

GRAFF

THE MOST FABULOUS JEWELS IN THE WORLD



GLOBAL OFFERING

GRAFF DIAMONDS CORPORATION

(Registered as a company with limited liability in the Cayman Islands)

Stock code: 1306

Joint Global Coordinators and Joint Sponsors
(in alphabetical order)



Morgan Stanley

Joint Bookrunners
(in alphabetical order)



Morgan Stanley

Joint Lead Managers



Greater China
Coordinator



Financial Advisor





Front cover The Graff Sweethearts, 51.53ct and 50.76ct heart shape D Flawless diamonds set as earrings with pear shape and round diamonds. 56.15ct Heart shape D Internally Flawless diamond ring.

This page Round and marquise diamond butterfly brooch (Diamonds 43.38cts). Round, pear shape and marquise diamond medallion necklace (Diamonds 68.88cts). 10.12ct Round D Flawless diamond ring with pear shape diamond shoulders. Round and pear shape diamond wave bracelet (Diamonds 88.65cts).

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

GRAFF

GRAFF DIAMONDS CORPORATION

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares in the Global Offering:

up to 311,200,000 Shares, comprising up to 264,520,000 New Shares and up to 46,680,000 Sale Shares (subject to adjustment and the Over-allotment Option)

Number of International Placing Shares:

up to 280,080,000 Shares, comprising up to 233,400,000 New Shares and up to 46,680,000 Sale Shares (subject to adjustment, reallocation and the Over-allotment Option)

Number of Hong Kong Offer Shares:

31,120,000 New Shares (subject to adjustment and reallocation)

Maximum Offer Price:

HK\$37.00 per Offer Share, plus 1% brokerage, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)

Nominal value: US\$0.01 per Share

Stock code: 1306

*Joint Global Coordinators and Joint Sponsors
(in alphabetical order)*

 CREDIT SUISSE

 Deutsche Bank

 Goldman Sachs

 Morgan Stanley

*Joint Bookrunners
(in alphabetical order)*

 CREDIT SUISSE

 Deutsche Bank

 Goldman Sachs

 HSBC

 Morgan Stanley

Joint Lead Managers

 BARCLAYS

 ICBC  工银国际

Greater China Coordinator

 ICBC  工银国际

Financial Advisor

 ROTHSCCHILD

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix V in the section headed “Documents Delivered to the Registrar and Available for Inspection — Documents delivered to the Registrar of Companies in Hong Kong”, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered or sold within the United States, except that the Offer Shares may be offered or sold (i) in reliance upon the exemption from registration under the US Securities Act provided by, and in accordance with, Rule 144A or pursuant to another available exemption from, or in transactions not subject to, the registration requirements of the US Securities Act or (ii) outside the United States in accordance with Regulation S.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters), the Controlling Shareholder, the Selling Shareholder and us on the Price Determination Date. The Price Determination Date is expected to be on or about 1 June 2012 and, in any event, not later than 5 June 2012. The Offer Price will not be more than HK\$37.00 per Offer Share and is currently expected to be not less than HK\$25.00 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, upon application, the maximum Offer Price of HK\$37.00 for each Hong Kong Offer Share together with a brokerage fee of 1%, a SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005%, subject to a refund if the Offer Price as finally determined is less than HK\$37.00 per Offer Share. If, for any reason, the Offer Price is not agreed by 5 June 2012 between the Joint Global Coordinators (on behalf of the Underwriters), the Controlling Shareholder, the Selling Shareholder and us, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors in the section headed “Risk Factors”.

The Joint Global Coordinators (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that which is stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.graffdiamonds.com as soon as practicable following the decision to make a reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement — Grounds for Termination” in this prospectus.

28 May 2012

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EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under the HK eIPO White Form service through the designated website www.hkeipo.hk ⁽²⁾	11:30 a.m. on Thursday, 31 May 2012
Application lists of the Hong Kong Public Offering open ⁽³⁾	11:45 a.m. on Thursday, 31 May 2012
Latest time to lodge WHITE and YELLOW Application Forms and to give electronic application instructions to HKSCC	12:00 noon on Thursday, 31 May 2012
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, 31 May 2012
Application lists of the Hong Kong Public Offering close	12:00 noon on Thursday, 31 May 2012
Expected Price Determination Date	Friday, 1 June 2012
Announcement of:	Wednesday, 6 June 2012
<ul style="list-style-type: none">• the Offer Price;• number of Offer Shares, number of New Shares and number of Sale Shares (before any exercise of the Over-allotment Option);• an indication of the level of interest in the International Placing;• the level of applications in the Hong Kong Public Offering; and• the basis of allocation of the Hong Kong Offer Shares, to be published in the <i>South China Morning Post</i> (in English) and the <i>Hong Kong Economic Times</i> (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.graffdiamonds.com on or before ⁽⁴⁾	
Results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers and Hong Kong business registration numbers, where appropriate) to be available through various channels (see the section headed "How to Apply for Hong Kong Offer Shares — Publication of Results" in this prospectus)	Wednesday, 6 June 2012
Results of allocations in the Hong Kong Public Offering will be available at www.tricor.com.hk/ipo/result , with a "search by ID" function	Wednesday, 6 June 2012
Dispatch of share certificates in respect of wholly or partially successful applications and HK eIPO White Form e-Auto Refund payment instructions and/or refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications on or before ⁽⁵⁾	Wednesday, 6 June 2012
Dealings in Shares on the Hong Kong Stock Exchange expected to commence on	Thursday, 7 June 2012

Notes:

- (1) All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.
- (2) You will not be permitted to submit your application through the designated website www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

EXPECTED TIMETABLE⁽¹⁾

- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 31 May 2012, the application lists will not open on that day. See the section headed “How to Apply for Hong Kong Offer Shares — 7. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) Our Company’s website and all the information contained therein do not form part of this prospectus. You should read carefully the sections headed “Underwriting”, “Structure of the Global Offering” and “How to apply for Hong Kong Offer Shares” in this prospectus for details relating to the structure of the Global Offering and how to apply for Hong Kong Offer Shares.
- (5) Share certificates are expected to be issued on or around Wednesday, 6 June 2012 but will only become valid provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at or about 8:00 a.m. on Thursday, 7 June 2012. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely at their own risk.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares, and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, any of our or their affiliates or any of our or their respective directors, officers, employees or agents or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole of this prospectus before you decide whether to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus on page 25. You should read that section carefully before you decide whether to invest in the Offer Shares.

Overview

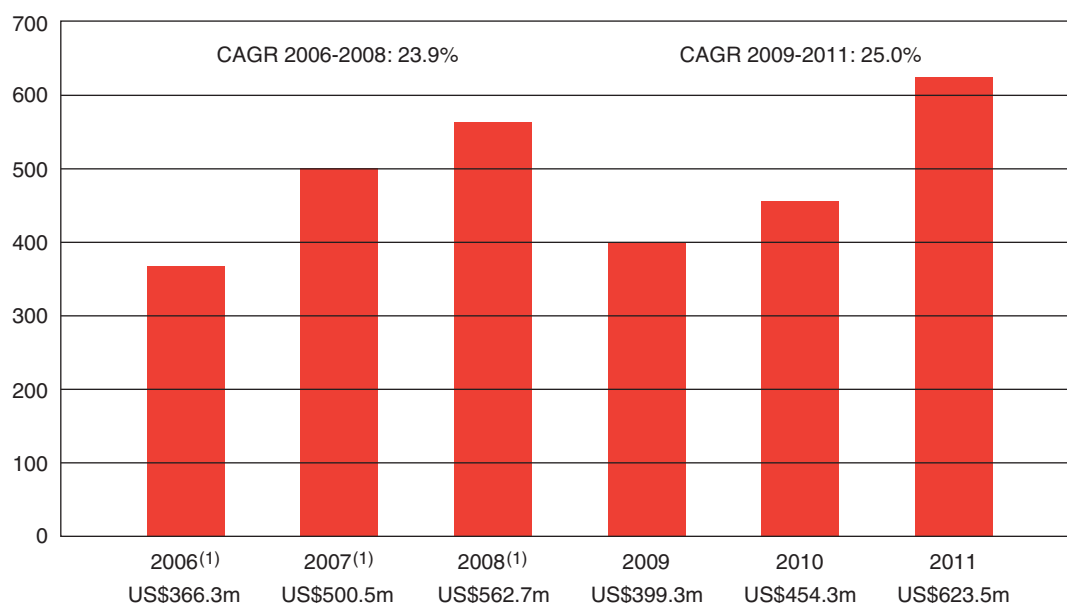
Graff is synonymous with the most fabulous jewels in the world. As a vertically integrated diamond company, our operations comprise the design, manufacture and retail distribution of high and ultra-high end jewellery and watches, and the sourcing, cutting and polishing of rough diamonds primarily for use in our retail operations. We believe that we have one of the most admired jewellery brands in the world.

Graff is considered to be one of the world’s foremost diamond companies and is recognised for its expertise in the field of rare and important diamonds, factors which have allowed it to develop the large and unique inventory of gem quality diamonds that has become a hallmark of its business. We serve a select clientele of high and ultra high net worth individuals, to whom we provide the highest quality customer service experience.

We manage and operate our business through two divisions: our Retail division and our Procurement and Polishing division, which accounted for 82.5% and 17.5%, respectively, of our Group revenues in 2011.

Since 2006, we have experienced strong retail sales growth, as illustrated by the graph below.

Graff Retail Sales Evolution 2006–2011 (US\$ millions)



Note:

(1) 2006–2008 retail sales are unaudited and extracted from statutory accounts, which were audited by the relevant accountants of the individual Group entities whose figures comprise the amounts shown, and have been reviewed by the Company’s auditors, PricewaterhouseCoopers LLP, London, UK.

Source: Company information

As illustrated by the graph above, we experienced steady retail revenue growth between 2006 and 2008. Following the onset of the global financial crisis in 2008, however, we experienced a decline in retail revenues in 2009, which have since recovered strongly over the Track Record Period. The Group’s gross profit margins during the Track Record Period were impacted by fluctuations in diamond prices, including in relation to the historical cost at which inventory was purchased, as well as high value transactions made

SUMMARY

during the period. For the year ended 31 December 2011, we had revenues of US\$755.6 million, gross profit of US\$288.1 million and profit for the year (excluding transaction costs related to the Global Offering) of US\$120.1 million.

The following table sets forth certain financial information by operating division for the three years ended 31 December 2011.

	Year ended 31 December								
	2009			2010			2011		
	Retail division	P&P ⁽¹⁾ division	Group total	Retail division	P&P ⁽¹⁾ division	Group total	Retail division	P&P ⁽¹⁾ division	Group total
	<i>(in US\$ millions, except percentages)</i>								
Revenue	399.3	142.0	541.3	454.3	162.4	616.7	623.5	132.1	755.6
Gross profit	171.1	9.3	180.4	245.8	22.3	268.1	281.8	6.3	288.1
Gross profit margin	42.8%	6.5%	33.3%	54.1%	13.7%	43.5%	45.2%	4.8%	38.1%
Adjusted retail margin ⁽²⁾	47.3%	—	—	55.7%	—	—	51.0%	—	—

Notes:

(1) Procurement and Polishing division.

(2) Gross profit margin of the Retail division, excluding in 2009, 2010 and 2011 revenue and gross profit relating to sales to one customer of US\$85.6 million, US\$74.7 million and US\$100.0 million, respectively.

Retail division

Through our Retail division, we sell our jewellery and watches through 18 directly operated stores and five franchise partners operating from a further 13 locations in many of the world's most exclusive shopping districts in cities across Europe, Asia and the United States, as well as through international luxury goods fairs and exhibitions frequented by our high and ultra high net worth clientele. We are scheduled to open five directly operated stores in 2012, all of which will be in Asia. In 2013, we intend to open a further five directly operated stores, the majority of which will be in Asia, assuming that we are able to find suitable locations. We are also considering additional directly operated store and franchise expansion opportunities.

The following table sets out revenue for our Retail division, by operating region, for the years ended 31 December 2009, 2010 and 2011:

Operating Region	Year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
UK ⁽¹⁾	183.0	200.1	263.2
Rest of Europe ⁽²⁾	68.2	103.4	147.0
Asia	51.1	54.4	120.4
US ⁽³⁾	97.0	96.4	92.9
Total revenue	<u>399.3</u>	<u>454.3</u>	<u>623.5</u>

Notes:

(1) Includes sales to franchise partners (excluding Saks Fifth Avenue) and sales from our own events and exhibitions (excluding our annual exhibition in Monaco), as well as sales made to clients other than in our stores.

(2) Includes revenue attributable to our European stores and sales from our annual exhibition in Monaco.

(3) Includes sales to Saks Fifth Avenue.

In order to achieve our signature jewellery style, which is characterised by minimal visible settings, intricate, fluid designs and the use of diamonds and gemstones of exceptional quality, we design and hand craft more than 95% of our jewellery by value at our London workshop, which we believe is one of the largest facilities in the world producing handmade, gem quality jewellery.

Procurement and Polishing division

We source our polished diamonds through our Procurement and Polishing division and from third party suppliers. In 2011, 35.4% of the polished diamonds used by our Retail division were supplied by DiamondWorks (a company indirectly and wholly owned by Laurence Graff), 33.6% were supplied by the Procurement and Polishing division and 31.0% were supplied by other independent sources.

SUMMARY

We purchase a majority of our rough diamonds from DTC sights. We are one of 75 sightholder groups worldwide, and hold three DTC sights. Sights are the method by which the DTC sells rough diamonds, and the DTC network hosts ten sales, or ‘sights’, of rough diamonds a year. These occur in the UK, South Africa, Botswana and Namibia, usually once every five weeks. At these sales, the DTC’s sightholders physically inspect their allocations of rough diamonds before deciding whether or not to purchase them. Our Procurement and Polishing division, operating through the South African subsidiary of Safdico, has been a DTC sightholder for over 25 years. We are amongst the largest sightholders for large, gem quality diamonds in London and have sights in Kimberley and Gaborone. Our current sight contracts commenced in April 2012 and run for a period of three years.

In addition, we purchase rough diamonds on the open market and through other suppliers and tenders. In 2011, we processed approximately 30,000 carats of rough diamonds through our facilities in Antwerp, Gaborone, Johannesburg and New York. We do not anticipate the need to increase our manufacturing capacity in the near term.

In 2011, approximately 59% (by sales value, including inter-segment sales) of the polished diamonds derived from our Procurement and Polishing division were used by the Retail division in our jewellery and watches, while the remainder were sold to third parties. We have targeted growing that share to 70-80% in the short term in order to extract greater value from the polished diamond output that we do not currently use in our jewellery by using these additional stones in jewellery sold through our retail distribution channels and using them in new products.

The following table sets out certain information regarding our purchases of diamonds during the Track Record Period from third party suppliers:

	Year ended 31 December		
	2009	2010	2011
		<i>(US\$ millions)</i>	
<i>Rough diamonds</i>			
DTC	95.1	106.6	134.5
Other sources	42.3	88.0	125.8
Total rough diamonds purchased	137.4	194.6	260.3
<i>Polished diamond suppliers to the Retail division</i>			
DiamondWorks	103.5	86.6	152.9
Other sources	51.8	84.8	145.3
Total polished diamonds purchased from third parties	155.3	171.4	298.2

In addition, our Procurement and Polishing division supplied polished diamonds to our Retail division with a sales value of US\$70.5 million, US\$93.5 million and US\$134.2 million in the years ended 31 December 2009, 2010 and 2011, respectively. These inter-company sales are eliminated in our combined accounts in the Accountants’ Report in Appendix I to this prospectus.

Inventory

We believe our extensive inventory of diamonds and finished pieces of jewellery are an important strength of our business. As at 31 December 2011, our inventory had a book value of US\$651.4 million. This inventory included 708 individual white diamonds weighing over three carats each and 71 yellow diamonds weighing over seven carats each, most of which were contained in approximately 6,000 pieces of jewellery, as well as 800 watches. In addition to our inventory of diamonds, we also had diamonds consigned to us from DiamondWorks, from whom we have historically held a substantial amount of diamonds on a long-term consignment basis. These diamonds had a fixed consignment value of approximately US\$354.8 million as at 31 December 2011, and comprised 75 diamonds.

Stones consigned to us from DiamondWorks have formed a key part of our inventory over the Track Record Period. Upon completion of the Global Offering, we will purchase from DiamondWorks 73 consigned stones, totalling approximately 1,250 carats, for approximately US\$227 million (the “DiamondWorks Inventory”). The acquisition of the DiamondWorks Inventory is central to our core strategy of maintaining a significant inventory of high quality stones to support our future growth. Based on our inventory of US\$651.4 million as at 31 December 2011, the acquisition of the DiamondWorks

SUMMARY

Inventory would increase the book value of our inventory immediately following the completion of the Global Offering to approximately US\$880 million.

In addition, certain stones with a fixed consignment value of approximately US\$128 million (the “Reserved Stones”) will remain on consignment to us from DiamondWorks in connection with their pending sale to a third party. It is not currently known when these sales will complete, if at all. Save for the Reserved Stones, we will not source any further inventory (whether purchased or on consignment) from DiamondWorks in the future.

Competitive Strengths

- An iconic brand
- Vertical integration, with control over the key elements of the value chain
- An exceptional diamond inventory
- Strong track record of top line growth
- Compelling industry long-term growth dynamics
- The Graff family
- A passionate, proven and experienced management team

Our Strategies

- Further raise global awareness and profile of our iconic brand, while remaining true to our heritage
- Expand retail network to capitalise on fast growing Asian luxury demand and further tap the European market
- Develop the potential of our nascent watch business
- Continue to build our exceptional diamond inventory to support future growth
- Capture the additional margin potential of our business model

Risk Factors

There are certain risks involved in our operations. A detailed discussion of the risk factors is set forth in the section headed “Risk Factors” in this prospectus on page 25. While any of the risks and uncertainties could have a material adverse effect on our business, financial condition and results of operations or the trading price of the Shares, and could cause you to lose all or a portion of your investment, you should consider that changes or a continued downturn in economic conditions, in particular in our principal markets, may affect consumer purchases of discretionary items, such as our products, our revenues are concentrated among a relatively small number of individuals and fluctuations in diamond prices may adversely affect our business, the value of our inventory, financial condition and results of operations or the trading price of our Shares. In addition, diamonds, particularly gem quality, larger stones, have been trading at near historic highs. Following the acquisition of the DiamondWorks Inventory at Listing, a significant proportion of the stones in our inventory will be reflected on our balance sheet at current market values for such stones. As diamonds are not a publicly traded commodity, our visibility on price and ability to hedge against price fluctuations is therefore limited. You should also consider that exceptional diamonds, which our business and reputation are strongly associated with, are becoming increasingly rare and the supply of rough diamonds for our operations is determined by factors outside our control. There is no assurance that we will continue to be a DTC sightholder and our access to suitable rough and polished diamonds from market sources may be limited.

Summary of Historical Combined Financial Information

The following tables set forth a summary of the combined financial information of our Group. We have derived the combined financial information as at and for the three years ended 31 December 2009, 2010 and 2011 from the Accountants’ Report in Appendix I to this prospectus (the “Combined Financial Information”). Unless otherwise indicated, the financial information discussed below that relates to our

SUMMARY

two operating divisions, the Retail division and the Procurement and Polishing division, is net of inter-company eliminations. This summary information should be read together with, and is qualified in its entirety by reference to, the Combined Financial Information, including the related notes.

The combined financial information of the Group has been prepared in accordance with the principles of the Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” issued by the HKICPA. The combined income statements, combined statements of comprehensive income, and combined statements of changes in equity and combined cash flow statements of the Group for each of the years ended 31 December 2009, 2010 and 2011 have been prepared by incorporating the financial information of the listing business, under the common control of the Controlling Shareholder, as if the group structure upon the completion of the Reorganisation had been in existence throughout the years ended 31 December 2009, 2010 and 2011, or since the respective dates of incorporation of the companies comprising the Group upon completion of the Reorganisation, whichever is a shorter period. The combined balance sheets of the Group as at 31 December 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the companies comprising the Group upon completion of the Reorganisation, as if the current group structure had been in existence as at these dates. The net assets and results of the Group were combined using the existing book values from the Controlling Shareholder’s perspective.

Key Income Statement Information

	Year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions, except percentages)</i>		
Revenue:			
Retail division	399.3	454.3	623.5
Procurement and Polishing division	142.0	162.4	132.1
Total revenue	541.3	616.7	755.6
Gross profit	180.4	268.1	288.1
Gross profit margin	33.3%	43.5%	38.1%
Operating profit	65.1 ⁽¹⁾	134.8	153.2 ⁽²⁾
Net finance costs	(3.8)	(6.3)	(5.8)
Profit before tax	61.3 ⁽¹⁾	128.5	147.4 ⁽²⁾
Taxation	(14.0) ⁽³⁾	(23.8)	(27.3)
Profit for the year	47.3 ⁽³⁾	104.7	120.1 ⁽²⁾
Profit for the year margin	8.7% ⁽³⁾	17.0%	15.9% ⁽²⁾

Notes:

- (1) Operating profit and profit before tax in 2009 exclude US\$9.0 million of insurance proceeds received following the 2009 robbery of our Bond Street store.
- (2) Excludes US\$4.5 million of transaction costs expensed in 2011 in connection with the Global Offering. No adjustment has been made to taxation as these expenses are not deductible for taxation purposes.
- (3) Profit for the year and profit for the year margin in 2009 exclude the US\$9.0 million of insurance proceeds, net of tax charged on such proceeds at a 28% rate (US\$2.5 million), and in 2009 taxation has been reduced by a corresponding amount.

See “Financial Information—Recent Developments” for a presentation of certain unaudited financial information of the Group for the three months ended 31 March 2011 and 2012.

Key Cash Flow Statement Information

	For the year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
Net cash generated from operating activities	75.3	45.6	10.0
Net cash used in investing activities	(45.1)	(32.5)	(31.9)
Net cash (used in)/generated from financing activities	(38.3)	1.4	53.3

SUMMARY

Key Operating Information

	As at and for the years ended 31 December		
	2009	2010	2011
Inventory (US\$ millions)	370.7	442.4	651.4
Value of stones consigned to us by DiamondWorks (US\$ millions) ⁽¹⁾	355.4	367.6	354.8
Number of jewellery items and watches sold for US\$1 million or more	54	64	84
Total items of jewellery sold	2,681	3,202	4,909
Total watches sold	170	222	238
Number of directly operated stores ⁽²⁾	12	14	18
Number of franchise locations ⁽³⁾	11	13	13

Notes:

- (1) Represents the aggregate price at which DiamondWorks would have offered the stones for sale to the Company on that date.
- (2) No directly operated stores were closed during the Track Record Period, other than temporarily for refurbishment or relocation to new premises.
- (3) In late 2011, we closed our location at the Saks Fifth Avenue Store in San Francisco in connection with the opening of our new directly operated store in San Francisco in late 2011.

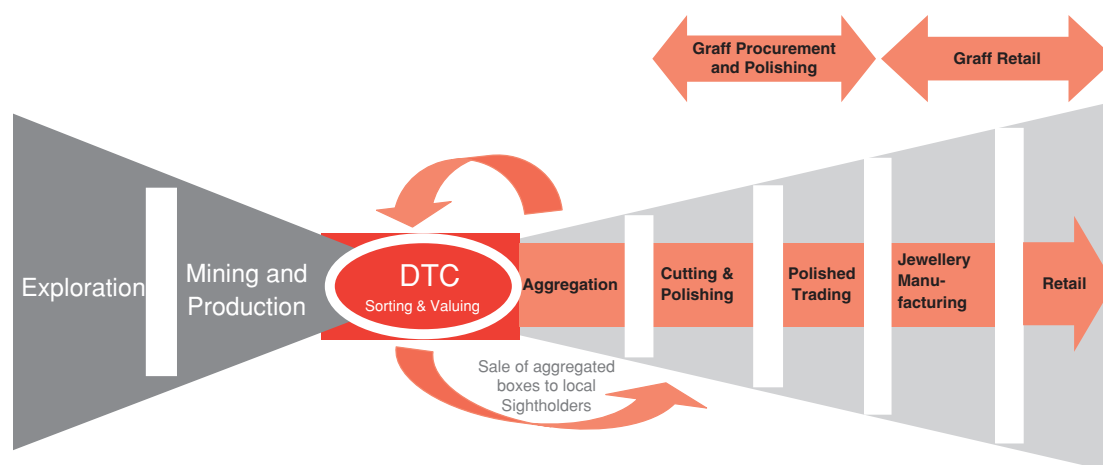
The following table sets out the operations conducted at each of our processing locations as at 31 December 2011:

Operations	Johannesburg	Diamond Technology Park (Gaborone)	Antwerp	New York	Tel Aviv
Cutting and Polishing	↘	↘	↘	↘	
Trading	↘		↘		↘

Key Industry Information

As illustrated by the diagram below, the diamond industry spans multiple phases from exploration and mining to the sale of finished goods to the end consumer. Our business encompasses cutting and polishing, trading, jewellery manufacturing and retail sales. We do not conduct any mining operations.

Diamond industry value chain



Source: DTC, Company analysis

All of our purchasing activities comply with the Kimberley Process, which certifies that rough and polished diamonds originate from conflict free zones. As of December 2011, there were 49 participants in the Kimberley Process representing 75 countries. The participants include all major rough diamond producing, exporting and importing countries as well as non-governmental organisations. Kimberley Process certifications are monitored through a series of warranties made to the purchaser by a seller of diamonds. We are fully compliant with the Kimberley Process. In addition, we do not source diamonds from Zimbabwe.

SUMMARY

The Reorganisation

In preparation for Listing, the Reorganisation will be carried out pursuant to the Reorganisation Agreement, the Artwork Sale Agreement and the Safdico Acquisition Agreement. The purpose of the Reorganisation is: (i) for the Group to sell certain freehold and leasehold property and other assets that are not core to the business of the Group to entities controlled by Laurence Graff; (ii) for the Group to acquire certain assets and businesses that are core to the business of the Group and which are currently controlled directly or indirectly by Laurence Graff; and (iii) to insert the Company as the ultimate holding company of the Group.

The Group structure immediately after the Reorganisation is set out under “Our History and Corporate Structure”. The Reorganisation is not subject to any outstanding governmental, regulatory or shareholder approval. The Reorganisation will be carried out pursuant to the Reorganisation Agreement, the Artwork Sale Agreement and the Safdico Acquisition Agreement in the following steps:

- Step 1: The revaluation of Graff Diamonds Holdings Limited’s investment in Graff Diamonds International Limited. The purpose of this step is to maximise the capacity of the Group to make distributions to shareholders after Listing. This revaluation will be carried out on the Price Determination Date and will not be performed by reference to an independent valuation. The revised valuation will be an amount equal to the market capitalisation of the Group at the Offer Price (before the issuance of the New Shares and before the issuance of the Shares to be issued pursuant to the Safdico Acquisition Agreement). This revaluation is an intra-group accounting adjustment and has no external effect other than to maximise the level of share premium credited on the Company’s balance sheet upon the acquisition of Graff Diamonds Holdings Limited by the Company.
- Step 2: The transfer to AE Holding S.A., a company owned and controlled by Laurence Graff, of the entire issued share capital of Delaire (Pty) Limited, which is the owner and operator of the Delaire Graff Estate, a luxury resort and winery in Stellenbosch, South Africa. The subsidiaries of Delaire (Pty) Limited own certain real estate and aviation interests. This transfer will result in the removal of these non-core assets from the Group, and a net cash inflow of approximately US\$110 million to the Group.
- Step 3: The acquisition by the Company of the entire issued share capital of Graff Diamonds Holdings Limited, inserting the Company as the ultimate holding company of the Group.
- Step 4: The acquisition by Graff Diamonds Holdings Limited of the entire issued share capital of SAM Graff Monte-Carlo (“Graff Monaco”), the operator of the Graff Diamonds store in Monaco, from Laurence Graff and François Graff. This transfer will result in a strategic retail location being brought into the Group for cash consideration of US\$200 million.
- Step 5: The acquisition by Graff Diamonds Holdings Limited from the Safdico Sellers, of all the shares in Safdico International Limited (the holding company of the Procurement and Polishing division) that are not already owned by members of the Group. The purpose of this transaction is to secure diamond supply for our manufacturing and retail activities, to facilitate increased supply chain integration and to eliminate minority interests which we expect will allow us to capture more profit. The net consideration for this transaction will be the payment by us of US\$100 million to the Safdico Sellers, comprising US\$60 million in cash (US\$50 million to AE Holding S.A., a company owned and controlled by Laurence Graff, and US\$5 million to each of the other Safdico Sellers) and US\$40 million in Shares (US\$20 million to each of the two minority shareholders) issued at the Offer Price. In addition, outstanding loan balances with companies controlled by each of Laurence Graff, Brian Gutkin and Jonas Kneller totalling approximately US\$37 million will be repaid and approximately US\$59 million will be paid to an unrelated third party to repay loans from, and unwind profit-sharing arrangements with, such party. The aggregate amount payable by the Group in connection with the acquisition of Safdico International Limited is therefore approximately US\$196 million.
- Step 6: The purchase of the DiamondWorks Inventory (which for the avoidance of doubt, does not include the Reserved Stones) and the removal of DiamondWorks from our future supply chain. This transaction will allow for the internalisation of consignment margins on the stones acquired from suppliers in the future through the removal of DiamondWorks as an intermediary, as well as the capture of any appreciation in the value of the DiamondWorks Inventory subsequent to its acquisition.

SUMMARY

We will pay approximately US\$227 million to DiamondWorks, a company controlled by Laurence Graff, for the DiamondWorks Inventory.

- Step 7: The sale by Graff Diamonds Limited to Clinder SA, a company controlled by Laurence Graff, of certain paintings for approximately US\$8.2 million.

Steps 1 through 7 will be completed following the Price Determination Date and prior to Listing (though noting that certain cash amounts relating to the Reorganisation will be settled by the Company out of the proceeds of the Global Offering immediately upon Listing as described in the section headed “Future Plans and Use of Proceeds”). If any of steps 1 through 7 fail to complete, the Reorganisation will not complete and there will be no Listing.

Deed of Non-Competition

Laurence Graff has entered into the Deed of Non-Competition in favour of our Company, pursuant to which he has irrevocably undertaken that until the fifth anniversary of completion of the Global Offering, and thereafter until he is no longer a “controlling shareholder” for the purposes of the Listing Rules or, if earlier, the date on which we are no longer listed on the Hong Kong Stock Exchange, he shall not and shall procure, so far as he is able, that none of his associates (as defined in the Deed of Non-Competition) shall, solely or jointly, without the Company’s prior written consent (following the approval of a majority of the Independent Non-Executive Directors who are not interested in the relevant matter) directly or indirectly, (i) own, operate, participate in, invest in or carry on any Competing Business (as defined in “Relationship with Our Controlling Shareholder”) or (ii) have any interest, equity or otherwise, in any company, entity or firm which is engaged in any Competing Business; or (iii) otherwise provide any assistance or support, financial or otherwise, to any Competing Business.

This undertaking is subject to the terms of Laurence Graff’s letter of appointment and certain limited exceptions which are described under “Relationship with our Controlling Shareholder”.

Global Offering Statistics

	Based on an Offer Price of HK\$25.00	Based on an Offer Price of HK\$37.00
Number of Shares expected to be issued and sold in the Global Offering ⁽¹⁾⁽²⁾	311,200,000	210,270,200
— New Shares	264,520,000	178,729,700
— Sale Shares	46,680,000	31,540,500
Percentage of issued share capital expected to be issued and sold in the Global Offering ⁽¹⁾⁽²⁾	33.6%	25.1%
Number of Shares subject to the Over-allotment Option ⁽²⁾	46,680,000	31,540,500
Estimated net proceeds of the Global Offering receivable by the Company ⁽¹⁾⁽²⁾⁽³⁾	US\$800 million (HK\$6,224 million)	US\$800 million (HK\$6,224 million)
Market capitalisation of our Shares ⁽¹⁾	HK\$23,174 million ⁽⁴⁾	HK\$30,974 million ⁽⁵⁾
Unaudited pro forma adjusted net tangible assets value per Share ⁽⁶⁾	HK\$8.97 ⁽⁴⁾	HK\$9.94 ⁽⁵⁾

Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) The Company intends to raise aggregate gross proceeds from the Global Offering equivalent to approximately US\$850 million (the “**Targeted Gross Primary Proceeds**”) at the applicable HK\$/US\$ exchange rate prevailing on the Price Determination Date. The number of New Shares required to be issued by the Company in the Global Offering to raise the targeted quantum of proceeds accruing to it will equal the Targeted Gross Primary Proceeds amount divided by the final Offer Price. The Selling Shareholder intends to raise gross proceeds from the Global Offering equivalent to approximately US\$150 million (the “**Targeted Gross Secondary Proceeds**”) at the applicable HK\$/US\$ exchange rate prevailing on the Price Determination Date. The final number of Sale Shares to be sold by the Selling Shareholder will equal the Targeted Gross Secondary Proceeds amount divided by the final Offer Price.
- (3) Calculated based on an exchange rate of US\$1.00=HK\$7.78.
- (4) Based on 926,968,000 Shares expected to be in issue immediately following completion of the Global Offering.
- (5) Based on 837,140,510 Shares expected to be in issue immediately following completion of the Global Offering.
- (6) The unaudited pro forma adjusted net tangible assets value per Share is calculated after making the adjustments referred to in the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus. The unaudited pro forma adjusted net tangible assets value per Share is converted into Hong Kong dollars at the rate of US\$1.00 = HK\$7.78. No adjustment has been made to the unaudited pro forma adjusted net tangible assets of our Group to reflect any trading result or other transaction of our Group entered into subsequent to 31 December 2011 other than the Reorganisation.

SUMMARY

Global Offering

The Global Offering comprises:

- (1) the Hong Kong Public Offering of 31,120,000 Shares (subject to adjustment and reallocation) in Hong Kong; and
- (2) the International Placing of up to 280,080,000 Shares (subject to adjustment, reallocation and the Over-allotment Option), comprising up to 233,400,000 New Shares and up to 46,680,000 Sale Shares (i) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and (ii) within the United States in reliance upon Rule 144A or pursuant to another available exemption from, or in transactions not subject to the registration requirements of, the US Securities Act.

Investors may apply for Shares under the Hong Kong Public Offering or apply for or indicate an interest for Shares in the International Placing, but may not do both. References in this prospectus to applications, application forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

Selling Shareholder

Pursuant to the International Placing Agreement, the Selling Shareholder will sell up to 46,680,000 Shares (assuming the Offer Price is HK\$25.00, being the bottom of the Offer Price range), representing up to approximately 5.0% of the total issued share capital of our Company immediately following completion of the Global Offering. The shareholding of the Selling Shareholder immediately prior to and following the completion of the Global Offering is set out below:

Selling Shareholder	Number of Shares held prior to sale of Shares	Number of Shares sold by Selling Shareholder ⁽¹⁾	Approximate percentage of shareholding and number of Shares after the Global Offering and the sale of Shares by the Selling Shareholder ⁽¹⁾	
	(Shares)	(Shares)	(Shares)	(%)
Anne-Marie Graff	260,000,000	37,645,100	222,354,900	25.5

Note:

- (1) Assuming the Offer Price is HK\$31.00, being the mid-point of the Offer Price range.

Controlling Shareholder

If the Over-Allotment Option is exercised in full, the Controlling Shareholder will sell 46,680,000 Shares (assuming the Offer Price is HK\$25.00, being the bottom of the Offer Price range), representing approximately 5.0% of the total issued share capital of our Company immediately following the Global Offering. The shareholding of the Controlling Shareholder immediately prior to and following completion of the Global Offering, assuming the Over-allotment Option is exercised in full, is set out below:

Controlling Shareholder	Number of Shares held prior to sale of Shares	Number of Shares pursuant to the Over-allotment Option ⁽¹⁾	Approximate percentage of shareholding and number of Shares after the Global Offering and exercise in full of the Over-allotment Option ⁽¹⁾	
	(Shares)	(Shares)	(Shares)	(%)
Laurence Graff	377,451,615	37,645,100	339,806,515	38.9

Note:

- (1) Assuming the Offer Price is HK\$31.00, being the mid-point of the Offer Price range.

Dividend Policy

We intend to pay an aggregate dividend equal to 20% of the annual distributable profit attributable to shareholders with respect to the year ending 31 December 2012, which will be prorated for the portion of the year that the Company was public, and payable in 2013.

SUMMARY

Thereafter, we will evaluate our dividend distribution policy and distributions made (by way of dividend or otherwise) in any particular year in light of our financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance. The determination to make distributions will be made at the discretion of the Board and will be based upon our earnings, cash flow, financial condition, capital and other reserve requirements and any other conditions which the Board deems relevant. The payment of distributions may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

Our ability to make distributions in respect of the Shares is also subject to the requirements of Cayman Islands law and the Articles, including the approval of Shareholders as applicable. As substantially all of our operations are conducted through our operating subsidiaries internationally, the ability of these subsidiaries to make dividend and other payments to us may be restricted by a number of factors, including various laws and regulations to which those subsidiaries are subject. Therefore, unless and until we pay cash distributions on the Shares, any return or gain on your investment in the Shares will come from an appreciation in value, if any, of such Shares, to the extent reflected by an increase in their market price.

Use of Proceeds

We estimate that we will receive net proceeds from the Global Offering of approximately US\$800 million, or HK\$6,224 million*, after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering.

We intend to use the net proceeds we will receive from the Global Offering principally for the strategic purchase of inventory, to make payments in connection with the Reorganisation and for the repayment of certain indebtedness, as enumerated more specifically below:

- approximately 28% of the net proceeds (approximately US\$227 million or HK\$1,766 million) will be used to purchase from DiamondWorks, a company controlled by Laurence Graff, the DiamondWorks Inventory;
- approximately 25% of the net proceeds (US\$200 million or HK\$1,556 million) will be used to purchase the entire outstanding share capital of SAM Graff Monte-Carlo;
- approximately 19% of the net proceeds (approximately US\$150 million or HK\$1,167 million) will be used to repay outstanding current indebtedness;
- approximately 7% of the net proceeds (approximately US\$59 million or HK\$459 million) will be used to repay other loans to Safdico from unrelated third parties, and approximately 5% of the net proceeds (approximately US\$37 million or HK\$288 million) will be used to repay certain outstanding indebtedness to companies controlled by each of Laurence Graff, Brian Gutkin and Jonas Kneller;
- approximately 8% of the net proceeds (approximately US\$67 million or HK\$521 million) will be used to provide funding for working capital and for other general corporate purposes; and
- approximately 8% of the net proceeds (US\$60 million or HK\$467 million) will be used to purchase the entire outstanding share capital of Safdico International Limited (less the one share already owned by the Group).

To the extent that proceeds are not used immediately for the purposes stated, they will be invested in short-term demand deposits with licensed banks and in money market instruments.

We estimate that our Selling Shareholder will receive gross proceeds of US\$150 million, or HK\$1,167 million*, before deducting the underwriting fees and commissions payable by the Selling Shareholder in relation to the Global Offering. We will not receive any of the proceeds of the Global Offering from the sale of Shares by the Selling Shareholder.

We estimate that our Controlling Shareholder will receive gross proceeds of US\$150 million, or HK\$1,167 million*, before deducting the underwriters' fees and commissions payable by him, if the Over-allotment Option is exercised in full.

In addition, our Controlling Shareholder, will indirectly receive a significant proportion of the proceeds from the sale by the Company of Shares in the Global Offering, as a result of the use of such proceeds to purchase assets and businesses owned by him in connection with the Reorganisation. See "Our History and Corporate Structure — Reorganisation of the Group".

* Based on an exchange rate of HK\$7.78 to US\$1.00.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings:

Accountants' Report	the Accountants' Report contained in Appendix I to this Prospectus
Application Form(s)	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them
Articles of Association or Articles	the articles of association conditionally adopted by our Company, a summary of which is set forth in "Appendix III — Summary of the Constitution of our Company and Cayman Islands Company Law" in this prospectus
Artwork Sale Agreement	the agreement for the sale of certain paintings by Graff Diamonds Limited to Clinder S.A. dated 18 May 2012
associate	has the meaning given to such term in the Listing Rules, unless the context requires otherwise
Board	our board of Directors
Business Day	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks are generally open for normal banking business
CAGR	compound annual growth rate, which represents the year-over-year growth rate of a value over a specified period of time, taking into account the effects of compounding. $CAGR = (End\ Value/Beginning\ Value)^{(1/Number\ of\ Years)} - 1$
Cayman Companies Law	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
CCASS	the Central Clearing and Settlement System established and operated by HKSCC
CCASS Clearing Participant	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
CCASS Custodian Participant	a person admitted to participate in CCASS as a custodian participant
CCASS Investor Participant	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
CCASS Participant	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
China or PRC	the People's Republic of China; for the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to "China" and the "PRC" exclude Taiwan, the Macau Special Administrative Region and Hong Kong
Combined Financial Information	the combined financial information and related notes as at and for the financial years ended 31 December 2009, 2010 and 2011, included in the Accountants' Report in Appendix I
Company	Graff Diamonds Corporation

DEFINITIONS

connected person	has the meaning given to such term in the Listing Rules, unless the context requires otherwise
connected transaction	has the meaning given to such term in the Listing Rules, unless the context requires otherwise
Controlling Shareholder	has the meaning given to such term in the Listing Rules, unless the context requires otherwise. The controlling shareholder of our Company is Laurence Graff
Deed of Non-Competition	the deed dated 17 May 2012 between Laurence Graff and the Company relating to prohibited and permitted activities that may be undertaken by Laurence Graff following the completion of the Global Offering
Delaire Distribution Agreement	the agreement dated 17 May 2012 between Graff Diamonds Limited and Delaire (Pty) Limited relating to the sale of jewellery at the Delaire Graff Estate
Diamond Technology Park	a technology park owned by the Group in Gaborone, Botswana that serves as a hub for the diamond industry in that country
DiamondWorks	DiamondWorks SA, a diamond inventory holding and trading company incorporated in Switzerland and indirectly, wholly owned by Laurence Graff
DiamondWorks Inventory	the individual stones owned by DiamondWorks and consigned to the Group that will be purchased by the Group with the proceeds from the Global Offering for approximately US\$227 million. As at the Latest Practicable Date, the DiamondWorks Inventory comprised 73 stones totalling approximately 1,250 carats
Director(s)	director(s) of our Company
DTC	Diamond Trading Company, a subsidiary of De Beers Consolidated Mines Limited, an independent third party
Euro or € or EUR	the lawful currency of the member states of the European Union which have adopted the European Monetary Union
Excluded Businesses	the subsidiaries disposed of to the Controlling Shareholder pursuant to the Reorganisation as set out in Note 1.1 to Section II of the Accountants' Report
financial year	means the 12-month period beginning 1 January of each year and ending 31 December of that year
Gem Diamonds	Gem Diamonds Limited, a company incorporated in the British Virgin Islands and listed on the London Stock Exchange and in which the Group holds a 15% stake
Global Offering	the Hong Kong Public Offering and the International Placing
Graff, Group, we and us	Graff Diamonds Corporation and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to any time prior to the Reorganisation, the business in which its predecessors or the predecessors of its present subsidiaries upon completion of the Reorganisation were engaged and which it subsequently assumed

DEFINITIONS

Greater China	the People's Republic of China, and for the purpose of this prospectus, where the context relates to the business or financial information of our Group, references in this prospectus to "Greater China" includes Hong Kong and the Macau Special Administrative Region, but do not include Taiwan
GREEN application form(s)	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
HKSCC	Hong Kong Securities Clearing Company Limited
HKSCC Nominees	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
HK\$ or Hong Kong dollars or HK dollars or HKD	Hong Kong dollars, the lawful currency of Hong Kong
HK eIPO White Form	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of HK eIPO White Form www.hkeipo.hk
HK eIPO White Form Service Provider	the HK eIPO White Form service provider designated by our Company, as specified on the designated website www.hkeipo.hk
Hong Kong or HK	The Hong Kong Special Administrative Region of the PRC
Hong Kong Companies Ordinance	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
Hong Kong Offer Shares	the 31,120,000 New Shares initially being made available by our Company for subscription or (in certain circumstances) purchase pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus
Hong Kong Public Offering	the invitation to the public in Hong Kong to offer to subscribe or (in case of a reallocation of the International Placing Shares from the International Placing to the Hong Kong Public Offering as described in the section headed "Structure of the Global Offering" in this prospectus) purchase the Hong Kong Offer Shares
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Underwriters	the several underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
Hong Kong Underwriting Agreement	the underwriting agreement dated 25 May 2012, relating to the Hong Kong Public Offering entered into between, among others, us and the Hong Kong Underwriters
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
International Placing	the conditional placing by the International Underwriters of the International Placing Shares, as described in the section headed "Structure of the Global Offering" in this prospectus
International Placing Agreement	the international placing agreement relating to the International Placing to be entered into among us, the Controlling Shareholder, the Selling Shareholder and the International Underwriters on or around the Price Determination Date

DEFINITIONS

International Placing Shares	up to 233,400,000 New Shares initially being made available by our Company for subscription and up to 46,680,000 Sale Shares initially made available by the Selling Shareholder for purchase at the Offer Price under the International Placing, subject to the Over-allotment Option and adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
International Underwriters	the several underwriters of the International Placing, who are expected to enter into the International Placing Agreement to underwrite the International Placing
Joint Bookrunners	(in alphabetical order) Credit Suisse (Hong Kong) Limited (“Credit Suisse”), Deutsche Bank AG, Hong Kong Branch (“Deutsche Bank”), Goldman Sachs (Asia) L.L.C. (“Goldman Sachs”), The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) and Morgan Stanley Asia Limited (“Morgan Stanley”)
Joint Global Coordinators or Joint Sponsors	(in alphabetical order) Credit Suisse, Deutsche Bank, Goldman Sachs and Morgan Stanley
Latest Practicable Date	21 May 2012, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
Listing	the listing of our Shares on the Main Board of the Hong Kong Stock Exchange
Listing Date	the date, expected to be on or about 7 June 2012, on which dealings in our Shares first commence on the Hong Kong Stock Exchange
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
LTIP	has the meaning set forth in Appendix IV “Statutory and General Information — (E) Share Option Plans” of this prospectus
Memorandum of Association	the memorandum of association of our Company as currently adopted
New Shares	Shares offered for subscription by the Company pursuant to the Global Offering
Offer Price	the final Hong Kong dollar price per Offer Share (exclusive of brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy) at which the Offer Shares are to be subscribed or purchased pursuant to the Hong Kong Public Offering
Offer Shares	the Hong Kong Offer Shares and the International Placing Shares including, where relevant, any additional Shares sold pursuant to the exercise of the Over-allotment Option
Option Plan	has the meaning set forth in Appendix IV “Statutory and General Information — (E) Share Option Plans” of this prospectus

DEFINITIONS

Over-allotment Option	the option expected to be granted by Laurence Graff to the International Underwriters exercisable by the Joint Global Coordinators under the International Placing Agreement pursuant to which Laurence Graff may be required by the International Underwriters to sell up to 46,680,000 additional Shares, representing approximately 15% of the maximum number of Offer Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations in the International Placing, if any
Price Determination Date	the date, expected to be on or about 1 June 2012, but no later than 5 June 2012, on which the Offer Price is fixed for the purposes of the Global Offering
Qualified Institutional Buyers or QIBs	qualified institutional buyers within the meaning of Rule 144A
Regulation S	Regulation S under the US Securities Act
Renminbi or RMB	Renminbi, the lawful currency of the PRC
Reorganisation	the reorganisation of the Group, details of which are set out in the section headed “Our History and Corporate Structure — Reorganisation” in this prospectus
Reorganisation Agreement	the reorganisation steps framework agreement dated 18 May 2012 between the Company, Graff Diamonds Holdings Limited, Graff Diamonds International Limited, Graff Diamonds Limited, DiamondWorks, AE Holding S.A., Laurence Graff, Anne-Marie Graff and François Graff relating to the Reorganisation
Reserved Stones	certain stones with a fixed consignment value of approximately US\$128 million owned by DiamondWorks that will remain on consignment to us following completion of the Global Offering in connection with their pending sale to a third party
Rule 144A	Rule 144A under the US Securities Act
Safdicco	Safdicco International Limited and its subsidiaries, also known as the South African Diamond Corporation, or where the context refers to any time prior to the acquisition of the Procurement and Polishing division by Safdicco International Limited, Safdicco Limited, being its predecessor as the holding company of the Procurement and Polishing division, a company controlled by Laurence Graff during the Track Record Period
Safdicco Acquisition Agreement	the sale and purchase agreement dated 18 May 2012 between the Company, Graff Diamonds Holdings Limited, the Safdicco Sellers, Laurence Graff, Brian Gutkin and Jonas Kneller relating to the purchase by Graff Diamonds Holdings Limited of the entire issued share capital of Safdicco International Limited not already owned by the Group
Safdicco Sellers	AE Holding S.A. (a company owned and controlled by Laurence Graff), Nandi International Limited (a company controlled by a trust of which Brian Gutkin is a beneficiary) and Phase Holdings Ltd (a company owned and controlled by Jonas Kneller)
Sale Shares	Shares made available for purchase by the Selling Shareholder pursuant to the International Placing

DEFINITIONS

Securities and Futures Commission or SFC	the Securities and Futures Commission of Hong Kong
Selling Shareholder	Anne-Marie Graff
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
Shareholder(s)	holder(s) of the Share(s)
Share(s)	ordinary share(s) with nominal value of US\$0.01 each in the share capital of our Company
Stabilising Manager	Morgan Stanley Asia Limited
Sterling, £ or Pounds Sterling	the lawful currency of the United Kingdom
Stock Borrowing Agreement	the stock borrowing agreement which may be entered into between the Stabilising Manager and the Controlling Shareholder
Subsidiary	has the meaning given to such term in the Listing Rules, unless the context requires otherwise
substantial shareholder	has the meaning given to such term in the Listing Rules, unless the context requires otherwise
Track Record Period	the three-year period from 1 January 2009 through 31 December 2011
Underwriters	the Hong Kong Underwriters and the International Underwriters
Underwriting Agreements	the Hong Kong Underwriting Agreement and the International Placing Agreement
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
United States, US or USA	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
US Exchange Act	the US Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
US Securities Act	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
US\$, USD or US dollars	United States dollars, the lawful currency of the United States
VAT	value-added tax

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus that relate to our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

absolute luxury	the highest tier of the global luxury goods market, which contains the most high-end and well-regarded brands within their respective product categories. Absolute luxury brands are distinguished by exclusive distribution, storied heritage, highest quality product offering, and highest price points in their respective categories
brilliant cut	a traditional round diamond with 58 facets, the most common cut used in diamond jewellery
CAD	computer aided design software and other technology that allows three-dimensional drafting of plans for among other things, sawing diamonds and the production of jewellery components
carat	the standard unit of weight measurement for diamonds. One carat is equal to one-fifth of a gram
clarity	the absence of inclusions or blemishes. Clarity is most commonly measured on the GIA International Diamond Grading System, which contains 11 grades: Flawless (FL — No inclusions or blemishes are visible to a skilled grader using 10× magnification); Internally Flawless (IF — No inclusions and only blemishes are visible to a skilled grader using 10× magnification); Very, Very Slightly Included (VVS1 and VVS2 — Inclusions are difficult for a skilled grader to see under 10× magnification); Very Slightly Included (VS1 and VS2 — Inclusions are clearly visible under 10× magnification but can be characterised as minor); Slightly Included (SI1 and SI2 — Inclusions are noticeable to a skilled grader using 10× magnification); Included (I1, I2, and I3 — Inclusions are obvious under 10× magnification and may affect transparency and brilliance)
collet	a jewellery component made of metal consisting of a base and prongs used to hold a stone in place
colour	colour in white diamonds is most commonly measured on the GIA scale that ranges from D (colourless) to Z (light yellow). Fancy coloured diamonds are measured on a descriptive scale using the colour itself (e.g. Blue, Pink or Yellow) and one of nine measures of magnitude: Faint, Very Light, Light, Fancy Light, Fancy, Fancy Dark, Fancy Intense, Fancy Deep or Fancy Vivid
cut	a diamond's shape, symmetry and polish. The round brilliant cut is the most common and all other shapes are categorised as fancy cuts. The cut of any diamond has three attributes: brilliance (the total light reflected from a diamond), fire (the dispersion of light into the colours of the spectrum), and scintillation (the flashes of light, or sparkle, when a diamond is moved)
facets	the flat faces cut on the surface of a gemstone in order to shape it and enhance the three attributes of the cut, namely brilliance, fire and scintillation
fancy cut	shapes other than the brilliant cut. Some of the most common include pear, emerald, marquise and heart shaped
gem quality	diamonds of sufficient quality to rank on the GIA scales for colour and clarity

GLOSSARY

GIA	The Gemological Institute of America, a non-profit institute dedicated to research and education in the field of gemology and the jewellery arts. Founded in 1931, its mission is to protect all buyers and sellers of gemstones by setting and maintaining the standards used to evaluate gemstone quality, which it does through research, gem identification and diamond grading services and a variety of educational programmes
hard luxury	luxury product category comprising luxury watches, jewellery, pens, and lighters
high end jewellery	our jewellery products with a retail price of less than US\$1 million
high net worth	individuals having investable assets of US\$1 million equivalent or more, excluding primary residence, collectibles, consumables, and consumer durables
inclusion	materials that are trapped within a mineral during its formation. Inclusions decrease the clarity of a diamond
Kimberley Process	The Kimberley Process Certification Scheme was established in 2003 to certify the origin of rough and polished diamonds from sources which are free of conflict funded by diamond production. It operates through a system of warranties pursuant to which all buyers and sellers of both rough and polished diamonds must make the following affirmative statement on all invoices: “The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.”
Rapaport Price List	the international benchmark used to establish polished diamond prices for single stones based on size, colour and clarity
rough diamond	a diamond in its natural form which has not yet been cut
rough mapping technology	a package of software and hardware that allows detailed three dimensional mapping of inclusions and other imperfections in a rough diamond and analyses the potential combinations of cuts for the optimum result
sights	the method by which the DTC sells rough diamonds. The DTC network hosts ten sales of rough diamonds a year, called ‘sights’. These occur simultaneously in the UK, South Africa, Botswana and Namibia, usually once every five weeks. At these sales, the DTC’s sightholders physically inspect their allocations of rough diamonds before deciding whether or not to purchase them. The DTC does not sell rough diamonds other than at the sights
sightholders	entities that have entered into contractual arrangements with the DTC to purchase rough diamonds from the DTC sights. Sightholders are chosen by the DTC through their Supplier of Choice sales strategy for their ability to add value to the diamonds sold, their expertise in particular rough diamonds, their marketing and distribution capability, and their financial and ethical integrity
stone or stones	when used herein such term refers to diamonds
tender	a sales process in which potential buyers of rough or polished diamonds submit closed bids to the seller and the highest bid is accepted
ultra high end jewellery	our jewellery products with a retail price of US\$1 million or more
ultra high net worth	individuals having investable assets of US\$30 million equivalent or more, excluding primary residence, collectibles, consumables and consumer durables

FORWARD-LOOKING STATEMENTS

Forward-looking Statements Contained in this Prospectus are Subject to Risks and Uncertainties.

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions, as they relate to our Company, our Group or our management, are intended to identify forward-looking statements. Our Directors confirm that these forward-looking statements are made after due and careful consideration and on bases they believe to be fair and reasonable. Such statements reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus, some of which are beyond our control. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us and our Group which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions and consumer preferences in the industry and markets in which we operate;
- our strategies, business plans, objectives and goals;
- general economic conditions;
- our ability to source raw materials, especially diamonds;
- fluctuations in diamond prices;
- our ability to maintain the depth of our inventory;
- our ability to expand our manufacturing capabilities and retail network;
- our ability to retain our management and hire skilled employees;
- our ability to control costs;
- the amount and nature of, and potential for, future development of our business;
- the actions and developments of our competitors;
- certain statements in the section headed “Financial Information” in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our dividend policy;
- capital market developments; and
- other statements in this prospectus that are not historical fact.

Subject to the requirements of the Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Actual results may differ materially from the information contained in the forward-looking statements as a result of these and other risks, uncertainties and assumptions and the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

FORWARD-LOOKING STATEMENTS

Market Data

Included in this prospectus are various statements relating to the industries in which the Group operates. This information has been provided because the Group considers these markets to be the relevant markets for consideration of its market shares. Unless otherwise indicated, all historical and forecast statistical information, with respect to the Global Luxury Goods Industry Overview section, including trends, sales, market shares and growth levels, is from the Bain Luxury Study — Altgamma Worldwide Market Monitor, a report published together by the Altgamma Foundation and Bain & Company. Luxury goods industry segments and product categories refer to the definitions used by the Bain Luxury Study — Altgamma Worldwide Market Monitor. Unless otherwise indicated, all historical and forecast statistical information in the “Industry Overview” section of this prospectus, including trends, sales, market shares and growth levels, is from the Bain Global Diamond Industry Report published in December 2011.

RISK FACTORS

An investment in our Shares involves various risks. Before investing in our Company, you should carefully consider all of the information set forth in this prospectus, and in particular, the specific risks set out below. Any of the risks and uncertainties described below could have a material adverse effect on our business, financial condition and results of operations or the trading price of the Shares, and could cause you to lose your investment. The risks described in this prospectus are not the only risks the Group faces, additional risks that we currently believe are immaterial or which are currently unknown to us may arise or become material in the future and may have a material adverse effect on our Group. These risks should also be considered in connection with the reservations in the section headed "Forward-looking Statements" in this prospectus.

Risks Related to Our Business and Industry

Changes or a continued downturn in economic conditions, in particular in our principal markets, may affect consumer purchases of discretionary items, such as our products

Our revenues and results of operations are impacted by global economic conditions as well as the specific economic conditions in our principal markets of Europe, Asia and the United States. Economic conditions in these markets can be influenced by many factors, including political uncertainty, levels of employment, inflation or deflation, real disposable income, interest rates, taxation, currency exchange rates, stock market performance, the availability of consumer credit, levels of consumer debt, consumer confidence, consumer perception of economic conditions and consumer willingness to spend, all of which are beyond our control. Sales of luxury goods are not immune to the impact of an economic downturn. For example, we experienced a decline in our retail sales to US\$399.3 million for the year ended 31 December 2009, from US\$562.7 million for the year ended 31 December 2008 following the onset of the global financial crisis in 2008. While the current economic environment has not had a materially adverse impact on our trading or results, an economic downturn or an otherwise uncertain economic outlook in one or more of our principal markets, in any other markets in which we operate or will operate, or on a global scale, could adversely affect our end-consumer spending habits, which could have a material adverse effect on our business, results of operations and financial condition.

Our revenues are concentrated among a relatively small number of individuals

Our jewellery and watches are designed and priced to appeal to the very top end of the luxury market, and our business is dependent on purchases by a relatively small number of high and ultra high net worth individuals. We rely to a certain extent on a continuation of the past buying patterns of these customers, who purchase high priced items, but not necessarily in a predictable pattern, to sustain our current business model. Accordingly, our revenues, profitability and operating cash flows are highly dependent upon our ability to develop and maintain relationships with these customers, as well as the financial strength of these customers and their continued willingness to purchase our products. Adverse events affecting the financial security of our customers and their willingness to continue to purchase our products could adversely affect our business and results of operations.

For the years ended 31 December 2009, 2010 and 2011, our top 20 customers accounted for approximately 43%, 42% and 44% of our Group revenue, respectively. In each of these years, the same customer accounted for 15.8%, 12.1% and 13.2% of our Group revenue. In 2011, 51.5% of our retail revenue (excluding franchises) were to customers who had made purchases from us in one or both of 2009 and 2010. We have historically been able to develop relationships with new customers and further cultivate our existing relationships to offset the decline in revenue from those customers who have reduced their purchases or ceased purchasing from us altogether. There can be no assurance, however, that any of our existing customers will continue to purchase our jewellery at historical levels or that other existing or new customers will make up any potential decrease in sales. The loss of a significant customer or group of customers or a material decrease in purchases by them could result in decreased sales and adversely impact our business and results of operations.

RISK FACTORS

Our sales, margins and results of operations may fluctuate for a variety of reasons, which could result in a decline in the price of our Shares

Our sales, margins and results of operations have fluctuated in the past and we expect them to continue to fluctuate in the future. A variety of factors affect our sales and results of operations, including:

- significant sales that may not be repeated;
- timing and concentration of new store openings, particularly in connection with our strategic expansion in Asia, as well as the refurbishment of our directly operated stores;
- purchases in a directly operated store in one region made by customers who are travelling and reside in another region;
- timing and regional emphasis of our marketing activities;
- the competitive environment in each of the regions in which we operate; and
- regional economic conditions and, in particular, the luxury goods sales environment.

For the year ended 31 December 2011, 47.4% of our jewellery and watch revenues were attributable to 84 individual pieces costing US\$1 million or more (such sales represented 1.6% of pieces sold). One sales transaction was for US\$100.0 million. Our high value transactions materially impact our results of operations including, in particular, our gross profit margins, which can vary depending upon the number of, size, quality and rarity of diamonds used in, and the complexity of, our jewellery. For example, for the three years ended 31 December 2011, the gross profit margins of our Retail division were 42.8%, 54.1% and 45.2%, respectively. Were we to exclude transactions with the single largest customer in each of 2009, 2010 and 2011, the adjusted retail margins would have been 47.3%, 55.7% and 51.0% in 2009, 2010 and 2011, respectively.

Our results for any financial period are not necessarily indicative of the results to be expected for any other comparable period, and sales for any particular future period may decrease. Consequently, our sales, gross profit margins and results of operations may fluctuate significantly from period to period, which may result in a decline in the price of our Shares.

The diamond industry is affected by consumer demand for luxury goods and the perception of diamonds

The diamond industry is subject to changes in consumer preferences, personal sentiments, perceptions and spending habits, and our performance depends on factors which may affect the worldwide desirability of luxury goods, in particular diamonds. Such factors include global financial and economic conditions, media coverage, consumer income and the positive perception of diamonds. Since the global financial crisis, we have benefitted from the perception of gem quality diamonds as an alternative investment asset and store of wealth, as illustrated by the preponderance of high average price points of our retail sales. A change in this perception could have an adverse impact on our business, financial condition and results of operation.

The Kimberley Process Certification Scheme is a process designed to certify the origin of rough and polished diamonds to ensure that they come from regions that are free of conflict funded by diamond production. Since its foundation in 2003, the Kimberley Process has monitored global diamond production with the aim of keeping so called “blood diamonds” off the international market. There have been criticisms of its effectiveness since its founding. In December 2011, Global Witness, a key NGO participant in the Kimberley Process, formally withdrew, citing concerns about the legitimacy of the process after members elected to allow sales of diamonds originating in Zimbabwe. This protest has received significant press attention and, while we believe all of our diamonds originate from Kimberley Process approved countries (excluding Zimbabwe), further negative attention directed to the diamond industry as a whole could have an adverse impact on our business. Any changes in consumer preferences, either by an increase in the popularity of synthetic diamonds or a decrease in the popularity of natural diamonds as a result of the prevalence and perception of conflict diamonds, anti-diamond and diamond mining sentiment created by activist groups or levels of consumer spending, may have a material adverse impact on our business, results of operations and financial condition.

RISK FACTORS

Our business and reputation are strongly associated with our acquiring and selling exceptional diamonds, which are becoming increasingly rare

We have historically handled some of the world's largest, rarest and most renowned diamonds. These have included the Magnificence, a 243.96 carat diamond, certified by the GIA in 2008 as the largest Emerald Cut, D Colour, Flawless diamond in the world, and the Flame, a 100.00 carat Pear shaped, D Colour, Internally Flawless diamond, as certified by the GIA in 2008. We believe that our depth of inventory is one of the key aspects of our brand reputation. Furthermore, over the years, we have built a reliable network of suppliers with whom we have developed personal relationships to facilitate the continued supply of the quality of diamonds we require. We believe we are known in the market for having the largest selection of very large, high quality diamonds and pieces of jewellery that feature them. However, diamonds of this calibre are becoming increasingly rare, and difficulty in sourcing them may adversely affect our business, financial condition and results of operations.

High quality white diamonds of significant size are rare and coloured diamonds are even rarer. Many of the particularly significant stones for which we have become known have been coloured, including the Graff Pink, the Delaire Sunrise and the Wittelsbach-Graff, and we are recognised for using coloured diamonds of significant size and quality in our jewellery. The scarcity of coloured diamonds is reflected in market pricing, with some coloured diamonds selling for more than 20 times the price of a white diamond of comparable size and quality. Furthermore, many of the key mines that produce coloured diamonds are due to cease operations in the next ten years. Because of this scarcity, the market for coloured diamonds is also less liquid than the market for white diamonds, making them more difficult to procure on the secondary market. If we are unable to continue to access coloured diamonds at auction and through tenders, our reputation, business and results of operations could be adversely affected.

Fluctuations in diamond prices may adversely affect our business, the value of our inventory, results of operations and financial condition

Polished diamonds used to make our jewellery are the single largest component of our retail costs, accounting for approximately 84%, 84% and 91% of our Retail division's cost of sales for the years ended 31 December 2009, 2010 and 2011, respectively. Diamond prices fluctuate and are affected by numerous factors beyond our control, including worldwide economic trends, worldwide levels of diamond discovery and production, and the level of demand for, and discretionary spending on, luxury goods such as diamonds and jewellery. From 1998 until 2003, wholesale prices of one, three and five carat polished diamonds remained relatively flat. Since 2003, wholesale prices of polished diamonds have risen significantly, although they experienced a temporary decline in 2009 following the onset of the global financial crisis in 2008. More recently, diamonds, particularly gem quality, larger stones, have been trading at near historic highs. However, diamonds are not a publicly traded commodity, which limits visibility on price and our ability to hedge against price fluctuations.

The book value of our inventory, which principally comprised diamonds in finished pieces of jewellery, was US\$651.4 million as at 31 December 2011. We will purchase the DiamondWorks Inventory upon completion of the Global Offering, which will increase the value of our inventory by approximately US\$227 million based on its value at the Latest Practicable Date. Our inventory is carried at the lower of cost or net realisable value and our retail gross margins vary depending, in part, on the cost of inventory used in jewellery sold.

Over the Track Record Period, the Group's average days in inventory were 375, 463 and 509 days for the years ended 31 December 2009, 2010 and 2011, respectively, with the most significant increases by value having been of finished goods and goods for resale held for less than one year and of such goods held for more than three years. This reflects our inventory strategy, whereby we seek to maintain an inventory of very high value, exceptional stones to meet the demands of our customers, while increasing the proportion of jewellery with an expected retail price below US\$1 million to support the expansion of our retail distribution network. These items typically turn over faster than jewellery with an expected retail price of US\$1 million or more. Items priced below US\$1 million, on average, remain in inventory for approximately one year prior to sale, while items priced US\$1 million or more, on average, remain in inventory for approximately four years prior to sale (in each case based on 2011 sales and year end inventory, including consigned stones).

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Accordingly, as our sales grow, we expect that the value of our inventory will increase, but that the average number of days finished goods spend in inventory will decrease. However, a sustained stagnation or significant and sustained decline in the price of diamonds in the future, particularly for higher-value stones, could result in items being held in inventory for longer periods or being sold at lower prices, and could have an adverse impact on our business, the value of our inventory, financial condition and results of operations.

We made a provision in our inventory in 2009 to reflect the impact of falling rough and wholesale polished diamond prices in 2008 and into early 2009. Furthermore, because of the rarity of the exceptional, high value diamonds for which we are known, we have in the past sought, and will in the future seek, to purchase such stones opportunistically as and when they become available. In the short term, this has previously resulted in the use of some of our available cash resources, and opportunistic purchases of high value stones may have a similar effect in the future.

The supply of rough diamonds is determined by factors outside of our control

The availability of rough diamonds is influenced significantly by the political situation in diamond producing countries and the Kimberley Process. Any sustained interruption in the supply of diamonds from significant producing countries that affects our access to the requisite supply of diamonds could adversely affect the retail diamond jewellery market as a whole and, consequently, our business, financial condition and results of operations.

In addition, a significant proportion of the world's supply of rough diamonds is controlled by the Diamond Trading Company ("DTC"), a subsidiary of De Beers Consolidated Mines Limited ("De Beers"), which grants access to its rough diamonds through the sightholder process. Since the Procurement and Polishing division was established in 1999, the DTC has been and continues to be one of our most important suppliers of rough diamonds. For the years ended 31 December 2009, 2010 and 2011, we purchased approximately US\$95 million, US\$107 million and US\$135 million of rough diamonds from DTC, representing approximately 69%, 55% and 52% by value, respectively, of the rough diamonds purchased by our Procurement and Polishing division in those years. In 2011, DTC's annual commitment to offer us a basic allotment of rough diamonds was approximately US\$80 million, and resulted in purchases of rough by us, including stones in addition to our basic allotment, of approximately US\$135 million. From April 2012, our basic allotment has been increased to over US\$135 million, and we anticipate our total purchases, including stones in addition to our basic allotment, to exceed US\$200 million per year across our sights. We procure the remaining supply of our very high quality rough diamonds directly from mines owned by a relatively small number of mining firms, and we do not benefit from preferential access to a controlled diamond mining company as is the case with some other jewellery retailers.

