parties have expressed a firm interest in concluding an offtake agreement in respect of all or part of the Letšeng production at prices which would ensure the profitability of the Letšeng mine with periodic price adjustment mechanisms.

The Company has in the past considered such expressions of interest and expects to give consideration to any future expressions of interest in concluding any offtake agreement in respect of Letšeng production but no decisions have been made by the Board in respect of entering into any such agreement.

6. Use of proceeds
The Company is proposing to raise £68.4 million (net of expenses) in the Placing.

The net proceeds of the Placing will enable the Company to repay existing debt and fund working capital for the principal operations of the Group.

Out of the net proceeds received, the Company will repay the U.S.$16.5 million that will become due on the Maturity Date for the Bonds including the associated coupon of U.S.$0.5 million, which arises in October 2009, as well as the outstanding loan of approximately A$30 million (approximately U.S.$21 million) from Société Générale to Kimberley which, in accordance with the terms of the waiver granted by Société Générale to the Company and Kimberley as described under “Recent developments and current trading” above, is repayable within two business days of completion of the Placing. In addition, Kimberley is currently required to post an environmental bond of approximately A$6.4 million (approximately U.S.$4.5 million) with the State of Western Australia in order to remain in compliance with the relevant regulatory environmental provisions. The substitute bonding arrangements, currently secured by Société Générale pursuant to a total facility of A$10 million (U.S.$7.0 million), will also be financed out of the net proceeds of the Placing within two business days of completion of the Placing.

Furthermore, Kimberley’s outstanding trade payables, of which approximately A$16.5 million (U.S.$11.5 million) was due and payable as at 31 March 2009 will be paid, as and when required, out of the net proceeds of the Placing.

The balance of the net proceeds of the Placing will be used to fund the Group’s working capital requirements. As a result, net debt is expected to reduce to zero following completion of the Placing and such payments and repayments having been made.

The Group’s management will continue to focus on taking action with a view to ensuring that Gem Diamonds’ business remains cash positive and financially robust, including, where necessary, further
reductions in capital expenditure and operating costs, the suspension, closure or disposal of unprofitable or higher cost operations and the optimisation of working capital.

The Group continues to operate cash generative operations at Letšeng and Ellendale, with long-term growth potential and leading positions in each of their markets. The Directors believe the Group’s prospects to be positive because of the actions the Group has undertaken or intends to take in the near term, including introducing measures to optimise cash and enhance the Group’s financial condition.

The Directors believe that the Placing, amongst other measures taken by the Group’s management, should position the Group to emerge from the current downturn with a strengthened balance sheet and an enhanced platform from which, at the appropriate time, to take advantage of the medium to long-term positive supply-demand dynamics the Directors believe exist and to initiate the next stage of the Group’s growth.

7. Working capital
The Company is of the opinion that, taking into account the net proceeds of the Placing and the bank and other facilities available to the Group, the Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of publication of this Circular.

8. Dividend policy and returns to Shareholders
Since incorporation, Gem Diamonds has not paid or declared any dividends, favouring instead reinvestments of profits into the Group’s growth. The Directors do not anticipate changing the Company’s dividend policy in the near to medium term. The Company recognises the importance of creating value for Shareholders and it is the Board’s intention to return capital to Shareholders, by means they consider appropriate, in the medium to longer term as conditions and the Group’s development permit.

9. Further information in relation to the Placing
All the New Shares have been conditionally placed by J.P. Morgan Cazenove at an Issue Price of 100 pence per New Share, to raise approximately £75 million (before expenses). The Placing is conditional upon, amongst other things, fulfilment of the following conditions:

(a) the passing without material amendment (or with such amendments as J.P. Morgan Cazenove and the Company may agree) of the Resolutions at the General Meeting;

(b) the Placing and Underwriting Agreement not having been terminated in accordance with its terms prior to Admission; and

(c) Admission becoming effective.

Applications will be made for the New Shares to be admitted to listing on the Official List and to trading on the London Stock Exchange’s Main Market. It is expected that Admission will become effective and dealings in the New Shares will commence at 8.00 a.m. on 22 April 2009.

The New Shares will, when issued and fully paid, rank pari passu in all respects with the Ordinary Shares, including the right to receive all dividends or other distributions declared, made or paid after the date of their issue. The New Shares will be in registered form and capable of being held in certificated form or uncertificated form in the form of Depository Interests in CREST.

10. Related party transaction and information incorporated by reference
Of the New Shares, 10.5 million New Shares have been conditionally placed with Lansdowne Partners Limited which is a substantial shareholder and therefore a related party of the Company for the purposes of the Listing Rules by virtue of being entitled to exercise more than 10 per cent. of the votes able to be cast at general meetings of the Company, and its participation in the Placing constitutes a related party transaction for the purposes of those rules. Pursuant to the Placing and Underwriting Agreement, J.P. Morgan Cazenove, as agent for the Company, has conditionally placed with Lansdowne Partners Limited such New Shares on the terms of a Placing Letter between J.P. Morgan Cazenove and Lansdowne Partners Limited. Save as provided in the next sentence, Lansdowne Partners Limited has entered into a Placing Letter with J.P.
Morgan Cazenove which includes an irrevocable undertaking by Lansdowne Partners Limited to vote in favour of the Resolutions in respect of all the Ordinary Shares and Depositary Interests, in which it is interested at the date of the General Meeting. However as Lansdowne Partners Limited is a related party for the purposes of the Listing Rules, it has undertaken not to vote on Resolution 5 set out in the Notice of General Meeting (which relates to the approval of the related party transaction) and to use its reasonable endeavours to ensure that its associates do not so vote.

Further details of the Placing Letters are set out below in paragraph 17 “Irrevocable undertakings”.

