GEMFIELDS

Interim results for the six months ended 31 Dec 16

Released : 20 Feb 2017 07:00:00

RNS Number : 2464X
Gemfields PLC
20 February 2017

Gemfields plc

("Gemfields" or the "Company" or the "Group") (AIM: GEM)

Interim Report and Financial Statements and Trading Update for the six months ended 31 December 2016

20 February 2017

Gemfields plc (AIM: GEM) ("Gemfields" or the "Company" or the "Group") today announces its unaudited interim results for the six months ending 31 December 2016 (the "period"). Unless otherwise stated, prior period figures refer to the equivalent six months period ended 31 December 2015.

Financial Highlights

- Revenue of US$51.0 million (2015: US$94.0 million), following a deferral of the higher quality rough emerald auction originally scheduled to take place in December 2016 to February 2017 and a moderated product mix placed on offer at the last ruby auction;
- EBITDA[a] loss of US$4.3 million (2015: profit of US$35.6 million);
- Loss after tax of US$13.6 million (2015: profit of US$8.2 million);
- Cash at bank of US$12.3 million (30 June 2016: US$41.5 million); and
- Cost of gemstone and Fabergé inventory of US$106.7 million (30 June 2016: US$107.2 million).

Operational Highlights
Auctions

- Only two auctions held during the period, consisting of one commercial quality rough emerald and beryl auction and one mixed quality rough ruby and corundum auction. The previous period saw three auctions including one higher quality and one commercial quality rough emerald and beryl auction and one mixed to higher quality rough ruby and corundum auction;
- Auctions were impacted by Gemfields decision to allow some of its customers to adjust to the Indian demonetisation programme which was put in place in November 2016; and
- Since period end, Gemfields successfully held the deferred auction of predominantly higher quality rough emerald during the week commencing 13 February 2017 generating revenue of US$22.3 million and plans to hold a further auction of commercial quality rough emerald and beryl as well as another mixed quality rough ruby and corundum auction during the second half of the financial year 2017.

Emeralds - Kagem (75% owned)

- Production of 10.7 million carats of rough emerald and beryl (2015: 15.7 million carats);
- Average grade, inclusive of ore from bulk sampling pits, of 166 carats per tonne (2015: 254 carats per tonne), with the difference in grade and production volumes being attributable to the varied nature of the mineralisation and a lower-grade zone mined in the current period;
- Revenue of US$10.7 million achieved in the period from one commercial quality rough emerald and beryl auction (2015: US$53.8 million);
- Unit operating costs(b) up from US$1.50 per carat to US$1.91 per carat as a result of lower number of carats produced;
- Cash rock handling unit costs(c) of US$2.61 per tonne (2015: US$2.41 per tonne);
- Following continued focus on safety management, Kagem was awarded the Green Award for exemplary environmental management; and
- The next auction of predominantly commercial quality rough emerald and beryl from Kagem mine is expected to take place before end of the financial year.

Rubies - Montepuez (75% owned)

- Growth in rough ruby and corundum production to 5.6 million carats (2015: 2.1 million carats);
- Higher grade achieved at 29 carats per tonne (2015: 15 carats per tonne);
- 52% increase in premium quality rough rubies recovered;
- Revenue of US$30.5 million (2015: US$28.8 million) achieved in the period from one mixed quality rough ruby and corundum auction, with an average price of US$27.88 per carat;
- Substantial upgrade of the processing plant completed in December 2016 increasing its target throughput rate to 150 tonnes per hour;
- Lower unit operating costs[b] at US$2.21 per carat compared with US$6.19 per carat in 2015;
- Cash rock handling unit costs[c] of US$4.59 per tonne (2015: US$4.75 per tonne); and
- The next auction of mixed quality rough rubies and corundum from Montepuez ruby mine is expected to take place in June 2017 in Singapore.

Fabergé (100% owned)

- Sales orders agreed[d] during the period to 31 December 2016 increased by 41% when compared to the half year ending 31 December 2015;
- The number of sales transactions during the period increased by 53% when compared to the half year ending 31 December 2015, while the average selling price per piece increased by 30% over the same period;
- Recorded revenue from realised sales amounted to US$6.8 million (2015: US$7.2 million), which excludes approximately US$1.9 million of orders that will be delivered and realised post December 2016;

- Stable operating costs when compared to the same period in 2015, despite an increased emphasis on marketing and promotions;
- For a second year in a row Fabergé won an award at the prestigious Grand Prix d'Horlogerie de Genève (GPHG), the Swiss watchmaking industry's highest honour, this time for its Visionnaire DTZ timepiece, awarded in the 'Travel Time' category. The award cements Fabergé's position as a leader in the watch-making industry; and
- Fabergé's acclaimed Secret Garden suite won the 'Best Colourful Jewellery' category at the Middle East Jewellery of the Year Awards 2016 in November 2016, highlighting Fabergé's position as a market leader in coloured gemstone jewellery.

New projects
- Emeralds, Colombia - The Coscuez transaction is progressing with further due diligence work, pre-completion exploration, mine planning and administrative activities underway;
- Emeralds, Ethiopia - An exploratory diamond core drilling programme at the Dogogo-South block was completed in early December 2016 with a total of 3,538 metres drilled over 45 closed drill holes. Preliminary programme delivered highly encouraging results with pegmatite being intersected in all of the sections along a 800 metre strike length;
- Rubies, Mozambique - Preliminary drilling commenced at the Megaruma licence. In addition, exploration licence 5061L held by Eastern Ruby Mining Ltd, in which Gemfields holds a 75% interest, was converted to a mining licence in November 2016, valid for 25 years; and
- Sapphires, Sri Lanka - The long term future of this project currently under review on account of various operational challenges faced and the higher potential investment return offered by a number of the Company's other projects.

Coloured gemstone market
- The emerald market has experienced a short period of uncertainty created by the demonetisation programme in India which has impacted buyer's liquidity. This is nearing completion with some level of stability beginning to return to the sector. The long term prospects remain strong;
- There continues to be an ongoing increase in demand for responsibly sourced Mozambican rubies across key markets and categories;
- Positive downstream market sentiment and pleasing sales orders reported by the vast majority of Gemfields customers who attended the Tucson gemstone fair, along with a noticeably more positive business sentiment within the US; and
- The resurgence of coloured gemstones within the luxury sector has been most notably demonstrated by the launch of exquisite coloured gemstone collections by an increasing number of the leading jewellery houses.

Outlook
- The original auction schedule for H2 2017 included one commercial quality emerald and beryl auction, one mixed quality rough ruby and corundum auction and a higher quality emerald auction. Due to the impact of the demonetisation programme in India and deferral of the predominantly higher quality rough emerald auction from December 2016 to February 2017, Gemfields has decided to remove one of the scheduled higher quality emerald auction from the current financial year. The removal of this auction will result in a material reduction in revenue and EBITDA for the financial year ending 30 June 2017;
- Outlook for Montepuez remains encouraging both in terms of operational and financial performance. The recently upgraded processing plant will allow the Company to achieve its planned increase in production over the coming periods; and
- Low first half production at Kagem mine is expected to reduce targeted total production of rough emerald and beryl to 25 to 30 million carats for the financial year 2017 (previous guidance 30 - 35 million carats). The Company however, remains confident that it will be able to achieve its planned ramp up in emerald and beryl production over the coming years.

Ian Harebottle, CEO of Gemfields, commented:

"Gemfields' financial results for the six months have been impacted by the one-off Indian demonetisation programme which has affected the Company's auction schedule. This has resulted in the requirement to reschedule one higher quality rough emerald auction into the second half of the financial year, the results of which were announced today, and the consequent removal of another higher quality emerald auction. The impact of this will see a material reduction in annual revenue and EBITDA for this financial year only.

Today's auction results for our higher quality emerald auction continue to demonstrate strong pricing levels and firm demand in spite of the Indian demonetisation and resulting financial constraints it has placed on one of our core customer bases. We are confident that we will see a correction in the market in the short term as the actions required by our customers to improve liquidity and adjust to the demonetisation programme begin to bear fruit.

From an operational standpoint Montepuez has seen continued strong production performance. The recent installation of the upgraded processing plant will provide the capacity to process ore at a significantly increased rate. In line with our strategy of embracing new technology and modernity within the sector, the plant uses technology previously reserved for diamond production and is a world first for rubies.

At Kagem, the lower production of 10.7 million carats is largely attributable to the variability of the gemstone mineralisation and a higher grade zone having been encountered during the prior period. We have previously experienced similar levels of variability in mineralisation at Kagem and based on our knowledge of the ore body, we remain confident that the variance is a short term anomaly and that grades will return to their consistent annualised levels in due course. In addition, the Company's strategy of maintaining 12 months of rough inventory ensures stock is available for our future auctions.

The clear shift in both consumer trends and the increased urgency with which so many of the world's leading luxury brands are beginning to embrace coloured gemstones remain extremely encouraging and provides for a continued long term positive outlook for the sector. This is clearly evidenced by the increased number of retail brands that are now looking to collaborate with Gemfields."

Webcast presentation

Gemfields will be hosting a presentation for analysts at 11:00 GMT today at the offices of Reed Smith, The Broadgate Tower, 20 Primrose Street, London EC2A 2RS.

A live webcast of the results presentation will also be available at the link below and include audio via a conference call.
UK Toll Number: +44(0)2031394830
UK Toll-Free Number: 08082370030
PIN: 72770978#
Event Password: 682561

To access the live webcast and presentation please use this link:

https://arkadin-event.webex.com/arkadin-event/onstage/g.php?MTID=ec89a36804f980a29dd0c3c1421377779

(a) EBITDA - Earnings before interest, tax, depreciation, amortisation and impairment.
(b) Unit operating costs are calculated as total operating costs divided by the total gemstone production during the period. Total operating costs include mining and production costs, selling, general and administrative expenses, depreciation and amortisation, but exclude capitalised costs and mineral royalties.
(c) Cash rock handling unit costs are calculated as total cash operating costs divided by the total rock handling during the period. Cash operating costs include mining and production costs, capitalised costs, selling, general and administrative expenses, and exclude PPE-related capital expenditure, depreciation, amortisation and mineral royalties.
(d) Sales orders agreed are sales that Fabergé has agreed and confirmed with customers during the reporting period. Payment and/or delivery may take place later.

ENQUIRIES:

Gemfields Janet Boyce, CFO	janet.boyce@gemfields.co.uk +44 (0)20 7518 7283
Grant Thornton UK LLP Nominated Adviser Philip Secrett/Richard Tonthat/Jamie Barklem	+44 (0)20 7383 5100
JP Morgan Cazenove Joint Broker Jamie Riddell/James Deal	+44 (0)20 7742 4000
BMO Capital Markets Limited Joint Broker Jeff Couch/Neil Haycock/Tom Rider/Jenny Wyllie	+44 (0)20 7236 1010
Macquarie Capital (Europe) Limited Joint Broker Raj Khatri/ Nick Stamp/Guy de Freitas	+44 (0)20 3037 2000
Tavistock Jos Simson/Emily Fenton/Barnaby Hayward	+44 (0)20 7920 3150

Notes to Editors:

Gemfields plc is a leading supplier of responsibly sourced coloured gemstones and is quoted on the AIM market of the London Stock Exchange (ticker: GEM).

