15 August 2013

GEM DIAMONDS HALF YEAR 2013 RESULTS

Gem Diamonds Limited (LSE: GEMD) ("Gem Diamonds", the "Company" or the "Group") today announces its half year results for the six months ending 30 June 2013 ("H1 2013" or "the Period").

FINANCIAL RESULTS:

- Revenue of US$ 96.5 million (US$ 122.6 million* in H1 2012).
- Underlying EBITDA of US$ 33.2 million (US$ 46.0 million* in H1 2012).
- Attributable net profit of US$ 8.6 million (US$ 14.3 million* in H1 2012).
- Basic EPS of 6.23 US cents (10.36* US cents in H1 2012).
- Cash on hand of US$ 61.4 million as at 30 June 2013 (US$ 54.5 million attributable to Gem Diamonds).

* Prior Period figures have been restated for the reclassification impact of accounting for discontinued operations

OPERATIONAL RESULTS:

Letšeng:

- Ore mined of 3.1 million tonnes and ore treated of 3.0 million tonnes.
- Waste tonnes mined of 9.9 million tonnes.
- Installation of the four cone crushers in Letšeng's Plants 1 and 2 completed on time and within budget.
- 3 diamonds greater than 100 carats were recovered.
- Subsequent to Period end, an exceptional 99 carat, type II white diamond was recovered and is largely undamaged.
- Installation of four cone crushers expected to reduce diamond breakage

Ghaghoo:

- The sand portion of the access decline was completed and the open face tunnel shield successfully removed.
- Tunnel development through competent basalt continues to progress well. The next 12 months will see a further 514 meters of basalt ramp development, followed by production development. First production is targeted for H2 2014.
- US$ 59.8 million of the total capital budget of US$ 96.0 million has been spent to date.

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

"As indicated previously, the first half of 2013 was a difficult Period for the Letšeng mine. Mining focused on the lower grade, lower value Main pipe as planned. Cost control was paramount during this Period and it was pleasing that the mine was able to deliver a satisfactory EBITDA margin and bottom line profit. We look forward to moving steadily into higher grade parts of the ore body in the second half of the year.

During the Period four new cone crushers, which are aimed at reducing diamond damage, were installed at Letšeng's 1 and 2 Plants on time and on budget. As mining for the second half of the year gradually includes more, higher value Satellite pipe ore, it is anticipated that this combined with the potential effect of reduced diamond damage will be positive on revenues.

Three diamonds greater than 100 carats recovered at Letšeng during the Period, and pleasingly a further two large diamonds were recovered in August - an exceptional 99 carat, type II white diamond and a lower value 146 carat diamond were recovered and importantly, are largely undamaged, providing an early indication of the positive impact of the new crushers.

We continue to make good progress with additional initiatives assessing opportunities to target low capex, low risk options to expand production incrementally as well as enhance efficiencies and diamond recoveries through the introduction of new technology.

At Ghaghoo, the development of the access decline is progressing well and the first diamonds are expected to be mined in the second half of 2014 The operations team at Ghaghoo are to be complimented on completing the difficult and technically challenging sand portion of the decline and management has every confidence in the success of Ghaghoo as a strong contributor to Gem Diamonds' bottom line in the coming years.

In line with our focus on implementing rigorous cost control and cost reduction measures across the business as we work to adapt to a changing economic environment, it is important to note that with the rationalisation of the Company's assets has come a reduction of staff and corporate expenses are already in line with targeted reductions. "

The Company will be hosting an audio presentation on its half year results today, 15 August 2013, at 9:30 am BST.

A live audio webcast of this presentation will be available on the Company's website: www.gemdiamonds.com

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ABOUT GEM DIAMONDS:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns 70% of the Letšeng mine in Lesotho as well as 100% of the Ghaghoo mine, currently in development in Botswana. The Letšeng mine is famous for the production of large, exceptional white diamonds, making it the highest US dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the twenty largest white gem quality diamonds ever recorded.

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

www.gemdiamonds.com

INTERIM BUSINESS REVIEW

INTRODUCTION

The first half of 2013 has been a period of implementing various initiatives, which had been identified as adding value in the short and medium term.

During the Period, four new cone crushers, which are aimed at reducing diamond damage, were installed at Letšeng's 1 and 2 Plants on time and within budget. In addition to these, significant improvements have been made at Letšeng to secure the integrity of the diamonds recovered, and to mitigate the inherent risks associated with theft in the diamond industry, enhanced surveillance and physical security systems have been installed and are fully functional. Work is also proceeding on the design and costing of a state of the art recovery unit. This unit will enhance the recovery of diamonds through the use of advanced x-ray and other technology, as well as providing additional hands-off processes to further improve diamond security.

The first half of 2013 saw the recovery of three diamonds greater than 100 carats in size at Letšeng: a 164 carat white diamond, which was sold for US$ 9.0 million into a partnership arrangement; a 103 carat lower value yellow diamond, which sold for US$ 810 000; and a 100 carat white diamond, which sold for US$ 6.5 million, in the July 2013 tender. In addition to these three diamonds, in August 2013, a 99 carat type II white diamond and a lower value 146 carat diamond were recovered, both with only very minor damage, providing some indication of the positive effect of the new crushers on diamond breakage.

DIAMOND MARKET

2013 started off with improved rough diamond prices across the board, and these prices have largely been maintained through the Period, as prices flattened from May 2013 onwards. In July, Letšeng's rough diamonds saw a small increase in prices especially in the +10.8 carat goods and this improvement appears to be echoed in price increases reported by other diamond companies recently. Due to the rarity of Letšeng's high value production, prices for these goods are impacted to a lesser extent by market factors and remain robust.

PRODUCTION

Mining during the Period was focused on the lower grade, lower value Main pipe, in accordance with the mine plan - with very little higher grade, higher value Satellite pipe ore mined. Lower grades have resulted in a fall in carats recovered and lower revenues realised. This is as a result of mining in an area in the Main pipe that had a high internal basalt content, together with the lower tonnes treated due to plant downtime required for the crusher installation and the limited-throughput tests in the early part of the year.

As mining in the second half of the year gradually includes more, higher value Satellite pipe ore, it is anticipated that the better grade ore and the effect of the new crushers in reducing diamond damage will have a positive impact on revenues in the last few tenders of 2013, and which will continue through into 2014.