The Prospectus contains information in respect of the following:

(a) in Part X – “Additional Information – Significant shareholdings”, significant shareholdings in the Company as at 31 March 2009 (being the latest practical date prior to publication of this Circular);

(b) in Part X – “Additional Information – No significant change”, information in respect of significant changes in the trading or financial position of the Group since 31 December 2008 (the date to which the latest audited published financial information of the Group was prepared);

(c) in Part X – “Additional Information – Material contracts”, information in respect of contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the Group: (a) within the two years immediately preceding the date of this Circular which are, or may be, material to the Group; or (b) at any time and contain obligations or entitlements which are, or may be, material to the Group as at the date of this Circular; and

(d) in Part X – “Additional Information – Documents available for inspection”, the documents that are available for inspection in connection with the Placing and details as to where and when those documents are available to be inspected.

These parts of the Prospectus are incorporated by reference in this Circular as described in the section of this Circular headed “Relevant Documentation and Incorporation by Reference”.

11. Risk factors

Your attention is drawn to the risk factors set out in the section of the Prospectus headed “Risk Factors”, which are incorporated by reference into this Circular as described in the section of this Circular headed “Relevant Documentation and Incorporation by Reference”, including the following risk factors:

• the profitability and economic viability of the Group’s operations is highly dependent on diamond prices and is affected by consumer demand and preferences for luxury goods;

• the curtailment of production by the Group may result in increased costs being incurred by the Group in the short term and may result in the Group foregoing or deferring the receipt of the benefits of any future rises in diamond prices;

• the volume and grade of the diamondiferous ore the Group recovers may not conform to current expectations;

• the Group depends on its key personnel. If the Group is unable to attract and retain key personnel, its business may be materially and adversely affected;

• some of the Group’s operations are located in areas of political, regulatory and economic instability; and

• as described under paragraph 18 “Importance of the Resolutions and risks relating to the Placing” below, failure to complete the Placing could be damaging to the Group.

12. Bonds

As at 31 March 2009, the latest practicable date prior to publication of this Circular, approximately U.S.$16.5 million of the Bonds remain outstanding. The exchange price of each of the Bonds will be adjusted to take account of the Placing. Holders of Bonds will be notified of the details of the adjustments
in due course. The effect of such adjustments will be to increase the number of Ordinary Shares to which each holder of Bonds will be entitled on conversion of the Bonds.

13. Gem Diamonds Employee Share Options Plan
In accordance with the rules of the Gem Diamonds Employee Share Option Plan and the Executive Share Growth Plan, whether adjustments to the terms of outstanding options and awards to take account of the Placing are made and, if made, the nature of any such adjustments, is at the discretion of the Board. The Board has determined that no such adjustments will be made and the Company will notify participants in due course.

14. General Meeting
A notice convening a General Meeting of the Company to be held at the offices of J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 10.30 a.m. (London time) on 20 April 2009 is set out at the end of this Circular. A Form of Proxy (for holders of Ordinary Shares) or a Form of Direction (for holders of Depositary Interests) to be used in connection with the General Meeting is enclosed with this Circular. The purpose of the General Meeting is to seek Shareholders’ approval of the Resolutions set out in the Notice of General Meeting.

A summary and explanation of the Resolutions are set out below. Please note that this is not the full text of the Resolutions and this section should be read in conjunction with the Resolutions contained in the Notice of General Meeting at the end of this Circular.

Resolution 1: Increase to number of authorised shares
To amend the Memorandum of Association to increase the maximum number of shares that the Company is authorised to issue, from 125,000,000 Ordinary Shares of U.S.$0.01 par value each, to 200,000,000 Ordinary Shares of U.S.$0.01 par value each, by the creation of an additional 75,000,000 Ordinary Shares (representing an increase in the number of authorised shares of the Company of approximately 60 per cent.). This will enable the Company to issue the New Shares for the purposes of the Placing and also maintain headroom for future issues of Ordinary Shares.

Resolution 2: Authority to allot shares
To authorise the Directors of the Company, for the purposes of Article 3.1 of the Company’s Articles of Association, to exercise all the powers of the Company to allot relevant securities (within the meaning of Article 3.4.5) up to an aggregate nominal amount of U.S.$750,000 (representing an amount equal to 119 per cent. of the Company’s issued Ordinary Shares as at 31 March 2009) during the period commencing on the date of the passing of Resolution 2 and expiring at the conclusion of the next Annual General Meeting of the Company.

Resolution 3: Disapplication of pre-emption rights
To disapply and waive, for the purposes of the Placing, the obligation on the Directors under Article 3.5 of the Company’s Articles of Association to first offer equity securities to existing Shareholders of the Company in proportion (as nearly as practicable) to the number of Ordinary Shares held by them, before issuing such securities to any person. This will allow the Company to issue the New Shares for cash on a non pre-emptive basis up to an aggregate nominal amount of U.S.$750,000 (representing an amount equal to 119 per cent. of the Company’s issued Ordinary Shares as at 31 March 2009).

Resolution 4: Approval of Placing
To approve the terms of the Placing at the Issue Price of 100 pence for each New Share, which represents a discount of 33 per cent. to the Closing Price of the Ordinary Shares of the Company on 31 March 2009, the last business day prior to the announcement of the Placing. This is to comply with the Listing Rules which require shareholder approval of the Placing which is at a discount of more than 10 per cent. to the Closing Price of Ordinary Shares on 31 March 2009, the last business day prior to the announcement of the Placing.
Resolution 5: Approval of related party transaction
To approve the participation in the Placing of Lansdowne Partners Limited. This is to comply with the Listing Rules which require shareholder approval in respect of the participation of Lansdowne Partners Limited, as a related party under the Listing Rules, in the Placing.