Gemfields is the operator and 75% owner of both the Kagem emerald mine in Zambia (believed to be the world's single largest producing emerald mine) and the Montepuez ruby deposit in Mozambique (one of the most significant recently discovered ruby deposits in the world). In addition, Gemfields also holds a 50% interest in the Kariba amethyst mine in Zambia, as well as controlling interests in various other gemstone mining and prospecting licences in Zambia, Mozambique, Colombia, Ethiopia, Madagascar and Sri Lanka.

Gemfields' outright ownership of the Fabergé brand - an iconic and prestigious brand of exceptional heritage - enables Gemfields to optimise positioning, perception and consumer awareness of coloured gemstones, advancing the Group's 'mine and market' vision.

Gemfields has developed a proprietary grading system and a pioneering auction and trading platform to provide a consistent supply of quality coloured gemstones to the global downstream markets. This is a key component of the Company's business model which the Directors believe has played an important role in the appropriate distribution and associated resurgence of the global coloured gemstone sector.

www.gemfields.co.uk

"The information contained within this announcement is deemed by the Company to constitute inside information under the Market Abuse Regulations (EU) No. 596/2014."

Chairman's Statement

Dear Shareholder,

The latest six months' results ending 31 December 2016 show strong operational performance at Montepuez despite the setbacks in our anticipated auction schedule and reduced production outputs at Kagem. The documented Indian demonetisation policy has unfortunately had an adverse short-term impact on the Group's financial performance during the period. While this in turn will materially impact the current financial year we remain confident the longer term demand fundamentals remains strong for the coloured gemstone sector.

The variance in financial results compared to the previous period are largely attributed to our decision to shift the dates of the higher quality emerald auction and a slight change in the mix of goods placed on offer during our most recent ruby auction, with both of these being done to accommodate prevailing market forces. The decision to postpone the December 2016 emerald auction and remove a further higher quality emerald auction is in response to the impact on customers following the Indian Government's demonetisation policy. The period also saw a lower grade of emerald produced compared to the comparative period in the prior year mainly resulting from the varied nature of emerald mineralisation and the mining of lower grade areas. In support of the longer term mine plan, new areas have also been opened to extend the strike length of the pit. This, as well as continued mining at the bulk sampling pits, contributed in part to the lower grade. Production of rough emerald and beryl was 10.7 million carats for the period (2015: 15.7 million carats).

Kagem continued to focus on further improving its operational efficiencies as well as its ongoing exploration and bulk sampling activities at the Fibolele and Libwente sectors, with encouraging results.

Our commitment to responsible mining remains at the core of how we operate. It was therefore particularly satisfying for Kagem to receive the Best Environmental Company award from the Quality Business Council in recognition of the environmental practices in mining and processing.

Montepuez has seen significant advancements initiated during the six months, including the wash plant upgrade being completed in December 2016, with minimal impact on production despite an extended shut-down period. This major project included the replacement of almost all of the processing equipment with the upgraded ore processing plant now consisting of a scrubbing unit, a new double deck screen and a Dense Media Separation

("DMS") plant. The upgrade is set to deliver a targeted processing rate of approximately 150 tonnes per hour.

Extractive operations at Montepuez continue to increase, and have mainly been focussed on the alluvial deposits at the Maninge Nice and Mugloto blocks. Exploration also continues with core and non-core drill testing with encouraging data being produced.

Community projects have also seen major progress, underpinning our approach to sustainability and community support. The launch of a mobile health clinic, a second chicken farm and a primary school rehabilitation project have all taken place at Montepuez, while Kagem has seen the handover of Chapula Secondary school and Nkana Health Centre to the local community.

We continue to explore new opportunities around the world. Recently, Ethiopia has presented some promising results following drill sampling and we continue to advance plans in Colombia.

Our marketing campaigns continue to drive consumer demand and increase awareness of coloured gemstones with dedicated teams active in all key markets. We are extremely proud of the lead role we have played in driving the resurgence in popularity of these gemstones and are further encouraged by the increasing number of retail brands that are looking to expand the breadth and depth of the coloured gemstone product ranges.

Finally, it is worth highlighting the outlook for coloured gemstones remains strong and while our emerald customers have experienced financial liquidity constraints in India we continue to look forward to the future with confidence. The availability of our large inventory ensures our auction programme will return to the usual six auctions in the next financial year and the Company continues its planned ramp up in emerald and ruby production over the coming years.

Graham Mascall / *Chairman*
17 February 2017

Operational Review

Kagem Mining Limited, Zambia

Kagem is believed to be the world's single largest producing emerald mine and is 75% owned by Gemfields, with the remaining 25% owned by the Government of the Republic of Zambia. Kagem is located in the Ndola Rural Emerald Restricted Area and lies south of Kitwe and west of Ndola in Zambia's Copperbelt Province. Kagem's licence area comprises around 41 square kilometres and currently delivers approximately 25% of global emerald production.

Mining

During the six months ended 31 December 2016, 5.5 million tonnes of waste was moved (2015: 6.8 million tonnes) and 64,600 tonnes of ore was mined (2015: 61,800 tonnes) at Kagem. The strip ratio was significantly reduced during the period to 85 (2015: 110).

Optimised drilling and blasting techniques are now being utilised at the Chama pit following the increased strike and dip length. Kagem is progressively switching to emulsion based explosives, leading to further mining efficiency, improved blast quality and lower overall costs. In addition, exploration and bulk sampling activities at the Fibolele and Libwente sectors continued in the current period with encouraging results.

Production

Production of rough emerald and beryl was 10.7 million carats (2015: 15.7 million carats) for the period with the difference largely attributable to the variability of the gemstone mineralisation and a higher grade zone having been encountered during the prior period. The lower average grade, inclusive of ore from bulk sampling pits, of 166 carats per tonne (2015: 254 carats per tonne) is principally due to the fluid nature of emerald mineralisation, the dilutionary effect of the bulk sampling pits mined and new lower grade sections being mined along strike within the Chama pit when compared to the prior period.

Kagem's key operational parameters by quarter and half year are summarised below:

KAGEM		**Quarter**								**Half Year**	
Quarterly Summary to December-16	**Units**	**Mar-15**	**Jun-15**	**Sep-15**	**Dec-15**	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**	**2015-16**	**2016-17**
PRODUCTION											
Gemstone Production (Emerald+Beryl)	million carats	9.9	8.1	7.5	8.2	7.1	7.2	6.0	4.7	15.7	10.7
Ore Production (Reaction Zone)	'000's tonnes	27.9	36.5	31.7	30.1	23.9	39.0	34.4	30.2	61.8	64.6
Grade (Emerald+Beryl/Reaction Zone)	carats/tonne	355	222	237	272	297	185	174	156	254	166
Waste Mined (including TMS)	million tonnes	4.0	3.6	4.0	2.8	2.6	3.1	2.9	2.6	6.8	5.5
Total Rock Handling	million tonnes	4.0	3.6	4.1	2.8	2.6	3.1	3.0	2.6	6.8 (e)	5.6
Stripping Ratio		143	99	126	93	109	79	84	86	110	85
CAPITAL EXPENDITURE											
Property, Plant and Equipment	US$ million	1.0	1.8	0.2	0.5	2.6	0.4	0.6	0.1	0.7	0.7
Capitalised Waste Stripping (d)	US$ million	5.9	4.7	2.5	-	-	-	-	-	2.5	-
CASH COSTS (a)											
Total (Cash) Operating Costs (a)	US$ million	11.4	10.5	8.4	8.0	6.8	8.1	7.1	7.5	16.4	14.6
Gemstone (Cash) Unit Cost (Emerald+Beryl) (a)	US$/carat	1.15	1.30	1.12	0.98	0.96	1.13	1.18	1.60	1.04	1.36
Ore / Reaction Zone (Cash) Unit Cost (a)	US$/RZ tonne	409	288	265	266	285	208	206	248	265	226
Rock Handling (Cash) Unit Cost (a)	US$/tonne	2.85	2.92	2.05	2.86	2.62	2.61	2.37	2.88	2.41	2.61
ACCOUNTING COSTS (b) (d)											
Total Operating Costs (b) (c) (d)	US$ million	9.8	12.8	11.4	12.1	11.2	12.6	10.2	10.2	23.5	20.4
Gemstone Unit Cost (Emerald+Beryl) (b) (d)	US$/carat	0.99	1.58	1.52	1.48	1.58	1.75	1.70	2.17	1.50	1.91
Ore / Reaction Zone Unit Cost (b) (d)	US$/RZ tonne	351	351	360	402	469	323	297	338	380	316
Rock Handling Unit Cost (b) (d)	US$/tonne	2.45	3.56	2.78	4.32	4.31	4.06	3.40	3.92	3.46	3.64

(a) Cash operating costs include mining and production costs, capitalised costs, selling, general and administrative expenses, and exclude property, plant and equipment capital expenditure, depreciation, amortisation and mineral royalties.

(b) Total operating costs include mining and production costs, selling, general and administrative expenses, depreciation and amortisation, but exclude capitalised waste stripping costs and mineral royalties.

(c) As at 31 December 2016, a total of approximately US$62.4 million of waste moving costs were capitalised and is being amortised as and when the associated ore is mined. The balance of capitalised waste moving costs, net of amortisation, as at 31 December 2016 amounted to US$12.7 million.

(d) Following the updated JORC Reserves and Resource Statement in September 2015, Kagem changed its mine plan from previously undertaking significant high wall pushbacks to now undertaking continuous waste removal and mining. The previous high wall pushback campaigns whose costs were capitalised as deferred stripping costs ceased in September 2015. The results of the three quarters to March 2016 have been restated, to reflect this change in accounting treatment.

(e) Half year 2015-16 figures do not equal the sum of Q1 2016 and Q2 2016 due to rounding.

Operating costs

Total cash operating costs were US$14.6 million (2015: US$16.4 million). The first two months of the prior period included capitalised stripping costs associated with the previous push-back campaigns. Following the updated Resource and Reserve Statement from SRK, finalised in September 2015, Kagem updated its mine plan to continuous waste removal of the Chama pit over the life of mine. Cash rock handling unit costs increased by 8.3% to US$2.61 per tonne (2015: US$2.41 per tonne), as the current period included mining at deeper levels within the Chama pit, but it was partially offset by improved efficiencies such as optimised blasting and the use of emulsion explosives.

Processing

Kagem increased its processing efficiencies and capacity following an upgrade and extension to the existing wash plant facility during the previous financial year. The total ore processed for the period was 161,954 tonnes (2015: 91,457 tonnes).

The Kagem wash plant achieved a total of 2,401 hours of operation (2015: 2,512 hours) with the plant capacity at 67 tonnes per hour (2015: 36 tonnes per hour).

Capital expenditure

During the period, a total of US$0.7 million (2015: US$3.2 million, which included US$2.5 million of capitalised stripping costs) was spent on new mining and ancillary equipment to increase the production capacity. With the continuous waste stripping programme now in place, no deferred stripping costs were capitalised during the current period.

A significant portion of the previously planned capital expenditures for the current financial year is now being delayed on account of the amendment to the planned auction schedules and the commensurate impact this has had on short-term cash flows. This will naturally have a knock on effect with the planned ramp up in production now being spread over an extended period, but with the longer term targets still remaining intact.

Geology and exploration

The mine optimisation plan prepared by Golder Associates was refined and progressed during the current period following the enhanced geological understanding of the ore body and mineralisation stemming from the comprehensively updated Resource and Reserve statements prepared by SRK in September 2015. Further updating of the geological modelling continued, supported by additional drilling, geophysics and geochemistry data which underpinned the creation of an updated Chama pit geological model.