Any inability to supply or decisions made to restrict the supply to us of rough diamonds by DTC or our other rough diamond suppliers could impair our ability to acquire diamonds at commercially reasonable prices, or at all, and our high quality standards for diamonds also could limit our options for alternative suppliers. These constraints on the supply of rough diamonds could have an adverse effect on our business and results of operations.

There can be no assurance that we will continue to be a DTC sightholder or that being a DTC sightholder will continue to confer the same benefits in the future

Our new DTC sightholder arrangements took effect from April 2012 and are set to expire in March 2015. Although we expect to enter into new sightholder arrangements at that time, there can be no assurance that we will be able to do so on similar terms or at all. In addition, in November 2011, Anglo American plc announced its intention to raise its stake in De Beers from 40% to 85%. While Anglo American plc has been a significant shareholder of De Beers for over 50 years, there can be no assurance that it will continue DTC's current diamond procurement and sightholder policies once it becomes the majority shareholder. Participation in the sights also allows us to gather market intelligence and contributes to our reputation in the industry as experts in the area of high quality, rare diamonds. Any significant deviation in DTC's diamond procurement and sightholder policies, resulting in particular in a curtailment of the commitment awarded to us at our sights or a reduction in the number of sights at which we are allowed to participate,

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could, notwithstanding our having to seek to replace our supply of rough diamonds through alternative third parties, have a material adverse effect on our business, financial condition and results of operations.

We cannot be assured of the quality of rough diamonds purchased at tenders or sights or our ability to cut and polish these in a satisfactory manner

We purchase the majority of our rough diamonds through tenders and sights. Our ability to examine and perform the appropriate diligence on these stones prior to purchase can be limited. While we rely on our extensive experience and knowledge of diamonds and their characteristics when acquiring these stones, there can be no assurance that the polished stones emerging from the rough diamonds we purchase will be of the expected level of quality.

In some instances with rough stones, it is not possible to determine quality definitively until a stone has had a window polished on its surface following purchase, at which point it may become apparent that it will be difficult or impossible to extract the expected value from the stone. There can be no assurance that our experience in, and equipment for, mapping and cutting rough diamonds will be sufficient for us to extract the maximum value from our stones. In addition, an error during the planning or cutting of a particularly significant stone could have an adverse impact on our business and results of operations.

Our access to suitable polished diamonds from market sources may be limited

In addition to the polished diamonds produced by our Procurement and Polishing division, we also procure a significant quantity of polished diamonds by value on the market from dealers. In addition, we buy through auctions when opportunities arise. We primarily use diamonds that are rated G and above for colour and VS2 and above for clarity, as certified by the GIA, and a significant proportion of our polished diamonds are rated well above these thresholds. Because of our very high quality thresholds and the important role of large, high quality diamonds in our jewellery, there is a limited supply of suitable polished diamonds available in the market. If our principal sources of polished diamonds become unable or unwilling to continue to supply us, or we are unable to procure polished diamonds at commercially reasonable prices at auction, our ability to expand our operations may be limited and our business and results of operations may be adversely affected.

We are reliant upon the Graff brand. If we are unable to build successfully upon and promote our brand, our business and results of operations may be adversely affected

We derive the substantial majority of our revenue from the sale of jewellery and watches under the Graff brand. Sales of our jewellery and watches through our Retail division accounted for 73.8%, 73.7% and 82.5% of our total revenue for the years ended 31 December 2009, 2010 and 2011, respectively. Our continued success and growth therefore depends significantly on our ability to successfully promote our brand in the markets in which we operate and where we plan to expand.

The strength of our brand is based on our reputation for providing some of the highest quality, and, in some cases, rarest, luxury jewellery, complemented by outstanding, personalised customer service. Our image is also built on the perception of our brand, our product designs, the materials used to make our products, the presentation and quality of our products, the image of our stores and the effectiveness of our brand messaging. Failure to manage any of the above factors or the failure of our promotion and other activities to distinguish and further strengthen our brand could adversely affect the value and perception of our brand and image, as well as our ability to maintain existing or attract new customers and, consequently, our business and results of operations. We are actively pursuing a growth strategy that seeks to tap into the wealth creation and demand for luxury goods globally, particularly in Greater China and the rest of Asia, through increased penetration of our brand awareness and the planned opening of eight new stores by the end of 2015. Our brand does not have the same level of public awareness in Asia that we enjoy in our more mature markets, or which certain of our competitors, particularly luxury fashion houses that are moving aggressively into the high end jewellery market, have in Asia. There can be no assurance that we will be able to cultivate such brand awareness or that our Asian expansion strategy will be as successful as currently anticipated. The failure to develop our brand successfully in connection with our expansion in Asia could have an adverse impact on our business, financial condition and results of operations.

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In addition, due to the high profile of our brand, we have in the past attracted attention from the media concerning certain claims and disputes. These reports have involved editorial commentary, which may not correctly represent the matters being reported on. Adverse or inaccurate media speculation and commentary may harm our brand image and reputation. We may also be required to take legal action to protect our brand image and reputation, which may result in legal expenses and further media coverage.

Our business is dependent on the Graff family

Our performance depends significantly on the efforts and abilities of the Graff family. With a combined 142 years of experience in the diamond business, the Graff family, comprising Laurence Graff, our Executive Chairman and founder, François Graff, our Chief Executive Officer, Raymond Graff, our Manufacturing Director, and Elliott Graff, our Operations Director, has established Graff as one of the world's foremost diamond jewellery companies. Should members of the Graff family reduce or cease their involvement with us, our business, financial condition and results of operations could be adversely affected.

Our business relies on the expertise of our executive management team and that of our highly trained staff

We have historically operated and expect to continue to operate with a relatively small executive management team. If any of our executive personnel were to reduce or cease their involvement with us, it may take time for us to hire a replacement with comparable expertise. In addition, while we expect to hire additional executive personnel following the completion of the Global Offering as we continue to grow our business, we may not be able to hire additional personnel with the required experience and expertise. The loss of any key individual or a delay in or the inability to hire new executives could have an adverse effect on our business and results of operations. Furthermore, the focus and attention of our executive management team may be diverted from the day-to-day demands of our business due to the additional requirements of running Graff as a public company, which could adversely affect our business and results of operations.

Our success also depends on the efforts and abilities of our other employees, many of whom have been with us for more than 20 years and have experience and knowledge of our products and industry and have contributed to the development of our business. Our highly trained staff undertake the design and craftsmanship of our jewellery and watches, the procurement of our diamonds and the sale of our jewellery and watches. The requisite level of technical expertise to select and effectively negotiate the purchase of diamonds of the necessary quality is difficult to find, develop and replicate, as are the skills required to design and produce our jewellery. Our sales executives have also spent significant periods of time developing long-standing client relationships. We believe that some of the industry's most talented people in design, production, procurement and sales have joined us for the opportunity to work as part of the Graff organisation. However, competition for qualified personnel in the diamond industry is intense, and we may not be able to attract and retain a sufficient number of qualified employees in the future, particularly in light of our plans to expand our business globally, including in Asia. If we were to lose such personnel, it would take time for us to find and train replacement personnel to the standards required for our business, which could have an adverse effect on our business, financial condition and results of operations.

A build up of our inventory to an unplanned level could have a material adverse effect on our business

We have in the past and will in the future hold a very high value diamond inventory. Depending on the value of the particular items, they may take on average between one and four years to turnover. For example, items with a value of more than US\$1 million take an average of four years to turnover. At certain points during the Track Record Period, we have decided to use portions of our available cash to purchase additional inventory and we plan to use a significant portion of the proceeds from the Global Offering to purchase the DiamondWorks Inventory. Based on our inventory of US\$651.4 million as at 31 December 2011, the acquisition of the DiamondWorks Inventory would increase the book value of our inventory immediately following the completion of the Global Offering to approximately US\$880 million.

While we view our purchases of our inventory as an investment for the development of our business, rather than a demand on our working capital, holding such a high value inventory may, under certain circumstances, have an impact on our liquidity position. A prolonged economic downturn, the loss of one

RISK FACTORS

or more of our largest customers, a significant, sustained decrease in diamond prices, or any other circumstance affecting the desirability of our products to our customers could potentially lead to a build up of inventory to an unplanned level. If we are unable to continue to turnover our inventory, our available cashflows may be impacted, we may decide that it is necessary to write down a portion of our inventory or, in an extreme case, lower the prices of our products. Such actions would have an adverse impact on our business, financial condition and results of operations.

The nature of our business exposes us to security and transport risks

We operate in a business that is susceptible to theft, and the high value of our inventory and our reputation for high-end jewellery makes us even more susceptible. We have been the victim of high profile robberies, most notably in 2007 and 2009 when two of our stores in London were raided and jewellery with an approximate value of US\$22 million and US\$39 million, respectively, was stolen. While we did not suffer a direct financial loss as a result of these incidents, a penalty insurance premium was applied by our insurers. Our jewellery designs are unique and often contain extremely rare stones, the loss of which cannot be viewed in solely economic, as opposed to reputational and brand awareness, terms. High value theft has in the past resulted, and may in the future result, in a potentially material increase in our insurance premiums and, in an extreme case, could compromise our ability to secure insurance on commercial terms, or at all. External security and insurance expenses totalled US\$17.5 million, US\$20.2 million and US\$15.0 million, respectively, in the three years ended 31 December 2011, which, in 2010 and 2011, included penalty insurance premiums that resulted from claims made following the robbery at our Bond Street store in 2009.

We take the safety and security of our employees and operations extremely seriously and have established state-of-the-art security measures at our cutting and polishing facilities, at our principal jewellery manufacturing facility in London and at our retail stores to the satisfaction of our insurers. Despite the best efforts of management and staff, there can be no guarantee that there will be no future occurrences of theft of diamonds or jewellery at our retail premises or during the various production processes, which may have an adverse effect on our reputation and our brand and could result in significant uninsured financial losses. In addition, the past robberies of our stores were violent in nature. While none of our employees were harmed, we cannot guarantee that all the precautions we take to ensure the safety of our employees and inventories in such situations will be adequate. Harm to our staff would have serious repercussions for our reputation and employee morale and could lead to legal action being taken against us.

The transportation of our products to existing and potential future customers around the world also exposes us to risks. While we have implemented procedures to manage and track individual diamonds and pieces of jewellery and watches, we transport large numbers of exceptionally high value items around the world to supply our stores and exhibitions and, in some instances, at the request of our customers for private viewings prior to purchase. Many of these items, such as the 26 D Colour diamonds (of which 25 are either Flawless or Internally Flawless) comprising the 223 carat Lesotho Promise necklace, which we have transported to exhibitions and new store openings, are irreplaceable. For certain transfers, we make use of specialist third-party customs clearing agents and third-party shipping companies which, while carefully selected, we do not control, and we are, therefore, subject to risks associated with the actions of such third parties. While we carry insurance to cover our jewellery while it is in transit, any security breach or failure in transport logistics could result in a material loss in inventory and have an adverse impact on our business, financial condition and results of operations.

Our insurance coverage may not cover all losses that we may incur

We maintain different types of insurance policies to cover our operations, including public liability, business interruption, property damage, crime insurance (including theft and other criminal damage), political risks, general umbrella liability, employee compensation, product liability, customs and export, and personal accident insurance. While there are no material exclusions affecting the ordinary course of business, there may be circumstances under which certain types of loss, damage and liability are not covered by our insurance policies, in which case we could incur losses that could have an adverse affect on our business and results of operations. In addition, there can be no assurance that we will continue to be able to renew our existing levels of coverage on commercially acceptable terms, or at all. The unavailability of adequate insurance for the various areas at our business could have an adverse effect on our business and results of operations.

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Our manufacturing operations are concentrated in a small number of facilities

Almost all of our jewellery by value is hand made at our manufacturing facility in London. Our designers and craftsmen, and the equipment they use, are all located at this facility. Should our ability to operate out of this facility be compromised for any reason, it could take a significant amount of time and resources to replace our manufacturing operations. Any event which reduced or eliminated the functioning of our London facility could have a material adverse impact on our business, financial condition and results of operations.

We cut and polish a significant portion of our diamonds in our Procurement and Polishing division, the operations of which are concentrated in two facilities in South Africa and Botswana. Our South African facilities have been operating for more than a decade, during which time we have built up a highly trained and skilled workforce, whereas our facility in Botswana has been operational since 2007. If either or both of these facilities were to reduce or cease operating for any reason, we would have to find alternative procurement and polishing facilities with the necessary infrastructure, personnel and expertise to procure rough diamonds and produce polished diamonds of the very high standards that we require for our business. Doing so would take time and could require significant investment, and there can be no assurance that our business, financial condition and results of operations would not be adversely affected.

We face competition across our product categories and the markets in which we operate

We compete with other high-end jewellers as well as international luxury goods groups which own and operate well-known brands of high quality jewellery and watches and may have greater financial resources than we do. Recent years have seen an increased focus on very high-end jewellery by many of the world's largest luxury goods groups, including LVMH (via Bulgari, De Beers Diamond Jewellers and Chaumet) and Richemont (via Cartier and Van Cleef & Arpels). Couture fashion houses such as Chanel and Hermès are also producing jewellery collections targeting a similar group of customers and price ranges. All of these competitors have similar expansion strategies focused on the expected growth in demand for luxury goods in China. We believe that we compete primarily on the basis of our brand image, access to large, rare and high quality diamonds, innovative design, use of materials, customer service, understanding of our target customer group and reputation for quality. However, some of our competitors are significantly better capitalised than we are, enjoy better brand recognition in some regions and may have access to better retail locations, greater capital flow to support their design and manufacturing operations and more developed business support functions. If we are unable to compete successfully, our business and results of operations could be adversely affected.

We may not be able to successfully integrate the Safdico or other acquisitions into our business

Immediately prior to Listing, we will own all of the outstanding share capital of Safdico, the holding company for our Procurement and Polishing division. Although Safdico has been under the control of Laurence Graff since its formation, the acquisition involves numerous risks and uncertainties, including:

- the costs and difficulties in integrating Safdico, managing a larger and growing business and operating in new markets and geographic regions;
- potential ongoing financial obligations and unforeseen, hidden or latent liabilities in Safdico and other unidentified risks;
- the failure to capitalise on the expected synergies arising from acquiring Safdico and to achieve other intended objectives or benefits, or to generate sufficient turn over to recover the costs or expenses of the acquisition;
- Safdico's failure to perform as expected;
- the failure to retain the management team of Safdico and their expertise; and
- the diversion of resources and management attention from our existing business.

We have not received any indemnities from the sellers of Safdico for any liabilities that may exist in the business that we are acquiring. Any resultant exposure and the failure to manage the foregoing risks effectively may have an adverse effect on our business, financial condition and results of operations.

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In addition, as we continue to expand our business, we may seek to grow by targeted acquisitions of complementary businesses or assets where attractive opportunities present themselves. The acquisition of companies and/or assets is subject to substantial risks, including the failure to identify material problems during due diligence, the risk of over-paying for assets, the inability to arrange suitable acquisition financing, the risk that anticipated synergies may not be realised, the risk of significant write-offs or restructuring charges, difficulties in achieving optimal tax structures and other unanticipated costs. Further, the integration and consolidation of acquisitions require substantial human, financial and other resources, including management time and attention, and, ultimately, such acquired businesses or assets may not be successfully integrated and/or our resources, including the time and attention of our Directors, may be diverted. There can be no assurance that we will consummate any such future acquisitions, that any acquisitions we make will perform as expected or that the returns from such acquisitions will support the investment required to acquire or develop them. Any failure to address these factors could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to renew all of our existing leases for our stores when they expire on acceptable terms, or if they are terminated, to find suitable alternative locations

Upon completion of the Global Offering, we will lease the premises for all of our 18 directly operated stores. The terms of a significant majority of our retail leases range from three to 15 years and expiry dates range from August 2012 to December 2026. The aggregate lease expense in respect of our retail premises for the years ended 31 December 2009, 2010 and 2011 was US\$9.1 million, US\$10.1 million and US\$12.1 million, respectively. The increase in our retail lease expense over the Track Record Period was attributable to the opening of additional stores. It is important to our business that the existing leases for our stores are maintained and renewed, due in particular to our stores being located in some of the world's most exclusive shopping districts where available retail space is limited. If we are unable to renew our leases on terms acceptable to us, or at all, or if such leases are terminated for any reason prior to their expiration, we will need to relocate the relevant store to alternative premises. Relocation of any store may cause disruptions to our business and may require significant expenditures. We cannot be sure that we would be able to find alternative premises that are suitable, or that new lease terms would be commercially acceptable to us.

We face risks relating to our arrangements with our franchisees

In addition to our directly operated stores, we also have five franchise partners operating from 13 locations. For the years ended 31 December 2009, 2010 and 2011, sales to our franchise partners totalled US\$23.1 million, US\$25.0 million and US\$60.7 million, or 5.8%, 5.5% and 9.7% of the sales attributable to our Retail division, respectively. We generally enter into franchise arrangements in countries where we believe there is geopolitical risk, underdeveloped local retail infrastructure and/or barriers to entry for foreign investors. As a result, we are dependent upon our franchisees to use their local knowledge and expertise to develop our business and successfully promote the Graff brand in these jurisdictions. Our franchisees purchase their products from us and are required to adhere to the terms of our franchise agreements. They are ultimately responsible for the end-customer's shopping experience, including the service that customers receive. While we have taken great care in selecting our franchise partners, we remain subject to the risk that a franchisee disregards the terms of our arrangement and conducts itself in a way that compromises the value of our brand or damages our reputation, which could have an adverse effect on our business and results of operations.

There also can be no assurance that we will be able to renew our current arrangements with our existing franchisees. If we cannot successfully continue our arrangements with one or more of our franchisees, we would have to find and vet new partners and retail locations which could be challenging, time consuming and have an adverse effect on our reputation, business and results of operations in the particular jurisdiction or jurisdictions in which such franchise operations are located.

Our client relationships may be affected as a result of our becoming a public company

Our business relies on the purchase of jewellery and watches by high and ultra high net worth individuals, many of whom value privacy and discretion in the services we provide to them. After we become a public company, we expect that our profile will be raised and information regarding the type of products we sell

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and the type of customers we serve will become more widely publicised. Furthermore, regulators may require us to disclose such information to comply with relevant reporting requirements. There can be no assurance that the increase in the public profile of our business will not negatively impact our client relationships.

Our operations in certain countries, including China, South Africa and Botswana, expose us to certain risks inherent in doing business internationally

As a result of our organic growth and our growth strategy, we have developed and expect to continue to develop retail operations and/or production facilities in countries that expose us to additional political, regulatory, economic and investment risks, as the political, economic and legal systems in certain of these jurisdictions are generally less well developed than in Western Europe and the United States.

These risks include: protection of intellectual property, in particular our Graff brand; tariffs, customs and other barriers to importing/exporting materials and products in a cost effective and timely manner; timing and availability of import and export licenses; rising labour costs; disruptions in or inadequate infrastructure of the countries where we operate; difficulties in staffing and managing international operations; the burden of complying with foreign and international laws and treaties; and the burden of complying with, and changes in, international taxation policies.

In addition, our Procurement and Polishing division has significant operations in South Africa. The South African government, through the Broad-Based Black Economic Empowerment Act, 2003, established a legislative framework for the promotion of Black Economic Empowerment (“BEE”). We have taken a number of actions to increase empowerment of historically disadvantaged South Africans, such as placing an emphasis on employment equity, skills development, corporate social responsibility, enterprise development, preferential procurement and working with a BEE partner that holds a minority interest in our South African operating subsidiary. We have been independently audited by a government approved agency, which has scored our activities in this area well above the legislative requirements. However, there can be no assurance that we will be able to continue to improve or maintain our current rating. A significant deterioration in our rating could have an adverse impact on our business and reputation.

We are exposed to various tax risks in the jurisdictions in which we operate

For the year ended 31 December 2011, certain companies within the Group were tax resident in the United Kingdom and we paid approximately 85% of our aggregate corporate tax in the UK. As a result of the Reorganisation and the expansion of our retail network, we may be liable for a greater proportion of our corporate tax in jurisdictions other than the United Kingdom. This may result in a change in our effective tax rate, as well as expose us to review and audit by tax authorities in jurisdictions, particularly in Asia and Africa, where corporate tax laws, interpretations and guidance are less well developed than in the United States and Western European jurisdictions where we have historically operated. Changes in our tax rate mix and classification under the various tax regimes to which we are subject could lead to an increased administrative burden on our management.

In addition, certain territories in which we operate have transfer pricing regulations that require transactions involving associated companies to be effected on arm’s-length terms. It is our policy that arrangements between members of the Group, such as the intra-group provision of goods and services, are carried out on an arm’s-length basis. However, if the tax authorities in any relevant jurisdiction do not regard such arrangements as being made on an arm’s-length basis and successfully challenge those arrangements, the amount of tax payable by the relevant member or members of the Group, in respect of either current or previous years, may increase materially and penalties or interest may be payable.

The import and export of our products to serve our clients and retail network globally exposes us to regulatory risk

We serve a mobile, international clientele who may purchase items from stores located outside their home region. Serving our client base often involves moving very high value items of jewellery between our stores throughout the world, as well as to exhibitions and private residences. While our global inventory management team has been successful in managing the demands of our sales channels, there can be no

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assurance that it will be able to continue to do so as we expand our store network, particularly in Asia. We have a dedicated team of staff who specialise in the process and documentation necessary to transport inventory globally. However, customs regulations can change rapidly. In the event of a change in law or in enforcement policy, our goods may be delayed in transit between our locations or we could experience changes in customer buying patterns. Although we carry insurance to cover the financial impact that an unexpected change in customs regulation or enforcement may have on our business, any incident that delays or makes it impracticable for us to move our jewellery around the world to our stores and to our clients may have an adverse impact on our reputation and client relationships and, consequently, on our business, financial condition and results of operations. In addition, changing patterns of consumer expenditure while travelling may require us to adapt our business model to serve our clients' needs.

The growth of our business depends in part on our ability to manage the expansion of our retail distribution network

We have pursued a growth strategy in recent years, expanding from 12 stores as at 31 December 2009 to 18 stores as at 31 December 2011. We are scheduled to open five directly operated stores in 2012, all of which will be in Asia. In 2013, we intend to open a further five directly operated stores, the majority of which will be in Asia, assuming that we are able to find suitable locations. As we grow, we face challenges both in finding suitable locations and staff for our new directly operated stores, as well as managing the on-going operations of our expanding store network.

The success of a new store depends in part on our ability to lease a prime location, manage inventory and hire and train appropriate staff. We lease all of our stores in prime retail real estate locations suitable for the exclusive nature of our brand. This leads to competition for suitable space and higher rents. If we are unable to rent prime locations, or are required to pay commercially unreasonable rents, then we may be unable to open new stores on the timetable anticipated or the stores may not reach our profitability targets as quickly as we anticipate or at all. In addition, particularly when we enter a new market, we must find qualified store managers and sales staff to ensure that we portray an image that is consistent with our brand and provide the exceptionally high level of customer service expected by our customers. Accordingly, we spend significant amounts of time and effort training new staff. If we are unable to adequately hire, train or retain sales staff and store managers, the new stores may perform below our expectations.

We are subject to risks relating to US and international legal requirements, which could result in material settlements, fines or penalties or changes in our business operations that may adversely affect our business, financial condition and results of operations

Our business is subject to a wide range of laws and regulations that vary by jurisdiction. We are subject to US federal anti-money laundering laws, including the requirements of the Office of Foreign Assets Control, which prohibits us from transmitting money to specified countries or on behalf of prohibited individuals. Additionally, we are subject to the anti-money laundering laws in many countries where we operate, particularly in the European Union. In connection with the regulatory requirements to which we are subject, there has been increased public attention regarding prevention of money laundering, terrorist financing and the corporate use and disclosure of personal information, accompanied by legislation and regulations intended to strengthen anti-money laundering. The legal, political and business environments in these particular areas are evolving, inconsistent across various jurisdictions, and often unclear, which increases our operating compliance costs and our legal risks. Subsequent legislation, regulation, litigation, court rulings or other events could expose us to increased programme costs, liability and reputational damage. In particular, we are subject to regulations imposed by the Foreign Corrupt Practices Act in the United States, the Bribery Act 2010 in the UK and similar anti-bribery laws in other jurisdictions. Our systems and processes may not be sufficient to detect and prevent an intentional or negligent violation of the laws and regulations set forth above or other applicable laws and regulations, which could lead to us being subject to significant fines or penalties. In addition to those direct costs, a failure by us or any of our employees to comply with applicable laws and regulations also could result in adverse publicity and reputational harm; lead to increased regulatory supervision; affect our ability to attract and retain customers and maintain access to the capital markets; result in cease and desist orders, suits, enforcement actions, fines and civil and criminal penalties or other disciplinary action; or have other adverse effects on

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us in ways that are not predictable. The occurrence of one or more of these events could have a material adverse effect on our business, financial condition and results of operations.

Restrictive covenants in our debt agreements could limit our financial and operational flexibility

We have incurred indebtedness, and may incur additional indebtedness in the future. At 31 March 2012, we had an aggregate of US\$265.2 million of indebtedness outstanding. Our indebtedness primarily consists of secured and unsecured bank loans, committed bank facilities, other loans and finance lease obligations. For more details on our indebtedness, see “Financial Information — Financial Liabilities and Contractual Obligations — Indebtedness”.

The agreements covering our indebtedness, particularly our bank loans, contain covenants that, among other things, restrict our and our subsidiaries’ ability to dispose of material assets, create liens on assets, incur guarantee obligations, enter into new loan agreements (or other agreements with significant impact on our business and financial position), engage in mergers or acquisitions (or other transactions with respect to a change in control of the Company) and engage in certain transactions with affiliates. We cannot assure you that these restrictive covenants will not adversely affect our ability to finance our future operations or capital needs, to pursue possible business opportunities or react to changes in our business and the industry in which we operate. Our ability to comply with the restrictive covenants contained in these agreements may also be adversely affected by economic, financial, industry or other conditions, some of which may be beyond our control. If we are unable to comply with these restrictive covenants in the future, amounts outstanding under such agreements could become due and payable, which could limit our ability to meet ongoing or future capital needs and have a material adverse impact on our business, financial condition and results of operations.

Our business depends on our intellectual property, particularly our trade name and trademarks, which we may not be able to protect against infringement and unauthorised use in counterfeit products

We believe that the Graff trade name and related trademarks are critical to our success and competitive advantage. Our policy is to register and protect our trade name, trademarks and other intellectual property rights in the jurisdictions in which we operate, to the extent we are able under relevant local law. We are not aware of any material violations, infringements or unauthorised use in relation to our trade name or trademarks. However, we cannot assure you that the steps we have taken to protect our trade name or trademarks are sufficient or will be sufficient to protect our trade name or trademarks, or that our trade name and trademarks will not be subject to any infringement in the future. Any unauthorised use of our trade name or trademarks, including in locations where we do not operate, could harm our brand, market image and reputation, which could adversely affect our business, financial condition and results of operations. In addition, we may incur additional costs as a result of any trade name or trademark infringement claims we initiate, which may divert management’s attention from our business and impact our results of operations.

We are exposed to fluctuations in currency exchange rates

The reporting currency and the functional currency of the majority of our operations is the US dollar, as this is the principal currency in which diamonds are bought and sold and in which many of our costs, including insurance premiums, are incurred. However, we have operations in jurisdictions whose national currencies vary, and include Sterling, the Euro, the Hong Kong dollar (which is pegged to the US dollar), the Renminbi, the Swiss Franc, the South African Rand and the Yen. For financial reporting purposes, transactions in foreign currencies are converted into the functional currency of each entity using the exchange rate prevailing at the transaction date. Monetary assets and liabilities outstanding at year end are converted at year-end rates. The resulting exchange differences are recorded in the combined statement of income. We do not have a policy of hedging against currency fluctuations. The exchange rates between relevant local currencies and the US dollar have historically fluctuated, and the translation effect of such fluctuations may have a material adverse effect on our business, financial condition and results of operations.

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We may be exposed to legal claims or disputes in our ordinary course of business

We are involved in legal claims, disputes and legal proceedings from time to time in the ordinary course of our business. We believe that all of our operations are in material compliance with applicable laws and regulations in the jurisdictions in which we operate. There can be no assurance, however, that we will not be subject to liabilities in the future that may have a material adverse effect on our business and results of operations.

Risks Related to the Global Offering

There has been no prior market for our Shares, and the liquidity and market price of our Shares following the Global Offering may be volatile

Prior to the completion of the Global Offering, there has been no public market for our Shares. The initial offer price range of the Offer Shares, and the Offer Price, will be the result of negotiations between the Joint Global Coordinators (on behalf of the Underwriters), the Controlling Shareholder, the Selling Shareholder and us. The Offer Price may not be indicative of the price at which our Shares will be traded following the completion of the Global Offering. In addition, there can be no guarantee that (i) an active trading market for our Shares will develop, (ii) if it does develop, that it will be sustained following the completion of the Global Offering or (iii) that the market price of our Shares will not decline below the Offer Price. The price of our Shares following the Global Offering may vary substantially from the Offer Price. If active trading does not develop, the liquidity and price of our Shares may be adversely affected.

In addition, stock markets have experienced significant fluctuations in recent years, which have not always been related to the performance of the specific companies whose shares are traded. Such fluctuations, as well as general economic conditions, may materially affect the price of our Shares. The price of our Shares may also be materially affected by a number of factors, including factors relating to us and the risks described in this prospectus, our competitors and, in particular, our markets.

The interests of our Controlling Shareholder may differ from the interests of other shareholders

Upon completion of the Global Offering, and assuming that the maximum number of Offer Shares are issued and sold and the Over-allotment Option is not exercised, our Controlling Shareholder will own approximately 40.4% of our outstanding Shares and the same portion of voting rights. If, however, the minimum number of Offer Shares are issued and sold and assuming that the Over-allotment Option is not exercised, he will own approximately 45.3% of our outstanding Shares and voting rights. As a result, he will have a controlling influence in matters submitted to a vote of our shareholders, including matters such as approval of the annual financial statements, declarations of annual dividends, the election and removal of the members of our Board and Auditors, capital increases and amendments to our Articles. The interests of our Controlling Shareholder may in certain cases differ from those of our other shareholders.

Any potential sale of Shares by Laurence Graff or Anne-Marie Graff could have an adverse effect on our share price

Future sales of a substantial number of our Shares by Laurence Graff or Anne-Marie Graff or market perception that such a sale is imminent, could negatively impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by Laurence Graff or Anne-Marie Graff are subject to certain lock-up agreements beginning on the date on which trading in our Shares commences on the Hong Kong Stock Exchange. While we are not aware of any current intentions of these shareholders to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own. In the event that any of these shareholders disposes of Shares following the expiry of the relevant lock-up periods, this would lead to an increase in the number of our Shares in public hands, and could negatively impact the market price of our Shares or lead to volatility in the market price or trading volume of our Shares, affecting the value of your investment.

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Payment of dividends will depend upon future earnings, financial condition, cash flows, working capital requirements, capital expenditures and other factors

Dividends paid during the Track Record Period of US\$14.3 million, US\$25.9 million and US\$51.0 million are not necessarily indicative of future dividend payments. The amount of any future dividend payments that we may make, if any, will depend upon a number of factors, which may include our strategy, future earnings, financial condition, cash flows, working capital requirements, capital expenditures, applicable laws and regulations, and other factors. There can be no assurance that we will have sufficient distributable reserves or decide to pay dividends in the future.

The ability of shareholders to bring actions or enforce judgments against us or our Directors may be limited

We are organised under the laws of the Cayman Islands. As a result, a shareholder may not be able to enforce a judgment against us or some or all of the Directors and executive officers outside the Cayman Islands. It may not be possible for a shareholder to effect service of process upon the Directors and executive officers within the shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that a shareholder will be able to enforce any judgments in civil and commercial matters against the Directors or executive officers who are residents of countries other than those in which judgment is made.

Investors will experience dilution in the pro forma adjusted consolidated net tangible asset value per Share because the Offer Price is higher than our net tangible asset value per Share

As the Offer Price of our Shares is higher than the net tangible asset value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma adjusted consolidated net tangible asset value to HK\$8.97, HK\$9.52 and HK\$9.94 per Share, assuming an Offer Price of HK\$25.00, HK\$31.00 and HK\$37.00, being the bottom, mid-point and top of the indicative Offer Price range, respectively. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their ownership percentage.

Due to a gap of up to five Business Days after the expected pricing of the Offer Shares, the initial trading price of the Offer Shares could be lower than the Offer Price

The Offer Price will be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until the Listing Date, which is expected to be on or about five Business Days after the Price Determination Date. As a result, you may not be able to sell or otherwise deal in our Shares during such period, and thus will be subject to the risk that the market price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments occurring during such period.

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in press coverage, other media and/or research analyst reports in relation to the Global Offering, our business, our industry, our operations or our Group in connection with a decision to invest in the Shares

There has been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press, media and/or research analyst coverage regarding us, our business, our industry and the Global Offering and other forward-looking statements. There can be no assurance that there will not be further press coverage or other media reports prior to Listing in relation to the Global Offering, our business, our industry, our operations or other details about our Group, including forward-looking information and other types of information. There can be no assurance that such press coverage or other media reports will not be negative or hostile. You should rely solely upon the information contained in this prospectus and we do not accept any responsibility for the accuracy or completeness of the information contained in such press coverage, other media or research analyst reports nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analysts regarding the Shares, the Global Offering, our business, our

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industry or us. We make no representation or warranty as to the appropriateness, accuracy, completeness or reliability of any such information, forecast, report, projection, valuation, view, opinion expressed or forward-looking information about us, or any of the assumptions underlying such information. To the extent that such statements, forecasts, reports, projections, valuations, views, opinions expressed or forward-looking information about us in the press or other media are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE HONG KONG COMPANIES ORDINANCE

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and the following exemption from the Hong Kong Companies Ordinance:

Waiver in respect of Management Presence in Hong Kong

Pursuant to Listing Rule 8.12, the Company must have sufficient management presence in Hong Kong, and in normal circumstances, at least two of the Company's executive Directors must be ordinarily resident in Hong Kong. Our headquarters and manufacturing facilities are located outside Hong Kong and our jewellery and watches are sold through 18 directly operated stores and five carefully selected franchise partners operating 13 locations in cities across Europe, Asia and the United States, as well as through international luxury goods fairs and exhibitions. The executive Directors of the Company are based outside Hong Kong and the Group does not, and in the foreseeable future, will not have a sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Listing Rule 8.12.

We have appointed Charles Sparrow and Nicholas Paine as the authorised representatives of our Company, to act as the principal channel of communication between the Hong Kong Stock Exchange and the Company. The authorised representatives will be available to meet with the Hong Kong Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by phone, facsimile and/or email to deal promptly with enquiries from the Hong Kong Stock Exchange.

Accordingly, the Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted the Company, a waiver from strict compliance with the requirements under Listing Rule 8.12 subject to the following conditions:

- (a) our authorised representatives will act as the principal channel of communication with the Hong Kong Stock Exchange;
- (b) our authorised representatives should have the means for contacting all Directors promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors on any matters;
- (c) each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Hong Kong Stock Exchange within a reasonable period;
- (d) our compliance adviser will act as an additional channel of communication with the Hong Kong Stock Exchange; and
- (e) each Director will provide their respective mobile phone numbers, office phone numbers, email addresses and fax numbers to the Hong Kong Stock Exchange.

Waiver in respect of Dealing in Securities by Connected Persons

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Listing Rule 9.09(b) such that the transfer of Shares comprising gifts of Shares by Laurence Graff to five of his family members may be conditional upon completion of the Reorganisation and be completed in the period between: (i) four clear business days before the expected hearing date and (ii) the Listing Date. The Shares transferred by way of gift: (i) will be subject to a six month lock-up in accordance with Listing Rule 10.07(1)(a); and (ii) will not form part of the public float for the purpose of Listing Rule 8.24. Please see the section headed "Our History and Corporate Structure — Reorganisation" in this prospectus for further details.

Waiver in respect of Non-exempt Continuing Connected Transactions

We have applied for, and the Hong Kong Stock Exchange has granted, waivers in respect of certain non-exempt continuing connected transactions. Please see the section headed "Connected Transactions" in this prospectus for further details.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTION FROM THE HONG KONG COMPANIES ORDINANCE

Waiver in respect of Company Secretary

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Listing Rule 8.17 and Listing Rule 3.28 such that the Company's secretary is not required to have the qualifications set out in Listing Rule 3.28. Please see the section headed "Directors and Senior Management" in this prospectus for further details.

Waiver in respect of Clawback Mechanism

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. An application has been made for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, in the event of over-applications, the Joint Global Coordinators shall apply a clawback mechanism following the closing of the application lists on the following bases:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 40 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 46,680,000, representing not less than approximately 15% of the number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 40 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 93,360,000, representing not less than 30% of the number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 124,480,000, representing not less than 40% of the number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing in such proportions as the Joint Global Coordinators deem appropriate. For further details of the structure of the Global Offering, please refer to the section headed "Structure of the Global Offering" in this prospectus.

Exemption in Relation to the Disclosure of the Residential Address

We have applied for, and the SFC has granted, an exemption pursuant to Section 342A of the Hong Kong Companies Ordinance from strict compliance with Paragraph 6 of the Third Schedule to the Hong Kong Companies Ordinance on the condition that the business addresses of Laurence Graff and François Graff, who are each Directors, are disclosed in place of their respective residential addresses.

We have applied for the exemption on the basis that disclosure of each of Laurence Graff's and François Graff's residential addresses would be inappropriate taking into account of, among other things, the 2009 robbery of the Company's Bond Street Store and their media profile, and that such disclosure would expose them and their families to unnecessary safety risks. The Directors consider that this exemption will not prejudice the interests of the investing public.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Directors' Responsibility for the Contents of this Prospectus

This prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to their knowledge and belief, the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus misleading.

Information on the Global Offering

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Offer Shares are made available solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, any of their respective directors, agents, employees, affiliates or advisors or any other party involved in the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as at any subsequent time.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and in the relevant Application Forms.

Restrictions on Offer and Sale of the Offer Shares

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of the Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute an offer or the invitation of an offer in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

Application for Listing of our Shares on the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Reorganisation and the Global Offering (including any additional Shares which may be sold pursuant to the exercise of the Over-allotment Option and under the Option Plan).

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Professional Tax Advice Recommended

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, any of their respective directors or affiliates and any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

Register of Members and Stamp Duty

Our Company's principal register of members will be maintained by our principal Share Registrar, Ogier Fiduciary Services (Cayman) Limited, in the Cayman Islands, and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong.

No stamp duty is payable by applicants in the Global Offering. Any Offer Shares sold by the Selling Shareholder as part of the clawback to the Hong Kong Public Offering in the event of over-subscription will be subject to stamp duty at the rate of 0.2% of the Offer Price, which will be paid by the Selling Shareholder. Dealings in our Shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty. Please see the section headed "Statutory and General Information — F. Other Information — 1. Estate Duty, Tax and Other Indemnities" in Appendix IV to this prospectus.

Procedure for Application for the Hong Kong Offer Shares

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

Structure of the Global Offering

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

Over-Allotment and Stabilisation

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the section headed "Structure of the Global Offering" in this prospectus.

Shares will be Eligible for Admission into CCASS

Subject to the granting of the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange and compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

Commencement of Dealings in our Shares

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 7 June 2012, it is expected that dealings in our Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on 7 June 2012. Our Shares will be traded in board lots of 100 Shares each, and the stock code of our Shares will be 1306.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Consequences of Holding an Interest in Shares

Holders and beneficial owners of our Shares should be aware that they may be subject to certain legal requirements under Hong Kong law and the Listing Rules, including, for example, reporting obligations upon reaching certain specified ownership thresholds. You should consult your own legal advisor as to the Hong Kong legal consequences of investing in our Shares.

Language

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

Rounding

In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred, or hundred thousand, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth of a per cent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Directors

Name	Address	Nationality
Executive Directors		
Laurence Graff	28-29 Albemarle Street London W1S 4JA United Kingdom	British (resident in Switzerland)
François Graff	28-29 Albemarle Street London W1S 4JA United Kingdom	British
Nicholas Paine	Shorrolds Road London SW6 7TP United Kingdom	British

Independent Non-Executive Directors

Douglas Daft	101 Worth Avenue Palm Beach, FL 33480 USA	Australian
Graeme Jack	24B Po Garden 9 Brewin Path Mid Levels Hong Kong	Australian
Manuel Lino Silva De Sousa-Oliveira (known as Ollie Oliveira)	5th Floor 25 Berkeley Square London W1J 6HN United Kingdom	Portuguese
Philippe Pascal	123 rue de Grenelle 75007 Paris France	French

Parties involved in the Global Offering

Joint Global Coordinators and Joint Sponsors (in alphabetical order)	Credit Suisse (Hong Kong) Limited Level 88, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	Goldman Sachs (Asia) L.L.C. 68th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	Morgan Stanley Asia Limited 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Joint Bookrunners (in alphabetical order)	Credit Suisse (Hong Kong) Limited Level 88, International Commerce Centre 1 Austin Road West Kowloon Hong Kong Deutsche Bank AG, Hong Kong Branch Level 52, International Commerce Centre 1 Austin Road West Kowloon Hong Kong Goldman Sachs (Asia) L.L.C. 68th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Morgan Stanley Asia Limited 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Joint Lead Managers (in alphabetical order)	Barclays Bank PLC, Hong Kong Branch 41/F, Cheung Kong Center 2 Queen's Road Central Hong Kong ICBC International Securities Limited 37/F, ICBC Tower 3 Garden Road Hong Kong
Financial Adviser to the Company	N M Rothschild & Sons Limited New Court St Swithins Lane London EC4N 8AL Rothschild (Hong Kong) Limited 16th Floor, Alexandra House 18 Chater Road Hong Kong
Legal Advisers to the Company	<i>As to Hong Kong Law:</i> Linklaters 10th Floor, Alexandra House 18 Chater Road Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to United States and English Law:

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Cayman Islands Law:

Ogier
11th Floor, Central Tower
28 Queen's Road Central
Hong Kong

Legal Advisers to the Underwriters

As to Hong Kong Law:

Herbert Smith
23rd Floor, Gloucester Tower
15 Queen's Road Central
Hong Kong

As to United States and English Law:

Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS
United Kingdom

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RM
United Kingdom

Reporting Accountants

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Receiving Bankers

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
5/F Standard Chartered Tower,
388 Kwun Tong Road, Kowloon, Hong Kong

CORPORATE INFORMATION

Headquarters	Ogier House The Esplanade St. Helier Jersey JE4 9WG
London office	28-29 Albemarle Street London W1S 4JA United Kingdom
Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance	18/F Ashley Nine 9-11 Ashley Road Tsim Sha Tsui, Kowloon Hong Kong
Company's Website	www.graffdiamonds.com (the contents of this website do not form part of this prospectus)
Company Secretary	Charles Sparrow (Solicitor, England and Wales) Ogier 11th Floor, Central Tower 28 Queen's Road Central Hong Kong
Assistant Company Secretary	Mr Chan Sing Lai (CPA) Ogier 11th Floor, Central Tower 28 Queen's Road Central Hong Kong
Authorised Representatives	Charles Sparrow Apartment 879, Tower 14 Hong Kong Parkview 88 Tai Tam Reservoir Road Hong Kong Nicholas Paine Shorrolds Road London SW6 7TP United Kingdom
Audit and Corporate Governance Committee	Graeme Jack (Chair), Douglas Daft, Ollie Oliveira
Nomination Committee	Philippe Pascal (Chair), Douglas Daft, Ollie Oliveira, Laurence Graff, François Graff
Remuneration Committee	Douglas Daft (Chair), Graeme Jack, Philippe Pascal, Laurence Graff, François Graff
Cayman Islands Unlisted Share Registrar and Transfer Office	Ogier Fiduciary Services (Cayman) Limited 89 Nexus Way, Camana Bay Grand Cayman, KY1-9007 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Compliance Advisor	Rothschild (Hong Kong) Limited 16/F, Alexandra House 18 Chater Road Central Hong Kong
Principal Bankers	Barclays Bank PLC 5 The North Colonnade Canary Wharf London E14 4BB Standard Chartered Bank 1 Basinghall Avenue London EC2V 5DD

INDUSTRY OVERVIEW

This section contains certain information which is derived in part from various official government publications, industry sources including industry publications, and from surveys or studies conducted by independent third-party sources such as the Altagamma Foundation and Bain & Company. We believe that the sources of such information are appropriate sources for such information, and we have taken reasonable care in compiling, extracting and reproducing such information. We have no reason to believe that such information is false or misleading, or that any material fact has been omitted that would render such information false or misleading. Such information has not been independently verified by us, our affiliates or advisors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, their affiliates or advisors, or any party involved in the Global Offering, and no representation is given as to its accuracy. None of the information in this Industry Overview section is based on or otherwise derived from reports or sources commissioned by us, our affiliates or advisors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, their affiliates or advisors, or any party involved in the Global Offering. Unless otherwise indicated, all historical and forecast statistical information with respect to the Global Luxury Goods Industry Overview section, including trends, sales, market shares and growth levels, is from the Bain Luxury Study — Altagamma Worldwide Market Monitor, a report published together by the Altagamma Foundation and Bain & Company. Sales figures are tracked and reported in Euros in this study. In addition, unless otherwise indicated, all sales data set forth in the Global Luxury Goods Industry Overview section refer to retail sales and all forecasts beyond 2011E are at constant 2011E exchange rates. Luxury goods industry segments and product categories refer to the definitions used by the Bain Luxury Study — Altagamma Worldwide Market Monitor. Unless otherwise indicated, all historical and forecast statistical information in this section, including trends, sales, market shares and growth levels, is from the Bain Global Diamond Industry Report published in December 2011.*

Introduction

We are a leading vertically integrated diamond jewellery company. Our operations comprise the design, manufacture and retail distribution of high and ultra high end jewellery and watches, and the sourcing, cutting and polishing of rough diamonds primarily for use in our retail operations.

Global Luxury Goods Industry Overview

We sell our products in the global luxury goods market. The global luxury goods market can be subdivided by luxury segment, product category, and geography. We are positioned in the absolute luxury segment. We offer hard luxury products. We sell our products globally.

The Global Luxury Goods Market

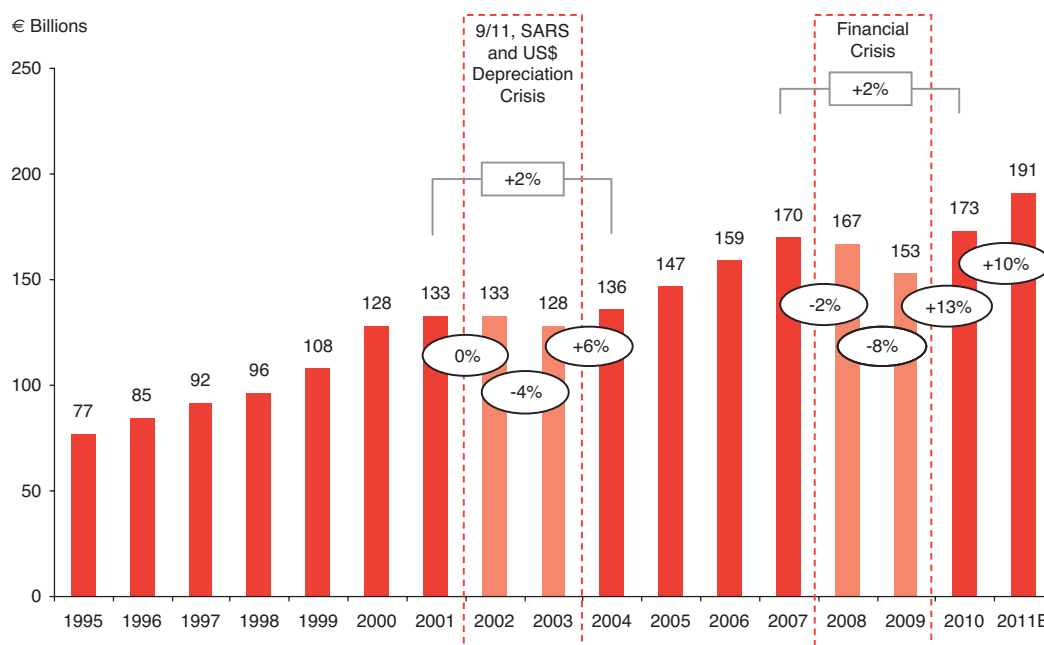
Total sales in the global luxury goods industry were a record €191 billion in 2011E. The industry has grown since the turn of the millennium, with industry sales having increased from €133 billion in 2001 to €191 billion in 2011E, representing an approximately 4% CAGR. During this period, the industry has proved resilient despite a variety of economic crises. From 2001 to 2004, the global luxury goods market grew approximately 2% despite the economic impact of the September 11, 2001 terrorist attacks in the United States, the SARS outbreak in 2003 and the depreciation of the United States dollar relative to the Euro. Similar resilience was seen during the global financial crisis of 2008 and 2009. Despite the world's major economies being severely affected by the financial crisis, the market grew approximately 2% from 2007 to 2010. The industry has not only proved resilient, but also capable of rapid recovery as evidenced by

* Altagamma Worldwide Markets Monitor is a publication prepared by the Altagamma Foundation, together with Bain & Company, that periodically analyses the global consumption of high-end products. The Altagamma Foundation was founded in 1992, and in 1999 set up the Altagamma Worldwide Markets Monitor, an annual research report, whose conclusions are based on an analysis of the financial statements of 200 global high-end brands and of approximately 500 companies that manage the businesses of those brands. The Altagamma Worldwide Markets Monitor is presented during the Altagamma Observatory in October of each year. A semi-annual update of the Altagamma Worldwide Markets Monitor is also presented in April or May of each year. Bain & Company, which was founded in 1973, is a global business consulting firm with 47 offices in 30 countries. Bain & Company has worked with over 4,600 major multinational, private equity and other corporations across every economic sector.

INDUSTRY OVERVIEW

the 6% growth in 2004 and the 13% and 10% growth in 2010 and 2011E, respectively. The evolution of the global luxury goods market from 1995 to 2011E is set forth in the following graph.

Exhibit 1: Global luxury goods market: 1995 to 2011E

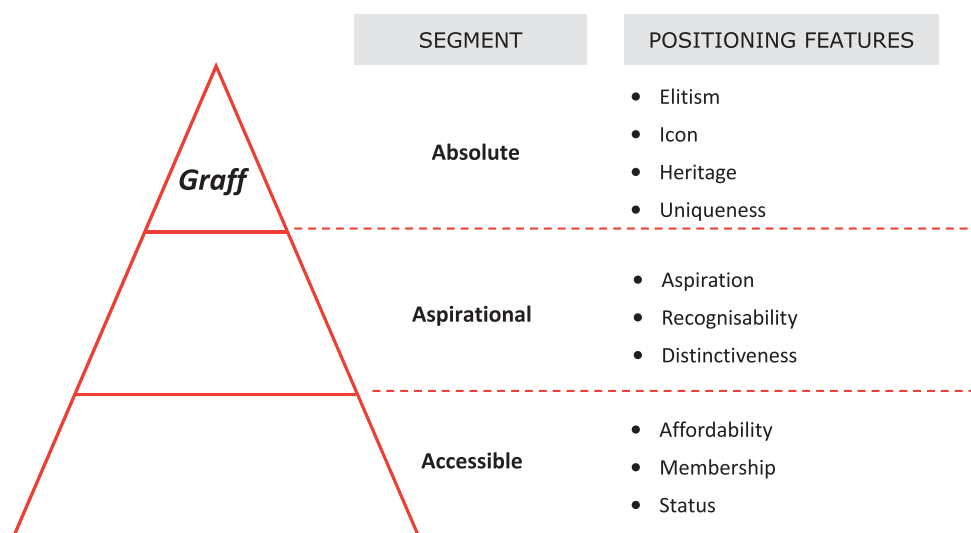


Source: Bain Luxury Study — Altagamma Worldwide Market Monitor (October 2011)

The Absolute Luxury Segment

The global luxury goods industry can be divided into three segments according to Bain Luxury Study — Altagamma Worldwide Market Monitor: accessible, aspirational and absolute. Brands in the absolute luxury segment are characterised, more than others, by exclusive distribution, a storied heritage, highest quality product offering and highest price points in their respective categories. Brands in the absolute luxury segment generated sales of approximately €40 billion in 2011E.

Exhibit 2: Three segments of the personal luxury goods market



Source: Bain Luxury Study — Altagamma Worldwide Market Monitor

The absolute luxury segment primarily caters to high and ultra high net worth individuals, whose wealth has historically proven to be less affected by economic volatility. The pool of high and ultra high net worth

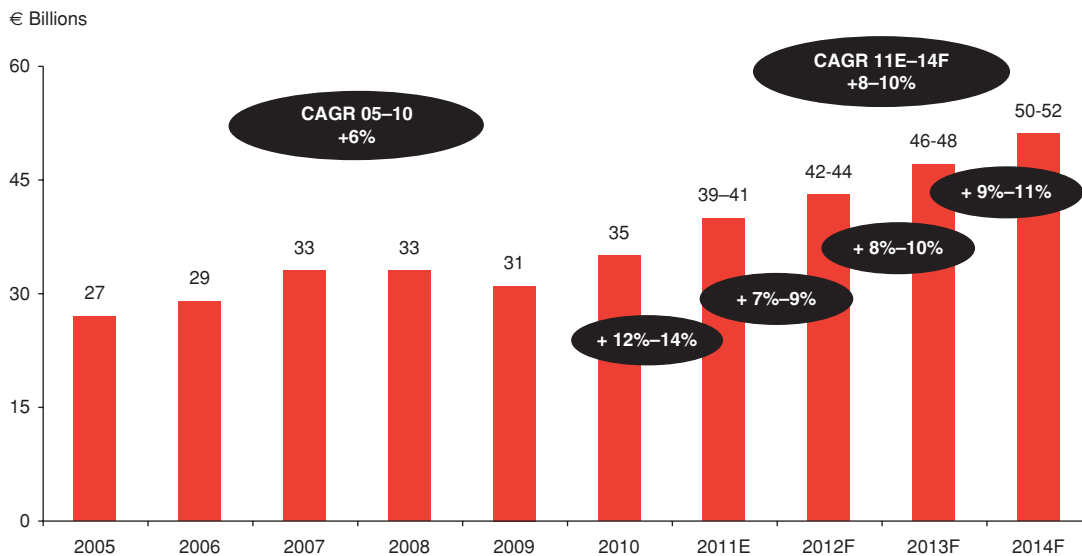
INDUSTRY OVERVIEW

individuals' wealth has grown since 2008. High net worth individuals' wealth grew 18.9% in 2009 and 9.7% in 2010 to reach a record US\$42.7 trillion, which surpassed the previous peak in 2007 (source: Capgemini Merrill Lynch 2011 World Wealth Report). Ultra high net worth individuals' wealth increased even faster, growing by 21.5% in 2009 and 11.5% in 2010 to reach US\$15.4 trillion, representing 36.1% of the total pool of high net worth individuals' wealth (source: Capgemini Merrill Lynch 2011 World Wealth Report).

The absolute luxury segment has been a main beneficiary of high and ultra high net worth individuals' growth in wealth. From 2005 to 2010, the absolute luxury segment grew at an approximately 6% CAGR compared to the overall global luxury goods market that grew at an approximately 3% CAGR. This trend continued in 2011E with absolute luxury growing 12–14% compared to 10% growth in the overall global luxury goods market. The absolute luxury segment has also proven less susceptible to economic crises, growing at an approximately 2% CAGR from 2007 to 2010, higher than the approximately 1% CAGR of the overall global luxury goods market.

The absolute luxury segment is forecast to grow from approximately €40 billion in 2011E to approximately €51 billion in 2014F, representing an 8% to 10% CAGR between 2011E and 2014F. The following graph illustrates the historical evolution, as well as the forecast development, of the absolute luxury segment between 2005 and 2014F.

Exhibit 3: Absolute luxury segment: 2005 to 2014F



Note: 2012F–2014F figures are at constant 2011E exchange rates

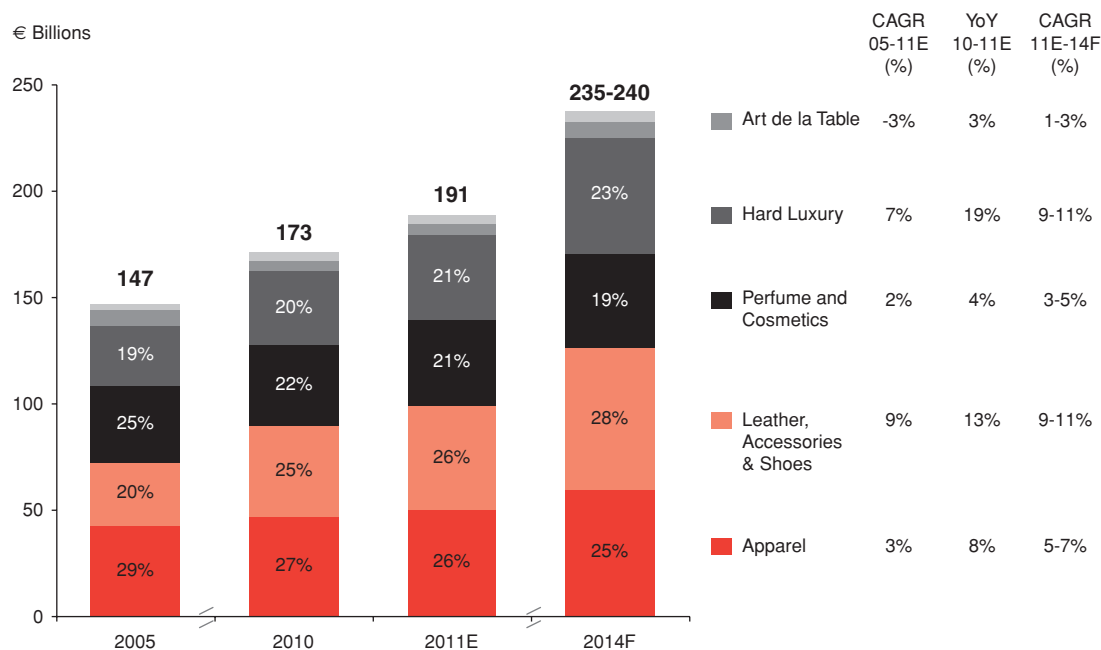
Source: Bain Luxury Study — Altgamma Worldwide Market Monitor, Spring Update (April 2012)

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Hard Luxury

The global luxury goods market can be split into the product categories shown below.

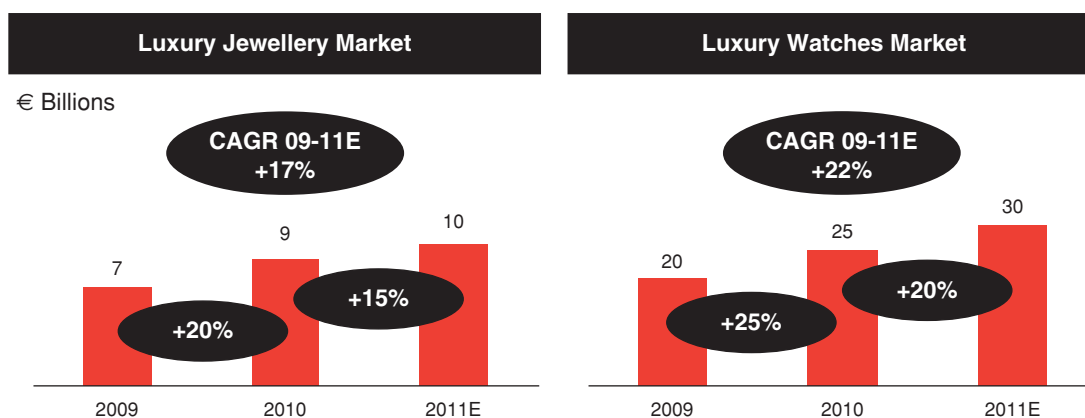
Exhibit 4: Global luxury goods market product categories: 2005 to 2014F



Note: 2014F figures are at constant 2011E exchange rates; final category not detailed in legend is "other luxury goods"
Source: Bain Luxury Study — Attagamma Worldwide Market Monitor

The hard luxury category covers luxury jewellery, watches, pens, and lighters. The hard luxury category generated sales of approximately €40 billion in 2011E, representing 21% of the global luxury goods market, with jewellery and watches accounting for nearly all category sales in 2011E. Due to strong growth in both jewellery and watches, the hard luxury category grew faster than all other categories in both 2010 and 2011E. Hard luxury is expected to reach an approximately 23% share of the overall global luxury goods market in 2014F, up from 21% in 2011E as result of above average growth compared to the overall luxury goods market.

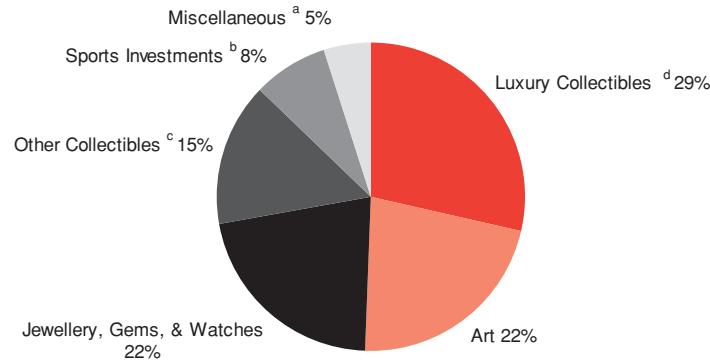
Exhibit 5: Luxury jewellery and watches market development: 2009 to 2011E



Source: Bain Luxury Study — Attagamma Worldwide Market Monitor (October 2011)

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Exhibit 6: HNWI allocations to “investments of passion” 2010 (%)



a “Miscellaneous” includes club memberships, travel, guns, musical instruments, etc.

b “Sports Investments” includes sports teams, sailing, race horses, etc.

c “Other Collectibles” includes coins, wine, antiques, etc.

d “Luxury Collectibles” includes automobiles, boats, jets, etc.

Note: Percentages may not add up to 100% due to rounding

Source: Capgemini Merrill Lynch 2011 World Wealth Report

By its nature, hard luxury has a relatively smaller fashion content than most other luxury goods categories. While jewellery also provides aesthetic and emotional appeal, hard luxury consumers generally judge a jewellery piece based on the intrinsic value of its gemstones. As hard luxury pieces are not subject to the same potential wear and tear as soft luxury items, hard luxury pieces are not only purchased for consumption but also as “investments of passion” given their emotional and aesthetical appeal and their potential to increase in value as the value of underlying gemstones appreciates over time.

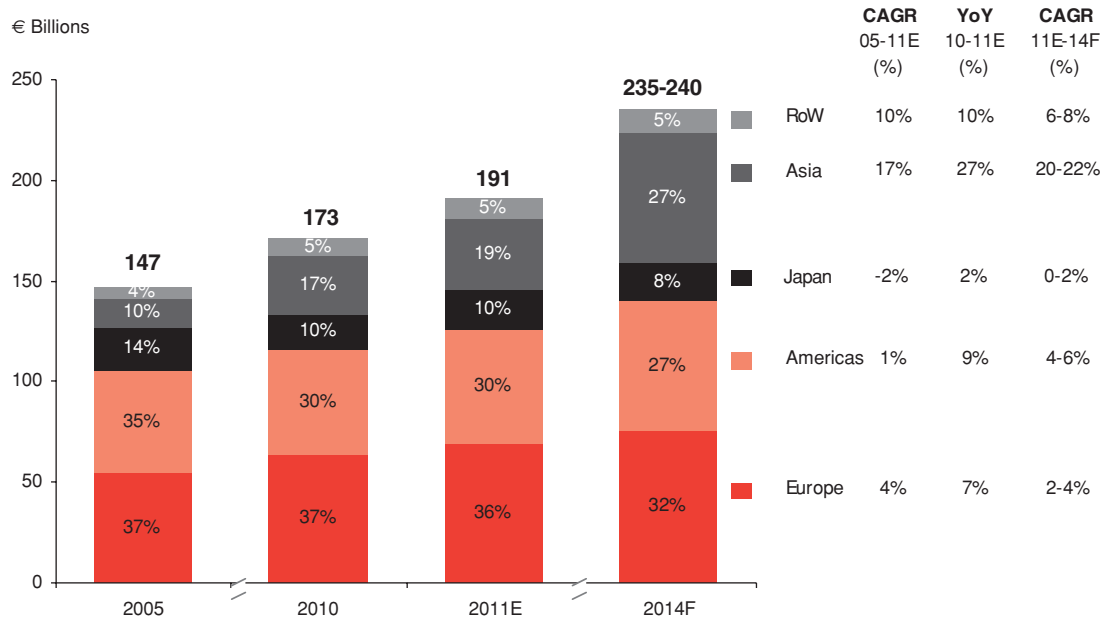
Jewellery, gems, and watches account for the second highest share of high net worth individuals’ “investments of passion” and are part of a subset of rare, non-depreciating “investments of passion” that includes fine art, fine wine and classic cars. These assets’ sharp price appreciation in recent years, together with similar trends seen for large diamonds, are responsible for growing investor interest in these alternative asset classes. We believe investors’ acceptance of these alternative stores of wealth is more widespread than ever, and expect it to contribute to further demand for our jewellery.

Global Sales

The following graph illustrates the historical evolution, as well as the forecast development, of the overall global luxury goods market by geographical region between 2005 and 2014F. For the purpose of the geographical breakdown, sales are recorded in the geographical region where they occur. Due to the mobility of luxury goods consumers, physical sales in a particular geographical region do not necessarily indicate the origin or nationality of the consumers.

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Exhibit 7: Global luxury goods market by geographic region: 2005 to 2014F



Note: 2014F figures are at constant 2011E exchange rates
 Source: Bain Luxury Study — Altagamma Worldwide Market Monitor

Europe is the largest geographical region with approximately €69 billion of sales in 2011E. European luxury goods sales have recovered quickly from the global financial crisis with 10% growth in 2010 and 7% growth in 2011E. Growth in 2010 and 2011E was fuelled by strong organic growth in the local population's consumption of luxury goods, with Western Europe compensating for lower growth in Eastern Europe. The weaker Euro and rising global tourism provided an additional driver for growth, as "travelling luxury consumers", particularly from China, made significant purchases in Paris, London and Milan, which are well known as centres of the luxury goods industry. These consumers are estimated to account for up to 50% of sales in these cities. These consumers are expected to continue to be a main driver of growth in the region.

Asia, excluding Japan, is the fastest growing of any geographical region. Asia generated sales of approximately €36 billion in 2011E and represented 19% of the global luxury goods market, nearly double the 10% share the region had in 2005.

Chinese demand has been the key driver of growth in Asian demand for luxury goods. Sales of luxury goods in China have nearly tripled from €4.5 billion in 2007 to €12.9 billion in 2011E, a CAGR of approximately 30%, driven by strong GDP growth, growing urbanisation, and the fast-paced expansion of European and American luxury brands' retail networks. China is the largest luxury goods market in the region, accounting for approximately 36% of regional sales and 7% of the global luxury goods market. Due to high taxes on imported luxury items and the increasing propensity of Chinese consumers to travel overseas, luxury goods sales within country only capture a portion of total Chinese demand for luxury goods. It is estimated that globally, Chinese consumers account for approximately 20% of global luxury consumption once sales in Hong Kong, Macau, and Taiwan and estimated tourist spend outside of greater China are included.

In the coming years, Asia is expected to grow faster than all other regions, driven by favourable demographic trends and strong economic growth in China. The number of very wealthy households in China with household income of more than RMB1 million (approximately US\$159,000)⁽¹⁾ and typically owning assets greater than RMB10 million (approximately US\$1.6 million)⁽¹⁾ is expected to grow by approximately 20% per annum, to reach 1 million households by 2015F (source: McKinsey Insights China — Understanding China's Growing Love for Luxury). The increase in wealth, combined with continued rapid urbanisation, is expected to double the number of cities with sizable pools of luxury goods

(1) Based on an exchange rate of 6.29 RMB/US\$1.

INDUSTRY OVERVIEW

consumers to 60 over the next five years (source: McKinsey Insights China — Understanding China’s Growing Love for Luxury). As a result of these dynamics, luxury goods sales in China are expected to grow at an approximately 15-20% CAGR from 2011E through 2014F.