Resolution 6: Waiver of mandatory bid requirement
To disapply and waive, for the purposes of the Placing, the obligation on a person under Article 155 of the Company’s Articles of Association to make a takeover offer to the other holders of shares of the Company if such person, as a result of partially underwriting the Placing, acquires 30 per cent. or more of the total voting rights in the Company. This is being dis applied and waived so as not to apply to J.P. Morgan Cazenove or any underwriter in the context of the Placing.

Resolutions 1 and 3 described above will be proposed as special resolutions. Each special resolution will be decided on a poll in accordance with the Articles. The passing of these special resolutions requires a majority of not less than 75 per cent. of the votes cast in respect of each such resolution.

Resolutions 2, 4, 5 and 6 described above will be proposed as ordinary resolutions. Each ordinary resolution will be decided on a poll in accordance with the Articles. The passing of these ordinary resolutions requires a majority of the votes cast in respect of each such resolution.

The authorities referred to in Resolution 2 above are authorities to allot authorised but unissued relevant securities. These authorities will (unless previously renewed, varied or revoked by Shareholders in general meeting) expire at the end of the next Annual General Meeting of the Company and will be in substitution for any existing authority at the time Resolution 2 is passed.

As at the date of this Circular, the Company holds no Ordinary Shares in treasury.

The Gem Diamonds Employee Share Trust currently holds 235,957 Ordinary Shares to satisfy the exercise or vesting of awards granted pursuant to the Gem Diamonds Employee Share Option Plan.

Following the passing of Resolutions 1 and 2 and the filing of the amended Memorandum of Association at the Registry pursuant to Resolution 1, Gem Diamonds will have in aggregate 137,022,147 authorised but unissued Ordinary Shares of which the Directors will be authorised to allot 75,000,000. Save as mentioned in the preceding paragraph of this paragraph 14, the Directors have no present intention of issuing any authorised but unissued Ordinary Shares other than in connection with the Placing.

Details of Gem Diamonds’ issued and authorised number of shares, at present and as it would be immediately following the maximum issue of new Ordinary Shares pursuant to the authority described in Resolution 2, are set out in paragraph 3 of Part X — “Additional Information —The Company’s Shares (Authorised and Issued)” of the Prospectus.

15. Action to be taken
Shareholders who hold their Ordinary Shares in certificated form will find enclosed with this Circular a Form of Proxy for use at the General Meeting. Whether or not they intend to be present at the General Meeting, such Shareholders are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and in any case so as to be received by Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, no later than 10.30 a.m. on 18 April 2009. The completion and return of a Form of Proxy will not prevent such Shareholders from attending the General Meeting and voting in person if they wish to do so.

Depositary Interest Holders will find enclosed with this Circular a Form of Direction which may be used to instruct the Depositary how to vote the number of Ordinary Shares in the Company represented by their Depositary Interests. Depositary Interest Holders are requested to complete the Form of Direction in accordance with the instructions provided on it and return it as soon as possible and in any case so as to be received by Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, no later than 10.30 a.m. on 17 April 2009. If you hold your shares via the Depositary Interest arrangement and would like to attend the General Meeting, please contact the Depositary, Capita IRG Trustees Limited, contact details of which are set out on page 25 of this document.
If you are in any doubt as to what action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor or other independent professional adviser who is authorised under FSMA.

16. Further information

Your attention is drawn to the further information contained in the Prospectus and this Circular. You are advised to read the whole of the Prospectus and this Circular and not to rely solely on the information in this letter.

17. Irrevocable undertakings

So far as the Directors are aware, as at 31 March 2009 (being the latest practicable date prior to the publication of this Circular) GDHL owned 9,325,000 Ordinary Shares, or approximately 14.8 per cent. of the issued Ordinary Shares of the Company and is the largest Shareholder of the Company. 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 these Ordinary Shares.

The Company has received irrevocable undertakings from GDHL, which has confirmed to the Company that it is fully supportive of the Placing and will vote in favour of the Resolutions. GDHL’s irrevocable undertaking to vote in favour of the Resolutions is given in respect of its entire shareholding in the Company. The Ordinary Shares which are the subject of this irrevocable undertaking are included in the 11,409,477 Ordinary Shares referred to in paragraph 19 below.

Certain of the Placing Letters between J.P. Morgan Cazenove and the Placees include an irrevocable undertaking by the Placees to vote in favour of the Resolutions in respect of all Ordinary Shares and Depositary Interests in which the Placee is interested at the date of the General Meeting.

18. Importance of the Resolutions and risks relating to the Placing

The Placing is conditional on all of the Resolutions being approved at the General Meeting. If the Resolutions are not approved at the General Meeting, the Company will be unable to complete the Placing.

In light of the circumstances described under “Recent developments and current trading”, “Prospects and strategy”, “Use of proceeds”, and “Further information in relation to the Placing”, the Group will require additional funds in order to meet its obligations as they fall due. In particular, the Group will be required: (i) to redeem its outstanding Bonds (amounting to approximately U.S.$16.5 million due in October 2009); (ii) to repay the amounts drawn down under the Société Générale Facility Agreement in the amount of A$30 million (approximately U.S.$21 million), which will (unless Kimberley, the Company and Société Générale have agreed amendments to the Société Générale Facility Agreement in relation to the covenants in respect of which waivers have been obtained, and Kimberley rolls over amounts drawn down under the facility) be required to be paid by 1 May 2009; (iii) to finance the posting of the substitute Kimberley environmental bonds (currently amounting to approximately A$6.4 million (approximately U.S.$4.5 million)) due in September 2009 and (iv) to pay outstanding amounts owing to trade creditors of Kimberley.

Failure to post the Kimberley environmental bonds may result in the cancellation of the Ellendale mining lease.