An ore genesis model for the Ishuko bulk sampling pit in the Libwente sector is also being tested with added geological and bulk sampling work being carried out. Further work continued on lithological and mineralogical characterisation, structural domain evaluation, light element rapid geochemistry through Laser Induced Breakdown Spectroscopy ("LIBS") and 3D quantitative magnetic susceptibility modelling for better target delineation and enhance geological and mine planning work flows.

Infrastructure/ process

Significant improvements in the camp infrastructure continued during the period with the addition of a rest shelter and dining place nearer to the mining operations as well as a new 250 seater canteen at the camp itself. IT infrastructure continues to expand across the licence area with a larger overall footprint covering the mine, offices, workshop, living and recreation areas.

Security

The security environment is constantly evolving given changes to workflows and production scenarios. Security measures are regularly reviewed and updated in order to minimise any potential security risk. Kagem continues to embrace the latest technological developments to further enhance its surveillance infrastructure, an important deterrent against pilferage and pivotal in the safeguarding of assets.

Phase two of the new IP-based CCTV installation is in the design stage and is expected to be completed and rolled out in the second half of financial year 2016-17. The upgraded radio network and other technology enhancement has vastly improved communications within the licence area. Kagem has been issued a temporary licence for the use of aerial surveillance cameras by the Zambian Civil Aviation Authority. This has enabled the use of cutting-edge technology for geological monitoring, survey, mining and security within the Kagem and Gemfields licence boundaries. An application for a permanent license has been submitted.

Health, safety and environment

Kagem prides itself on its ability to produce emeralds that are mined in a responsible, transparent and safe manner with minimised impact on the natural environment. The aim is to foster a zero-harm (injury free) culture where health and safety are considered critical to the operations but is ultimately the responsibility of each individual. The safety performance continues to improve with no reportable injuries during the period. Training continues to be rolled out and the reporting of near misses and incidences has improved throughout all aspects of the project.

During the period, Kagem successfully completed the Environmental Impact Assessment with the resulting Environmental Impact Statement being approved by the Zambia Environmental Management Agency. In addition, Kagem received the Best Environmental Company award presented by the Quality Business Council in recognition of its environmental practices in mining and processing.

There were no environmental non-compliances during the current period.

Community investment

Kagem's efforts are directed by a Community Sustainability Development Strategy which sets out the various projects that are to be undertaken, with the full support of local stakeholders and most notably the local chiefdoms. This strategy enables Kagem to have a more transparent, equitable and interactive relationship with all local stakeholders and to deliver both measured and meaningful results.

All legacy community projects continued to receive some level of ongoing maintenance support. However, the focus during the period was on the handover of two major projects, namely Chapula Secondary School (Chapula) and Nkana Health Centre. Chapula in the Lufwanyama district, has now been successfully completed and handed over to the community and is being used by 800 children up to Grade 12.

An upgrade to the Nkana Health Centre was also completed during the period and has officially been handed over to the community. The infrastructure includes four wards including an isolation, maternity and children's ward as well as a dispensary and incinerator that will benefit approximately 4,000 people who now have a health centre closer to the community. In addition, Kagem also constructed staff quarters to accommodate the resident medical staff.

Further projects undertaken during the period include the commencement of repair works of an access bridge in the community belonging to Chief Lumpuma.

Kagem has commenced the process towards the establishment and certification of an integrated Health, Safety & Environmental Management System compliant to ISO14001 and OHSAS18001 standards.

Human resources, health and safety

During the current period, additional employees were hired to further strengthen the workforce taking the total number of people directly employed by Kagem across its various departments to 737. The total number of contractor employees as at 31 December 2016 was 186.

Kagem's sustainability journey continued from the prior period with the provision of permanent and pensionable employment to all its local workers.

Training in various fields including Safety, Health, Environment, Quality ("SHEQ"), light vehicle driving, labour laws, first aid, pensions, supervisory skills and management continued with 244 employees being trained in the current period. The training was conducted by both external and in-house trainers and included the induction of 182 new employees and visitors. Nine Zambian students completed their internship at Kagem in various departments such as SHEQ, IT, HR, Engineering and Mining. In addition, six university students are covered under a separate Memorandum of Understanding for scholarships where they spend time at the mine as an intern on a regular basis whilst completing their university courses and on completion of their courses they will join Kagem as employees.

Staff welfare activities have been focused on improving social amenities around the workplace and camp.

Rough sales and auctions

During the period, only one auction of commercial quality rough emerald and beryl extracted from the Kagem mine was held in September 2016, in Jaipur, India, generating revenues of US$10.7 million. The average realised price was US$3.28 per carat. To allow our rough emerald customers, who predominantly hail from India, to adjust to the demonetisation programme initiated by the Indian government in November 2016, the higher quality emerald auction originally scheduled to take place in December 2016 was postponed to 13 to 17 February 2017. The February 2017 auction realised revenues of US$22.3 million and an average price per carat of US$63.61.

A further auction of predominantly commercial quality rough emerald and beryl is planned for the second half of the financial year 2017.

The auction results during the period are summarised below:

Auction Results

Dates	26 - 29 September 2016
Location	Jaipur, India
Type	Commercial Quality
Carats offered	4.05 million
Carats Sold	3.27 million
No. of companies placing bids	30
Average no. of bids per lot	7
No. of lots offered	19
No. of lots sold	15
Percentage of lots sold	79%
Percentage of lots sold by weight	81%
Percentage of lots sold by value	82%
Total sales realised at auction	US$10.7 million
Average per carat sales value	US$3.28/carat

Credit facility

Kagem has two financing facilities with Barclays totalling US$30 million. Funds drawn under these facilities bear interest at a rate of three month US Dollar LIBOR plus 4.5%. At 31 December 2016, the outstanding balance was US$30 million, refer to note 8 of the Consolidated Interim Financial Statements for further information.

Montepuez Ruby Mining Limitada, Mozambique

The Montepuez ruby deposit is located in the north-east of Mozambique in the Cabo Delgado province. Covering approximately 35,000 hectares, it is believed to be the most significant recently discovered ruby deposit in the world. Gemfields owns a 75% interest in Montepuez Ruby Mining Limitada which holds a 25-year mining and exploration licence granted by the Government of Mozambique in November 2011.

Montepuez has been undertaking ongoing exploration within the licence area since the grant of the licence. The main sources of exploration, following on from the completed ground and aerial magnetic studies, include auger and diamond drilling, trenching pits and bulk sampling. These programmes have been supplemented by geological mapping, satellite imagery, geophysical and soil geochemistry surveys.

Mining

Extractive operations at Montepuez continue to increase in scale and has delivered consistently positive results. During the period, activities have focussed primarily on alluvial deposits in Maninge Nice and Mugloto blocks, located approximately 9 kilometres apart within the concession area. The exploration programme has continued with core and non-core drilling and the data provides an indication of the significant possibility to further increase the existing resource base.

Total rock handling during the period was 2.2 million tonnes (2015: 2.2 million tonnes), made up of 0.4 million tonnes of ore and 1.8 million tonnes of waste, at a stripping ratio of 5.0 (2015:7.1).

Processing

Ore processed at the wash plant increased from approximately 145,000 tonnes in the first half of the prior year to approximately 192,000 tonnes during the first half of this financial year, despite the wash plant being shut down during December to allow for the installation and commission of the upgraded processing plant. The overall ore grade is 29 carats per tonne (2015: 15 carats per tonne).

The wash plant upgrade was completed in December 2016 and included the replacement of almost all of the equipment with the exception of the log washer. The upgrade to the ore processing plant included a scrubbing unit, a new double deck screen and a Dense Media Separation (DMS) Plant and is expected to double the throughout rate from the existing 70 tonnes per hour to a target throughput rate of 150 tonnes per hour.

Production

The total production during the period was 5.6 million carats of rough rubies and corundum (2015: 2.1 million carats) at an average grade of 29 carats per tonne (2015: 15 carats per tonne) and resulted in a 52% increase in the overall volume of premium quality rubies recovered during the six months ended 31 December 2016, despite the planned shutdown of the processing plant to allow for its substantial upgrade.

Of the 5.6 million carats of ruby and corundum produced during the period, 4.8 million carats were recovered from the Maninge Nice primary and secondary ore, 0.7 million carats from the Mugloto secondary ore, and 0.1 million carats from ore from other pits. This takes the total ruby and corundum produced at Montepuez since the commencement of bulk sampling to 32.5 million carats.

Montepuez's key operational parameters by quarter and half year are summarised below:

		Quarter								Half year	
MONTEPUEZ Quarterly Summary to December 2016	**Units**	**Mar-15**	**Jun-15**	**Sep-15**	**Dec-15**	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**	**2015-2016**	**2016-2017**
PRODUCTION											
Gemstone Production (Ruby+Corundum)	million carats	1.4	0.7	0.5	1.6	2.0	6.2	4.5	1.1	2.1	5.6
Ore Production (Primary+Secondary)	'000 tonnes	79.4	119.5	136.9	132.9	65.1	175.5	177.4	196.0	269.8	373.4
Ore Processed (Primary+Secondary)	'000 tonnes	78.6	75.5	72.8	71.7	67.6	83.1	102.6	89.4	144.5	192.0
Grade (Ruby+Corundum/Ore Processed)	carats/tonne	18	9	7	22	30	75	44	12	15	29
Waste Mined	'000 tonnes	441.7	859.7	996.8	922.2	406.3	693.2	923.0	927.3	1,918.8	1.850.3
Total Rock Handling	'000 tonnes	521.1	979.2	1,133.7	1,054.9	471.4	868.7	1,100.4	1,123.2	2,188.6	2,223.7
Stripping Ratio		5.6	7.2	7.3	6.9	6.2	3.9	5.2	4.7	7.1	5.0
CAPITAL EXPENDITURE											
Property, Plant and Equipment	US$ million	1.4	2.3	3.3	1.8	1.6	0.8	3.6	5.2	5.1	8.8
CASH COSTS (a)											
Total (Cash) Operating Costs (a)	US$ million	3.7	6.0	5.1	5.3	4.8	6.2	4.7	5.5	10.4	10.2
Gemstone (Cash) Unit Cost (Ruby+Corundum) (a)	US$/carat	2.64	8.57	10.20	3.31	2.40	1.00	1.04	5.00	4.95	1.82
Ore Production (Cash) Unit Cost (a)	US$/tonne	46.60	50.21	37.25	39.88	73.73	35.33	26.49	28.06	38.55	27.32
Rock Handling (Cash) Unit Cost (a)	US$/tonne	7.10	6.13	4.50	5.02	10.18	7.14	4.27	4.90	4.75	4.59
ACCOUNTING COSTS (b)											
Total Operating Costs (b)	US$ million	4.6	7.0	6.1	6.9	5.8	7.4	5.8	6.6	13.0	12.4
Gemstone Unit Cost (Ruby+Corundum) (b)	US$/carat	3.29	10.00	12.20	4.31	2.90	1.19	1.29	6.00	6.19	2.21
Ore Production Unit Cost (b)	US$/tonne	57.93	58.58	44.56	51.92	89.09	42.17	32.69	33.67	48.18	33.21
Rock Handling Unit Cost (b)	US$/tonne	8.83	7.15	5.38	6.54	12.30	8.52	5.27	5.88	5.94	5.58

(a) Cash operating costs include mining and production costs, capitalised costs, selling, general and administrative expenses, and exclude property, plant and equipment-related capital expenditure, depreciation, amortisation and mineral royalties.