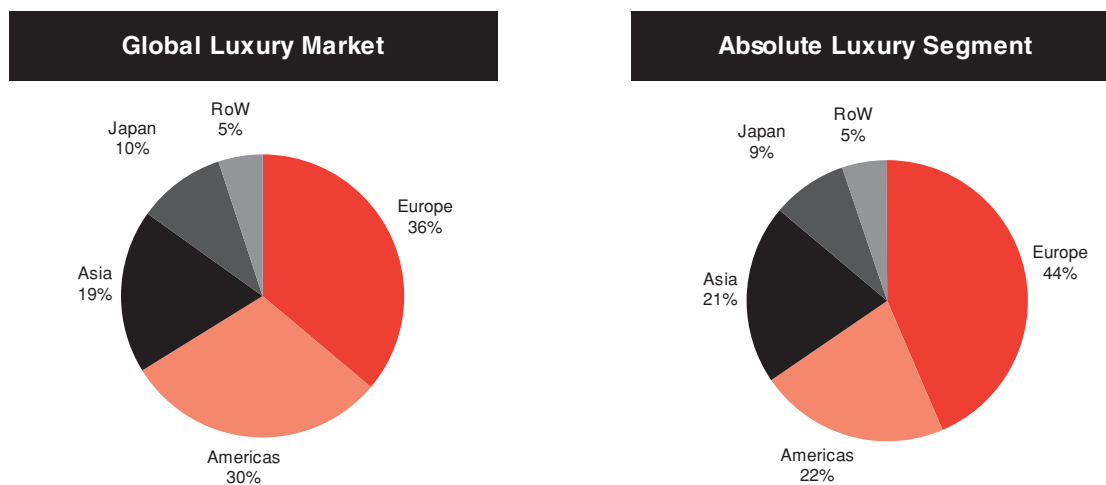
The Americas is the second largest geographical region with €57 billion of sales in 2011E, with the United States accounting for the vast majority of this region’s sales. Luxury goods sales in the region have, at times, been obscured by the depreciation of the United States dollar relative to the Euro in the period examined by the Bain Luxury Study — Altagma Worldwide Market Monitor studies.

Japan was the only geographical region to demonstrate negative growth from 2005 to 2011E. While growth in luxury goods sales is expected to be positive from 2011E to 2014F, Japan’s share of the global luxury goods market is expected to decline.

Absolute Luxury Segment Geographical Distribution

The geographical breakdown of the absolute luxury segment differs from the overall global luxury goods market. As shown in the following graph outlining the 2011E breakdown by geographical region for the absolute luxury segment and the overall luxury goods market, the starkest difference is in the Americas and Europe. This variation is the result of the nature of American and European luxury brands; most American luxury brands are found within the accessible and aspirational luxury segments, while Europe has a disproportionately higher concentration of absolute luxury brands. As these brands still generate a large portion of their sales in the European regions, the geographical mix of the absolute luxury segment accordingly shows a European concentration.

Exhibit 8: Global luxury goods market by geographic region: 2011E



Source: Bain Luxury Study — Altagma Worldwide Market Monitor, Spring Update (April 2012)

Diamond Industry Overview

Diamonds account for approximately 40% in terms of value of all jewellery manufacturing with engagement rings being the largest category within diamond jewellery. Diamonds have long been prized for their rarity and beauty. This section discusses the industry’s history, the diamond value chain, diamond pricing dynamics, global diamond demand, and the outlook for the diamond industry.

History

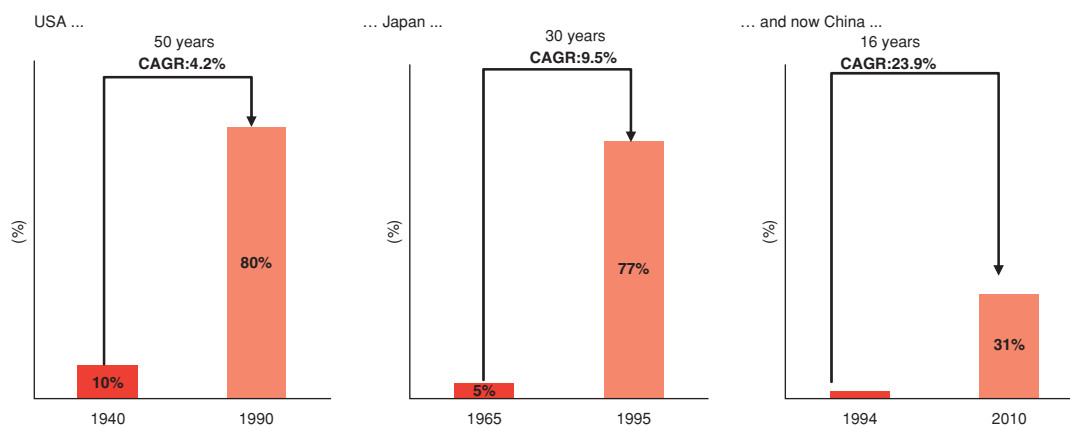
The discovery of massive diamond deposits in South Africa in the 1870s formed the basis for the modern diamond industry. The South Africa-based De Beers Group quickly consolidated the diamond industry to create a *de facto* monopoly over mining, trading and marketing.

Diamonds had long been associated with wealth, status and well-being, but due to the efforts of De Beers, diamonds became strongly associated with romantic love. In the 1940s, De Beers launched the well known “Diamonds are forever” marketing campaign. The campaign utilised traditional advertisement channels as

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well as sponsorship and endorsement arrangements with the entertainment industry. The entire diamond industry benefitted from the campaign, as demand for diamond engagement rings grew steadily, first in the United States and then other markets, including Japan. A similar trend is now being seen in China where demand for diamond engagement rings has risen sharply but has not yet reached the penetration levels seen in the United States and Japan.

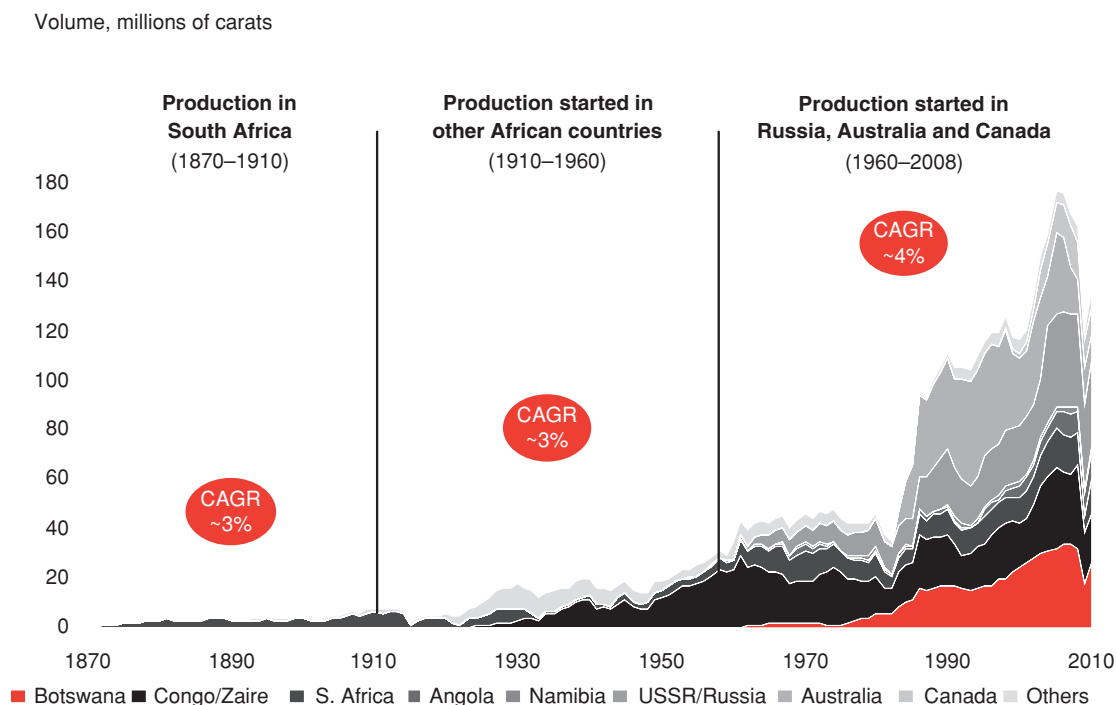
Exhibit 9: Percentage of engaged women receiving diamond engagement rings



Source: De Beers

Production of diamonds was originally centred in South Africa but has since expanded across the world. Initial expansion was into other African countries, but has since spread to Russia, Australia and Canada. Today, Botswana, Russia, Canada and South Africa are the world's largest diamond producing countries by value.

Exhibit 10: Since the 1960s, significant production started in Russia, Australia and Canada



Source: Bain Diamond Report (December 2011)

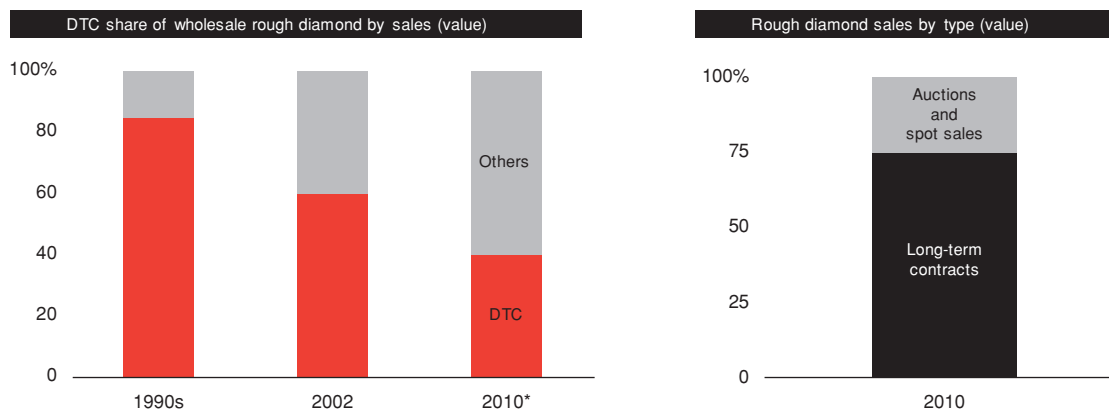
As production expanded into other countries, De Beers maintained control over the industry either through direct and indirect ownership of the mines, or through agreements with other producers to sell

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their rough diamonds through De Beers' marketing arm, the Diamond Trading Company ("DTC"). Following large discoveries of diamonds in Russia in the 1950s, the agreement between the USSR and the DTC was particularly important to DTC's continued control of the diamond trade.

Continued expansion of production at non-De Beers mines throughout the 1960s to 1980s posed a challenge to DTC's dominance, as some producers and dealers began circumventing the DTC system. In the 1990s, major producers left the DTC to begin selling diamonds independently through their own trading organisations or at spot sales and auctions. By the early 2000s, the DTC's role had been reduced, but it still accounted for the majority of wholesale rough diamond sales. This majority ended following De Beers' commitment to the European Commission to end the DTC's purchase of rough diamonds from Alrosa, Russia's largest diamond producer and successor to the USSR's diamond monopoly. While the DTC retains a preminent role in the trading of rough diamonds, the industry has evolved with many producers running their own system of long-term contracts.

Exhibit 11: Even though the share of sales through the DTC has been falling, long-term contracts still constitute the largest sales channel of rough diamonds



* 2010 market share includes an estimate of small artisanal and illicit trade
 Source: Bain Diamond Report (December 2011)

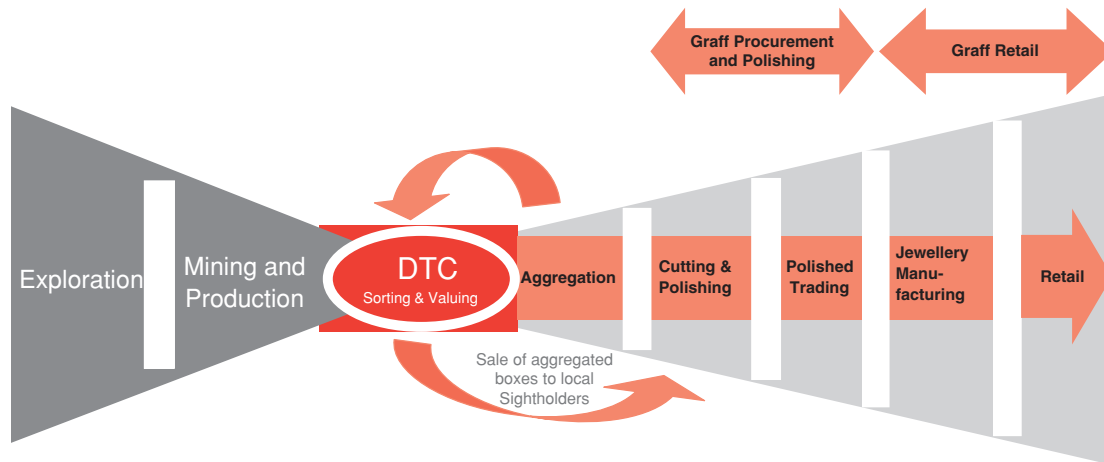
Against this backdrop, De Beers refocused its strategy to becoming a leader in driving consumer demand through the implementation of its "Supplier of Choice" program in 2003. The program shifted some of the responsibility for marketing to DTC sightholders as a precondition for access to DTC's still ample diamond supply. The program focused on 1) value addition through the downstream integration of sightholders into cutting and polishing, jewellery manufacturing and promoting and marketing their own brands; 2) marketing and branding through promotion of sightholders' own brands so De Beers could focus its marketing on its Forevermark brand; and 3) maintaining consumer confidence and trust by holding sightholders to specific ethical business standards. At the same time, De Beers entered the retail sector through a joint venture with LVMH that created the LVMH-managed De Beers Diamond Jewellers, which does not receive a direct flow of diamonds from the DTC.

At the same time as De Beers underwent its strategic shift, the diamond industry faced another challenge in the form of "conflict diamonds". Throughout the 1990s, armed conflict in various African diamond producing countries had led to diamond mines falling into the hands of groups that used diamond proceeds to fund violence. As the atrocities in these countries mounted, the reputation of the industry came under pressure. In response, the industry set up the Kimberley Process under the aegis of the United Nations. The scheme binds its member nations and participants, which represent 99.8% of total diamond supply, to certify the source of all diamonds entering the supply, refrain from trading with non-participants, and provide auditable data on their production, exports, and imports. As a result of the Kimberley Process, conflict diamonds now account for less than 1% of global trade compared to the estimated 4% share before the implementation of the scheme 10 years ago.

The Diamond Industry Value Chain

There are eight distinctive stages of the diamond value chain, beginning with exploration and production and ending with retail sales to the end consumer. The value chain is primarily composed of thousands of privately held small businesses and individuals that form the core of a complex and fragmented distribution system, with a handful of larger public and private companies sitting at each end of the value chain.

Exhibit 12: Diamond industry value chain



Source: DTC, Company analysis

As diamonds pass through the value chain, their value increases by approximately five times from US\$12 billion at the production stage to US\$60 billion at the retail stage; however, only incremental value addition is seen until the manufacturing and retail stages, where nearly 90% of the post-mining and production value addition takes place.

The clustering of larger companies at each end of the value chain is a result of the value addition dynamics and the industry margin structure. Margins in the middle of the chain are generally thin given the low value addition as well as the highly competitive structure.

Exploration

The exploration stage is the most risky in the value chain. Exploration requires substantial financial investment over a six to ten year period and the odds of developing a commercially viable diamond mine are low. Of the approximately 10,000 kimberlites discovered to date, only 1,000 have proven to be diamond bearing and only 100 have been developed into commercially viable mines, a success rate of approximately 1%. Historically, diamond producers shouldered the majority of the exploration investment, but recently large producers have cut back their exploration investment to focus on optimising their current resources. In their place, smaller producers and diamond focused exploration companies have stepped in to bear the initial risk, in the hope of developing sites that can then be sold to major producers.

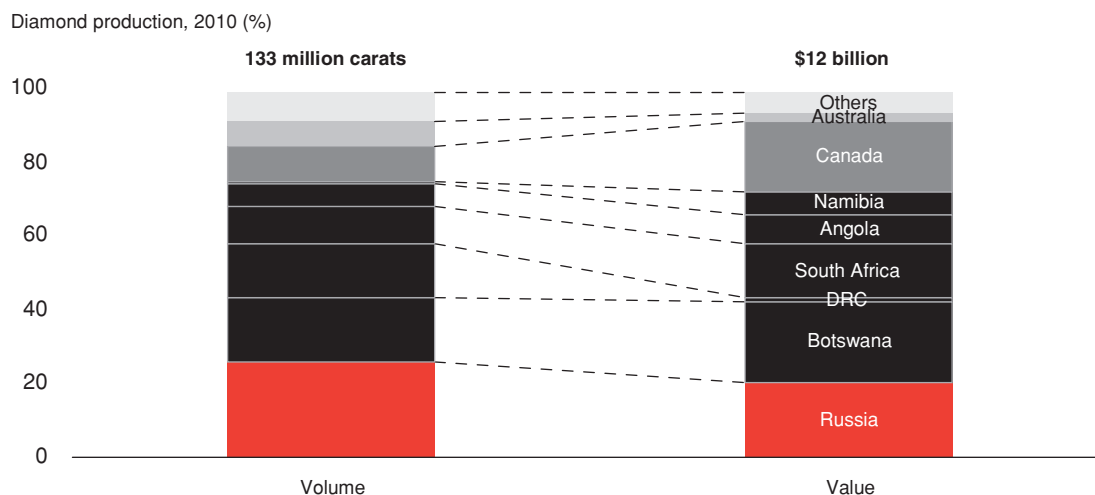
Mining and Production

Mining and production of rough diamonds takes place at approximately 20 major mines worldwide. Approximately three quarters of this production by value takes place in Botswana, Russia, Canada and South Africa, with a handful of other countries producing the remainder.

Botswana is playing an increasingly important role within the industry. The country has some of the largest and most valuable diamond mines in the world, including Jwaneng and Orapa. The Botswana government is a large stakeholder in the diamond industry, with notable investments including 50% ownership stakes in Jwaneng and Orapa as well as 15% ownership of De Beers (source: De Beers). The government has also taken an active role in the development of the domestic diamond industry, encouraging the development of the Graff-owned Gaborone Diamond Technology Park that serves as the country's diamond hub and the new site to which the DTC has relocated its London sight.

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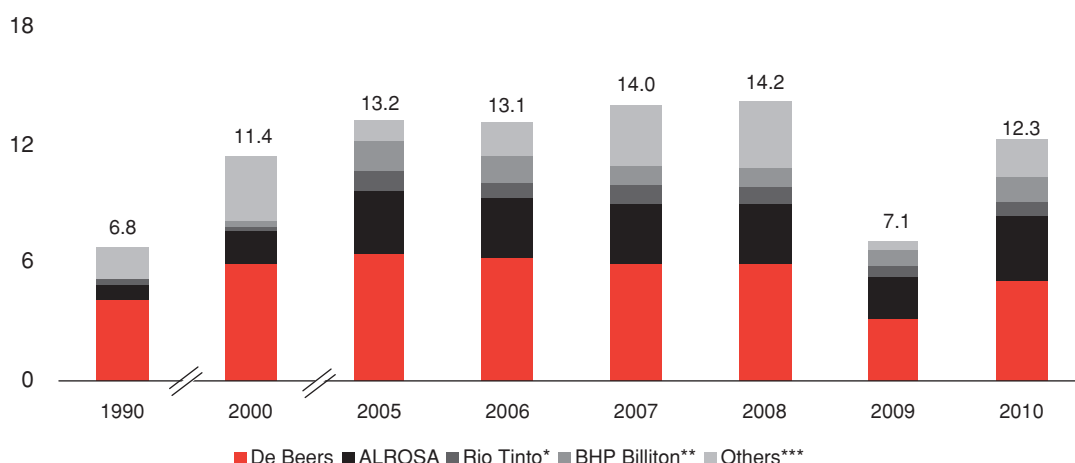
Exhibit 13: Botswana and Russia top the list of world diamond producers



Source: Bain Diamond Report (December 2011)

Production is highly concentrated within the hands of a few players. Alrosa and De Beers (due to be majority owned by Anglo-American), the two largest players, contribute close to 70% of production, followed by Rio Tinto and BHP Billiton, which together account for 15%. Smaller players, including Gem Diamonds and Petra Diamonds, contribute the remaining production.

Exhibit 14: Estimated world rough diamond sales (including sale of stocks), US\$ billions



* Rio Tinto revenues include Australian production in 1990 & 2000

** Diamonds & Specialty products revenues shown;

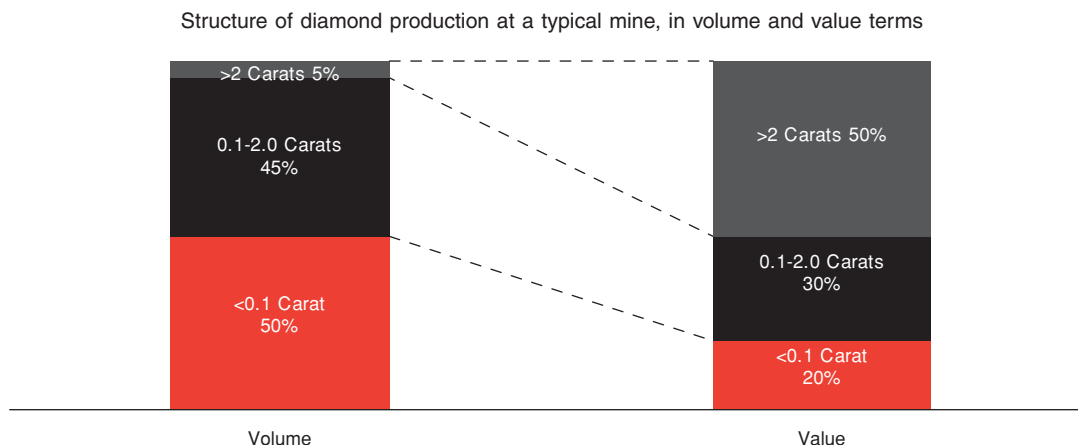
*** Industry sources estimate total sales could be larger than reported by IDEX by as much as US\$1-3 billion in 2010 due to additional sales from smaller artisanal and illicit activities. Indicated totals are reported by IDEX and do not include sales to Gokhran and sales from artisanal and illicit production

Source: Bain Diamond Report (December 2011)

Large diamonds generally achieve a much higher price per carat due to their rarity, as seen by the disproportionate amount of value generated from a relatively small contribution by volume.

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Exhibit 15: Large diamonds account for less than 5% of volume but 50% of value of the total diamond market



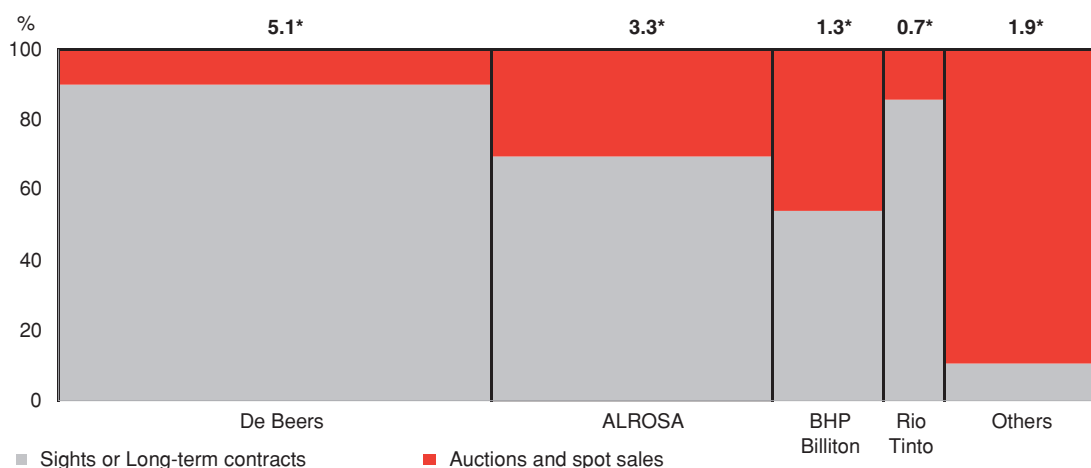
Source: Bain Diamond Report (December 2011)

Rough Diamond Sales

Producers distribute rough diamonds into the market through three channels: long-term contracts (also known as the sightholder system), auctions, tenders and spot sales. The sightholder system offers more price stability to both producers and sightholders while prices achieved through auctions, tenders and spot sales are subject to short-term market dynamics and associated volatility. Under the sightholder system, producers sell to the holders of long-term contracts, or sightholders, on a regular basis at prices set at a regular interval by the producer. Producers sell the diamonds in boxes of predetermined quantity and quality tailored to the needs of the sightholder's business and the sightholders can only accept or reject the whole box, although there is some scope for sightholders to return a small portion of the box once opened. De Beers and the DTC originally developed the sightholder system but, as the DTC's power waned, other producers have developed similar programs. Being a sightholder confers a distinct advantage, as fewer than 100 sightholders work with the major producers and buy more than 70% of global diamond production.

Exhibit 16: There are several ways to market rough diamonds

Share of diamond value at wholesale, 2010

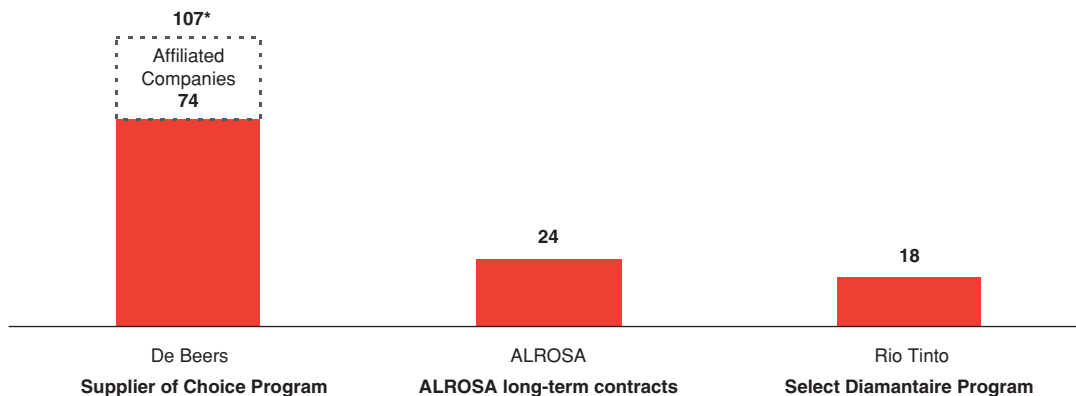


Note: Does not include all sales from artisanal and illicit production
 * Global rough diamond sales (including sale of stocks), US\$ billion
 Source: Bain Diamond Report, (December 2011)

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Exhibit 17: Fewer than 100 independent sightholders exist worldwide

Number of sightholders for each diamond producer, 2011



* Independent sightholders — total of 107 of “Supplier of Choice” sightholders include affiliated companies
Source: Bain Diamond Report (December 2011)

Auctions, tenders and spot sales are conducted without long-term contracts that manage short-term fluctuations in diamond prices. Accordingly, auctions, tenders and spot sales offer the flexibility to take advantage of high diamond prices but conversely suffer more when diamond prices fall. Auctions historically functioned as an outlet only for larger diamonds but have gained in popularity and now typically operate similarly to sights with buyers purchasing boxes of diamonds. Spot sales are usually done on a one-to-one basis to non-exclusive buyers. Spot sales are particularly useful for rare and unique diamonds that have a limited number of potential buyers given their cost and the expertise required to successfully cut, polish, and sell the diamond. As producers will often contact only the most likely buyer directly, market reputation, established relationships with producers, and recognised expertise in handling rare and unique diamonds are critical to a buyer’s success in the spot sales channel.

Cutting and Polishing

The cutting and polishing stage involves the transformation of rough diamonds into polished diamonds. Skilled craftspeople, known as lapidaries, employ traditional methods and increasingly three-dimensional technologies to determine the cut of a diamond that will maximise its value. Historically centres in Antwerp, Israel, the United States and Russia dominated cutting and polishing.

The cutting and polishing industry in Africa has grown rapidly. Low-cost labour and governmental regulations mandating a certain percentage of local cutting and polishing have encouraged major participants to develop facilities in South Africa and Botswana, including the Gaborone Diamond Technology Park that serves as the hub for cutting and polishing and other diamond activities in Botswana. Examples of these regulations include the South African government’s requirement that any rough diamond mined in South Africa and weighing more than 10.8 carats must be polished or partially polished in South Africa before it can be exported.

Polished Diamond Sales

Once cut and polished, cutters and polishers sell the polished diamonds to jewellery manufacturers. Historically, this trade was centred in Antwerp. While Antwerp is still an important centre, central and regional offices of diamond cutters and polishers now account for more than half of polished diamond sales. Industry exhibitions, the most important of which take place in Hong Kong, Las Vegas and Basel, account for roughly 30–40% of polished diamond sales.

Jewellery manufacturing

Jewellery manufacturing is highly fragmented, with more than 10,000 manufacturers globally. Low-cost labour in China and India has precipitated a shift in manufacturing to these countries, which now account

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for approximately half of global jewellery manufacturing by value. Generally, most Asian manufacturers work at the low-end of the market and produce unbranded pieces.

According to Bain Diamond Report (December 2011), diamond jewellery manufacturing falls into the following categories: integrated specialised manufacturers, luxury brand manufacturers, regional retailers and non-integrated manufacturers, and non branded manufacturers. The top-end of the market includes luxury brands such as Graff, Van Cleef & Arpels, Cartier, and Bulgari and large manufacturers such as Tiffany & Co. For luxury branded pieces, the manufacturing cost related to the jewellery setting is often minor compared to the value of the diamonds incorporated into the final product, even for the most complicated jewellery pieces. This cost structure is particularly true for pieces incorporating large diamonds due to larger diamonds' higher average price per carat. As with other industries, the premium associated with branded luxury pieces is significant when compared to unbranded items of similar size and quality.

Retail

The retail stage is highly competitive, with a level of fragmentation greater than any other stage in the chain. Over 250,000 retailers sell jewellery around the world with no dominant player in most countries. Despite fierce competition, retailers enjoy high mark-ups and consequently margins due to the emotional element associated with diamonds as well as the relative complexity of diamond pricing. Over the last ten years, there has been a pronounced shift in the retail landscape with independent jewellers losing a 14% market share. The two main beneficiaries have been global retail chains, especially in Asia, that have gained a 7% market share and online retail, which has gained a 5% market share. While online retail remains the smallest distribution channel, the Internet has introduced greater price transparency into the market as consumers inform themselves better about diamond pricing before making their purchase. As a result of these changes, the retail stage has seen consolidation among smaller players as well as larger players diversifying their businesses through expansion into higher-growth emerging markets.

Diamond pricing

No two diamonds are the same. The lack of homogeneity in diamonds had long proven an impediment to determining the value of a diamond as diamonds cannot be traded on commodity indices in the same manner as precious metals such as gold, silver, or platinum. However, the introduction of an industry accepted classification and certification system by the GIA has mitigated the difficulty in pricing diamonds. As a result of the classification and certification system, the continually increasing diamond market size, and the expanding number of industry players, diamond prices are more democratic than ever before.

Polished diamonds are generally classified using the 4Cs as defined by GIA: carat, colour, clarity and cut.

- The carat is the standard unit of measurement for diamonds. The modern metric carat is the same across the world and is equivalent to 0.2 grams.
- Colour is an important determinant of a diamond's value. In general, the best diamonds are colourless; the exception is fancy diamonds, which are diamonds that naturally occur in various colour shades and are highly valued due to their rarity. The industry standard for grading a diamond's colour is the scale developed by the GIA. The scale begins with D, representing colourless diamonds and continues with increasing colour to Z. Fancy diamonds lie outside of this scale and are graded based on colour intensity with designations such as "fancy light", "fancy intense", and "fancy vivid".
- Clarity refers to the absence of inclusions within the diamond and blemishes on the exterior of the diamond. The industry standard for grading a diamond's clarity is the scale developed by the GIA. The scale contains 11 grades: flawless (FL), internally flawless (IF), very very slightly included (VVS1 and VVS2), very slightly included (VS1 and VS2), slightly included (SI1 and SI2), and included (I1, I2, and I3).
- Cut refers to both the shape and the proportions of a diamond. Understanding the cut begins with the shape. The archetypal diamond shape is known as the standard round brilliant. All other shapes are known as fancy shapes. The most well known fancy shapes are emerald, pear, oval, heart, and marquise. Standard round brilliant diamonds have 58 facets and the best cuts are those that maximise

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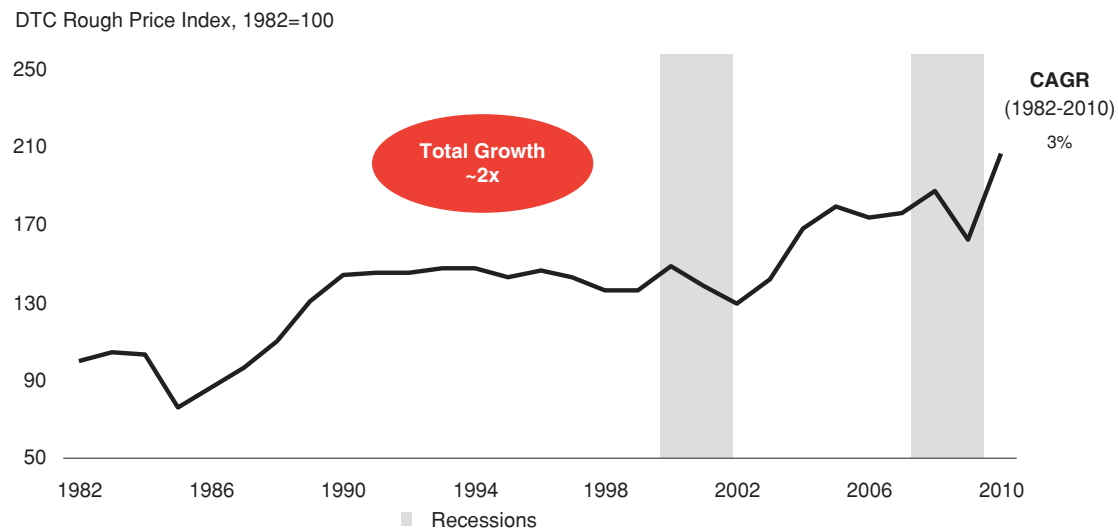
the amount of light that is refracted through the different facets. The GIA classifies cut using a scale of excellent, very good, good, fair and poor, as well as a classification for polish and symmetry.

Once classified and certified, diamonds can be valued based on current pricing conditions in the market, which are tracked by a handful of indices, the most important being the Rapaport Price List, which is considered the authority for polished diamond prices. Polished diamond prices are often quoted as a discount or premium to the prices published in the Rapaport Price List.

Rough Diamond Pricing

Rough diamond pricing is set by major producers via sights and auctions. Historically, the key drivers of rough diamond price performance have been major macroeconomic trends and industry supply and demand dynamics. The major economic crises of the last 30 years have all had negative effects on rough diamond prices as concerns about consumer demand, financing and short-term rough diamond oversupply put downward pressure on demand for rough diamonds. Following these crises, prices have returned to normal growth trends relatively quickly.

Exhibit 18: Historical rough-diamond pricing



Source: Bain Diamond Report (December 2011)

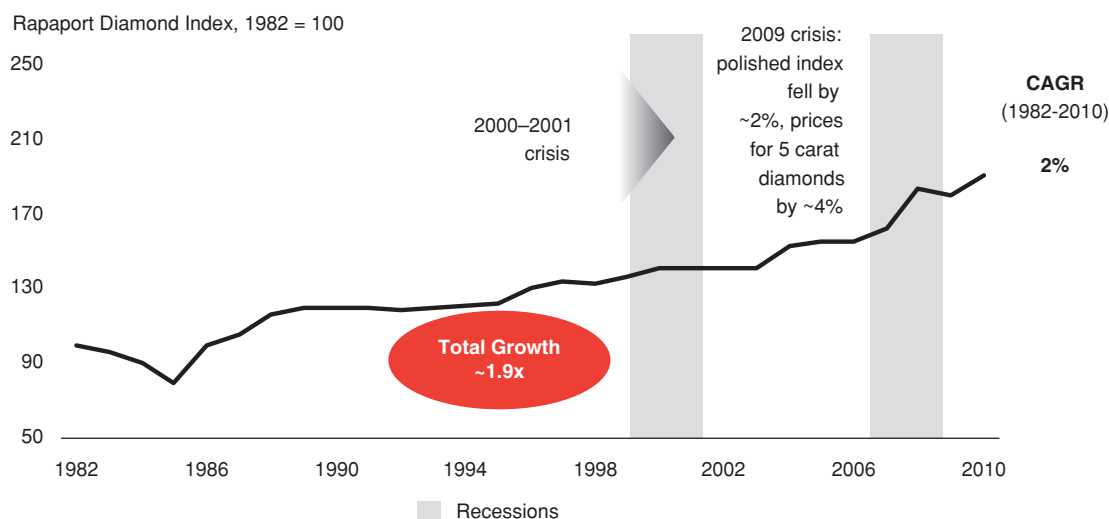
Polished Diamond Pricing

While industry dynamics at the rough diamond level do affect wholesale polished diamond prices to a certain extent, polished diamond prices exhibit less volatility than rough diamond prices. Although intense competitive pricing in the middle of the value chain tends to partially absorb rapid price fluctuations, polished diamonds generally follow the directional trend of rough diamonds, especially in periods of supply and demand imbalances.

Consumer demand is the most important lever for polished diamond pricing, with total private consumption and middle class population growth being key indicators of polished diamond demand. Inventories do not play a major role in determining polished diamond prices due to the level of fragmentation as well as the need for cutters and polishers to turn inventory quickly to meet their financing obligations.

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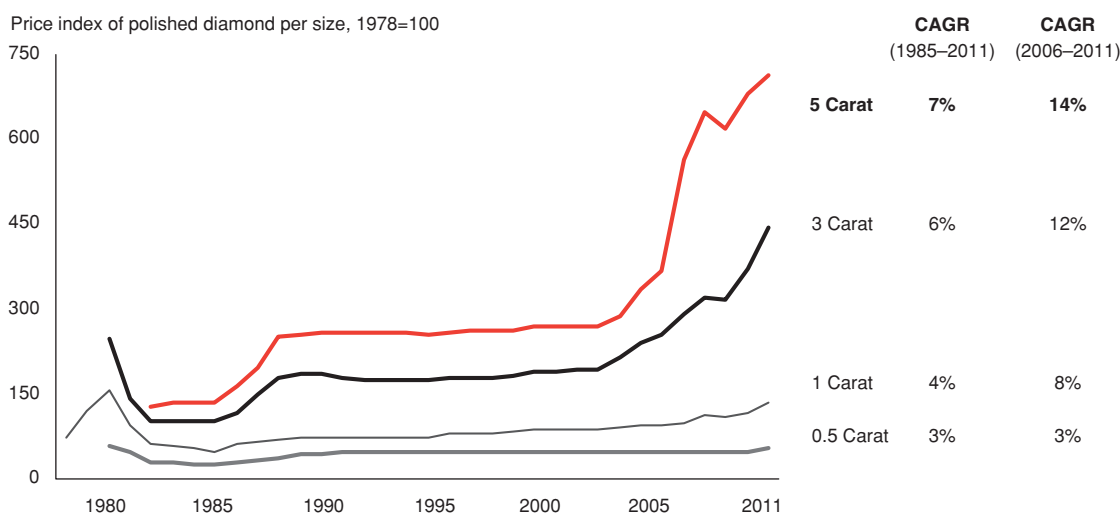
Exhibit 19: Historical polished diamond pricing



Source: Bain Diamond Report (December 2011)

Pricing trends vary significantly depending on diamond quality and size. Large diamonds are much rarer than smaller stones. Some have gained worldwide recognition, including the Graff Constellation, the Graff Pink, the Delaire Sunrise, the Wittelsbach-Graff, the Magnificence and the Lesotho Promise, and very few of these large diamonds come back to market once sold. During periods of diamond price appreciation, large diamonds tend to increase in value at a much faster pace than small diamonds. As a result, supply and demand imbalances for large diamonds have led to sharper price increases than when imbalances occur for smaller diamonds.

Exhibit 20: Evolution of polished diamond price depends on size of the stone



Source: Rapaport Group, www.Diamonds.net, Copyright 2012 Martin Rapaport. All rights reserved

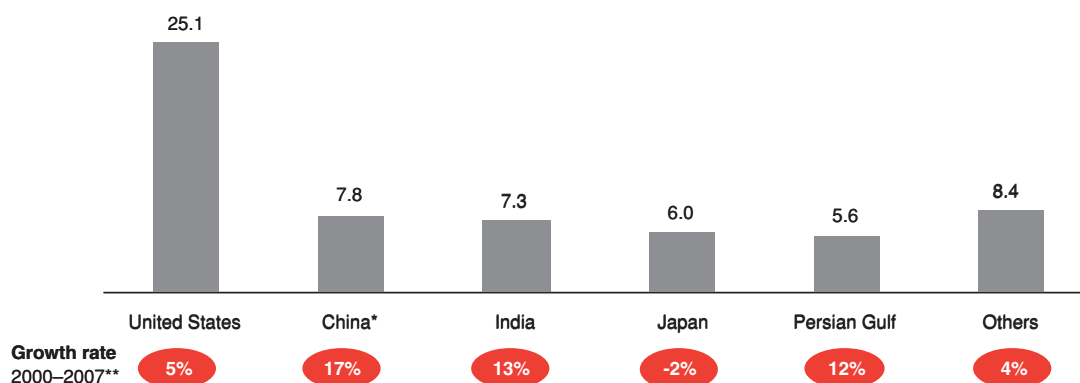
Diamond demand in the global economy

Diamonds are the second largest category of jewellery by value after gold. The global retail market for diamond jewellery is worth approximately US\$60 billion per year. The United States is the largest market for diamond jewellery but the Asian and other emerging markets have shown the most rapid growth in the last decade. The use of diamonds varies widely based on regional cultural specifics, with diamond jewellery accounting for a much smaller percentage of the jewellery market in Europe and China than it does in the United States and Japan.

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Exhibit 21: The United States dominates consumption of diamond jewellery, but Asia has been growing fast

Demand for diamond jewellery in major markets, 2010
US\$ billions



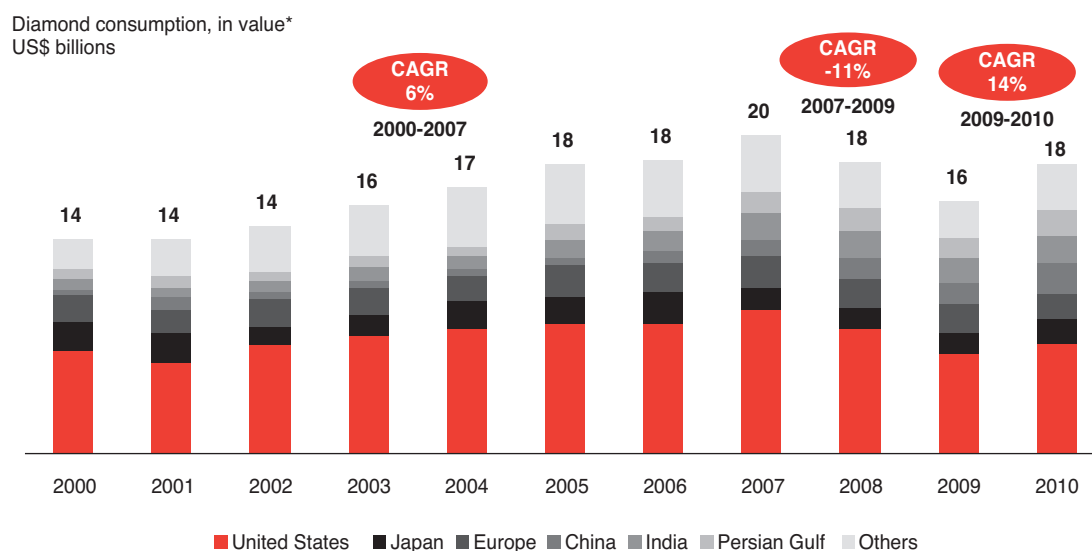
* China includes Hong Kong

** Polished diamond market growth rates are shown for China, India and Persian Gulf; "Others" include Europe and the remaining geographies. Others' growth rates were estimated by Bain. Growth rates in 2002-2007 show long-term trends and exclude the impact of the economic crisis

Source: Bain Diamond Report (December 2011)

While diamond consumption was negatively impacted by the financial crisis, the market quickly recovered in 2010 with 14% growth. Extraordinary growth in emerging markets underpinned the strength of this recovery. Going forward, demand for diamond jewellery is expected to grow at a 5.6% CAGR from 2010 to 2020, with China and India providing the main engine for growth (source: Alrosa). We believe additional demand is expected to be generated as the popularity of diamonds, especially rare large diamonds, as an alternative investment asset increases.

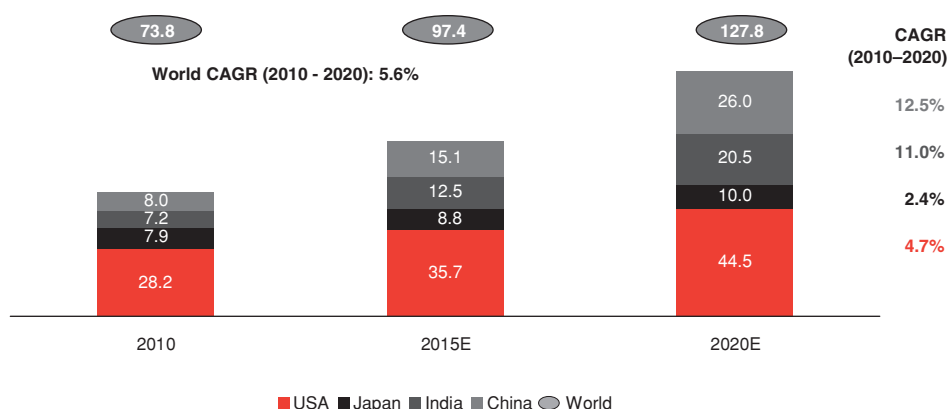
Exhibit 22: Developing markets are growing their share of overall consumption of gem quality diamonds



* Wholesale value of polished diamonds used in diamond jewellery; Includes sale of stocks; wholesale value of diamonds; China includes Hong Kong
Source: Bain Diamond Report (December 2011)

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Exhibit 23: Diamond jewellery consumption by region (US\$ billions)



Source: Alosa Investor Presentation (October 2011)

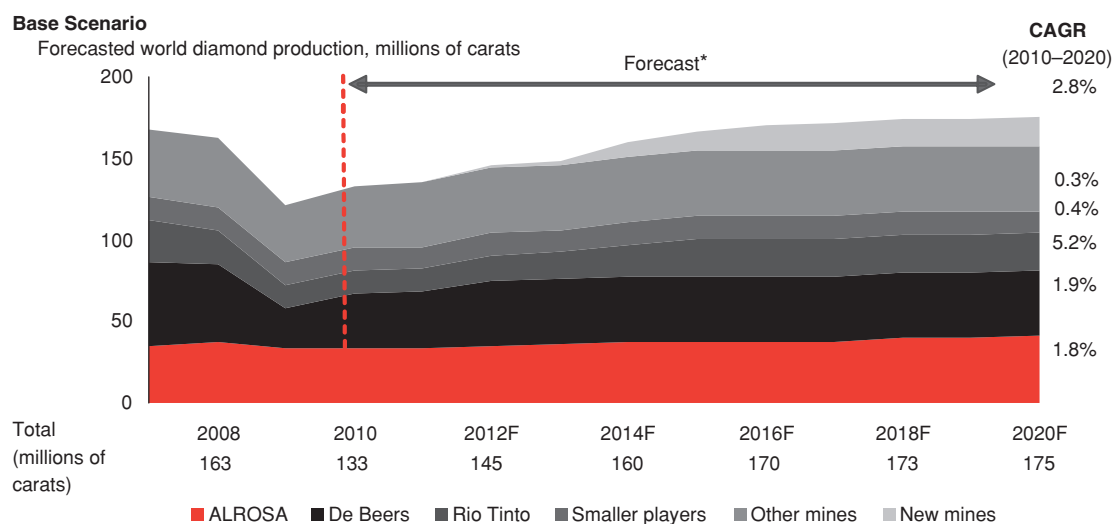
Ten year supply and demand imbalance

All forecasts in this section are derived from the Bain Global Diamond Industry report published in December 2011. Due to the nature of these assumptions underlying these forecasts that cannot be controlled, as well as the macroeconomic and demographic factors, there can be no assurance that these forecasts will be met.

Over the next decade, demand for rough diamonds is expected to grow significantly faster than the supply of rough diamonds. The expected supply and demand imbalance bodes positively for rough diamond producers and could potentially lead to longer-term price increases.

Rough diamond supply in carats is forecast to grow at a 2.8% CAGR from 2010 to 2020 in the base case scenario. Key factors affecting the low growth rate are relatively flat production at the major producers, depletion of existing mines, a relatively small pipeline for new mines and the significant lead-time that would be required to bring any newly discovered diamond deposits online.

Exhibit 24: Total supply is forecast to reach 170–175 million carats



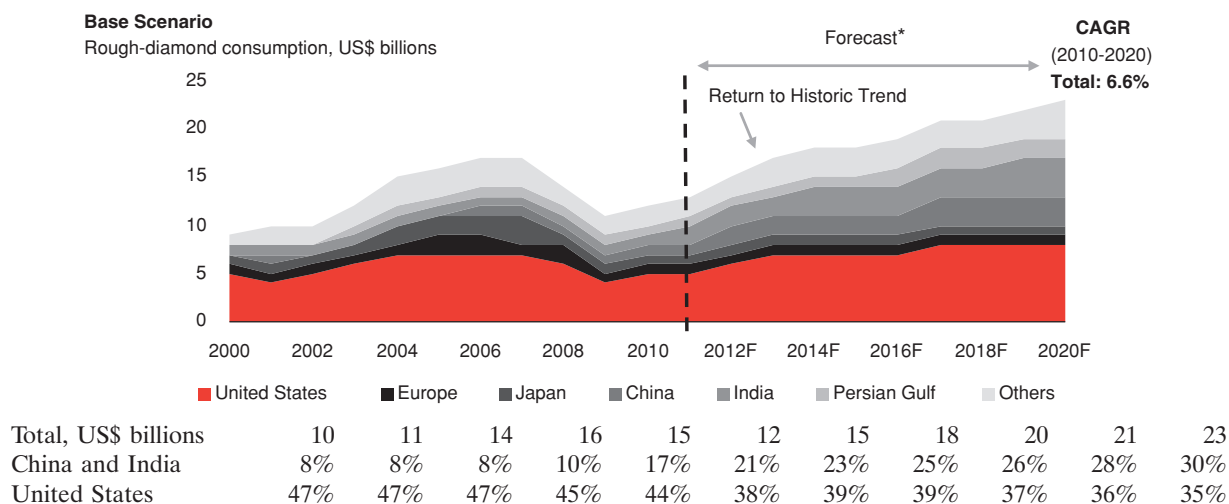
* Based on the planned addition of 23 million carats of diamonds from new mines now being developed, slight depletion of existing diamond resources and a lack of any significant new discoveries in recent years
Smaller players include Catoca mine, BHP Billiton, Petra Diamonds and Harry Winston; other mines include all the remaining production in Angola, Australia, Canada, Democratic Republic of the Congo, Russia, South Africa, Zimbabwe and other minor producing countries
Source: Bain Diamond Report (December 2011)

Consumer demand is the most significant driver of the rough diamond demand forecast. In developed regions where income distributions are relatively stable, the key driver of demand will be growth in total

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private consumption. In developing countries such as China and India, growing urbanisation and the rise of the middle class will be the key determinants of demand growth. Overall, diamond demand in carats is expected to grow at a 6.4% CAGR from 2010 to 2020 in the base case scenario.

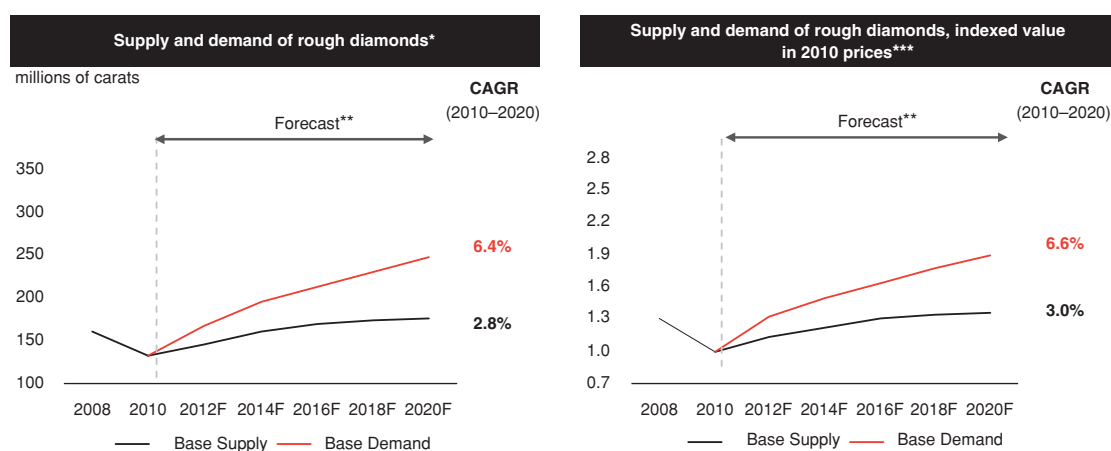
Exhibit 25: Rough diamond demand is forecast to grow at a CAGR of 6.6% per year between 2010 and 2020 in value terms



** Based on historical macroeconomic drivers in each of the key regions and projects, future demand based on those drivers, taking into account the effect of the 2008 financial crisis*
The calculation uses equal conversion factors and real production prices from the base scenario, which reflect changes in the quality of rough diamonds;
An increase in stock is taken into account; historical data converted to 2010 dollars
 Source: Bain Diamond Report (December 2011)

The forecasts point to a likely imbalance in supply and demand of rough diamonds through 2020. Under the forecasted scenarios for 2010 through 2020, demand will be higher than supply by value. In the base case scenario, demand by value will grow at a 6.6% CAGR while supply by value will grow only at a 3.0% CAGR. Historically, supply-demand imbalances of this nature have provided the basis for a firm price environment.

Exhibit 26: Global rough-diamond supply-demand balance 2011–2020



** Projected demand for polished diamonds is converted into demand for rough diamonds using the historic ratio as at 2005–2010; cutters' stock increase impact is also taken into account; real prices from the base-case production scenario are used; historic values are presented in 2010 dollars*

*** Based on the forecasted supply-demand balance for rough diamonds over the next decade (see Exhibits 23 and 24)*

**** Expressed in constant 2010 prices*

Source: Bain Diamond Report (December 2011)

History of the Group and the Company

The Company was incorporated on 8 February 2012 in the Cayman Islands under the name Graff Diamonds Corporation. On 18 May 2012, the Company entered into the Reorganisation Agreement with Graff Diamonds Holdings Limited, Graff Diamonds International Limited, Graff Diamonds Limited, DiamondWorks, AE Holding S.A., Laurence Graff, François Graff and Anne-Marie Graff to effect the Reorganisation (other than the acquisition of Safdico International Limited and the disposal of artwork as described in Steps 5 and 7, respectively, under “— Reorganisation of the Group” below). On 18 May 2012, the Company entered into the Safdico Acquisition Agreement with the Safdico Sellers, Laurence Graff, Brian Gutkin, Jonas Kneller and Graff Diamonds Holdings Limited, to effect Step 5 of the Reorganisation described under “— Reorganisation of the Group” below. On 18 May 2012, Graff Diamonds Limited and Clinder SA entered into the Artwork Sale Agreement to effect Step 7 of the Reorganisation described under “—Reorganisation of the Group” below. Pursuant to the Reorganisation Agreement and conditional upon the occurrence of the Price Determination Date, the Company will, prior to the Listing Date, become the ultimate holding company of the Group by acquiring the entire issued share capital of Graff Diamonds Holdings Limited from Laurence Graff and Anne-Marie Graff, in consideration of an issue of Shares to Laurence Graff and Anne-Marie Graff.

Key Events in the Group’s History

Key milestones in the history and formation of the Group are set out below:

- 1953: Laurence Graff starts his apprenticeship with a jeweller in the Hatton Garden district of London.
- 1960: the Group is established with the incorporation of Graff Diamonds Limited.
- 1962: Graff opens two retail stores in London.
- 1966: Raymond Graff joins the Group.
- 1973: Graff becomes the first jeweller to be presented with the Queen’s Award to Industry/Export (an award received again in 1977, 1994 and 2006); Graff is listed on the London Stock Exchange.
- 1974: Graff’s first flagship store established in Knightsbridge, London.
- 1977: Laurence Graff purchases all publicly traded shares and de-lists from the London Stock Exchange.
- 1986: François Graff joins the Group.
- 1993: Graff establishes new headquarters and flagship store on London’s historic New Bond Street.
- 1994: Elliott Graff joins the Group.
- 1999: Laurence Graff acquires a controlling stake in Safdico, a diamond manufacturer and wholesaler based in South Africa and the principal component of our Procurement and Polishing division.
- 2000: Graff opens its first overseas store in Monaco.
- 2001: First store opened in the United States; Henri Barguirdjian appointed Regional Director of USA.
- 2002: First franchise store opened in Moscow.
- 2003: Graff establishes new integrated corporate headquarters and manufacturing facility in Mayfair, London.
- 2004: François Graff appointed Chief Executive Officer.
- 2006: US headquarters established in New York City; Nicholas Paine appointed Chief Financial Officer.
- 2007: Arnaud Bastien appointed Regional Director of Asia, opening of Tokyo store; and Diamond Technology Park opens in Gaborone, Botswana.

OUR HISTORY AND CORPORATE STRUCTURE

- 2008: Opening of Hong Kong store; Graff's luxury watch division formed and appointment of Michel Pitteloud as Director of Luxury Watches; initial acquisition of minority stake in Gem Diamonds.
- 2010: First store opened in mainland China (Shanghai); second store opened in Courchevel.
- 2011: New store openings in San Francisco, Gstaad, Taipei and Beijing; minority stake in Gem Diamonds increased to 15%; Asian headquarters established in Hong Kong.

Changes in Shareholding Structure of the Company

The authorised share capital of the Company is US\$50,000,000, divided into 5,000,000,000 Shares of US\$0.01 each.

Share Issues

From 8 February 2012 to the date of this prospectus, the following Share issues and agreements to issue Shares took place:

- On 8 February 2012, the Company was incorporated with authorised share capital of US\$50,000 divided into 5,000,000 Shares of US\$0.01 each. On incorporation, one subscriber Share was issued to Ogier Nominees (Cayman) Limited and was transferred to Laurence Graff on 17 May 2012.
- On 17 May 2012, in anticipation of the Reorganisation and the Global Offering, the authorised share capital of the Company was increased from US\$50,000 to US\$50,000,000 by the creation of 4,995,000,000 Shares.
- On 18 May 2012, the Company entered into the Reorganisation Agreement pursuant to which it agreed to issue 389,999,999 Shares to Laurence Graff and 260,000,000 Shares to Anne-Marie Graff in exchange for the entire issued share capital of Graff Diamonds Holdings Limited (as more fully described below in the section headed "Step 3: Insertion of the Company as the ultimate holding company of the Group").
- On 18 May 2012, the Company entered into the Safdico Acquisition Agreement pursuant to which it agreed to issue Shares with a value of US\$40 million to the two minority shareholders in Safdico in connection with the acquisition of the Procurement and Polishing division (as more fully described below in the section headed "Step 5: Acquisition of Safdico International Limited").

Reorganisation of the Group

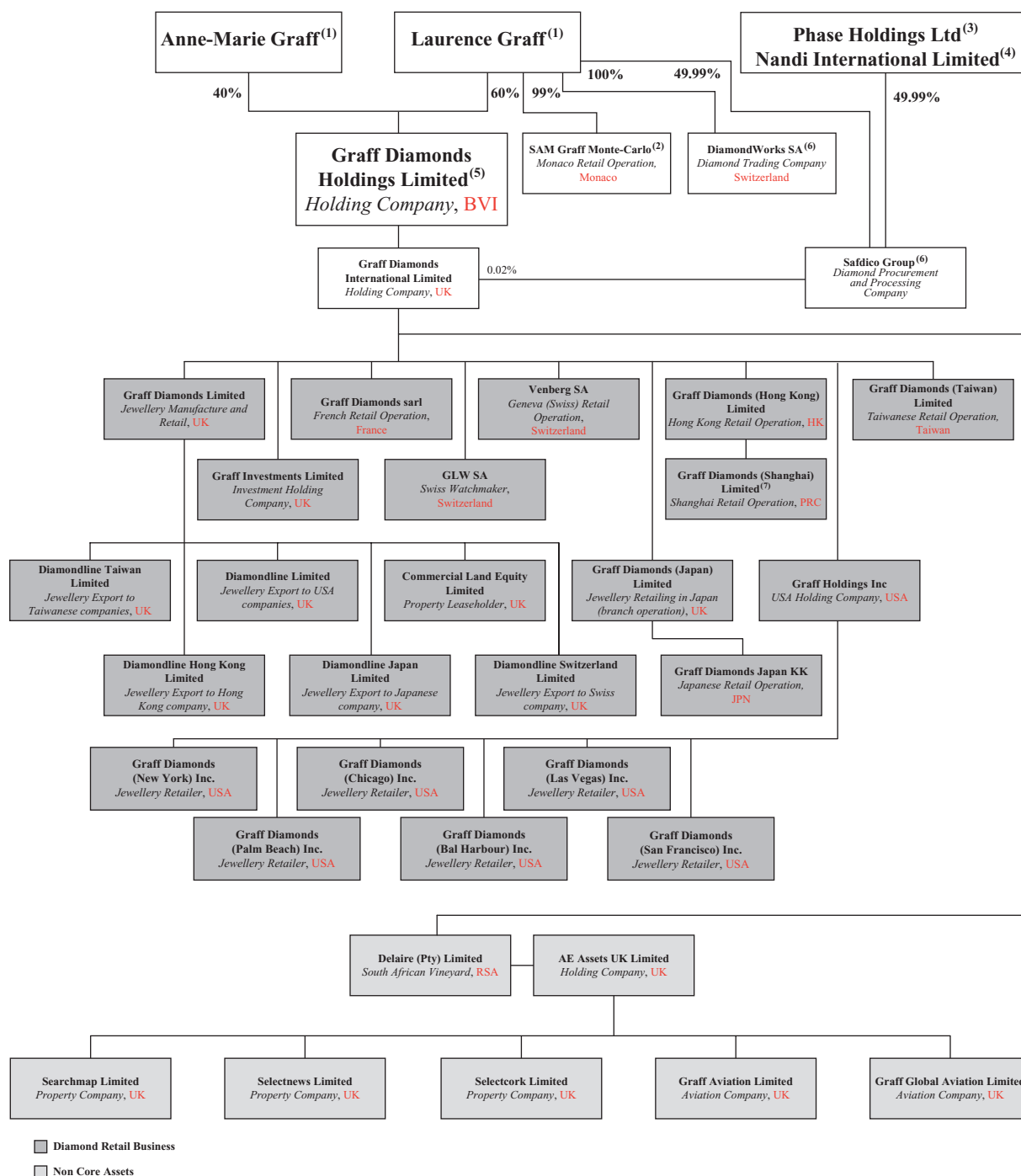
In preparation for Listing, the Reorganisation will be carried out pursuant to the Reorganisation Agreement, the Artwork Sale Agreement and the Safdico Acquisition Agreement. The purpose of the Reorganisation is: (i) for the Group to sell certain freehold and leasehold property and other assets that are not core to the business of the Group to entities controlled by Laurence Graff; (ii) for the Group to acquire certain assets and businesses that are core to the business of the Group and which are currently held directly or indirectly by Laurence Graff; and (iii) to insert the Company as the ultimate holding company of the Group.

As at the date of the Prospectus, executed irrevocable agreements are in place to effect the Reorganisation, conditional only upon the pricing of the Global Offering.

The Company will issue an announcement on the Listing Date confirming that the Reorganisation is complete. The Reorganisation is considered to represent a business combination under the same control of Laurence Graff before and after the Reorganisation, and will be carried out pursuant to those legal agreements prior to or at the Listing. As set out in Note 1.2 to Section II of the Accountants' Report, the financial information included therein is prepared on a combined basis and is in accordance with the relevant accounting standards under International Financial Reporting Standards.

OUR HISTORY AND CORPORATE STRUCTURE

The Group structure as at the date of this Prospectus, and immediately prior to the implementation of the Reorganisation, is as follows (unless otherwise specified, all entities are 100% owned):



Notes:

- (1) Anne-Marie Graff and Laurence Graff are married.
- (2) SAM Graff Monte-Carlo is 1% owned by François Graff.
- (3) Phase Holdings Ltd is owned and controlled by Jonas Kneller.
- (4) Nandi International Limited is controlled by a trust of which Brian Gutkin is a beneficiary.
- (5) Graff Diamonds Holdings Limited holds an interest in a captive insurance cell operated by a third party provider incorporated in Bermuda.
- (6) Laurence Graff's interests in DiamondWorks SA and the Saffdico Group are held by AE Holding S.A. Laurence Graff is the 100% beneficial owner of AE Holding S.A.
- (7) Graff Diamonds (Shanghai) Limited is incorporated in China as a Foreign-Invested Commercial Enterprise and runs all of the Company's stores in mainland China. It holds the required business licenses issued for the operation of the stores in each relevant province, is the lessee for each of the retail premises and is the employer of all sales staff. The Company intends to operate its new stores in China through Graff Diamonds (Shanghai) Limited in the same way that it operates its current stores.

OUR HISTORY AND CORPORATE STRUCTURE

The Group structure immediately after the Reorganisation is shown at the end of this section. The Reorganisation is not subject to any outstanding governmental, regulatory or shareholder approval. The Reorganisation will be carried out pursuant to the Reorganisation Agreement and the Safdico Acquisition Agreement in the following steps:

- Step 1: The revaluation of Graff Diamonds Holdings Limited's investment in Graff Diamonds International Limited. The purpose of this step is to maximise the capacity of the Group to make distributions to shareholders after Listing. This revaluation will be carried out on the Price Determination Date and will not be performed by reference to an independent valuation. The revised valuation will be an amount equal to the market capitalisation of the Group at the Offer Price (before the issuance of the New Shares and before the issuance of the Shares to be issued pursuant to the Safdico Acquisition Agreement). This revaluation is an intra-group accounting adjustment and has no external effect other than to maximise the level of share premium credited on the Company's balance sheet upon the acquisition of Graff Diamonds Holdings Limited by the Company.
- Step 2: The transfer to AE Holding S.A., a company owned and controlled by Laurence Graff, of the entire issued share capital of Delaire (Pty) Limited, which is the owner and operator of the Delaire Graff Estate, a luxury resort and winery in Stellenbosch, South Africa. The subsidiaries of Delaire (Pty) Limited own certain real estate and aviation interests. This transfer will result in the removal of certain non-core assets from the Group, and a net cash inflow of approximately US\$110 million to the Group.
- Step 3: The acquisition by the Company of the entire issued share capital of Graff Diamonds Holdings Limited, inserting the Company as the ultimate holding company of the Group.
- Step 4: The acquisition by Graff Diamonds Holdings Limited of the entire issued share capital of SAM Graff Monte-Carlo, the operator of the Graff Diamonds store in Monaco, from Laurence Graff and François Graff. This transfer will result in a strategic retail location being brought into the Group for cash consideration of US\$200 million.
- Step 5: The acquisition by Graff Diamonds Holdings Limited from the Safdico Sellers, of all the shares in Safdico International Limited (the holding company of the Procurement and Polishing division) that are not already owned by members of the Group. The purpose of this transaction is to secure diamond supply for our manufacturing and retail activities, to facilitate increased supply chain integration and to eliminate minority interests which we expect will allow us to capture more profit. The aggregate consideration for this transaction will be the payment by us of US\$100 million to the Safdico Sellers, comprising US\$60 million in cash (US\$50 million to AE Holding S.A., a company owned and controlled by Laurence Graff, and US\$5 million to each of the other Safdico Sellers) and US\$40 million in Shares (US\$20 million to each of the two minority shareholders) issued at the Offer Price. In addition, outstanding loan balances with companies controlled by each of Laurence Graff, Brian Gutkin and Jonas Kneller totalling approximately US\$37 million will be repaid and approximately US\$59 million will be paid to an unrelated third party to repay loans from, and unwind profit-sharing arrangements with, such party. The aggregate amount payable by the Group in connection with the acquisition of Safdico International Limited is therefore approximately US\$196 million.
- Step 6: The purchase of the DiamondWorks Inventory (which for the avoidance of doubt, does not include the Reserved Stones), and the removal of DiamondWorks from our future supply chain. This transaction will allow for the internalisation of consignment margins on the stones acquired from suppliers in the future through the removal of DiamondWorks as an intermediary, as well as the capture of any appreciation in the value of the DiamondWorks Inventory subsequent to its acquisition. We will pay approximately US\$227 million to DiamondWorks, a company controlled by Laurence Graff, for the DiamondWorks Inventory.
- Step 7: The sale by Graff Diamonds Limited to Clinder SA, a company controlled by Laurence Graff, of certain paintings for US\$8.2 million.

As discussed more fully below, Laurence Graff, our Controlling Shareholder, will indirectly receive a significant proportion of the proceeds from the sale by the Company of Shares in the Global Offering, as a result of the use of such proceeds to purchase assets and businesses owned by him in connection with the Reorganisation.