As a result of the recent decline in diamond prices and the placement of the Ellendale 4 pipe on care and maintenance, Kimberley has recently experienced difficulties in settling amounts owed as trade payables on a timely basis, which resulted in a creditor filing an application for insolvency with the relevant Australian courts. In the event that the Placing is not completed, it is unlikely that Kimberley will be able to settle amounts payable to creditors as they become due without requiring direct financial support from other members of the Group. Providing such support would reduce the cash resources available to other members of the Group for other purposes and possibly increase the Group’s overall costs of funding. In addition, any failure to meet its obligations on a timely basis may result in further legal proceedings being initiated by Kimberley’s trade creditors.

The audit report on the 2008 financial statements of the Group contained an “emphasis of matter” statement (the “Emphasis of Matter Statement”), which drew attention to material uncertainties which cast significant
doubt over the Company’s ability to continue as a going concern. In particular, the Emphasis of Matter Statement, the terms of which are described below, made it clear that the financial statements were prepared on a going concern basis on the grounds that the Directors have a reasonable expectation that the Group will have adequate financial resources to continue in operational existence for the foreseeable future. The Directors believe that, if completed, the Placing will meet the Group’s financing requirements as described above and will enable the Company to continue as a going concern. The text of the Emphasis of Matter Statement, together with note 1.2.2 to the 2008 financial statements of the Group to which it refers, is set out below.

It is against this background that the Directors are proposing to raise equity capital by way of the Placing to fund the obligations described above and to create a suitable capital structure to strengthen the position of the Group’s key operations in order to survive a prolonged economic downturn. The Directors believe that the reduction in financial indebtedness will also create a stronger position from which to develop future strategic options.

In the absence of receipt of proceeds under the Placing, the Group has limited options available to it to enable it to be in a position to repay or pay when due the amounts referred to above. The ability of Kimberley unilaterally to rollover amounts drawn down under the Société Générale Facility Agreement, would depend upon the parties agreeing amendments to the Société Générale Facility Agreement in relation to the covenants in respect of which waivers have been obtained, so as to enable compliance by Kimberley with such covenants going forward, in light of the recent placing on to care and maintenance of the Ellendale 4 pipe. The Company could seek to extend the repayment dates of the Bonds and in respect of amounts drawn down under the Société Générale Facility Agreement although, in the current economic and financial environment, the Directors believe that the cost of any such extension, even if available would be expensive and most likely would result in the imposition of significantly more onerous obligations on the Group than those that currently apply. If the Company is unable to extend the repayment dates of the Bonds or in respect of amounts drawn down under the Société Générale Facility Agreement, it may be able to access alternative funds, whether in the debt or equity capital markets or by other third party borrowings, for the purposes of repaying the Bonds and the amounts drawn down under the Société Générale Facility Agreement and posting the Kimberley environmental bonds. The limited time frame available within which to access such alternative funds, if they are to be available to repay amounts drawn down under the Société Générale Facility Agreement, which (unless the contingencies referred to above are satisfied and assuming the Placing is not completed) will be 1 May 2008, would make implementing such arrangements extremely challenging. The costs incurred in raising such alternative funds, and the obligations required to be assumed thereby, even if the same could be achieved in the time available could have a material adverse effect on the Company. Any such increased cost of funding and/or onerous obligations arising from having to negotiate an extension of the repayment dates of the Bonds and/or in respect of amounts drawn down under the Société Générale Facility Agreement or obtaining access to such alternative funding could have a material adverse impact on the Group’s financial position and results of operations as a result of which its business and financial condition may suffer, its ability to access funding may be further limited, its costs of funding may increase and the price of Ordinary Shares may decline. Any such measures which are to be taken in circumstances were the Placing not to be completed may, in addition, be less effective in reducing the Group’s gearing, which may adversely affect the ability of the Group to develop its assets and businesses in the future.

A further alternative available to the Group would be to enter into other offtake agreements for, in particular, the Letšeng production (pursuant to which a buyer would commit to purchasing a specified volume of diamonds of particular grades at specific prices for an agreed period). Any such offtake arrangement would be in addition to the offtake agreement intended to be entered into in respect of Ellendale production described in paragraph 3 “Recent developments and current trading” above. While the Board recognises the benefits of such arrangements, to enter into offtake agreements under financial duress would limit the Company’s ability to negotiate an optimum price, the result of which could be to restrict upside value in these assets as and when the market price of diamonds rises.

In light of the circumstances described above, the Directors have a limited level of confidence in the Group’s ability to roll over its existing debt facilities or to enter into new financing arrangements on terms that are favourable to the Group. However, the Directors have a higher level of confidence that the Group would be able to secure further offtake arrangements. Signing such an offtake agreement may not on its own provide
sufficient short term cash to meet the Group’s obligations as they fall due, but the Directors believe that it would provide a more certain stream of contracted and profitable revenues from which to seek alternative funding.

As described under “Use of proceeds” in this Part V, the Company intends to pay, as and when required, out of the net proceeds of the Placing, Kimberley’s outstanding trade payables, of which approximately A$16.5 million (U.S.$11.5 million) was due and payable as at 31 March 2009. If Kimberley is required to repay amounts drawn down under the Société Générale Facility Agreement on 1 May 2009 the existence of that obligation is, in the Directors opinion, likely to trigger (whether by virtue of the commencement of insolvency proceedings in relation to Kimberley or otherwise) an acceleration of the obligations of Kimberley to pay those trade payables. Furthermore, a default in repaying when due amounts drawn down under the Société Générale Facility Agreement would trigger a cross-default under the Bonds.