PROJECTS

At Ghaghoo, the development of the access decline is progressing well, with the difficult and technically challenging sand portion of the decline having been completed during the Period. Tunnel development is now continuing through more competent basalt and the first diamonds from Phase 1 will be mined in H2 of next year.

HEALTH, SAFETY, SOCIAL AND ENVIRONMENT (HSSE)

The half year has been a good period from a health and safety perspective and there has been a reduction of the all injury frequency rate at both Letšeng and Ghaghoo. The Company continues to make good progress with a number of initiatives in place as part of its sustainability strategy with important contributions to the communities in which it operates and the initiation of the new mountain search and rescue facility in the Lesotho Highlands, which will be a contributor to increased tourism in the area. The Letšeng Educational Trust continues to see Lesotho students receive high level tertiary education and training at Letšeng with a number of Letšeng scholarship students completing the circle and taking up full time employment with Letšeng.

During the Period no fatalities occurred at any of the operations and the reduction in injury rates at all the operations serves as a significant indication of the continued focus on proactive HSSE management. No major environmental or stakeholder incidents were recorded in H1 2013. Group Corporate Social Initiative (CSI) expenditure for the Period amounts to circa US$ 0.2 million.

The Group Lost Time Injury Frequency Rate (LTIFR) is 0.17 and the Group All Injury Frequency Rate (AIFR) is 2.34 for the Period.

MINERAL RESOURCE AND RESERVE STATEMENT

On 31 July 2013, Gem Diamonds released a revised Resource and Reserve statement effective from 1 January 2013, highlighting a 32% increase in carats for its Letšeng resource base as well as a 2.1 million carat mineable reserve at Ghaghoo. This is available on the Company's website, http://www.gemdiamonds.com/gem/en/investors/resource_reserve/

In the revised statement, Gem Diamonds' gross resources (inclusive of reserves) total 25.8 million carats, with an average grade of 6.30 carats per hundred tonnes, at an average diamond price of US$ 625 per carat.

- Letšeng's total resource base has increased in carat terms by 32%, from the 2012 statement, to a total of 5.3 million carats, with an average grade of 1.75 carats per hundred tonnes at an average diamond price of US$ 2 191 per carat. The increase in the resource base is a result of the successful extension of the orebody at depth from recent drilling programmes.
- The Ghaghoo project has declared a mineable reserve, ahead of the 2014 planned production start, of 2.1 million carats, with an average grade of 27.81 carats per hundred tonnes at an average diamond price of US$ 246 per carat.

MANAGEMENT CHANGES DURING THE PERIOD

During the Period, Michael Michael was appointed as Chief Financial Officer and as a member of the Board, following the retirement of Kevin Burford on 1 April 2013.

OPERATING REVIEW: LETŠENG

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

DIAMOND SALES

	6 months ended 30 June 2013	6 months ended 30 June 2012
Carats sold*	**47 065**	58 725
Average US$ per carat*	**1 741**	2 133

*includes carats extracted for polishing at rough valuation.

OPERATIONAL PERFORMANCE

- Waste tonnes mined: 9.9 million (7.8 million tonnes in H1 2012).
- Tonnes treated: 3.0 million (3.4 million tonnes in H1 2012).
- Carats recovered: 42 268 (57 116 carats in H1 2012).
- Grade recovered: 1.39 (1.68 cpht in H1 2012).

SUSTAINABILITY HIGHLIGHTS

- Zero major stakeholder and environmental incidents.
- On schedule execution of CSI projects.
- 1 Lost Time Injury occurred.
- LTIFR 0.11.
- AIFR 1.92.

PRODUCTION

During the Period Letšeng continued to recover some of the world's highest value diamonds, including the recovery of three diamonds greater than 100 carats. In addition to these, in August 2013, an exceptional 99 carat, type II diamond was recovered.

Mining was primarily concentrated in the lower value Main pipe, with minimal Satellite pipe ore being mined during the Period. A total of 3.0 million tonnes of ore was treated, a decrease of 4% over H2 2012. Of the total ore processed for the Period, 99% was sourced from the Main pipe. In the early part of the Period treatment rates were capped due to test work which was undertaken, aimed at reducing diamond damage. This, in addition to some downtime required for the installation of the four new cone crushers in the treatment plants, contributed to total tonnes mined and treated being down 3% on H2 2012.

42 268 carats were recovered during the Period, a decrease of 26% over H2 2012. This decrease was largely due to the tonnage lost and the lower grade which was as a result of internal basalt dilution in certain areas of the Main pipe.

Waste mined during the Period focused primarily in the Satellite pipe to allow for access to Satellite ore during the second half of the year, and progressed well with 9.9 million tonnes of waste stripped in total (9.6 million tonnes in H2 2012).

PROJECTS

Following the decision to re-visit the speed and manner in which production and revenue increases could be addressed at Letšeng, work has continued on a number of fronts:

- The installation of four new cone crushers in both Plants 1 and 2 was completed during Q2 2013 and are expected to reduce diamond breakage;

- The design and costing of a new modular recovery plant for the high value, course fraction has progressed well and is at an advanced stage. The design includes state of the art security, X-ray Transmissive Technology (XRT) to ensure the recovery of type II diamonds, as well as diamond accounting of all diamonds recovered by these units;

- Work has continued in terms of finding an optimal solution to increasing production at Letšeng in a phased manner that will minimise and spread capital expenditure in the short to mid-term.

SALES AND MARKETING

Continued production from the Main pipe resulted in expected lower overall revenues for the Period. Diamond market pricing was up in Q1 2013 and down in Q2 2013, resulting in flat prices for the market as a whole over the Period. The average value for Letšeng's export of diamonds during the Period was US$ 1 741 per carat (including the diamonds extracted from the rough production for manufacturing at a fair market valuation), compared to the average price of US$ 1 690 per carat achieved in H2 2012. Diamond prices have remained robust for Letšeng's larger, higher value goods, as evidenced by the 100 carat white diamond which was sold in July 2013, and achieved a price of US$ 64 631 per carat. For the Period, a total of 252 rough diamonds greater than 10.8 carats in size were recovered and a total of 44 individual diamonds recorded prices greater than US$ 20 000 per carat.

FINANCIAL PERFORMANCE

Letšeng Diamonds continues to deliver strong operational and financial results generating revenue of US$ 85.6 million from diamond sales and underlying EBITDA of US$ 31.6 million.