OUR HISTORY AND CORPORATE STRUCTURE

Step 1: Revaluation of Graff Diamonds Holdings Limited's investment in Graff Diamonds International Limited

Graff Diamonds Holdings Limited is the sole shareholder of Graff Diamonds International Limited, the principal UK holding company of the Group. At the date of this Prospectus, Graff Diamonds Holdings Limited holds its investment in Graff Diamonds International Limited at a book value that reflects the investment's historic acquisition cost, which is significantly lower than the market value of that investment. Pursuant to the Reorganisation Agreement, conditional upon the occurrence of the Price Determination Date, and as permitted by each of the company law of the British Virgin Islands, UK GAAP and IFRS, Graff Diamonds Holdings Limited will revalue its investment in Graff Diamonds International Limited at fair value. This revaluation will be carried out on the Price Determination Date and will not be performed by reference to an independent valuation. The revised valuation will be an amount equal to the market capitalisation of the Group at the Offer Price (before the issuance of the New Shares and before the issuance of the Shares to be issued pursuant to the Safdico Acquisition Agreement). This revaluation is an intra-group accounting adjustment and has no external effect other than to maximise the level of share premium credited on the Company's balance sheet upon the acquisition of Graff Diamonds Holdings Limited by the Company.

The revaluation of Graff Diamonds Holdings Limited's investment in Graff Diamonds International Limited will, upon the issuance of Shares by the Company pursuant to Step 3 below, allow the crediting of share capital and share premium in the books of the Company up to an aggregate amount equal to the full market capitalisation of the Group at the Offer Price (prior to the issuance of the New Shares and the Shares to be issued pursuant to the Safdico Acquisition Agreement). Under the Cayman Companies Law, the Company may, subject to meeting certain solvency requirements and, pursuant to the Articles, with the sanction of an ordinary resolution of shareholders, make distributions to its shareholders from its share premium account. The purpose of this step is therefore to maximise the capacity of the Company to make distributions to Shareholders after Listing.

Step 2: Divestment of Delaire (Pty) Limited and its subsidiaries

Delaire (Pty) Limited is a wholly owned subsidiary of Graff Diamonds International Limited, and is the owner and operator of the Delaire Graff Estate, a luxury resort and winery in Stellenbosch, South Africa. The Delaire Graff Estate is not considered by the Company to be a core part of the Group's business. AE Holding S.A., a company incorporated in Luxembourg that is owned and controlled by Laurence Graff, will acquire Delaire (Pty) Limited from Graff Diamonds International Limited pursuant to Step 2 of the Reorganisation. The Delaire Graff Estate operates, and will continue to operate post-Listing, a jewellery retailing concession where it offers the Group's products for sale to its guests. As more fully described in the section headed "Connected Transactions", on 17 May 2012, Graff Diamonds Limited and Delaire (Pty) Limited entered into a distribution agreement pursuant to which Delaire (Pty) Limited became the sole distributor of our jewellery and watches at the Delaire Graff Estate.

Graff Diamonds International Limited had loaned Delaire (Pty) Limited US\$54,308,330, which was carried on our balance sheet as at 31 December 2011 at a value of US\$46,378,037, which includes an impairment provision based on the available net assets of Delaire (Pty) Limited. Graff Diamonds International Limited has agreed pursuant to the Reorganisation Agreement to sell the entire issued share capital of Delaire (Pty) Limited to AE Holding S.A. for nominal cash consideration of US\$1, and assign its right to repayment of the loan to AE Holding S.A. for cash consideration of US\$30,000,000, being the consideration amount agreed with Laurence Graff as a reasonable price to be paid between buyer and seller in the context of the Reorganisation. This transaction will not have an impact on our profit and loss statement in respect of 2012.

In addition to being the owner and operator of the Delaire Graff Estate, Delaire (Pty) Limited is also the sole shareholder of AE Assets UK Limited, a UK incorporated holding company that is the sole shareholder of five UK companies, three of which own real estate interests and two of which own aviation interests. The real estate and aviation interests owned by AE Assets UK Limited (which are described more fully below) are not considered by the Company to be a core part of the Group's business. As AE Assets UK Limited and each of its five subsidiaries are all wholly owned subsidiaries of Delaire (Pty) Limited, the Group will dispose of the real estate and aviation interests upon its divestment of Delaire (Pty) Limited.

AE Assets UK Limited is the sole shareholder of Searchmap Limited. Searchmap Limited's only fixed asset is the freehold title to 6-8 New Bond Street, which is the site of the Group's flagship London store.

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Searchmap Limited does not carry on any business other than that of being a property holding company. As more fully described in the section headed “Connected Transactions”, with effect from 25 December 2011, Searchmap Limited granted a lease in favour of Graff Diamonds Limited in respect of 6-8 New Bond Street. The Group will continue to occupy 6-8 New Bond Street pursuant to this lease following the disposal by the Group of its interest in Searchmap Limited in the Reorganisation. AE Assets UK Limited acquired Searchmap Limited from Graff Diamonds International Limited on 21 February 2012 for cash consideration of US\$46,935,000, being an amount equal to the equity value of Searchmap Limited. This equity value was calculated on the basis of the independently assessed market value of the freehold title to 6-8 New Bond Street, adjusted for the amount of third party debt owed by Searchmap Limited and other inter-company loan balances outstanding between Searchmap Limited and other members of the Group. At the date of this prospectus, the cash consideration payable by AE Assets UK Limited to Graff Diamonds International Limited in respect of the purchase of Searchmap Limited remains outstanding on intercompany account.

AE Assets UK Limited is the sole shareholder of Selectnews Limited. Selectnews Limited’s only fixed asset is certain freehold property in Mayfair, London that is occupied by a third party tenant unconnected to the Group. Selectnews Limited does not carry on any business other than that of being a property holding company. AE Assets UK Limited acquired Selectnews Limited from Graff Diamonds International Limited on 21 February 2012 for cash consideration of US\$20,077,000, being an amount equal to the equity value of Selectnews Limited. This equity value was calculated on the basis of the independently assessed market value of the freehold property owned by Selectnews Limited, adjusted for the amount of third party debt owed by Selectnews Limited and other inter-company loan balances outstanding between Selectnews Limited and other members of the Group. At the date of this prospectus, the cash consideration payable by AE Assets UK Limited to Graff Diamonds International Limited in respect of the purchase of Selectnews Limited remains outstanding on intercompany account.

AE Assets UK Limited is the sole shareholder of Selectcork Limited. Selectcork Limited’s only fixed asset is certain leasehold property in Mayfair, London that is occupied by third party tenants unconnected to the Group. Selectcork Limited does not carry on any business other than that of being a property holding company. AE Assets UK Limited acquired Selectcork Limited from Graff Diamonds International Limited on 21 February 2012 for cash consideration of US\$1,879,000, being an amount equal to the equity value of Selectcork Limited. This equity value was calculated on the basis of the independently assessed market value of the leasehold property owned by Selectcork Limited, adjusted for the amount of third party debt owed by Selectcork Limited and other inter-company loan balances outstanding between Selectcork Limited and other members of the Group. At the date of this prospectus, the cash consideration payable by AE Assets UK Limited to Graff Diamonds International Limited in respect of the purchase of Selectcork Limited remains outstanding on intercompany account.

AE Assets UK Limited is the sole shareholder of Graff Aviation Limited. Graff Aviation Limited is the owner and operator of a fixed-wing aircraft that is used by Laurence Graff in his personal capacity. AE Assets UK Limited acquired Graff Aviation Limited from Graff Diamonds Limited on 21 February 2012 for cash consideration of US\$9,328,000, being an amount equal to the equity value of Graff Aviation Limited. This equity value was calculated on the basis of the independently assessed market value of the aircraft owned by Graff Aviation Limited as at May 2012 (i.e., pursuant to a purchase price adjustment mechanism by which the consideration initially set out on 21 February 2012 was adjusted to reflect an up-to-date valuation of the aircraft, after the purchase of AE Assets UK Limited had been completed), adjusted for the amount of third party debt owed by Graff Aviation Limited and other inter-company loan balances outstanding between Graff Aviation Limited and other members of the Group. At the date of this prospectus, the cash consideration payable by AE Assets UK Limited to Graff Diamonds Limited in respect of the purchase of Graff Aviation Limited remains outstanding on intercompany account.

AE Assets UK Limited is the sole shareholder of Graff Global Aviation Limited. Graff Global Aviation Limited is the owner of a contract for the delivery of a fixed-wing aircraft that is intended to be used by Laurence Graff in his personal capacity. AE Assets UK Limited acquired Graff Global Aviation Limited from Graff Diamonds Limited on 21 February 2012 for nominal cash consideration of US\$1. The Company has assessed the enterprise value of Graff Global Aviation Limited to be nominal in view of the fact that it has no material net assets. At the date of this prospectus, the cash consideration payable by AE Assets UK Limited to Graff Diamonds Limited in respect of the purchase of Graff Global Aviation Limited remains outstanding on intercompany account.

AE Holding S.A. will acquire the entire issued share capital of Delaire (Pty) Limited pursuant to the Reorganisation Agreement on the second business day prior to the Listing Date. At Listing, in addition to

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paying the aggregate purchase price of US\$30,000,001 for the entire issued share capital of, and the right to receive the loan amount owed by, Delaire (Pty) Limited, AE Holding S.A. will also procure the settlement by AE Assets UK Limited of the amounts outstanding in respect of the purchases of Searchmap Limited, Selectnews Limited, Selectcork Limited, Graff Aviation Limited and Graff Global Aviation Limited described above which total US\$78,219,001. In addition, AE Holding S.A. and Graff Diamonds International Limited will procure the settlement by Searchmap Limited, Selectnews Limited, Selectcork Limited, Graff Aviation Limited and Graff Global Aviation Limited of all balances owed by such entities to members of the Group and vice versa, which will result in a net payment to the Group of US\$1,607,000. The aggregate cash consideration payable by AE Holding S.A., or which AE Holding S.A. is required to procure the payment of, in each case to the Group in connection with such transactions is therefore US\$109,826,000, which reflects the market value of the Delaire Graff Estate and the property and aviation interests being acquired, net of third party debt being assumed by AE Holding S.A.

Step 3: Insertion of the Company as the ultimate holding company of the Group

At the date of this prospectus, Graff Diamonds Holdings Limited (a company incorporated in the British Virgin Islands) is the ultimate holding company of the Group. Graff Diamonds Holdings Limited is owned by Laurence Graff (as to 60%) and Anne-Marie Graff (as to 40%). Pursuant to the Reorganisation Agreement and conditional upon the occurrence of the Price Determination Date, the Company (a company incorporated in the Cayman Islands) will become the new holding company of the Group by acquiring the entire issued share capital of Graff Diamonds Holdings Limited. Laurence Graff and Anne-Marie Graff will each transfer their shareholdings in Graff Diamonds Holdings Limited to the Company, in consideration of the issue to them by the Company of 389,999,999 new Shares and 260,000,000 new Shares, respectively. Laurence Graff's and Anne-Marie Graff's holdings of Shares after completion of this step will therefore be in the same proportion as their respective existing shareholdings in Graff Diamonds Holdings Limited. The aggregate number of Shares to be issued to Laurence Graff and Anne-Marie Graff pursuant to this step is fixed at the date of this prospectus and is not subject to or based on the revaluation of Graff Diamonds Holdings Limited's investment in Graff Diamonds International Limited pursuant to Step 1, which will occur at the Price Determination Date.

Step 4: Acquisition of Graff Monaco

SAM Graff Monte-Carlo, a company incorporated under the laws of Monaco, is the owner and operator of the Graff Diamonds store in Monaco. SAM Graff Monte-Carlo is currently held by Laurence Graff (as to 99%) and François Graff (as to 1%). The Company considers that the Graff Diamonds store in Monaco is a core part of the business of the Group, and it will therefore be acquired by the Group prior to Listing.

Pursuant to the Reorganisation Agreement and conditional upon the occurrence of the Price Determination Date, Graff Diamonds Holdings Limited will, prior to the Listing Date, acquire the entire issued share capital of SAM Graff Monte-Carlo from Laurence Graff and François Graff in consideration of the payment to Laurence Graff and François Graff of US\$198,000,000 and US\$2,000,000 in cash, respectively. The acquisition price of US\$200,000,000 was agreed between the shareholders of Graff Diamonds Holdings Limited and Laurence Graff and François Graff, with valuation advice provided by Rothschild based on the application of an earnings-multiple methodology to projected incremental earnings available to the Group following the acquisition of SAM Graff Monte-Carlo.

Step 5: Acquisition of Safdico International Limited

Safdico International Limited, a company incorporated under the laws of Mauritius, is the ultimate holding company of the Group's Procurement and Polishing division. At the date of this prospectus, Safdico International Limited is held by AE Holding S.A. (a company controlled by Laurence Graff) as to 49.990%, Nandi International Limited (a company owned and controlled by a trust of which Brian Gutkin is a beneficiary) as to 24.995%, Phase Holdings Ltd (a company owned and controlled by Jonas Kneller) as to 24.995%, and Graff Diamonds International Limited as to 0.020%.

The Company considers that the Procurement and Polishing division is a core part of the business of the Group, and it will therefore be acquired by the Group prior to Listing. In preparation for the Global Offering, Safdico International Limited acquired the companies, business and assets comprising the Procurement and Polishing division from Safdico Limited, the former holding company of the Procurement and Polishing division, and its subsidiaries. Safdico International Limited is owned by AE Holding S.A., Nandi International Limited, Phase Holdings Ltd and Graff Diamonds International Limited in the same proportions as is the case for Safdico Limited. The purchase price paid by Safdico

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International Limited for the acquisition of the Procurement and Polishing division was US\$196,119,507, which remains outstanding on inter-company account (the “Safdicco Purchase Balance”). This purchase price has not been set by an independent valuer and has been agreed between the Group on the one hand and Brian Gutkin and Jonas Kneller (who are not connected to the Company and Laurence Graff) on the other, with valuation guidance provided by Rothschild. This price has been applied *pro rata* to the shareholding in Safdicco International Limited indirectly owned by Laurence Graff.

Following the acquisition of the Procurement and Polishing division by Safdicco International Limited, Safdicco Limited assigned US\$100,020,000 of the Safdicco Purchase Balance to its shareholders (being AE Holding S.A, Nandi International Limited, Phase Holdings Ltd and Graff Diamonds International Limited) *pro rata* by way of distribution. Following this distribution, the amounts owed under the assigned portion of the Safdicco Purchase Balance are US\$50,000,000 to AE Holding S.A., US\$25,000,000 to each of Nandi International Limited and Phase Holdings Ltd, and US\$20,000 to Graff Diamonds International Limited.

Pursuant to the Safdicco Acquisition Agreement and conditional upon the occurrence of the Price Determination Date, Nandi International Limited and Phase Holdings Ltd have each agreed to contribute to the Company US\$20,000,000 in principal amount of the Safdicco Purchase Balance assigned to them in consideration of the issue to each of them of Shares with an aggregate value at the Offer Price of US\$20,000,000.

Also pursuant to the Safdicco Acquisition Agreement and conditional upon the occurrence of the Price Determination Date, Graff Diamonds Holdings Limited will acquire the entire issued share capital of Safdicco International Limited (other than the shareholding in Safdicco International Limited owned by Graff Diamonds International Limited) from AE Holding S.A., Nandi International Limited and Phase Holdings Ltd. The consideration payable for this sale shall be US\$1 in cash to be paid to each of AE Holding S.A., Nandi International Limited and Phase Holdings Ltd. In addition to paying the purchase price for the entire issued share capital of Safdicco International Limited (other than the shareholding in Safdicco International Limited owned by Graff Diamonds International Limited), Graff Diamonds Holdings Limited will also procure the settlement by Safdicco International Limited on or shortly after the Listing Date of the Safdicco Purchase Balance (other than amounts owed to members of the Group). Safdicco International Limited will pay US\$50,000,000 in cash to AE Holding S.A. and US\$5,000,000 in cash to each of Nandi International Limited and Phase Holdings Ltd. The remaining portion of the Safdicco Purchase Balance (being US\$82,675,681) will be paid by Safdicco International Limited to Safdicco S.A. and used by Safdicco S.A. to repay shareholder loans owed by Safdicco S.A. to a company owned and controlled by Laurence Graff in the amount of US\$30,675,000, and to repay loans from, and unwind profit-sharing arrangements with, an unrelated third party totalling US\$52,000,681. The balances totalling US\$82,675,681 are liabilities of Safdicco S.A. and, therefore, are not included in the Group’s historical combined balance sheet. In addition, under the Safdicco Acquisition Agreement, the Group has agreed to repay loans and related interest owed to two companies separately controlled by Brian Gutkin and Jonas Kneller in the amount of US\$6,015,834, to repay an outstanding loan balance owed to Laurence Graff in the amount of US\$100,000 and to repay loans from, and unwind profit-sharing arrangements with, an unrelated third party totalling US\$7,307,992. The aggregate amount payable by the Group in connection with the acquisition of Safdicco International Limited pursuant to the Safdicco Acquisition Agreement is therefore US\$196,119,507.

As a result of this transaction, the incentives of Brian Gutkin and Jonas Kneller will be aligned with those of the Company, and they have agreed to a six month lock-up on the sale of their Shares. As more fully described in the section headed “Connected Transactions”, Messrs Gutkin and Kneller will continue to provide management services to the Procurement and Polishing division following Listing pursuant to the terms of the Management Services Agreement.

Step 6: Purchase of DiamondWorks Inventory

As described in the section headed “Business — Retail Inventory”, the Group will purchase the DiamondWorks Inventory immediately prior to Listing. Pursuant to the Reorganisation Agreement and conditional upon the occurrence of Listing, Graff Diamonds Limited or such other member of the Group as the Company may nominate will acquire the diamonds comprising the DiamondWorks Inventory (which, for the avoidance of doubt, does not include the Reserved Stones) from DiamondWorks (a Swiss company indirectly wholly owned and controlled by Laurence Graff) for cash consideration of US\$226,889,164, calculated by reference to the prevailing market price of such diamonds and other

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relevant factors, which include the technical characteristics of each stone (cut, clarity, weight and colour) as well as other variables such as rarity and being part of a pair or other related group of stones.

During the Track Record Period, DiamondWorks has operated as a diamond trading company. Due to the potential tax consequences to the shareholder of DiamondWorks that could result from its sale to the Group, we are acquiring only the DiamondWorks Inventory as opposed to DiamondWorks itself. Pursuant to a Deed of Non-Competition described more fully in the section headed “Relationship with Our Controlling Shareholder — Deed of Non-Competition and Policy on Directors’ Personal Diamond Purchases”, Laurence Graff has agreed that, save for the sale of the Reserved Stones, he will not engage in any business through DiamondWorks which, directly or indirectly, competes with the business activities of the Group.

Step 7: Sale of Artwork

Graff Diamonds Limited is the owner of a number of paintings, the most significant of which is *Portrait of Cézanne*, a painting by the impressionist artist, Camille Pissarro, which is currently on loan to the National Gallery in Trafalgar Square, London. The Company does not consider these assets to be a core part of the Group’s business. Pursuant to the Artwork Sale Agreement, Graff Diamonds Limited will, immediately prior to Listing, sell these paintings to Clinder SA (a company controlled by Laurence Graff) for a cash price of approximately US\$8,200,000, being their market value as assessed by an independent expert.

Gifts of Shares

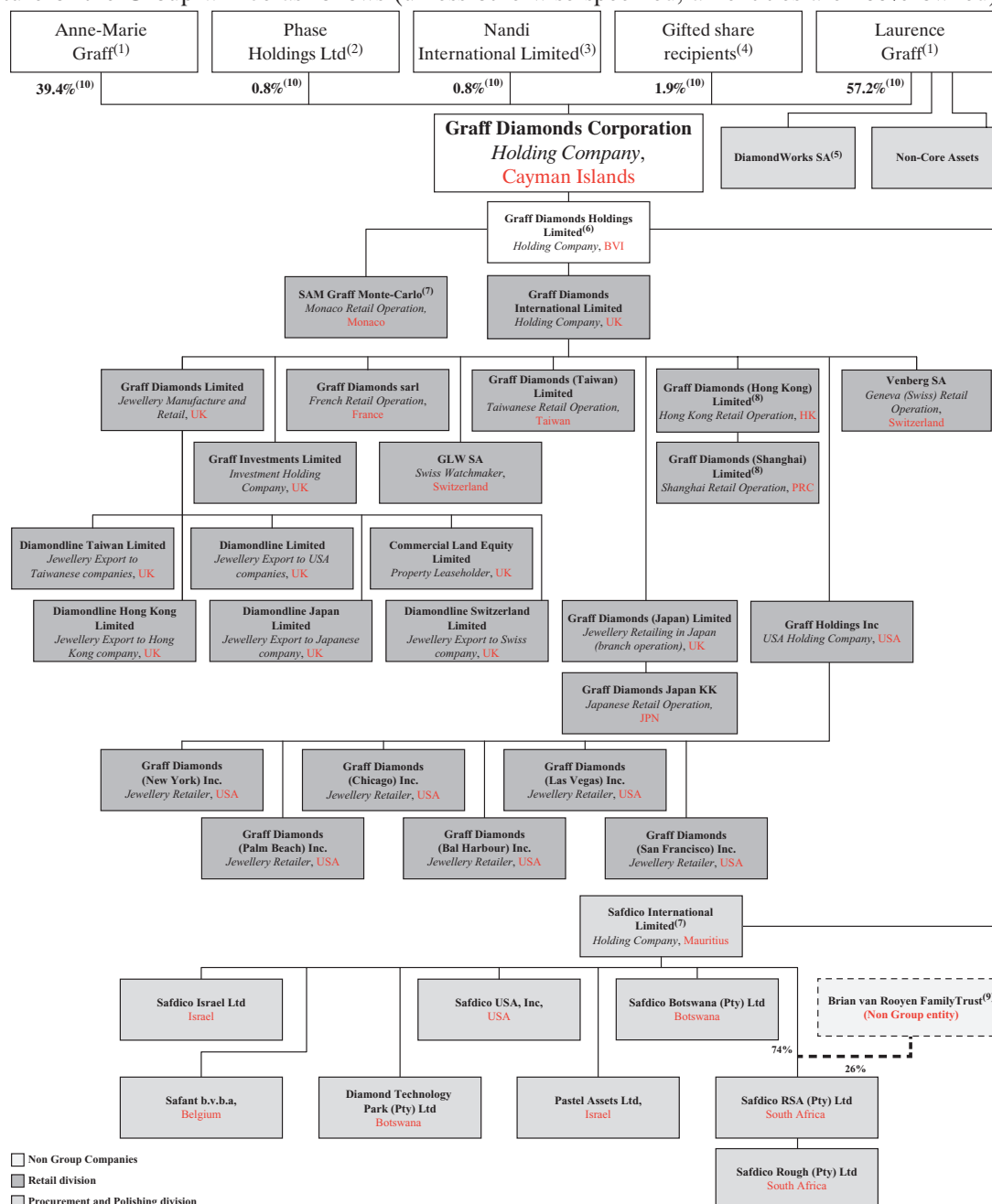
As part of the Reorganisation, Laurence Graff will transfer by way of gift to five of his family members, Shares with an aggregate value of US\$50 million, representing up to 15,560,000 Shares, assuming a final Offer Price at the bottom of the indicative Offer Price range. These gifts will be made in order to restructure Laurence Graff’s shareholding in the Company for his estate planning purposes, and such Shares will be subject to a six-month lock-up and will not be counted towards the Company’s public float for the purposes of the Listing Rules. Completion of the transfer of the Shares comprising these gifts is conditional upon the completion of the Reorganisation and will be made prior to Listing. See “Substantial Shareholders and Selling Shareholder”.

Retained Interests

For a description of the retained diamond-related interests of Laurence Graff, see “Relationship with our Controlling Shareholder”.

OUR HISTORY AND CORPORATE STRUCTURE

Immediately following the completion of the Reorganisation and share gifts and prior to the Listing, the structure of the Group will be as follows (unless otherwise specified, all entities are 100% owned).

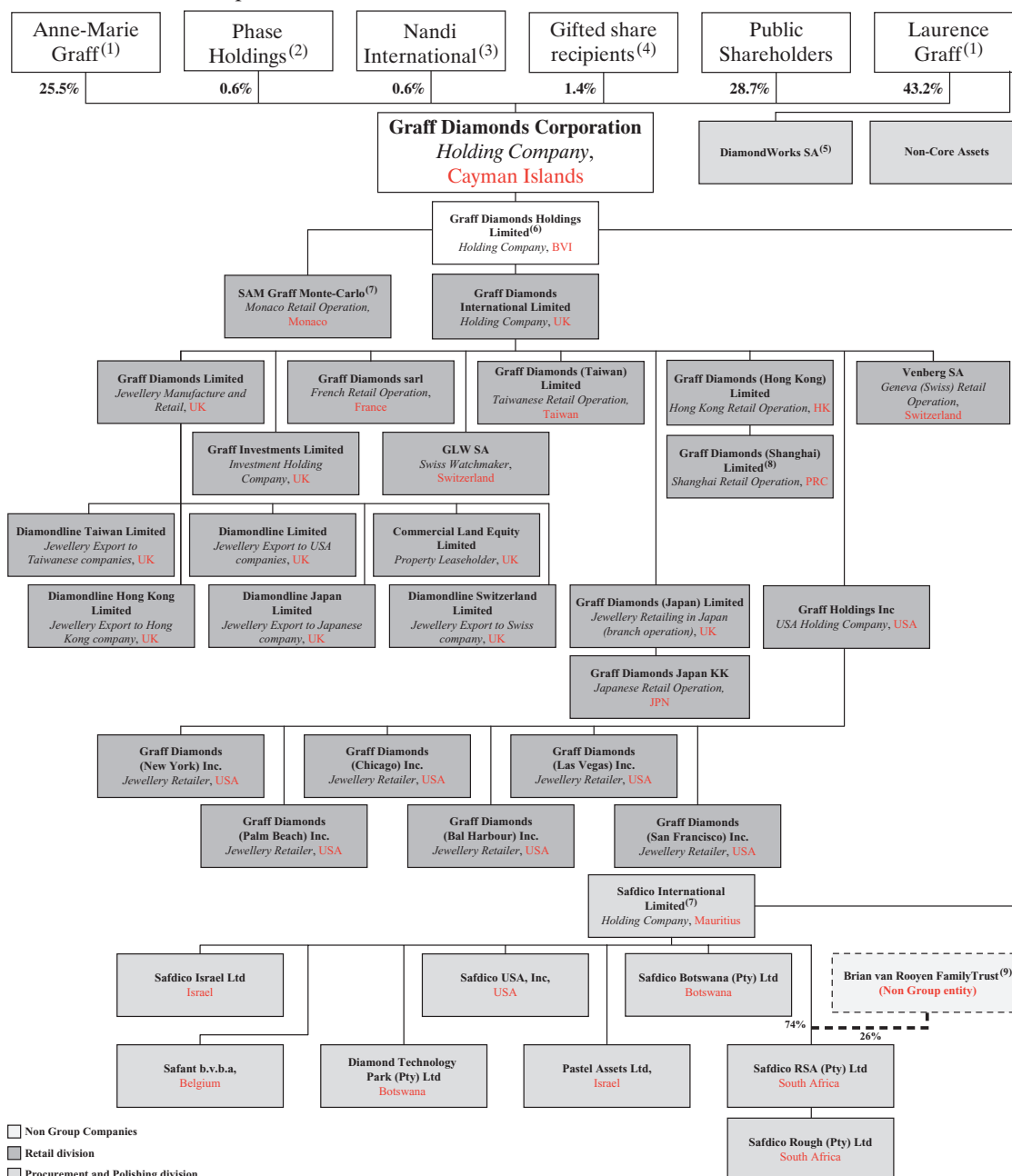


Notes:

- (1) Laurence and Anne-Marie Graff are married.
- (2) Phase Holdings Ltd is controlled by Jonas Kneller.
- (3) Nandi International Limited is controlled by a trust of which Brian Gutkin is a beneficiary.
- (4) Shares transferred by Laurence Graff by way of gift to five of his family members as described under “ — Gifts of Shares” above.
- (5) Laurence Graff’s interest in DiamondWorks SA is held by AE Holding S.A. Laurence Graff is the 100% beneficial owner of AE Holding S.A.
- (6) Graff Diamonds Holdings Limited holds an interest in a captive insurance cell operated by a third party provider incorporated in Bermuda.
- (7) One share (0.02%) held by Graff Diamonds International Limited.
- (8) Graff Diamonds (Shanghai) Limited is incorporated in China as a Foreign-Invested Commercial Enterprise and runs all of the Company’s stores in mainland China. It holds the required business licenses issued for the operation of the stores in each relevant province, is the lessee for each of the retail premises and is the employer of all sales staff. The Company intends to operate its new stores in China through Graff Diamonds (Shanghai) Limited in the same way that it operates its current stores.
- (9) Black Economic Empowerment partner.
- (10) Based on an Offer Price of HK\$31.00, being the mid-point of the indicative Offer Price range.

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Immediately after the Listing, the structure of the Group will be as follows, in each case assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$31.00, being the mid-point of the indicative Offer Price range. The shareholdings in the following structure chart are subject to change based on the Offer Price as finally determined. We will update the shareholdings in Graff Diamonds Corporation to reflect the Offer Price set on the Price Determination Date in the results of allocations announcement that we expect to issue on or about 6 June 2012.



Notes:

- (1) Laurence and Anne-Marie Graff are married.
- (2) Phase Holdings Ltd is controlled by Jonas Kneller.
- (3) Nandi International Limited is controlled by a trust of which Brian Gutkin is a beneficiary.
- (4) Shares transferred by Laurence Graff by way of gift to five of his family members as described under “ — Gifts of Shares” above.
- (5) Laurence Graff’s interest in DiamondWorks SA is held by AE Holding S.A. Laurence Graff is the 100% beneficial owner of AE Holding S.A.
- (6) Graff Diamonds Holdings Limited holds an interest in a captive insurance cell operated by a third party provider incorporated in Bermuda
- (7) One share (0.02%) held by Graff Diamonds International Limited.

OUR HISTORY AND CORPORATE STRUCTURE

- (8) Graff Diamonds (Shanghai) Limited is incorporated in China as a Foreign-Invested Commercial Enterprise and runs all of the Company's stores in mainland China. It holds the required business licenses issued for the operation of the stores in each relevant province, is the lessee for each of the retail premises and is the employer of all sales staff. The Company intends to operate its new stores in China through Graff Diamonds (Shanghai) Limited in the same way that it operates its current stores.
- (9) Black Economic Empowerment partner.

Overview

Graff is synonymous with the most fabulous jewels in the world. As a vertically integrated diamond company, our operations comprise the design, manufacture and retail distribution of high and ultra high end jewellery and watches, and the sourcing, cutting and polishing of rough diamonds primarily for use in our retail operations. We believe that we have one of the most admired jewellery brands in the world. We have been ranked among the top luxury jewellery brands by key industry publications, including being ranked as the “Top Premium Jewellery Brand” by United Brands in 2011, “Best of the Best” in the diamonds category by the Robb Report in 2011 and the “Most Wanted Luxury Jewellery Brand” by the Luxury Brand Institute Status Index in 2010 and 2011. In 1973, we were the first jeweller to be presented the Queen’s Award for Industry and Export and have since been granted the award again in each of 1977, 1994 and 2006.

Graff is considered to be one of the world’s foremost diamond companies and is recognised for its expertise in the field of rare and important diamonds, factors which have allowed it to develop the large and unique inventory of gem quality diamonds that has become a hallmark of its business. We have acquired, cut and polished and/or sold many of the world’s largest, rarest, most renowned and historically significant diamonds, including the Paragon, a 137.82 carat diamond which, in 1989, was certified by the GIA as the largest Flawless, D Colour diamond in the world; the Empress Rose, a 70.39 carat diamond which, in 2001, was certified by the GIA as the largest Internally Flawless, Fancy Light Pink diamond in the world; and the Wittelsbach-Graff, a 35.56 carat Fancy Deep Grayish Blue, VS2 diamond with a 300-year history, including as part of the Bavarian crown jewels, which was purchased in 2008 and repolished into a 31.06 carat Internally Flawless, Fancy Deep Blue diamond.

We serve a select clientele of high and ultra high net worth individuals, to whom we provide the highest quality customer service. We sell our jewellery and watches through 18 directly operated stores and five carefully selected franchise partners operating from a further 13 locations in many of the world’s most exclusive shopping districts in cities across Europe, Asia and the United States, as well as through international luxury goods fairs and exhibitions frequented by our high and ultra high net worth clientele. In order to achieve our signature jewellery style, which is characterised by minimal visible settings, intricate, fluid designs and the use of diamonds and gemstones of exceptional quality, we design and hand craft more than 95% of our jewellery by value at our London workshop, which we believe is one of the largest facilities in the world producing hand made, gem quality jewellery. Our watches, which were launched in 2009, are recognisable by their distinct diamond shaped faceted cases, which were inspired by the shape of a classic brilliant cut diamond.

We source our polished diamonds through our Procurement and Polishing division and third party suppliers. As one of 75 DTC sightholder groups worldwide, we sourced approximately 52% by value of our rough diamonds from three DTC sights in London, Kimberley and Gaborone in 2011. In addition, we purchase rough diamonds on the open market and through tenders and auctions conducted by leading diamond mines worldwide. Rough diamonds and polished diamonds that we process and which are not required for use in our jewellery and watches are sold to third parties.

For the year ended 31 December 2011, we had revenues of US\$755.6 million, gross profit of US\$288.1 million and profit for the year (excluding transactions costs related to the Global Offering) of US\$120.1 million. As at 31 December 2011, we had an inventory with a book value of US\$651.4 million, which included 708 individual white diamonds weighing over three carats each and 71 yellow diamonds weighing over seven carats each, most of which are contained in finished pieces of jewellery.

Competitive Strengths

An iconic brand

Since Graff was founded in 1960, the Graff brand has become synonymous with the most fabulous jewels in the world, and today is ranked among the top luxury jewellery brands by key industry publications. These rankings include the “Top Premium Jewellery Brand” by United Brands in 2011, “Best of the Best” in the diamonds category by the Robb Report in 2011 and the “Most Wanted Luxury Jewellery Brand” by the Luxury Brand Institute Status Index in 2010 and 2011.

The Graff brand is positioned at the pinnacle of the luxury jewellery market, with a product offering unmatched by our publicly traded hard luxury peers. Our brand is underpinned by our heritage of consistently high quality jewellery that blends truly exceptional diamonds with exquisite design and

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craftsmanship. Our focus on our target market of high and ultra high net worth customers has allowed us to maintain a high level of brand credibility, consistency and exclusivity which differentiates us from accessible and aspirational luxury jewellery retailers.

Our brand and position among the leading hard luxury goods retailers is reinforced by: an exceptional product offering of diamond jewellery and watches, with items priced above US\$1 million generating 47.4% of retail sales by value in 2011; a retail distribution network comprising 18 directly operated stores and five franchise partners operating from 13 locations in many of the world's most exclusive retail shopping districts; regular participation at a number of the world's most exclusive luxury fairs and exhibitions; and consistently providing the highest levels of customer service that seeks to foster the development of long term, personal relationships, such that approximately 23.7% of our customers in 2011, by number, had previously purchased jewellery and/or watches from us in one or both of 2009 and 2010.

Vertical integration, with control over the key elements of the value chain

Our vertically integrated business model has been central to our success, and we believe sets us apart from our competitors. We control the most critical elements of the value chain, including rough diamond procurement, cutting and polishing, jewellery design and production, and retail distribution. We operate a highly developed sourcing system for both rough diamonds through our DTC sights and polished diamonds on the open market, and operate state-of-the art cutting and polishing facilities through our Procurement and Polishing division. Our design and manufacturing facilities allow us to produce unique and exquisitely crafted pieces of jewellery that use some of the world's most precious diamonds and appeal to our high and ultra high net worth customers. This vertical integration has been essential to the development of our exceptional inventory and the successful expansion of the Graff brand. We believe that no other company among our peers in the industry has achieved a similar level of integration to date.

As part of the Reorganisation, Safdico, the holding company of our Procurement and Polishing division, will become a wholly owned subsidiary of the Company. See "Our History and Corporate Structure." We will also purchase polished diamonds directly from our suppliers and, save for the Reserved Stones, we will no longer use the consignment arrangement that previously existed with DiamondWorks, a company controlled by Laurence Graff. As a result, we will control the most critical elements of the value chain and, after the Listing Date, capture a larger share of the profit margins associated with our business.

An exceptional diamond inventory

Throughout our history, we have acquired and sold many of the world's largest, rarest, most renowned and historically significant diamonds, such as the Magnificence, a 243.96 carat diamond, certified by the GIA in 2008 as the largest Emerald Cut, D Colour, Flawless diamond in the world. Over the last decade, we have built up an exceptional inventory of diamonds and finished pieces of jewellery, without particular regard to short term changes in demand, to enable us to supply our customers with the exceptional diamond jewellery for which we are known. We believe that the continued maintenance of our exceptional inventory sets us apart from our peers by allowing us to offer our clients, many of whom are among the wealthiest and most discerning purchasers of jewellery in the world, a substantially larger selection of rare, high quality diamonds than we believe could be offered by our competitors. We have established our retail network in many of the most exclusive shopping destinations in the world and participate in some of the world's most exclusive jewellery exhibitions in order to showcase our exceptional inventory to our elite customer base. We believe that we provide a level of customer service that is unrivalled by our competitors, particularly in respect of the highest value items of jewellery in our inventory, which we manage centrally and are therefore able to transport to any location in the world, including the homes of our customers.

As we have expanded our retail network, we have also grown our inventory to ensure that we continue to offer our clients a large selection of rare, high quality diamonds. Our inventory had a book value of US\$651.4 million as at 31 December 2011, and included 708 individual white diamonds weighing over three carats each and 71 yellow diamonds weighing over seven carats each, contained in approximately 6,000 pieces of jewellery, as well as 800 watches. We also held on consignment from DiamondWorks, as at that date, 75 diamonds. Jewellery using at least one large diamond (10 carats or more) made up approximately 50% of the value of our finished goods inventory (as measured by book value and including the relevant consigned stones from DiamondWorks) as at 31 December 2011.

The relatively limited supply of larger and higher quality diamonds has led to sharp price appreciation of such diamonds in the recent past. This is evidenced by the almost four fold wholesale price increase for

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five carat gem quality polished diamonds from 2001 to 2010 (source: Rapaport Diamond Price Statistics, 2010). In addition, from 2006 to 2011, wholesale prices of polished diamonds weighing three and five carats grew at a 12% and 14% CAGR, respectively, compared to the 8% CAGR in wholesale prices for one carat polished diamonds and the 3% CAGR in wholesale prices for diamonds weighing less than 0.5 carats (source: Rapaport Group). Therefore, we believe the current wholesale market value of our polished diamond inventory is higher than its book value, which, together with the significant expertise necessary to accumulate an inventory like ours, creates a very high barrier to entry.

Strong track record of top line growth

We have strategically developed our business to capitalise on structural shifts in the diamond industry. In the late 1990's, when De Beers began to introduce their Supplier of Choice system, Laurence Graff acquired a controlling interest in Safdico, which operates our Procurement and Polishing division. This direct source of large, high quality diamonds helped to underpin the tactical expansion of our Retail division.

From 2001 to 2011, as we expanded our retail network from four directly operated stores to 18 directly operated stores and five franchise partners operating from 13 locations, our retail revenues grew from US\$87.3 million to US\$623.5 million, representing a CAGR of 21.7% over the period. This expansion was driven by growing brand awareness, increasing demand for diamond jewellery and our exceptional product offering. Our directly operated stores are highly productive, generating sales per average number of directly operated stores of US\$27.5 million in 2011, exceeding the average of our publicly traded hard luxury peers. As our directly operated stores require a relatively low amount of capital expenditure to open, we generate returns on our investments quickly and have been able to fund the expansion of our Retail division from our cash flow.

Although, like our publicly traded peers in the luxury jewellery industry, our revenue declined in 2009 as compared to 2008 due to the global financial crisis, our revenues rebounded in 2010 and 2011, and at rates that exceeded those of our publicly traded peers. We believe the recovery of our revenues illustrates the resilience of our business model and of our high and ultra high net worth customer base, many of whom we believe had not previously experienced a significant financial downturn, but have since returned to historical buying patterns.

Compelling industry long-term growth dynamics

As a vertically integrated diamond jewellery company, we stand to benefit from (i) the alignment of positive trends in the growth of high and ultra high net worth individual wealth and the demand for absolute luxury goods generally and of gem quality diamond jewellery in particular, (ii) the imbalance between the expected supply of, and demand for, rough diamonds and (iii) the growing acceptance of diamonds as an alternative investment asset.

Our customers are primarily high and ultra high net worth individuals. The size and wealth of these two groups has grown dramatically in recent years. The number of high net worth individuals grew 17.1% in 2009 compared to 2008 and a further 8.3% in 2010, while high net worth individual financial wealth grew 18.9% and 9.7%, respectively, during the same periods (source: Capgemini Merrill Lynch World Wealth Report 2011). The growth in wealth has been even more pronounced for ultra high net worth individuals, whose wealth increased by 11.5% in 2010 after a 21.5% increase in 2009 relative to 2008 (source: Capgemini Merrill Lynch World Wealth Report 2011). We expect that the size and wealth of our target customer base will continue to grow, and believe that we are well positioned to serve this customer base due to our depth of inventory, product offering and expanding retail distribution network.

The absolute luxury goods market is forecast to grow from approximately €39 billion to €41 billion in 2011 to approximately €50 billion to €52 billion in 2014, representing a CAGR of 8% to 10% (source: Bain Luxury Study — Altagamma Worldwide Market Monitor Spring Update, April 2012), and we expect that the hard luxury subcategory of the absolute luxury goods market in which we operate will continue its upward trend. In particular, consumption of diamond jewellery is expected to grow at a 5.6% CAGR from 2010 to 2020 driven by, among other factors, growth in demand for diamond jewellery, mainly driven by China and India, which is expected to increase at a 12.5% CAGR over that period (source: Alrosa). Over the same period from 2010 to 2020, rough diamond supply in carats is forecast to grow at a 2.8% CAGR while demand for rough diamonds in carats is projected to increase at a 6.4% CAGR (source: Bain & Company Diamond Report December 2011). Supply and demand imbalances of this nature in the past have historically provided a basis for an increase in the price of diamonds.

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These dynamics, together with similar trends in other alternative asset classes such as fine wine, classic cars and contemporary art, have contributed to a growing trend among some investors and clients to view diamonds as a store of wealth. We believe the acceptance of diamonds as an alternative investment asset is becoming more widespread, and expect this to support the value of our exceptional inventory of diamonds and foster further demand for our jewellery, particularly the large, rare and high quality diamonds for which we are known.

The Graff family

With over 50 years of experience in the diamond business, Laurence Graff has developed a reputation as one of the world's foremost diamantiers and as an expert in the area of rare and important diamonds. His skill has helped us acquire many of the largest and rarest stones in our inventory, and today we believe we are recognised by sellers of both rough and polished diamonds as one of the leading buyers in the industry.

Raymond Graff, Laurence Graff's brother and our Manufacturing Director, joined Graff in 1966 and has been instrumental in developing our ability to consistently manufacture high quality diamond jewellery. Laurence Graff also imparted his passion for diamonds and exceptional diamond jewellery to his son, François, our Chief Executive Officer, who has been with the Group since 1986, and to his nephew (and Raymond's son), Elliott, our Operations Director, who has been with the Group since 1994. François has overseen the strategic expansion of our Retail division and cultivated many of our most important client relationships. Elliott is principally responsible for overseeing the design, merchandising, procurement and inventory management functions of the Retail division.

Together, Laurence Graff and the family members above have a collective 142 years with the Group. Their expertise and relationships have been critical to establishing Graff as one of the world's foremost diamond jewellery companies, and their reputation in the industry is well recognised. As Chairman of the Board, Laurence Graff, together with the other members of the Graff family, will use these skills, together with those of the rest of our senior management team, with the goal of continuing to grow our business as a public company.

A passionate, proven and experienced management team

While two generations of the Graff family have played and will continue to play an essential role in our continued development, the strength of our brand, heritage and reputation has attracted a highly skilled and experienced senior management team that oversees more than 560 employees and has been crucial to the success of our business. Our senior management team is passionate about what we do. They have overseen the successful expansion of our retail distribution network and our jewellery and watch business, and together delivered strong financial performance in our Retail division, with a clear focus on preserving our brand heritage while increasing our sales. Our senior management team is supported by an efficient organisational structure of experienced managers, sales executives and artisans, many of whom have been with us for decades. We have also added four independent non-executive Directors, whose experience spans high end retail luxury jewellery and watches, financial management and governance, multi-national retailing and diamond mining, in anticipation of becoming a public company. We believe their wealth of experience will be invaluable to our future growth.

Strategy

Further raise the global awareness and profile of our iconic brand while remaining true to our heritage

Further raising our brand awareness is key to the success of our planned product and retail development. We intend to build upon our current marketing efforts to increase the visibility of the Graff brand through special events such as store openings and special exhibitions as well as increased advertising. We aim to develop further the Graff brand through the extension of existing product ranges. In addition, we will seek to further penetrate the high net worth market by launching new lines of jewellery with items priced at less than US\$1 million and selling a greater number of watches than has historically been the case, in order to leverage the exclusivity associated with our brand and take advantage of the comparatively higher margins associated with those products compared to those with sales prices of US\$1 million or more. This will allow us to introduce new customers to the heritage and extraordinary quality of Graff jewellery and foster the development of long lasting relationships, with a view to generating future sales of higher priced products as the wealth of these customers increases over time.

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Subject to market conditions and opportunities, as part of this profile raising, we may from time to time acquire complementary businesses or assets which we consider to have the potential to accelerate this strategy and create value for shareholders.

Expand retail network to capitalise on fast growing Asian luxury demand and further tap the European market

In 2011, we opened four new directly operated stores, in San Francisco, Gstaad, Taipei and Beijing. In 2012, we plan to open a directly operated store in each of Hong Kong, Shanghai, Macau and Hangzhou. In connection with our partnership with the Isetan group, we also have agreed to open a directly operated store within their flagship Tokyo department store by the end of 2012, with the opening of stores in further Isetan department stores under consideration. In 2013, we intend to open a further five directly operated stores, the majority of which will be in Asia, subject to identifying suitable locations.

We are focusing on potential further expansion in greater China, including additional stores in Beijing and Hong Kong and potential new stores in cities such as Chengdu and Shenyang, as well as Malaysia, Singapore, South Korea, Taiwan and Thailand. We are also currently assessing expansion possibilities in additional European cities, including Paris, Milan, Munich, St. Moritz, Vienna and Zurich, as well as further expansion opportunities in the Americas. We will opportunistically assess whether to open these new directly operated stores earlier if suitably prestigious locations become available.

We have focused our growth strategy in particular on Asia to capitalise on the anticipated significant growth in high and ultra high net worth consumers in China and the associated demand for ultra high end luxury goods. We also believe that there is significant scope to grow our brand in Asia due to our relative lack of penetration of the market compared to our hard luxury peers. Retail division revenues attributable to the Asian region have increased by 135.6%, from US\$51.1 million in 2009 to US\$120.4 million in 2011, representing 19.3% of our Retail division revenues in 2011. Given the relatively low capital expenditure required to open a store and our stores' high average sales, we anticipate that our new directly operated stores will quickly generate a positive return on our investment. We expect to finance our expansion with internal cash flow.

Our five franchise partners, which currently operate from 13 locations, have supported the successful expansion of our retail footprint and have allowed us to increase our brand awareness. We will continue to work with our franchise partners in markets where we do not currently have a direct presence to selectively expand our franchise network. In addition, all operating costs are borne by our franchise partners, and we realise broadly similar operating margins on sales to our franchisees as in the rest of our business. We are also in discussions with new potential franchise partners regarding our expansion in the Middle East and Asia.

We also intend to continue to participate in the leading international luxury fairs and exhibitions that are frequented by our high and ultra high net worth clientele.

Develop the potential of our nascent watch business

We launched our inaugural watch collection in 2009 and have since introduced five families of watches comprising dress watches, sports watches, jewellery watches, highly complex watches and custom made, one-of-a-kind timepieces. During the Track Record Period, sales of our watches, on average, enjoyed significantly higher gross profit margins than our jewellery. From 2009, sales of watches increased from US\$7.1 million to US\$21.5 million in 2011, a CAGR of 74.0%, and watches accounted for 3.4% of our Retail division revenues in 2011. During this period, luxury watch retail sales grew at a CAGR of 22% (source: Bain Luxury Study — Altgamma Worldwide Market Monitor October 2011). We intend to leverage our initial success to grow our watch business through the launch of new watch collections, stronger brand communication and enhanced visibility at key trade events such as the Basel Jewellery Fair in 2013.

Continue to build our exceptional diamond inventory to support future growth

We have increased our inventory of diamonds over the last decade to enable us to meet the needs of our customers, wherever they may be in the world, for the exceptional diamond jewellery for which we are known. We believe that the continued maintenance of our inventory of exceptional stones sets us apart from our peers, and will support our growth as we expand our business.

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In order to support our growth, we intend to continue to increase our inventory both pursuant to our contractual entitlements through, and purchases of additional stones from, DTC as well as opportunistic purchases of diamonds in the open market. In particular, we will leverage the long term relationships that we enjoy with our diamond suppliers, including DTC. From April 2012, DTC has increased our basic allotment of rough diamonds from approximately US\$80 million to over US\$135 million per year, as a result of which we anticipate our total purchases of rough from DTC, including stones in addition to our basic allotment, to exceed US\$200 million per year. Our basic allotment accounted for approximately 64% of our total rough diamond purchases from DTC in 2011, as it did not include our purchases of additional stones from DTC. In addition, we will continue to take advantage of our financial strength and market leading procurement and production expertise to opportunistically acquire rough and polished diamonds of the highest quality, such as our recent purchase of the 550 carat Letseng Star rough diamond.

Capture the additional margin potential of our business model

The sourcing, cutting and polishing capabilities of our Procurement and Polishing division are critical to the success of our Retail division. As we expand our retail distribution network, we intend to increase our manufacturing utilisation to meet the increased demand for jewellery in our directly operated stores. Our acquisition of Safdico as part of the Reorganisation is a key aspect of this strategy. In particular, while in 2011 we used approximately 59% (by sales value, including inter-segment revenue) of our Procurement and Polishing division's polished diamond production in our jewellery, we have targeted growing that share to 70-80% in the short term in order to extract greater value from the polished diamond output that we do not currently use in our jewellery by using these additional stones in jewellery sold through our retail distribution channels and using them in new products.

To enhance the benefits of the acquisition of Safdico, we plan to leverage the strong relationships with suppliers of rough and polished diamonds that we have developed as a result of our market reputation and manufacturing expertise to further enhance our sourcing capabilities. Our allocations at our DTC sights have increased significantly in the most recent contract period, which took effect in April 2012, and we believe our continued strategic investment in the Diamond Technology Park in Botswana will further facilitate our sourcing efforts. In addition, we expect to continue to increase the capacity utilisation of our procurement and polishing operation at our state-of-the-facilities in Gaborone as demand for the processing of rough diamonds in Botswana increases due to the relocation of DTC's London sight and centralisation of DTC's worldwide aggregation operations to Gaborone.

We also intend to expand our jewellery manufacturing capabilities through the reconfiguration of our London jewellery manufacturing facility to focus on higher value items. Our Thai manufacturing partner also has additional manufacturing capacity should we require it in the future, although we do not currently anticipate needing to utilise significant additional capacity in the near term.

Finally, we will transact directly with the suppliers from whom DiamondWorks previously purchased, thereby enhancing our ability to achieve higher retail sales margins by purchasing polished stones directly from our suppliers rather than on consignment through DiamondWorks.

Our Business

Our operations comprise (i) the retail distribution of our high and ultra high end jewellery and watches through our Retail division, and (ii) the sourcing, cutting and polishing of rough and polished diamonds for use in our jewellery and watches, and depending on our requirements, the sale to third parties of rough and polished diamonds through our Procurement and Polishing division.

The Retail Division

We design, manufacture and sell jewellery and watches. We primarily use diamonds that are rated G and above for colour and VS2 and above for clarity, as certified by the GIA, and a significant proportion of our polished diamonds are rated well above these standards. While our jewellery also incorporates other precious and semi-precious gemstones, including sapphires, rubies and emeralds, as well as precious metals, the design aesthetic of all of our jewellery focuses primarily on diamonds.

We categorise our jewellery and watches by price bands: less than US\$100,000; US\$100,000 to less than US\$1 million; US\$1 million to less than US\$10 million; and US\$10 million and above. The following table

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sets forth the distribution of our jewellery and watch sales revenue across these price bands for the years ended 31 December 2009, 2010 and 2011:

Price Band	Year ended 31 December								
	2009			2010			2011		
	Total revenue	% of total revenue	% of total items sold	Total revenue	% of total revenue	% of total items sold	Total revenue	% of total revenue	% of total items sold
	<i>(in US\$ millions, except percentages and total items sold)</i>								
US\$10 million and above	70.0	17.5	0.0	60.7	13.4	0.1	119.4	19.1	0.0
US\$1 million – <US\$10 million	106.2	26.6	1.9	134.3	29.6	1.8	176.2	28.3	1.6
US\$100,000 – <US\$1 million	160.6	40.2	20.2	192.1	42.3	18.7	230.2	36.9	16.6
Less than US\$100,000	62.5	15.7	77.9	67.2	14.7	79.4	97.7	15.7	81.8
Total	<u>399.3</u>	<u>100.0</u>	<u>100.0</u>	<u>454.3</u>	<u>100.0</u>	<u>100.0</u>	<u>623.5</u>	<u>100.0</u>	<u>100.0</u>
Total items sold		2,851			3,424			5,147	

As demonstrated in the price band table above, we sold 54, 64 and 84 items that were priced at US\$1 million or more in 2009, 2010 and 2011, respectively. Over the same period, we sold one, three and two items per year, respectively, that were priced at more than US\$10 million. Our single largest customer accounted for all of our sales of items priced at US\$10 million or more in 2009 and 2010. In 2011, three customers, which included our single largest customer, purchased items priced at US\$10 million or more.

Jewellery

We design, produce and sell pieces of jewellery containing diamonds and other gemstones, including one-off pieces, as well as rings, necklaces, bracelets, earrings and brooches that form part of our repeatable and other collections. Although we sell jewellery across a range of price points as detailed below, we believe we are unique among international jewellery retailers, as the sale of our high value pieces (i.e., over US\$100,000) accounted for the significant majority of our revenues. For the year ended 31 December 2011, 79.7% of our Group revenue and 96.6% of the Retail division's revenue came from the sale of jewellery.

We believe that we are known for diamonds of extraordinary quality and rarity, such as the Graff Pink, the Delaire Sunrise and the Wittelsbach-Graff. When purchased, a client may elect to have stones like these set in a ring, brooch or pendant. In addition, we produce pieces of multi-stone jewellery made up of exceptional stones, including most notably the Lesotho Promise necklace and the Letseng Legacy brooch. These diamonds and pieces of jewellery are priced on a case by case basis, taking into account size, quality and rarity. We show our most exclusive pieces of jewellery to targeted customers on a selective basis.

In the case of multi-stone pieces, price points tend to be higher than the total carat weight content of the piece due to the premium associated with grouping a collection of high quality stones together into one piece. The association of our brand with such exceptional diamonds and important pieces of jewellery is underpinned by the quality and authenticity of all of our pieces, and enhances our reputation among luxury customers.

We also produce repeatable collections, which are designed using stones of a variety of sizes and colours and are inspired by a common theme, such as “The Galaxy” and “The Lotus” collections. Collections typically include complementary pieces such as earrings, necklaces, bracelets, rings and brooches. Pieces in these collections are produced regularly in accordance with demand across our retail network. In addition, we produce classic jewellery pieces such as engagement rings and diamond stud earrings.

Jewellery Design

Throughout our history, we have developed a distinctive jewellery design style characterised by minimal visible settings, intricate fluid designs and a focus on our exceptional stones. Our highly skilled team of six in-house designers creates collections of jewellery based on a theme or particular style, standalone pieces and specialised designs to display significant stones or collections of stones.

The focus of a Graff design is and has always been the stone itself. Our style can be described as being classic and simple, rather than design intensive. Our designers combine cultural, artistic and historical influences from beyond the world of jewellery to create distinctive, modern and timeless pieces. Our brand heritage and extensive design archives provide inspiration for our designers and include pieces based on historic Graff jewellery and other external influences. One of the key considerations in the design process

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is the way a particular piece will be worn, including the way it will sit on the body and move with its wearer. To this end, many of our signature pieces contain a particular type of wire setting in which a fine collet is bridged to another collet by a slender wire so that the setting is essentially knitted together. This setting allows the piece to flex and move when finished, creating a soft and lace-like effect when worn, which is rare for pieces of jewellery containing stones of the size we use. Our designs are unique and inspired by a single exceptional stone or collection of stones. Some designs are multi-functional, allowing for the transfer of a stone between two pieces.

We follow two principal models in our design process. In the case of a collection of stones, our design team will create a one-off piece of jewellery designed to best present the specific stones. Items designed in this way are unique and often take many man-hours to produce. In the case of smaller stones or repeatable collections, the setting is designed first and stones are then selected to fit the design based on quality, size, shape and colour. Our design team regularly creates new designs, with new pieces and collections approved on an ongoing basis. Our design team also maintains regular contact with our Procurement and Polishing division so that both divisions are aware of the design and inventory pipeline, allowing for more efficient planning.

Each design is first conceived in a pencil sketch, which is then painted in detail in gouache, a traditional method of jewellery design that we adhere to as it provides a realistic representation of the final product. The paintings form a part of our extensive historical design archive. We also use state-of-the-art CAD design technology to create physical models representative of the finished design which can be cast to form the components that will make up the finished piece. Our stone graders sort through our extensive loose stone inventory to allocate stones to specific designs, a process that involves comparing all constituent stones with each other for symmetry in size, clarity, colour and shape to ensure consistency within an individual piece of jewellery and across our repeatable collections. Once the detailed design and grading processes are completed, the technical plan of the design moves to the production phase. The close collaboration between the design team and the craftsmen in our production facility means that our pieces are able to move smoothly from design to production.

Jewellery Production

We produced a total of approximately 2,600, 3,600 and 5,300 pieces of jewellery in 2009, 2010 and 2011, respectively. More than 95% of our jewellery by value is made in our London workshop, which we believe is one of the largest facilities in the world producing handmade, gem quality jewellery. As at 31 December 2011, we employed 49 craftsmen in the London workshop, of whom 13 have been with the Group for more than 15 years. The craftsmen in the workshop are divided into five specialist teams: rings; high-end jewellery; assembling; stone setters; and polishing. We also have a number of apprentices training in the teams within our workshop. We are committed to the training and development of young craftsmen as a way to ensure a continuity of skill that is vital to our business. A specialised team in our diamond sorting studio oversees the allocation of designs to our craftsmen, timing of production and quality control.

The individual jewellery components are assembled by hand using traditional techniques to create our trademark minimal, fluid settings. Once the components have been created, they are individually polished and an initial quality control review is undertaken. The components are then linked together and a second polishing takes place along with a further quality control review. Stones are then set into the components to create the finished piece. The piece is then given a final polishing before being laser engraved with the Graff logo and unique stock number. There is then a final quality control review before the piece is offered for sale. Less than 5% of our jewellery by value, which requires more time consuming procedures and larger quantities of smaller stones, is made in Thailand by a European third-party partner that we selected based on the reliability of its security, manufacturing expertise, ability to meet our stringent quality control requirements and the integrity of its employment practices. Our partner works closely with our design team in London in relation to the detailed specifications for our pieces. Each piece of jewellery it produces undergoes internal quality control in Thailand and then undergoes final quality control in our London workshop before being offered for sale. Should our business require, there is capacity for significant expansion with our partner due to its additional production capacity and the availability of a qualified workforce. However, we do not anticipate having to utilise significant additional capacity in the near future.

Watches

We launched our inaugural watch collection in 2009, and have since introduced five families of watches comprising dress watches, sports watches, jewellery watches, highly complex watches and custom made,

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one-of-a-kind timepieces. Our men's watches include the MasterGraff, ScubaGraff, ChronoGraff and GraffStar lines, many of which are also available in smaller sizes as part of our women's range, which also includes intricate diamond jewellery watches. Our watches incorporate a blend of originality, ageless aesthetics and impeccable craftsmanship and combine these with intricate designs and expert Swiss-made mechanisms, including proprietary movements for our sports and highly complex watches including the Graff Concepto 1 and Graff Concepto 2. Our signature watch design has a triangular cut stone at 12 o'clock and a faceted case, which is design-right protected and was inspired by the shape of a classic brilliant cut diamond.

Our watch collections are designed by a third-party studio in Milan, and we maintain ownership of those designs. Our watches are then assembled in Geneva by a third-party partner. Diamonds included in many of our watches are cut by our cutting and polishing operations and selected in London in accordance with the same criteria applied to our jewellery. Diamond settings are made either in London or Geneva and the assembly and testing of all of our watches is done by a team of master watchmakers in Geneva. Our watch components are sourced from third-party Swiss partners and our supply arrangements with these parties are non-exclusive. All mechanisms are sourced directly by us and committed for delivery one year in advance.

Our watches are priced from US\$20,000 to more than US\$2 million. All of our watches are made in limited editions. Although we are a new entrant into the luxury watch market, our products have already garnered critical praise. In 2011, our MasterGraff Skeleton Limited Edition, a gold skeletonised tourbillon watch encased in over 21 carats of diamonds and costing more than US\$2 million, was nominated for the Grand Prix d'Horlogerie de Genève 2011, one of watchmaking's most prestigious awards. Since the launch of our collection in 2009, we have produced more than 1,800 watches, of which more than 265 were diamond jewellery watches and 15 were one-of-a-kind, custom-made watches.

The table below sets out the number of watches sold, their approximate average selling price and total watch revenue for the years ended 31 December 2009, 2010 and 2011:

	Year ended 31 December		
	2009	2010	2011
Number of watches sold	170	222	238
Total watch revenue (US\$ millions)	7.1	15.7	21.5
Average selling price (US\$)	42,000	71,000	90,000

Retail Inventory

We believe our extensive inventory of diamonds and finished pieces of jewellery is an important strength of our business. As at 31 December 2011, our inventory (including both our retail inventory and also the inventory of our Procurement and Polishing division) had a book value of US\$651.4 million. This inventory included 708 individual white diamonds weighing over three carats each and 71 yellow diamonds weighing over seven carats each, contained in approximately 6,000 pieces of jewellery, as well as 800 watches.

In addition to our inventory of diamonds, we also had diamonds consigned to us from DiamondWorks, from whom we have historically held a substantial amount of diamonds on a long-term consignment basis. These diamonds had a fixed consignment value of approximately US\$354.8 million as at 31 December 2011, and comprised 75 diamonds.

The following table sets forth certain information regarding the colour of our diamond inventory of GIA certified diamonds (including stones on consignment from DiamondWorks) as at 31 December 2011.

GIA Colour Rating	Aggregate carat weight (^{'000s})	Percentage of total	Percentage of stones in each category weighing more than 3 carats
D-F	7.7	41.4	47.9
G and below	5.4	29.0	40.5
Fancy Colour	5.5	29.6	52.7
Total	18.6	100.0	47.0

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Stones consigned from DiamondWorks have formed a key part of our inventory, and represented approximately 40% of the Retail division's costs of sales over the Track Record Period. Historically, DiamondWorks has financed the purchase and consignment to the Group of the consigned stones from suppliers, and has therefore benefited from the price appreciation of the diamonds held on consignment up until the point of purchase by customers from us. We complete the purchase of consigned diamonds when we sell the corresponding diamonds to the customer, and therefore are not liable for the purchase cost associated with such stones while they are on consignment to us. At the time of their sale by us, DiamondWorks then charges us a negotiated price set by reference to the prevailing wholesale market price for such stones.

The price per carat paid by us for diamonds from DiamondWorks has historically been, on average, higher than the price paid for equivalent stones from other suppliers (including the Procurement and Polishing division). This average premium reflects the benefit to the Company of avoiding the costs and risk associated with purchasing polished stones and holding them in inventory until their retail sale.

Upon completion of the Global Offering, we will purchase from DiamondWorks, a company controlled by Laurence Graff, the DiamondWorks Inventory. As at the Latest Practicable Date, the DiamondWorks Inventory comprised 73 stones, totalling approximately 1,250 carats, for which we will pay approximately US\$227 million. See "Use of Proceeds". Based on our inventory of US\$651.4 million as at 31 December 2011, the acquisition of the DiamondWorks Inventory would increase the book value of our inventory immediately following the completion of the Global Offering to approximately US\$880 million. The acquisition of the DiamondWorks Inventory is central to our core strategy of maintaining a significant inventory of high quality stones to support our future growth. We estimate that it may take approximately four to five years for us to sell the entire DiamondWorks Inventory, based on and consistent with our historic rate of inventory turnover for items priced at US\$1 million or more. Therefore, through the acquisition of the DiamondWorks Inventory, we will be able to fix the cost base of the inventory and benefit from any potential appreciation subsequent to its acquisition.

Going forward, we intend to increase our inventory levels in connection with our retail distribution network expansion through the continued purchase of diamonds, primarily with cash generated by our sale of jewellery. We expect our inventory to increase as our sales increase, but that the average number of days in inventory will decline, as we expect to sell a larger proportion of jewellery with an expected retail price below US\$1 million. These items typically turn over faster than jewellery with an expected retail price of US\$1 million or more.

We believe that leveraging the additional capacity of our Procurement and Polishing division, as well as the strength of our long term relationships with our other suppliers, will ensure that we are able to adequately supply our expanded retail network with items across our price bands.

In addition, we will continue to hold on consignment from DiamondWorks certain stones with respect to which we have agreed a fixed purchase price from DiamondWorks of approximately US\$128 million (the "Reserved Stones") in connection with their pending sale to a third party. The purchase price has been determined in accordance with the terms applicable in the ordinary course of our business to the purchase by us of consigned stones from DiamondWorks (i.e., the price at which DiamondWorks is willing to sell to us and that we are willing to pay to DiamondWorks, taking into account the existence of a willing retail customer and the absence of the risk associated with holding such stones in our inventory). It is not currently known when these sales will complete, if at all. We have retained the option to terminate the consignment agreement relating to the Reserved Stones at no cost should we elect to do so. Please see the section headed "Relationship with our Controlling Shareholder — Deed of Non-competition and Policy on Directors' Personal Diamond Purchases" for further details. Until such time as we terminate the consignment agreement, DiamondWorks cannot sell the Reserved Stones to third parties. Our purchase of the Reserved Stones at this price has been structured in this manner to allow us to realise profit on their sale without being exposed to the risk of carrying them in our inventory were we to purchase them outright without the knowledge of a potential sale. The Company is not liable for any cost or change in value of the Reserved Stones while they remain on consignment. The Reserved Stones are insured in accordance with the Company's normal policies. Save for our purchase of the DiamondWorks Inventory and for the Reserved Stones, we will not source any further inventory (whether purchased or on consignment) from DiamondWorks in the future.

Retail Inventory Management

The Group's policy regarding the appropriate level of inventory to maintain is set by the Executive Directors, who closely monitor the value and characteristics (cut, clarity, colour, caratage) of the stones in the Group's inventory. Our merchandising team is based in London and manages our retail inventory on a day-to-day basis. It is overseen by Elliott Graff, our Director of Operations, and the team comprises 14 people. They are responsible for the distribution of our jewellery and watches to our stores, monitoring of stock levels, overseeing stock checks and ensuring adequate supply throughout our retail distribution network in compliance with the pre-set limits agreed with our insurers for each location.

We manage the control of all stones used in our jewellery, whether purchased or on consignment to us from DiamondWorks, on the same basis. This is because substantially all of the stones consigned from DiamondWorks are contained in finished jewellery which is available for sale through our retail distribution network. The accounting treatment applicable to our inventory requires that we reflect on our balance sheet only those stones that are owned by the Group at their respective historical costs or their net realisable value, if lower, in accordance with standard accounting practices and generally accepted accounting principles.

Each piece of jewellery we create is separately identified within our stock management system. Products using at least one large diamond (10 carats and larger) make up approximately 50% of the diamond value of our total finished goods (as measured by book value and including the relevant consigned stones from DiamondWorks) as at 31 December 2011.

Every store is allocated a base of stock of jewellery items priced below US\$1 million each, together with a range of watches, as well as a number of higher value pieces which are deployed regionally and rotated among stores as needed. Each piece of jewellery and each watch is specifically allocated to a particular retail location taking into account historical and anticipated client preferences and demands. We closely monitor the retail history of each of our stores in order to understand the varying demand for different pieces and price bands in each of our markets. Delivering the customer service that we are known for requires a thorough understanding of client tastes and demands, and the ability to pass that understanding through our supply chain so that our stores are appropriately stocked and so that our sales executives are aware of incoming pieces that a customer may be interested in.