The failure to complete the Placing would require the Company to implement alternative strategies in order to be in a position to meet the shortfall (which the Company estimates as being in excess of U.S.$ 25 million) between the estimated aggregate amounts that would be required to be paid by the Group described above (assuming the Kimberley environmental bonds were then called) and the amount of available (and unrestricted) cash which is expected to be available to the Group for such purposes, in each case as at 1 May 2009, being the date on which, unless the contingencies to rolling over amounts drawn down under the Société Générale Facility Agreement referred to above are satisfied, such amounts would likely be required to be paid. The effect being required to implement such alternative strategies for such purpose could be damaging to the Group and its prospects. There is also no certainty that any such alternative strategies would be implemented in such a way, and within the timescales imposed by the current repayment date applicable to the Société Générale Facility Agreement, as to enable the Group to continue to operate its principal operations on the current basis, which would result in a material adverse effect on the value of the Shares.

It was against the background of the circumstances described above that the Company’s auditors reported on the 2008 financial statements of the Group. The audit report included in those statements contained the following paragraph:

“Emphasis of matter – Going concern

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

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

Note 1.2.2 to the 2008 financial statements is in the following terms:

“1.2.2. Going concern

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

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

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

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

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

The inability of the Company to continue as a going concern, that is, meet its liabilities as they fall due, accordingly may, in such circumstances, result in the Company facing the risk of insolvency, proceedings in respect of which might be commenced at any time following any failure by the Company to satisfy when due its financial obligations, including in respect of its guarantee of Kimberley’s obligations to Société Générale as described above which, in the event of failure to complete the Placing and the Company agreeing amendments to the Société Générale Facility Agreement, would occur on 1 May 2009.

It is for these reasons that the Company is proposing the Placing and is seeking Shareholder approval of the Resolutions at the General Meeting.

In setting the Issue Price, the Directors have considered the price at which the New Shares need to be offered to investors to ensure the success of the Placing and to raise very significant equity compared with the current market capitalisation of the Company. The Directors believe that the Issue Price, and the discount it bears to the recent trading price of the Ordinary Shares, are appropriate.

19. Recommendation

The Board of Directors of the Company has received financial advice in respect of the Placing from J.P. Morgan Cazenove. In providing its advice to the Board, J.P. Morgan Cazenove has taken into account the Board’s assessments of the commercial merits of the Placing.

The Board, having been so advised by J.P. Morgan Cazenove, considers that the terms of the participation of Lansdowne Partners Limited in the Placing are fair and reasonable so far as Shareholders are concerned. In giving its advice J.P. Morgan Cazenove has taken into account the commercial assessments of the Directors.

The Board of Directors of the Company considers that the Placing and each of the Resolutions are in the best interests of the Company and the Shareholders of the Company as a whole. Accordingly, the Board unanimously recommends Shareholders to vote in favour of each of the Resolutions, as the Directors intend to do in respect of their own beneficial shareholdings held at the time of the General Meeting, amounting to 11,409,477 Ordinary Shares in aggregate at the date of this Circular, representing approximately 18 per cent. of the Company’s current issued Ordinary Shares.

Yours sincerely

Roger Davis
Chairman

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DEFINITIONS

In this Circular the following expressions have the following meaning unless the context otherwise requires:

**Admission**

the admission of the New Shares to the Official List becoming effective in accordance with the Listing Rules and the admission of such shares to trading on the London Stock Exchange’s main market for listed securities becoming effective in accordance with the Admission and Disclosure Standards

**Admission and Disclosure Standards**

the Admission and Disclosure Standards of the London Stock Exchange containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities

**Annual General Meeting**

an annual general meeting of the Shareholders of the Company

**Articles of Association or Articles**

the articles of association of the Company as amended from time to time

**Aus$ or A$**

the lawful currency of Australia

**Avantis**

Avantis Angola Limited, whose registered office is at Saffrey Square, Suite 205, Bank Lane, PO Box N-8188, Nassau, The Bahamas

**BDI**

BDI Mining Corp., a company that indirectly holds 80 per cent. of Cempaka

**Blina Diamonds**

Blina Diamonds NL, a company incorporated in Australia and 39 per cent. owned by Kimberley whose registered address is Level 3, 52 Kings Park Road, West Perth 6005, Australia

**Board or Board of Directors**

the board of directors of the Company

**Bonds**

the convertible bonds issued by the Company due 2009 as described in Part VIII of the Prospectus

**BRIC**

Brazil, Russia, India and China

**business day**

a day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks generally are open for business in London for the transaction of normal business

**Calibrated Diamonds**

Calibrated Diamonds Investment Holdings (Pty) Limited

**Capita Registrars**

a trading name of Capita Registrars Limited

**CAR**

the Central African Republic

**CCSS**

the CREST Courier and Sorting Service established by Euroclear UK to facilitate, amongst other things, the deposit and withdrawal of securities

**Cempaka**

the Cempaka diamond mine in South Kalimantan, Indonesia

**certificated or in certificated form**

where a share or other security is not in uncertificated form

**Chiri Option Agreement**

the option agreement dated 10 January 2007 between Gem Diamonds and Avantis
Circular
this circular to Shareholders dated 3 April 2009 issued by the Company in connection with the Placing and including the Notice of General Meeting

Closing Price
the closing middle-market price of an Ordinary Share as derived from the Daily Official List of the London Stock Exchange

Company or Gem Diamonds Limited
Gem Diamonds Limited, a company incorporated in the British Virgin Islands and registered with IBC number 669758

CREST
the relevant system, as defined in the CREST Regulations (in respect of which Euroclear UK is the operator as defined in the CREST Regulations)

CREST Manual

CREST Member
a person who has been admitted to Euroclear UK as a system member (as defined in the CREST Regulations)

CREST participant
a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations)

CREST Regulations
the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended

CREST sponsor
a CREST participant admitted to CREST as a CREST sponsor

CREST sponsored member
a CREST Member admitted to CREST as a sponsored member

De Beers
De Beers Group SA

Depositary
Capita IRG Trustees Limited of The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, United Kingdom