(b) Total operating costs include mining and production costs (including security costs), selling, general and administrative expenses, depreciation and amortisation, but exclude capitalised costs and mineral royalties.

Operating costs

Cash operating costs for the period of US$10.2 million are consistent with the prior period of US$10.4 million as increased activity is partially offset by continued mining and processing efficiencies and the impact of the devaluation of the Metical. With the increased production and a consistent cost base, the cash cost per carat has fallen to US$1.82 from US$4.95 per carat. Total operating costs, were US$12.4 million (2015: US$13.0 million) with unit operating costs of US$2.21 per carat (2015: US$6.19 per carat). Cash rock handling unit costs remained stable at US$4.59 per tonne (2015: US$4.75 per tonne).

Capital expenditure

During the current period, the total investment in property, plant and equipment was US$8.8 million (2015: US$5.1 million). Out of this, US$3.1 million was invested in new mining and ancillary equipment, as well as in improving facilities and infrastructure at the mine site, US$4.0 million spent on upgrading the wash plant and the remainder in other expansion and exploration activities.

Rough sales and auctions

An auction of mixed quality rough ruby and corundum was held in December 2016 in Singapore. Out of the 1,372,145 carats of rubies offered for sale, 1,094,673 carats were sold (83% by weight). The auction generated revenues of US$30.5 million, yielding an average overall value of US$27.88 per carat.

The auction results during the period are summarised below:

Auction results

Dates	12-16 December 2016
Location	Singapore
Type	Higher and commercial quality
Carats offered	1.37 million
Carats sold	1.09 million
Number of lots offered	71[(a)]
Number of lots sold	59[(a)]
Percentage of lots sold	83%[(a)]
Percentage of lots sold by weight	80%
Percentage of lots sold by market value	92%
Total sales realised at auction	US$30.5 million[(a)]
Average per carat sales value	US$27.88/carat[(a)]

(a) Please note that the December 2016 ruby and corundum action results have been amended to include a lot that was not previously included in the original announcement made on 19 December 2016. Revenues have increased by US$0.1 million

While the positive impact of the efforts to support the growth and expansion of the downstream emerald market are clearly visible, it is likely to take a few more years before the ruby market has access to similar levels of working capital and global distribution. As such, some degree of flexibility is required in determining the auction schedule for rough rubies and corundum, with the exact nature and timing of these auctions being directed by feedback received from the downstream market, and supported by the Group's marketing and communications network. At least one auction of mixed qualities of ruby and corundum is expected to take place before the end of June 2017.

Geology and exploration

The rubies at Montepuez are found in two mineralised styles, namely: primary mineralisation hosted within amphibolite lithology and secondary, placer type, gravel beds.

The Montepuez mining area comprises rocks ranging from granitic to amphibolitic in composition, with scattered quartzite and marble outcrops. On a regional scale, the rocks are highly folded into tight isoclinal folds of all scales, these have been subsequently cut by a number of north-east to south-west trending shear zones. The host rocks in the concession exhibit more open folding in the Montepuez mining area. The gravel beds are overlaying the metamorphic geology described above. To date, rubies from Montepuez differ geologically from many of the rubies traditionally available in the international market in that they are hosted in amphibolite rather than related to marble or basalt lithologies.

Rubies from the primary amphibolitic source mineralisation, Maninge Nice amphibolite and gravel bed, are typically tabular hexagonal crystals, with a strong basal cleavage. The gemstones are highly fractured and included. Typically, the production from primary mineralisation is lighter, pink colour, and is often classified as sapphires. These sources provided a large amount of gemstones per tonne of ore, and so are considered as a higher grade but lower quality deposit. In contrast, the production from the secondary gravel bed deposit from Mugloto and Glass pits are dark red in colour, more transparent, with fewer inclusions, and often rounded in shape. However, as these secondary deposits provide fewer gemstones per tonne of ore than the primary deposit, it is thus considered as a lower grade but higher quality deposit.

The secondary deposit is currently interpreted to be related to a flood event, which was later reworked by a braided river system. The source of the higher quality Mugloto secondary deposit is yet to be identified.

Exploration undertaken during the first half of the financial year mainly consisted of drilling, bulk sampling and the study of aerial survey data. The total core drilling for the first half of the financial year was 2,397 metres (only in-house drilling).

Exploration undertaken in the Maninge Nice Block, which was based on auger drilling, gravel thickness evaluation and the presence of illegal mining activities, highlighted three new areas called Glass, Leopardo and Maninge Nice East.

During the comparative period, exploration of Maninge Nice East has assisted in the delineation of a mineralised amphibolite ore body. Thus, the first bulk sampling pit within Maninge Nice East block was opened in November 2016. This pit is currently undergoing top soil removal.

Within Glass Block, 23kt of ore was removed from the first pit during the first half of the financial year, while a second pit which was inaugurated during the period is currently undergoing top soil removal.

Exploration also continued in Mugloto block, and led to the opening of two new pits during the first half year of this financial year: Mugloto pit 7 which commenced in August 2016 and Mugloto pit 8 in October 2016.

It should be noted that a considerable portion of the current Glass B area was not covered in the 2015 SRK Reserves and Resources report.

Security

Additional security measures have been put in place for the upgraded processing plant which was commissioned in December 2016. To ensure uninterrupted and risk free operations, higher risk areas were revisited and new Standard Operating Procedures were formulated. Additional CCTVs have also been installed at various critical locations at the processing plant.

Training on the United Nations Voluntary Principles on Security and Human Rights is an ongoing and continuous process for all security members. The training has also been rolled out to the rest of the division's employees as well. All members of the security team are trained on social media awareness by a renowned security consultant from the UK.

With respect to industrial security, salient features including installation of back-up servers at the control room, separation of electrical connections from CCTV connections at the processing plant and the installation of uninterrupted power supply systems at the control room were set-up. An alarm system was installed in the sort house.

Use of a helicopter for the transfer of products from the mine to Pemba airport, in addition to the road transport system, was also implemented and has provided additional product security. An additional contract security agency was also deployed at the mine during December 2016, along with the existing security agency with a view to increasing the level of independent checks, balances and an overall improvement in performance.

Infrastructure

Montepuez is now served by an operational base camp at Namanhumbir which includes new permanent housing units, paved roads, a new kitchen and dining space inclusive of an entertainment area. The site also has sports facilities which include volleyball, tennis and badminton courts. Whilst the camp is operational there is still some ongoing construction involved with finalising the project which is expected to be completed by June 2017.

Heath, safety and environment

Montepuez's management of health, safety and environment continues to make progress, following the introduction of the HSE committee. During the period, the incorporation of health and safety training modules into the HSE programme continued with various training sessions being provided. In addition, during the period HSE staff underwent training in the International General Certificate in occupational health and safety and the SAMTRAC health and safety management. A medical health surveillance program has been established to ensure that all employees undergo pre-employment, periodic and exit medical exams. There have been no reports of any occupational diseases.

Notable progress has been made regarding DUAT and the Resettlement Action Plan ("RAP") applications. During the period, DUAT for an area of 7,642 hectares was approved by the Mozambique Government. The DUAT application for the remaining area of about 18,000 hectares is awaiting approval of the council of ministers and is expected to be approved early this year. The RAP application which is in the advanced stages of approval, has been endorsed by the Council of Ministers. The final approval is expected to be received later this year. Upon receipt of the approval of RAP, the Environmental Licence will be issued to Montepuez.

A plant nursery with a capacity of 4,000 seedlings was established during June 2016 and has started yielding good results with the sapling produced by this nursery being used in post mining rehabilitation.

Environmental monitoring equipment for air quality, ambient noise levels, rainfall, etc. is also working and periodically recording the related parameters.

Community investment

Montepuez continued to work with the communities surrounding the mine to ensure that local people benefit from its activities, with the community investment focus being directed on the areas where the community felt it was most needed. Montepuez's community activities are well aligned with the policies of the Government of Mozambique and are designed to supplement the Government's efforts in improving the quality of life within rural communities.

The local community programme, which includes developing the community engagement and investment projects, is driven by a local community affairs team, led by an experienced manager. Montepuez has completed an extensive programme of engagement with all communities associated with the concession such as the Namanhumbir village and other villages in the immediate vicinity. This strategy has helped improve Montepuez's presence in the community providing local stakeholders with more opportunities for engagement.

Montepuez has developed a Community Development Strategy and Framework ("CDSF") through which projects are planned together with the support of local stakeholders, most notably with the villages located in and around the concession. The CDSF includes building skill development centres for increasing the skill-sets of the local community to provide them added opportunities to gain employment as skilled craftsmen. The plan also includes the building of additional primary and secondary schools as well as providing high quality and critical healthcare to the local population.

A primary school at Nanhupo was rehabilitated and handed over to Montepuez District Administrator during October 2016 by Montepuez. Construction of three primary Schools at Nanune, Mpene and Nseue are also underway and will be handed over to the local district within the next half year.

Following the success of the Nanune Chicken farm with the Nanune women's association, another chicken farm project at Namanhumbir is being constructed and will shortly be handed over to Namanhumbir women's association. In addition to the chicken farms, a feasibility study for setting up of a chicken slaughter house is underway.

To empower the productivity and income of local farmers in and around Montepuez concession area, a conservation farming project, in association with Kurimane Povo Cubatsirana Lda, commenced in December 2016. Presently, the conservation farming project is ongoing with a total of 206 farmers (110 men and 96 women) from 6 communities.

Human resources

As at 31 December 2016, a total of 1,217 people was employed by Montepuez of which 391 were directly employed and 826 were contractors.

A total of 765 internal and external training sessions have been provided to Montepuez employees during the period. The training included induction, operations and maintenance of Heavy Earth Moving Machinery, media training, taxation and the United Nations Voluntary Principles of Security and Human Rights,

A total of 24 local students did an internship at Montepuez during the period.

Fabergé Limited

Wholly owned Fabergé provides Gemfields with direct control over a high-end luxury goods platform and access to a global brand with an exceptional heritage. The acquisition enabled Gemfields to accelerate its vision, harnessing the Fabergé brand, to raise the international presence and perception of coloured gemstones and advance the Group's mine and market vision.

In addition to the directly-operated stores, Fabergé continued to expand its global presence during the period to 31 December 2016 via an increased number of agreements with multi-brand retail partners. At 31 December 2016, Fabergé products were available in Australia, Azerbaijan, Bahrain, Canada, Czech Republic, France, Italy, Malta, Qatar, Saudi Arabia, Switzerland, Thailand, UAE, UK, Ukraine and USA. The total number of Fabergé outlets increased from 32 to 41 during the period.

While Fabergé saw a 41% increase in sales orders agreed during the period to 31 December 2016 when compared to the period ending 31 December 2015, and a 53% increase in the number of sales transactions in the same period, the actual revenues recognised in the income statement amounted to US$6.8 million in the period (2015: US$7.2 million). The difference is due to the timing of the delivery of the products, and consequently the timing of the recognition of revenues in the income statement. The slight decrease in revenues is partly due to the fall in GBP exchange rate against the USD, and partly due to timing of delivery, and therefore accounting recognition, of orders taken at BaselWorld 2016 when compared to 2015. Approximately US$1.9 million of orders taken in 2016 will be delivered before the end of March 2017.