US$ (millions)	**6 months ended 30 June 2013**	6 months ended 30 June 2012
Sales	**85.6**	123.6
Cost of sales*	**(47.3)**	(57.2)
Royalty and selling costs	**(6.7)**	(10.1)
Underlying EBITDA[1]	**31.6**	56.3
Physicals		
Tonnes treated	**3 036 576**	3 373 110
Waste tonnes mined	**9 856 614**	7 818 727
Carats recovered	**42 268**	57 116
Carats sold[2]	**47 065**	58 725
US$ (per unit)		
Exchange rate (average)	**9.21**	7.94
Average price per carat (rough)	**1 741**	2 133
Direct cash cost (before waste) per tonne treated[3]	**13.57**	12.74
Operating cost per tonne treated[4]	**15.26**	17.00
Waste cash cost per waste tonne mined	**2.71**	3.20
Local currency (per unit) Lesotho loti		
Direct cash cost (before waste) per tonne treated[3]	**125.02**	101.14
Operating cost per tonne treated[4]	**140.61**	135.02
Waste cash cost per waste tonne mined	**25.00**	25.44
Other operating information (US$ millions)		
Waste capitalised	**30.6**	28.7
Waste amortised	**9.0**	16.4
Depreciation and amortisation	**8.4**	9.2
Capital expenditure	**6.8**	9.4

* Including waste amortisation but excluding depreciation and mining asset amortisation.

1. Included in underlying EBITDA is US$ 0.8 million (30 June 2012: US$ 4.4 million) profit generated on the portion of diamonds sold to Gem Diamonds Marketing Services and not sold outside of the Group by the end of June. These values have been eliminated in the consolidated Group results.

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

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

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

COSTS

Cost management has continued to be a key focus and Letšeng has managed to maintain its costs within expected targets notwithstanding ever increasing fuel and power costs. Local currency direct unit cash costs (before waste) per tonne treated for the Period were Maloti 125.02, relative to the corresponding Period in 2012 of Maloti 101.14. These unit costs increased in line with inflation but were further impacted by the lower production levels compared to the prior Period. Unit costs were further impacted by costs associated with the contractor (Alluvial Ventures who operate a third plant at Letšeng), as these costs are based on a percentage of revenue and as prices from their production have increased over the prior Period, the associated costs have increased.

Total operating costs per tonne treated for the Period increased to Maloti 140.61 per tonne from Maloti 135.02 per tonne in the corresponding Period, driven by the lower ore tonnes treated and the impact of increases in direct unit costs detailed above. This was somewhat offset by lower waste amortisation charge for the Period as a result of mining mainly in the Main pipe. The overall Satellite mining ratio for the full year is planned to be approximately 25% through Letšeng's own plants and therefore the operating costs for the full year are anticipated to be in line with guidance previously provided. The overall decrease in total cost of sales from US$ 57.2 million to US$ 47.3 million is largely driven by the lower waste amortisation charge which decreased from US$ 16.4 million to US$ 9.0 million and the stronger trading of the US dollar against the Lesotho loti which positively impacted US dollar reported costs during the Period.

OPERATING REVIEW: GHAGHOO

DEVELOPMENT

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

During the Period, Phase 1 of the Ghaghoo underground mine in Botswana continued to progress with the construction of the decline tunnel using an open face tunnel shield through the sand overburden. By the end of the Period, the 462 meter sand portion of the decline tunnel was completed at a depth of 80 meters below the surface. The open faced tunnel shield was successfully removed in early July as the decline entered into more competent basalt country rock. Over the next 12 months a further 514 meters of basalt ramp development, followed by production development, will take place.

The mining support infrastructure, camp and treatment plant are already in place and the first diamonds are expected to be produced in H2 2014. Thereafter a steady state production rate of 230 000 carats per annum, at a mining rate of 720 000 tonnes per annum, is planned.

US$ 59.8 million of the overall budget of US$ 96.0 million has been spent to date. It is anticipated that a further US$ 17 million will be expended in H2 2013.

OPERATING REVIEW: GEM DIAMONDS MARKETING & MANUFACTURING

GEM DIAMONDS MARKETING SERVICES

The Group’s rough diamond production is marketed primarily through Gem Diamonds Marketing Services BVBA (Gem Diamonds Marketing), an Antwerp based, 100% held subsidiary.

Gem Diamonds maximises revenue from actively managing its own multi-channel sales strategy and markets its rough diamonds through a combination of channels, including tenders, direct sales and partnerships, and continues to pursue additional initiatives further down the diamond pipeline.

The Group’s rough diamond production is marketed using an electronic tender platform (eTender) which enables Gem Diamonds to interact with its customers securely, more frequently, dynamically and transparently, and helps ensure the achievement of fair market-driven prices for its diamond production.

Letšeng's production was sold in five tenders held by Gem Diamonds Marketing Services Antwerp during the Period, two in the first quarter and three in the second quarter. The average value for Letšeng’s export of diamonds for the Period was US$ 1 741 per carat (including the diamonds extracted from the rough production for manufacturing at a fair market valuation), compared to the average price of US$ 1 690 per carat achieved in H2 2012. Post the Period end, Letšeng’s July export achieved an average of US2 207 per carat.

BAOBAB TECHNOLOGIES

Baobab Technologies BVBA (Antwerp) provides the Group with a high-tech analytical and manufacturing capability, as part of the Group’s strategic objective to increase revenue for its rough diamonds and access additional margins further down the diamond pipeline. The analytical technology housed in Baobab is integral to the Group’s valuation of its rough diamonds, enabling it to sell its rough production optimally.

During the Period 249 carats valued at a rough market value of US$ 3.3 million, were extracted from the Letšeng production for manufacture through Baobab Technologies. Of these diamonds extracted, US$ 1.1 million at rough fair market value remained in inventory at the end of the Period compared to US$ 10.4 million at the end of December 2012.

During the Period, the sale of polished diamonds contributed additional revenue of US$ 4.9 million (including uplift made on partnered diamonds), resulting in additional EBITDA of US$ 3.5 million.

GROUP FINANCIAL PERFORMANCE

For the first half of 2013, the Group reports revenue of US$ 96.5 million and underlying EBITDA of US$ 33.2 million, pre-tax earnings of US$ 23.2 million, profit for the Period of US$ 15.1 million and attributable profit of US$ 8.6 million.