Depositary Interest Holder
a holder of Depositary Interests

Depositary Interests
the dematerialised depositary interests in respect of the Ordinary Shares issued or to be issued by the Depositary

Directors
the Executive Directors and Non-Executive Directors of the Company, whose names appear on page 28 of the Prospectus

Disclosure and Transparency Rules
the rules relating to the disclosure of information made in accordance with Section 73A(3) of FSMA

DRC
the Democratic Republic of Congo

Ellendale
the Ellendale diamond mine in Western Australia

ESOP
the employee share option plan approved by the Company on 1 February 2007

Euroclear UK
Euroclear UK & Ireland Limited, the operator of CREST

Executive Directors
the executive directors of the Company

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Financial Services Authority or FSA  the Financial Services Authority of the United Kingdom
Form of Direction  the form of direction to be used by holders of Depositary Interests in connection with the General Meeting
Form of Proxy  the form of proxy to be used by holders of Ordinary Shares in connection with the General Meeting
FSMA  the Financial Services and Markets Act 2000, as amended
GDHL  Gem Diamond Holdings Limited, a company incorporated in the British Virgin Islands with number 677108 and whose registered office is at Harbour House, Waterfront Drive, P.O. Box 2221, Road Town, Tortola, British Virgin Islands
GDTS  Gem Diamonds Technical Services (SA) (Pty) Limited of Executive City, Cnr. Cross Street and Charmaine Avenue, President Ridge, Randburg, South Africa
General Meeting  the general meeting of Gem Diamonds Limited to be held at the offices of J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA, United Kingdom at 10.30 a.m. (London time) on 20 April 2009, notice of which is set out in this Circular or any adjournment of such general meeting
Gope  the Gope kimberlite deposit in Botswana
Gope Exploration  Gope Exploration Company (Proprietary) Limited
Group or Gem Diamonds  the Company and its subsidiaries and subsidiary undertakings
Growth Plan  a share-based remuneration arrangement for Executive Directors and Senior Management
IPO  the initial public offering of Gem Diamonds Limited in February 2007
Issue Price  100 pence per New Share
J.P. Morgan Cazenove  J.P. Morgan Cazenove Limited of 20 Moorgate, London EC2R 6DA, United Kingdom
Kimberley  Kimberley Diamond Company NL, a company incorporated in Australia
Letšeng  the Letšeng diamond mine in Lesotho
Listing Rules  the Listing Rules made by the FSA under Part VI of FSMA
London Stock Exchange  London Stock Exchange plc
Maturity Date  2 October 2009
Memorandum of Association  the memorandum of association of the Company as amended from time to time
New Depositary Interests  the Depositary Interests to be issued by the Depositary pursuant to the Placing
New Shares  the 75,000,000 new Ordinary Shares to be issued by the Company pursuant to the Placing
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Executive Directors</td>
<td>the non-executive directors of the Company</td>
</tr>
<tr>
<td>Notice of General Meeting or Notice</td>
<td>the notice of the General Meeting set out at the end of this Circular to Shareholders</td>
</tr>
<tr>
<td>Official List</td>
<td>the Official List of the Financial Services Authority</td>
</tr>
<tr>
<td>Ordinary Shares or Shares</td>
<td>ordinary shares of U.S.$0.01 par value each of the Company</td>
</tr>
<tr>
<td>Part VI Rules</td>
<td>the rules contained in Part VI of FSMA</td>
</tr>
<tr>
<td>Placees</td>
<td>those persons who have agreed to, or shall agree to, subscribe for the New Shares on the terms of the Placing Letters</td>
</tr>
<tr>
<td>Placing</td>
<td>the subscription by the Placees for the New Shares on the terms of the Placing Letters</td>
</tr>
<tr>
<td>Placing and Underwriting Agreement</td>
<td>the placing and underwriting agreement dated 1 April 2009 between the Company and J.P. Morgan Cazenove relating to the Placing</td>
</tr>
<tr>
<td>Placing Letters</td>
<td>the letters sent by J.P. Morgan Cazenove to the Placees in relation to the Placing and the letters of confirmation sent from the Placees to J.P. Morgan Cazenove to confirm their irrevocable acceptance of participation in the Placing</td>
</tr>
<tr>
<td>pounds sterling or £</td>
<td>the lawful currency of the United Kingdom</td>
</tr>
<tr>
<td>Prospectus</td>
<td>the prospectus relating to the Company and the Placing prepared in accordance with the Listing Rules and the Prospectus Rules</td>
</tr>
<tr>
<td>Prospectus Rules</td>
<td>the Prospectus Rules published by the FSA under Section 73A of FSMA</td>
</tr>
<tr>
<td>PT Galuh Cempaka</td>
<td>PT Galuh Cempaka, an Indonesian company that owns and operates Cempaka</td>
</tr>
<tr>
<td>Qualifying Depositary Interest Holders</td>
<td>holders of existing Depositary Interests on the register of such holders maintained in the UK on behalf of the Depositary on the Record Date</td>
</tr>
<tr>
<td>Qualifying Shareholders</td>
<td>holders of existing Ordinary Shares (in certificated form) on the register of members of the Company on the Record Date, including, for the avoidance of doubt, the Depositary</td>
</tr>
<tr>
<td>Record Date</td>
<td>5.00 p.m. on 30 March 2009</td>
</tr>
<tr>
<td>Registry</td>
<td>the Registry of Corporate Affairs in the British Virgin Islands</td>
</tr>
<tr>
<td>Regulatory Information Service</td>
<td>one of the regulatory information services authorised by the FSA to receive, process and disseminate regulatory information in respect of listed companies</td>
</tr>
<tr>
<td>Resolutions</td>
<td>the resolutions to be proposed at the General Meeting in connection with the Placing, notice of which is set out in this Circular</td>
</tr>
<tr>
<td>Restricted Jurisdiction</td>
<td>the Republic of South Africa and Switzerland</td>
</tr>
<tr>
<td>Senior Management</td>
<td>those members of the management bodies of the Company and its subsidiaries who are, in the opinion of the Directors, important to the operations and success of the Group, being, as at the date of this Circular, Graham Wheelock</td>
</tr>
<tr>
<td><strong>Shareholder</strong></td>
<td>a holder of Ordinary Shares and/or, as the context may require, a holder of Depositary Interests</td>
</tr>
<tr>
<td><strong>Société Générale</strong></td>
<td>Société Générale Australia Branch</td>
</tr>
<tr>
<td><strong>Société Générale Facility Agreement</strong></td>
<td>the agreement entered into between, amongst others, Kimberley, the Company and Société Générale on 25 September 2008</td>
</tr>
<tr>
<td><strong>uncertificated or in uncertificated form</strong></td>
<td>recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST</td>
</tr>
<tr>
<td><strong>United Kingdom or UK</strong></td>
<td>the United Kingdom of Great Britain and Northern Ireland</td>
</tr>
<tr>
<td><strong>United States or U.S.</strong></td>
<td>the United States of America, its territories and possessions, any state of the United States and the District of Columbia</td>
</tr>
<tr>
<td><strong>U.S. dollars or $</strong></td>
<td>the lawful currency of the United States</td>
</tr>
<tr>
<td><strong>U.S. Securities Act</strong></td>
<td>the United States Securities Act 1933</td>
</tr>
</tbody>
</table>
NOTICE OF GENERAL MEETING