Our stock management systems are based around the SAP software package, which is run throughout the Retail division. This system manages and tracks individual diamonds from the initial delivery from our Procurement and Polishing division or third party suppliers for assessment through to inclusion in the individual piece of jewellery. Items are tracked by a stock management programme that assesses stock levels, reserved items and items in production. Our stock control team conducts a check of loose stone inventory every two weeks, and all of our directly operated stores perform a monthly stock audit. Our stock tracking system assesses any gaps in our inventory so that they can be analysed and appropriate stock can be ordered and distributed. This system also allows for real-time inventory management in our directly operated stores so that inventory can be adjusted and replenished as necessary.

In addition to our SAP system, each piece of jewellery also has a physical "passport", including key information for sales executives such as diamond weight, certification details and the retail price. These systems together allow us to track the component stones within each piece, allowing us to make any necessary adjustments to the price of each piece of jewellery as diamond prices change. Serving our clients, wherever they are located, also requires sophisticated logistics capability, as our customers expect to be able to see and handle our jewellery in our different stores around the world. To facilitate this, our merchandising team can, with the assistance of our logistics department, arrange for pieces of jewellery to be moved between retail locations to accommodate specific requests. Transporting pieces between our stores and to special exhibitions and events requires completion of applicable customs documentation, tracking of individual pieces and state-of-the-art security systems. Depending on the reason for the transfer, our logistics team will arrange customs documentation as appropriate. For certain transfers, we make use of specialist third-party customs clearing agents and third-party shipping companies. In some cases where an item is of particularly significant value, our staff will hand deliver it to the appropriate destination.

Distribution Network

Our jewellery and watches are sold through 18 directly operated stores and five carefully selected franchise partners operating a further 13 locations in many of the world's most exclusive shopping districts across the following four operating regions: UK, Rest of Europe, Asia and the US.

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The following table sets forth certain information regarding the evolution of our distribution network during the Track Record Period and as at the Latest Practicable Date:

	As at 31 December			As at 21 May
	2009	2010	2011	2012
Number of directly operated stores ⁽¹⁾	12	14	18	18
Number of franchise locations ⁽²⁾	11	13	13	13
Total	23	27	31	31

Notes:

- (1) No directly operated stores were closed during the Track Record Period, other than temporarily for refurbishment or relocation to new premises.
- (2) In late 2011, we closed our location at the Saks Fifth Avenue Store in San Francisco in connection with the opening of our new directly operated store in San Francisco in late 2011.

Due to the mobility and high and ultra high net worth of our clientele, physical sales in a particular geographical region do not necessarily indicate the origin or nationality of our customers. Customers often visit our stores outside their home region and, for a certain select portion of our clients, sales take place outside our stores at locations convenient to them. This is particularly true for sales of items in our higher price bands and for certain sales that are reflected in the UK region. The following table sets out revenue for our Retail division, by operating region, for the years ended 31 December 2009, 2010 and 2011:

<u>Operating Region</u>	Year ended 31 December		
	2009	2010	2011
		<i>(US\$ millions)</i>	
UK ⁽¹⁾	183.0	200.1	263.2
Rest of Europe ⁽²⁾	68.2	103.4	147.0
Asia	51.1	54.4	120.4
US ⁽³⁾	97.0	96.4	92.9
Total revenue	399.3	454.3	623.5

Notes:

- (1) Includes sales to franchise partners (excluding Saks Fifth Avenue) and sales from our own events and exhibitions (excluding our annual exhibition in Monaco), as well as sales made to clients other than in our stores.
- (2) Includes revenue attributable to our European stores and sales from our annual exhibition in Monaco.
- (3) Includes sales to Saks Fifth Avenue.

The following table sets out revenue for our Retail division, by operating region, attributable to items sold for US\$1 million or more, for the years ended 31 December 2009, 2010 and 2011:

<u>Operating Region</u>	Year ended 31 December		
	2009	2010	2011
		<i>(US\$ millions)</i>	
UK	119.2	118.8	154.4
Rest of Europe	16.6	26.2	49.4
Asia	13.5	13.9	58.4
US	26.9	36.1	33.3
Total revenue from items sold for US\$1 million or more	176.2	195.0	295.5

The following table sets out revenue for our Retail division, by operating region, attributable to items sold for less than US\$1 million for the years ended 31 December 2009, 2010 and 2011:

<u>Operating Region</u>	Year ended 31 December		
	2009	2010	2011
		<i>(US\$ millions)</i>	
UK	63.8	81.2	108.8
Rest of Europe	51.5	77.3	97.6
Asia	37.6	40.5	61.9
US	70.2	60.3	59.6
Total revenue from items sold for less than US\$1 million	223.1	259.3	327.9

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Stores

Our stores are managed in four regions, UK, Rest of Europe, Asia and the US. The following table sets out certain information about our existing directly operated stores and those that we plan to open in 2012.

Location	Date opened
UK⁽¹⁾	
• London, Bond Street	1993
• London, Sloane Street	2003
Rest of Europe⁽¹⁾	
• Monaco, Hotel de Paris ⁽²⁾	2000
• Courchevel I, Rue du Rocher ⁽²⁾	2003
• Courchevel II, Le Chalet de Pierres ⁽²⁾	2010
• Geneva, Rue du Rhone	2008
• Gstaad, Grand Hotel Park ⁽²⁾	Q4 2011
Asia⁽³⁾	
• Hong Kong, The Peninsula Hotel	2008
• Hong Kong, Ritz Carlton Hotel	Expected Q3 2012
• Tokyo, The Peninsula Hotel	2007
• Tokyo, Isetan Shinjuku	Expected Q4 2012
• Shanghai, The Peninsula Hotel	2010
• Shanghai, IFC Pudong	Expected Q3 2012
• Beijing, The Peninsula Hotel	Q1 2011
• Taipei, The Grand Formosa Regent Hotel	Q2 2011
• Macau, The Wynn Hotel	Expected Q2 2012
• Hangzhou, The Hubin Mall	Expected Q3 2012
US⁽⁴⁾	
• New York City, Madison Avenue	2001
• Palm Beach, Worth Avenue	2003
• Chicago, East Oak Street	2004
• Las Vegas, The Wynn Las Vegas Hotel	2005
• Bal Harbour, Collins Avenue	2006
• San Francisco, Post Street	Q4 2011

Notes:

- (1) Our UK and European headquarters are based in Mayfair, London.
- (2) Several of our European locations follow the local season, as customers' visits are substantially concentrated at particular times of the year: from approximately April to November in Monaco and December to April in Courchevel and Gstaad.
- (3) Our Asian headquarters are located in Hong Kong.
- (4) Our US headquarters are based in our offices on Fifth Avenue in New York City.

When choosing where to open a new store, we carefully evaluate market conditions and consumer trends in the area to try to ensure the success of the store. We seek premises in the most prestigious retail locations. The decor in our stores is elegant and understated, and many locations feature private rooms where clients can shop discreetly. Each of our directly operated stores employs state-of-the-art security systems designed and implemented to the satisfaction of our insurers. The average capital expenditure (excluding inventory) required to open a new store is approximately US\$3 million, though actual expenditure varies depending on the size and location of the store. Historically, due to the nature of our products and customers, new stores have achieved, over a relatively short period of time, the same gross

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profit margin as the rest of our stores. Consequently, we believe that our expansion plans will allow us to grow our retail footprint without adversely impacting our gross profit margins.

Franchisees

In addition to our directly operated stores, we also currently have 13 franchise locations operated by our five franchise partners. The following table sets out certain information about our franchise stores.

Location	Date opened	End date of current term of franchise agreement
Russia		
• Moscow, Tretiakovski Proezd	2002	2021
• Moscow, Luxury Village Barrika	2006	2021
• Moscow, TSUM	2008	2021
Ukraine		
• Kiev, Gorodetskogo	2010	2015
UAE		
• Dubai, Dubai Mall	2005	2014
• Dubai, Burj al Arab	2012	2014
South Africa		
• Stellenbosch, Delaire Graff Estate	2010	2015
United States		
• New York City, Saks Fifth Avenue	2003	2015
• Five other locations, Saks Fifth Avenue	2003–2006	2015

We have chosen to franchise in certain markets due to barriers to entry for foreign investors, underdeveloped local retail infrastructure and/or perceived geopolitical risk. In the case of Saks Fifth Avenue in the United States, the purpose of our arrangement was primarily to gain access to certain secondary markets. Our presence in these markets helps to strengthen our brand awareness where there may not always be sufficient demand to support a full store opening. We currently have locations in Saks Fifth Avenue stores in New York City, Beverly Hills, Naples (Florida), Tyson's Corner (Virginia), Atlanta and San Antonio.

In late 2011, we closed our location at the Saks Fifth Avenue store in San Francisco in connection with the opening of our own directly operated store in San Francisco in December 2011. We anticipate further consolidating our presence through Saks Fifth Avenue with the closure of our locations in Atlanta and San Antonio by the end of 2012, although we have no current intention to open directly operated stores in either city.

We carefully select our franchise partners in light of their expertise in the luxury goods sector, local management support and access to prestigious retail locations. All franchisees, save for Delaire, which is owned by Laurence Graff and operates our South African franchise, are external corporate third parties who run multiple luxury brand franchises. A number of our franchisees are publicly traded companies. We have had relationships with our franchise partners for between two and ten years.

In 2009, we had three franchise partners. In 2010 and 2011, we had five franchise partners. One of the three franchisees in 2009 was a partnership comprised of two entities with whom we terminated our agreement during that year due to insufficient sales. Although the agreement was legally terminated in 2009, the franchise location continued to operate under the terms of the agreement until 2011, when we entered into a new franchise agreement with one of the entities in the partnership. Save as disclosed above, no other franchise arrangements have been terminated during the Track Record Period.

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In general, under the terms of our franchise agreements, (a) the franchisee is the exclusive distributor of our products in the specified territory; (b) the franchisee may not sell our products other than in its store(s) in the territory and must sell the products unaltered under their original name; (c) the store must be maintained in accordance with the style and design of our directly operated stores; and (d) we have the right to inspect franchise stores to ensure that the franchisee is complying with its obligations. We have the right to, among other things, set the base level of stock that must be maintained by the franchisee throughout the duration of the franchise agreement. In addition, certain of our franchisees are required to make certain minimum annual purchases. We are not aware of any material non-compliance by any of our franchise partners with their obligations under the franchise agreements during the Track Record Period.

The duration of our franchise agreements range from three years to 20 years. Each party has the right to terminate the franchise agreement upon written notice if there is a material breach of the terms of the franchise agreement and we have the unilateral right, with written notice, to terminate the franchise agreement upon any change in the ownership of the franchisee or if the franchisee transfers or assigns their rights under the franchise agreement without our prior written consent.

For the most part our franchise partners do not hold any stock on consignment. Rather, jewellery and watches are sold to them for on-sale in the franchise stores on terms generally requiring payment to be made in advance of delivery of such stock by us. We provide our franchisees with price guidance regarding the recommended retail price, although the final determination of the retail price of the jewellery and watches they sell is made by them. In some cases, additional stock is supplied to franchise partners on consignment to supplement their purchased stock, and where this has been agreed, payment is generally guaranteed by letters of credit. In addition, all operating and capital expenditure costs for franchise locations are borne by our franchise partners. Operating margins on our sales to our franchisees are broadly in line with operating margins realised in sales through our directly operated stores.

For each of the years ended 31 December 2009, 2010 and 2011, sales to our franchise partners totalled US\$23.1 million, US\$25.0 million and US\$60.7 million, or 5.8%, 5.5% and 9.7% of the sales attributable to our Retail division, respectively. Sales to our franchise partners pursuant to our franchise agreements are recognised in the UK operating region (save for sales to Saks Fifth Avenue, which are recognised in the US region), and the revenue earned by our franchise partners on the sale of our jewellery and watches does not constitute a part of our Group revenue. Other than sales of merchandise to our franchise partners, there are no fees or other charges payable by or to the Group in connection with its franchise arrangements.

Franchise stores are fitted and managed to the same standards as our directly operated stores in order to preserve our brand image and are designed by the same retail architects to ensure consistency across the retail network. While the sales executives in our franchise stores are employed by our franchise partners, our management team makes regular visits to our franchise stores to ensure appropriate staff training is conducted and that the level of service and product offering provided to our clients is on par with our directly operated stores.

Network expansion

Expansion of our directly operated store network in Asia is a key pillar of our growth strategy. We plan to open stores in 2012 in Hong Kong, Shanghai, Macau and Hangzhou. In addition, we have agreed to open a directly operated store within the Isetan flagship Tokyo department store by the end of 2012. No further regulatory approvals are required in order to open these stores.

In 2013, we intend to open a further five directly operated stores, the majority of which will be in Asia, assuming that we are able to find suitable locations. Based on our current store opening plan, we expect our aggregate capital expenditure on new store openings through 2013 to be approximately US\$30 million. As at the Latest Practicable Date, US\$1.6 million had been incurred and US\$2.9 million had been committed. This capital expenditure is expected to be funded by our internally generated cash flow. In connection with our partnership with the Isetan group, we are considering opening stores in further Isetan department stores.

We are focusing on potential further expansion in greater China, including additional stores in Beijing, Hong Kong and Macau and potential new stores in Chengdu, Sanya and Shenyang, as well as Malaysia,

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Singapore, South Korea and Thailand. We are also currently assessing expansion possibilities in additional European cities, including Paris, Milan, Munich, St. Moritz, Vienna and Zurich, as well as further expansion opportunities in the Americas. We will opportunistically assess whether to open these new directly operated stores earlier if suitably prestigious locations become available.

In addition, we are also considering franchise expansion opportunities in Middle East locations, including Abu Dhabi, Doha, Jeddah, Kuwait City and Riyadh, as well as locations elsewhere in Asia such as Almaty, Baku, Tashkent, Hyderabad, Mumbai and New Delhi.

Exhibitions

In addition to our directly operated and franchise stores, we participate throughout the year in international luxury fairs and exhibitions that are frequented by our high and ultra high net worth clientele. On a yearly basis, we attend various events, including The European Fine Art Fair in Maastricht.

We also organise our own exclusive exhibitions and special client events throughout the year, the longest running of which has taken place over a three week period in Monaco each year for the last 13 years. These events allow us to maintain contact with key clients and to expose potential new clients to our brand. Contacts made at exhibitions and fairs often result in follow through sales in our stores and allow us to gather market intelligence that we can use when determining whether to open new directly operated stores.

Management of our Retail Division

Our Chief Executive Officer, François Graff, oversees our worldwide retail operations assisted by regional directors in Asia and the United States, who in turn administer each of our retail stores in the region through the store managers who are responsible for day-to-day operations. Daily performance of each store is closely monitored. Store managers are responsible for managing their sales team and inventory. Retail prices for our jewellery are set centrally and are consistent across our directly operated stores. Our sales executives are authorised to negotiate with clients within a pre-defined band around our retail prices, after which there is a set escalation process in place for regional and group level management to become involved with sales negotiations. Members of the senior management team at the regional and global levels are consulted for real-time approval on major transactions above certain thresholds. Our jewellery prices are reviewed by our merchandising team regularly to take account of movements in diamond prices. During the Track Record Period, we only revised our retail prices upwards.

As at 31 December 2011, we employed 65 sales executives who are highly trained to deliver our personalised and discreet service to our clients globally. Approximately 54% of our sales executives are multi-lingual, allowing them to serve our clients when they travel to our various stores outside their home countries. A portion of our sales executives' compensation is commission based and averages between 0.5-3% of sales. We have extremely high staff retention rates amongst our sales executives, with minimal departures in the three years ended 31 December 2011, which allows personal relationships to be developed with our clients. All client relationships are tracked and monitored by our central client database, which enables us to tailor our service to each client.

We are willing to transport jewellery to any location in the world to accommodate our clients and can arrange for delivery of pieces after they are sold, including the provision of security, if necessary. For certain clients, we can arrange for a sales executive to visit them at their home or elsewhere with a selection of our jewellery for them to view. In addition, we often assist customers with post-sale administrative matters and manage the process of exporting jewellery to their desired location, including assistance with documentation and customs officials. Our shipping team transported jewellery with an insured value of more than US\$7 billion in 2011, which included pieces being transported back and forth between retail locations, exhibitions and fairs, to clients for private viewings and to clients for final delivery, after purchase.

Customers

We are positioned at the very high end of the luxury jewellery market and believe that many of our customers are among the wealthiest and most discerning purchasers of jewellery in the world. Through our

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retail network in many of the most exclusive shopping destinations in the world, our exhibitions and our internationally mobile sales executives, we serve a prestigious high and ultra high net worth clientele.

Our current and target customers are high and ultra high net worth individuals, a segment of the consumer market that has seen continued growth throughout the Track Record Period. We serve a global clientele in all of our retail locations.

The following table sets out the percentage of Group revenue represented by our top 20 customers (including franchisees, retail and wholesale customers) and by our top customer, for each of the three years ended 31 December 2011:

	Year ended 31 December		
	2009	2010	2011
% of Group revenue represented by top 20 customers	43.0	42.0	43.8
% of Group revenue represented by top customer	15.8	12.1	13.2

In each year of the Track Record Period, a number of the Group's top 20 customers were recurring customers (i.e., customers who made purchases placing them in the top 20 in two or more years). In 2009, there were ten recurring customers representing 31.5% of 2009 revenue, in 2010, there were 12 recurring customers representing 33.6% of 2010 revenue, and in 2011, there were ten recurring customers representing 29.8% of 2011 revenue. Furthermore, in 2011, 51.5% of our retail revenue (excluding franchises) was derived from the 23.7% of customers who had also purchased our products in one or both of 2009 and 2010.

Throughout the Track Record Period, the purchases of our top five customers, which include ultra high net worth individuals, diamond trading companies (including DiamondWorks, a company controlled by Laurence Graff, to which the Procurement and Polishing division sold US\$16.2 million and US\$28.7 million of polished diamonds in 2009 and 2010, respectively, and was therefore our second largest customer in each of those years) and franchisees, did not exceed 30% of our revenues. While a significant portion of our revenue comes from a relatively small number of high value transactions with our top customers, our customer base is dynamic. We have many important clients with whom we have developed long-standing relationships, and our top customer was the same individual in each of 2009, 2010 and 2011. However, the majority of our customers in any given year are purchasing from us for the first time. It is not uncommon for a particularly high value customer to build a multi-million dollar collection of our pieces over a period of three to four years and then to reduce or cease their purchases of our jewellery. Historically, we have been able to develop relationships with new customers and further cultivate our relationship with existing customers who, in each case, have similar purchasing characteristics. Given the exceptionally high quality and unique nature of our jewellery, which we believe sets us apart from other high-end jewellery retailers, we expect this buying pattern to continue in the future.

Marketing and Advertising

We manage all of our marketing and advertising activities centrally. Our London headquarters oversees the global publication of all marketing and public relations materials and works closely with our regional marketing teams in Europe, Hong Kong, the United States and Japan. We had a marketing budget of approximately US\$13 million in 2011, or 2% of retail sales. Our print advertising and direct communications also tie in with our special exhibitions and events to present a consistent luxury brand profile.

Our characteristic green advertising style is instantly recognisable and is typically placed only in publications at the top end of the market. We place advertising in high-circulation local and international newspapers, as well as in luxury consumer titles, with the aim of building and supporting strong brand identity among our target customer base. This advertising regularly takes the form of full-page advertisements designed for maximum impact. We also occasionally purchase outdoor advertising in prestigious locations such as ski resorts in Gstaad and Courchevel or the Fete de Genève as relevant to target seasonal visitors to such locations. The geographical distribution of our marketing materials is based on strategic considerations, including regional growth targets, new store openings and product launches.

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Communication with our customers is a key component of our marketing and advertising strategy and is conducted through multiple channels, including direct contact from store sales teams and at our special client events and exhibitions. Our lifestyle focused magazine, Graffiti, which we have published since 2007, showcases our products, but also contains luxury lifestyle focused articles and carries carefully selected third party advertising. It is published twice annually, in summer and winter. Graffiti is distributed globally to high value clients and is also made available to potential clients at exhibitions and special events and generally in exclusive locations such as suites in five star hotels and private jet facilities. We also publish a catalogue once every two years to showcase our collections and other exceptional items of jewellery. Catalogues are produced in hard back “coffee table book” format as well as in a smaller, paperback format for wider distribution.

The Procurement and Polishing Division

Our reputation as an active buyer for exceptional, historically significant stones has formed a key part of our reputation as one of the most exclusive luxury jewellery brands in the world. Our Procurement and Polishing division, which is operated through our subsidiary, Safdico, is our platform for supporting our growth throughout the supply chain by (i) sourcing, cutting and polishing rough diamonds and polished diamonds for use in our jewellery and watches and (ii) depending on our needs, selling to third parties rough and polished diamonds that are not required for use in our jewellery. In 2011, 70.6% and 29.4%, respectively, of the revenues of the Procurement and Polishing division were attributable to the sale of polished diamonds and rough diamonds to third parties. In 2011, approximately 59% (by sales value, including inter-segment revenue) of the polished diamonds derived from our Procurement and Polishing division were used by the Retail division in our jewellery and watches, while the remainder were sold to third parties.

The following table sets out certain information regarding the activities of our Procurement and Polishing division during the Track Record Period:

	Year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions, except percentages)</i>		
<i>Sources of Revenue for Procurement and Polishing division</i>			
Inter-segment sales of polished diamonds to Retail division . . .	70.5	93.5	134.2
Sale of polished diamonds to third parties	113.2	137.6	93.3
Total sales of polished diamonds by Procurement and Polishing division	183.7	231.1	227.5
% of total polished diamonds used by Retail division	38.4%	40.4%	59.0%
Sale of rough diamonds to third parties	28.8	24.8	38.8
Total Procurement and Polishing division sales (including inter-segment sales)	212.5	255.9	266.3
% of total Procurement and Polishing division revenue attributable to provision of stones to Retail division	33.2%	36.5%	50.4%
<i>Revenue attributable to</i>			
Sale of polished diamonds to third parties	113.2	137.6	93.3
Sale of rough diamonds to third parties	28.8	24.8	38.8
Total contribution of Procurement and Polishing division to Group sales (excluding inter-segment sales)	142.0	162.4	132.1

Safdico was majority controlled by Laurence Graff throughout the Track Record Period. As a result of the Reorganisation, its business will become wholly owned by the Group upon completion of the Global Offering. See “Our History and Corporate Structure”.

Rough Diamond Procurement Process

Our Procurement and Polishing division sources the majority by value of the rough diamonds it processes through our three DTC sights (London, Kimberley and Gaborone). We also tender for rough diamonds primarily in Antwerp, Moscow, Gaborone and Johannesburg and purchase from external third parties on the open market primarily in Antwerp, Tel Aviv, Johannesburg and Kimberley. Our Procurement and Polishing division also purchases rough stones through tenders run by rough diamond producers.

Sights

We are one of 75 sightholder groups worldwide, and hold three DTC sights. Sights are the principal method by which the DTC sells rough diamonds, and the DTC network hosts ten sales, or 'sights', of rough diamonds a year. These occur in London, Kimberley, Gaborone and Namibia, usually once every five weeks. At these sales, the DTC's sightholders physically inspect their allocations of rough diamonds before deciding whether or not to purchase them. Safdico, through its South African subsidiary, has been a DTC sightholder for over 25 years. We are a significant sightholder for large, gem quality diamonds in London and have sights in Kimberley and Gaborone. Our status as a sightholder allows us to purchase rough diamonds directly from DTC at these locations and thereby ensures access to an agreed minimum supply of diamonds each year, which we consider a key competitive strength.

Sights are granted through a competitive process for a Supplier of Choice ("SoC") contract in which prospective sightholders submit applications every three to four years for rough diamond supply covering certain size and quality categories of diamonds. We apply for diamond categories in which we have a competitive advantage, such as large stones and coloured diamonds. The application process considers factors such as financial strength, marketing ability, distribution capability, technical expertise, history and adherence to best practice principles. For the sights, such as Kimberley and Gaborone, located in diamond producing countries, local employment and Black Economic Empowerment criteria are also considered. For further discussion on the DTC and sightholder process, please see "Industry Overview".

The Procurement and Polishing division purchases different quantities and categories of rough diamonds at each sight based on its specific requirements and planning for the year, in accordance with the terms of our SoC contracts. There is no contractual minimum purchase requirement under the SoC contract, and no fees are paid by the Group for the grant of the SoC contract. Our most recent SoC contracts were announced in December 2011 and commenced at each of our three sights in April 2012 for a period of three years. Our aggregate basic allotment of rough diamonds under our sights has increased from approximately US\$80 million in 2011 to over US\$135 million each year with effect from April 2012. We also expect to continue to purchase additional stones from DTC. In 2011, including our basic allotment, we purchased approximately US\$135 million of rough diamonds from DTC. As a result of our increased allotment, we anticipate our total annual purchases of rough diamonds from DTC, including stones in addition to our basic allotment, to exceed US\$200 million. To the knowledge and belief of the Directors, they do not anticipate any impediment at this time to our renewal of our SoC contracts in 2015.

Open market and tender purchases

Our Procurement and Polishing division also purchases rough and polished diamonds on the open market and at tenders held by major diamond mines. We believe that the industry expertise of our management, our reliable network of suppliers and the personal relationships with key dealers that have been developed over time provide a significant competitive advantage in these purchases. In addition, we can bid with certainty for particularly large stones, due to our vertical integration with the Retail division. When making such purchases, we do not have to take into consideration the potential availability of an end buyer, as do many of our competitors. We have been able to acquire many of the most important rough diamonds discovered and have thereafter cut and polished these into stones that have become renowned in the industry, such as the Icon, a 90.97 carat diamond, certified by the GIA in 2000 as the largest brilliant cut, Flawless diamond in the world; and the Delaire Sunrise, a 118.08 carat diamond, certified by the GIA in 2010 as the largest Square Emerald Cut, Fancy Vivid Yellow diamond in the world. As quality diamonds become more scarce, the access to markets provided by our Procurement and Polishing division is more important than ever to the success of our Retail division.

Cutting and Polishing

A diamond's cut has considerable impact on its value, and nothing can rescue a stone whose cutting has not been properly planned. A thorough microscopic examination is the first step in the planning process. We use state-of-the-art three dimensional scanning and modelling technology to arrive at the optimal cutting plan for each stone. Diamonds are usually cut and polished with 58 facets that follow a mathematical formula and are placed at precise angles to maximise light reflection to display fire, brilliance and scintillation. We use extensive rough mapping technology to ensure extraction of maximum value from rough stones. Diamonds are sawn using high precision laser sawing equipment and each stone is monitored constantly throughout the production process by expert gemologists. Once sawn, each stone is polished by a master craftsman and is re-examined at each key stage in the process. Finished stones are then sent to the GIA in the United States, Johannesburg or Gaborone for certification. For further detail on the diamond production process, please see "Industry Overview".

Over the years, we have overseen the cutting and polishing of some of the world's most exceptional stones, including the Lesotho Promise, the Letseng Legacy and the Light of Letseng. The Lesotho Promise is a prime example of our expertise in this area. The Lesotho Promise was a 603 carat rough white diamond discovered at the Letseng mine in Lesotho in 2006 and was the 15th largest diamond ever discovered. Over the course of 14 months it was transformed into 26 D Coloured diamonds (of which 25 are either Flawless or Internally Flawless) weighing a total of 223 carats. The planning phase alone took five months of microscopic examination, three dimensional scanning and modelling and detailed plotting of the stone's internal characteristics. Our sophisticated computer technology generated hundreds of possible combinations of cuts, all of which had to be examined. Once the first cut was made and the rough stone was in two pieces, the planning process was repeated in order to ensure that each step could be carried out giving maximum yield. The process created four particularly significant diamonds, a 76.4 carat pearshape cut, a 43.1 carat heartshape cut, a 27.0 carat brilliant cut and a 20.0 carat emerald cut. Together with the other diamonds cut from the Lesotho Promise, these four diamonds have been set into a single necklace, possibly the first time in history such a large piece of rough has been used to form a single piece of jewellery of this calibre.

Another example of our market leading expertise in adding value is our overseeing the transformation of the Graff Pink, which was purchased from a private collection in which it had been held since the early 1950s. The stone weighed 24.78 carats and was rated VVS2 for clarity and Fancy Intense Pink by the GIA. The stone displayed more than 20 inclusions close to the surface, but we believed that with the appropriate skill, these could be removed. We employed state of the art mapping technology to plan removal of the inclusions without unnecessarily compromising the weight of the stone. Additionally, each flaw had to be dealt with precisely so as not to create unwanted facets that could compromise its symmetry. We were also able to call upon our significant expertise to improve the rare diamond's colour. In dealing with white diamonds, every effort during the polishing process is made to eliminate any trace of colour. When polishing a coloured diamond, the objective is the opposite, and the polisher must manipulate the facets to make the colour appear as intense as possible. In the case of the Graff Pink, in addition to polishing to remove the over 20 inclusions, the lower corner facets were specially tailored in order to allow the pink hue of the diamond to be diffused more evenly. Our efforts with the stone saw its clarity rating raised two levels to Internally Flawless and its colour rating raised to the highest possible colour for a pink diamond, Vivid Pink, and thereby significantly increased its value.

We believe that our experience with particularly large, rare and otherwise significant stones gives us an advantage in procuring additional stones of this calibre in the future. We are known in the market as having the financial resources to acquire these stones and are therefore considered a preferred buyer, and we can have confidence in our skill set to extract value from particularly challenging stones when deciding to purchase or bid for them at auction.

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The following table sets out the operations conducted at each of our processing locations as at 31 December 2011:

<u>Operations</u>	<u>Johannesburg</u>	<u>Diamond Technology Park (Gaborone)</u>	<u>Antwerp</u>	<u>New York</u>	<u>Tel Aviv</u>
Cutting and Polishing	✓	✓	✓	✓	
Trading	✓		✓		✓

In 2011, we processed approximately 30,000 carats of rough diamonds. Utilisation rates in our cutting and polishing facilities vary by the types of stones being processed, and we therefore do not believe that they are a reliable performance indicator. We expect to continue to increase the capacity utilisation of our Procurement and Polishing operations at our state-of-the-art facilities in Gaborone as demand for processing rough diamonds in Botswana increases. We do not anticipate any capacity constraints at our processing facilities in the near term. Our cutting and polishing operations are ISO9001-2008 certified for their quality management systems and training in diamond cutting and polishing in both South Africa and Botswana. We are also accredited as a training institution by the South African Mining Qualification Authority and by the Botswana Training Authority. We believe we are the only diamond company to have four such certifications in Africa.

In order to reinforce our credentials as an important member of Botswana’s diamond community, we created the Diamond Technology Park, a unique venture in Gaborone housing the key players in the diamond industry supply chain. The Diamond Technology Park centralises the logistics, transportation, security, certification, finance and consulting services required by the diamond industry. Phase I of the project was completed in 2009, and includes our state-of-the-art 1,500 sq.m. cutting and polishing facility. The remaining Phase I premises have been fully let to other participants in the industry value chain, including the GIA and the government of Botswana. Phase II will be developed into office space and other facilities as demand increases, and is expected to include a dedicated building to house the official Diamond Bourse of Botswana. Our capital expenditure for Phase I of the Diamond Technology Park was approximately US\$5 million, and the initial build in Phase II is currently budgeted to cost approximately US\$3 million and is expected to be completed in the second half of 2012.

Polished Diamonds Procurement Process

In addition to the polished diamonds produced by the Procurement and Polishing division, we also source polished diamonds from third-party suppliers primarily for use in our Retail division. Our reputation as an active buyer for exceptional, historically significant stones has formed a key part of our reputation as one of the most exclusive luxury jewellery brands in the world. Historically, the largest of these suppliers has been DiamondWorks, a company indirectly, wholly owned by Laurence Graff. For further detail on the Group’s interactions with DiamondWorks, please see “— Retail Inventory” above. We have also developed long-term relationships with other reliable suppliers and purchase polished diamonds at auction.

Suppliers

The Group had 124, 153 and 155 suppliers of rough and polished diamonds in 2009, 2010 and 2011, respectively.

The following table sets out certain information regarding the top five suppliers of rough and polished diamonds of the Group for each of the three years ended 31 December 2011:

	<u>Year ended 31 December</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
% of cost of goods sold represented by top five suppliers ⁽¹⁾ . . .	64.6	71.1	82.8
% of cost of goods sold represented by top one supplier ⁽¹⁾ . . .	28.7	30.6	32.7

Note:

(1) Purchases during the period divided by costs of goods sold in that period.

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Our top five suppliers comprise diamond mining companies and their trading affiliates, and rough and polished diamond wholesalers located principally in Switzerland, Belgium, Israel and Russia. We believe that the strength of these relationships is a competitive advantage, and that we are viewed as a preferred buyer by our most significant suppliers of stones, including the DTC. We believe that these relationships have resulted in our not having experienced supply disruptions in the past, and will support our continued access to the rare and exceptional rough and polished diamonds for which we are known in the event of an absolute decrease in the global supply of such stones. We believe that any such decrease would not adversely affect the depth of our exceptional diamond inventory for the foreseeable future and, in any event, for at least the next four years.

We do not have any long term supply contracts with any of our suppliers. Save for DiamondWorks, which was our largest external supplier in 2009 and 2011 and our second largest supplier in 2010, and Gem Diamonds or one of its affiliates, which was our third largest supplier in each of 2009, 2010 and 2011 and in which we have a 15% shareholding interest, none of our Directors or any of their respective associates or, so far as our Directors are aware, any shareholder holding 5% or more of our issued share capital as at the Latest Practicable Date, has any interest in any of our five large suppliers for the years ended 31 December 2009, 2010 and 2011.

The following table sets out certain information regarding our purchases of diamonds during the Track Record Period from third party suppliers:

	Year ended 31 December		
	2009	2010	2011
		(US\$ millions)	
<i>Rough diamonds</i>			
DTC sights	95.1	106.6	134.5
Other sources	42.3	88.0	125.8
Total rough diamonds purchased	<u>137.4</u>	<u>194.6</u>	<u>260.3</u>
<i>Polished diamond suppliers to the Retail division</i>			
DiamondWorks	103.5	86.6	152.9
Other sources	51.8	84.8	145.3
Total polished diamonds purchased from third parties	<u>155.3</u>	<u>171.4</u>	<u>298.2</u>

In addition, our Procurement and Polishing division supplied polished diamonds to our Retail division with a sales value of US\$70.5 million, US\$93.5 million and US\$134.2 million in the years ended 31 December 2009, 2010 and 2011, respectively. These inter-company sales are eliminated in our combined accounts as set out in the Accountants' Report in Appendix I to this prospectus.

Pursuant to the Deed of Non-Competition described more fully under "Relationship with Our Controlling Shareholder — Deed of Non-Competition and Policy on Directors' Personal Diamond Purchases", Laurence Graff has agreed that, save for the sale of the Reserved Stones, he will not engage in any business through DiamondWorks which, directly or indirectly, competes with the business activities of the Group.

Procurement and Polishing Division Inventory Management

Our Procurement and Polishing division runs a sophisticated inventory management system. Each rough diamond purchased is given a unique identity number and entered into our diamond manufacturing inventory management system in the cutting centres in South Africa and Botswana. This inventory management system tracks each diamond in every stage of the manufacturing process. This serves as an efficient management control tool to avoid bottlenecks and ensures an efficient manufacturing process. The system tracks both carat weight of stones in inventory and the cost of each stone at any point in time during the manufacturing process.

As well as being given its unique identity number, each rough stone forms part of a group of diamonds called a "series". Since the majority of our rough stones are purchased as a group, this allows us to track

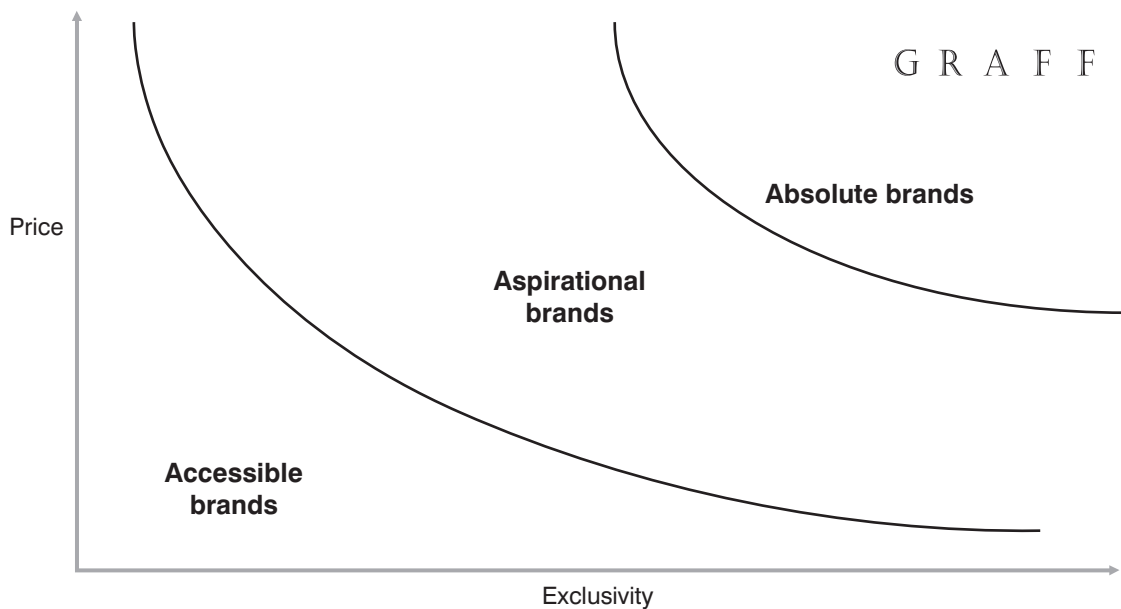
the profitability of such groups of stones from the purchase of rough, through manufacturing, to the final sale of the resultant polished stones to third parties or their transfer to the Retail division.

Once the cutting and polishing process is complete, diamonds are shipped out of our cutting centres. The manufacturing inventory management system has an automatic interface with our finished goods stock control system and will have an automatic interface with the SAP financial systems that are currently being implemented in the Procurement and Polishing division and which will perform both a back-up stock control and an accounting function. The interface between our manufacturing inventory management, finished goods stock control and SAP systems allows for the automatic transfer of information for each polished diamond in the inventory, including its ID number, carat weight, initial polished grade, source, GIA certificate number and original cost, among other things. The finished goods stock control system also actively tracks the value of the polished diamond inventory, as polished diamonds may be moved between our sales centers and to different polished diamond grading facilities. Our finished goods stock control system tracks all such movements so that we know the location of each component of our polished diamond inventory at all times.

The information provided by these systems allows the Procurement and Polishing division to compile the appropriate parcels of polished diamonds for provision to our Retail division. For each item in the inventory, there is both an historic cost as well as a current market value, which assists the ability of sales executives to make educated decisions at the point of sale. The manufacturing inventory (i.e., WIP) is managed through our operations in South Africa and Botswana, while the polished diamond inventory of the Procurement and Polishing division is managed from Israel.

Competitors

We are positioned in the absolute luxury segment of the global luxury goods market. See “Industry Overview”. We believe we are one of the very few hard luxury brands that have the exclusive distribution, storied heritage, high quality product and brand credibility to qualify for the absolute luxury segment. We believe other hard luxury jewellery brands in the absolute luxury segment include Harry Winston, Van Cleef & Arpels, Cartier and Bulgari. As illustrated by the following chart, we believe that we are positioned at the pinnacle of the luxury jewellery category.



Source: Company

We are a new entrant into the market for luxury watches, and believe our principal competitors for luxury watches are Piaget, Vacheron Constantin, Breguet, Patek Philippe and Harry Winston.

We believe that we compete primarily on the basis of our brand image, access to large, rare and high quality diamonds, innovative design, use of materials, customer service, understanding of our target

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customer group and reputation for quality. We believe that our vertical integration model gives us access to a selection of sizeable and high quality diamonds that is unparalleled in the market without the capital intensity and associated risks faced by some of our competitors that have direct mining operations. Consequently, we do not believe we have a comparable competitor in the area of our exceptional stones that operates on the geographical scale that we do.

Intellectual Property

A key component of our intellectual property relates to the use of, as well as the restrictions on, the “Graff” name. Laurence Graff will enter into a Deed of Non-Competition, under which he will be restricted from using or applying for registration of any trademark, service mark, corporate name, company name, trade name or business name consisting or comprising any of the Graff marks. Each of François Graff, Elliott Graff and Raymond Graff will enter into a name restriction deed with us, which will include similar restrictions.

The Graff brand is our most valuable piece of intellectual property. We have registered our trade name, trademarks and other intellectual property rights in each of the jurisdictions in which we operate. In addition, we have registered the design right of the diamond faceted case used in our watch collections.

We have approximately 90 trademark registrations and approximately 40 applications for registrations relating to the name and logos of the Group in countries throughout the world, including those countries in which we operate, of which the “Graff” and “triangle” device trademarks are the most important. We also have approximately 40 design registrations and approximately 25 design applications in countries throughout the world, including in the majority of countries in which we operate, of which our innovative watch case design and triangular decorative element at the 12 o’clock position on the face of the Graff watch are the most important.

We are not aware of any material violations, infringements or unauthorised use in relation to our intellectual property.

Social Responsibility

The diamond industry has been associated with conflict and exploitation. All of the Group’s rough and polished diamond purchasing activities comply with the Kimberley Process, which certifies that rough diamonds originate from conflict free zones.

As of December 2011, there were 49 participants in the Kimberley Process representing 75 countries. The participants include all major rough diamond producing, exporting and importing countries, as well as non-governmental organisations. Kimberley Process certifications are monitored through a series of warranties made to the purchaser by a seller of diamonds. Under this system, all wholesalers of both rough and polished diamonds must make the following affirmative statement on all invoices:

“The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.”

The Group complies with the requirements of the Kimberley Process, and to their knowledge and belief, the Directors confirm that the Group has not purchased any diamonds in contravention of these requirements. The Group carries out periodic reviews of supplier invoices to monitor compliance.

All gold used in our products is sourced from accredited London bullion dealers who adhere to “No Dirty Gold” standards. We work only with pre-sanction Burmese rubies and have no current trading relationship with Myanmar. In addition to our regulatory responsibilities and our compliance obligations under the Kimberley Process and other responsible sourcing regimes, we are committed to giving back to the communities in the regions that source our stones.

We established For Africa’s Children Every Time (“FACET”) in 2008 as a registered charitable trust with an initial donation of US\$1 million to help us realise our goals for investment in the communities in which we operate. FACET has made grants to charitable projects in Botswana, Lesotho and South Africa in the fields of education and training, health, poverty relief and community development, focusing on supporting

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charities that provide long-term, sustainable and comprehensive solutions to those in need, with a particular emphasis on children and caregivers. Since its inception, FACET has established two leadership centres, one in Botswana and one in Lesotho, which provide education and leadership training to predominantly young people.

Security and Insurance

We operate a business dealing in exceptionally high value items. We take the security of our employees and our inventory extremely seriously and have in place high levels of physical security as well as an extensive programme of insurance to mitigate the risk of any loss.

Security

Security risk is inherent in our business. Risk of a loss, through violent robbery or otherwise, is something we constantly guard against. We employ our own team of security officers who manage security operations worldwide and directly protect our operations in the UK and the United States. We also subcontract security protection at each of our directly operated stores elsewhere, under the management of our security team. Our security staff are subject to full background checks and our security teams must undergo security training courses and are locally licensed in each relevant location to the necessary and appropriate level.

We have in place appropriate security measures at all of our production facilities and each of our retail and other locations has been secured to the satisfaction of our insurers. We also employ appropriate security measures for items being moved between our retail locations and to our customers.

Insurance

We maintain a number of key insurance policies that we believe are commercially appropriate to cover the risks associated with our business operations, including public liability, business interruption, property damage, crime insurance (including theft and other criminal damage), political risks, general umbrella liability, employee compensation, product liability, customs and export, and personal accident insurance, which, to the knowledge and belief of the Directors, are adequate to insure such losses. Among other things, these policies cover our stores and their contents subject to pre-agreed limits which are the subject of negotiation between ourselves and our insurers, our inventory and production facilities, and as necessary, arrangements for moving items between our stores or other premises. There are no material exclusions affecting the ordinary course of business. For each of the three years ended 31 December 2009, 2010 and 2011, we paid, in aggregate, US\$14.5 million, US\$18.9 million and US\$12.5 million for our insurance premiums, which in 2009 and 2010 included penalty premiums that resulted from claims made following the robbery of our Bond Street store in 2009.

The Company has not experienced any difficulties in obtaining insurance coverage or, save for the penalty premiums disclosed above, significant increases in its insurance premiums during the Track Record Period.

In addition, the Group holds an interest in a captive insurance cell operated by a third party provider incorporated in Bermuda to insure the first US\$25 million of annual aggregate risk of loss associated with the Retail division's inventory. Premiums are paid by operating Group companies to the captive insurer to build a capital reserve in order to fund payments of proceeds in the event of a loss by the Retail division. As the captive insurance operation is consolidated into the Group results, the effect of premiums paid and losses recovered are eliminated on consolidation. Of the US\$25 million of annual aggregate risk insured by the captive insurer, the first US\$10 million of any insured loss is borne by our captive insurer and is not covered by any external insurer. The remaining US\$15 million of insured loss coverage has been reinsured with unrelated third party insurance companies. Any insured loss incurred by the Retail division in excess of US\$25 million in any year is also covered by the external insurance policies described above. The captive insurer does not provide insurance to any third party.

Property

Upon completion of the Global Offering, our retail property interests consisted of eighteen leased properties. In Europe, the seven leased retail properties range in size from approximately 120 square feet

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to approximately 1,350 square feet. In Asia, the five leased retail properties range in size from approximately 400 square feet to approximately 3,000 square feet. In the United States, the six leased retail properties range in size from approximately 750 square feet to approximately 3,500 square feet. For further detail regarding the lease arrangements for our New Bond Street, New York and Chicago stores, please see “Connected Transactions”. We also lease our European headquarters in London, Asian headquarters in Hong Kong and our US headquarters in New York City.

The term of our retail leases range from three years to 15 years and expiry dates range from August 2012 to December 2024. The aggregate lease expense in respect of our retail premises for the years ended 31 December 2009, 2010 and 2011 was US\$9.1 million, US\$10.1 million and US\$12.1 million, respectively. The increase in our lease expense over the Track Record Period was attributable to the opening of additional stores.

Our Procurement and Polishing division operates out of both leased and owned properties. In Johannesburg, South Africa, we have one leased property of approximately 1,800 square meters and one owned property of approximately 290 square meters, which are used primarily for the cutting and polishing of rough diamonds, employee housing and administrative functions. In Gaborone, Botswana, we have one leased property of approximately 1,500 square meters which is leased by the Diamond Technology Park and used for the cutting and polishing of rough diamonds, as well as ancillary operations in the diamond supply chain. In the United States, we have one leased property, located in New York, which is used primarily for our polishing operations. In Israel, we have one owned property located in Tel Aviv, which is used for our trading operations.

As at 31 December 2011, none of the Group’s property interests has a carrying amount which exceeded 15% of the Group’s total assets. Save for the Diamond Technology Park as described above, the Group does not hold or retain (directly or indirectly) properties for the purposes of letting or investment. As at 31 December 2011, the carrying value of the Diamond Technology Park did not exceed 1% of the Group’s total assets.

Legal and Regulatory

Although not material to the Group, we are seeking to recover, through a legal action, a number of diamonds stolen from us in the past. As at the Latest Practicable Date, we were not engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance was known to the Directors to be pending or threatened against us.

Our business is subject to a variety of laws and regulations in the ordinary course of its business, including employment laws, anti-money laundering laws and consumer protection laws. We have a dedicated inventory management team that ensures that our operations are compliant with all customs regulations and that all movements of our products are properly documented.

Our Procurement and Polishing division has significant operations in South Africa and Botswana and is consequently subject to a number of regulations associated with doing business in those countries, including restrictions on the export of rough diamonds above a certain carat weight and black economic empowerment (“BEE”) ownership and employment requirements. We have obtained all material licenses and permits necessary for our business in these jurisdictions.

South Africa

The diamond industry is subject to an extensive and detailed regulatory environment which includes the Mineral and Petroleum Resources Development Act, 2002, the Mineral and Petroleum Resources Royalty Act, 2008, the Broad-Based Socio-Economic Empowerment Charter For The South African Mining And Minerals Industry, the Diamond Export Levy Act, 2007, Diamond Export Levy (Administration) Act, 2007, and the Diamonds Act, 1986.

The Mineral and Petroleum Resources Development Act and Mineral and Petroleum Resources Royalty Act are principally relevant to the mining industry in South Africa. As the Group does not operate within such industry, the provisions of these Acts are not directly material to the operations of the Group. The provisions and regulations summarized below are those within the broader regulatory environment which are most material to the diamond processing industry within which the Group operates.

Licensing

The Diamonds Act regulates the possession, sale, purchase, processing, beneficiation, export and import of diamonds by means of a licensing and permitting regime implemented by the South African Diamond and Precious Metals Regulator (the "Regulator"). The material licenses and permits required and issued under the Diamonds Act include: (i) a diamond dealers licence which entitles the holder to carry on business as a buyer, seller, importer or exporter of unpolished diamonds; (ii) a diamond beneficiation licence which entitles the holder to polish diamonds for the purposes of business or trade; (iii) a diamond beneficiation licence which entitles the holder to set unpolished diamonds in tools, implements or other articles, or to crush or alter those diamonds for the purpose of such setting or for the purpose of trade; (iv) a diamond research licence which entitles the holder to do applied research and tests in connection with diamonds, but not to polish diamonds for the purpose of business or trade; (v) a diamond trading house licence which entitles the holder to facilitate the buying and selling of unpolished diamonds locally (i.e., not for export purposes) on registered premises; and (vi) a permit entitling a person to sell, export or import an unpolished diamond in an ad hoc transaction, subject to prescribed conditions.

The Group is currently in possession of valid licences for its business operations in South Africa. These licences expire in 2013 and we do not expect any legal or regulatory impediments to their renewal.

The Regulator may grant or refuse an application at its discretion, provided that none of the prescribed circumstances under which the Regulator must refuse an application apply and provided further that certain prescribed minimum criteria are met. The circumstances under which the Regulator must refuse an application include where (i) any interest which any person has in the applicant is undesirable; (ii) there are sufficient numbers of existing licence holders; (iii) it is probable that the applicant will be unable to exercise sufficient control over licensed activities; (iv) granting such application would be contrary to the public interest; and (v) that the applicant or, where the applicant is a company, any directors thereof or, where the applicant is a close corporation, any member thereof is not a suitable person to carry out the activities authorised by the licence, or to be involved in such activities. The Regulator may issue a licence subject to any conditions and may vary such conditions at any time after issuance of a licence. Further details regarding licences, permits and certificates required and issued under the Diamonds Act are contained in chapter IV of the Diamonds Act and regulation 2A to 2Z of the regulations to the Diamonds Act.

Pursuant to the Diamonds Act, unpolished diamonds may only be purchased by a licensee or a permit holder. An unpolished diamond may only be sold (i) if it was obtained in a lawful manner, and (ii) by a producer, the manufacturer of such unpolished diamond (if a synthetic diamond), a dealer, or a relevant permit holder. A licensee may not be assisted by a non-licensee or permit holder during the viewing, purchase or selling of unpolished diamonds, nor may a licensee receive or purchase any unpolished diamond for any purpose other than the activities for which he is licensed or from any person not lawfully in possession of that diamond. Furthermore, the polishing of any diamond, or crushing or setting of any unpolished diamond, may only be performed by persons authorized to do so by the Regulator, which persons include diamond beneficiators.

The diamond processing industry is principally engaged in the beneficiation of diamonds, defined in the Diamonds Act as the polishing (which includes cutting, dividing, faceting, brillianting or altering) of a diamond, or the setting of a diamond in a tool, in an article or in jewellery. The Diamonds Act provides that, in addition to the polishing, crushing or setting performed by a diamond beneficiator, the holder of a diamond beneficiation licence may (i) buy unpolished diamonds at the state diamond trader, diamond exchange and export centre, from a diamond dealer or producer and/or at a diamond trading house or any other premises approved or endorsed by the Regulator, and (ii) conduct business on the premises approved on its licence.

Import and Export

The import and export of diamonds is comprehensively regulated in chapter VI of the Diamonds Act.

A person may only export an unpolished diamond from South Africa if he is (i) a producer, (ii) manufactured the diamond (if a synthetic diamond), (iii) a licensed dealer, or (iv) a relevant permit holder. All unpolished diamonds intended for export purposes must first be offered at a diamond exchange

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and export centre. Furthermore, an unpolished diamond may only be imported to or exported from South Africa if such diamond is registered and released for import or export in accordance with the Diamonds Act, and the relevant importer or exporter is registered in accordance with the Diamond Export Levy Act, which imposes an levy on the export of unpolished diamonds (subject to certain exceptions).

Similarly, a person may only export a polished diamond from South Africa if that diamond has been registered and released for export in accordance with the Diamonds Act.

In order to register a diamond, the relevant importer or exporter must furnish a registering officer with a prescribed return in respect of the diamond, accompanied by the diamond concerned and prescribed documents. The registering officer will examine the diamond and verify the particulars in the prescribed return. The registering officer may retain (i) a polished diamond, in order to determine whether it is in fact a polished diamond, and (ii) a polished or unpolished diamond, in order to have the value assessed. This assessment may occur by putting such diamonds out to tender to no fewer than 5 approved tenderers. In relation to an unpolished diamond, if the value of the highest tender received is less than the value declared by the exporter in the prescribed return (the “Declared Value”), the registered officer will accept such Declared Value as the fair market value and release the unpolished diamond for export. If the highest tender value is higher than the Declared Value, the registered officer will accept the higher value as the fair market value. In relation to a polished diamond, if the value of the highest tender received is less than the Declared Value or exceeds such Declared Value by less than 15%, the registered officer will accept such Declared Value as the fair market value and release the polished diamond for export. If the highest tender value exceeds such Declared Value by 15% or more, the registered officer will accept the higher value as the fair market value. In the case of unpolished diamonds, if the Declared Value differs by more than 20% from the assessed value of the relevant diamond, the Regulator will impose on the relevant importer or exporter a fine of 20% of the value of the relevant diamond.

The registering officer will not release an unpolished diamond for import or export, or a polished diamond for export, unless, *inter alia*, such diamond has been made up in a parcel in a manner that the registering officer determines. The registering officer will release such a parcel for import or export by sealing it with the seal of the Regulator. Furthermore, an unpolished diamond will only be released for import or export if it is accompanied by a Kimberley Process Certificate and every unpolished diamond registered for import or export must be recorded in the National Database of Diamond Exports and Imports.

Every diamond beneficiator must keep a register in which prescribed particulars in respect of unpolished diamonds and polished synthetic diamonds must be entered. Every relevant entry by a diamond beneficiator in such register must be made within seven days after the recorded event occurred.

If the registering officer is satisfied that the provisions of the Diamonds Act have been complied with, he will register the diamond for import or export.

The Regulator will confiscate any unpolished diamond that does not satisfy the requirements of the Kimberley Process Certification Scheme.

Black Economic Empowerment

The South African government, through the Broad-Based Black Economic Empowerment Act, 2003, established a legislative framework for the promotion of BEE. We have taken a number of actions to increase empowerment of historically disadvantaged South Africans, such as placing an emphasis on employment equity, skills development, corporate social responsibility, enterprise development, preferential procurement and working with a BEE partner that holds a minority interest in our South African operating subsidiary. We have been independently audited by a government approved agency.

Botswana

Licensing of diamond processing entities

Under Botswana law, the processing of rough or uncut diamonds may only be undertaken by a person or entity licensed to do so. Section 4 of the Diamond Cutting Act CAP 66:04 provides the three licences which may be issued to a person or entity involved in the diamond processing business, being (i) a diamond cutters licence which entitles the holder to carry on diamond cutting for purposes of a business or trade;

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(ii) a diamond research licence which entitles the holder to conduct searches into the physical properties of diamonds, the uses to which diamonds can be put and cognate matters; and (iii) a diamond toolmakers licence which entitles the holder to set rough or uncut diamonds, not suitable for polishing, in tools or implements or to crush or alter such diamonds for that purpose or purposes of that trade. There are various restrictions on these licences which include: a restriction on the physical address at which diamond cutting activities are to be conducted, acquisition of rough or uncut diamonds, alteration of cut or polished diamond and the process carried out in securing the supply of diamonds for cutting.

Furthermore, in terms of section 6 of the Precious and Semi-Precious Stones Act CAP 66:03, a person or entity must apply for a precious stone dealers licence if that person or entity intends to deal in diamonds by means of (i) buying, dealing in or receiving by way of bartering, pledging or otherwise (either as a principal or agent) any rough or uncut precious stones, unless the person has been duly authorised to deal in rough or uncut precious stones as a buyer or seller; (ii) selling, pledging or bartering or otherwise dealing in any article purporting it to be a precious stone; or (iii) selling or offering or exposing for sale, bartering, pledging or otherwise, or for the purpose of trade, dispose of or deliver, (either as principal or agent) any rough or uncut precious stones — unless he is otherwise authorised under such Act to sell or otherwise dispose of such rough or uncut precious stone.

All the above licence applications must be made to the Minister of Mineral Energy and Water Resources who also exercises supervisory control over them.

The Group currently has valid licenses for its business operations in Botswana. These licenses will expire beginning in March 2013, and we do not expect any legal or regulatory impediment to their renewal.

Regulations on Importing and Exporting of Diamonds

A company in the business of import and export of diamonds is required to comply with the Export and Import of Rough Diamonds Regulations (SI 24 of 2004), which require that import or export of rough diamonds be accompanied by a Kimberley Process Certificate. A Kimberley Process Certificate is obtained in Botswana by means of an application to the Minister of Mineral Energy and Water Resources for issuance of such a certificate. Rough diamonds imported into Botswana must also be accompanied by a Kimberley Process Certificate issued in the country of export.

Section 20 of the Diamond Cutting Act further provides that no person shall export, sell, deliver or dispose of unpolished diamonds without a permit granted by the Minister. To be granted such permit, the applicant must, with the approval of the Director of Minerals, apply to the Minister of Mineral, Energy and Water Resources.

The export of cut and polished diamonds is also regulated by the Diamond Cutting Act and the regulations thereunder. Before a person may export, cut or polish diamonds (except where set in jewellery, tools or implements), such diamonds must be exhibited to the Mining Commissioner and sealed (in his presence) for export. The Diamond Cutting Regulations further prescribe the manner in which the diamonds are to be packaged and exported.

Operation of the diamond processing company

The processing of diamonds may only be carried out at the physical address stipulated in the licence. If the licensee wishes to change such address, he must apply to the Minister Mineral, Energy and Water Resources for variation of the place of business.

All persons employed in the diamond cutting industry must be approved by the Minister of Mineral, Energy and Water Resources. The licensee is required to maintain daily records of all diamond dealings and all diamond cutting operations as well as records of all diamonds handed to and returned by the employees.

Anti-Money Laundering and Tax

We are also subject to anti-money laundering regulations relating to the acceptance of cash above a certain threshold for the purchase of our jewellery and watches in some of the jurisdictions in which we operate, including the European Union and the United States. We have adopted a Group-wide policy to ensure

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compliance with these regulations, including through internal verification methods for payments from our customers where required. Pursuant to this policy, in addition to a general requirement to reject transactions which are suspected to contravene applicable anti-money laundering laws and to report these to the relevant authorities, there are policies in each of our operating regions that govern the acceptance of cash for the purchase of our jewellery and watches. In the United States, cash transactions must be conducted in strict compliance with the applicable reporting requirements of the US Internal Revenue Service and the Group may additionally inquire as to the source of funds and the reason for payment in cash. In Europe, cash transactions above a certain threshold are not accepted. In Asia, cash transactions above a certain threshold require customer identification as well as an inquiry into the source of funds and the reason for payment in cash. Appropriate records are kept by the Group in respect of all such transactions. Furthermore, the vast majority of purchases of our jewellery and watches are made in US dollars, either by credit card or by bank transfer of US dollars to us. All US dollar transactions must be cleared through the US Federal Reserve System, as a result of which all clearing banks that are involved in the transfer of US dollars on behalf of our customers must comply with detailed anti-money laundering obligations.

Our finance department is responsible for the tax affairs of our Group, general tax compliance activities and the establishment of our transfer pricing policies and guidelines. Our finance department is engaged in regular discussions with our Retail and Procurement and Polishing divisions to monitor and understand our business transactions which could have a tax impact. Our tax department also monitors our global Group tax compliance through regular meetings and discussions with local finance functions and with external advisors. We periodically consult with local tax advisors in each of the jurisdictions in which we are subject to taxation. We research tax laws and regulations and consult with local tax advisors when we initially enter a new tax jurisdiction to help establish our system of internal controls regarding tax compliance. We also consult with local tax advisors in connection with the filing of our annual tax returns and receive regular updates from them regarding changes in tax laws, regulations and interpretive guidance. As part of our internal controls, we have also adopted transfer pricing policies, with the assistance of our local tax advisors, in order to comply with applicable laws and practices in each jurisdiction in which we operate.

We confirm that, during the Track Record Period and as at the Latest Practicable Date, there were no material breaches or violations of laws or regulations applicable to us that would have a material adverse effect on our business or financial condition taken as a whole. As at the Latest Practicable Date, we had obtained all material licenses and permits necessary for our business in the jurisdictions in which we operate.

Employees

As at 31 December 2011, we employed over 560 people worldwide. Our employees include management, support staff, sales executives, design, manufacturing, production and security personnel. Substantially all of our employees are non unionised and management believes that employee relations are positive. We have not had any work stoppages due to industrial action during the Track Record Period. The following table indicates the distribution of our employees by occupation throughout the Track Record Period:

	Year ended 31 December		
	2009	2010	2011
Administration	137	141	155
Sales	68	79	102
Manufacturing	201	215	220
Security	45	77	85
Total	<u>451</u>	<u>512</u>	<u>562</u>

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The following discussion and analysis of our financial condition and results of operations is based on the financial information set forth in the Accountants' Report continued in Appendix I. Accordingly, you should read this section in conjunction with our Combined Financial Information and related notes as at and for the financial years ended 31 December 2009, 2010 and 2011, all of which are included in the Accountants' Report. The Combined Financial Information has been prepared in accordance with IFRS which may differ in material respects from generally accepted accounting principles in other jurisdictions. Unless otherwise indicated, the financial information discussed below that relates to our two operating divisions, the Retail division and the Procurement and Polishing division, is net of inter-company eliminations. See Note 5 to the Combined Financial Information.

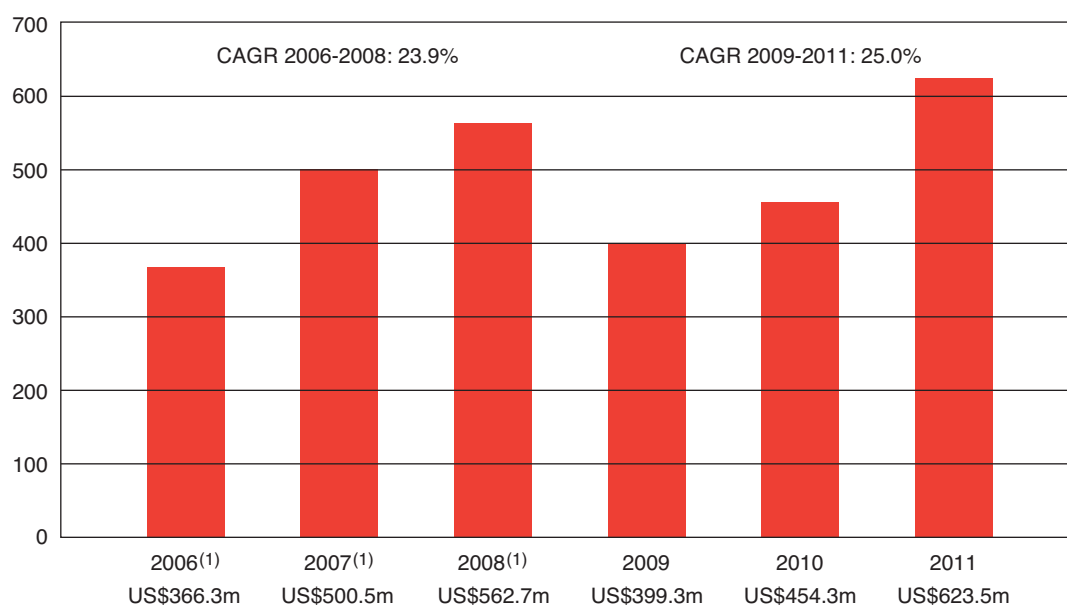
In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis we made in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our future financial condition may differ materially from those discussed in these forward-looking statements as a result of various factors, including, but not limited to, those described under "Risk Factors" and elsewhere in this prospectus.

Overview

We are a vertically integrated diamond company, with operations comprising the design, manufacture and retail distribution of high and ultra high end jewellery and watches through our Retail division, and the sourcing, cutting and polishing of rough diamonds primarily for use in our retail operations through our Procurement and Polishing division.

Since 2006, we have experienced strong retail sales growth, as illustrated by the graph below.

Graff Retail Sales Evolution 2006–2011 (US\$ millions)



Note:

(1) 2006–2008 retail sales are unaudited and extracted from statutory accounts, which were audited by the relevant accountants of the individual Group entities whose figures comprise the amounts shown, and have been reviewed by the Company's auditors, PricewaterhouseCoopers LLP, London, UK.

Source: Company information

As illustrated by the graph above, we experienced steady retail revenue growth between 2006 and 2008. However, following the onset of the global financial crisis in 2008, we experienced a decline in retail revenues, which have since recovered strongly over the Track Record Period. The Group's gross profit margins during the Track Record Period were impacted by fluctuations in diamond prices, including in

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relation to the historical cost at which inventory was purchased, as well as high value transactions made during the period.

The following table sets out the highlights of our financial performance during the Track Record Period.

	Year ended 31 December					
	2009	% change	2010	% change	2011	CAGR %
	<i>(US\$ millions, except percentages)</i>					
Revenue	541.3	13.9	616.7	22.5	755.6	18.1
Gross profit	180.4	48.6	268.1	7.5	288.1	26.4
Gross profit margin	33.3%	—	43.5%	—	38.1%	—
Profit for the year	47.3 ⁽¹⁾	121.4	104.7	14.7	120.1 ⁽²⁾	59.3
Profit for the year margin . . .	8.7% ⁽¹⁾	—	17.0%	—	15.9% ⁽²⁾	—
Gearing ratio ⁽³⁾	18.7%	—	21.3%	—	29.5%	—

Notes:

- (1) Excludes US\$9.0 million of insurance proceeds received following the 2009 robbery of our Bond Street store, net of tax charged on such proceeds at a 28% rate (US\$2.5 million).
- (2) Excludes US\$4.5 million in transaction costs expensed in 2011 in connection with the Global Offering. No adjustment has been made to taxation as these expenses are not deductible for taxation purposes.
- (3) Net indebtedness divided by total combined equity. Net indebtedness comprises total borrowings, as set out in the indebtedness table in “ — Financial Liabilities and Contractual Obligations — Indebtedness”, offset by cash and cash equivalents.

Basis of Presentation

In preparation for the Global Offering and the listing of the Company’s shares on the Hong Kong Stock Exchange, the Reorganisation will be implemented in order to form the Group. Pursuant to the Reorganisation, certain companies, whose businesses were not core to the continuing business of the Group will be sold to companies ultimately controlled by Laurence Graff, our Chairman and controlling shareholder, and other companies ultimately controlled by Laurence Graff which are core to the continuing business of the Group will be transferred into the Group. For a description of the Reorganisation, see “Our History and Corporate Structure”.

The Combined Financial Information of the Group has been prepared in accordance with the principles of the Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” issued by the HKICPA. The combined income statements, combined statements of comprehensive income, and combined statements of changes in equity and combined cash flow statements of the Group for each of the years ended 31 December 2009, 2010 and 2011 have been prepared by incorporating the financial information of the listing business, under the common control of the Controlling Shareholder, as if the group structure upon the completion of the Reorganisation had been in existence throughout the years ended 31 December 2009, 2010 and 2011, or since the respective dates of incorporation of the companies comprising the Group upon completion of the Reorganisation, whichever is a shorter period. The combined balance sheets of the Group as at 31 December 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the companies comprising the Group upon completion of the Reorganisation, as if the current group structure had been in existence as at these dates. The net assets and results of the Group were combined using the existing book values from the Controlling Shareholder’s perspective.

Operating Divisions

We manage and operate our business through two divisions: our Retail division and our Procurement and Polishing division, which accounted for 82.5% and 17.5%, respectively, of our Group revenues in 2011.

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The following table sets forth certain financial information by division for the three years ended 31 December 2011.

	Year ended 31 December								
	2009			2010			2011		
	Retail division	P&P ⁽¹⁾ division	Group total	Retail division	P&P ⁽¹⁾ division	Group total	Retail division	P&P ⁽¹⁾ division	Group total
	<i>(US\$ millions, except percentages)</i>								
Revenue	399.3	142.0	541.3	454.3	162.4	616.7	623.5	132.1	755.6
Gross profit	171.1	9.3	180.4	245.8	22.3	268.1	281.8	6.3	288.1
Gross profit margin	42.8%	6.5%	33.3%	54.1%	13.7%	43.5%	45.2%	4.8%	38.1%
Adjusted retail margin ⁽²⁾	47.3%	—	—	55.7%	—	—	51.0%	—	—

Notes:

(1) Procurement and Polishing division.