(US$ millions)	**6 months ended 30 June 2013**	6 months ended 30 June 2012*
Revenue	**96.5**	122.6
Cost of sales[1]	**(49.3)**	(58.0)
Royalty and selling costs	**(7.8)**	(11.5)
Corporate expenses	**(6.2)**	(7.1)
Underlying EBITDA	**33.2**	46.0
Depreciation and mining asset amortisation	**(9.1)**	(10.0)
Share-based payments	**(0.2)**	(1.0)
Other income[2]	**0.8**	0.4
Foreign exchange (loss)/gain	**(0.9)**	2.3
Net finance (costs)/income	**(0.6)**	0.5
Profit before tax	**23.2**	38.2
Income tax expense	**(8.1)**	(11.4)
Profit for the Period from continuing operations	**15.1**	26.8
Loss from discontinued operations	**-**	(1.9)
Non-controlling interests	**(6.5)**	(10.6)
Attributable profit	**8.6**	14.3
Earnings per share (US cents)	**6.23**	10.36

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

1. Including waste amortisation but excluding depreciation and mining asset amortisation.

2. Other income includes profit on disposal of assets of US$0.7 million.

Revenue was generated primarily from the sale of rough diamonds recovered at the Letšeng mine. Additional revenue of US$ 4.9 million was generated from margin made on polished diamonds through the cutting and polishing business and uplift on partnered diamonds. Group revenue also includes the impact of the US$ 10.4 million of rough diamond inventory extracted for own manufacturing and held in inventory at December 2012 which was previously eliminated in the December 2012 results.

Underlying EBITDA for the Period was US$ 33.2 million, down US$ 12.8 million against the corresponding period of US$ 46.0 million. Profit attributable to shareholders for the Period was US$ 8.6 million, equating to 6.23 US cents per share (10.36 US cents per share in the corresponding Period) on a weighted average number of shares in issue of 138.3 million.

Cost of sales for the Period was US$ 49.3 million which includes waste amortisation of US$ 9.9 million and is stated before non-cash costs of depreciation of US$ 7.8 million and amortisation on mining assets of US$ 1.3 million.

The Lesotho loti (pegged to the South African rand) was significantly weaker than the corresponding Period, positively impacting US dollar reported costs during the Period. The following table details the relative exchange rates for 2013 compared to 2012:

	H1 2013	H1 2012	Variance H1 2013 to H1 2012	FY 2012	Variance H1 2013 to FY 2012
Lesotho loti per US$ 1.00					
Average exchange rate for the year/period	**9.21**	7.94	16%	8.21	12%
Year/period end exchange rate	**9.93**	8.18	21%	8.48	17%

Royalties and selling costs for the Period of US$ 7.8 million mainly comprise royalties paid to the Lesotho Revenue Authority of 8% on the sale of diamonds; and diamond marketing related expenses.

With the rationalisation of the Company's assets has come a reduction of staff and corporate expenses are already in line with targeted reductions. Corporate expenses relate to central costs incurred by the Company and its services subsidiary, Gem Diamond Technical Services. Corporate expenses of US$ 6.2 million (30 June 2012 US$ 7.1 million), were positively impacted by the stronger US dollar during the Period (a large portion of corporate costs are based in South African rand), and include one-off termination costs of US$ 0.5 million relating to the retirement of an Executive Director that occurred during the Period, offset by actual amounts of bonuses paid being less than the amount provided for at 31 December 2012.

SHARE-BASED PAYMENTS

During the Period a number of employees resigned before the end of the service condition period. These employees were not awarded some or all of an award and have thus been treated as cancellation by forfeiture. Share-based payment costs for the Period amount to US$ 0.2 million. Included in these costs is the reversal of US$ 1.2 million previously recognised costs as a result of the forfeiture. There were no new options granted during the Period.

FOREX

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

NET FINANCE COSTS

Net finance costs comprise US$ 1.2 million charged to the Income Statement, representing the impact of unwinding the current environmental provisions, against interest received of US$ 0.6 million, predominantly generated on surplus cash from the Letšeng operation and interest received on outstanding loan balances.

TAX

The effective tax rate in the Period for the Group is 35.0%, above the UK statutory tax rate of 23.0%. The increase over the statutory rate is predominantly driven by deferred tax assets not recognised on losses incurred in non-trading operations. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds; withholding tax of 10% on dividends from Letšeng; and deferred tax assets not recognised on losses incurred in non-trading operations.

NON-CONTROLLING INTERESTS

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

CASH AND DEBT

The Group had US$ 61.4 million cash on hand at the Period end (of which US$ 54.5 million is attributable to Gem Diamonds and US$ 0.1 million is restricted).

As at the date of this report the Group has US$ 20.0 million and Maloti 250.0 million of working capital facilities. No further facilities have been obtained to those reported at December 2012 and no draw down has occurred at either of the facilities during the Period.

Group cash was supplemented by cash generated from operations for the Period of US$ 45.7 million. Investments in property, plant and equipment amounted to US$ 45.6 million. The largest component of this investment was US$ 30.6 million incurred in waste stripping at Letšeng. Property, plant and equipment investment relates predominantly to costs at Letšeng (US$ 6.8 million) mainly associated with the installation of the four new cone crushers, new modular recovery plant design work, security upgrades and other sustaining capital costs; and Phase 1 costs incurred at Ghaghoo (US$ 7.8 million).

EVENTS SUBSEQUENT TO THE PERIOD END

On 19 July 2013, Kimberley Diamonds Ltd (previously Goodrich Resources Ltd) paid the remaining portion of the purchase price owing to the Group of AU$10.5 million as settlement of their acquisition of the Ellendale mine concluded on 31 January 2013.

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

RISKS TO OUR BUSINESS

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

A reassessment of the risks, which have been previously reported in the Business Review in the 2012 Annual Report, has identified that the principal risks and uncertainties have not changed. These may impact the Group over the medium to long term; however the following key risks have been identified which may impact the Group over the next six months.

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

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

2. Exchange Rates (Financial Risk)

The Group receives its revenue in US dollars while its cost base arises in local currencies based on the various countries within which the Group operates. The weakening of the US dollar relative to these local currencies and the volatility of these currencies trading against the US dollar will impact the Group's profitability. The impact of the exchange rates and fluctuations are closely monitored. Where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect future cash flows.

3. Mineral Resource Risk

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

Clifford Elphick
Chief Executive Officer

14 August 2013

GEM DIAMONDS LIMITED

HALF-YEARLY FINANCIAL STATEMENTS
30 JUNE 2013

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

PURSUANT TO DISCLOSURE AND TRANSPARENCY RULES (DTR) 4.2.10

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

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

(b) material related party transactions in the first six months of the year and any material changes in the related party transactions described in the Gem Diamonds Limited Annual Report 2012.