Total operating costs for the half year ending 30 December 2016 remained flat when compared to the half year ending 30 December 2015, despite a considerable increase in marketing and promotions spend. EBITDA losses also remained consistent at US$4.6 million (from US$4.1 million in 2015).

Product and creative

In the next half of this financial year Fabergé is set to launch new collections at BaselWorld 2017, including fine jewellery pieces and the expansion of the timepieces collection in collaboration with world-leading Swiss watchmakers. Taking inspiration from the unique heritage of the House of Fabergé, the new collections are founded on the artistic use of colour in the form of coloured gemstones and enamel, and the element of surprise.

In the past two consecutive years Fabergé has won the prestigious Grand Prix d'Horlogerie de Genève (GPHG), the Swiss watchmaking industry's highest honour. This year the Visionnaire DTZ timepiece won the award in the 'Travel Time' category. The award cements Fabergé's position as a leader in the watch-making industry.

Fabergé's acclaimed Secret Garden suite won the 'Best Colourful Jewellery' category at the Middle East Jewellery of the Year Awards 2016 in November 2016, highlighting Fabergé's position as a market leader in coloured gemstone jewellery.

Marketing and communications

Fabergé continues to market and communicate using traditional media, digital platforms and events, to enhance consumer and industry perceptions of the brand and its relevance to today's luxury consumers.

Particular attention has also been directed at building a strong digital footprint, with a refreshed social media strategy greatly improving online engagement, paving the way for further development over the year ahead. Key traditional publications, such as Vanity Fair, Financial Times and Wall Street Journal continue to show exceptional consumer recognition and a positive link to attributable sales.

Fabergé also held two product launch events during the period, with #SayYesInColour launching emerald, ruby and sapphire engagement rings in October 2016 and #DTZ (Dual Time Zone) launching the GPHG winning men's timepiece, Visionnaire DTZ. Both events were well attended by both clients and press, with excellent coverage attained in both social and traditional media.

Kariba Minerals Limited, Zambia

Kariba Minerals Limited ("Kariba") is one of the world's single largest operating amethyst mines and continues to account for a material proportion of global amethyst reserves. The deposit is located in the Southern Province of Zambia in the Mapatizya district and covers 253 hectares and is 50% owned by Gemfields.

Mining and production

The Kariba deposit comprises ten active or semi-active pits producing a different mix of grades. Production is adapted in line with prevailing market demand for particular sizes and qualities. The Curlew North, Davidson and Main Curlew pits have been actively developed and mined during the period.

Production of amethyst during the period was 469,000 kg (2015: 485,000 kg).

Kariba production summary

Kariba production summary	**Six months to 31 December 2016**	Six months to 31 December 2015
Gemstone production (amethyst - all grades) in tonnes	469	485
Ore production in tonnes	9,200	8,745
Grade (kg of amethyst per tonne of ore)	59	49
Waste mined in tonnes	80,926	77, 324
Stripping ratio	10	9

As at 31 December 2016, mixed-grade stock of rough amethyst ready to be sold, bagged and labelled was recorded at 368 tonnes.

Rough sales and auctions

A total of 11.16 million carats of higher quality rough amethyst was sold in Jaipur, India in September 2016 for US$0.4 million, representing 86% of the total carats offered for sale.

Infrastructure

A new warehouse loading point, on the main highway to the Namibian port has been completed and is operational.

Kariba is actively working towards a long-term cost effective solution for energy supply. An Environmental Project Brief for a 1 MW solar farm in conjunction with an Australian solar supplier and the Zambian national electricity company, ZESCO, has been initiated and approval from the Zambian Government is still being awaited. The primary goals of the project are to supply Kariba with more cost-effective electricity and to offer excess capacity to the local community at a rate that will be subsidised by the Zambian Government. Kariba will lease a portion of its land (two hectares) to the project in order to accommodate the construction of the solar plant. The Australian solar supplier will fund construction and Kariba will sign an off-take agreement to purchase electricity.

Health, safety and environment

All statutory obligations and regulations have been complied with and are up do date.

Moreover, Kariba is committed to the implementation of environmental management plans as outlined at Group level and required by law. Kariba is aiming to adopt mining methods that limit overall impact on the environment, and which seek to preserve the ecology and biodiversity of the surrounding areas. In that regard, more than 1000 fruit and nut trees have been planted to reforest some of the mining area as well as supplementing the diets of the employees and their families.

Corporate responsibility and sustainability

Various initiatives are being planned and implemented for the benefit of the local community. Being the only formal employer within the larger geographical catchment area, Kariba is very closely integrated with its surrounding communities.

New Projects and Other Assets

Colombia

Gemfields announced the binding but conditional agreements to acquire controlling interests in two emerald projects with operations and prospects located predominantly in the Boyacá state of Colombia, on 10 September 2015. The news has been well received within local Colombian media and within the Government with the Colombian Ministry of Mines issuing an independent press release welcoming Gemfields investment into the Colombian emerald sector.

The first project relates to the acquisition of a 70% stake in the Coscuez Emerald Mine, in the Boyacá province. The total consideration payable under the share purchase agreement is US$15 million, to be paid in tranches of a combination of cash and Gemfields' shares, conditional on achieving certain pre-determined milestones. Located on the 'Muzo formation', the Coscuez Licence covers an area of 47 hectares, with the Coscuez mine - one of history's more significant emerald deposits - having been in operation for over 25 years and known to have produced some of the finest emeralds from Colombia.

Gemfields continues to progress the conclusion of the Cosquez transaction with further due diligence work being at an advanced stage. Gemfields continued pre-completion exploration, mine planning and administrative activities. These included geochemical analysis of rock samples and other operational aspects such as equipment, explosives magazine, expansion of current environmental licence to match future projections and workforce requirements. Several meetings were held with the Colombian National Mining Agency ("ANM") to discuss modalities of transferring the mining title to the joint venture in good standing. The operations team is also developing near-term social plans through Suna Verde, a two-way digital communications platform created by Gemfields.

The second project related to selected exploration prospects held by ISAM Europa S.L. ("ISAM") via the acquisition of 75% and 70% interests in two Colombian companies holding rights in respect of mining licence applications and assigned concession contracts respectively. It comprised a number of new licence applications and assignments to existing concession contracts administered by the Colombian Mining Agency. A misalignment of commercial objectives between the shareholders in the ISAM transaction, and consequent project delays, have led to an agreement by the parties not to complete the transaction on an amicable basis. Consequently, all legal and administrative aspects of the share transfer process to ISAM (including documentation return, legal representatives' modifications, board of directors and changes in the registry of the Colombian Chamber of Commerce) were finalised. As a result, the Group recognised an impairment of US$0.5 million relating to the ISAM investment.

Gemfields remains focused on finalising all matters in relation to the Coscuez transaction.

Web Gemstone Mining plc, Ethiopia

Gemfields completed the acquisition of 75% shares in Web Gemstone Mining plc ("Web Gemstone"), an Ethiopian registered company, in February 2015. Web Gemstone holds an emerald exploration licence covering a total concession area of 200 square kilometres.

Following encouraging results from the trenching programme the block exploratory diamond core drilling programme was initiated in July 2016. A cumulative total of 3,538 metres was drilled over 45 closed drill holes, and was completed in December 2016. Pegmatite was intersected in all eight sections along 800 metres' strike length. Furthermore, a level plan at 1,300mRL (approximately 25m below surface) confirms the presence of three sets of pegmatitic bodies. Drilling also confirms the depth continuity of the ore body that was exposed during the trenching and pitting exercises up to 50 metres' vertical depth. Geochemical analysis of the drilled core is in progress using a handheld XRF machine, and samples will be sent for laboratory analysis.

The company submitted an annual progress report, a work programme for 2017, and an application for the extension of its exploration licence by a further year to the Ministry of Mines. Ground preparation is underway for commencement of bulk sampling in the next financial year.

Ratnapura Lanka Gemstones (Pvt) Limited, Sri Lanka

Gemfields has always viewed the joint venture with East West Gem Investments Limited as a test project to increase its knowledge in advance of a larger scale expansion into sapphires. While positive progress had been achieved during the period, various factors have impacted Gemfields ability to progress these projects to the extent that the Company would ideally have liked during the period. The long-term future of the project therefore is currently under review and a more definitive decision is likely to be made in the near to medium term.

Megaruma Mining Limitada, Mozambique

Megaruma Mining Limitada holds two licences located in the Montepuez district in Mozambique. These licences each share a boundary with the existing Montepuez ruby deposit and cover approximately 19,000 hectares and 15,000 hectares respectively.

A high resolution aeromagnetic survey and the interpreted geological mapping and delineation of the probable target areas has been completed, including potential primary mineralisation. Based on the present study, a ground geological survey is proposed as well as subsurface non-core auger drilling on the above targets. During the last six months, a total of 497 meters were drilled out of 8 holes.

During the period under review, the Environmental Impact Analysis process has been initiated.

Eastern Ruby Mining Limitada, Mozambique

The exploration licence 5061L held by Eastern Ruby Mining Ltd, a joint venture company registered in Mozambique with Gemfields holding 75% interest, was converted and issued by the Ministry of Mines as a mining title with identification number 8277C on 29 November 2016, valid for 25 years. The licence covers an area of 116 square km and shares its western boundary with the southern licence of Megaruma Mining Ltd, another joint venture of Gemfields.

Oriental Mining SARL, Madagascar

Oriental Mining SARL ("Oriental") has not been subject to any large-scale ground activity this current period. Oriental will not look to progress any further exploration programmes until it has all the relevant compliance requirements in place and the understanding of market support.

Gemfields Marketing

Gemfields continues to develop and execute world-leading marketing campaigns, building understanding and appreciation of coloured gemstones.

The Ruby Inspired Stories campaign has inspired audiences around the world and will be further driven through digital and print platforms over the next six months. The campaign seeks to realign audiences with the key meanings attributed to rubies throughout history: Passion, Prosperity and Protection.

Through further building brand awareness, Gemfields has become a fixture on the red carpet this season. As a result of our long-standing collaboration with Chopard and Eco-Age, Gemfields gemstones were worn by Julianne Moore and Gemma Arterton at the Cannes and Venice film festivals. In January, Golden Globes and Oscar nominated Ruth Negga, an up and coming Irish-Ethiopian actress, selected to wear jewellery featuring Gemfields gemstones on the Red Carpet, most notably, a 25.51 carat oval Gemfields ruby and diamond cuff bracelet by Fred Leighton. Her first big appearance at the Golden Globes wearing the Fred Leighton piece garnered extensive social media reach.

Educational initiatives have also been developed in order to help increase consumer understanding of the rarity and inherent value of coloured gemstones, along with the importance of responsible sourcing. The Gemfields Ruby Masterclass was announced in September and will now be rolled out globally for media, trade, retail and consumer audiences. Covering ruby formation, origin, history, qualities, treatments, classification, markets, manufacturing hubs, laboratories, and offering hands-on experiential skills, the Masterclass will be the most comprehensive learning experience available. The experience will also be accompanied by the most comprehensive master set of rubies compiled to date. The response received from the trade and other sectors has been overwhelmingly positive.