(2) Gross profit margin of the Retail division, excluding in 2009, 2010 and 2011 revenue and gross profit relating to sales to one customer of US\$85.6 million, US\$74.7 million and US\$100.0 million, respectively.

The Retail division

The Retail division includes revenues and operating expenses attributable to the design, manufacture and sale of jewellery and watches to our customers. In 2011, 96.6% of the revenues attributable to the Retail division were attributable to the sale of jewellery, with the remainder attributable to the sale of watches. The Retail division is divided into the following four operating regions:

- *The UK*

This region comprises the retail operations of our flagship Bond Street premises, as well as our Sloane Street store. In addition, this region also includes the sale of jewellery and watches to our franchise partners in Russia, Ukraine, Dubai and South Africa, sales at exhibitions and luxury goods fairs (other than our annual Monaco exhibition), and sales that take place as a result of our UK sales executives travelling to meet clients at their homes or other locations outside of our retail store network.

- *Rest of Europe*

This region comprises the retail operations of Graff's five stores in Monaco, Courchevel (two locations), Geneva and Gstaad, as well as sales at our annual exhibition in Monaco.

- *Asia*

This region comprises the retail operations of Graff's five stores in Hong Kong, Tokyo, Shanghai, Beijing and Taiwan. In 2012, Graff expects to open four additional directly operated stores in Macau, Hangzhou, Shanghai and Hong Kong, as well as a directly operated store within the Isetan flagship department store in Tokyo.

- *The United States*

This region comprises the retail operations of Graff's six stores in New York, Palm Beach, Las Vegas, Chicago, Miami (Bal Harbour) and San Francisco and sales made pursuant to our franchise arrangement with Saks Fifth Avenue.

For the years ended 31 December 2009, 2010 and 2011, revenue attributable to the Retail division was US\$399.3 million, US\$454.3 million and US\$623.5 million, respectively, and the gross profit margin for the Retail division was 42.8%, 54.1% and 45.2%, respectively.

The Procurement and Polishing division

The Procurement and Polishing division principally reflects the revenue and operating expenses of our subsidiary, Safdico, which sources, cuts and polishes rough diamonds and polished diamonds for use in our jewellery and watches. The Procurement and Polishing division's revenues reflect the sale to third parties of rough diamonds and polished diamonds that are not required for use in our jewellery.

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For the years ended 31 December 2009, 2010 and 2011, the Procurement and Polishing division's revenue was US\$142.0 million, US\$162.4 million and US\$132.1 million, respectively, and the gross profit margin attributable to this segment was 6.5%, 13.7% and 4.8%, respectively.

In 2011, approximately 59% (by sales value, including inter-segment sales) of the polished diamonds derived from our Procurement and Polishing division were used in our jewellery and watches. The remaining polished diamonds were sold to third parties. In 2011, sales of polished diamonds to third parties represented approximately 71% of the revenue of the Procurement and Polishing division and sales of rough diamonds comprised the remaining 29%.

The following table sets out certain information regarding the activities of our Procurement and Polishing division during the track record period:

	Year ended 31 December		
	2009	2010	2011
<i>Percentage of diamonds by sales value⁽¹⁾</i>			
Used by the Retail division (%)	33.2	36.5	50.4
Sold to third parties (%)	66.8	63.5	49.6
<i>Revenue attributable to</i>			
Sales of rough diamonds to third parties (US\$ millions)	28.8	24.8	38.8
Sales of polished diamonds to third parties (US\$ millions) ⁽²⁾	113.2	137.6	93.3
Total revenue	142.0	162.4	132.1

Notes:

- (1) Includes inter-segment sales.
- (2) Sales of polished diamonds to third parties included sales to DiamondWorks of US\$16.2 million, US\$28.7 million and US\$nil in 2009, 2010 and 2011, respectively. All of the diamonds that were the subject of these transactions with DiamondWorks were either subsequently sold to Graff Diamonds Limited or are within the stones being held on consignment for Graff Diamonds Limited. The sales of polished diamonds from Safdico to DiamondWorks were ordinary course dealings between Safdico and DiamondWorks. DiamondWorks has historically financed the purchase and consignment to the Group of high value stones from suppliers. In this regard, Safdico, as a supplier of high value diamonds, was no different than any other supplier of polished diamonds to the Group and DiamondWorks. There were no sales of polished diamonds from Safdico to DiamondWorks in 2011. As set out in Note 24 to the Accountants' Report, diamonds were sold at a loss by Safdico to DiamondWorks in 2009 because the fall in wholesale polished diamond prices in 2009 resulted in the aggregate sales price for these diamonds being below their cost of acquisition. Despite this fall, Safdico management made a commercial decision to proceed with the sales.

Key Factors Affecting our Results of Operations

Customer concentration

Our business is dependent on the purchase of high value jewellery by a relatively small number of high and ultra high net worth individuals. Our jewellery and watches are designed and priced to appeal to the very top end of the luxury market, and we rely to a certain extent on the past buying patterns of our customers who purchase highly priced items, but not necessarily in a predictable pattern. Approximately 52% of our sales to our retail customers, excluding sales to our franchise partners, in 2011 were to customers who had made purchases from us in one or both of 2009 and 2010, and we have historically been able to develop relationships with new customers and further cultivate our existing relationships to offset the decline in revenue from those customers who have reduced their purchases or ceased purchasing from us altogether. For each of the years ended 31 December 2009, 2010 and 2011, our top twenty customers, many of whom were repeat customers, accounted for approximately 43%, 42% and 44%, respectively, of our Group revenue, and one customer accounted for 15.8%, 12.1% and 13.2%, respectively, of our Group revenue. Accordingly, our revenues, profitability and operating cash flows are highly dependent upon the willingness of our customers to continue to purchase our jewellery and the timing and frequency of such purchases.

Customer purchasing patterns

Demand for our jewellery and watches is subject to changes in consumer preferences, sentiments, perceptions and spending habits, and our performance depends on factors that may affect the worldwide

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desirability of luxury goods, in particular diamonds. Such factors include global financial and economic conditions, media coverage and consumer income. In addition, since the global financial crisis, we have benefitted from the perception of gem quality diamonds as an alternative investment asset and store of wealth, as illustrated in the table below by the preponderance of the high average price points of our retail sales.

The following table sets forth the distribution of our jewellery and watch sales revenue across our key price bands for the three years ended 31 December 2011:

Price Band	As at 31 December								
	2009			2010			2011		
	Total revenue	% of total revenue	% of total items sold	Total revenue	% of total revenue	% of total items sold	Total revenue	% of total revenue	% of total items sold
	<i>(US\$ millions, except percentages and total items sold)</i>								
US\$10 million and above	70.0	17.5	0.0	60.7	13.4	0.1	119.4	19.1	0.0
US\$1 million – <US\$10 million . .	106.2	26.6	1.9	134.3	29.6	1.8	176.2	28.3	1.6
US\$100,000 – <US\$1 million . . .	160.6	40.2	20.2	192.1	42.3	18.7	230.2	36.9	16.6
Less than US\$100,000	62.5	15.7	77.9	67.2	14.7	79.4	97.7	15.7	81.8
Total	<u>399.3</u>	<u>100.0</u>	<u>100.0</u>	<u>454.3</u>	<u>100.0</u>	<u>100.0</u>	<u>623.5</u>	<u>100.0</u>	<u>100.0</u>
Total items sold		2,851			3,424			5,147	

We believe that the acceptance of diamonds as an alternative investment asset is becoming more widespread, which we expect will support the further demand for our jewellery, particularly the large, rare and high quality diamonds for which we are known. However, an adverse change in one or more of the factors above could impact our financial results as a consequence of a lower volume of sales, particularly of exceptional, high value diamonds. For example, following the global financial crisis in 2008, we experienced such a decline in the Retail division's revenues from approximately US\$562.7 million in 2008 to US\$399.3 million in 2009.

Regional revenue fluctuations

For the year ended 31 December 2011, 82.5% of our Group revenue came from the sale of jewellery and watches through our Retail division. The revenues attributable to our Retail division comprise sales of jewellery and watches across our four regions, the UK, Rest of Europe, Asia and the United States. The regions in which sales are recorded does not necessarily reflect the origin of our customers. For example, approximately 96% by value of all sales made from the UK region in 2011 were exported out of the EU.

Regional revenues have fluctuated in the past, and we expect them to continue to do so in the future. A variety of factors affect our regional sales, including:

- significant sales that may not be repeated;
- the timing and concentration of new store openings, particularly in connection with our strategic expansion in Asia, as well as the refurbishment of our directly operated stores;
- purchases in a directly operated store in one region made by customers who are travelling and reside in another region;
- the timing and regional emphasis of our marketing activities;
- the competitive environment in each of the regions in which we operate; and
- regional economic conditions and, in particular, the luxury goods sales environment.

Accordingly, our regional results for any financial period are not necessarily indicative of the results for any particular region for any other comparable period.

Gross profit margins

Our gross profit margins are affected by a number of factors, including the historical cost at which inventory was purchased relative to the price at which such inventory is sold and the size and rarity of the

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particular diamonds sold. High value transactions materially impact our gross profit margins which can vary depending upon the number of, size, quality and rarity of diamonds used in, and the complexity, of our jewellery. We may, therefore, accept a lower gross margin percentage on high value transactions due to the size of the absolute profit margin realised on such sales. When diamonds are procured and polished from rough by our Procurement and Polishing division and sold by our Retail division, we capture a wider margin than if we purchase polished diamonds on the wholesale market. This is because, for comparable stones purchase at or around the same time, the gross margin achievable on jewellery using only polished stones produced internally includes all stages of the value chain, whereas the gross profit margin achievable on jewellery using only polished stones purchased from third party suppliers, including DiamondWorks, is impacted by the suppliers' need to cover their own costs and realise their own profit.

Our two business divisions are also characterised by significantly different gross profit margins, with the Retail division's margin being significantly higher than that of the Procurement and Polishing division throughout the Track Record Period. Historically, we have had to purchase sufficient quantities of rough diamonds in our Procurement and Polishing division to yield the high grade and large size of stones required for use in our jewellery. This has resulted in our having to sell in the wholesale market at significantly lower margins those rough and polished diamonds that were not required by our Retail division.

As we expand our retail distribution network, we intend to increase our manufacturing utilisation to meet the increased demand for jewellery in our directly operated stores. Our acquisition of Safdico as part of the Reorganisation is a key aspect of this strategy. Accordingly, although in 2011 our Procurement and Polishing division provided approximately 59% (by sales value, including inter-segment sales) of its polished diamond production to the Retail division, we have targeted growing that share to approximately 70%-80% of the Procurement and Polishing division's polished diamond production, which we believe will enhance the gross profit margins of the Group. In addition, we will seek to further penetrate the high net worth market, by launching new lines of jewellery with items priced at less than US\$1 million and selling a greater number of watches than has historically been the case, in order to leverage the exclusivity associated with our brand and take advantage of the comparatively higher margins associated with those products relative to products priced at US\$1 million or more.

Diamond supply

The purchase of diamonds by our Retail division for use in our jewellery is the single largest component of our cost of sales. We have historically principally sourced polished diamonds from our Procurement and Polishing division and DiamondWorks, as well as on the market from dealers and through auctions.

The following table sets out certain information regarding the Retail division's external diamond suppliers for the periods indicated.

	Year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
<i>Polished diamond suppliers to the Retail division</i>			
DiamondWorks	103.5	86.6	152.9
Other sources	51.8	84.8	145.3
Total polished diamonds purchased from third parties	155.3	171.4	298.2

Our Procurement and Polishing division supplied polished diamonds to our Retail division with a sales value of US\$70.5 million, US\$93.5 million and US\$134.2 million in the years ended 31 December 2009, 2010 and 2011, respectively. These inter-company sales are eliminated in our combined accounts in the Accountants' Report in Appendix I to this prospectus.

Our purchases from DiamondWorks have generally been of large, high value polished diamonds which they have consigned to us. When stones are taken on consignment from DiamondWorks, the master consignment note must be updated. The consignment terms applicable to each stone must be negotiated, adjustments to our insurance coverage are made and consigned stones are entered into the Company's inventory control system that tracks each stone throughout the retail network. The master consignment

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note is updated periodically throughout the year to take account of changes in stock and value due to market price fluctuations.

The increased level of purchases made in 2011 from DiamondWorks reflected the sale of polished diamonds by us which we had held on consignment, including the largest value retail sales transaction realised in 2011. In addition, in the course of negotiating the Company's single largest transaction in 2011, we also purchased nine additional stones for approximately US\$9 million from DiamondWorks that had previously been held on consignment. As discussed more fully below, the ordinary course nature of the consignment relationship with DiamondWorks is such that the Company intends to purchase all of the consigned stones at such time as the jewellery in which they are contained is sold. As we had therefore intended to purchase these stones at some point, it was simpler to make such purchases in connection with the transaction that was already being negotiated.

We typically complete the purchase of consigned diamonds from DiamondWorks only when the corresponding diamonds are sold by us to a customer. At that time, DiamondWorks charges us an agreed price set by reference to the prevailing wholesale market price for such stones and other relevant factors. The price per carat paid by us for diamonds from DiamondWorks has historically been, on average, higher than the price paid for equivalent stones from other suppliers (including, for these purposes, the Procurement and Polishing division) in order to reflect the inventory risk associated with holding these stones and the cost of capital incurred to finance their purchase by DiamondWorks. Historically, DiamondWorks has benefitted from the price appreciation of the diamonds held on consignment by us up until the point in time that we completed the purchase from DiamondWorks for such stones.

Upon completion of the Global Offering, save as described in “ — Net Working Capital and Net Current Assets — Inventory” below, we will no longer enter into consignment arrangements with DiamondWorks. Instead, we will purchase polished diamonds directly from our suppliers, including suppliers who previously sold stones to us through DiamondWorks, thereby benefitting from any subsequent appreciation in the value of such stones while they are held in our inventory. We will also benefit from any subsequent appreciation in the value of the diamonds we purchased from DiamondWorks in 2011 that we have not yet sold.

We benefit from strong, long-standing relationships with our existing suppliers to facilitate the continued supply of the quality of rough diamonds we require. In particular, our Procurement and Polishing division, through Safdico's South African subsidiary, has been a DTC sightholder in Kimberley for over 25 years, and we currently enjoy access to DTC's other two most important sights, in London and Gaborone. During the Track Record Period, our sight arrangements with DTC comprised a basic allotment of rough diamonds across our sites totalling approximately US\$80 million. Due to the strength of our brand and our retail distribution network and the exceptionally high quality of our cutting, polishing and jewellery manufacturing operations, DTC also regularly offers us additional rough stones, which typically yield very high quality, large polished diamonds. As a result of these arrangements, we purchased approximately US\$95 million, US\$107 million and US\$135 million of rough diamonds in 2009, 2010 and 2011, respectively, from DTC, which represented approximately 69%, 55% and 52% of the rough diamonds purchased by the Procurement and Polishing division in those years. As a result of the increase in our basic annual allotment from April 2012 to over US\$135 million, we anticipate that our total annual purchases of rough diamonds from DTC, including stones in addition to our basic allotment, will exceed US\$200 million.

Impact of Diamond Prices

Retail prices for our jewellery are set centrally and are reviewed regularly to take into account movements in diamond prices. Polished diamond prices are published and vary by quality, size and colour. From 1998 until 2003, wholesale prices of one, three and five carat polished diamonds remained relatively flat. Since then, wholesale prices of polished diamonds have risen significantly, although they experienced a temporary decline in 2009 following the onset of the global financial crisis. We generally do not reduce our retail jewellery prices in response to fluctuations in polished diamond prices, but sales volumes may react to sharp changes. A sustained stagnation or significant and sustained decline in the price of diamonds in the future, particularly for higher value stones, could have an adverse impact on our business, financial

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condition and results of operations, including a potential decrease in gross profit and net income and an increase in inventory provisions.

Rough diamond prices per carat are lower than polished diamond prices and there is no universally accepted classification system for rough diamonds as there is for polished diamonds. Due to the structure of the polishing segment in the diamond value chain, in particular, the thin capitalisation of most diamond polishers, rough diamond prices generally exhibit greater volatility than polished prices. We also do not generally look to acquire and hold inventory within our Procurement and Polishing division. Accordingly, gross profit margins in the Procurement and Polishing division are lower and more volatile than in the Retail division.

The Group holds its polished diamond inventory at the lower of cost or net realisable value. As polished diamond costs are the largest component of cost of goods sold, our gross profit margins are impacted by the cost of diamonds procured.

Depth of inventory and inventory policy

We have an extensive inventory of very large, high quality polished diamonds and pieces of jewellery. As at 31 December 2011, our diamond inventory had a book value of US\$651.4 million and included 708 individual white diamonds weighing over three carats each and 71 individual yellow diamonds weighing over seven carats each. In addition, the inventory consigned to us from DiamondWorks at such date had a fixed consignment value of approximately US\$354.8 million, comprising 75 diamonds, and was available exclusively to us. Maintaining such a large inventory of owned and consigned stones allows us to supply our customers with the exceptional diamond jewellery for which we are known. As we have expanded our retail network, we have also grown our inventory to ensure that we can continue to offer our clients a large selection of rare, high quality diamonds. For example, in the three years ended 31 December 2011, 44.1%, 43.0% and 47.4%, respectively, of the Retail division's revenue was attributable to the sale of items at price points of US\$1 million or more.

Inventory is recognised at the lower of cost and net realisable value. Net realisable value is based on the estimated selling price in the ordinary course of business, less further costs expected to be incurred for completion and disposal. A significant proportion of our polished diamonds were cut and polished by us from rough, as a result of which we are able to capture the wholesale market price appreciation over the cost of the rough stone. In addition, we periodically review the wholesale prices for polished diamonds and, during the Track Record Period, have only adjusted our retail jewellery sales prices upwards to reflect wholesale price increases. Accordingly, we believe that the current wholesale market value of our polished diamond inventory is higher than its book value.

Rough diamonds are categorised within "Raw materials and consumables" in "Inventories" on our balance sheet. Purchased packets of rough diamonds are assessed by senior management based on their gemological and valuation expertise and knowledge to assess the projected return of polished stones from each piece of rough. The cost of the packet is allocated over the rough stones based on the expected output of polished stones, weighted by the projected sales value of the polished product. Where the expected return is valued below cost the loss is recognised immediately.

Polished stones purchased from third parties as polished diamonds are recorded in inventory at their purchase value. Polished stones that originate from rough stones purchased by the Group are recorded as described above and, upon completion, include absorption of direct labour costs and production overhead, calculated and allocated on caratage. Other raw materials, including metals, are carried in inventory at their purchase price and are reviewed for impairment at the end of each accounting period taking into account prevailing market trends.

Our senior management in both the Procurement and Polishing division and the Retail division, using their expertise and knowledge of the relevant markets, consider the carrying value of all polished and rough diamonds at the end of each accounting period. The carrying value is considered against consumer and diamond market trends, and realisable value derived from recent sales experience. Provisions are included as appropriate.

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The cost of finished goods and work in progress comprises the cost of the raw materials, direct labour, other direct costs and related production overheads. The selling price of a finished item is estimated by senior management of the Retail division based on experience and current market knowledge.

The inventory provisions at the end of 2008 and 2009 reflected the impact of falling rough and wholesale polished diamond prices in 2008 and into early 2009, respectively, when the Company took a conservative approach to inventory valuation, which it continues to do. The Company continued to review the inventory position in 2010 and 2011, and there was a partial release of the inventory provision as management believed that the level of existing provision was no longer appropriate given sales of the inventory to which the previous provisions related. No provision was made or required to be made by the Retail division during the Track Record Period in respect of the finished goods as there was no expectation that they would be sold below cost. Based on the factors above, to their knowledge and belief, the Directors are of the view that the inventory provision is adequate.

Foreign currency exposure

Substantially all of our retail sales and costs of goods sold are denominated in US dollars. The diamonds we procure from DTC are paid for in dollars and the significant majority of our retail sales are denominated in or calculated with reference to our US dollar retail prices. As a result, we do not actively hedge our foreign currency exposure, although we enjoy a degree of natural matching in the principal trading, as well as the reporting, currency of the Group, the US dollar. Our other principal operating costs, such as salaries and lease expenses, are denominated in the currencies of the jurisdictions in which they are incurred. These principally comprise the US dollar, Sterling, the Euro, the Hong Kong dollar (which is pegged to the US dollar), the South African Rand, the Swiss Franc, the Renminbi and the Yen. Transaction currency effects occur when the Group incurs costs or earns revenue in a currency different from its functional currency. Most of our products are priced and sold in US dollars, but some of our production and other costs are incurred in local currencies. As a result, the Group's margins may be affected by changes in the value of the US dollar relative to the currencies in which the Group incurs costs.

The Group's financial results are impacted by both translation and transaction currency effects resulting from changes in currency exchange rates. Translation currency effects occur when the financial results of the Group's subsidiaries with functional currencies other than the US dollar are translated into US dollars using the exchange rates prevailing during the relevant period. Changes over time in the exchange rate used for the translation will affect the Group's reported dollar-denominated results, even if the underlying non-dollar results are unchanged.

The Reorganisation

The Reorganisation will have the following principal effects on the Group's combined statements of income and balance sheet as a result of its implementation:

- Acquisition of Safdico:
 - The acquisition of Safdico will result in the elimination of minority interests, although the impact of this will be partially offset by the profit share arrangement (10% of the net profit of Safdico as constituted as a result of the Reorganisation and 0.4% of the net profit of the Group minus the net profit of Safdico) that the minority shareholders will benefit from as set out in the Management Services Agreement described more fully under "Connected Transactions".
 - Salaries previously paid to Safdico's minority shareholders will be replaced by management fees in the aggregate amount of US\$2 million as set out in the Management Services Agreement. This will not have a material impact on the Group's income statement.
 - Previously, Safdico had entered into a limited number of profit share agreements with diamond suppliers to fund the purchase of high quality rough diamonds, which resulted in payments of US\$1.9 million, US\$2.1 million and US\$1.3 million to such suppliers in 2009, 2010 and 2011, respectively, but which will no longer be operative going forward.
 - We also expect to benefit from overhead and financing cost synergies and supply chain integration.

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- Acquisition of SAM Graff Monte Carlo and the sale of other non-operating assets (Delaire, aviation and property companies, and paintings):
 - No impact, other than an increase in the lease cost of the New Bond Street store by approximately US\$1.5 million due to (i) the five year rent review that was completed in December 2011 and (ii) the retail space expansion.

In addition, the Reorganisation will result in a net debit to the consolidated reserves which will be reflected in our consolidated accounts for the year ending 31 December 2012. The net debit on consolidation is at a Group level only and does not affect the ability of the Group to make distributions to shareholders, which is measured by reference to the reserves (including share premium, in the case of a Cayman company) available to, and the solvency of, the Company itself.

Description of Key Line Items and Other Accounting Policies

Revenue

Group revenue consists of income from (i) the retail sale of jewellery and watches through our Retail division to our customers through our 18 directly operated stores, as well as the wholesale sale of jewellery and watches to our franchise partners, and at exhibitions and luxury goods fairs, and (ii) the sale by our Procurement and Polishing division of rough and polished diamonds to third parties. Revenue of our Procurement and Polishing division as presented in this discussion of our financial results is net of inter-segment revenues resulting from the provision of polished diamonds to the Retail division.

Cost of sales

The purchase of diamonds from our suppliers, including DTC, in rough or polished form, accounts for substantially all of the costs of sales of both the Retail division and the Procurement and Polishing division. Additional components in the cost of sales of the Retail division include the purchase of precious metals used for jewellery settings and other gemstones, the labour and related costs associated with manufacturing our jewellery and watches, shipping costs and direct overheads. Additional components in the cost of sales of the Procurement and Polishing division include the manufacturing costs associated with the cutting and/or polishing of rough and polished diamonds, including related labour and direct production costs. Cost of sales in our Procurement and Polishing division as presented in this discussion of our financial results is net of cost of sales resulting from the provision of polished diamonds to the Retail division.

Selling and distribution costs

Selling and distribution costs are incurred in connection with the operation of our directly operated stores, and include rent of store premises, salaries and commissions to sales staff and direct marketing costs. Other than rent expenses, these costs can vary in line with sales activity.

Administrative expenses

Administrative expenses comprise costs which do not directly relate to the production or retail sale of jewellery and watches. These expenses included Director and corporate staff remuneration, corporate office expenses, brand marketing costs, insurance, outsourced security costs and professional fees. These costs do not vary significantly based on the level of sales and are incurred regardless of sales activity.

Net finance costs

Net finance costs principally comprise interest payable on Group borrowings, including on bank loans, other third party loans, finance leases and the fair value movements on financial instruments, offset by interest receivable on bank deposits and related party loans.

Taxation

The charge to taxation comprises current and deferred tax. Current tax is calculated on the basis of tax laws in force during the relevant year in the countries where the Group and its subsidiaries operate and

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generate taxable income. Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Combined Financial Information. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The largest item giving rise to deferred tax assets during the Track Record Period is the provision for unrealised profit arising from inventory held in the Retail division and sourced from the Procurement and Polishing division.

During the Track Record Period, the principal jurisdictions in which we were subject to material amounts of tax were the UK, Hong Kong, the US and Switzerland. The corporate tax rates as at 31 December 2011 were 26.0%, 16.5%, 35.0% and 8.5%, respectively. We manage the tax affairs of the Group in accordance with the applicable tax laws and regulations across all of the jurisdictions in which we operate. To the knowledge and belief of the Directors, the Group is in material compliance with the tax rules and regulations applicable to its operations and there were no material disputes with tax authorities during the Track Record Period.

The effective tax rate for the Group was 22.8%, 18.5% and 18.5% in 2009, 2010 and 2011, respectively (based on operating profit before exceptional items). We expect our effective tax rate will remain broadly the same as it was in 2011 in the medium term. The fluctuation of the effective tax rate was due to changes in the profit of the Monaco and Safdico operations relative to the profits from other operations of the Group. The tax rate in Monaco (0%) and the rate in Safdico (0%-5%) are significantly lower than the UK tax rate. In 2010 and 2011, Monaco and Safdico accounted for a larger proportion of total Group profit compared to 2009, which resulted in a lower overall effective tax rate.

Effect of different taxation rates: this line item represents the effect of the different taxation rates in Monaco and Safdico, i.e., these are profits which are not subject to the standard UK rate of taxation, and income which is not taxable in the local jurisdiction.

Expenses not deductible for tax purposes: this line item includes losses in entities which are not deductible against profits elsewhere in the Group and where a deferred tax asset has not been recognized. It also includes other expenses, such as entertainment costs, that are not deductible in the local tax jurisdictions.

Non-controlling interests

Non-controlling interests consist of the 49.99% share of Safdico profits relating to the Safdico minority shareholders. In connection with the Reorganisation, the non-controlling interests will be acquired by the Group immediately before Listing and will not be reported going forward. The financial impact on our results of operations attributable to the Company's shareholders of the acquisition of the non-controlling interests will be partially offset by consulting fees paid to the former minority shareholders, which will be charged to administrative expenses and will replace salary costs reported in the Track Record Period. For further details regarding these consulting fee arrangements, please see "Connected Transactions".

In addition, within the Safdico group, a 26% minority interest is held in Safdico's South African subsidiary by a Black Economic Empowerment partner in accordance with local market practice. The minority interest in the South African subsidiary will not be acquired as part of the Reorganisation.

Financial assets and liabilities

In the Group there is a loan payable to an unrelated third party which was used to finance a portion of the purchase of the shares in Gem Diamonds and which is repayable on disposal of such shares in Gem Diamonds held by the Group. The Group has no current intention to dispose of its shares in Gem Diamonds. The amount to be repaid to the investor is calculated based on the proceeds of the disposal of the shares. For accounting purposes, this loan is revalued at each reporting date (i.e., each year end) and the value of the loan is measured based on the current share price of Gem Diamonds. Any changes in the loan value are recorded as a gain or a loss in the income statement.

The investment in shares in Gem Diamonds is held as an available-for-sale financial asset. For accounting purposes, this means the asset is revalued at each reporting date based on the share price of Gem

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Diamonds, and any gain or loss is recorded in the statement of changes in equity, and not in the income statement.

Based on the above, the Group would have an “accounting mismatch”, which means the gains and losses on the loan liability and the asset are recorded in different line items in the financial statements. The Group, under IFRS, has made an accounting policy choice to eliminate this mismatch. Consequently, some of the shares in Gem Diamonds (representing the shares financed by the underlying loan) are “designated at fair value through profit or loss”, which means the movement in value of these shares is recorded in the income statement instead of the statement of changes in equity. This eliminates the accounting mismatch because the loan liability and the designated assets are measured based on the Gem Diamonds share price. The remaining shares are still accounted for as available-for-sale assets, and the movement in value is recorded in the statement of changes in equity. In effect, the assets have been split into two different categories, and while all of the shares are measured at fair value, some of this movement is recorded in the income statement and the remaining movement is recorded in the statement of changes in equity.

Recent Developments

The following table sets forth unaudited revenue of the Group for the three months ended 31 March 2011 and 2012. This financial information has been reviewed by the Company’s auditors, PricewaterhouseCoopers LLP, London, UK, with reference to the principles set out in ISRE 2410. We do not intend to report our revenues or our financial results on a quarterly basis after Listing.

	Three months ended 31 March		
	2011	2012	% change
	<i>(US\$ millions, except percentages)</i>		
UK	54.2	59.7	10.1
Rest of Europe	26.5	41.5	56.6
Asia	16.8	36.1	114.9
US	26.5	33.7	27.2
Retail division revenue	124.0	171.0	37.9
Procurement and Polishing division revenue	39.7	33.5	(15.6)
Group revenue	163.7	204.5	24.9
of which:			
— Retail division	75.7%	83.6%	
— Procurement and Polishing division	24.3%	16.4%	

The following table sets forth certain information relating to items of jewellery and watches sold by the Retail division during the three months ended 31 March 2011 and 2012.

	Three months ended 31 March			
	2011		2012	
	Revenue	Number	Revenue	Number
	<i>(US\$ millions)</i>		<i>(US\$ millions)</i>	
Jewellery items and watches:				
— Sold for US\$1 million or more	40.4	19	69.5	32
— Sold for less than US\$1 million	83.6	1,309	101.5	1,606
	124.0	1,328	171.0	1,638

Our trading performance during the three months ended 31 March 2012, together with the increase in average sales value per item sold, reflects the continued strong performance of our business. In particular, we experienced strong revenue growth in the Asia region as a result of higher sales volumes which reflected the continued increase in our brand awareness as we have expanded our profile in the region. Growth in revenue in the Rest of Europe was driven largely by strong sales performance in Monaco. The decline in revenue in the Procurement and Polishing division reflected the increased proportion of polished diamonds utilised by the Retail division in the first quarter of 2012 and proportionally lower third party sales of polished diamonds, in each case compared to the first quarter of 2011.

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There were no items of jewellery or watches sold with a sales price in excess of US\$10 million in the three months ended 31 March 2011 or 2012. Since the end of the first quarter of 2012, we have received an initial deposit to be applied towards the purchase of jewellery that will contain Reserved Stones, although we currently do not know when, or if, this purchase will complete.

The Group's revenues and financial results for the three months ended 31 March 2012 should not be viewed as indicative of the Group's revenues and financial results for the full year or for any other period, and prospective purchasers of the Shares are cautioned against extrapolating from such figures. For additional information regarding the various risks and uncertainties inherent in relying on the foregoing unaudited financial information, see the section headed "Forward-Looking Statements" in the prospectus. Please refer to the "Risk Factors" and "Financial Information" sections in this prospectus for information regarding trends and other factors that may influence our financial condition and results of operations.

Results of Operations

The following table sets forth income statement data, including as a percentage of revenues, for the years ended 31 December 2009, 2010 and 2011.

	Year ended 31 December					
	2009	% of revenues	2010	% of revenues	2011	% of revenues
	<i>(US\$ millions, except percentages)</i>					
Revenue	541.3	100.0	616.7	100.0	755.6	100.0
Cost of sales	(360.9)	66.7	(348.6)	56.5	(467.5)	61.9
Gross profit	180.4	33.3	268.1	43.5	288.1	38.1
Selling and distribution costs . . .	(47.8)	8.8	(48.1)	7.8	(53.5)	7.1
Administrative expenses	(68.8)	12.7	(85.2)	13.8	(81.9) ⁽¹⁾	10.8
Other income	1.3 ⁽²⁾	0.2	—	—	0.5	0.1
Operating profit	65.1 ⁽²⁾	12.0	134.8	21.9	153.2 ⁽¹⁾	20.3
Net finance costs	(3.8)	0.7	(6.3)	1.0	(5.8)	0.8
Profit before taxation	61.3 ⁽²⁾	11.3	128.5	20.8	147.4 ⁽¹⁾	19.5
Taxation	(14.0) ⁽³⁾	2.6	(23.8)	3.9	(27.3)	3.6
Profit for the year	47.3 ⁽³⁾	8.7	104.7	17.0	120.1 ⁽¹⁾	15.9

Notes:

- (1) Excludes US\$4.5 million of transaction costs that were expensed in 2011 in connection with the Global Offering. No adjustment has been made to taxation as these expenses are not deductible for taxation purposes.
- (2) Other income, operating profit and profit before taxation in 2009 exclude US\$9.0 million of insurance proceeds received following the 2009 robbery of our Bond Street store.
- (3) Profit for the year in 2009 excludes the US\$9.0 million of insurance proceeds net of tax charged on such proceeds at a 28% rate (US\$2.5 million), and taxation in 2009 has been reduced by a corresponding amount.

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The following is a discussion of the principal drivers of our results of operations for the Track Record Period.

Revenue

The following table sets forth certain information regarding our revenue by division and geography:

	Year ended 31 December				2011
	2009	% change	2010	% change	
	<i>(US\$ millions, except percentages)</i>				
UK	183.0	9.3	200.1	31.5	263.2
Rest of Europe	68.2	51.6	103.4	42.2	147.0
Asia	51.1	6.5	54.4	121.3	120.4
US	97.0	(0.6)	96.4	(3.6)	92.9
Retail division revenue	399.3	13.8	454.3	37.2	623.5
Procurement and Polishing division revenue	142.0	14.4	162.4	(18.7)	132.1
Group revenue	541.3	13.9	616.7	22.5	755.6
<i>of which:</i>					
Retail division	73.8%		73.7%		82.5%
Procurement and Polishing division	26.2%		26.3%		17.5%

Revenue 2010 v 2011

Revenue increased by US\$138.9 million, or 22.5%, from US\$616.7 million for the year ended 31 December 2010 to US\$755.6 million in 2011. The increase was driven by growth in our Retail division.

Retail division

Retail division revenue increased by 37.2%, or US\$169.2 million, to US\$623.5 million for the year ended 31 December 2011 from US\$454.3 million in 2010, due to the 50% increase in the number of items sold, from approximately 3,400 to approximately 5,100. In addition, the percentage of total retail revenue attributable to pieces priced at US\$1 million and above remained broadly stable at 47.4% and 43.0% in 2011 and 2010, respectively. UK segment revenue increased from US\$200.1 million in 2010 to US\$263.2 million in 2011, an increase of US\$63.1 million, or 31.5%. UK segment revenue included a single customer's purchase of jewellery in the amounts of US\$74.7 million and US\$100.0 million in 2010 and 2011, respectively. Excluding these sales, UK revenue would have increased by US\$37.8 million, or 30.1%, from US\$125.4 million in 2010 to US\$163.2 million in 2011. This increase principally reflected increased sales to our franchise partners and through our exhibitions other than the Monaco exhibition. These increases were partially offset by a decrease in sales through our directly operated UK stores, reflecting constrained retail space due to the refurbishment of our Bond Street store. Revenue in the Rest of Europe segment increased from US\$103.4 million to US\$147.0 million, or 42.2%, due primarily to the strong performance of our Geneva and Monaco stores. Asia revenue increased from US\$54.4 million in 2010 to US\$120.4 million in 2011, an increase of US\$66.0 million, or 121.3%, mainly due to our enlarged retail footprint and the increased exposure of customers to our products.

Procurement and Polishing division

Revenue in our Procurement and Polishing division decreased by US\$30.3 million, or 18.7%, from US\$162.4 million in 2010 to US\$132.1 million in 2011 due to a decline in the volume of external sales of polished diamonds, which was almost entirely offset by an increase in revenue from trading of rough diamonds.

Revenue 2009 v 2010

Revenue increased by US\$75.4 million, or 13.9%, from US\$541.3 million for the year ended 31 December 2009 to US\$616.7 million in 2010. The increase was driven by growth in our Retail division, particularly our stores in the Rest of Europe region.

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Retail division

Retail division revenue increased by 13.8%, or US\$55.0 million, to US\$454.3 million for the year ended 31 December 2010 from US\$399.3 million in 2009, due to the 20.1% increase in number of items sold, from approximately 2,800 to approximately 3,400. This increase was primarily due to the increase in revenue from the Rest of Europe region, which grew by US\$35.2 million, or 51.6%, from US\$68.2 million in 2009 to US\$103.4 million in 2010, as a result of the improved performance of our directly operated stores in Monaco and Geneva. UK region revenue increased from US\$183.0 million in 2009 to US\$200.1 million in 2010, an increase of US\$17.1 million, or 9.3%, representing a gradual recovery in sales following the return of overseas customers to the UK. This revenue included a single customer's purchase of jewellery in the amounts of US\$85.6 million and US\$74.7 million in 2009 and 2010, respectively. Excluding these sales, UK revenue would have increased by US\$28.0 million, or 28.7%, in 2010 from US\$97.4 million to US\$125.4 million.

Procurement and Polishing division

Revenue in our Procurement and Polishing division from sales to third parties increased by US\$20.4 million, or 14.4%, from US\$142.0 million in 2009 to US\$162.4 million in 2010. This was due to higher sales of polished diamonds to third parties in 2010. The effect of this increase was partially mitigated by the sale of inventory in 2009 that we would have expected to have sold in 2008 but which was carried over into 2009.

Cost of sales

The following table sets forth our cost of sales by division.

	Year ended 31 December				2011
	2009	% change	2010	% change	
	<i>(US\$ millions, except percentages)</i>				
<i>Cost of sales</i>					
— Retail division	228.2	(8.6)	208.5	63.9	341.7
— Procurement and Polishing division	132.7	5.6	140.1	(10.2)	125.8
Total	360.9	(3.4)	348.6	34.1	467.5

Cost of sales 2010 v 2011

Cost of sales increased by US\$118.9 million, or 34.1%, from US\$348.6 million in the year ended 31 December 2010 to US\$467.5 million in 2011. As a percentage of revenues, cost of sales increased from 56.5% in 2010 to 61.9% in 2011.

Retail division

Cost of sales in the Retail division increased by 63.9%, or US\$133.2 million, from US\$208.5 million for the year ended 31 December 2010 to US\$341.7 million in 2011. This increase was attributable primarily to the increase in the volume of sales of diamond jewellery during the period. As a percentage of revenues, cost of sales in the Retail division increased from 45.9% in 2010 to 54.8% in 2011.

Procurement and Polishing division

Cost of sales in our Procurement and Polishing division decreased by US\$14.3 million, or 10.2%, from US\$140.1 million in 2010 to US\$125.8 million in 2011. This was principally due to a decrease in the volume of rough and polished diamonds processed. As a percentage of revenues, cost of sales in the Procurement and Polishing division increased from 86.3% in 2010 to 95.2% in 2011.

Cost of sales 2009 v 2010

Cost of sales decreased by US\$12.3 million, or 3.4%, from US\$360.9 million in the year ended 31 December 2009 to US\$348.6 million in 2010. As a percentage of revenues, cost of sales decreased from 66.7% in 2009 to 56.5% in 2010.

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Retail division

Cost of sales in the Retail division decreased by 8.6%, or US\$19.7 million, from US\$228.2 million for the year ended 31 December 2009 to US\$208.5 million in 2010. This decrease was attributable to the lower cost of inventory purchased in previous periods and sold in 2010. As a percentage of revenues, cost of sales in the Retail division decreased from 57.2% in 2009 to 45.9% in 2010.

Procurement and Polishing division

Cost of sales in our Procurement and Polishing division increased by US\$7.4 million, or 5.6%, from US\$132.7 million in 2009 to US\$140.1 million in 2010. This increase was principally due to an increase in the volume of rough and polished diamonds processed. As a percentage of revenues, cost of sales in the Procurement and Polishing division decreased from 93.5% in 2009 to 86.3% in 2010.

Gross profit

Gross profit 2010 v 2011

Gross profit increased by US\$20.0 million, or 7.5%, from US\$268.1 million in the year ended 31 December 2010 to US\$288.1 million in 2011. Our gross profit margin was 43.5% in 2010 and 38.1% in 2011. This decrease reflected the decline in gross profit margin in both divisions year to year, as described below.

Retail division

The gross profit margin in the Retail division was 45.2% in 2011, down from 54.1% in 2010. The gross profit margin in 2010 benefitted from the sale of diamonds which were purchased at a lower cost in prior years. In 2011, gross profit margin was adversely affected by a higher volume of polished diamonds acquired from the Procurement and Polishing division, the price of which reflected the higher prices of the rough diamonds from which they were cut and polished. In addition, in 2011, the US\$100.0 million sale to one customer was executed at a lower gross profit margin than the average gross profit margin for the rest of the sales made during the year. Excluding the impact of this transaction, the Retail division's adjusted gross profit margin would have been 51.0% in 2011.

Procurement and Polishing division

The gross profit margin in our Procurement and Polishing division also decreased, to 4.8% in 2011 from 13.7% in 2010, primarily due to an increase in the volume of rough diamonds sold at lower gross profit margins and a decline in wholesale polished diamond prices over the course of 2011, which resulted in the sale of certain polished diamonds at lower gross profit margins.

Gross profit 2009 v 2010

Gross profit increased by US\$87.7 million, or 48.6%, from US\$180.4 million in the year ended 31 December 2009 to US\$268.1 million in 2010. Gross profit margin for the Group was 43.5% in 2010, an increase over a gross profit margin of 33.3% in 2009, driven primarily by the margin increase in our Retail division.

Retail division

Gross profit margin in the Retail division was 54.1% in 2010, up from 42.8% in 2009. In 2009, sales of US\$85.6 million to one customer were executed at a lower average gross profit margin than the average gross profit margin for the rest of the sales made during the year. Excluding the impact of this transaction, the Retail division's gross profit margin would have been 47.3% in 2009.

Procurement and Polishing division

Gross profit margin in our Procurement and Polishing division also increased to 13.7% in 2010 from 6.5% in 2009. In 2009, our wholesale gross profit margins were negatively impacted primarily due to the build up of stock carried forward from the prior year that was sold in difficult wholesale trading conditions at significantly lower gross profit margins. Gross profit margins recovered in 2010 as wholesale market conditions improved.

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Selling and distribution costs

The following table sets forth the components of our selling and distribution costs during the Track Record Period:

	Year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
Store staff costs	14.5	15.3	18.5
Store occupancy costs	12.1	11.9	14.2
Selling commissions	6.8	7.3	11.1
Store and regional level marketing	4.5	5.6	4.1
Other store costs	9.9	8.0	5.6
Total	47.8	48.1	53.5

Selling and distribution costs 2010 v 2011

Selling and distribution costs increased from US\$48.1 million in the year ended 31 December 2010 to US\$53.5 million in 2011. This was primarily due to an increase in store staff costs attributable to an increased number of directly operated stores, which were offset in part by a decrease in marketing expenses. As a percentage of revenue, selling and distribution costs represented 7.8% and 7.1% in 2010 and 2011, respectively.

Selling and distribution costs 2009 v 2010

Selling and distribution costs were broadly flat, moving marginally from US\$47.8 million in the year ended 31 December 2009 to US\$48.1 million in 2010, despite the increase in revenue. Small increases in marketing costs were offset by a reduction in property and other overhead costs in the Retail division. Other directly operated store costs included local travel, local delivery costs and the general operating costs associated with our directly operated stores. As a percentage of revenue, selling and distribution costs represented 8.8% and 7.8% in 2009 and 2010, respectively.

Administrative expenses

The following table sets forth the components of our administrative expenses during the Track Record Period:

	Year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
Staff costs	20.1	22.2	27.1
External security and insurance	17.5	20.2	15.0
Depreciation	9.8	9.0	10.5
Brand marketing	7.0	3.9	8.5
Head office properties	4.2	6.0	4.6
Other	10.2	23.9	16.2
Total	68.8	85.2	81.9

Other expenses principally relate to travel, legal and professional fees and foreign exchange profits or losses.

Administrative expenses 2010 v 2011

Administrative expenses decreased by US\$3.3 million, or 3.9%, from US\$85.2 million in the year ended 31 December 2010 to US\$81.9 million in 2011, excluding transaction costs related to the Global Offering of US\$4.5 million that were expensed in 2011. This decrease was due primarily to a reduction in insurance charges following an increase in premiums in 2009 after the robbery of our Bond Street store, which was

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more than offset by an increase in staff costs and expenses attributable to brand marketing. Depreciation expense in 2010 was US\$9.0 million, compared to US\$10.5 million in 2011, and related to depreciation of the fixtures and fittings in our directly operated stores. As a percentage of revenue, administrative expenses represented 13.8% and 10.8% in 2010 and 2011, respectively.

Administrative expenses 2009 v 2010

Administrative expenses increased by US\$16.4 million, or 23.8%, from US\$68.8 million in the year ended 31 December 2009 to US\$85.2 million in 2010. This primarily reflected an increase in staff costs and insurance premiums during the period. Depreciation expense in 2009 was US\$9.8 million, compared to US\$9.0 million in 2010, and related to depreciation of the fixtures and fittings in our directly operated stores. As a percentage of revenue, administrative expenses represented 12.7% and 13.8% in 2009 and 2010, respectively.

Other income

Other income 2010 v 2011

We had other income in 2011 of US\$0.5 million.

Other income 2009 v 2010

We had other income of US\$10.3 million in 2009, of which US\$9.0 million consisted of insurance proceeds (net of the cost of stock lost) following the robbery of our Bond Street store.

Net finance costs

Net finance costs 2010 v 2011

Net finance costs decreased by US\$0.5 million, or 7.9%, from US\$6.3 million in the year ended 31 December 2010 to US\$5.8 million in 2011. The majority of these costs related to net interest expense. The debt to which these costs principally related will be repaid on or prior to Listing Date, as a result of which we expect net finance costs to fall in 2012.

Net finance costs 2009 v 2010

Net finance costs increased by US\$2.5 million, or 65.8%, from US\$3.8 million in the year ended 31 December 2009 to US\$6.3 million in 2010.

Taxation

Taxation 2010 v 2011

Tax costs increased by US\$3.5 million, or 14.7%, from US\$23.8 million in the year ended 31 December 2010 to US\$27.3 million in 2011, substantially all of which related to our activities in the UK. The Group's effective tax rate remained flat at 18.5% in 2010 and 2011 (based on operating profit before exceptional items). To the extent that a larger proportion of the Group's revenues arises outside of the UK, we anticipate that our effective tax rate will decrease, assuming the present levels of tax in the jurisdictions in which we operate remain broadly the same.

Taxation 2009 v 2010

Tax costs increased by US\$7.3 million, or 44.2%, from US\$16.5 million in the year ended 31 December 2009 to US\$23.8 million in 2010, mainly due to the increase in taxable profits arising in 2010. The Group's effective tax rate decreased from 22.8% in 2009 to 18.5% in 2010 (based on operating profit before exceptional items) as a result of a higher proportion of income earned outside of the UK in lower tax jurisdictions. Adjusting for the effect of US\$9.0 million in other income as exceptional income, the resulting tax charge in 2009 would have been US\$14.0 million.

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Profit for the year

Profit for the year 2010 v 2011

As a result of the forgoing factors, profit for the year increased by US\$15.4 million, or 14.7%, from US\$104.7 million for the year ended 31 December 2010 to US\$120.1 million in 2011 (excluding US\$4.5 million of transaction costs that were expensed related to the Global Offering). As a percentage of revenues, profit for the year was 17.0% in 2010 and was 15.9% in 2011 (excluding US\$4.5 million of transaction costs that were expensed related to the Global Offering).

Profit for the year 2009 v 2010

As a result of the forgoing factors, profit for the year increased by US\$50.9 million, or 94.6%, from US\$53.8 million for the year ended 31 December 2009 to US\$104.7 million in 2010. As a percentage of revenues, profit for the year was 9.9% in 2009 and was 17.0% in 2010. Adjusting for the effect of US\$9.0 million in other income as exceptional income and the related tax charge of US\$2.5 million, profit for the year in 2009 would have been US\$47.3 million.

Liquidity and Capital Resources

Our liquidity requirements principally relate to the purchase and funding of inventory, fitting out of new stores, the repayment of borrowings and the payment of dividends. Our principal sources of liquidity during the Track Record Period have been cash from operating activities and external financings, which comprised bank borrowings.

Cash Flows

Our cash and cash equivalents as at 31 December 2011 were US\$63.8 million, compared to cash and cash equivalents of US\$32.2 million and US\$17.8 million as at 31 December 2010 and 2009, respectively, as shown on the Combined Balance Sheets set forth in the Accountants' Report in Appendix I to this prospectus. We do not expect to earn material amounts of interest on the cash balances that we maintain with banks.

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The following table sets out a summarised presentation highlighting the key movements in our cash flow statements during the three years ended 31 December 2009, 2010 and 2011.

	Year ended 31 December		
	2009	2010	2011
		<i>(US\$ millions)</i>	
Profit before income tax	70.3	128.5	142.9
Depreciation	9.8	9.0	10.5
(Increase) decrease in inventories	53.9	(71.6)	(208.8)
(Increase) decrease in trade and other receivables	(10.5)	(0.7)	16.8
Increase (decrease) in trade and other payables	(36.2)	(3.4)	83.7
Interest paid	(8.9)	(7.2)	(7.8)
Taxation paid	(6.7)	(16.1)	(33.0)
Net finance costs/other	3.6	7.1	5.7
Net cash generated from operating activities	<u>75.3</u>	<u>45.6</u>	<u>10.0</u>
Purchase of property, plant and equipment	(8.2)	(12.6)	(22.0)
Proceeds from property, plant and equipment	2.4	1.2	—
Purchase of equity securities ⁽¹⁾	(12.1)	(10.8)	(10.9)
Loans to related parties and companies	(28.7)	(13.1)	(1.6)
Interest received	1.5	2.8	2.6
Net cash used in investing activities	<u>(45.1)</u>	<u>(32.5)</u>	<u>(31.9)</u>
Repayment of borrowings	(33.2)	(5.7)	(7.3)
Contribution from controlling shareholder	4.9	(7.8)	8.1
Net proceeds from borrowings	4.3	40.8	103.5
Dividends paid	(14.3)	(25.9)	(51.0)
Net cash (used in)/generated from financing activities	<u>(38.3)</u>	<u>1.4</u>	<u>53.3</u>
Net (decrease) increase in cash and cash equivalents	(8.1)	14.5	31.4
Cash and cash equivalents at beginning of the period	25.7	17.8	32.2
Exchange gains/(losses) on cash and cash equivalents	0.2	(0.1)	0.2
Cash and cash equivalents at the end of the period	<u>17.8</u>	<u>32.2</u>	<u>63.8</u>

Note:

(1) Comprises purchases of available for sale financial assets and purchase of financial assets at fair value through profit or loss.

Cash generated from operating activities

Net cash generated from operating activities was US\$10.0 million in 2011, reflecting a decrease of US\$35.6 million, or 78.1%, from net cash generated from operating activities of US\$45.6 million in 2010, which reflected a decrease of US\$29.7 million from net cash from operating activities of US\$75.3 million in 2009. The decrease in 2011 was primarily due to an increase in inventory of US\$208.8 million as a result of the purchase of rough and polished diamonds from our suppliers, including DiamondWorks, which was offset in part by an increase in related trade payables of US\$83.7 million, as well as an increase of US\$16.9 million in taxation paid. Profit before tax in 2011 was US\$14.4 million higher than in 2010. Net cash generated from operating activities in 2010 reflected an increase in inventory of US\$71.6 million compared to a decrease in inventory of US\$53.9 million in 2009 and an increase in tax paid of US\$9.4 million, and a decrease of US\$3.4 million in trade payables compared to a decrease in trade payables of US\$36.2 million in 2009, which was partially offset by a US\$58.2 million increase in profit before tax.

Cash flows from Investing Activities

Net cash used in investing activities was US\$31.9 million in 2011, reflecting a decrease of US\$0.6 million from net cash used in investing activities of US\$32.5 million in 2010, which reflected a decrease from net cash used in investing activities of US\$12.6 million compared to US\$45.1 million in 2009. In all years under review, cash used in investing activities reflected the purchase of property, plant and equipment in

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connection with the opening of new directly operated stores and the refurbishment of existing stores in the amounts of US\$8.2 million, US\$12.6 million and US\$22.0 million in 2009, 2010 and 2011, respectively, as well as the purchase of an additional US\$12.1 million, US\$10.8 million and US\$10.9 million of shares of Gem Diamonds in 2009, 2010 and 2011, respectively. In addition, in each year, cash was used to fund loans to related parties and companies that had been, but following completion of the Reorganisation and Listing, will no longer be, part of the Group, in the amounts of US\$28.7 million, US\$13.1 million and US\$1.6 million in 2009, 2010 and 2011, respectively. The outstanding balances of these loans will be repaid in connection with, or shortly after, Listing.

Cash flows from Financing Activities

Net cash from financing activities was US\$53.3 million in 2011 and US\$1.4 million in 2010 compared to net cash used in financing activities of US\$38.3 million in 2009. Net cash from financing activities in 2010 and 2011 reflected net proceeds from borrowings of US\$35.1 million and US\$96.2 million, respectively, as we increased our borrowings in connection with the expansion of our business, which was offset in part by dividends paid to the current shareholders in the amounts of US\$25.9 million and US\$51.0 million, respectively. In 2009, net cash used in financing activities reflected the net repayment of borrowings in the amount of US\$28.9 million and the payment of dividends to the current shareholders in the amount of US\$14.3 million.

Capital Expenditures

The following table sets out our capital expenditures by nature for the periods indicated.

	Year ended 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
Freehold and leasehold buildings and land	2.2	2.4	0.4
Short-leasehold improvements	1.5	—	7.5
Fixtures and fittings	2.9	2.2	7.2
Computer equipment	0.2	0.3	0.2
Assets under construction	1.4	7.7	6.7
Total	8.2	12.6	22.0

In the three years under review, capital expenditure principally related to the expansion of our retail distribution network and the refurbishment of our flagship Bond Street store. In 2011, we spent US\$9.2 million in relation to the opening of our Courchevel and San Francisco stores and US\$3.3 million primarily in connection with the opening of our directly operated stores in Shanghai and Taipei. In connection with the refurbishment of our flagship store on Bond Street, we spent US\$1.3 million, US\$7.5 million and US\$5.6 million in 2009, 2010 and 2011, respectively. We also spent US\$1.2 million in 2009 and US\$1.8 million in 2010 in connection with the construction of the Diamond Technology Park in Gaborone. The average capital expenditure (excluding inventory) required to open a new store is approximately US\$3 million, although actual expenditure varies depending on the size and location of the store.

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Financial Liabilities and Contractual Obligations

Indebtedness

The following tables set out our total borrowings and their maturity profile as at 31 December 2009, 2010 and 2011 and as at 31 March 2012.

<i>Type</i>	As at 31 December			As at
	2009	2010	2011	31 March
	<i>(US\$ millions)</i>			<i>(unaudited)</i>
Bank overdrafts — secured	31.0	60.7	3.3	6.5
Committed bank facility — secured ⁽¹⁾	—	—	115.0	140.8
Bank loans — unsecured	9.1	6.9	4.5	3.9
Bank loans — secured	6.1	28.5	67.5	69.8
Other loans — unsecured	40.4	32.7	30.1	40.8
Finance lease obligations	11.8	8.2	4.7	3.4
Total⁽²⁾	98.4	137.0	225.1	265.2

Note:

- (1) Expected to be repaid with the proceeds from the Global Offering.
- (2) The Group also has two interest rate swaps which have not been included in the above indebtedness analysis. The fair value of these derivatives as at 31 March 2012 was US\$7.3 million.

<i>Maturity profile</i>	As at 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
Less than one year	54.6	92.3	193.9
More than one year but not more than two years	7.9	6.5	3.6
More than two years but not more than five years	10.0	4.4	2.7
In more than five years	25.9	33.8	24.9
Total	98.4	137.0	225.1

As at 31 December 2011, borrowings totalled US\$225.1 million. As at 31 March 2012, being the latest practicable date for the purposes of the indebtedness statements prior to the publication of this prospectus, borrowings totalled US\$265.2 million.

The average effective interest rates on our borrowings were 7.86%, 3.99% and 2.35% in 2009, 2010 and 2011, respectively. Fluctuations were primarily due to the decline in interest rates over the period and new loans obtained at more favourable rates. Our gearing ratio, defined as net indebtedness divided by total combined equity, was 18.7%, 21.3% and 29.5% in 2009, 2010 and 2011, respectively.

The Directors confirm that there has been no delay or default in the repayment of bank or other borrowings that is material to the Group as a whole.

Bank overdrafts — secured

The bank overdraft at 31 December 2011 is secured over receivables and assets of Safdico on a four-month revolving basis and bears interest at 2.5% above the bank's cost of funds.

Committed bank facility — secured

Our committed bank facility consists of a US\$170 million revolving facility committed to 28 February 2013, which bears interest at a rate of 1.65% above LIBOR, currently 0.5%. As at 31 December 2011, we had drawn down US\$115.0 million under this facility. As at the Latest Practicable Date, we had drawn US\$140.8 million under this facility, which we expect to repay with proceeds from the Global Offering. With effect from the Global Offering, we will replace this facility with a US\$170 million, 1.55% above

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LIBOR revolving credit facility, committed to 31 May 2015, in addition to a US\$120 million ancillary carnet guarantee facility at 1.2% above LIBOR.

Our new facility will be guaranteed by Graff Diamonds Corporation, Graff Diamonds Holdings Limited, Graff Diamonds International Limited, Graff Diamonds Limited, Graff Holdings, Inc., Graff Diamonds (New York), Inc. and Graff Diamonds (Hong Kong) Limited.

Our existing facility contains certain restrictive covenants, which will also be contained in our new facility, including covenants related to gearing, interest cover and the ratio of total net debt to EBITDA.

Upon the occurrence of a change of control, the current facility becomes, and our new facility will become, subject to good faith negotiations with the lender, which must be concluded within 30 days.

Change of control is determined in our new facility to mean that (i) Laurence Graff, François Graff, Anne-Marie Graff, Raymond Graff and Elliott Graff, taken together, and with associated shareholdings, including Shares held in trust, cease to hold (directly or indirectly) more than 30% of the issued share capital of the Company or issued share capital having the right to cast more than 30% of the votes capable of being cast in general meetings of the Company or (ii) at any time, any person or group of persons acting in concert (other than the persons listed above) acquires more than 50% of the issued share capital of the Company or otherwise has control over the Company.

Bank loans — unsecured

Bank loans — unsecured consist of an US\$11.75 million loan bearing interest at 5.47%. As at 31 December 2011, the balance outstanding on this loan was US\$4.5 million. The amount repayable on this loan within one year was US\$2.0 million and US\$2.5 million was repayable in more than one year.

Bank loans — secured

Bank loans — secured consist of loans secured over the receivables, inventory and property of Safdico. As at 31 December 2011, the balance due on these loans within one year was US\$3.0 million and US\$6.5 million was repayable in more than one year. Interest rates on these loans range from 2.5% below the prime bank overdraft rate in South Africa to 8%.

Other loans — unsecured

Other loans — unsecured comprise a loan of US\$24.6 million outstanding at 31 December 2011 from an unrelated third party to assist in the purchase of shares in Gem Diamonds. This loan is interest free. The amount to be repaid is calculated based on the proceeds arising from the disposal of shares attributable to the lender's share of its investment in Gem Diamonds. It has been included at its market value of US\$24.6 million at 31 December 2011, which reflects the amount which would have been payable to the third party had the relevant Gem Diamonds shares been sold as at that date.

The unrelated third party is a company incorporated in the British Virgin Islands which made an indirect, passive investment in Gem Diamonds by way of a loan to the Group. It is indirectly operated for the benefit of a diamond industry participant with whom Laurence Graff has a long-standing professional relationship. The loan has a backstop date of the earlier of 19 years from its inception or when the shares in Gem Diamonds are sold.

Other loans — unsecured at 31 December 2011 also includes a loan of US\$5.5 million to Safdico from an unrelated party, which bears interest at 4% and has no fixed terms of repayment.

Finance lease obligations

We hold finance leases over the fixtures and fittings in our retail premises. The net book value of these items included in fixed assets was US\$3.5 million at 31 December 2011.

Bank Covenants

Our bank facilities contain standard covenants that restrict our ability to, among other things, dispose of material assets and engage in mergers or acquisitions. To their knowledge and belief, the Directors are not

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aware of the Group experiencing any difficulty in obtaining or renewing any bank facilities. As at the Latest Practicable Date none of the bank covenants relating to any of the foregoing financings had been breached.

No material change

We confirm that there had been no material change in the indebtedness of our Group since 31 March 2012.

Operating Leases

Our retail distribution network is comprised in part by 18 directly operated stores, all of which are leased from external third or related parties.

Operating leases of our retail premises range in duration from three to fifteen years. The following table sets out the total commitments for future minimum lease payments as at 31 December 2009, 2010 and 2011.

	As at 31 December		
	2009	2010	2011
	<i>(US\$ millions)</i>		
<i>Expiry date</i>			
Within one year	9.4	10.2	13.8
Between two and five years	30.5	27.2	34.7
After five years	36.4	30.6	30.2
Total	<u>76.3</u>	<u>68.0</u>	<u>78.7</u>

Net Working Capital and Net Current Assets

The following table sets out details of our current assets and current liabilities as at 31 December 2009, 2010 and 2011 and as at 31 March 2012.

	As at 31 December			As at
	2009	2010	2011	31 March
	<i>(US\$ millions)</i>			<i>(unaudited)</i>
<i>Current Assets</i>				
Inventories	370.7	442.4	651.4	666.6
Trade receivables	38.0	31.6	15.7	33.9
Other receivables	5.4	12.3	12.0	12.4
Prepayments and accrued income	4.7	4.8	6.2	7.5
Amounts due from related parties	74.6	78.6	60.6	137.4
Cash and cash equivalents	17.8	32.2	63.8	59.7
Total current assets	<u>511.2</u>	<u>601.9</u>	<u>809.7</u>	<u>917.5</u>
<i>Current Liabilities</i>				
Trade creditors	32.0	37.6	78.0	59.5
Other taxation and social security costs	2.1	1.6	2.8	3.0
Other creditors, accruals and deferred income	13.5	16.7	61.1	53.3
Amounts due to related parties	36.1	26.3	16.3	10.3
Income tax liabilities	13.2	20.7	16.0	19.3
Borrowings	54.6	92.3	193.9	222.5
Total current liabilities	<u>151.5</u>	<u>195.2</u>	<u>368.1</u>	<u>367.9</u>
Net current assets	<u>359.7</u>	<u>406.7</u>	<u>441.6</u>	<u>549.6</u>

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Working Capital

The Directors are of the opinion that, taking into consideration the financial resources presently available to us, including internally generated funds, available banking facilities and the estimated net proceeds of the Global Offering, we have sufficient working capital for our requirements for at least 12 months commencing from the date of this prospectus.

Inventory

The following table sets out the book value of our inventory as at 31 December 2009, 2010 and 2011.

	As at 31 December		
	2009	2010	2011
		(US\$ millions)	
Raw materials & consumables ⁽¹⁾	50.5	70.9	123.1
Polished stones ⁽²⁾	48.4	34.6	80.3
Finished goods and goods for resale	271.8	336.9	448.0
Total inventory ⁽³⁾	<u>370.7</u>	<u>442.4</u>	<u>651.4</u>

Notes:

- (1) Comprises a stock of rough diamonds, a stock of rough diamonds for resale and work in progress, which reflects polishing rough diamonds into polished diamonds.
- (2) Comprises a stock of polished diamonds for resale and work in progress which reflects making polished diamonds into jewellery for resale.
- (3) Does not include the stones that have been consigned to us by DiamondWorks.

Upon completion of the Global Offering, we will purchase from DiamondWorks, a company controlled by Laurence Graff, the DiamondWorks Inventory, which supports our core strategy of maintaining a significant inventory of high quality stones to support our future growth. As at the Latest Practicable Date, the DiamondWorks Inventory comprised 73 stones totalling approximately 1,250 carats for which we will pay approximately US\$227 million. Based on our inventory of US\$651.4 million as at 31 December 2011, the acquisition of the DiamondWorks Inventory would increase the book value of our inventory immediately following the completion of the Global Offering to approximately US\$880 million.

Our inventory consists primarily of finished pieces of jewellery and watches, loose polished diamonds and rough diamonds representing the different stages in the production of our jewellery products. The cost of finished pieces includes the cost of raw materials (being gemstones and precious metals), workshop labour costs and related production expenses incurred in manufacturing the piece. The cost of polished stones similarly contains labour and overhead costs from the polishing process, except when polished diamonds have been purchased into stock in their finished form, where the cost represents the purchase cost. Inventory is valued at the lower of cost and net realisable value at all stages.

We believe that we have one of the largest polished diamond inventories in the industry, which we have opportunistically built up over time. The size and quality of our polished diamond inventory is a key competitive advantage in the ultra high end segment of the jewellery industry in which we operate, as it allows us to provide our customers with what we believe to be an unparalleled selection of high quality jewellery. In addition to ordinary course additions to our rough and polished diamond inventories through purchases from our DTC sight allocations, our historic consignment arrangements with DiamondWorks and purchases from our other third party suppliers, we also opportunistically purchase rough and polished stones when they are available to us because diamonds of the size and quality that we require for our jewellery are rare and becoming more so. We also make these purchases to ensure a continued supply of high quality diamonds for our expanding retail network.

We manage the control of all stones used in our jewellery, whether purchased or on consignment to us from DiamondWorks, on the same basis. This is because substantially all of the stones in the DiamondWorks Inventory are contained in finished jewellery which is available for sale through our retail distribution network. The accounting treatment applicable to our inventory, requires that we reflect on our balance sheet only those stones that are owned by the Group at their respective historical costs or their net

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realisable value, if lower, in accordance with standard accounting practices and generally accepted accounting principles.

The stones that we held on consignment from DiamondWorks had a fixed consignment value of US\$354.8 million as at 31 December 2011, US\$367.5 million as at 31 December 2010 and US\$355.4 million as at 31 December 2009. This value represents the price at which DiamondWorks would have offered the stones for sale to the Company on that date, assuming they had been purchased by the Company at that time. These prices were adjusted periodically with respect to the individual polished stones as wholesale market prices changed.

Save for the Reserved Stones, we will not source any further inventory (whether purchased or on consignment) from DiamondWorks in the future. Taking into account the DiamondWorks Inventory, we expect that the value of stock reported on our balance sheet after the Listing will be considerably higher than it has been through the Track Record Period, assuming we continue to replace inventory we sell with new stones to support the continued expansion of our business.

For the years ended 31 December 2009, 2010 and 2011, the Group's average days in inventory⁽¹⁾ were 375, 463 and 509 days, respectively. For the three months ended 31 March 2012, the Group's average days in inventory were 567 days, reflecting the turnover of inventory at rates consistent with the rate seen for the year ended 31 December 2011. An analysis of the ageing of our inventory of finished goods and goods for resale for the periods indicated is set out in the table below.

	As at 31 December			As at 31 March
	2009	2010	2011	2012
	<i>(US\$ millions)</i>			<i>(unaudited)</i>
<i>Finished goods and goods for resale</i>				
Under 1 year	87.5	70.4	204.6	199.9
1–2 years	116.5	94.1	81.2	98.8
2–3 years	41.4	114.2	44.3	67.0
More than 3 years	26.4	58.2	117.9	103.9
	271.8	336.9	448.0	469.6

Our inventory turnover days have increased over the Track Record Period as we have grown our inventory, particularly with higher value stones which we purchase opportunistically. Going forward, we expect our inventory to increase as our sales increase, but that the number of days in inventory will decline, as we expect to sell a larger proportion of jewellery with an expected retail price below US\$1 million. These items typically turnover faster than jewellery with an expected retail price of US\$1 million or more. Items priced below US\$1 million take an average of approximately one year to sell, while items priced at US\$1 million or more take an average of four years to sell (in each case based on 2011 sales and year end inventory, including consigned stones).

The Group's policy regarding the appropriate level of inventory to maintain is set by the Executive Directors, who closely monitor the value and characteristics (cut, clarity, colour and caratage) of the stones in the Group's inventory. Due to the rarity of the exceptional, high value diamonds we require, purchase decisions are made with reference to the current content of our inventory, likely availability of alternative supply, available cash flow and likely target customers. We endeavour to operate with the optimal level of inventory necessary to ensure at any given point in time the availability of jewellery that meets the anticipated customer demand.