The names and functions of the Directors of Gem Diamonds are listed in the Annual Report for the year ended 31 December 2012 and any changes during the Period have been disclosed in the Business Review.

For and on behalf of the Board

Michael Michael

Chief Financial Officer

14 August 2013

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

We have been engaged by Gem Diamonds Limited (the ‘Company’) to review the condensed consolidated set of financial statements of the Company and its subsidiaries (the ‘Group”) in the half year report for the six months ended 30 June 2013 which comprises interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of financial position, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

London

14 August 2013

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013

	Notes	**30 June 2013[1] US$'000**	30 June 2012*[1] US$'000
CONTINUING OPERATIONS			
Revenue	3	**96 466**	122 576
Cost of sales		**(58 117)**	(67 239)
GROSS PROFIT		**38 349**	55 337
Other operating income		**829**	379
Royalties and selling costs		**(7 815)**	(11 512)
Corporate expenses		**(6 394)**	(7 835)
Share-based payments	13	**(220)**	(960)
Foreign exchange (loss)/gain		**(914)**	2 326
OPERATING PROFIT	3	**23 835**	37 735
Net finance (costs)/income		**(605)**	486
Finance income	10	**584**	1 334
Finance costs	10	**(1 189)**	(848)
PROFIT BEFORE TAX FOR THE PERIOD FROM CONTINUING OPERATIONS		**23 230**	38 221
Income tax expense	5	**(8 131)**	(11 432)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**15 099**	26 789
DISCONTINUED OPERATIONS			
Loss after tax for the Period from discontinued operations	6	**–**	(1 902)
PROFIT FOR THE PERIOD		**15 099**	24 887
Attributable to:			
Equity holders of parent		**8 611**	14 320
Non-controlling interests		**6 488**	10 567
PROFIT FOR THE PERIOD		**15 099**	24 887
Earnings per share (cents)			
– Basic earnings for the Period attributable to ordinary equity holders of the parent		**6.23**	10.36
– Diluted earnings for the Period attributable to ordinary equity holders of the parent		**6.20**	10.11
Earnings per share for continuing operations (cents)			
– Basic earnings for continuing operations attributable to ordinary equity holders of the parent		**6.23**	11.73
– Diluted earnings for continuing operations attributable to ordinary equity holders of the parent		**6.20**	11.45

[1] Unaudited

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	30 June 2013[1] US$'000	30 June 2012[1*] US$'000
PROFIT FOR THE PERIOD	**15 099**	24 887
Items that could be classified to profit or loss in the future:		
Loss on valuation of available-for-sale financial asset	**–**	(201)
Exchange differences on translation of foreign operations[2]	**(49 074)**	(8 852)
Other comprehensive loss for the Period, net of tax	**(49 074)**	(9 053)
Total comprehensive (loss)/income for the Period	**(33 975)**	15 834
Attributable to:		
Equity holders of parent	**(31 196)**	3 420
Non-controlling interests	**(2 779)**	12 414
Total comprehensive (loss)/income for the Period, net of tax	**(33 975)**	15 834

[1] Unaudited

[2] Exchange differences on translation of foreign operations will only be reclassified to profit and loss on disposal of a subsidiary

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	**30 June 2013[1] US$'000**	31 December 2012[2] US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**381 975**	408 605
Investment property		**616**	616
Intangible assets		**21 364**	24 973
Other financial assets		**15**	14
		403 970	434 208
Current assets			
Inventories		**19 020**	22 652
Receivables	9	**16 182**	7 273
Other financial assets	9	**7**	16 444
Income tax receivable		**2 330**	-
Cash and short term deposits	10	**61 389**	70 842
		98 928	117 211
TOTAL ASSETS		**502 898**	551 419
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	11	**1 383**	1 383
Share premium		**885 648**	885 648
Own shares[3]		**(1)**	(1)
Other reserves		**(56 589)**	(17 130)
Accumulated losses		**(530 650)**	(539 261)
		299 791	330 639
Non-controlling interests		**68 214**	70 993
TOTAL EQUITY		**368 005**	401 632
Non-current liabilities			
Trade and other payables		**1 058**	1 007
Provisions		**26 047**	29 496
Deferred tax liabilities		**69 334**	71 277
		96 439	101 780
Current liabilities			
Interest-bearing loans and borrowings	10	**-**	2 947
Other financial liabilities	12	**3 220**	-
Trade and other payables		**35 227**	43 775
Income tax payable		**7**	1 285
		38 454	48 007
TOTAL LIABILITIES		**134 893**	149 787
TOTAL EQUITY AND LIABILITIES		**502 898**	551 419

[1] Unaudited

[2] Audited

[3] Shares held by Gem Diamonds Limited Employee Share Trust.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

				Attributable to the equity holders of the parent						
	Issued capital	**Share premium**	**Own shares[1]**	**Foreign currency translation reserve**	**Share based equity reserve**	**Revaluation reserve**	**Accumulated (losses)/ retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2013	**1 383**	**885 648**	**(1)**	**(62 799)**	**45 669**	**–**	**(539 261)**	**330 639**	**70 993**	**401 632**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**8 611**	**8 611**	**6 488**	**15 099**
Other comprehensive loss	**–**	**–**	**–**	**(39 807)**	**–**	**–**	**–**	**(39 807)**	**(9 267)**	**(49 074)**
Total comprehensive (loss)/income	**–**	**–**	**–**	**(39 807)**	**–**	**–**	**8 611**	**(31 196)**	**(2 779)**	**(33 975)**
Share-based payments (Note 13)	**–**	**–**	**–**	**–**	**348**	**–**	**–**	**348**	**–**	**348**
Balance at 30 June 2013[2]	**1 383**	**885 648**	**(1)**	**(102 606)**	**46 017**	**–**	**(530 650)**	**299 791**	**68 214**	**368 005**
Balance at 1 January 2012	1 383	885 648	(1)	(90 573)	42 555	(702)	(421 406)	416 904	66 879	483 783
Profit for the year	–	–	–	–	–	–	14 320	14 320	10 567	24 887
Other comprehensive (loss)/income	–	–	–	(10 699)	–	(201)	–	(10 900)	1 847	(9 053)
Total comprehensive (loss)/income	–	–	–	(10 699)	–	(201)	14 320	3 420	12 414	15 834
Share-based payments (Note 13)	–	–	–	–	1 159	–	–	1 159	–	1 159
Balance at 30 June 2012[2]	1 383	885 648	(1)	(101 272)	43 714	(903)	(407 086)	421 483	79 293	500 776