Coloured Gemstone Market

The results of Gemfields rough gemstone auction in September 2016 and those announced today indicate consistent strong pricing within the emerald market. The ruby auction held in December 2016 also demonstrated an ongoing growing demand for responsibly-sourced Mozambican rubies across key markets and categories. Gemfields results indicated a continuous increase in consumer appreciation and demand for gemstones suited to both the production of high quality jewellery as well as larger volume production runs requiring more commercial quality gemstones. The reliability of supply and the consistency of the Gemfields grading system continued to guarantee improved manufacturing efficiencies and an increased ability to meet consumer demand.

The resurgence of coloured gemstones within the luxury sector has been most notably demonstrated by the exquisite coloured gemstone collections of the leading jewellery houses. Pomellato's one-of-a-kind Pom Pom jewels, Piaget's Sunny Side of Life collection, Cactus de Cartier, new Bulgari, Louis Vuitton and Chopard creations are dazzling with colours of a wide spectrum of gemstones. Furthermore, Chaumet, Buddles and Fabergé have recently introduced comprehensive coloured gemstone engagement ring collections - a remarkable development in that market segment.

Outlook

Outlook for Montepuez during the next 6 months' period remains encouraging both in terms of operational and financial performance. The recently upgraded processing plant is expected to process ore at a significantly increased throughput rate and with a far higher concentration of rubies being sent to the sorting house, which will allow the Company to achieve its planned increase in production over the coming periods.

While a high degree of volatility is not unusual to Kagem, given the fluid nature of mineralisation and with at least two similar periods of reduced production volumes have been recorded over the past eight years under Gemfields operating control (and with all of these being followed by periods of increased production volumes), Gemfields deem it more prudent to reduce its guidance on expected total production of rough emerald and beryl for the Kagem mine to 25 to 30 million carats for the financial year 2017. The Company, however remains confident that it will be able to achieve its planned ramp up in emerald and beryl production over the coming years.

The recent demonetisation policy adopted by the Government of India has caused some uncertainty in the market and required Gemfields to reschedule one higher quality emerald auction and remove one altogether this financial year. While this will result in a material reduction in revenues and EBITDA for the current financial year, it is generally not expected to have a long-lasting impact. The timing of when the Indian market is likely to return to 'normal' following the demonetisation is as yet uncertain, however, market intelligence indicates that demand for coloured gemstones remains strong across all sectors and this is further supported by an overall increase in consumer sentiment.

New projects are ongoing, with particularly good progress being made in Ethiopia. Following on from the highly promising results achieved during the first phase diamond core drilling programme, bulk sampling is now being scheduled to commence during the next financial year.

Upcoming marketing activity will see a broadening in the placement of Gemfields 'Ruby Inspired Stories' campaign across various key markets. Awareness will continue to be built through high profile brand collaborations and educational initiatives such as the Ruby Masterclass also being rolled out globally over the next six months.

A summary of the key financial indicators of the Group for the six months ended 31 December 2016 are shown below:

In thousands of US$	**Six months ended 31 December 2016**	Six months ended 31 December 2015
Revenue	**51,046**	94,025
Gross profit	**8,751**	46,376
EBITDA	**(4,306)**	35,597
Net finance income/ (expenses)	**(207)**	1,284
Tax credit/ (charge)	**2,891**	(13,592)
(Loss)/ profit after tax	**(13,589)**	8,218

During the period, the Group held one commercial quality rough emerald and beryl auction compared to two auctions in the prior period (2015: one higher quality and one commercial quality) and one (2015: one) mixed quality rough ruby and corundum auction.

Auction results

	Current period		Prior period		
	Sep-16	**Dec-16**	Sep-15	Nov-15	Dec-15
Company	Kagem	Montepuez	Kagem	Kagem	Montepuez
Gemstones	Rough emerald and beryl	Rough ruby and corundum	Rough emerald and beryl	Rough emerald and beryl	Rough ruby and corundum
Dates	26 - 29 September 2016	12 - 16 December 2016	31 Aug - 4 Sep 2015	18 - 21 November 2015	14-18 December 2015
Location	Jaipur, India	Singapore	Singapore	Jaipur, India	Singapore
Type	Commercial quality	Higher and commercial quality	Higher quality	Commercial quality	Higher & medium quality
Carats offered	4.05 million	1.37 million	0.60 million	5.07 million	0.09 million
Carats sold	3.27 million	1.09 million	0.59 million	4.45 million	0.09 million
Total sales realised at auction	US$10.7 million	US$30.5 million	US$34.7 million	US$19.2 million	US$28.8 million
Average per carat sales value	US$3.28/carat	US$27.88/carat	US$58.42/carat	US$4.32/carat	US$317.92/carat

Revenue

Group revenue for the period decreased by 45.7% to US$51.0 million (2015: US$94.0 million) principally due to the rescheduled emerald auction and the product mix offered at the auctions. The December 2016 higher quality emerald auction was rescheduled to February 2017 to allow our customers and other stakeholders time to adapt following the demonetisation programme in India. The rescheduled December 2016 auction has a more profound impact on the Group's revenues and profitability as this auction was higher quality which typically generates significantly greater margins.

External revenue breakdown

in millions of US$	**As at 31 December 2016**	As at 31 December 2015
Kagem	**10.7**	53.8
Montepuez	**30.5**	28.8
Fabergé	**6.8**	7.2
Other	**3.0**	4.2
Total	**51.0**	**94.0**

Wholly-owned Fabergé saw the value of realised sales remain broadly consistent when compared with the same period in 2015. Despite significant increase in sales orders during the current period, the realised sales are only recognised upon delivery of the products. Approximately US$1.9 million of sales orders taken at BaselWorld 2016 will be delivered and realised in the third quarter of the current financial year.

Costs

Despite continuing increase in the scale of operations and investment in exploration and bulk sampling across the Group, total mining and production costs reduced to US$25.2 million (US$26.8 million). The reduction is attributable to lower mineral royalties and production tax, ongoing operational efficiencies and foreign currency exchange impact.

The lower revenues achieved with one less higher quality emerald auction being held in comparison to prior period has led to lower mineral royalties and production taxes. The rates applicable to Kagem and Montepuez during the period were 6% and 10% respectively (comparative period 9% and 6%). Effective 1 June 2016, the mineral royalty rate applicable to Kagem reduced from 9% to 6%. This new tax regime in Kagem provides further stability and will encourage continued investment into Zambia which will have a favourable impact on future taxes.

Depreciation and amortisation costs are US$3.7 million lower in the current period with increased life of mine following the 2015 SRK Resource and Reserve statement.

Overall selling, general and administrative expenses were US$25.3 million (2015: US$26.0 million) broadly in line with the comparative period. The Group's strategy for increasing demand through enhancing knowledge and understanding of coloured gemstones has continued leading to increased selling, marketing and advertising costs for the period. This was offset by a decrease in labour and related costs, professional and other service costs following the cost-saving strategy for the period.

The cost base of the Group in the current period has been impacted by fluctuations in foreign currency exchange rates in our key operating locations. The US Dollar has strengthened against the Mozambican Metical ("MZN") which fell 74% to an average rate of US$1: MZN73.3 for the current period. Against British Pound, the US Dollar gained a 17% to an average of US$1: GBP 1.3 during the current period. Whilst the US Dollar devalued against the Zambian Kwacha ("ZMW") which rose 5% from average of US$1: ZMW10.4 for period ended 31 December 2015 to an average of US$1: ZMW9.8 for period ended 31 December 2016. These fluctuations have led to favourable impact on costs in Mozambique and United Kingdom, and adverse effect on costs in Zambia following the respective currency movements.

Total operating costs at Fabergé were broadly in line with the prior period, with the key underlying movements being a decrease in labour costs offset by increased advertising and marketing spend.

EBITDA

The Group generated an EBITDA loss of US$4.3 million compared to EBITDA profit of US$35.6 million in the comparative period, a 112% decrease, as the varying product mix and delay of the higher quality emerald auction in the period has led to decreased revenues whilst costs remained stable. The postponement of the higher quality emerald auction also led to a reduced margin in the current period.

Finance income, expenses and foreign exchange differences

The net finance expenses (exclusive of exchange differences) during the period were US$1.9 million (2015: US$1.7 million).

The US$ has continued to strengthen against majority of the local currencies in the countries which we operate, except for Zambia, which has led to favourable movements resulting in a foreign exchange gain in the period. The largest foreign exchange gains were made on revaluation of corporation tax balances, cash balances and on VAT balances, offset by losses on payables and other balances.

Taxation

The tax credit for the period was US$2.9 million (2015: charge US$13.6 million) calculated on a loss before tax of US$16.5 million (2015: profit before tax of US$21.8 million) resulting in an effective tax rate of 18% (2015: 62%). The tax credit consists of US$1.9 million current tax charge and a US$4.8 million deferred tax credit.

The deferred tax credit arising in the reporting period primarily relates to the amortisation of the Kagem mining asset and the movement in tax losses recognised for deferred tax across the group.

Statutory corporate tax rates in the major operational countries remained broadly similar to the rates at the end of the previous period.

Net profit after tax

The Group made a loss after tax for the year of US$13.6 million compared to a profit after tax of US$8.2 million for the comparative period due to the lower revenues generated from fewer auctions. The basic negative earnings per share for the period was US$0.03 (2015: positive earnings per share of US$0.01).

Capital expenditure

Capital expenditure, excluding deferred stripping, in the period increased to US$11.1 million (2015: US$6.2 million).

Please refer to the operational review for further detail of capital expenditure for each division.

Cash flows

The Group utilised US$13.7 million (2015: generated US$18.4 million) for operations during the period, reflecting the lower EBITDA from the auctions held in the current period compounded by higher tax payments for the period being offset marginally by the decrease in working capital requirements.

During the period, the total cash utilised in investing activities was US$8.7 million (2015: US$13.8 million), relating to spend on purchase of property, plant and equipment and intangibles of US$8.9.

The net cash generated from financing activities during the financial year was US$4.2 million (2015: US$2.8 million), principally consisting of proceeds from borrowings of US$23.3 million (2015: US$29.5 million) partially offset by repayment of borrowings of US$16.5 million (2015: US$20.0 million) and the payment of dividends to the Group's joint venture partner in Mozambique.

The resulting cash and cash equivalents held totalled US$12.3 million (2015: US$24.9 million).

Financial position

The Group's balance sheet at 31 December 2016 and comparatives at 30 June 2016 is summarised below:

in millions of US$	**As at 31 December 2016**	As at 30 June 2016
Non-current assets	**291.5**	287.8
Current assets	**156.9**	188.1
Total assets	**448.4**	**475.9**
Non-current liabilities	**(60.3)**	(82.9)
Current liabilities	**(93.3)**	(80.9)
Total liabilities	**(153.6)**	**(163.8)**
Net assets	**294.8**	**312.1**

Overall net assets decreased by 6% to US$294.8 million (2015: US$312.1 million) with key drivers being increased borrowings and decreased current assets primarily due to the delayed auction.

Inventory

in millions of US$	**As at 31 December 2016**	As at 30 June 2016
Rough emeralds and beryl	**48.1**	45.9
Rough rubies and corundum	**9.8**	12.8
Fabergé jewellery and watches	**40.8**	39.8
Cut & polished product	**8.0**	8.6
Spares and consumables	**5.1**	4.8

in millions of US$	As at 31 December 2016	As at 30 June 2016
Total	**111.8**	**111.9**

Total inventory amounted to US$111.8 million as at 31 December 2016 (30 June 2016: US$111.9 million). Rough emeralds and beryl increased by US$2.2 million reflecting a build-up of inventory pending the February 2017 auction. Rough rubies and corundum decrease of US$3.0 million is due to the auction held late in December 2016 utilising the stock held at Montepuez.