During the Track Record Period, the increase in inventory decreased our cash from operating activities and any further material increase in inventory going forward would be expected to have the same impact. Furthermore, because of the rarity of the exceptional, high value diamonds for which we are known, we have in the past sought, and will in the future seek, to purchase such stones opportunistically. In the short term, this has previously resulted in a reduction in our operating cash flow, and opportunistic purchases of high value stones may have a similar effect in the future.

Note:

(1) Calculated as $\left(\frac{\text{Inventory}}{\text{Cost of goods sold}} \right) \times 365$

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We made a provision in our inventory in 2009 to reflect the impact of falling rough and wholesale polished diamond prices in 2008 and into early 2009. Since 31 December 2011, there have been no material movements in our inventory outside the ordinary course of our business.

Trade Receivables

Trade receivables are recognised initially at fair value, and subsequently measured at amortised cost less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. Credit is only granted to external customers in the procurement segment and for wholesale sales within the retail segment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries are credited against 'operating expenses' in the income statement.

Other receivables comprise loans to related parties as set out in Note 24 to the Accountant's Report, which are recognised initially at fair value and subsequently measured at amortised cost. They are presented as non-current assets as collection is expected in more than one year.

Trade receivables principally consist of amounts payable to our Procurement and Polishing division by third party customers. Payment terms for these customers are generally between 30-60 days. Customers of the Retail division must pay for goods before delivery and their recognition as a sale. Average trade receivable turnover days⁽¹⁾ were 26, 19 and 8 in 2009, 2010 and 2011, respectively. Fluctuations were primarily due to the significant decline in receivables in 2011. We expect receivable turnover days to be broadly in line with 2011 levels going forward.

Of the US\$15.7 million trade receivables as at 31 December 2011, US\$15.0 million had been received as at 31 March 2012.

Trade payables

Trade payables consist of amounts payable to third parties for the purchase of diamonds and other production costs and overheads. Average trade payable turnover days⁽²⁾ were 28, 33 and 53 in 2009, 2010 and 2011, respectively. Fluctuations were primarily due to the increased level of diamonds purchased in 2011. We expect payable turnover days to be broadly in line with 2011 levels going forward. Payment terms to our suppliers are typically 60 days.

Of the US\$78.0 million trade payables as at 31 December 2011, US\$73.7 million had been settled as at 31 March 2012.

Contingent Liabilities and Guarantees

Other than as disclosed above and apart from intra-group liabilities and normal trade payables, as at 31 December 2009, 2010 and 2011 or as at the Latest Practicable Date we did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or similar

Notes:

(1) Calculated as $\left(\frac{\text{Trade receivables}}{\text{Group revenue}} \right) \times 365$

(2) Calculated as $\left(\frac{\text{Trade creditors}}{(\text{Cost of sales} + \text{Selling and distribution costs} + \text{Administrative expenses}) - (\text{Salary costs} + \text{Depreciation})} \right) \times 365$

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indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance creditor guarantees or other material contingent liabilities.

Off-balance Sheet Items

As at the Latest Practicable Date, we have not entered into any off-balance sheet transactions.

Risk Management

The Group's activities expose it to a variety of financial risks, including market risk (including currency, fair value, interest rate and cash flow risk), credit risk and foreign exchange risk. Our policies relating to the management of these risks are described below.

Market risk

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities as detailed in Note 3.1a to the Combined Financial Information. We use derivative financial instruments to manage interest rate risks. The Group's interest rate risk arises from its long-term borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's bank borrowings are denominated principally in US dollars in both fixed and variable interest rates.

The Group manages, at the Board level, its cash flow interest rate risk where appropriate using interest rate swaps at contract lengths consistent with the repayment schedule of its long term bank borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group has entered into a number of swap agreements, which the Board monitors regularly, with terms remaining of between six and seven years, as disclosed in Note 3.1a to the Combined Financial Information. For the three years ended 31 December 2009, 2010, and 2011, the fair value of these interest rate swaps was a liability of US\$5.2 million, US\$7.0 million and US\$7.6 million, respectively. As at 31 March 2012, the fair value of these interest rate swaps was a liability of US\$7.3 million. We intend to unwind our interest rate swaps after the Listing Date if commercially warranted. Details of all derivatives are set out in Note 17 to the Combined Financial Information.

Available for sale asset share price risk

The carrying value of the investment in Gem Diamonds is sensitive to the movement in the quoted price of the investment. As at 31 December 2011, a movement of 10% of the share price would give rise to a movement of approximately US\$6.3 million in the carrying value of the asset.

Cash flow risk

Cash flow forecasting is performed on a regular basis which includes rolling forecasts of the Group's liquidity requirements to ensure that the Group has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. The Group's borrowing facilities are described in Note 18 to the Combined Financial Information. Financing facilities have been agreed at appropriate levels having regard to the Group's operating cash flows and future development plans.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum credit exposure relates to the total cash and cash equivalents and trade receivables balances which as at 31 December 2009, 2010 and 2011, was US\$55.8 million, US\$63.8 million and US\$79.5 million, respectively. The Group has limited exposure to credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset included in the balance sheet. Management does not expect any material losses from non-performance by its counterparties.

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Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Sterling and Hong Kong dollars. Other currencies apart from US dollars in which the Group makes sales include the Euro, the Renminbi, Swiss Franc, South African Rand and Japanese Yen. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's exposure to foreign exchange risk is minimal as the Group's functional currency is the US dollar and the vast majority of transactions are in that currency. The Group does not currently enter into any derivative transactions for the purpose of hedging its foreign exchange risk.

Bank accounts are maintained centrally in each major currency to enable net proceeds from sales to be returned centrally for treasury management purposes. These funds need only be translated into other currencies if there is a shortfall in those other currencies. This allows foreign exchange exposure to be actively managed by the central finance function.

Liquidity risk

The Directors regularly review the Group's financial position and actively discuss matters to ensure that there are sufficient funds available to continue in operational existence and meet liabilities as and when they fall due.

The Group's policy is to maintain a balance of continuity of funding and flexibility through the use of overdraft facilities and other borrowings as applicable. Ultimate responsibility for liquidity risk management rests with the Executive Directors of the company. The Directors use management information tools including budgets and cash flow forecasts to be able to constantly monitor and manage current and future liquidity. The maturity profile of the Group's borrowings is presented in Note 18 to the Combined Financial Information along with the Group's borrowing facilities as at each reporting date.

Surplus cash held by the operating entities over and above that required for working capital management are transferred to the Group treasury function. At 31 December 2009, 2010 and 2011, the Group held cash and cash equivalents of US\$17.8 million, US\$32.2 million, and US\$63.8 million respectively.

Critical Accounting Policies

The principal accounting policies applied in the preparation of the Combined Financial Information, which is in accordance with IFRS issued by the IASB, are set out below. The Combined Financial Information has been prepared under the historical cost convention as modified by the fair valuation of available-for-sale financial assets and financial liabilities relating to interest rate swaps. These policies have been consistently applied to all the years presented, unless otherwise stated. Additional accounting policies, including those relating to foreign currency translation, property, plant and equipment, impairment of non-financial assets; financial assets, impairment of financial assets, derivative financial instruments and hedging activities, inventories, trade and other receivables, cash and cash equivalents, share capital, trade payables, current and deferred income tax, revenue recognition, pension costs, borrowings, leases and dividend distribution are described in Note 2 to the Combined Financial Information.

Revenue recognition

Revenue represents the fair value of consideration received or receivable from the Group's principal activities excluding sales taxes. The Group's principal revenue streams are the procurement, manufacture, wholesale and retail of high quality jewellery and diamond watches. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Inventory provision

The carrying value of inventory is reviewed by management at each reporting date to ensure that it is not recorded at a value higher than net realisable value. In the case of loose diamonds, they are evaluated to

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establish their wholesale value. This is compared to their carrying value to ensure that they are not recorded at a value higher than their net realisable value. In order to carry out this review, finished goods inventory is further analysed according to the period that it has been kept in stock to account for the fashion content of such items, and an obsolescence provision is recorded if required. In calculating this provision, management consider the probability of sale of items of this age to the market based on the current status of the market, however, a change in the market may increase or decrease this probability.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends

In 2009, 2010 and 2011, certain subsidiaries of the Group declared and distributed dividends of US\$14.3 million, US\$25.9 million and US\$51.0 million, respectively. On 29 February 2012 and 30 April 2012, SAM Graff Monte Carlo declared a dividend of approximately US\$2.1 million and US\$3.0 million respectively, payable to its shareholders, Laurence and François Graff. These dividends are not necessarily indicative of future dividend payments. There have been no dividends declared or paid by any other member of the Group from 1 January 2012 to the date of this prospectus.

An unsecured interest free loan was made by SAM Graff Monte Carlo to Laurence Graff in each of 2009, 2010 and 2011. The outstanding amount of these loans as at 31 December 2009, 2010 and 2011 was US\$4.3 million, US\$12.5 million and US\$1.5 million, respectively.

These loans were made in advance of dividends subsequently declared by SAM Graff Monte Carlo in respect of each of the preceding fiscal years. As a result of the declaration of the US\$2.2 million dividend in 2012, the outstanding loan balance owed by Laurence Graff to SAM Graff Monte Carlo is now zero.

Dividend Policy

We intend to pay an aggregate dividend equal to 20% of the annual distributable profit attributable to shareholders with respect to the year ending 31 December 2012, which will be prorated for the portion of the year that the Company is public, and payable in 2013.

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Thereafter, we will evaluate our dividend distribution policy and distributions made (by way of dividend or otherwise) in any particular year in light of our financial position, the prevailing economic climate and expectations about the future macroeconomic environment and business performance. The determination to make distributions will be made at the discretion of the Board and will be based upon our earnings, cash flow, financial condition, capital and other reserve requirements and any other conditions which the Board deems relevant. The payment of distributions may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

Our ability to make distributions in respect of the Shares is also subject to the requirements of Cayman Islands law and the Articles, including the approval of Shareholders as applicable. As substantially all of our operations are conducted through our operating subsidiaries internationally, the ability of these subsidiaries to make dividend and other payments to us may be restricted by a number of factors, including various laws and regulations to which those subsidiaries are subject. Therefore, unless and until we pay cash distributions on the Shares, any return or gain on your investment in the Shares will come from an appreciation in value, if any, of such Shares, to the extent reflected by an increase in their market price.

Distributable Reserves

As at 31 December 2011, the Company did not have any distributable reserves, as it was incorporated after that date.

Unaudited Pro Forma Adjusted Net Tangible Assets

The unaudited pro forma statements of the adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules and contained in Appendix II, is for illustration purposes only, and is set out to illustrate the effect of the Global Offering on our net tangible assets as if it had taken place on 31 December 2011.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the net tangible assets of our Group as at 31 December 2011 or at any future date following the Global Offering. The unaudited pro forma statement of adjusted net tangible assets does not form a part of the Accountants' report in Appendix I of this prospectus.

No material adverse change

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospectus since 31 December 2011 (being the date to which our Company's last combined audited financial results were prepared) and there is no event since 31 December 2011 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

Disclosure required under the Listing Rules

Our Directors confirm that, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under the Listing Rules 13.13 to 13.19.

Confirmation from the Hong Kong Stock Exchange in respect of PricewaterhouseCoopers LLP United Kingdom

Listing Rule 19.20 provides that the annual accounts of the Company must be audited by a practising accountant of good standing who is independent of the Company and who must be either: (i) qualified under the Professional Accountants Ordinance (Cap. 50) for appointment as an auditor of the Company; or (ii) a firm of accountants acceptable to the Hong Kong Stock Exchange which has an international name and reputation and is a member of a recognised body of accountants.

Since 2006, PricewaterhouseCoopers LLP in the United Kingdom have been the auditors of Graff Diamonds International Limited and its subsidiaries and have, in addition, been the auditors of Graff Diamonds Holdings Limited since its incorporation.

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The Company has sought, and the Hong Kong Stock Exchange has given, a confirmation that PricewaterhouseCoopers LLP in the United Kingdom is a firm of accountants acceptable to the Hong Kong Stock Exchange in accordance with the requirements of Listing Rule 19.20(2) on the basis that:

- both PricewaterhouseCoopers LLP and PricewaterhouseCoopers in Hong Kong are member firms of PricewaterhouseCoopers International Limited;
- it is a ‘member firm’ of the Institute of Chartered Accountants in England and Wales (“**ICAEW**”) and is on the ICAEW’s Register of Statutory Auditors. Statutory audit work is subject to the ICAEW’s Audit Regulations and Guidance, the International Standards on Auditing (UK and Ireland) and the Ethical Standards issued by the UK Auditing Practices Board. In addition, each year, as part of the ICAEW’s monitoring responsibilities, the Audit Inspection Unit (“**AIU**”) of the Professional Oversight Board (which is part of the UK Financial Reporting Council (“**FRC**”)) and the Quality Assurance Department of the ICAEW undertake an inspection of the quality of PricewaterhouseCoopers LLP’s work as statutory auditors. The AIU’s findings are made publicly available on the FRC’s website;
- the FRC has statutory powers delegated to it by the UK Government for the recognition of accountancy bodies, including the ICAEW, Institute of Chartered Accountants in Scotland and Institute of Chartered Accountants in Ireland (together the “**Institutes**”), each Institute is a member of the International Federation of Accountants, as is the Hong Kong Institute of Certified Public Accountants. The three Institutes regulate registered auditors in the UK, who are required to comply with UK Audit Regulations. As a Registered Qualifying Body in the UK, membership of the ICAEW, provided it is accompanied by practical audit experience, would qualify a member as the holder of an ‘appropriate qualification’, which in turn allows the member to apply to become a registered auditor. Only registered auditors may be appointed as statutory auditors in the UK. Registered Auditor status is subject to annual consideration by the ICAEW’s Audit Registration Committee; and
- it is independent of the Company to the same extent as that required of an auditor under the Companies Ordinance and in accordance with the standards on independence issued by the International Ethics Standards Board Accountants in their Code of Ethics for Professional Accountants. These statements are incorporated and expanded upon in the Ethical Standards issued by the UK Auditing Practices Board.

The Company will prepare its annual accounts in accordance with IFRS. The annual accounts will be audited under International Auditing Standards as issued by the International Auditing and Assurance Standards Board (IAASB).

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Relationship with our Controlling Shareholder

Shareholding Relationship

Immediately following completion of the Global Offering, Laurence Graff will own approximately 43.2% (assuming an Offer Price of HK\$31.00, being the mid-point of the indicative Offer Price range and the Over-allotment Option is not exercised) of the issued share capital of our Company.

Independence from our Controlling Shareholder

Our Board is satisfied, on the basis of the following, that our Group is capable of carrying on its business independently of our Controlling Shareholder and his associates after the Listing.

Management Independence

Our Board consists of seven Directors, of whom three are executive Directors and four are independent non-executive Directors.

Our daily management and operations are carried out by a senior management team. None of the members of our senior management team hold any board or other executive position in, or are employed by, any entity controlled by our Controlling Shareholder outside the Group, save for our Chief Financial Officer, Nicholas Paine, continuing as a director of Delaire (Pty) Limited, and our Regional Director of USA, Henri Barguirdjian, continuing in an administrative capacity to act as director of certain property companies owned and controlled by Laurence Graff, including the landlords under the New York and Chicago leases described in the section titled “Connected Transactions”).

Each of our Directors is aware of his fiduciary duties as a director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. Any Director having an interest in a transaction presented to the Board for consideration and approval which conflicts with that of our Company must disclose such interest to the Board. Following the Listing, our Board will be required to comply with the Listing Rules, including provisions thereunder relating to corporate governance, which require (among other things) that a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest, nor shall he be counted in the quorum for the meeting.

Operational Independence

Our Group is not operationally dependent on our Controlling Shareholder, has independent access to our customers and suppliers and does not rely on our Controlling Shareholder and his associates to establish or maintain our business relationships with new or existing customers and suppliers.

Our Directors and senior management are responsible for the conduct of our business. We have established our own organisational structure made up of functional departments, each with designated areas at responsibility. We have also established a set of internal controls to facilitate the effective operation of our business. Other than the transactions described in the paragraph headed “Deed of Non-Competition and Policy on Directors’ Personal Diamond Purchases” below and the transactions set out in the section headed “Connected Transactions” and save for the consignment of the Reserved Stones described in the section headed “Business — Retail Inventory” in this prospectus, our Group has not entered into any transactions with our Controlling Shareholder which will continue after Listing.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. We also have our own treasury function which is operated independently from our Controlling Shareholder. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholder. All the amounts due to and from our Controlling Shareholder and his associates, including any security, guarantees or indemnities provided for the benefit of the Group will be fully settled prior to Listing. Therefore, our Group is financially independent from our Controlling Shareholder.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Retained Businesses

Save for DiamondWorks and Delaire (Pty) Limited, Laurence Graff will not retain a controlling ownership interest in any business (other than the Group) that operates in the same industry as, or otherwise competes with, the Group. Laurence Graff has agreed that, save for the sale of the Reserved Stones, he will not engage in any business through DiamondWorks which, directly or indirectly, competes with the business activities of the Group. Laurence Graff will retain interests in businesses which conduct art and property investing and trading activities. In addition, there will be no outstanding inter-company loan balances between any member of the Group and any business (other than the Group) owned by Laurence Graff.

Deed of Non-Competition and Policy on Directors' Personal Diamond Purchases

Laurence Graff has entered into the Deed of Non-Competition in favour of our Company, pursuant to which he has irrevocably undertaken that until:

- (i) the fifth anniversary of completion of the Global Offering, and thereafter until he is no longer a “controlling shareholder” for the purposes of the Listing Rules; or
- (ii) if earlier, the date on which we are no longer listed on the Hong Kong Stock Exchange, he shall not and shall, so far as he is able, procure that none of his associates shall, solely or jointly, without the Company’s prior written consent (following the approval of a majority of the Independent Non-Executive Directors who are not interested in the relevant matter) directly or indirectly:
 - (i) own, operate, participate, invest in or carry on any Competing Business; or
 - (ii) have any interest, equity or otherwise, in any company, entity or firm which is engaged in any Competing Business; or
 - (iii) otherwise provide any assistance or support, financial or otherwise, to any Competing Business.

A “Competing Business” for these purposes is any business which, directly or indirectly and whether solely or jointly, engages, participates, invests or has an economic interest in the sourcing, cutting, polishing, trading, marketing or retailing of precious and semi-precious gemstones and/or the sourcing, manufacturing, trading, marketing or retailing of jewellery, or horological or chronometric instruments.

This undertaking is subject to certain limited exceptions, being:

- (i) activities undertaken under the Delaire Distribution Agreement (which is described in the section headed “Connected Transactions”);
- (ii) any sale by DiamondWorks of Reserved Stones which the Executive Directors (other than Laurence Graff) and the Operations Director determine (having satisfied those Independent Non-Executive Directors who are not interested in the matter that the decision has been made on a basis consistent with the Group’s normal inventory management policy, with regard to the availability to the Group of similar inventory from other sources and without regard to the identity of the owner of the Reserved Stones) are no longer to be held for sale; and
- (iii) investments in collective investment schemes and the acquisition of interests of less than 10% of the share capital of listed companies, provided that neither Laurence Graff nor his associates are appointed as a director on the board of such company.

Also pursuant to the Deed of Non-Competition, Laurence Graff has also irrevocably undertaken that, prior to making any sale of a diamond or diamond jewellery from his personal collection during the term of the Deed of Non-Competition described above, he shall, and shall, so far as he is able, procure that his associates shall, follow the following procedure.

- (i) Any sales of diamonds or diamond jewellery pursuant to this procedure must constitute the disposal of an investment by Laurence Graff or his associate rather than the carrying on of a business, and must therefore comply with the undertaking not to carry on a “Competing Business” described above.
- (ii) Laurence Graff shall give notice in writing to all the Executive Directors and the Operations Director of his intention or that of his associate to make the proposed sale.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

- (iii) He shall allow our Group (acting on the approval of the Operations Director and all other Executive Directors) the opportunity during a period of not less than five business days following the date of the written notice in (ii) above to offer to purchase such diamond or diamond jewellery.
- (iv) If Laurence Graff or his relevant associate accepts any offer made by the Group as described in (iii) above, the purchase by our Group of the diamond or diamond jewellery will constitute a connected transaction under the Listing Rules and our Company will comply with the Listing Rules (in addition to the terms of the Deed of Non-Competition) in respect of such purchase.
- (v) If Laurence Graff or his associate does not accept any offer made by the Group as described in (iii) above for any reason within the five-business-day period, he or his relevant associate shall be free to sell the relevant diamond or diamond jewellery, provided always that the sale is conducted by way of auction (and not, for the avoidance of doubt, by way of a bilateral sale).

Our Company's Board is expected to meet approximately six times in each financial year. The Executive Directors shall report to the next meeting of the Board any such opportunity to purchase that is offered to the Group. At that meeting of the Board, the Independent Non-Executive Directors who are not interested in the purchase shall review the decision made by the Operations Director and the Executive Directors (other than Laurence Graff) whether or not to offer to purchase the diamond or diamond jewellery from Laurence Graff or his associates in order to confirm that it was made on a basis (including as to price) consistent with the Group's normal inventory management policy, with regard to the availability to the Group of similar inventory from other sources and without regard to the identity of the seller. On the basis of any such reviews undertaken during each six-month period, the Company will confirm in each interim and annual report the number of such decisions taken and whether it is satisfied that those decisions were made by the Executive Directors (other than Laurence Graff) and the Operations Director during the relevant six-month period on a basis (including as to price) consistent with the Group's normal inventory management policy, with regard to the availability to the Group of similar inventory from other sources and without regard to the identity of the seller.

Also pursuant to the Deed of Non-Competition, Laurence Graff has irrevocably undertaken not to make gifts of diamonds or diamond jewellery during the term of the Deed of Non-Competition described above from his personal collection where he has an expectation (without imposing any additional duty of enquiry on him) that the gift is to be sold by the recipient.

The Independent Non-Executive Directors have the right from time to time to request information from Laurence Graff for the purpose of reviewing compliance with the Deed of Non-Competition. In addition, Laurence Graff shall confirm at the end of each six-month period that he has disclosed to the Company all details of relevant activity undertaken by him or on his behalf during that period. The Company will confirm in each interim and annual report whether, taking into account any sales of diamonds and diamond jewellery notified to the Board during the period as described above, it believes Laurence Graff has complied with the Deed of Non-Competition during the relevant period.

In addition, the Company will disclose in its annual or interim report, as appropriate, when the pending transactions involving the Reserved Stones are completed and/or the consignment arrangement with DiamondWorks has been terminated.

In addition to the undertakings given by Laurence Graff under the Deed of Non-Competition, under the Articles, our Board is given the power to adopt, and from time to time amend, our Policy on Directors' Personal Diamond Purchases. As of the Listing Date, this policy will provide that Laurence Graff and his associates may (always subject to compliance with the Deed of Non-Competition) from time to time purchase, either for a personal collection or for the purpose of making a bona fide gift to a third party, polished diamonds and diamond jewellery from third parties provided that Laurence Graff follows the following procedure.

- (i) Where the relevant polished diamond or diamond jewellery is available for purchase by way of auction, he shall obtain confirmation in writing from the Operations Director and the other Executive Directors that our Group does not intend to bid for the relevant item. Where our Group does intend to bid for the relevant item, neither Laurence Graff nor his associates shall bid for it. Where our Group does not intend to bid for the relevant item, Laurence Graff and his associates may bid for it. Any decision made by the Operations Director and the other Executive Directors to bid or not bid for

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the relevant item shall be made on a basis consistent with the Group's normal inventory management policy, with regard to the availability to the Group of similar inventory from other sources and without regard to the interest of Laurence Graff or his associates in the item.

- (ii) Where the relevant polished diamond or diamond jewellery is available for purchase other than by way of auction and has a sale price of US\$1,000,000 or less, Laurence Graff and his associates may proceed with purchasing the polished diamond or diamond jewellery.
- (iii) Where the relevant polished diamond or diamond jewellery is available for purchase other than by way of auction and has a sale price in excess of US\$1,000,000, Laurence Graff shall first notify in writing the Operations Director and the other Executive Directors of the purchasing opportunity (including reasonable details in order to allow the Operations Director and the other Executive Directors to assess the purchasing opportunity). Where our Company either notifies Laurence Graff that the Group, acting on the approval of the Operations Director and all Executive Directors (other than Laurence Graff), does not intend to pursue such opportunity, or fails to notify him within five business days that it intends to pursue such opportunity, Laurence Graff and his associates may proceed with purchasing the polished diamond or diamond jewellery. Where our Company, acting on the approval of the Operations Director and all the other Executive Directors, notifies Laurence Graff that it does intend to pursue such opportunity, neither Laurence Graff nor his associates shall pursue the purchasing opportunity and shall instead allow our Group to make the purchase from the third party. The decision made by the Operations Director and the other Executive Directors to pursue or not to pursue the opportunity shall be made on a basis (including as to price) consistent with the Group's normal inventory management policy, with regard to the availability to the Group of similar inventory from other sources and without regard to the interest of Laurence Graff or his associates in the item.

The Executive Directors shall report at the next meeting of the Board any opportunity to purchase notified to them pursuant to the foregoing process. The Independent Non-Executive Directors who are not interested in such opportunity shall, at that meeting of the Board, review the decision made by the Operations Director and the Executive Directors (other than Laurence Graff) to exercise or not to exercise the above purchase right. On the basis of reviews undertaken during each six-month period, the Company will confirm in each interim and annual report the number of purchasing opportunities (at auction or otherwise) notified to it and whether it is satisfied that any relevant decisions were made by the Operations Director and the Executive Directors (other than Laurence Graff) during the relevant six-month period on a basis (including as to price) consistent with the Group's normal inventory management policy, with regard to the availability to the Group of similar inventory from other sources and without regard to the interest of Laurence Graff or his associates in the item and, in the event they are not so satisfied, shall be entitled to cancel the Policy on Directors' Personal Diamond Purchases.

A "bona fide gift" for the purposes of the Policy on Directors' Personal Diamond Purchases is limited to gifts where the relevant Director has no expectation (without imposing any additional duty of enquiry on him) that the gift will be re-sold by the recipient.

For the purposes of the Deed of Non-Competition and the Policy on Directors' Personal Diamond Purchases, "associate" means any company in which Laurence Graff has an equity interest such that he is able either (i) to control the exercise of 30 per cent. or more of the voting rights in that company; or (ii) to control a majority of the voting rights at its board meetings.

As of the Listing Date, the Policy on Directors' Personal Diamond Purchases will apply only to purchases of diamonds and diamond jewellery by Laurence Graff. The Company has not adopted bespoke rules governing any purchases of diamonds and diamond jewellery by Directors other than Laurence Graff. Any such purchases will be subject to their fiduciary duties and compliance with the applicable terms of the Articles.

Related Party Transactions

To the knowledge and belief of the Executive Directors, the transactions described in Note 24, Related Party Transactions, of the Accountant's Report were conducted on an arm's length basis and normal commercial terms.

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All balances with related parties set out in Note 24, Related Party Transactions, of the Accountant's Report will be settled either prior to listing or pursuant to the Reorganisation described in the section headed "Our History and Corporate Structure." Where such balances are payable by members of the Group, they will be settled out of accumulated profits or, in the case of balances settled pursuant to the Reorganisation, out of the net proceeds of the Global Offering. The Group will discontinue such loan advances to Directors following Listing.

CONNECTED TRANSACTIONS

We have entered into certain transactions with parties who are our connected persons (as defined in the Listing Rules) that will continue following the Listing Date, thereby constituting continuing connected transactions under the Listing Rules.

Continuing Connected Transactions

Exempt Continuing Connected Transactions

Following the Listing Date, the following transaction will be regarded as a continuing connected transaction exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Listing Rule 14A.33.

Delaire Distribution Agreement

On 17 May 2012, Graff Diamonds Limited and Delaire (Pty) Limited ("Delaire") entered into a distribution agreement pursuant to which Delaire shall become the sole distributor of our jewellery and watches at the Delaire Graff Estate, Stellenbosch, South Africa (the "Delaire Distribution Agreement"). Our jewellery and watches have historically been sold in the salon at the Delaire Graff Estate, being a location and store known to our customers and as such, Graff Diamonds Limited has entered into the Delaire Distribution Agreement to formalise the arrangements after the Reorganisation. As disclosed in the section headed "Our History and Corporate Structure — Reorganisation of the Group" in this prospectus, as part of the Reorganisation and prior to the Listing, the Group will dispose of Delaire, whose primary asset is the property interest in the Delaire Graff Estate, to AE Holding S.A., an entity controlled by Laurence Graff.

The Delaire Distribution Agreement will have an initial term of three years and shall continue thereafter unless or until terminated by either party giving not less than 180 days prior notice. Pursuant to the Delaire Distribution Agreement, for the term of the agreement Graff Diamonds Limited shall grant Delaire the sole right to distribute its jewellery and watch products in the salon at the Delaire Graff Estate. Our jewellery and watch products are and will continue to be the only products sold in the salon at the Delaire Graff Estate.

Graff Diamonds Limited will provide its jewellery and watches to Delaire on a consignment basis. Immediately prior to any sale of such consigned products to a third party, Delaire shall be deemed to have purchased the relevant product from Graff Diamonds Limited at a price equal to the retail price minus an agreed discount. Graff Diamonds Limited shall invoice, and Delaire shall pay, at the end of each calendar month the aggregate purchase price applicable to the consigned products sold to third parties at the Delaire Graff Estate in the relevant calendar month, provided that the aggregate purchase price paid by Delaire to Graff Diamonds Limited in respect of consigned products sold to third parties shall not exceed US\$755,000 in any calendar year (the "Purchase Cap"). This Purchase Cap has been determined by reference to the historical sales attributable to Delaire from the salon at the Delaire Graff Estate and in order to retain flexibility for increased sales in the future. In the event the Purchase Cap is reached in any one calendar year, the amount of any sales in excess of the cap in that calendar year shall be deemed to be sales made direct by Graff Diamonds Limited to the retail customer and any amounts in excess of the cap paid in that calendar year by any retail customer to Delaire in its capacity as agent shall be remitted in full to Graff Diamonds Limited and no commission, agency or other fee shall be payable to Delaire in respect of any such sales.

Delaire shall agree to promote and advertise the products and maintain its store in accordance with the style and design of our Group's stores. The Delaire Distribution Agreement will be capable of being terminated by either party immediately upon written notice being given in certain events, including in the event of material breach of the agreement which is either not remediable or, if remediable, is not remedied within 15 Business Days of being requested in writing to do so.

Prior to the formalisation of the arrangements and the entry into the Delaire Distribution Agreement, the sales attributable to Delaire from the salon at the Delaire Graff Estate for each of the years ended 31 December 2010 and 31 December 2011 was US\$41,000 and US\$103,000, respectively.

The maximum amount that Delaire shall pay to Graff Diamonds Limited under the Delaire Distribution Agreement on an annual basis for the term of the Delaire Distribution Agreement shall be limited to

CONNECTED TRANSACTIONS

US\$755,000, and as a result, the highest applicable percentage ratios under the Listing Rules will be, on an annual basis, less than 0.1%. Accordingly, the Delaire Distribution Agreement constitutes a continuing connected transaction exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Listing Rule 14A.33.

Non-Exempt Continuing Connected Transactions

Following the Listing Date, the following transactions will be regarded as continuing connected transactions exempt from independent shareholders' approval requirements under Listing Rule 14A.48, but subject to reporting, annual review and announcement requirements under the Listing Rules.

(a) Leases

Tenancy arrangements between our Group and entities controlled by Laurence Graff

Members of our Group have entered into various tenancy arrangements with entities controlled by Laurence Graff (the "Connected Leases"). As at the Latest Practicable Date, our Group has entered into five Connected Leases and these Connected Leases were entered into by our Group after having considered, among other things, the prime location of the relevant properties and the terms offered by the relevant landlords (being entities controlled by Laurence Graff). Further details on each of the Connected Leases are set out below.

6-8 New Bond Street Lease

Effective on 25 December 2011, Searchmap Limited granted a lease in favour of Graff Diamonds Limited in respect of the property that houses the Group's flagship London store on 6-8 New Bond Street, London (the "6-8 New Bond Street Lease"). As disclosed in the section headed "Our History and Corporate Structure — Key Events in the Group's History" in this prospectus, the Group's flagship London store on 6-8 New Bond Street was established in 1993. As disclosed in the section headed "Our History and Corporate Structure — Reorganisation of the Group" in this prospectus, as part of the Reorganisation and prior to the Listing, the Group will dispose of Searchmap Limited, whose primary asset is the freehold property interest in 6-8 New Bond Street, to AE Holding S.A., an entity controlled by Laurence Graff.

The 6-8 New Bond Street Lease has a term of 15 years ending on 25 December 2026. The rent payable under the 6-8 New Bond Street Lease is £1,420,000 per annum (approximately US\$2,300,000) and shall be paid, together with any VAT, by four equal instalments in advance on or before 25 March, 24 June, 29 September and 25 December in each year. Such rent is subject to upwards-only rent review every five years, with rental increases being based on the open market rate as determined by agreement between the parties or, in the absence of agreement, by an independent valuer appointed by the parties (who shall act as expert and who shall be a chartered surveyor) or, in the absence of agreement as to the identity of the independent valuer, the President of The Royal Institution of Chartered Surveyors from time to time.

In accordance with Listing Rule 14A.35(2), our Company has set an annual cap for the maximum rental amount payable under the 6-8 New Bond Street Lease for each of the three years ending 31 December 2012, 2013 and 2014. It is anticipated that the annual value of rental payments made under the 6-8 New Bond Street Lease for each of the three years ending 31 December 2012, 2013 and 2014, will not exceed US\$2.5 million.

28 and 29 Albemarle Street Leases

On 24 June 2002, Albemarle Equity SA granted a lease in favour of Commercial Land Equity Limited, a subsidiary of our Company, the obligations of which were guaranteed by Sandstar Limited (which subsequently changed its name to Graff Diamonds International Limited), in respect of the property that houses the Group's UK corporate headquarters on 28 Albemarle Street, London (the "28 Albemarle Street Lease"). On 1 December 2004, Albemarle Equity SA granted a lease in favour of Commercial Land Equity Limited, the obligations of which were guaranteed by Graff Diamonds International Limited, in respect of the property that houses the Group's expanded UK corporate headquarters on 29 Albemarle Street, London (the "29 Albemarle Street Lease"). Albemarle Equity SA is an entity controlled by Laurence Graff.

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The 28 Albemarle Street Lease has a term of 20 years ending on 23 June 2022. The 29 Albemarle Street Lease has a term of 18 years ending on 23 June 2022. The rent payable under each of the leases is subject to upwards-only rent review every five years, with rental increases being based on the open market rate as determined by agreement between the parties or, in the absence of agreement, by an independent valuer appointed by the parties (who shall act as expert and who shall be a chartered surveyor) or, in the absence of agreement as to the identity of the independent valuer, the President of The Royal Institution of Chartered Surveyors from time to time. The next rent review is due in June 2017.

In respect of the 28 Albemarle Street Lease, the amount paid by Commercial Land Equity Limited to Albemarle Equity SA for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 was £490,000 (approximately US\$790,000), respectively.

In respect of the 29 Albemarle Street Lease, the amount paid by Commercial Land Equity Limited to Albemarle Equity SA for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 was £510,000 (approximately US\$820,000), respectively.

In accordance with Listing Rule 14A.35(2), our Company has set an annual cap for the maximum rental amount payable under the 28 Albemarle Street Lease and the 29 Albemarle Street Lease for each of the three years ending 31 December 2012, 2013 and 2014. It is anticipated that the aggregate annual value of rental payments made under the 28 Albemarle Street Lease and the 29 Albemarle Street Lease for each of the three years ending 31 December 2012, 2013 and 2014, will not exceed US\$1.75 million.

New York Lease and Chicago Lease

On 17 January 2006, New York 61st Street Estate Inc. granted a lease in favour of Graff Diamonds (USA) Inc. (which subsequently changed its name to Graff Diamonds (New York), Inc.), in respect of the property that houses the Group's US corporate headquarters at 46 East 61st Street, New York (the "New York Lease"). On 2 October 2003, Chicago Estate Inc. granted a lease in favour of Graff Diamonds (Chicago) Inc., in respect of the property that houses the Group's Chicago store on 103 East Oak Street, Chicago, Illinois (the "Chicago Lease"). Each of New York 61st Street Estate Inc. and Chicago Estate Inc. is an entity controlled by Laurence Graff.

The New York Lease had an initial term of five years, which ended on 31 January 2011. Graff Diamonds (New York), Inc. has exercised its option to extend the lease for an additional five years and has an option to extend for one further period of five years at the end of such extension. In the event that Graff Diamonds (New York), Inc. exercises its last option to extend the New York Lease, the next rent review will occur not later than 30 days prior to 31 January 2016 and the term of the lease shall end on 31 January 2021.

The Chicago Lease had an initial term of five years, which ended on 31 October 2008. Graff Diamonds (Chicago) Inc. has exercised its option to extend the lease for an additional five years and has an option to extend for one further period of five years at the end of such extension. In the event that Graff Diamonds (Chicago) Inc. exercises its last option to extend the Chicago Lease, the next rent review will occur not later than 30 days prior to 31 October 2013 and the term of the lease shall end on 31 October 2018.

The rent payable under each of the leases is determined by agreement between the parties not later than 30 days prior to the commencement of the applicable renewal term.

In respect of the New York Lease, the amount paid by Graff Diamonds (New York), Inc. to New York 61st Street Estate Inc. for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 was US\$826,800, respectively.

In respect of the Chicago Lease, the amount paid by Graff Diamonds (Chicago) Inc. to Chicago Estate Inc. for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 was US\$725,000, US\$850,000 and US\$850,000, respectively.

In accordance with Listing Rule 14A.35(2), our Company has set an annual cap for the maximum rental amount payable under the New York Lease and the Chicago Street Lease for each of the three years ending 31 December 2012, 2013 and 2014. It is anticipated that the annual value of rental payments made under the New York Lease and the Chicago Lease for each of the three years ending 31 December 2012, 2013 and 2014, will not exceed US\$875,000 for each lease.

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(b) Historical rental amounts

For each of the three years ended 31 December 2009, 2010 and 2011, the aggregate annual payment made by members of our Group as tenants under the Connected Leases was US\$3.1 million, US\$3.3 million and US\$3.3 million, respectively.

(c) Aggregate annual cap

In accordance with Listing Rule 14A.35(2), our Company has set an annual cap for the maximum aggregate rental amount payable under the Connected Leases between members of our Group and entities controlled by Laurence Graff for each of the three years ending 31 December 2012, 2013 and 2014. It is anticipated that the aggregate annual value of rental payments made by members of our Group to entities controlled by Laurence Graff under the Connected Leases for each of the three years ending 31 December 2012, 2013 and 2014, will not exceed US\$6 million.

The above mentioned aggregate annual caps have been estimated primarily based on our consideration of the existing rentals of our properties, increases in rental values based on independent rental reviews and an increase in the space rented at 6-8 New Bond Street from the beginning of 2012, the current rentals of other properties in the same areas and the prevailing market rates at the time we enter into or renew the Connected Leases.

Management Services Agreement

On completion of the Reorganisation our Company, Safdico International Ltd (“Safdico International”), Safdico (Israel) Ltd (“Safdico Israel”), Jaybee Management Ltd (“Jaybee International”) and Dimac Management Services Limited (“Dimac Management”) will enter into a management services agreement relating to the management of the Procurement and Polishing division (the “Management Services Agreement”). Both Jaybee International and Dimac Management are companies formed for the purpose of supplying management services to the Procurement and Polishing division and are each jointly owned by Nandi International Limited, a company owned and controlled by a trust of which Brian Gutkin is a beneficiary and Phase Holdings Ltd, a company owned and controlled by Jonas Kneller. Brian Gutkin was a director of the predecessor entity of Safdico International within the 12 months prior to the Listing Date. As disclosed in the section headed “Business — The Procurement and Polishing Division” in this prospectus, Safdico International was conceived as and continues to be a highly efficient platform for supporting our growth throughout the supply chain and was majority controlled by Laurence Graff throughout the Track Record Period. As disclosed in the section headed “Our History and Corporate Structure — Reorganisation of the Group” in this prospectus, as part of the Reorganisation and prior to Listing, the Group will acquire Safdico International.

The Management Services Agreement has a term of five years ending on 31 December 2016. Under the Management Services Agreement, Jaybee International and Dimac Management jointly and severally procure the provision of management services to the Procurement and Polishing division. The management services comprise the provision of two individuals, initially being Brian Gutkin and Jonas Kneller, to provide management services to the Procurement and Polishing division. If at any time, Jaybee International and Dimac Management are no longer able to provide the services of the initial managers as a result of death or incapacity due to ill health, they shall provide a replacement manager considered by our Company to be suitable by reference to experience and qualifications.

The aggregate amount payable by Safdico International and Safdico Israel to Jaybee International and Dimac Management, respectively, under the Management Services Agreement comprises: (i) a base management fee of US\$1 million per year multiplied by the number of managers provided, which shall not be more than two (the “Base Management Fee”); (ii) an aggregate amount of 5% of the net profit of Safdico International and its subsidiaries as recorded in the statutory financial statements of Safdico International and its subsidiaries prepared under IFRS on the basis of our Company’s accounting policies for each of the financial years ending on 31 December 2012, 31 December 2013, 31 December 2014, 31 December 2015 and 31 December 2016 (each an “Incentive Period Financial Year”), multiplied by the number of managers provided during the relevant Incentive Period Financial Year, which shall not be more than two (the “Safdico Bonus Amount”); and (iii) an aggregate amount of 0.2% of: (a) the net profit of the Group as recorded in the combined financial statements of our Group for the relevant Incentive Period

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Financial Year; less (b) the net profit of Safdico International and its subsidiaries as recorded in the statutory financial statements of Safdico International and its subsidiaries for the relevant Incentive Period Financial Year, for each of the Incentive Period Financial Years, multiplied by the number of managers provided during the relevant Incentive Period Financial Year, which shall not be more than two (the “Group Bonus Amount”).

The Base Management Fee shall be paid by Safdico International to Jaybee International (as to 85.75% of the aggregate amount) and by Safdico Israel to Dimac Management (as to 14.25% of the aggregate amount). Any Safdico Bonus Amount shall be paid by Safdico International to Jaybee International (as to 98.32% of the aggregate amount) and by Safdico Israel to Dimac Management (as to 1.68% of the aggregate amount). Any Group Bonus Amount shall be paid by Safdico International to Jaybee International.

The Base Management Fee shall be paid in equal monthly instalments in arrear. The Safdico Bonus Amount shall be payable in two tranches: (i) 50% shall become payable 30 days following the signing of the audit report on the consolidated financial statements of our Group for the relevant Incentive Period Financial Year; and (ii) 50% shall become payable 30 days following the signing of the audit report on the consolidated financial statements of our Group for the financial year ending 31 December 2016. If at any time prior to 31 December 2016: (i) Jaybee International and Dimac Management cease to provide the services of either of the initial managers (other than as a result of death or incapacity due to ill health), the proportion of the second tranche of the Safdico Bonus Amount entitlement accrued in respect of that initial manager shall not become payable; and/or (ii) Jaybee International and Dimac Management cease to provide the services of any manager replacing an initial manager, the second tranche of the Safdico Bonus Amount entitlement accrued in respect of such replacement manager shall not become payable. The Group Bonus Amount in respect of each Incentive Period Financial Year shall become payable 30 days following the signing of the audit report on the consolidated financial statements of our Group for the relevant Incentive Period Financial Year.

The maximum aggregate amount payable to Jaybee International and Dimac Management for each of the five years ending 31 December 2012, 31 December 2013, 31 December 2014, 31 December 2015 and 31 December 2016 will not exceed US\$5.12 million, US\$5.76 million, US\$6.40 million, US\$7.04 million and US\$7.68 million, respectively. The annual caps for the amounts payable to Jaybee International and Dimac Management have been determined by reference to the historical performance of Safdico International and its subsidiaries and our Group and taking into account the need for the annual caps to be fair and reasonable and in the interests of the shareholders of our Company as a whole whilst continuing to appropriately incentivise Jaybee International and Dimac Management, align the interests of Jaybee International, Dimac Management and our Company and encourage longevity of service.

Waiver Application for Non-Exempt Continuing Connected Transactions

In respect of the Connected Leases and Management Services Agreement, since the highest applicable percentage ratio as set out in the Listing Rules in each case on an annual basis is expected to be more than 0.1% but less than 5%, such transactions are exempt from the independent shareholders’ approval requirements but are subject to the reporting and announcement requirements as set out in Listing Rules 14A.45 to 14A.47 and the annual review requirements as set out in Listing Rules 14A.37 to 14A.40.

As described above, we expect these non-exempt continuing connected transactions to be carried out on a continuing basis and to extend over a period of time. The Directors therefore consider that strict compliance with the announcement requirements under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs upon us.

Accordingly, we have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirements otherwise applicable to continuing connected transactions under the Listing Rules in respect of the Connected Leases and Management Services Agreement. The waiver in respect of the Management Services Agreement is for a five year term.

In respect of the above non-exempt continuing connected transactions, we will comply with the applicable provisions under Listing Rules 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40.

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The duration of the 6-8 New Bond Street Lease from the date of Listing until its expiration is of a term exceeding three years. Our Company is of the view that it is normal business practice for leases in respect of similar properties in similar locations in London to be of a similar duration to that of the 6-8 New Bond Street Lease and that a duration of 15 years is within normal business practice. In addition, given that the 6-8 New Bond Street Lease is in respect of the property that has housed the Group's flagship London store since 1993, and in order to secure a long lease to ensure our continued presence in a location known by our customers on a street synonymous with some of the world's most exclusive consumer brands, it is essential for the 6-8 New Bond Street Lease to be of a duration longer than three years. Considering: (i) the 15 years duration of a lease of this nature is within normal business practice; (ii) the importance of the property housing the Group's flagship London store to our Group; (iii) our customers associating the property with our Company; and (iv) based on the information provided by our Company as to the arrangements under the 6-8 New Bond Street Lease, the Joint Sponsors, not being experts on property leasing, are of the view that it is normal business practice for leases such as the 6-8 New Bond Street Lease to have such a duration.

The duration of each of the 28 Albemarle Street Lease and the 29 Albemarle Street Lease from the date of Listing until its expiration is of a term exceeding three years. Our Company is of the view that it is normal business practice for leases in respect of similar properties in similar locations in London to be of a similar duration to that of each of the 28 Albemarle Street Lease and the 29 Albemarle Street Lease and that a duration of 20 years and 18 years, respectively, is within normal business practice. In addition, given that such leases are in respect of the property that houses the Group's UK corporate headquarters, and in order to secure a long lease to ensure our continued presence in a suitable location for our Group in close proximity to the Group's flagship London store, it is essential for each of the 28 Albemarle Street Lease and the 29 Albemarle Street Lease to be of a duration longer than three years. Considering: (i) the 20 years and 18 years duration of leases of this nature are within normal business practice; (ii) the importance of the property housing the Group's UK corporate headquarters to our Group; and (iii) based on the information provided by our Company as to the arrangements under each of the 28 Albemarle Street Lease and the 29 Albemarle Street Lease, the Joint Sponsors, not being experts on property leasing, are of the view that it is normal business practice for leases such as the 28 Albemarle Street Lease and the 29 Albemarle Street Lease to have such a duration.

The duration of each of the New York Lease and the Chicago Lease from the date of Listing until its expiration is of a term exceeding three years. Our Company is of the view that it is normal business practice for leases in respect of similar properties in similar locations in New York and Chicago, respectively, to be of a similar duration to that of each of the New York Lease and the Chicago Lease and that a duration of five years is within normal business practice. In addition, given that the New York Lease is in respect of the property that houses the Group's US corporate headquarters, the Chicago Lease is in respect of the Group's Chicago store and in order to secure a long lease to ensure our continued presence in a location known by our customers (in respect of the Chicago Lease) and that is suitable for such operations, it is essential for each of the New York Lease and the Chicago Lease to be of a duration longer than three years. Considering: (i) the five years duration of leases of this nature are within normal business practice; (ii) the importance of the properties to our Group; and (iii) based on the information provided by our Company as to the arrangements under each of the New York Lease and the Chicago Lease, the Joint Sponsors, not being experts on property leasing, are of the view that it is normal business practice for leases such as the New York Lease and the Chicago Lease to have such a duration.

The duration of the Management Services Agreement from the date of Listing until its expiration is of a term exceeding three years. Given that the initial managers to be provided by Jaybee under the Management Services Agreement have been actively involved in the day-to day management of Safdico since its predecessor company was formed in 1999, and in order to effectively incentivise Jaybee to ensure that Safdico Group continues to benefit from the management skills of the initial managers thereby preserving and maximising the goodwill and value of the Safdico Group, it is essential for the Management Services Agreement to be of a duration longer than three years. Given these circumstances, and taking into account: (i) the management role of and contributions made by the initial managers in respect of Safdico Group's business and operations in the past and on a continuing basis; and (ii) that it would be in the best interest of our Company and its shareholders to put in place measures to ensure a certain degree of management continuity and stability of engagement of managers for the Safdico Group, the Joint

CONNECTED TRANSACTIONS

Sponsors, not being experts on executive compensation and without meaningful publicly announced precedents of this nature in the market, are of the view that it is normal business practice for the Management Services Agreement to have a term exceeding three years.

Confirmation of the Directors

The Directors are of the view that the exempt continuing connected transaction described above has been entered into in the ordinary and usual course of business of our Company and is on normal commercial terms.

The Directors are of the view that the non-exempt continuing connected transactions described above have been or will be entered into in the ordinary and usual course of business of our Company, are on normal commercial terms, are fair and reasonable and in the interests of the shareholders of our Company as a whole, and that the proposed annual caps for such transactions are fair and reasonable and in the interests of the shareholders of our Company as a whole.

Confirmation of the Joint Sponsors

After considering the information and reasoning provided above, the Joint Sponsors, not being experts on property leasing or executive compensation, are of the view that the non-exempt continuing connected transactions described above have been or will be entered into in the ordinary and usual course of business of the Company and are on normal commercial terms, are fair and reasonable and in the interests of the shareholders of the Company as a whole, and that the proposed annual caps for such transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Other Transactions

As described in the section headed “Business — Retail Inventory”, we will continue to hold on consignment from DiamondWorks, a company controlled by Laurence Graff, the Reserved Stones, with respect to which we have agreed a fixed purchase price from DiamondWorks of approximately US\$128 million in connection with their pending sale to a third party. The purchase price has been determined in accordance with the terms applicable in the ordinary course of our business to the purchase by us of consigned stones from DiamondWorks. It is not currently known when these sales will complete, if at all. We have the right to terminate the consignment agreement relating to the Reserved Stones at no cost should we elect to do so. Until such time as we terminate the consignment agreement, DiamondWorks cannot sell the Reserved Stones to third parties.

On the basis that the above consignment arrangement is regarded as a one-off connected transaction entered into by a subsidiary of the Company prior to Listing, rather than a continuing connected transaction, the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules will not be applicable to it.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Our Board consists of seven Directors, of whom three are executive Directors and four are independent non-executive Directors. Our Directors are appointed for a term of three years. The table below shows certain information concerning the Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of Appointment to the role</u>
Laurence Graff	73	Chairman and Executive Director	December 1960
François Graff	48	Chief Executive Officer and Executive Director	July 2004
Nicholas Paine	51	Chief Financial Officer and Executive Director	May 2006
Douglas Daft	69	Independent Non-Executive Director	May 2012
Graeme Jack	61	Independent Non-Executive Director	May 2012
Manuel Lino Silva De Sousa-Oliveira	60	Independent Non-Executive Director	May 2012
Philippe Pascal	57	Independent Non-Executive Director	May 2012

Executive Directors

Laurence Graff

Mr Laurence Graff, aged 73, has been the Chairman of the Group since its founding and an Executive Director of the Company since 14 February 2012. Mr Graff incorporated Graff Diamonds in December 1960 and has held the position of Chairman of the Group since that time. Prior to founding the Group, Mr Graff worked as an apprentice with a jeweller in the Hatton Garden district of London. Since its founding, Mr Graff has overseen the expansion of the Company and has been responsible for the overall strategy of the Group.

Mr Graff is a trustee of the Graff Foundation and also a trustee of FACET. In addition, Mr Graff is a member of the Executive Committee of the International Directors Council of the Guggenheim Museum in New York; a member of the International Councils of the Tate Modern Museum in London and the Berggruen Museum in Berlin; an International Trustee of the Museum of Contemporary Art in Los Angeles, and a member of the Board of Governors of the Tel Aviv Museum of Art.

Mr Graff is the father of Mr François Graff, an uncle of Mr Elliott Graff and the elder brother of Mr Raymond Graff. Mr Graff resides in Gstaad, Switzerland.

François Graff

Mr François Graff, aged 48, is the Chief Executive Officer and an Executive Director of the Company. Mr Graff has been Chief Executive Officer of the Group since July 2004 and was appointed Executive Director of the Company on 14 February 2012. Mr Graff first joined the Group in 1986. From 1987 to 2000, Mr Graff worked in the manufacturing and retail operations of the Group. Mr Graff also spent significant time in our Procurement and Polishing division, among other things, attending DTC sights. Since 2000, Mr Graff has been primarily responsible for the Retail division of the Company, its strategy and expansion. Mr Graff received his Graduate Gemologist degree from the Gemological Institute of America in 1983 and his degree in Business Administration from the United States International University (Europe), Hertfordshire in 1986.

Mr Graff is a trustee of the Graff Foundation and of FACET.

Mr Graff is the son of Mr Laurence Graff, a cousin of Mr Elliott Graff and a nephew of Mr Raymond Graff.

Nicholas Paine

Mr Nicholas Paine, aged 51, joined the Group in May 2006 as Chief Financial Officer and was appointed Executive Director of the Company on 14 February 2012. Prior to joining the Group, Mr Paine served as Finance Director and then Managing Director of Etam Plc from 2000 to 2005, Finance Director of Bay Trading Company, a UK-based privately owned fashion retailer from 1991 to 1999 and held a number of

DIRECTORS AND SENIOR MANAGEMENT

finance positions, including with BMW (GB) Limited and Smallbone plc from 1986 to 1991. Mr Paine qualified as a member of the Institute of Chartered Accountants in England and Wales in 1986 and became a Fellow of the Institute of Chartered Accountants in England and Wales in 1996. Mr Paine received his Bachelor of Science in Physics from Imperial College London with First Class Honours in 1982 and is an associate of The Royal College of Science. Mr Paine is a trustee of FACET.

Independent Non-Executive Directors

Douglas Daft

Mr Douglas Daft, aged 69, was appointed an independent non-executive Director on 17 May 2012. Mr Daft received a Bachelor's degree in Mathematics from the University of New England in Australia in 1968 and a post-graduate degree in Administration from the University of New South Wales in 1970. Mr Daft also holds an honorary doctorate in international law from Thunderbird University in Glendale, Arizona, The American Graduate School of International Management and an honorary doctorate in business from the University of New South Wales. Mr Daft joined The Coca-Cola Company in 1969 in the Sydney, Australia office and subsequently held various positions throughout the Asia Region, residing in Indonesia, Singapore, Hong Kong and Tokyo. In 1991 Mr Daft moved to The Coca-Cola Company's Atlanta headquarters to assume responsibility for the Asia and Pacific region and, later, the Middle East and Africa region. In December 1999, Mr Daft was elected president and chief operating officer of The Coca-Cola Company and in February 2000 was appointed chairman of the board of directors and chief executive officer. Mr Daft served in those capacities until his retirement in May 2004.

Mr Daft is a member of the European Advisory Council for N M Rothschild & Sons Limited, the advisory board of The Longreach Group and Thomas H. Lee Partners. Mr Daft is a visiting fellow of the Oxford University Business School, chairman of the Churchill Archives Centre Patrons, Churchill College, Cambridge, a patron of the American Australian Association, and a trustee of the Cambridge Foundation. Mr Daft was also a member of the Thunderbird School of Global Management board of trustees at the Garvin School of International Management in Arizona.

Mr Daft was previously a director of Sistema-Hals JSC and The McGraw-Hill Group of Companies. Mr Daft is a director of Green Mountain Coffee Roasters, Inc. and Wal-Mart Stores, Inc. In the June 2005 Queen's Birthday honours, Mr Daft was awarded the Companion in the General Division of the Order of Australia, AC.

Graeme Jack

Mr Graeme Jack, aged 61, was appointed an independent non-executive director on 17 May 2012. Mr Jack holds a Bachelor of Commerce degree from the University of New South Wales. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and an Associate of the Institute of Chartered Accountants in Australia.

Mr Jack has extensive experience in finance and audit. Mr Jack is an independent director, member of the audit committee and chairman of the compensation committee of The Greenbrier Companies Inc., which is listed on the New York Stock Exchange. Mr Jack is an independent non-executive director and chairman of the audit committee of the trustee manager of Hutchison Port Holdings Trust, a business trust which is listed on the Main Board of the Singapore Exchange Securities Trading Limited. Mr Jack is also the independent trustee of Hutchison Provident Fund and the Hutchison Provident and Retirement Plan, two trusts established to provide for the retirement of Hutchison Whampoa Limited Group employees.

Mr Jack retired from PricewaterhouseCoopers in 2006. He was admitted to the partnership of PricewaterhouseCoopers in 1980 in the Hong Kong office and served as a partner for twenty six years in the audit and management consulting services practices.

Manuel Lino Silva De Sousa-Oliveira (known as Ollie Oliveira)

Mr Ollie Oliveira, aged 60, was appointed an independent non-executive Director on 17 May 2012.

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Mr Oliveira received a B.Com degree in 1973 and a post-graduate diploma in theory of accountancy in 1975 from the University of Natal and is a Chartered Accountant “CA(SA)” and Chartered Management Accountant “FCMA”.

He has 35 years experience in corporate finance, 25 years of which were spent in the natural resources and mining industry.

He has held various senior executive positions within the Anglo American and the De Beers groups in operational, strategic and corporate finance roles, including an extended period as Head of Corporate Finance and Executive Director of Strategy and Business Development of De Beers Centenary AG (and subsequently De Beers S.A.) from 1997 to 2007. Mr Oliveira was also responsible for De Beers’ activities in Russia and Angola as well as being a director of the Diamond Trading Company and De Beers LV.

Mr Oliveira is a non-executive director of Ferrous Resources Limited and an independent non-executive director of Antofagasta plc and a director of Antofagasta Minerals SA.

Philippe Pascal

Mr Philippe Pascal, aged 57, was appointed an independent non-executive Director on 17 May 2012. Mr Pascal received a Master of Science from École Nationale d’Ingénieurs des Travaux Agricoles de Dijon in 1977. Mr Pascal has extensive experience in the luxury goods industry, having held a number of positions within LVMH, Louis Vuitton Moët Hennessy, since he joined the company as Chairman and CEO of Champagne Veuve Clicquot Ponsardin in 1994. Mr Pascal was Chairman and CEO of Moët Hennessy, the wines and spirits division of LVMH, the head of LVMH’s Watches and Jewellery activities from 2001 to June 2011 and, most recently, advisor to the chairman, Bernard Arnault, from June 2011 until his retirement in January 2012.

Mr Pascal was previously a President of the French Federation of Wines and Spirits Exports Companies. Mr Pascal is a member of the advisory committee of WISEKey. In 2007, the Government of France awarded Mr Pascal the Legion d’Honneur.

Senior Management

Our senior management is responsible for the day-to-day management of our business. The following table sets forth certain information concerning our senior management personnel:

Name	Age	Position	Date joined the Group
Elliott Graff	38	Operations Director	November 1994
Raymond Graff	64	Manufacturing Director	January 1966
Henri Barguidjian . . .	55	Regional Director of USA	September 2000
Arnaud Bastien	37	Regional Director of Asia	June 2007
Michel Pitteloud	67	Director of Graff Luxury Watches	July 2008
Ilan Kaplan	36	Director of Procurement and Polishing division	January 2004

Elliott Graff

Mr Elliott Graff, aged 38, was appointed the Operations Director of the Group in November 2009. Mr Graff joined the Group in 1994 after becoming a Fellow of the Gemological Association, initially working as a diamond sorter. He has developed extensive experience in the sourcing and procurement of diamonds as well as the design, manufacturing and merchandising of jewellery. Mr Graff qualified at the Gemological Institute of America as a Coloured Stones Graduate, Diamonds Graduate and Graduate Gemologist in 1995.

Mr Graff is a nephew of Mr Laurence Graff, a cousin of Mr François Graff and the son of Mr Raymond Graff.

Raymond Graff

Mr Raymond Graff, aged 64, was appointed Manufacturing Director of the Group in January 1966 and was responsible for the establishment of the Group’s workshop. Since then, he has managed the expansion

DIRECTORS AND SENIOR MANAGEMENT

of the workshop, including hiring and overseeing the team of craftsmen. Mr Graff has been responsible for all jewellery production since he joined the Group and has consequently developed extensive experience in the manufacturing of jewellery.

Mr Graff is the younger brother of Mr Laurence Graff, an uncle of Mr François Graff and the father of Mr Elliott Graff.

Henri Barguirdjian

Mr Henri Barguirdjian, aged 55, was appointed Regional Director of the United States upon joining the Group in September 2000. Prior to joining the Group, Mr Barguirdjian worked at Van Cleef & Arpels as CEO for the United States and Japan, Chaumet in Paris as General Manager from 1991 to 1993 and Harry Winston in New York as President of the Retail Division from 1986 to 1991. Mr Barguirdjian received his Bachelor of Arts in Business Education from the Business School of the French Chamber of Commerce in 1975.

Arnaud Bastien

Mr Arnaud Bastien, aged 37, was appointed Regional Director of Asia upon joining the Group in June 2007. Prior to joining the Group, Mr Bastien worked at Chopard and Cartier in Asia. Mr Bastien received his Master degree in Marketing from the Audencia Nantes School of Management in 1999.

Michel Pitteloud

Mr Michel Pitteloud, aged 67, was appointed Director of Graff Luxury Watches upon joining the Group in July 2008. Prior to joining the Group, Mr Pitteloud worked as an independent consultant, CEO of Corum Watches from 2000 to 2003, CEO of Harry Winston Ultimate Timepiece SA and Director of Harry Winston SA from 1989 to 1999, and CEO of Bulgari Time SA Geneva from 1981 to 1989. Mr Pitteloud received his Bachelors degree from College St Maurice in 1965, and holds degrees in business and German from the University of Koln, Germany, a law degree (*Licence en droit*) from the University of Lausanne and a degree in diamond grading from the Deutsche Gemmologische Gesellschaft E.V.

Ilan Kaplan

Mr Ilan Kaplan, aged 36, joined the Group in January 2004 as operations manager at our South African cutting and polishing facilities, and was appointed Director of the Procurement and Polishing division in 2008. Prior to joining the Group, Mr Kaplan was a Financial Portfolio Manager at Migdal Capital Markets in Tel Aviv from 1998 to 2003. Mr Kaplan currently serves as the Chairman of the South African Diamond Manufacturers Association. Mr Kaplan holds a degree in Economics and Logistics from Bar Ilan University in Tel Aviv in 1999 and is a Chartered Financial Analyst.

The Company confirms that there is no other information in respect of our Directors that is discloseable pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules and there is no other matter that needs to be brought to the attention of the Shareholders.

Company Secretary

Listing Rule 8.17 and Listing Rule 3.28 require that the secretary of an issuer is an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

The Company's secretary is Mr Charles Sparrow. Mr Sparrow was appointed company secretary in May 2012. He has eight years of experience advising on corporate, administrative and regulatory matters. Mr Sparrow is currently the Director of Ogier Fiduciary Services, which establishes and provides ongoing administrative and company secretarial services to a range of corporate and commercial structures. He has previously been a solicitor with the firms of Maples and Calder and Charles Russell LLP. Although Mr Sparrow is admitted as a solicitor in England and Wales and is ordinarily resident in Hong Kong, he does not currently meet the requirements of Listing Rule 8.17 and Listing Rule 3.28. Accordingly, the Company has appointed an assistant company secretary, Mr Chan Sing Lai, who is a Fellow of the Hong Kong Institute of Certified Public Accountants and, therefore, has the necessary qualifications as required

DIRECTORS AND SENIOR MANAGEMENT

under Listing Rule 8.17 and Listing Rule 3.28 to discharge the functions required of a company secretary under the Listing Rules. Mr Chan Sing Lai was appointed assistant company secretary in May 2012. He has over 12 years of management experience in corporate finance. Mr Chan Sing Lai currently serves as a consultant to Ogier Fiduciary Services, providing assistance and support in relation to company secretarial matters including the Hong Kong Listing Rules and Corporate Governance Code. Previously he served as Director of Finance for Equity Trust Corporate Management (HK) Limited where he oversaw the finance and HR function for the Greater China region. Mr Chan Sing Lai is also ordinarily resident in Hong Kong.

The Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Listing Rule 8.17 and Listing Rule 3.28 such that the Company's secretary is not required to have the qualifications set out in Listing Rule 3.28, subject to the condition that Mr Chan Sing Lai continues to be the assistant company secretary and provides assistance to the Company Secretary for a period of not less than three years from the Listing Date or, if earlier, until Mr Sparrow meets the requirements of Listing Rule 8.17 and Listing Rule 3.28. The waiver will be immediately revoked if Mr Chan Sing Lai ceases to provide assistance to the Company Secretary.

Mr Sparrow and Mr Chan Sing Lai are not employees of the Company or its subsidiaries. Mr Sparrow and Mr Chan Sing Lai will be able to contact Mr Paine, the Company's Chief Financial Officer and Executive Director, in accordance with the new code provision F.1.1 of Appendix 14 of the Listing Rules. The Company has complied and will comply with the recently amended Corporate Governance Code and associated Listing Rules on or prior to their respective effective dates (1 January, 1 April and 31 December 2012 as applicable).

Board Committees

Audit and Corporate Governance Committee

We have established a board audit and corporate governance committee in compliance with Listing Rule 3.21. The primary duties of the audit and corporate governance committee are to review and supervise our financial reporting process and internal controls. The audit and corporate governance committee consists of three independent non-executive Directors, namely Graeme Jack, Douglas Daft and Ollie Oliveira. Graeme Jack, an independent non-executive Director with the appropriate professional qualifications, has been appointed as chairman of the audit and corporate governance committee.

Remuneration Committee

We have established a board remuneration committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three independent non-executive Directors, namely Douglas Daft, Graeme Jack and Philippe Pascal and two Executive Directors, namely Laurence Graff and François Graff. Douglas Daft has been appointed chairman of the remuneration committee. The primary duties and responsibilities of the remuneration committee are to make recommendations to the Board on our Company's policy and structure for all remuneration of directors and senior management, and the establishment of a formal and transparent procedure for developing policy on such remuneration.

Nomination Committee

We have established a board nomination committee in compliance with the Code on Corporate Governance Practices in the Listing Rules. The nomination committee consists of three independent non-executive Directors, namely Ollie Oliveira, Douglas Daft and Philippe Pascal and two Executive Directors, namely Laurence Graff and François Graff. Philippe Pascal has been appointed chairman of the nomination committee. The primary duties and responsibilities of the nomination committee are to make recommendations to our Board on the appointment of directors and the management of Board succession.

Directors' and Senior Management's Compensation

The aggregate amounts of emoluments (including fees, salaries, contributions to pensions schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses and other

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incentives) paid to the Directors for each of the three years ended 31 December 2009, 2010 and 2011 were US\$3.4 million, US\$4.1 million and US\$5.6 million, respectively.

The aggregate amounts of emoluments (including fees, salaries, contributions to pensions schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses and other incentives) paid to our Group's five highest paid individuals for each of the three years ended 31 December 2009, 2010 and 2011 were US\$10.4 million, US\$11.3 million and US\$11.7 million, respectively.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus and share-based compensation, payable to our Directors in respect of the year ending 31 December 2012 to be approximately US\$3.3 million.

Under their letters of appointment, Laurence Graff and François Graff have undertaken to foster, and to act as representatives of and support, the Graff brand. In part consideration for these undertakings, each of them may from time to time purchase the Group's products, for a personal collection or for the purpose of making a bona fide gift to a third party, at a price equivalent to 10% above the estimated cost price of the relevant item assessed by the Company at its replacement value at the time of sale, subject to an aggregate annual cap in any calendar year of sales of US\$1 million. Any portion of this US\$1 million annual allowance unused at the end of the financial year may be carried forward into subsequent financial years.

The amount of the allowance will be increased every two years in line with any increase in prices for the Group's products. Any purchases made pursuant to this facility will be disclosed to and must be ratified by not fewer than two Independent Non-Executive Directors, and the relevant purchaser shall provide the Independent Non-Executive Directors with any information relating to purchases as they may reasonably request for the purposes of reviewing compliance with the terms of this facility. The biennial increases in the amount of the annual allowance will also be subject to their review and approval.

Purchases of the Group's products by Laurence Graff or François Graff will constitute connected transactions under the Listing Rules. The Company will comply with the Listing Rules in respect of any such purchases by Laurence Graff or François Graff after Listing.