GEM DIAMONDS LIMITED

(incorporated in the British Virgin Islands in accordance with the laws of the British Virgin Islands with number 669758)

NOTICE IS HEREBY GIVEN that a GENERAL MEETING of Gem Diamonds Limited (the “Company”) will be held at the offices of J.P. Morgan Cazenove, 20 Moorgate, London EC2R 6DA at 10.30 a.m. (London time) on 20 April 2009 for the purpose of considering and, if thought fit, passing the following Resolutions. Resolutions 1 and 3 will be proposed as special resolutions (requiring a majority of not less than 75 per cent. of the votes cast) and Resolutions 2, 4, 5 and 6 will be proposed as ordinary resolutions (requiring a simple majority of the votes cast).

Increase to number of authorised shares

1. THAT:

   (a) Clause 5.2 of the Memorandum of Association of the Company be and is hereby amended to increase the maximum number of shares that the Company is authorised to issue, from 125,000,000 Ordinary Shares of U.S.$0.01 par value each to 200,000,000 Ordinary Shares of U.S.$0.01 par value each, by the creation of an additional 75,000,000 Ordinary Shares of U.S.$0.01 par value each and by deleting the figure “125,000,000” and inserting 200,000,000, such new shares to rank equally in all respects with the existing Ordinary Shares of the Company; and

   (b) Geneva Management Group (BVI) Ltd., as registered agent of the Company, be and is hereby authorised to file an amended and restated Memorandum and Articles of Association of the Company (in substitution for, and to the exclusion of, its existing Memorandum and Articles of Association), so amended to reflect the foregoing Resolution 1(a), with the Registry of Corporate Affairs in the British Virgin Islands, and to take whatever steps and/or actions that may be necessary to effect such filing.

Authority to allot shares

2. THAT, in substitution for any existing authority to allot relevant securities, which is hereby revoked but without prejudice to any allotment of securities made pursuant thereto, the Directors be and are hereby generally and unconditionally authorised for the purposes of Article 3.1 of the Company’s Articles of Association to exercise all the powers of the Company to allot relevant securities (within the meaning of Article 3.4.5) up to an aggregate nominal amount of U.S.$750,000 (representing an amount equal to 119 per cent. of the Company’s issued Ordinary Shares as at 31 March 2009) during the period commencing on the date of the passing of this Resolution and expiring at the conclusion of the next Annual General Meeting of the Company (the “Allotment Period”), save that the Directors may, before the expiry of such Allotment Period, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot relevant securities in pursuance of any such offers or agreements.

Disapplication of pre-emption rights

3. THAT, for the purposes of the Placing (as defined in the Circular of which this Notice of General Meeting forms a part), the obligation pursuant to Article 3.5 of the Company’s Articles of Association on the Directors to first offer any equity securities (within the meaning of Article 3.4.3), to be issued for cash, to existing Shareholders of the Company in proportion (as nearly as practicable) to the number of the existing Ordinary Shares that are held by them, prior to issuing such securities to any person, be and is hereby disapproved and waived in respect of the Placing so that the Directors be and are hereby authorised to allot and issue new shares or other equity securities for cash pursuant to the Placing without first offering them to existing Shareholders. This authority given to the Directors as aforementioned shall be limited to the allotment of equity securities up to an aggregate nominal amount of U.S.$750,000 (representing an amount equal to 119 per cent. of the Company’s issued
Ordinary Shares as at 31 March 2009) for a period commencing on the date of the passing of this Resolution and expiring at the conclusion of the Company’s next Annual General Meeting, save that the Directors may, before the expiry of such period, make an offer or agreement which would or might require such equity securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot such equity securities in pursuance of any such offers or agreements.

Approval of Placing

4. THAT the terms of the Placing (as defined in the Circular of which this Notice of General Meeting forms a part) at the Issue Price of 100 pence for each new Ordinary Share being issued pursuant to the Placing (which represents a discount of 33 per cent. to the Closing Price of the existing Ordinary Shares of the Company on 31 March 2009, being the last business day prior to the announcement of the Placing), be and are hereby approved.