Fabergé had an increase of US$1.0 million in jewellery and watches inventory with a wider range of products in stock.

Borrowings

At 31 December 2016, net debt of US$46.0 million compared to US$10.0 million at the year-end as gross borrowings rose by US$6.8 million whilst cash reduced following lower cash generation due to the delay in the higher quality emerald auction. The increase in gross borrowings was principally for development of the wash plant and other capital expenditure at Montepuez.

During the six months to 31 December 2016, Gemfields settled its short term facility with Pallinghurst Resources Limited which was due to mature in December 2016. A new term loan facility of US$5.0 million with Pallinghurst Resources Limited in December 2016 was agreed. The loan is unsecured, bears interest at three months LIBOR plus 5% per annum and repayable in tranches, with the final tranche being due in June 2017.

Details of the Group's debt facilities are disclosed in note 8 of the Consolidated Interim Financial Statements.

The corporate facilities with Macquarie Bank Ltd and the Kagem Barclays (Mauritius and Zambia) loans are due to mature in May 2017 and August 2017, respectively. The Group has commenced negotiations with potential lenders to re-finance these facilities with the expectation that new loans are in place before their maturity. The Banco Comercial E De Investimentos, S.A. ("BCI") and Barclays facilities at Montepuez are renewed automatically on provision of annual financial statements within 120 days of year end.

Consolidated Income Statement

For the six months ended 31 December 2016

In thousands of US$	Note	**Six months ended 31 December 2016 (Unaudited)**	Six months ended 31 December 2015 (Unaudited)
Revenue		**51,046**	94,025
Cost of sales	3	**(42,295)**	(47,649)
Gross profit		**8,751**	46,376
Other income		**268**	164
Selling, general and administrative expenses	4	**(25,292)**	(26,014)
(Loss)/ profit from operations		**(16,273)**	20,526
Finance income	5	**2,268**	4,032
Finance expenses	5	**(2,475)**	(2,748)
(Loss)/profit before taxation		**(16,480)**	21,810
Tax credit/(charge)		**2,891**	(13,592)
(Loss)/profit after taxation		**(13,589)**	8,218
(Loss)/profit for the year attributable to:			
Owners of the parent		**(14,024)**	3,426
Non-controlling interest		**435**	4,792
		(13,589)	8,218
Earnings per share for profit attributable to the owners of the parent during the year			
Basic	6	**$(0.03)**	$0.01
Diluted	6	**$(0.03)**	$0.01

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2016

In thousands of US$	**Six months ended 31 December 2016 (Unaudited)**	Six months ended 31 December 2015 (Unaudited)
(Loss)/profit after taxation	**(13,589)**	8,218
Other comprehensive income		
Items that have been/may be reclassified subsequently to profit or loss:		
Exchange gains arising on translation of foreign operations	**20**	2,653
Total comprehensive income	**(13,569)**	10,871
Total comprehensive income attributable to:		
Owners of the parent	**(14,004)**	6,079
Non-controlling interest	**435**	4,792
	(13,569)	10,871

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the six months ended 31 December 2016

In thousands of US$	Share capital	Share premium	Merger reserve	Other Reserves	Retained deficit	Total	Non-controlling interest	Equity
Balance at 1 July 2016	**9,622**	**98,640**	**207,986**	**2,232**	**(62,745)**	**255,735**	**56,412**	**312,147**
(Loss)/ profit for the period	-	-	-	-	**(14,024)**	**(14,024)**	**435**	**(13,589)**
Other comprehensive income	-	-	-	**20**	-	**20**	-	**20**
Issue of shares	**69**	**1,324**	-	-	-	**1,393**	-	**1,393**
Share-based payments	-	-	-	**1,080**	-	**1,080**	-	**1,080**
Dividends paid and declared	-	-	-	-	-	-	**(6,250)**	**(6,250)**
Balance at 31 December 2016	**9,691**	**99,964**	**207,986**	**3,332**	**(76,769)**	**244,204**	**50,597**	**294,801**
Balance at 1 July 2015	9,614	98,404	207,986	2,405	(74,843)	243,566	56,272	299,838
Profit for the period	-	-	-	-	3,426	3,426	4,792	8,218
Other comprehensive income	-	-	-	2,653	-	2,653	-	2,653
Contribution for non-controlling interest	-	-	-	-	-	-	62	62
Issue of shares	5	162	-	-	-	167	-	167
Share-based payments	-	-	-	1,080	-	1,080	-	1,080
Dividends paid	-	-	-	-	-	-	(6,500)	(6,500)
Balance at 31 December 2015	9,619	98,566	207,986	6,138	(71,417)	250,892	54,626	305,518

The nature and purpose of each reserve within shareholders' equity is described as follows:

Reserve	Description and purpose
Share capital	Amount subscribed for share capital at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	The difference between the fair value of the shares issued as consideration for the acquisition of subsidiaries in excess of the nominal value of the shares, where 90% or more of shares are acquired.
Other reserves	Are made up of: (i) Option reserves, which is the cumulative fair value of options charged to the Consolidated Income Statement net of transfers to the retained deficit on exercised and forfeited options; and (ii) Cumulative translation reserve, which the cumulative gains and losses on translating the net assets of overseas operations to the presentation currency.
Retained deficit	Cumulative net gains and losses recognised in the Consolidated Income Statement.
Non-controlling interest	Amounts attributable to non-controlling shareholders.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying

Consolidated Statement of Financial Position

At 31 December 2016

In thousands of US$	Note	31 December 2016 (Unaudited)	30 June 2016 (Audited)
Non-current assets			
Property, plant and equipment		**225,585**	225,717
Available-for-sale investments		**32**	40
Intangible assets		**47,018**	46,346
Deferred tax assets		**9,659**	6,550
Other non-current assets		**9,163**	9,124
Total non-current assets		**291,457**	287,777
Current assets			
Inventory	7	**111,838**	111,943
Trade and other receivables		**32,760**	34,752
Cash and cash equivalents		**12,324**	41,476
Total current assets		**156,922**	188,171
Total assets		**448,379**	475,948
Non-current liabilities			
Deferred tax liabilities		**(52,675)**	(54,372)
Borrowings	8	**(4,103)**	(25,000)
Other non-current liabilities		**(3,501)**	(3,543)
Total non-current liabilities		**(60,279)**	(82,915)
Current liabilities			
Trade and other payables		**(21,713)**	(25,655)
Current tax payable		**(17,401)**	(28,757)
Borrowings	8	**(54,185)**	(26,474)
Total current liabilities		**(93,299)**	(80,886)
Total liabilities		**(153,578)**	(163,801)
Total net assets		**294,801**	312,147
Capital and reserves attributable to equity holders of the parent			
Share capital		**9,691**	9,622
Share premium		**99,964**	98,640
Merger reserve		**207,986**	207,986
Other reserves		**3,332**	2,232
Retained deficit		**(76,769)**	(62,745)
Total capital and reserves attributable to equity holders of the parent		**244,204**	255,735
Non-controlling interest		**50,597**	56,412
Total equity		**294,801**	312,147

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

The Consolidated Interim Financial Statements were approved by the Board of Directors and authorised for issue on 17 February 2017.

Consolidated Statement of Cash Flows

For the six months ended 31 December 2016

In thousands of US$	**Six months ended 31 December 2016 (Unaudited)**	Six months ended 31 December 2015 (Unaudited)
Cash flows from operating activities		
(Loss)/profit for the period before taxation	**(16,480)**	21,810
Depreciation and amortisation	**11,340**	15,071
Impairment charge	**450**	-
Share-based payments	**1,088**	1,080
Finance income	**(252)**	(253)
Finance expense	**2,108**	1,962
Foreign exchange differences	**(1,649)**	(2,993)
Loss on sale of property, plant and equipment	**15**	311
Decrease/(increase) in trade and other receivables	**2,026**	(20,057)
(Decrease)/increase in trade and other payables	**(12,396)**	2,938
(Decrease)/increase in non-current liabilities	**(42)**	153
(Increase)/decrease in non-current assets	**(39)**	32
Decrease/ (increase) in inventory	**105**	(1,682)
Cash (utilised in)/ generated from operations	**(13,726)**	18,372
Taxation paid	**(11,536)**	(8,903)
Net cash (utilised in)/ generated from operating activities	**(25,262)**	9,469
Cash flows from investing activities		
Purchase of intangible assets	**(793)**	(500)
Interest received	**252**	253
Purchase of property, plant and equipment	**(8,153)**	(6,834)
Sale of property, plant and equipment	**9**	13
Stripping costs	**-**	(6,738)
Net cash utilised for investing activities	**(8,685)**	(13,806)
Cash flows from financing activities		
Issue of ordinary shares	**1,393**	167
Dividends paid to non-controlling interest	**(2,500)**	(5,500)
Repayment of borrowings	**(16,538)**	(20,000)
Proceeds from borrowings (net of arrangement fees paid)	**23,333**	29,501
Interest paid	**(1,453)**	(1,364)
Net cash generated from financing activities	**4,235**	2,804
Net decrease in cash and cash equivalents	**(29,712)**	(1,533)
Cash and cash equivalents at start of period	**41,476**	27,973
Effects of exchange rates on cash and cash equivalents	**560**	(1,561)
Cash and cash equivalents at end of period	**12,324**	24,879

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes Forming Part of the Consolidated Interim Financial Statements

For the six months ended 31 December 2016

1 Accounting policies

Gemfields plc (the "Company") was incorporated and registered under the laws of England and Wales on 1 January 2004. The Company's shares are listed on the AIM market operated by the London Stock Exchange. The Company's registered office and domicile is 1 New Burlington Place, Mayfair, London, W1S 2HR, United Kingdom.

Basis of preparation
The Consolidated Interim Financial Statements as at and for the six months ended 31 December 2016 consolidate the Company and its subsidiaries (the "Group").

These Consolidated Interim Financial statements for the six months ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board on 20 February 2017. The information for the year ended 30 June 2016 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year, which were prepared in accordance with International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB') and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB, as adopted by the European Union up to 30 June 2016, has been delivered to the Registrar of Companies. The auditor's opinion in relation to those accounts was unqualified, did not draw attention to any matters by way of emphasis and also did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006. The Consolidated Interim Financial Statements for the six months ended 31 December 2016 should be read in conjunction with the Group's Annual Report and Financial Statements for the year ended 30 June 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU.

The accounting policies adopted are consistent with those described in the Group's Annual Report and Financial Statements for the year ended 30 June 2016.

The Directors are in the process of assessing the impact of the new standards, amendments to existing standards and interpretations in order to determine their impact on the Group.

The Consolidated Interim Financial Statements for the period 1 July 2016 to 31 December 2016 are unaudited and have not been reviewed in accordance with International Standard on Review Engagements ("ISRE") 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

In the opinion of the Directors the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in conformity with the generally accepted accounting principles consistently applied. The consolidated interim financial information incorporates unaudited comparative figures for the interim period 1 July 2015 to 31 December 2015 and the audited Consolidated Statement of Financial Position as at 30 June 2016.

The condensed consolidated interim financial statements have been prepared on a historical cost basis. The condensed consolidated financial statements are presented in US dollars ('US$') and all financial information has been rounded to the nearest thousand dollars ('$000s') except where otherwise indicated.