[1] Shares held by Gem Diamonds Limited Employee Share Trust

[2] Unaudited

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Notes	**30 June 2013[1] US$'000**	30 June 2012[1] US$'000
CASHFLOWS FROM OPERATING ACTIVITIES		**36 476**	57 902
Cash generated by operations	14.1	**45 667**	89 410
Working capital adjustments	14.2	**(5 385)**	(9 737)
		40 282	79 673
Interest received		**584**	1 607
Interest paid		**(555)**	(11)
Income tax paid		**(3 835)**	(23 367)
CASHFLOWS USED IN INVESTING ACTIVITIES		**(40 342)**	(77 360)
Purchase of property, plant and equipment		**(14 971)**	(29 666)
Waste cost capitalised		**(30 582)**	(46 092)
Proceeds from sale of property, plant and equipment		**919**	924
Purchase price of business combination		**–**	(786)
Purchase of other financial assets		**–**	(1 740)
Purchase price received	9	**4 292**	–
CASHFLOWS USED IN FINANCING ACTIVITIES		**(2 713)**	–
Repayment of borrowings		**(2 713)**	–
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6 579)**	(19 458)
Cash and cash equivalents at the beginning of the Period – continuing operations		**70 842**	148 836
Cash and cash equivalents at the beginning of the Period – discontinued operations		**–**	9 914
Foreign exchange differences		**(2 874)**	(332)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**61 389**	138 960
Cash and cash equivalents at end of the Period held with banks		**61 248**	128 813
Restricted cash at end of the Period		**141**	1 602
Cash and cash equivalents from discontinued operations at end of the Period		**–**	8 545
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	10	**61 389**	138 960

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

1. Corporate information

1.1 Incorporation and authorisation

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

The financial information shown in this report, which was approved by the Board of Directors on 14 August 2013, is unaudited and does not constitute statutory financial statements. The report of the auditors on the Company's 2012 Annual Report and Accounts was unqualified.

2. Basis of preparation and accounting policies

2.1 Basis of presentation

The condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Interim Business Review on pages 3 to 11. The financial position of the Company, its cashflows and liquidity position are described in the Interim Business Report on pages 9 to 11

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

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of new Standards and Amendments as of 1 January 2013. These new Standards and Amendments do not impact the financial statements of the Group and are noted below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position, performance or presentation as this practice has always been followed by the Group.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative Period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding Period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet and as a result the amendment does not have an impact on the Group.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there were no distributions to holders of equity instruments during the Period.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. As a result of this amendment, the Group now also includes disclosure of total segment liabilities in its segment information.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:
(a) an investor has power over an investee;
(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 had no impact on the consolidation of investments held by the Group.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

2. Basis of preparation and accounting policies (continued)

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the consolidation of investments held by the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim Period requires that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not impacted the fair value measurements carried out by the Group.

IFRIC 20 Stripping costs in the production phase of surface mine

IFRIC 20 applies to stripping costs incurred during the production phase of a surface mine. Such costs incurred are to be capitalised as part of an asset if it can be demonstrated that it is probable future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of an ore body for which access has been improved. This asset is to be called the "stripping activity asset" and is to be depreciated or amortised on a units of production basis unless another method is more appropriate.

As the Group's amortisation methodology applied in prior periods is consistent with the principles of IFRIC 20 therefore the application of this new standard did not impact the financial results of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Segment information

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

- Lesotho (Mining activities)
- Botswana (Mining activities)

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

3. Segment information (continued)

- Belgium (Sales, marketing and manufacturing for the sale of diamonds in Antwerp)
- Mauritius (Manufacturing of diamonds)
- BVI, RSA and UK (Technical and administrative services)

The Mauritius and Belgium operations have been aggregated into an individual operating segment due to the similarity of their services provided.

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

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

Segment revenue is derived from mining activities, polished manufacturing margins and group services.

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

6 months ended 30 June 2013[1]	Lesotho (US$'000)	Botswana (US$'000)	Belgium and Mauritius (US$'000)	BVI, RSA and UK (US$'000)	Total (US$'000)
Revenue					
Total revenue	**85 615**	**–**	**95 570**	**4 529**	**185 714**
Inter-segment	**(83 861)**	**–**	**(889)**	**(4 498)**	**(89 248)**
External customers	**1 754**	**–**	**94 681**	**31**	**96 466**
Segment operating profit/(loss)	**30 351**	**232**	**(104)**	**(6 644)**	**23 835**
Net finance (costs)/income	**(429)**	**4**	**–**	**(180)**	**(605)**
Profit before tax					**23 230**
Income tax expense					**(8 131)**
Profit for the Period					**15 099**
Segment assets					
At 30 June 2013[1]	**336 741**	**99 380**	**16 699**	**50 078**	**502 898**
At 31 December 2012[2]	372 778	100 490	16 490	61 661	551 419

[1] Unaudited

[2] Audited

Included in revenue is revenue from a single customer which amounted to US$ 11.8 million arising from sales reported in the Lesotho and Belgium segments.

Operating profits have decreased compared to the corresponding prior Period as a result of lower diamond prices achieved and decreased number of carats recovered and sold. Royalties and selling costs, being variable costs, have decreased as a direct result of the decrease in revenue. Costs decreased mainly as a result of mining during the Period taking place only in the Main pipe which has a lower associated waste amortisation cost. The strong trading of the US dollar against the Lesotho loti also positively impacted US dollar reported costs during the Period. Corporate costs include once-off termination costs relating to the retirement of an Executive Director that occurred during the Period, offset by actual amounts of bonuses paid being less than the amount provided for at 31 December 2012.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

3. Segment information (continued)

6 months ended 30 June 2012[1]	Lesotho (US$'000)	Botswana (US$'000)	Belgium and Mauritius (US$'000)	BVI, RSA and UK (US$'000)	Total (US$'000)
Revenue					
Total revenue	123 578	–	122 494	5 382	251 454
Inter-segment	(123 578)	–	(295)	(5 005)	(128 878)
External customers	–	–	122 199	377	122 576
Segment operating profit/(loss)	46 252	(60)	(105)	(8 352)	37 735
Net finance income/(costs)					486
Profit before tax from operations					38 221
Income tax expense					(11 432)
Profit for the Period from continuing operations					26 789
Loss for the Period from discontinued operations					(1 902)
Profit for the Period					24 887
Segment assets					
At 30 June 2012[1]	358 677	88 287	39 367	74 639	560 970
At 31 December 2011[2]	371 503	66 749	3 898	113 750	555 900

[1] Unaudited
[2] Audited

In the prior Period revenue from two customers amounted to US$ 11.8 million arising from sales reported in the Lesotho, and Belgium.