Approval of related party transaction

5. THAT the subscription by Lansdowne Partners Limited of 10,500,000 New Shares (as defined in the Circular of which this Notice of General Meeting forms a part) at the Issue Price of 100 pence for each such New Share to be so subscribed on the terms of the Placing Letter between J.P. Morgan Cazenove and Lansdowne Partners Limited, a copy of which is produced to the General Meeting and, for identification purposes, initialled by the chairman of the meeting, be and is hereby approved.

Waiver of mandatory bid requirement

6. THAT, for the purposes of the Placing (as defined in the Circular of which this Notice of General Meeting forms a part), the obligation pursuant to Article 155.2 of the Company’s Articles of Association on any person (other than the Depositary) to make an offer to the other holders of shares in the Company, by way of a takeover or as otherwise stipulated in Article 155, if such person acquires 30 per cent. or more of the total voting rights in the Company, be and is hereby disapplied and waived in respect of the Placing in accordance with Article 155.14 so as not to apply to any underwriter which incurs such an obligation under Article 155.2 as a result of underwriting the Placing (including as a result of an inability to complete a distribution of securities of the Company).

Dated: 3 April 2009

By order of the Board

Andre Confavreux
Company Secretary

Registered office:
Harbour House
Waterfront Drive
Road Town, Tortola
British Virgin Islands

Registered in the British Virgin Islands with number 669758.
Important Notes
The following notes explain the general rights of Shareholders and the rights to attend and vote at the General Meeting or to appoint someone else to vote on their behalf.

Holders of Ordinary Shares
1. A Shareholder is entitled to attend and vote at the General Meeting and is entitled to appoint one or more proxies to attend, speak and vote instead of him or her provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. A proxy need not be a Shareholder. Appointing a proxy will not prevent a Shareholder from subsequently attending in person and voting at the General Meeting. If a Share is held by joint Shareholders and more than one of the joint Shareholders votes (including by way of proxy), the only vote that will count is the vote of the person whose name is listed before the other voters on the register.

2. The appointment of a proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should be lodged with Capita Registrars at the address shown on the Form of Proxy no later than 10.30 a.m. on 18 April 2009, or 48 hours before the time for holding any adjourned meeting or (in the case of a poll not taken on the same day as the General Meeting or adjourned meeting) for the taking of the poll at which it is to be used.

3. Any person to whom this Notice is sent who is a person nominated under Article 145.5 of the Articles of Association to enjoy information rights (a “Nominated Person”) may, under an agreement between him or her and the Shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the Shareholder as to the exercise of voting rights.

4. The statement of the rights of Shareholders in relation to the appointment of proxies in notes 1 and 2 above does not apply to Nominated Persons. The rights described in these notes can only be exercised by Shareholders of the Company.

5. Only those Shareholders entered on the register as at 10.30 a.m. on 18 April 2009 (or, if the General Meeting is adjourned, 48 hours before the time fixed for the adjourned meeting) will be entitled to attend and vote at the General Meeting in respect of the number of Shares registered in their names at that time. In each case, changes to entries on the register after such time shall be disregarded in determining the rights of any person to attend or vote at the General Meeting.

6. Under Article 155.14 of the Company’s Articles of Association, J.P. Morgan Cazenove and any Shareholder affiliated or acting in concert with it may not vote on Resolution 6.

Holders of Depositary Interests
7. By completing the Form of Direction, holders of Depositary Interests can instruct the Depositary to vote on their behalf at the General Meeting, either in person or by proxy. If the Form of Direction is completed without any indications as to how the Depositary should vote, the Depositary Interest Holder will be deemed as instructing the Depositary to abstain from voting. If the Depositary Interest Holder wishes to instruct the Depositary (other than electronically using CREST), it must lodge the completed Form of Direction with Capita Registrars at the address stated on the Form of Direction during normal business hours no later than 10.30 a.m. on 17 April 2009, or 72 hours before the time for holding any adjourned meeting or (in the case of a poll not taken on the same day as the General Meeting or adjourned meeting) for the taking of the poll at which it is to be used.

8. Alternatively, Depositary Interest Holders may instruct the Depositary how to vote by utilising the CREST electronic voting service. To instruct the Depositary how to vote or amend an instruction to vote via the CREST system, the CREST message must be received by Capita Registrars (CREST ID RA10) by 10.30 a.m. on 17 April 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from
which the Company’s agent is able to retrieve the message. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s), should contact their CREST sponsor or voting service provider(s) for assistance. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual.

9. After the Depositary has received instructions on how to vote on the Resolutions from the Depositary Interest Holders, it will complete a Form of Proxy reflecting such instructions and return the Form of Proxy to Capita Registrars in accordance with note 2 above.

10. If you hold your shares via the Depositary Interest arrangement and would like to attend the General Meeting, please contact the Depositary, Capita IRG Trustees Limited, contact details of which are set out on page 25 of this document.

Corporate representatives
11. In order to facilitate voting by corporate representatives at the General Meeting, arrangements will be put in place so that:

(a) if a corporate Shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for the Shareholder at the General Meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and

(b) if more than one corporate representative for the same corporate Shareholder attends the General Meeting but the corporate Shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate Shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (a) above.

Voting rights and results
12. As at 31 March 2009 (being the last practicable date prior to the publication of this Notice), the Company’s issued shares consist of 62,977,853 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 31 March 2009 are 62,977,853.

13. As soon as practicable following the General Meeting, the results of the voting at the General Meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the Resolutions will be announced via a Regulatory Information Service and will also placed on the Company’s website at www.gemdiamonds.com. A summary of the business transacted will also be available, on written request, from the Company Secretary at the Company’s registered office.