Significant accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements are based on the Directors' best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the condensed consolidated financial statements.

Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions applied are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, significant judgements made by the Directors in applying the Group's accounting policies and the key sources of estimation uncertainty used were consistent, in all material respects, as those applied to the Group's consolidated financial statements for the year ended 30 June 2016.

2 Segmental analysis

For management purposes, the Group is organised into geographic units and business units based on the products and services and has five reportable segments as follows:

- Zambia (emerald and beryl mining activities);
- Mozambique (ruby and corundum mining activities);
- UK (sales of cut and polished gemstones, marketing, technical and administrative services);
- Fabergé (wholesale and retail sales of jewellery and watches); and
- Other (new projects, traded auctions, sales and marketing offices).

The reporting on these investments to management focuses on revenue, operating costs and key balance sheet lines comprising non-current and total assets and liabilities. These figures are presented after intercompany adjustments have been accounted for.

December 2016 in thousands of US$	Zambia	Mozambique	UK (Corporate)	Fabergé	Other	Total
Revenues	10,661	30,524	1,151	6,820	1,890	51,046
Depreciation and amortisation	8,545	2,217	54	472	52	11,340
(Loss)/profit from operations	(9,541)	11,421	(14,484)	(4,835)	1,166	(16,273)
Finance income	256	1,611	211	-	190	2,268
Finance expenses	(838)	(260)	(900)	(242)	(235)	(2,475)
(Loss)/profit after tax	(6,034)	12,604	(15,047)	(4,658)	(454)	(13,589)
Total non-current assets	198,553	33,864	9,159	42,274	7,607	291,457
Total non-current liabilities	53,764	5,827	-	539	149	60,279
Total assets	251,566	66,703	17,960	87,775	24,375	448,379
Total liabilities	97,100	32,046	18,435	5,414	583	153,578

December 2015 in thousands of US$	Zambia	Mozambique	UK (Corporate)	Fabergé	Other	Total
Revenues	53,831	28,814	493	7,158	3,729	94,025
Depreciation and amortisation	12,335	2,209	111	361	55	15,071
Profit/(loss) from operations	12,458	17,288	(3,055)	(4,459)	(1,706)	20,526
Finance income	3,664	147	-	57	164	4,032
Finance expenses	(1,053)	(41)	(1,022)	(400)	(232)	(2,748)
Profit/(loss) after tax	8,303	11,053	(3,739)	(4,711)	(2,688)	8,218

June 2016 in thousands of US$	Zambia	Mozambique	UK (Corporate)	Fabergé	Other	Total
Total non-current assets	203,917	25,928	7,211	42,677	8,044	287,777
Total non-current liabilities	80,430	1,724	-	597	164	82,915
Total assets	257,524	72,434	27,534	86,781	31,675	475,948
Total liabilities	99,551	26,362	31,875	4,825	1,188	163,801

3 Cost of sales

In thousands of US$	Six months ended 31 December 2016	Six months ended 31 December 2015
Mining and production costs		
Labour costs	8,871	7,820
Mineral royalties and production taxes	3,689	6,455
Fuel costs	3,622	2,934
Repairs and maintenance	3,218	2,409
Security costs	2,449	2,726
Camp costs	1,285	1,303
Blasting	880	662
Other mining and processing costs	1,139	2,495
Total mining and production costs	25,153	26,804
Depreciation and amortisation	11,340	15,071
Change in inventory and cost of goods sold	5,802	5,774
Total cost of sales	42,295	47,649

4 Selling, general and administrative expenses

In thousands of US$	Six months ended 31 December 2016	Six months ended 31 December 2015
Selling, marketing and advertising	7,676	6,229
Labour and related costs	7,826	8,805
Rent and rates	2,127	2,558
Professional and other services	1,998	2,856
Travel and accommodation	1,578	1,575
Share-based payments	1,088	1,080
Office expenses	464	614
Other selling, general and administrative expenses (1)	2,535	2,297

Total selling, general and administrative expenses	25,292	26,014

(1) Other selling, general and administrative expenses includes an impairment charge of $0.5 million arising from the termination of the Group's involvement in the ISAM project in Colombia. The Group concluded that the project would no longer be continued with the Group's interest in the asset being returned to the original vendor for no consideration.

5 Finance income and expense

In thousands of US$	**Six months ended 31 December 2016**	Six months ended 31 December 2015
Interest received	**252**	253
Exchange differences	**2,016**	3,779
Finance income	**2,268**	4,032
Interest on borrowings	**(1,604)**	(1,094)
Finance charges and bank charges	**(504)**	(868)
Exchange differences	**(367)**	(786)
Finance expenses	**(2,475)**	(2,748)
Net finance (expense)/ income	**(207)**	1,284

6 Earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. The calculation of the diluted earnings per share assumes all criteria giving rise to the dilution of the earnings per share are achieved and all outstanding share options are exercised.

	Six months ended 31 December 2016	Six months ended 31 December 2015
Profit attributable to equity holders of the parent for basic and diluted earnings, in thousands of US$	**(14,024)**	3,426
Basic weighted average number of shares	**545,947,922**	544,024,778
Dilutive potential of ordinary shares:		
Employee and Director share option plans	**7,654,277**	11,825,060
Diluted weighted average number of shares	**553,602,199**	555,849,838
Earnings per share, in US$		
Basic	**(0.03)**	0.01
Diluted	**(0.03)**	0.01

7 Inventory

In thousands of US$	**31 December 2016**	30 June 2016
Rough and cut and polished gemstones	**65,943**	67,348
Fabergé inventory	**40,802**	39,845
Fuel and consumables	**5,093**	4,750
Total inventory	**111,838**	111,943

8 Borrowings

In thousands of US$				**31 December 2016**	30 June 2016
Current interest bearing loans and borrowings		**Interest rate**	**Maturity**		
Barclays Zambia	$20,000,000 revolving credit facility	US$ LIBOR + 4.50%	2017	**20,000**	-
Macquarie Bank Ltd	$20,000,000 bank loan	US$ LIBOR + 4.50%	2017	**10,002**	19,812
Barclays Mauritius	$10,000,000 revolving credit facility	US$ LIBOR + 4.50%	2017	**10,000**	-
BCI (1)	$15,000,000 unsecured overdraft facility	US$ LIBOR + 3.75%	2017	**7,038**	-
Pallinghurst Resources	$ 5,000,000 related party loan	US$ LIBOR + 4.50%	2017	**4,916**	-
Barclays Mozambique	$15,000,000 unsecured overdraft facility	US$ LIBOR + 4.00%	2017	**2,229**	-
Pallinghurst Resources	$10,000,000 related party loan	US$ LIBOR + 4.50%	2016	**-**	6,662
Total current borrowings				**54,185**	26,474
Non-current interest bearing loans and borrowings		**Interest rate**	**Maturity**		
BCI	$15,000,000 financing leasing facility	US$ LIBOR + 3.75%	2019	**4,103**	-
Macquarie Bank Ltd	$20,000,000 revolving credit facility	US$ LIBOR + 4.50%	2017	**-**	20,000
Barclays Mauritius	$10,000,000 revolving credit facility	US$ LIBOR + 4.50%	2017	**-**	5,000
Total non-current borrowings				**4,103**	25,000

(1) BCI - Banco Comercial E De Investimentos, S.A.

Barclays Zambia
In August 2014, Kagem Mining Limited entered into a US$20 million revolving credit facility with Barclays Bank Zambia plc. The facility bears interest at a rate of three month US LIBOR plus 4.50%. The facility is due for repayment 36 months after the date of the first drawdown of facility.

Security for the facility comprises a fixed and floating charge over all of Kagem's net assets, equivalent to the total amount outstanding under the facility and a corporate guarantee from Gemfields plc. This facility was used to mainly pay the contractor undertaking the removal of waste in the Chama pit of the Kagem mine and to fund working capital requirements.

Macquarie Bank Ltd
In May 2016, Gemfields plc entered into a US$20 million financing facility with Macquarie Bank Limited ("Macquarie"). The fixed term facility bears interest at a rate of three month US LIBOR plus 4.50%. The loan is repayable in regular instalments over a period of 12 months from the date of first drawdown of the loan, with final payment due in May 2017.

Security for this loan comprises a floating charge over the jewellery and cut and polished gemstones of Fabergé (UK) Limited and Gemfields plc, as specified in the loan agreement. As at 31 December 2016, the carrying amount of inventories pledged as security for this loan amounted to US$33.9 million (June 2016: US$33.2 million).

Barclays Mauritius
In July 2015, Kagem Mining Limited entered into a US$10 million facility, with Barclays Bank Mauritius Limited, in addition to the existing US$20 million long-term revolving credit facility with Barclays Bank Zambia plc. Interest for the new facility is at the rate of three month US LIBOR plus 4.50% as per the terms for existing facility with Barclays Bank Zambia plc. The debenture and mortgage for the new facility ranks pari passu with the existing facility. The purpose of the loan is to

support capital expenditure and working capital requirements.

BCI

(i) In June 2016, Montepuez Ruby Mining Lda entered into a US$15 million unsecured overdraft facility, with BCI. This facility is valid for 18 months and is renewable. The facility has an interest rate of three month US LIBOR plus 3.75% per annum. The balance outstanding as at 31 December 2016 was US$7.0 million (30 June 2016: nil). The facility is secured by a blank promissory note undertaken by Montepuez and a corporate guarantee by Gemfields Mauritius Limited, a 100% subsidiary of Gemfields plc.

(ii) In June 2016, Montepuez Ruby Mining Lda entered into a US$15 million financing leasing facility, with BCI. This is a renewable facility with a drawdown period of 18 months and the amounts drawn down are repayable over a maximum period of 48 months. The facility has an interest rate of three month US LIBOR plus 3.75% per annum. The balance as at 31 December 2016 was US$4.1 million (30 June 2016: nil). This facility is secured by a blank promissory note undertaken by Montepuez and a corporate guarantee by Gemfields Mauritius Limited, a 100% subsidiary of Gemfields plc.

Pallinghurst Resources

(i) In December 2015, Gemfields plc entered into a US$10 million loan facility with Pallinghurst Resources Fund L.P. The loan bore interest at three month US LIBOR plus 4.50%. The loan was unsecured and repayable in tranches, with the final tranche having been paid in December 2016.

(ii) In December 2016, Gemfields plc entered into a US$5 million loan facility with Pallinghurst Resources Fund L.P. The loan bears interest at a rate of three month US LIBOR plus 5.00%. The loan is unsecured and repayable in tranches, with the final tranche due in June 2017.

Barclays Mozambique

In April 2016, Montepuez Ruby Mining Lda entered into a US$15 million unsecured overdraft facility, with Barclays Bank Mozambique S.A. The facility has an interest rate of three month US LIBOR plus 4% per annum. The outstanding balance as at 31 December 2016 was US$2.2 million (30 June 2016: nil). Gemfields plc issued a corporate guarantee for the facility.

The proceeds of the facilities from Barclays Bank Mozambique S.A. and BCI will enable Montepuez to finance its capital expenditure requirements for the Montepuez ruby deposit in Mozambique and provide additional working capital.

9 Post Balance Sheet Event

Higher quality emerald auction

The higher quality auction held in Lusaka on 13 to 17 February 2017 generated revenues of US$22.3 million, yielding an average overall value of US$63.61 per carat.