4. SEASONALITY OF OPERATIONS

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

5. INCOME TAX EXPENSE

	30 June 2013[1] US$'000	30 June 2012[1] US$'000
Income statement		
Current		
– Overseas	**(102)**	(9 681)
Withholding tax		
– Overseas	**(47)**	(47)
Deferred		
– Overseas	**(7 982)**	(1 704)

	(8 131)	(11 432)

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

5. INCOME TAX EXPENSE (continued)

The forecast effective tax rate for the full year for the Group is 35.0%, which has been applied to the actual results of the interim Period. This is above the UK statutory tax rate of 23.0% and is predominantly driven by deferred tax assets not recognised on losses incurred in non-trading operations. On 1 April 2013, the UK statutory tax rate was changed to 23.0%. Prior to this change, the UK statutory tax rate was 24.0%. The new tax rate will not impact on deferred tax assets and liabilities as the companies to which the rate would apply do not have any such assets or liabilities recognised. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds and deferred tax assets not recognised on losses incurred in non-trading operations.

At 30 June 2013 the income tax receivable of US$ 2.3 million relates to the Lesotho operation. This is an overpayment of provisional tax.

6. DISCONTINUED OPERATIONS

Australia
During the prior year, on 30 November 2012, the Group entered into a sale agreement for the disposal of its Australian mining activities, the Ellendale mine (Kimberley Diamonds Company NL), with an effective date of 31 December 2012. The net assets were re-measured to fair value, derecognised and the investment was recorded as an available for sale investment at fair value.

In January 2013, the Kimberley Diamonds Company NL sale was finalised and sold for the agreed purchase price of AU$ 14.8 million (US$ 15.4 million). During the current Period a portion of the purchase price was received of AU$ 4.3 (US$ 4.3 million). The remaining AU$10.5 million (US$ 9.6 million) has been subsequently received in July 2013 and has been disclosed as a receivable in the statement of financial position. (Refer Note 18, Post balance sheet events).

There are no discontinued operations for the current Period.

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

	30 June 2013[1] US$'000	30 June 2012[1] US$'000
Revenue	**–**	57 612
Cost of sales and other operating costs	**–**	(49 831)
Gross loss	**–**	(7 781)
Other income	**–**	32
Selling and distribution costs	**–**	(3 444)
Foreign exchange gain	**–**	14
Finance costs	**–**	(239)
Share-based payments	**–**	(97)
Impairments	**–**	(5 949)
Loss before tax from discontinued operations	**–**	(1 902)
Tax expense	**–**	–
– related to current pre-tax loss	**–**	–
Loss after tax for the Period from discontinued operations	**–**	(1 902)
Earnings per share from discontinued operations (cents)		
– Basic	**–**	(1.38)

– Diluted*	**–**	(1.34)

[1] Unaudited

* Options are dilutive at the profit from continuing operations level and thus in accordance with IAS33 have been treated as dilutive for the purpose of dilutive earnings per share. The diluted loss per share is lower than basic loss per share because of the losses on discontinued operations.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

7. DIVIDENDS PAID AND PROPOSED

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

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired assets of US$ 15.0 million (30 June 2012: US$ 29.7 million of which US$ 2.3 million related to the discontinued operation) and capitalised deferred stripping of US$ 30.6 million (30 June 2012: US$ 46.1 million of which US$ 17.4 million related to the discontinued operation).

In addition to the above, foreign exchange movements on translation were US$ (53.5) million (30 June 2012: US$ (5.7) million).

Depreciation and amortisation (including amortisation of deferred stripping of US$ 9.0 million) of US$ 19.1 million (30 June 2012: US$ 50.5 million of which US$ 22.1 million related to the discontinued operation) was charged to the income statement during the Period.

9. OTHER FINANCIAL ASSETS AND RECEIVABLES

At 31 December 2012 other financial assets of US$ 15.4 million related to the available for sale investment of Kimberley Diamonds NL. Post the conclusion of the sale during the current Period, the available for sale investment has been reclassified into current receivables. This balance has been subsequently received in July 2013 (Refer Note 18, Post balance sheet events).

At 31 December 2012 other financial assets of US$ 1.1 million related to the forward exchange contract which was the mark to market revaluation. At 30 June 2013 this mark to market revaluation has been classified under other financial liabilities (Refer Note 12, Other financial liabilities).

10. CASH AND SHORT TERM DEPOSITS

	30 June 2013[1] US$'000	31 December 2012[2] US$'000
Cash on hand	**9**	4
Short term bank deposits	**27 397**	35 084
	27 406	35 088
Bank balances	**33 983**	35 754
Cash and short term deposits	**61 389**	70 842

[1] Unaudited

[2] Audited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

10. CASH AND SHORT TERM DEPOSITS (continued)

At 30 June 2013, the Group had restricted cash of US$ 0.1 million (31 December 2012: US$ 0.2 million).

At 30 June 2013, the Group has a US$ 20 million three-year unsecured revolving credit facility with Nedbank Capital and, through its subsidiary Letšeng Diamonds, a M 250.0 million (US$ 25.2 million) three-year revolving working capital facility. These facilities have had a direct impact on the increase in finance costs compared to the prior period.

At 30 June 2013 no funds had been drawn against either facility.

As at 31 December 2012, US$ 2.9 million had been drawn against the M 250.0 million three-year revolving working capital facility. This outstanding amount was classified under Interest-bearing loans and borrowings and was fully repaid in January 2013.

Finance income relates to interest earned on cash and short-term deposit balances.

11. ISSUED CAPITAL AND RESERVES

	30 June 2013[1]		31 December 2012[2]	
	Number of shares ‘000	**US$’000**	Number of shares ‘000	US$’000
Authorised – ordinary shares of US$ 0.01 each				
As at Period/year end	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of Period	**138 267**	**1 383**	138 267	1 383
Balance at end of Period/year	**138 267**	**1 383**	**138 267**	**1 383**

12. OTHER FINANCIAL LIABILITIES

	30 June 2013[1] **US$’000**	31 December 2012[2] US$’000
Forward exchange contract	**3 220**	–

The Group has entered into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The forward exchange contract included in other financial liabilities above is the mark to market revaluation at 30 June 2013.

At 31 December 2012 the forward exchange contract was classified under current other financial assets at a fair value of US$ 1.1 million (Refer Note 9, Other financial assets).

13. SHARE-BASED PAYMENTS

Long term Incentive Plan (‘LTIP’)

There were no additional options granted during the current Period.

During the Period a number of employees resigned before the end of the service condition period. These employees were not awarded some or all of an award and have thus been treated as cancellation by forfeiture. Share-based payment costs for the Period amount to US$ 0.2 million. Included in these costs is the reversal of US$ 1.2 million previously recognised costs as a result of the forfeiture. There were no new options granted during the Period.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

13. SHARE-BASED PAYMENTS (continued)

The expense disclosed in the interim consolidated income statement is made up as follows:

	30 June 2013[1] US$'000	30 June 2012[1*] US$'000
Equity-settled share based payment transactions – charged to the income statement	**1 385**	**960**
Reversal of previous expense due to forfeiture – charged to the income statement	**(1 165)**	**-**
	220	**960**
Equity-settled share based payment transactions – capitalised to the balance sheet	**128**	**199**
	348	**1 159**

[1] Unaudited

[2] Audited

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

14. CASHFLOW NOTES

14.1 Cash generated by operations

	30 June 2013[1] US$'000	30 June 2012[1] US$'000
Profit before tax for the Period from continuing operations	**23 230**	38 221
Loss before tax for the Period from discontinued operations	**–**	(1 902)
Adjustments for:		
Depreciation, mining asset amortisation and waste amortisation on property, plant and equipment	**19 117**	50 496
Net impairment reversal of assets	**(99)**	–
Write down of inventory	**–**	5 949
Finance income	**(584)**	(1 607)
Finance costs	**1 189**	1 360
Movement in provisions	**(964)**	(1 454)
Mark to market revaluations*	**4 502**	(258)
Unrealised foreign exchange differences	**(422)**	(2 422)
Profit on disposal of property, plant and equipment	**(704)**	(107)
Movements in prepayments	**65**	72
Other non-cash movements	**117**	5
Share-based equity transaction	**220**	1 057
	45 667	89 410

*This relates to the revaluation of the mark to market forward exchange contract. Refer Note 12, Other financial liabilities.

14.2 Working capital adjustments

	30 June 2013[1] US$'000	30 June 2012[1] US$'000
Decrease/(increase) in inventories	**739**	(4 893)
Increase in receivables	**(1 684)**	(627)
Decrease in trade and other payables	**(4 440)**	(4 217)

	(5 385)	(9 737)

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

15. COMMITMENTS AND CONTINGENCIES

The Board has approved capital projects of US$ 42.8 million (31 December 2012: US$ 57.3 million) of which US$ 10.1 million have been contracted at 30 June 2013 (31 December 2012: US$ 22.0million).

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes approximating US$ 4.5 million (31 December 2012: US$ 4.1 million) and tax claims within the various jurisdictions in which the Group operates approximating US$ 1.2 million (31 December 2012: US$ 1.4 million).

16. RELATED PARTIES

	Relationship
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest
Geneva Management Group (UK) Limited	Common director

	30 June 2013[1] US$'000	30 June 2012[1] US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**403**	785
Short-term employee benefits	**5 003**	4 939
	5 406	5 724
Royalties paid to related parties		
Government of Lesotho	**(6 562)**	(9 974)
Lease and licence payments to related parties		
Government of Lesotho	**(49)**	(42)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**(86)**	(197)
Jemax Aviation (Proprietary) Limited	**143**	153
Jemax Management (Proprietary) Limited	**(51)**	(50)
Geneva Management Group (UK) Limited	**(3)**	(9)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**(30)**	**(35)**
Jemax Aviation (Proprietary) Limited	**37**	–
Jemax Management (Proprietary) Limited	**(16)**	(9)
Amounts owing by/(to) related party		
Government of Lesotho	**(1 690)**	(2 381)

[1] Unaudited

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the half year ended 30 June 2013

17. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short term deposits, held the Group as at 30 June 2013:

	Carrying amount		Fair value	
	2013 US$'000	**2012 US$'000**	**2013 US$'000**	**2012 US$'000**
Financial assets				
Receivables[1]	**16 182**	7 273	**16 182**	7 273
Other loans[1]	**22**	22	**22**	22
Available-for-sale investments[2]	**–**	15 369	**–**	15 369
Forward exchange contract[3]	**–**	1 067	**–**	1 067
Financial liabilities				
Forward exchange contract[3]	**3 220**	–	**3 220**	–
Interest bearing loans and borrowings	**–**	2 947	**–**	2 947
Trade and other payables[1]	**35 234**	44 782	**35 234**	44 782

[1] Level 3 financial instrument

[2] The available for sale investment relating to Kimberley Diamonds Company NL is classified as a level 3 financial instrument as the determined fair value is not based on observable market data

[3] Level 2 financial instrument

Fair value hierarchy

All financial instrument for which fair value is recognised or disclosed are classified as follows:

- Level 1 – fair value is based on quoted prices in active markets for identical assets or financial liabilities.
- Level 2 – fair value is determined using directly observable inputs other than Level 1 inputs.
- Level 3 – fair value is determined on inputs not based on observable market data.

Other risk management activities

The Group is exposed to foreign currency risk on future sales of diamonds at Letšeng Diamonds. In order to reduce this risk, the Group enters into forward exchange contracts to hedge this exposure. The Group performs no hedge accounting. Consequently, all changes in the fair values of such forward exchange contracts are recognised in the income statement. The strengthening of the US dollar relative to local currencies and the volatility of these currencies trading against the US dollar has resulted in losses being recognised during the Period.

Valuation technique level 2 forward exchange contract

The foreign currency forward contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

18. POST BALANCE SHEET EVENTS

The following has taken place since the balance sheet date:

- Subsequent to the Period end, on 19 July 2013, Kimberley Diamond Company made an early repayment of AU$ 10.5 million to Gem Diamonds for the outstanding portion of the purchase price for the sale of the Ellendale mine in January 2013.

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

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