A "bona fide gift" for the purposes of the purchasing facility described above is limited to gifts where the relevant Director has no expectation (without imposing any additional duty of enquiry on him) that the gift will be re-sold by the recipient.

Save as disclosed in the Prospectus, no director has an interest in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

Compliance Advisor

We have appointed Rothschild (Hong Kong) Limited as our compliance advisor upon Listing in compliance with Listing Rule 3A.19. We have entered into a compliance advisor's agreement with the compliance advisor, the material terms of which are as follows:

1. we appointed the compliance advisor pursuant to Listing Rule 3A.19 for a period commencing on the Listing Date and ending on the date on which our Company complies with Listing Rule 13.46 in respect of its financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
2. the compliance advisor shall provide us with services, including guidance and advice including in the circumstances set out in Listing Rule 3A.23 as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communication with the Hong Kong Stock Exchange; and
3. we may terminate the appointment of the compliance advisor only if the compliance advisor's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within 30 days) over fees payable by us to the compliance advisor. The compliance advisor will have the right to resign or terminate its appointment by serving 14 days' advance written notice to us if we commit a material breach of the agreement.

SUBSTANTIAL SHAREHOLDERS AND SELLING SHAREHOLDER

Substantial Shareholders

As far as the Directors are aware, the following persons will, immediately following completion of the Global Offering and assuming an Offer Price of HK\$31.00 being the mid-point of the indicative Offer Price range, have an interest or a short position in our Shares or underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest and capacity	Immediately prior to the Global Offering		Immediately after the Global Offering (assuming the Over-allotment Option is not exercised)		Immediately after the Global Offering (assuming the Over-allotment Option is exercised in full)	
		Number of shares	Approximate percentage of interest	Number of shares	Approximate percentage of interest	Number of shares	Approximate percentage of interest
Laurence Graff	Legal and beneficial owner	377,451,615	57.2%	377,451,615	43.2%	339,806,515	38.9%
	Deemed interest ⁽¹⁾	644,980,646	97.7%	607,335,546	69.5%	569,690,446	65.2%
Anne-Marie Graff	Legal and beneficial owner	260,000,000	39.4%	222,354,900	25.5%	222,354,900	25.5%
	Deemed interest ⁽²⁾	644,980,646	97.7%	607,335,546	69.5%	569,690,446	65.2%

Notes:

- (1) Laurence Graff's deemed interests under Part XV of the SFO comprise his own Shares and those Shares held by Anne-Marie Graff, his wife, and those Shares held on trust for the benefit of François Graff, Kristelle Graff and Stephane Graff.
- (2) Anne-Marie Graff's deemed interests under Part XV of the SFO comprise her own Shares and those interests in Shares of Laurence Graff, her husband (including those interests in Shares held on trust for the benefit of François Graff, Kristelle Graff and Stephane Graff).

Save as disclosed above, the Directors are not aware of any person who, immediately following the completion of the Global Offering, will have an interest or a short position in our Shares or underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and are therefore regarded as substantial shareholders under the Listing Rules.

Selling Shareholder

Pursuant to the International Placing Agreement, the Selling Shareholder will sell up to 46,680,000 Shares (assuming the Offer Price is HK\$25.00, being the bottom of the Offer Price range), representing approximately 5.0% of the total issued share capital of our Company immediately following completion of the Global Offering. The shareholding of the Selling Shareholder immediately prior to and following the completion of the Global Offering is set out below:

Selling Shareholder	Number of Shares held prior to sale of Shares	Number of Shares sold by Selling Shareholder ⁽¹⁾	Approximate percentage of shareholding and number of Shares after the Global Offering and the sale of Shares by the Selling Shareholder ⁽¹⁾	
	(Shares)	(Shares)	(Shares)	(%)
Anne-Marie Graff	260,000,000	37,645,100	222,354,900	25.5

Note:

- (1) Assuming the Offer Price is HK\$31.00, being the mid-point of the Offer Price range.

Controlling Shareholder

If the Over-Allotment Option is exercised in full, the Controlling Shareholder will sell 46,680,000 Shares (assuming the Offer Price is HK\$25.00, being the bottom of the Offer Price range), representing approximately 5.0% of the total issued share capital of our Company immediately following the Global

SUBSTANTIAL SHAREHOLDERS AND SELLING SHAREHOLDER

Offering. The shareholding of the Controlling Shareholder immediately prior to and following completion of the Global Offering, assuming the Over-allotment Option is exercised in full is set out below:

Controlling Shareholder	Number of Shares held prior to sale of Shares	Number of Shares pursuant to the Over-allotment Option⁽¹⁾	Approximate percentage of shareholding and number of Shares after the Global Offering and exercise in full of the Over-allotment Option⁽¹⁾	
	<i>(Shares)</i>	<i>(Shares)</i>	<i>(Shares)</i>	<i>(%)</i>
Laurence Graff	377,451,615	37,645,100	339,806,515	38.9%

Note:

(1) Assuming the Offer Price is HK\$31.00, being the mid-point of the Offer Price range.

SHARE CAPITAL

The following is a description of our authorised and issued share capital in issue and to be issued as fully paid or credited as fully paid as at the Latest Practicable Date and immediately following the completion of the Global Offering:

	<u>Number of Shares</u>	<u>Par value per Share (US\$)</u>	<u>Total value (US\$)</u>
Authorised share capital	5,000,000,000	0.01	50,000,000
Shares issued and to be issued, fully paid or credited as fully-paid			
Shares in issue as at the Latest Practicable Date	1	0.01	0.01
Shares to be issued pursuant to the Reorganisation ⁽¹⁾ . . .	660,038,709	0.01	6,600,387
Shares to be issued pursuant to the Global Offering ⁽¹⁾ . .	213,322,500	0.01	2,133,225
Total	<u>873,361,210</u>		<u>8,733,612</u>

Note:

(1) Assuming an Offer Price of HK\$31.00, being the mid-point of the indicative Offer Price range.

Assumptions

The above table assumes that the Global Offering becomes unconditional and does not take into account any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares given to the Directors as referred to below.

Ranking

The Offer Shares are ordinary shares in our share capital and will rank equally in all respects with all the Shares in issue or to be issued as set out in the above table, and will qualify for all dividends, income and other distributions declared, made or paid and any other rights and benefits attaching or accruing to the Shares in respect of a record date which falls after the date of this prospectus.

General Mandate to Issue Shares

Subject to the conditions stated in the section headed “Structure of the Global Offering — The Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate (the “General Mandate”) to exercise all the powers of our Company to allot, issue and deal with our Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or the exercise of any subscription rights under any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for our Shares under options and warrants or a special authority granted by our Shareholders) with an aggregate nominal value of not more than the sum of:

- (1) 20% of the total nominal amount of the issued share capital of our Company immediately following the completion of the Global Offering; and
- (2) the aggregate nominal amount of the issued share capital of our Company repurchased by our Company (if any).

The general mandate to issue Shares will expire:

- at the conclusion of the next annual general meeting of our Company;
- at the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles of Association to be held; or
- at the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders passed at a general meeting of our Company,

whichever is the earliest.

SHARE CAPITAL

For further details of this general mandate to issue Shares, please see the section headed “Statutory and General Information — Resolutions of the Shareholders of our Company” in Appendix IV to this prospectus.

General Mandate to Repurchase Shares

Subject to the conditions stated in the section headed “Structure of the Global Offering — The Global Offering” in this prospectus, the Directors have been granted a general mandate to exercise the powers of our Company to repurchase Shares (the “Repurchase Mandate”) with a total nominal value of not more than 10% of the total nominal amount of the share capital of our Company in issue or to be issued immediately following the completion of the Global Offering.

This general mandate only relates to repurchases made on the Hong Kong Stock Exchange (and which is recognised by the SFC and the Hong Kong Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about our Company — 6. Repurchase by our Company of its own shares” in Appendix IV to this prospectus.

The general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting of our Company; or
- (ii) at the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles of Association to be held; or
- (iii) at the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders passed at a general meeting of our Company,

whichever is the earliest.

For further details of this general mandate to repurchase Shares, see the section headed “Statutory and General Information — Further Information about our Company — Resolutions of the Shareholders of our Company passed on 17 and 18 May 2012” in Appendix IV to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

Future Plans

See the section headed “Business — Strategies” in this prospectus for a detailed description of our future plans.

Use of Proceeds

We estimate that we will receive net proceeds from the Global Offering of approximately US\$800 million, or HK\$6,224 million*, after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering.

We intend to use the net proceeds we will receive from the Global Offering principally for the strategic purchase of inventory, to make payments in connection with the Reorganisation and for the repayment of certain indebtedness, as enumerated more specifically below:

- approximately 28% of the net proceeds (approximately US\$227 million or HK\$1,766 million) will be used to purchase from DiamondWorks, a company controlled by Laurence Graff, the DiamondWorks Inventory;
- approximately 25% of the net proceeds (US\$200 million or HK\$1,556 million) will be used to purchase the entire outstanding share capital of SAM Graff Monte-Carlo;
- approximately 19% of the net proceeds (approximately US\$150 million or HK\$1,167 million) will be used to repay outstanding current indebtedness;
- approximately 7% of the net proceeds (approximately US\$59 million or HK\$459 million) will be used to repay other loans to Safdico from unrelated third parties, and approximately 5% of the net proceeds (approximately US\$37 million or HK\$288 million) will be used to repay certain outstanding indebtedness to companies controlled by each of Laurence Graff, Brian Gutkin and Jonas Kneller;
- approximately 8% of the net proceeds (approximately US\$67 million or HK\$521 million) will be used to provide funding for working capital and for other general corporate purposes; and
- approximately 8% of the net proceeds (US\$60 million or HK\$467 million) will be used to purchase the entire outstanding share capital of Safdico International Limited (less the one share already owned by the Group).

To the extent that proceeds are not used immediately for the purposes stated, they will be invested in short-term demand deposits with licensed banks and in money market instruments.

We estimate that our Selling Shareholder will receive gross proceeds of US\$150 million or HK\$1,167 million*, before deducting the underwriting fees and commissions payable by the Selling Shareholder in relation to the Global Offering. We will not receive any of the proceeds of the Global Offering from the sale of Shares by the Selling Shareholder.

We estimate that our Controlling Shareholder will receive gross proceeds of US\$150 million, or HK\$1,167 million*, before deducting the underwriters fees and commissions payable by him, if the Over-allotment Option is exercised in full.

In addition, our Controlling Shareholder, will indirectly receive a significant proportion of the proceeds from the sale by the Company of Shares in the Global Offering, as a result of the use of such proceeds to purchase assets and businesses owned by him in connection with the Reorganisation. See “Our History and Corporate Structure — Reorganisation of the Group”.

* Based on an exchange rate of HK\$7.78 to US\$1.00.

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Hong Kong Underwriters

Credit Suisse (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.
Morgan Stanley Asia Limited
The Hongkong and Shanghai Banking Corporation Limited
Barclays Bank PLC, Hong Kong Branch
ICBC International Securities Limited

Underwriting Arrangements and Expenses

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 25 May 2012. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein (including any additional Shares which may be made available pursuant to the exercise of the Over-allotment Option), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional, among other things, upon and subject to the International Placing Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by written notice to our Company to terminate the obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement jointly with immediate effect if at any time prior to 8.00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism); or
 - (ii) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or
 - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange or the Shanghai Stock Exchange; or
 - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New

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York (imposed at Federal or New York State level or other competent authority), London, the PRC, the Cayman Islands, the European Union (or any member thereof), or any other jurisdiction relevant to any member of the Group, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or

- (v) any new law or regulation, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws or regulations, in each case, in or affecting Hong Kong, the PRC, the United States, the Cayman Islands, the United Kingdom or the European Union (or any member thereof) or any other jurisdiction relevant to any member of the Group; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union (or any member thereof) on any jurisdiction relevant to any member of the Group; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in Hong Kong, the PRC, the United States, the Cayman Islands, the United Kingdom, the European Union (or any member thereof), or any other jurisdiction relevant to any member of the Group; or
- (viii) any litigation or claim of any third party being threatened or instigated against any member of the Group; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (x) the chairman or chief executive officer of our Company vacating his office; or
- (xi) an authority or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xii) a contravention by any member of the Group of the Listing Rules or applicable laws or regulations; or
- (xiii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Shares to be sold upon any exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xiv) non-compliance of this prospectus (or other documents issued or used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or
- (xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or other documents issued or used in connection with the Global Offering) pursuant to the Hong Kong Companies Ordinance or the Listing Rules or any requirement or request of the Hong Kong Stock Exchange and/or the SFC; or
- (xvi) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (1) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or

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condition, financial or otherwise, or performance of the Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or (3) makes or will make or may make it inadvisable or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators:
- (i) that any statement contained in any of the prospectus and the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the prospectus and the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions in any material respect; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus or the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Placing Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of our Company pursuant to the indemnity provisions contained in the Hong Kong Underwriting Agreement; or
 - (v) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group taken as a whole; or
 - (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties given by our Company or the Selling Shareholder pursuant to the Hong Kong Underwriting Agreement; or
 - (vii) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (viii) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Undertakings to the Hong Kong Stock Exchange Pursuant to the Listing Rules

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Hong Kong Stock Exchange that we will not, at any time within six months from the Listing Date, issue any Shares or other securities

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convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement or arrangement to issue any Shares or such other securities (whether or not such issue of Shares or such other securities will be completed within six months from the Listing Date), except pursuant to the Reorganisation or the Global Offering (including pursuant to the exercise of the options which may be granted under the Option Plan) or under any of the circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by the Controlling Shareholder

Pursuant to Rule 10.07(1) of the Listing Rules, the Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and to our Company that, except pursuant to (i) any sale of Shares by the Controlling Shareholder pursuant to any exercise of the Over-allotment Option (ii) any lending of Shares pursuant to the Stock Borrowing Agreement, (iii) or otherwise as a result of the gifts of Shares disclosed in the section headed “Our History and Corporate Structure—Gift of Shares” in this prospectus, he will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Hong Kong Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholder has undertaken to the Hong Kong Stock Exchange and to our Company that, within the period commencing on the date by reference to which disclosure of his shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Hong Kong Stock Exchange, he will:

- (a) when he pledges or charges any Shares beneficially owned by him in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when he receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by the Controlling Shareholder and disclose such matters by way of an announcement published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by the Controlling Shareholder.

(C) Undertakings in Relation to the Gift Shares

Pursuant to Rule 10.07(1) of the Listing Rules, each of Elliott Graff, Raymond Graff, Rothschild Trust Guernsey Limited, being the trustee which will hold Shares on behalf of Kristelle Graff and Stephane Graff, and Rysaffe Trustee Company (C.I.) Limited, being the trustee which will hold Shares on behalf of François Graff, has undertaken to the Hong Kong Stock Exchange and to our Company that it will not and will procure that the relevant registered holder(s) will not in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Hong Kong Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options,

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rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be, upon Listing, the beneficial owner.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

We have undertaken to the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and each of them not to (except for (i) the offer and sale of the Offer Shares to be sold by our Company pursuant to the Global Offering, (ii) the grant of options under the Option Plan, (iii) the grant of share appreciation rights under the LTIP and (iv) the issue and allotment of Shares pursuant to and in accordance with the Reorganisation Agreement and the Safdico Acquisition Agreement as described in the section of this prospectus headed “Our History and Corporate Structure—Reorganisation of the Group”), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create a mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption, or other third party claim, right, interest or preference or any other encumbrance of any kind (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any Shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in clause (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period). In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in clause (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

(B) Undertakings by the Controlling Shareholder

The Controlling Shareholder has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that, without

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the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) he will not, except for (i) any lending of Shares by the Controlling Shareholder pursuant to the Stock Borrowing Agreement, (ii) any sale of Shares by the Controlling Shareholder pursuant to any exercise of the Over-Allotment Option, (iii) any gift of Shares by him as described in the section headed “Our History and Corporate Structure — Gifts of Shares” in this prospectus and (iv) any pledge or charge of Shares (in respect of which the Controlling Shareholder is shown in this prospectus to be the beneficial owner) by the Controlling Shareholder as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, at any time during the First Six-Month Period, (I) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or (II) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (III) enter into any transaction with the same economic effect as any transaction specified in (I) or (II) of above, or (IV) offer to or agree to or announce any intention to effect any transaction specified in (I), (II) or (III) above, in each case, whether any of the transactions specified in (I), (II) or (III) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (b) he will not, during the Second Six-Month Period, enter into any of the transactions specified in (I), (II) or (III) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in (I), (II) or (III) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

(B) Undertakings by the Selling Shareholder

The Selling Shareholder has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules that she will not, except for (i) any sale of Shares by the Selling Shareholder pursuant to the Global Offering and (ii) any pledge or charge of Shares (in respect of which the Selling Shareholder is shown in this prospectus to be the beneficial owner) by the Selling Shareholder as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, at any time during the First Six-Month Period,

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly,

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conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of our Company with a depository in connection with the issue of depository receipts, or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period), and

she will not, during the Second Six-Month Period, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, she will cease to hold at least 15% of the issued share capital of the Company; and until the expiry of the Second Six-Month Period, in the event that she enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, she will take all reasonable steps to ensure that she will not create a disorderly or false market in the securities of the Company.

Other Undertakings

(A) Each of Elliott Graff, Raymond Graff and Rothschild Trust Guernsey Limited, being the trustee of a trust which will hold Shares on behalf of Kristelle Graff and Stephane Graff, and Rysaffe Trustee Company (C.I.) Limited, being the trustee which will hold Shares on behalf of François Graff, has undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of each of the Underwriters) at any time after the date of their undertaking up to, and including, the end of the First Six-Month Period and unless in compliance with the Listing Rules, it will not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will:

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create any Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any of the Shares received by it or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares received), or deposit any Shares received by it with a depository in connection with the issue of depository receipts held by it as of the date of receipt of the relevant Shares; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) offer to or agree to, or announce any intention to enter into, any transaction described in (a) or (b) or (c) above,

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whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of such capital or securities, in cash or otherwise (whether or not such transaction will be completed within the First Six-Month Period).

Each of Brian Gutkin and Jonas Kneller has undertaken to the Company pursuant to the Safdico Acquisition Agreement not to dispose of any of the Shares issued to them pursuant to the Reorganisation in the First Six-Month Period. The Company has undertaken to the Joint Sponsors, the Joint Global Coordinators, the Joint Lead Managers and the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement that it will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), grant any waiver to, or permit any disposal by, Brian Gutkin and/or Jonas Kneller, or their respective associates, of such Shares during the First Six-Month Period.

International Placing

International Placing Agreement

In connection with the International Placing, it is expected that on the Price Determination Date, we, the Controlling Shareholder and the Selling Shareholder will enter into the International Placing Agreement with the Joint Global Coordinators and the International Underwriters. Under the International Placing Agreement, the International Underwriters will, subject to certain conditions set out therein, severally agree to purchase the International Placing Shares being offered pursuant to the International Placing or procure purchasers for such International Placing Shares. It is expected that the International Placing Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Placing Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Over-allotment Option

The Controlling Shareholder is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Coordinators on behalf of the International Underwriters on or before 30 June 2012, being the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Controlling Shareholder to sell up to 46,680,000 additional Shares, representing, in aggregate approximately 15% of the maximum number of Offer Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations in the International Placing, if any.

Commission and Expenses

Under the terms and conditions of the Underwriting Agreements, the Underwriters will receive an overall gross commission of 1.75% of the aggregate gross proceeds from the issue or sale of the Offer Shares, out of which they will pay any sub-underwriting commissions. The commission will be payable by us and the Selling Shareholder in proportion to the number of Offer Shares offered by us and the Selling Shareholder in the Global Offering, respectively (assuming the Over-allotment Option is not exercised). Any commission on the sale of additional Offer Shares pursuant to the exercise of the Over-allotment Option will be payable by the Controlling Shareholder. In addition, the Company, the Controlling Shareholder and the Selling Shareholder may pay, at their sole and absolute discretion, an incentive fee of up to 0.75% of the aggregate gross proceeds from the issue or sale of the Offer Shares under the Global Offering in proportion to the number of Offer Shares offered by us, the Controlling Shareholder and the Selling Shareholder, respectively.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$31.00, being the mid-point of our indicative Offer Price range of HK\$25.00 to HK\$37.00 per Share, the aggregate fees and commissions in connection with the Hong Kong Public Offering and the International Placing, together with the Hong Kong Stock Exchange listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading fee, legal and other professional fees, printing, and other expenses relating to the Global Offering, are estimated to amount to approximately US\$54 million or HK\$418 million in aggregate, of which an estimate of approximately US\$50 million or HK\$389 million will be payable by us. Such fees and expenses (other than underwriting commissions, which will be payable by us and the Selling Shareholder as

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described above, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee, which will be paid on a per Share basis) are payable by us in the same proportion that the number of New Shares bears to the total number of Offer Shares, and by the Selling Shareholder, in the same proportion that the aggregate number of Sale Shares bears to the total number of Offer Shares (assuming the Over-allotment Option is not exercised).

Indemnity

We have agreed to indemnify the Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by us of the Underwriting Agreements.

Underwriters' Interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement, and/or the International Underwriting Agreement and, if applicable, the Stock Borrowing Agreement, as at the Latest Practicable date, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group in the Global Offering.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

Independence of the Joint Sponsors

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors as set out in Listing Rule 3A.07.

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The Global Offering

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 31,120,000 New Shares (subject to adjustment and reallocation as described below) in Hong Kong as described below in the paragraph headed “The Hong Kong Public Offering”; and
- (ii) the International Placing of an aggregate of initially up to 280,080,000 Shares (comprising up to 233,400,000 New Shares and up to 46,680,000 Sale Shares, and subject to adjustment, reallocation and the Over-allotment Option as described below) within the United States (A) in reliance on Rule 144A or pursuant to another available exemption from the registration requirements of the US Securities Act and (B) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

The aggregate number of Offer Shares, the number of New Shares and the number of Sale Shares to be offered under the Global Offering (before any exercise of the Over-allotment Option) will be determined based on the final Offer Price to be determined on the Price Determination Date as described below. The Company intends to raise aggregate gross proceeds from the Global Offering equivalent to approximately US\$850 million (the “**Targeted Gross Primary Proceeds**”) at the applicable HK\$/US\$ exchange rate prevailing on the Price Determination Date. The number of New Shares required to be issued by the Company in the Global Offering to raise the targeted quantum of proceeds accruing to it will equal the Targeted Gross Primary Proceeds amount divided by the final Offer Price. The Selling Shareholder intends to raise gross proceeds from the Global Offering equivalent to approximately US\$150 million (the “**Targeted Gross Secondary Proceeds**”) at the applicable HK\$/US\$ exchange rate prevailing on the Price Determination Date. The final number of Sale Shares to be sold by the Selling Shareholder to raise the targeted quantum of proceeds accruing to it will equal the Targeted Gross Secondary Proceeds amount divided by the final Offer Price. The final number of Offer Shares, the number of New Shares and the number of Sale Shares (before any exercise of the Over-allotment Option) will each be set out in an announcement of the Company to be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.graffdiamonds.com on or before 6 June 2012.

Up to 46,680,000 additional Shares may be made available by the Controlling Shareholder pursuant to the exercise of the Over-allotment Option as described in the paragraph headed “Over-allotment Option” in this section. The number of additional Shares which may be made available under the Over-allotment Option shall represent approximately 15% of the maximum number of Offer Shares initially available under the Global Offering. If the Over-allotment Option is exercised in full, the Controlling Shareholder will receive gross proceeds of US\$150 million at the applicable HK\$/US\$ exchange rate prevailing on the Price Determination Date.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing may be subject to reallocation as described in the paragraph headed “Reallocation and Clawback” below.

Investors may either apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Placing Shares under the International Placing, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

References to the number of Offer Shares in this prospectus are calculated based on an exchange rate of US\$1.00 = HK\$7.78 for illustration purposes only. Such conversions shall not be construed as a representation that amounts in US dollars were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on the relevant dates.

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The Hong Kong Public Offering

Number of Offer Shares Initially Made Available

We are initially making available 31,120,000 New Shares for subscription by the public in Hong Kong at the Offer Price, representing not less than 10% of the total number of Offer Shares initially made available under the Global Offering. Subject to reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the number of Hong Kong Offer Shares will represent not less than 3.4% of our Company's enlarged, issued share capital immediately after completion of the Global Offering. Subject to reallocation and adjustment as described below, the number of Hong Kong Offer Shares is fixed and will not change based on the Offer Price finally determined. Please refer to the table set out in the paragraph headed "Offering Size" below for further information on the number of Hong Kong Offer Shares to be offered in the Hong Kong Public Offering in a series of scenarios under the clawback arrangement, depending on the Offer Price as finally determined.

The Hong Kong Public Offering is open to members of the public in Hong Kong, as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the paragraph headed "Conditions of the Hong Kong Public Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) is to be divided equally (to the nearest board lot) into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 15,560,000 Offer Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will consist of 15,560,000 Offer Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable). Prospective investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and will be allocated accordingly. For the purpose of this paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B, but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than the total number of Hong Kong Offer Shares initially allocated to each pool of Offer Shares are liable to be rejected.

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation under the Listing Rules. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the clawback requirements set out in paragraph 4.2 of Practice Note 18 to the Listing Rules (details of which are set out in the section headed "Waivers from Compliance with the Listing Rules and Exemption from the Hong Kong Companies Ordinance — Waiver in respect of Clawback Mechanism" of this prospectus) on the following basis. If the

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number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 40 times, (ii) 40 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 46,680,000 Offer Shares (in the case of (i)), 93,360,000 Offer Shares (in the case of (ii)) and 124,480,000 Offer Shares (in the case of (iii)), representing not less than 15%, 30% and 40% of the number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B, and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. Please refer to the table set out in the paragraph headed “ — Offering Size” of this section for further information on the number of Hong Kong Offer Shares to be offered in the Hong Kong Public Offering as a result of such reallocation of the Offer Shares under a series of scenarios under the clawback arrangement, depending on the Offer Price as finally determined.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares from the Hong Kong Public Offering to the International Placing in such proportions as the Joint Global Coordinators deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he has been or will be placed or allocated International Placing Shares under the International Placing.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$37.00 per Offer Share in addition to the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$3,737.30 for one board lot of 100 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed “Pricing and Allocation” below, is less than the maximum price of HK\$37.00 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section, “How to Apply for Hong Kong Offer Shares” in this prospectus.

The International Placing

Number of Offer Shares Initially Made Available

The International Placing will consist of an initial making available of up to 280,080,000 Shares, comprising up to 233,400,000 New Shares and up to 46,680,000 Sale Shares, and representing up to approximately 90% of the total number of Offer Shares initially available under the Global Offering. Please refer to the table set out in the paragraph headed “Offering Size” below for further information on the number of International Placing Shares to be offered in the International Placing in a series of scenarios under the clawback arrangement, depending on the Offer Price as finally determined.

Allocation

The International Placing will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in

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shares and other securities. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant prospective investor’s invested assets or equity assets in the relevant sector or whether or not it is expected that the relevant prospective investor is likely to buy further Shares, and/or hold or sell its Shares, after the listing of our Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and its shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered International Placing Shares under the International Placing and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-Allotment Option

In connection with the Global Offering, it is expected that the Controlling Shareholder will grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters. Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators at any time from the Listing Date to 30 June 2012, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require the Controlling Shareholder to sell up to 46,680,000 additional Shares, representing, in aggregate, approximately 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price, to, among other things, cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional International Placing Shares to be sold pursuant thereto will represent up to approximately 5.0% of our enlarged issued share capital, immediately following the completion of the Global Offering and the exercise of the Over-allotment Option based on an Offer Price at the bottom of the Offer Price range. Please refer to the paragraph headed “ — Offering Size” below for further information on the number of Shares to be sold pursuant to the Over-allotment Option depending on the Offer Price as finally determined.

In the event that the Over-allotment Option is exercised, an announcement will be made.

Stock Borrowing Arrangement

For the purpose of settlement of over-allocations in the International Placing, the Stabilising Manager or any person acting for it may choose to borrow up to 46,680,000 Shares (being the maximum number of Shares which may be sold upon exercise of the Over-allotment Option), from the Controlling Shareholder pursuant to the Stock Borrowing Agreement or acquire Shares from other sources, including by exercising the Over-allotment Option.

If the stock borrowing arrangement with the Controlling Shareholder is entered into, it will only be effected by the Stabilising Manager or any person acting for it for the purpose of settlement of over-allocation in the International Placing. This arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the following requirements, which are set forth in Rule 10.07(3) of the Listing Rules, are complied with:

- (a) the Stock Borrowing Agreement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in the International Placing;
- (b) the maximum number of our Shares to be borrowed from the Controlling Shareholder by the Stabilising Manager is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed will be returned to the Controlling Shareholder or his nominee, as the case may be, within three Business Days after the last day on which the

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Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;

- (d) the borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- (e) no payments will be made to the Controlling Shareholder by the Stabilising Manager or any person acting for it in relation to such stock borrowing arrangement.

Stabilisation

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, as stabilising manager, on behalf of the Underwriters, may effect transactions with a view to stabilising or supporting the market price of our Shares for a limited period after the Listing Date at a level higher than that which might otherwise prevail. However, there is no obligation on the Stabilising Manager, its affiliates or any persons acting for it, to conduct any such stabilising action. Such stabilisation action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Should stabilising transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it.

Stabilisation activities will only be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation. Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for, and investors in, the Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilising Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on 30 June 2012, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and

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- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, our Shares.

The Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

Over-Allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it may cover such over-allocations by (among other methods) using Shares purchased by the Stabilising Manager, its affiliates or any person acting for it in the secondary market at prices that do not exceed the Offer Price, by exercising the Over-allotment Option in full or in part during the period when stabilisation activities are permitted, or through the stock borrowing arrangements as described above or by a combination of these means. Any such purchases or exercise will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilisation, the Securities and Futures (Price Stabilising) Rules, as amended, under the SFO.

Offering Size

The table below sets out a summary of the total number of Hong Kong Offer Shares and International Placing Shares being made available in the Global Offering under a series of scenarios, depending on (i) the Offer Price and (ii) whether any reallocation occurs pursuant to the clawback arrangement described in the paragraph headed “The Hong Kong Public Offering — Reallocation and Clawback” in this section occurs.

Total Number of Offer Shares (assuming the Over-allotment Option is not exercised)⁽¹⁾

	Less than 15 times over subscription of the Hong Kong Public Offering ⁽²⁾	Proportion of Offer Shares (%) ⁽²⁾	15 to 40 times over subscription of the Hong Kong Public Offering ⁽²⁾	Proportion of Offer Shares (%) ⁽²⁾	40 to 100 times over subscription of the Hong Kong Public Offering ⁽²⁾	Proportion of Offer Shares (%) ⁽²⁾	More than 100 times over subscription of the Hong Kong Public Offering ⁽²⁾	Proportion of Offer Shares (%) ⁽²⁾
Assuming the Offer Price is determined at HK\$25.00, being the bottom of the Offer Price range	31,120,000 Hong Kong Offer Shares	10.0%	46,680,000 Hong Kong Offer Shares	15.0%	93,360,000 Hong Kong Offer Shares	30.0%	124,480,000 Hong Kong Offer Shares	40.0%
	280,080,000 International Placing Shares ⁽³⁾	90.0%	264,520,000 International Placing Shares ⁽³⁾	85.0%	217,840,000 International Placing Shares ⁽³⁾	70.0%	186,720,000 International Placing Shares ⁽³⁾	60.0%
Assuming the Offer Price is determined at HK\$31.00, being the mid-point of the Offer Price range	31,120,000 Hong Kong Offer Shares	12.4%	46,680,000 Hong Kong Offer Shares	18.6%	93,360,000 Hong Kong Offer Shares	37.2%	124,480,000 Hong Kong Offer Shares	49.6%
	219,847,600 International Placing Shares ⁽⁴⁾	87.6%	204,287,600 International Placing Shares ⁽⁴⁾	81.4%	157,607,600 International Placing Shares ⁽⁴⁾	62.8%	126,487,600 International Placing Shares ⁽⁴⁾	50.4%
Assuming the Offer Price is at HK\$37.00, being the top of the Offer Price range	31,120,000 Hong Kong Offer Shares	14.8%	46,680,000 Hong Kong Offer Shares	22.2%	93,360,000 Hong Kong Offer Shares	44.4%	124,480,000 Hong Kong Offer Shares	59.2%
	179,150,200 International Placing Shares ⁽⁵⁾	85.2%	163,590,200 International Placing Shares ⁽⁵⁾	77.8%	116,910,200 International Placing Shares ⁽⁵⁾	55.6%	85,790,200 International Placing Shares ⁽⁵⁾	40.8%

Notes:

- References to the number of Offer Shares in this table are calculated based on an exchange rate of US\$1.00 = HK\$7.78 for illustration purposes only.
- Assuming the Over-allotment Option is not exercised.
- Includes 46,680,000 Sale Shares.
- Includes 37,645,100 Sale Shares.
- Includes 31,540,500 Sale Shares.

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If the Over-allotment Option is exercised, the maximum number of additional International Placing Shares to be offered pursuant to the exercise of the Over-allotment Option will be 46,680,000 Shares, 37,645,100 Shares and 31,540,500 Shares, assuming that the Offer Price is finally determined at the bottom, mid-point and top of the Offer Price range, respectively.

Pricing and Allocation

The International Underwriters will be soliciting from prospective investors indications of interest to acquire Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares and the number of the Offer Shares for the purpose of the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around 1 June 2012 and in any event no later than 5 June 2012, by agreement between the Joint Global Coordinators (on behalf of the Underwriters), the Controlling Shareholder, the Selling Shareholder and the Company, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price per Offer Share under the Hong Kong Public Offering will be based on the Hong Kong dollar price per Offer Share under the International Placing, as determined by the Joint Global Coordinators (on behalf of the Underwriters), the Controlling Shareholder, the Selling Shareholder and the Company. In addition, a 1% brokerage fee, a 0.003% SFC transaction levy and a 0.005% Hong Kong Stock Exchange trading fee will be payable by the investors thereon.

The Offer Price will not be more than HK\$37.00 per Offer Share, and is expected to be not less than HK\$25.00 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Global Coordinators on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer, cause there to be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.graffdiamonds.com notices of the reductions. Upon issue of such a notice, the revised Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters), the Controlling Shareholder, the Selling Shareholder and our Company, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares and/or the indicative Offer Price range is so reduced. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon with our Company, the Controlling Shareholder, the Selling Shareholder and the Joint Global Coordinators (on behalf of the Underwriters), will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

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In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds from the Global Offering accruing to us, after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering, are estimated to be approximately US\$800 million/HK\$6,224 million.

The gross proceeds of the Global Offering accruing to the Selling Shareholder, before deducting the underwriting fees and commissions payable by the Selling Shareholder in relation to the Global Offering, are estimated to be approximately HK\$1,167 million.

The gross proceeds of the Global Offering accruing to the Controlling Shareholder from the sale of Shares pursuant to the exercise of the Over-allotment Option, before deducting underwriting fees and commissions payable thereon, are estimated to be approximately HK\$1,167 million (assuming the Over-allotment Option is exercised in full).

The final Offer Price, the number of Offer Shares, the number of New Shares, the number of Sale Shares (before any exercise of the Over-allotment Option), the level of indications of interest in the Global Offering, and the basis of allocation of Offer Shares available under the Hong Kong Public Offering are expected to be set out in an announcement of the Company to be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.graffdiamonds.com on or before 6 June 2012.

Hong Kong Underwriting Agreement

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the Company, the Controlling Shareholder, the Selling Shareholder and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Placing Agreement relating to the International Placing on the Price Determination Date.

The terms of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Placing Agreement, are summarised in the section headed “Underwriting” in this prospectus.

Conditions of the Hong Kong Public Offering

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, among other things, the following:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares that may be sold pursuant to any exercise of the Over-allotment Option), Shares to be issued pursuant to the Reorganisation and any Shares which may be issued pursuant to the exercise of any options which may be granted under the Option Plan (subject only to allocation) on the Main Board of the Hong Kong Stock Exchange;
- (ii) the Offer Price being duly determined among our Company, the Controlling Shareholder, the Selling Shareholder and the Joint Global Coordinators (on behalf of the Underwriters);
- (iii) the execution and delivery of the International Placing Agreement on or about the Price Determination Date; and
- (iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Placing Agreement

STRUCTURE OF THE GLOBAL OFFERING

becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Placing Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times), and in any event not later than 7 June 2012.

If, for any reason, the Offer Price is not agreed among our Company, the Controlling Shareholder, the Selling Shareholder and the Joint Global Coordinators (on behalf of the Underwriters) on or before 5 June 2012, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the *South China Morning Post* (in English), the *Hong Kong Economic Times* (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.graffdiamonds.com on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares — Despatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the Receiving Bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on 7 June 2012, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus has not been exercised.

Application for Listing on the Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering, Shares to be issued pursuant to the Reorganisation and any Shares which may be issued pursuant to the exercise of any options which may be granted under the Option Plan (subject to allocation only) on the Main Board of the Hong Kong Stock Exchange.

Shares will be eligible for CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS established and operated by the HKSCC. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealing

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 7 June 2012, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on 7 June 2012.

The Shares will be traded in board lots of 100 Shares each and the stock code of the Shares will be 1306.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Channels of Applying for the Hong Kong Offer Shares

There are three channels to make an application for Hong Kong Offer Shares. You may either (i) use a **WHITE** or **YELLOW** Application Form; (ii) apply online through the designated website of the **HK eIPO White Form** Service Provider at www.hkeipo.hk, referred to herein as the “**HK eIPO White Form**” service; or (iii) electronically instruct HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through the **HK eIPO White Form** service or by giving electronic application instructions to HKSCC.

Who can Apply for Hong Kong Offer Shares

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States;
- are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **HK eIPO White Form** service (www.hkeipo.hk), in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **HK eIPO White Form**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Joint Global Coordinators (or their agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators or the **HK eIPO White Form** Service Provider (where applicable) or our or their respective agents and nominees have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing legal and beneficial owners of Shares or shares of any subsidiaries of the Company, the directors or chief executive officer of our Company or of any of our subsidiaries or their respective associates as defined in the Listing Rules or any other connected persons, as defined in the Listing Rules, of our Company or persons who will become our connected persons immediately upon completion of the Global Offering or their respective associates as defined in the Listing Rules.

You may either apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Placing Shares under the International Placing, but may not do both.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. Applying by using a White or Yellow Application Form

Which Application Form to Use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **HK eIPO White Form** by submitting applications online through the designated website at www.hkeipo.hk. Use **HK eIPO White Form** if you want the Shares issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. to 4:30 p.m. from Monday, 28 May 2012 to Wednesday, 30 May 2012 and from 9:00 a.m. to 12:00 noon on Thursday, 31 May 2012 from:

(1) any of the following addresses of the following Hong Kong Underwriters:

Credit Suisse (Hong Kong) Limited	Level 88, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Deutsche Bank AG, Hong Kong Branch	Level 52, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Goldman Sachs (Asia) L.L.C.	68th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong
Morgan Stanley Asia Limited	46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
The Hongkong and Shanghai Banking Corporation Limited	Level 15, 1 Queen's Road Central Hong Kong
Barclays Bank PLC, Hong Kong Branch	41/F, Cheung Kong Center 2 Queen's Road Central Hong Kong
ICBC International Securities Limited	37/F, ICBC Tower 3 Garden Road Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(2) any of the following branches of the Receiving Bankers:

(a) The Hongkong and Shanghai Banking Corporation Limited

	Branch Name	Address
Hong Kong Island:	Hong Kong Office	Level 3, 1 Queen's Road Central
	North Point Branch	G/F, Winner House, 306-316 King's Road, North Point
	Des Voeux Road Central Branch	China Insurance Group Bldg, 141 Des Voeux Road Central
	Hopewell Centre Branch	Shops 2A, 2/F, Hopewell Centre, 183 Queen's Road East, Wan Chai
Kowloon:	Kwun Tong Branch	No. 1, Yue Man Square, Kwun Tong
	Mong Kok Branch	Basement & U/G, 673 Nathan Road, Mong Kok
	Whampoa Garden Branch	Shop No. G6 & 6A, G/F, Site 4, Whampoa Garden
New Territories:	Shatin Plaza Branch	Shop 49, Level 1, Shatin Plaza, 21-27 Sha Tin Centre Street, Sha Tin
	Tai Wai Branch	Shops 42-44, MTR Tai Wai Station, Sha Tin
	Kingswood Ginza Branch	G/F Phase II, Kingswood Ginza, Tin Shui Wai

(b) Standard Chartered Bank (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island:	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
Kowloon:	68 Nathan Road Branch	Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui
	Mei Foo Manhattan Branch	Shop Nos. 07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen
	Tsimshatsui Branch	G/F, 10 Granville Road, Tsimshatsui
New Territories:	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan
	New Town Plaza Branch	Shop 215, 222 & 223, Phase 1, New Town Plaza, Shatin

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Monday, 28 May 2012 until 12:00 noon on Thursday, 31 May 2012 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have the **YELLOW** Application Forms and copies of this prospectus available.

How to Complete the White or Yellow Application Form

Obtain an Application Form as described in the section headed “Where to Collect the Application Forms” above.

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form. Each Application Form must be accompanied by payment, in the form of either one cheque or one banker’s cashier order. An application is liable to be rejected if the cheque or banker’s cashier order does not meet the requirements set out on the Application Form.

Lodge the Application Form in one of the collection boxes by the time and at one of the locations as described in the paragraph headed “6. Members of the public — Time for Applying for Hong Kong Offer Shares” under this section below.

You should note that by completing and submitting the **WHITE** and **YELLOW** Application Form, among other things:

- (i) you agree with our Company and each Shareholder to observe and comply with the Cayman Companies Law, the Hong Kong Companies Ordinance and the Articles;
- (ii) you agree with our Company and each Shareholder that the Shares are freely transferable by the holders thereof;
- (iii) you authorise our Company to enter into a contract on your behalf with each of our Directors and officers of our Company whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Articles;
- (iv) you confirm that you have received or have had access to a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (v) you agree that none of our Company, the Controlling Shareholder, the Selling Shareholder, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters and other parties involved in the Global Offering or any of their respective directors, officers, employees, partners, agents or advisors is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto);
- (vi) you undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for or received or been placed, allotted or allocated (including conditionally and/or provisionally), and will not apply for or take up, or indicate any interest for, any International Placing Shares, nor otherwise participated in the International Placing;
- (vii) you agree to disclose to our Company, and/or our Hong Kong Share Registrar, the Receiving Bankers, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters and our or their respective advisors and agents any personal data and any information about you which they require or the person(s) for whose benefit you have made the application;
- (viii) you instruct and authorise our Company, and any of the Joint Global Coordinators as agent for our Company (or their respective agents or nominees), to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or the name of

HOW TO APPLY FOR HONG KONG OFFER SHARES

- HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the Application Form;
- (ix) you agree that the processing of your application may be done by any of our Company's Receiving Bankers and is not restricted to the bank at which your application was lodged;
 - (x) (if the application is made for your own benefit) you warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through the **HK eIPO White Form** service;
 - (xi) (if you are an agent for another person) you warrant that reasonable enquiries have been made of that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through the **HK eIPO White Form** service and that you are duly authorised to sign the Application Form or apply through the **HK eIPO White Form** service or give electronic application instructions as that other person's agent;
 - (xii) you undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares to be allocated to you, and as required by the Articles;
 - (xiii) you confirm that you are aware of the restrictions on the Global Offering disclosed in this prospectus;
 - (xiv) you authorise our Company to place your name(s) on the application or the name of the HKSCC Nominees, as the case may be, on the Hong Kong share register of our Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company, or our respective agents (subject to the terms and conditions set forth in this prospectus) to send any share certificate(s) and/or any refund cheque(s) to you (or in case of joint applicants, the first-named applicant) by ordinary post at your own risk to the address stated on the Application Form, except that if you have applied for 1,000,000 or more Hong Kong Offer Shares and have indicated in the relevant Application Form that you will collect the share certificate(s) and/or refund cheque(s) in person, you may do so in the manner as described in the section headed "10. Despatch/Collection of Share Certificates and Refund Monies" below;
 - (xv) you represent and warrant that you understand that the Shares have not been and will not be registered under the US Securities Act and you and any person for whose account or benefit you are applying are outside the United States (as defined in Regulation S under the US Securities Act) when completing and submitting the Application Form and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);
 - (xvi) you agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation and you may not revoke it other than as provided in this prospectus;
 - (xvii) you warrant the truth and accuracy of the information contained in your application;
 - (xviii) you agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
 - (xix) you confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
 - (xx) (if the application is made by an agent on your behalf) you warrant that you have validly and irrevocably conferred on the agent all necessary power and authority to make the application;
 - (xxi) you undertake and agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you, under the application;
 - (xxii) if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters and other parties involved in the Global Offering nor any of their respective directors, employees, partners, agents,

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officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe or purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus; and

- (xxiii) you understand that these declarations, warranties and representations will be relied on by our Company, the Joint Global Coordinators and the other parties involved in the Global Offering or any of our or their respective directors, employees, partners, agents, officers or advisors in deciding whether or not to allocate any Hong Kong Offer Shares in response to the application. In the event of the application being made by joint applicants, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by and imposed on the applicants jointly and severally. You may be prosecuted for making a false declaration.

Our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, any other parties involved in the Global Offering and their respective directors, officers, employees, partners, agents, advisors are entitled to rely on any warranty, representation or declaration made by you in such application.

Additional Terms and Conditions for YELLOW Application Forms

If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to above, you agree that:

- (i) any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and directly deposited into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant (as the case may be), in accordance with your election on the Application Form;
- (ii) each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allocated Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allocated Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allocated Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name at your own risk and costs; and (3) to cause such allocated Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the share certificates for such allocated Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
- (iii) each of HKSCC and HKSCC Nominees may adjust the number of allocated Hong Kong Offer Shares issued in the name of HKSCC Nominees;
- (iv) neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form; and
- (v) neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

In order for the **YELLOW** Application Forms to be valid, you, as an applicant(s), must complete the Application Form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (a) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (ii) **If the application is made by an individual CCASS Investor Participant:**
 - (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and

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- (b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(iii) If the application is made by a joint individual CCASS Investor Participant:

- (a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all joint CCASS Investor Participants; and
- (b) the participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) If the application is made by a corporate CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
- (b) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each such joint beneficial owner. Failure to provide the account number(s) or other identification code(s) for the beneficial owner(s) will result in the application being deemed to be submitted for the benefit of the nominee(s) in question.

2. How to Apply Through HK eIPO White Form

General

If you are an individual and meet the criteria set out in the paragraph above entitled "Who can apply for the Hong Kong Offer Shares" under this section, you may apply through **HK eIPO White Form** by submitting an application through the designated website at www.hkeipo.hk. If you apply through **HK eIPO White Form**, the Shares will be issued in your own name.

Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **HK eIPO White Form** Service Provider and may not be submitted to our Company.

If you give electronic application instructions through the designated website at www.hkeipo.hk, you will have authorised the designated **HK eIPO White Form** Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **HK eIPO White Form** service.

In addition to the terms and conditions set out in this prospectus, the designated **HK eIPO White Form** Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated **HK eIPO White Form** Service Provider through the **HK eIPO White Form** service, you are deemed to have authorised the designated **HK eIPO White Form** Service Provider to transfer the details of your application to our Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 100 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 100 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website www.hkeipo.hk from 9:00 a.m. on Monday, 28 May 2012 until 11:30 a.m. on Thursday, 31 May 2012 or such later time as described under the paragraph headed “7. Effects of Bad Weather on the Opening of the Application Lists” under the section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 31 May 2012, being the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subparagraph headed “7. Effects of bad weather on the Opening of the Application Lists” below.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m. on the last day for submitting applications, you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

You should make payment for your application made by **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, 31 May 2012, or such later time as described under the paragraph headed “7. Effects of Bad Weather on the Opening of the Application Lists” below, the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.**

Once you have completed payment in respect of any electronic application instruction given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

Warning: The application for Hong Kong Offer Shares through the **HK eIPO White Form** service is only a facility provided by the designated **HK eIPO White Form** Service Provider to public investors. Our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters and the **HK eIPO White Form** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form** service will be submitted to our Company or that you will be allocated any Hong Kong Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your application through the **HK eIPO White Form** service (www.hkeipo.hk), you are advised not to wait until the last day for lodging applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service (www.hkeipo.hk), you should submit a **WHITE** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form nor give electronic application instructions to HKSCC via CCASS. Please see the paragraph headed “How Many Applications You May Make” under this section below.

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Conditions of the HK eIPO White Form service

In using the **HK eIPO White Form** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- (i) applies for the desired number of Hong Kong Offer Shares on the terms and subject to the conditions and in accordance with the procedures set out in this prospectus and the **HK eIPO White Form** designated website at www.hkeipo.hk, and subject to the Articles;
- (ii) undertakes and agrees to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to the applicant on such application;
- (iii) declares that this is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS or the **HK eIPO White Form** Service Provider under the **HK eIPO White Form** service (www.hkeipo.hk), to benefit the applicant or the person for whose benefit the applicant is applying;
- (iv) undertakes and confirms that the applicant or the person(s) for whose benefit the applicant is applying have not applied for or taken up, or indicated an interest in, and will not apply for or take up, or indicate an interest in, and have not received or been placed, allotted or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing, nor otherwise participated in the International Placing;
- (v) understands that these declarations, warranties and representations will be relied upon by our Company, the Joint Global Coordinators and the other parties involved in the Global Offering or any of our or their respective directors, employees, partners, agents, officers or advisors in deciding whether or not to make any allotment or allocation of Hong Kong Offer Shares in response to such application. In the event of the application being made by joint applicants, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by and imposed on the applicants jointly and severally. You may be prosecuted for making a false declaration;
- (vi) instructs and authorises our Company (or its agents or nominees) to place the applicant's name on the Hong Kong share register of our Company as the holder of any Hong Kong Offer Shares allocated to the applicant, and our Company or our agents (subject to the terms and conditions set forth in this prospectus) to send any share certificate(s) by ordinary post at the applicant's own risk to the address given on the **HK eIPO White Form** application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that the applicant will collect any share certificate(s) in person in accordance with the procedures prescribed in the **HK eIPO White Form** designated website at www.hkeipo.hk and this prospectus;
- (vii) requests that any refund cheque(s) (if any) will be made payable to the applicant who had used multiple bank accounts to pay the application monies, and (subject to the terms and conditions set forth in this prospectus) to send any refund cheque(s) by ordinary post and at the applicant's own risk to the address given on the **HK eIPO White Form** application;
- (viii) requests that any e-Auto Refund payment instructions (if any) will be despatched to the application payment bank account where the applicant had paid the application monies from a single bank account;
- (ix) has read the terms and conditions and application procedures set forth on the **HK eIPO White Form** designated website at www.hkeipo.hk and this prospectus and agrees to be bound by them;
- (x) represents, warrants and undertakes that the applicant, and any person for whose benefit the applicant is applying (1) is outside the United States (as defined in Regulation S) when applying through the **HK eIPO White Form** service and (2) the allotment or allocation of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors,

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the Underwriters and other parties involved in the Global Offering nor any of their respective directors, employees, partners, agents, officers or advisors to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and

- (xi) agrees that such application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, any other parties involved in the Global Offering and their respective directors, officers, employees, partners, agents, advisors are entitled to rely on any warranty, representation or declaration made by you in such application.

Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted electronic application instructions through the **HK eIPO White Form** service may or may not (depending on the information contained in the supplement) be notified that they are required to confirm their applications. If applicant(s) have been so notified, but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications through the **HK eIPO White Form** service will not be valid. Subject to the above and below, an application once made through the **HK eIPO White Form** service is irrevocable, and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the HK eIPO White Form service

By completing and submitting an application through the **HK eIPO White Form** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- (i) instruct and authorise our Company and any of the Joint Global Coordinators as agent for our Company (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the **HK eIPO White Form** designated website at www.hkeipo.hk;
- (ii) undertake to sign all documents and to do all things necessary to enable you to be registered as the holder of the Hong Kong Offer Shares to be allocated to you, and as required by the Articles;
- (iii) confirm that you are aware of the restrictions on the Global Offering disclosed in this prospectus;
- (iv) confirm that you have received and/or read a copy of this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (v) agree that none of our Company, the Controlling Shareholder, the Selling Shareholder, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters and any parties involved in the Global Offering or any of their respective directors, officers, employees, partners, agent or advisors is or will be liable for any information or representations save as contained in this prospectus and any supplement thereto;
- (vi) agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation and you may not revoke it other than as provided in this prospectus;
- (vii) (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service;

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- (viii) (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service, and that you are duly authorised to submit the application as that other person's agent;
- (ix) (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on the agent all necessary power and authority to make the application;
- (x) undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for or received or been placed, allotted or allocated (including conditionally and/or provisionally), and will not apply for, take up or indicate an interest for, any International Placing Shares nor otherwise participate in the International Placing;
- (xi) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- (xii) agree to disclose to our Company, the Hong Kong Share Registrar, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, the Receiving Bankers and our or their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- (xiii) agree with our Company and each Shareholder to observe and comply with the Cayman Companies Law, the Hong Kong Companies Ordinance and the Articles;
- (xiv) agree with our Company and each Shareholder that the Shares are freely transferable by the holders thereof;
- (xv) authorise our Company to enter into a contract on your behalf with each of our Directors and our officers whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Articles;
- (xvi) represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying, is a US person (as defined in Regulation S);
- (xvii) represent and warrant that you understand that our Shares have not been and will not be registered under the US Securities Act and you and any person for whose amount or benefit you are applying are outside the United States (as defined in Regulation S) when completing and submitting the application and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);
- (xviii) confirm that you have read the terms and conditions and application procedures set forth in this prospectus and the **HK eIPO White Form** designated website at www.hkeipo.hk and agree to be bound by them;
- (xix) warrant the truth and accuracy of the information contained in your application;
- (xx) undertake and agree to accept our Shares applied for, or any lesser number allocated to you under your application;
- (xxi) if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, and the other parties involved in the Global Offering nor any of their respective directors, employees, partners, agents, officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe or purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus and the **HK eIPO White Form** designated website at www.hkeipo.hk; and
- (xxii) understand that these declarations, warranties and representations will be relied on by our Company, the Joint Global Coordinator and the other parties involved in the Global Offering or

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any of our or their respective directors, employees, partners, agents, officers or advisors in deciding whether or not to allocate any Hong Kong Offer Shares in response to the application. In the event of the application being made by joint applicants, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by and imposed on the applicants jointly and severally. You may be prosecuted for making a false declaration.

Our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, any other parties involved in the Global Offering and their respective directors, officers, employees, partners, agents, advisors are entitled to rely on any warranty, representation or declaration made by you in such application.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **HK eIPO White Form** service to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **HK eIPO White Form** Service Provider, the designated **HK eIPO White Form** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **HK eIPO White Form** Service Provider on the designated website at www.hkeipo.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the section headed “Refund of Application Monies” will be refunded to you in accordance with the requirements set out in that section.

3. Applying by Giving Electronic Application Instructions to HKSCC via CCASS

General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Copies of the prospectus are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

By giving electronic application instructions to HKSCC, you are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through

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your broker or custodian, to our Company, the Joint Global Coordinators and the Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC to Apply for Hong Kong Offer Shares

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for the Hong Kong Offer Shares, the persons (and, if they are joint applicants, each of them joint and severally) are taken to agree that:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - agrees that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the **CCASS Participant who has inputted electronic application instructions on that person's behalf or that person's CCASS Investor Participant stock account**;
 - undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given electronic application instructions or any lesser number;
 - agrees with our Company for itself and for the benefit of each Shareholder to observe and comply with the Cayman Companies Law, the Hong Kong Companies Ordinance and the Articles;
 - agrees with our Company for itself and for the benefit of each Shareholder that the Shares are freely transferable by the holders thereof;
 - authorises our Company to enter into a contract on that person's behalf with each of our Directors and our officers whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Articles;
 - undertakes to sign all documents and to do all things necessary to enable HKSCC Nominees to be registered as the holder of the Hong Kong Offer Shares to be allocated to that person, and as required by the Articles;
 - undertakes and confirms that that person has not indicated an interest for, applied for or taken up or indicated an interest for, and has not received or been placed or allocated (including conditionally or provisionally) any International Placing Shares nor otherwise participated in the International Placing;
 - (if the electronic application instructions are given for that person's own benefit) declares that only one set of electronic application instructions has been given for that person's benefit and that that person has not made (either directly or through an agent) another application for his or her own benefit on a **WHITE** or **YELLOW** Application Form or by giving another electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service;
 - (if that person is an agent for another person) declares that that person has only given one set of electronic application instructions for the benefit of that other person, warrants that reasonable enquiries have been made of that other person that he or she has not or will not make (whether directly or through an agent) another application for his or her benefit on a **WHITE** or **YELLOW** Application Form or by giving another electronic instruction to HKSCC or to the **HK eIPO White Form** Service Provider via the **HK eIPO White Form** service and that that person is duly authorised to give those instructions as that other person's agent;
 - understands that the above declaration will be relied upon by our Company, the Joint Global Coordinators and the other parties involved in the Global Offering or any of our or their respective directors, employees, partners, agents, officers or advisors in deciding whether or not to make any allotment or allocation of Hong Kong Offer Shares in respect of the electronic application instructions given by that person and that that person may be prosecuted if he makes a false declaration;

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- instructs and authorises our Company and any of the Joint Global Coordinators as agent for our Company (or their respective agents or nominee) to execute transfer forms, contract notes or other documents on that person's behalf and to do all things necessary to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Offer Shares allocated in respect of that person's electronic application instructions and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has received or have had access to a copy of this prospectus and has only relied on the information and representations in this prospectus in giving that person's electronic application instructions or instructing that person's broker or custodian to give electronic application instructions on that person's behalf save as set out in any supplement to this prospectus;
- agrees that none of our Company, the Controlling Shareholder, the Selling Shareholder, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering are liable for any information or representations save as contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company, the Hong Kong Share Registrar, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, the Receiving Bankers and our or their respective agents or advisors and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded because of an innocent misrepresentation and you may not revoke it other than as provided in this prospectus;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before Thursday, 7 June 2012, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before Thursday, 7 June 2012, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Thursday, 7 June 2012 if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to Hong Kong Offer Shares;
- agrees with our Company, for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Cayman Companies Law, the Hong Kong Companies Ordinance and the Articles; and

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- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- agreed that HKSCC Nominees is only acting as a nominee for that person and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including the related brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit.

Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions in respect of a minimum of 100 Hong Kong Offer Shares. Such instructions in respect of more than 100 Hong Kong Offer Shares must be in one of the numbers set out in the table in the **WHITE** or **YELLOW** Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given will be treated as an applicant.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance (as applied by section 342E of the Hong Kong Companies Ordinance).

Personal Data

The section of the Application Form entitled "Personal Data" applies to any personal data held by us and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

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Warning

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their electronic application instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their electronic application instructions, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for electronic application instructions before 12:00 noon on Thursday, 31 May 2012 or such later time as described under the paragraph headed "7. Effect of Bad Weather on the Opening of the Application Lists" under this section below.

4. How many Applications you may make

You may make more than one application for the Hong Kong Offer Shares if, and only if:

You are a nominee, in which case you may give electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one **WHITE** or **YELLOW** Application Form in your own name if each application is made on behalf of different beneficial owners.

In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each such joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated **HK eIPO White Form** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service by giving electronic application instructions through the designated website at www.hkeipo.hk and completing payment in respect of such electronic application instructions, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

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It will be a term and condition of all applications for Hong Kong Offer Shares that by completing and delivering an Application Form or submitting an electronic application instruction you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk); or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk) and that you are duly authorised to sign the Application Form or give electronic application instructions as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk); or
- apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk); or
- apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk) for more than 15,560,000 Hong Kong Offer Shares, being 50% of the Hong Kong Offer Shares initially being made available for public subscription under the Hong Kong Public Offering, as more particularly described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering"; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the International Placing Shares.

All of your applications will also be rejected as multiple applications if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk) is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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5. How much are the Hong Kong Offer Shares

The maximum offer price is HK\$37.00 per Offer Share. You must also pay a brokerage fee of 1%, an SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 100 Shares you will pay HK\$3,737.30. The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for numbers of Shares up to 15,560,000 Shares. Your application must be for a minimum of 100 Shares. Applications must be in one of the numbers set forth in the tables in the Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

You must pay the maximum Offer Price, a brokerage fee, an SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

If your application is successful, the brokerage fee will be paid to participants of the Hong Kong Stock Exchange, and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

6. Members of the Public — Time for Applying for Hong Kong Offer Shares

Completed **WHITE** or **YELLOW** Application Forms, together with a cheque or banker's cashier order attached and marked payable to "HSBC Nominees (Hong Kong) Limited—Graff Diamonds Public Offer" for the payment, must be lodged by 12:00 noon on Thursday, 31 May 2012, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed "7. Effect of Bad Weather on the Opening of the Application Lists" under this section below.

Your completed Application Form, together with a cheque or banker's cashier order attached and marked payable to "HSBC Nominees (Hong Kong) Limited—Graff Diamonds Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the Receiving Bankers listed under the section headed "1. Applying by Using a **WHITE** or **YELLOW** Application Form — Where to Collect the Application Forms" above at the following times:

Monday, 28 May 2012	— 9:00 a.m. to 4:30 p.m.
Tuesday, 29 May 2012	— 9:00 a.m. to 4:30 p.m.
Wednesday, 30 May 2012	— 9:00 a.m. to 4:30 p.m.
Thursday, 31 May 2012	— 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 31 May 2012. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment or allocation of any such Hong Kong Offer Shares will be made until the closing of the application lists. No allotment or allocation of any of the Hong Kong Offer Shares will be made until after Thursday, 31 May 2012.

HK eIPO White Form

You may submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Monday, 28 May 2012 until 11:30 a.m. on Thursday, 31 May 2012 or such later time as described under the paragraph headed "7. Effect of Bad Weather on the Opening of the Applications Lists" under this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 31 May 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in "7. Effect of Bad Weather on the Opening of the Applications Lists" under this section below.

You will not be permitted to submit your application to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for lodging applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for lodging applications, when the application lists close. If you do not make complete payment of the application monies (including any

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related fees) on or before 12:00 noon on Thursday, 31 May 2012, or such later time as described under the paragraph headed “7. Effect of Bad Weather on the Opening of the Application Lists” under this section, the designated **HK eIPO White Form** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.

Time for Inputting Electronic application instructions

Those who are not CCASS Investor Participants can instruct their brokers or custodians who are CCASS Clearing/Custodian Participants to give electronic application instructions to HKSCC via CCASS terminals to apply for Hong Kong Offer Shares.

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Monday, 28 May 2012	—	9:00 a.m. to 8:30 p.m. ⁽¹⁾
Tuesday, 29 May 2012	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 30 May 2012	—	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Thursday, 31 May 2012	—	8:00 a.m. ⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, 28 May 2012 until 12:00 noon on Thursday, 31 May 2012 (24 hours daily, except the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, 31 May 2012, being the last application day, or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “7. Effect of Bad Weather on the Opening of the Application Lists” below.

7. Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 31 May 2012. Instead, the last application day will be postponed, and the application lists will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

“**Business Day**” means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

If the application lists do not open and close on Thursday, 31 May 2012 or if there is a tropical cyclone warning signal number 8 or above or a “black rainstorm” warning signal in force in Hong Kong on the other dates mentioned in the section “Expected Timetable” in this prospectus, such dates mentioned in the section “Expected Timetable” in this prospectus may be affected. An announcement will be made in such event.

8. Publication of Results

We expect to announce the Offer Price, the number of Offer Shares, the number of New Shares and the number of Sale Shares (before any exercise of the Over-allotment Option), the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 6 June 2012 in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and on our Company’s website at www.graffdiamonds.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- results of allocations for the Hong Kong Public Offering can be found in the announcement to be posted on our Company's website at www.graffdiamonds.com and the website of the Hong Kong Stock Exchange at www.hkexnews.hk by no later than 9:00 a.m. on Wednesday, 6 June 2012.
- results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Wednesday, 6 June 2012 to 12:00 midnight on Tuesday, 12 June 2012. Search by ID function will be available on our designated results of allocations website at www.tricor.com.hk/ipo/result, or via a hyperlink from our website at www.graffdiamonds.com to our designated results of allocations website at www.tricor.com.hk/ipo/result. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- results of allocations will be available from our designated allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 6 June 2012 to Monday, 11 June 2012 (excluding Saturday, Sunday and public holidays);
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Wednesday, 6 June 2012 to Friday, 8 June 2012 at all the receiving bank branches and sub-branches at the addresses set out in the paragraph headed "1. Applying by Using a **WHITE** or **YELLOW** Application Form — Where to Collect the Application Forms" under this section above.

Our Company may accept your offer to subscribe or purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocation and/or making available the results of allocations publicly. If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to subscribe or purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. You will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

9. Circumstances in Which you will not be Allocated Hong Kong Offer Shares

Full details of the circumstances in which you will not be allocated the Hong Kong Offer Shares are set out in this prospectus and in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or through the **HK eIPO White Form** service (www.hkeipo.hk) or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allocated to you:

- If your application is revoked:

By completing and submitting an Application Form or giving an electronic application instruction to HKSCC or the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk), you agree that your application or the application made by HKSCC Nominees on your behalf or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk) cannot be revoked on or before Thursday, 7 June 2012. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your electronic application instruction to HKSCC or the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk) and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any

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Hong Kong Offer Shares to any person before Thursday, 7 June 2012, except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees or the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk) on your behalf may only be revoked on or before Thursday, 7 June 2012 if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance (as applied by section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they are required to confirm their applications. If applicant(s) have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will not be valid. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk) has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- Full discretion of our Company or our agents to reject or accept your application:

Our Company, the Joint Global Coordinators or our or their respective agents and nominees or the designated **HK eIPO White Form** Service Provider (where applicable), have full discretion to reject or accept any application, or to accept only part of any application.

No reason has to be given for any rejection or acceptance.

- If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give electronic application instructions to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the Listing Date of the application lists; or
 - within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.
- You will not receive any allocation if:
 - you make multiple applications or suspected multiple applications as described in the paragraph headed “4. How Many Applications You May Make” in this section above;
 - you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and/or International Placing Shares. By filling in any of the **WHITE** or **YELLOW** Application Forms or applying by giving electronic application instructions to HKSCC or to the designated **HK eIPO White Form** Service Provider through **HK eIPO White Form** service (www.hkeipo.hk), you agree not to apply for Hong Kong Offer Shares as well as International Placing Shares. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Placing Shares, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;

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- your application is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form) or on the **HK eIPO White Form** website (www.hkeipo.hk);
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- the Hong Kong Underwriting Agreement and the International Placing Agreement do not become unconditional;
- the Hong Kong Underwriting Agreement and the International Placing Agreement are terminated in accordance with their respective terms;
- our Company, the Joint Global Coordinators and/or any Joint Bookrunner believes that by accepting your application, it would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address is located; or
- your application is for more than 15,560,000 Hong Kong Offer Shares, representing 50% of the Hong Kong Offer Shares initially offered for public subscription under the Hong Kong Public Offering.

10. Despatch/Collection of Share Certificates and Refund Monies

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the offer price of HK\$37.00 per Offer Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" or if any application is revoked or any allotment or allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

Refund of your application monies (if any) will be made on Wednesday, 6 June 2012 in accordance with the various arrangements described in this section below.

You will receive one share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application:

- (a) for applications on **WHITE** Application Form or by giving electronic application instructions through the **HK eIPO White Form** service:
 - (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or
 - (ii) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms: share certificates for the Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly

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unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share initially paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

- (c) for applications by giving electronic application instructions to HKSCC and if your application is wholly or partially successful, share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant stock account on Wednesday, 6 June 2012 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees. Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 6 June 2012. No interest will be paid thereon.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under the Application Forms; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms or by giving electronic application instructions through the **HK eIPO White Form** service are expected to be posted on or around Wednesday, 6 June 2012. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 7 June 2012 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates becoming valid certificates do so entirely at their own risk.

(a) if you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have indicated your intention in your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 6 June 2012 or such other date as notified by us in the newspapers as the date of collection/despatch of refund cheques/e-Auto Refund payment instructions/share certificates. If you are an individual who opts for personal collection, you may not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by sending an authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

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If you apply for less than 1,000,000 Hong Kong Offer Shares or you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus, or if your application is revoked or any allotment or allocation pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage fee, Hong Kong Stock Exchange trading fee and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Wednesday, 6 June 2012, by ordinary post and at your own risk.

(b) If you apply using a **YELLOW** Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Wednesday, 6 June 2012, by ordinary post and at your own risk.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 6 June 2012, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants’ applications together with the results of the Hong Kong Public Offering on Wednesday, 6 June 2012 in the manner described in “8. Publication of Results” in this section above. You should check such results published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 6 June 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(c) If you are applying through **HK eIPO White Form**

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated **HK eIPO White Form** Service Provider through the designated website www.hkeipo.hk and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 6 June 2012, or such other date as notified by our Company in the

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newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk on Wednesday, 6 June 2012, by ordinary post and at your own risk.

If you apply through the **HK eIPO White Form** service and paid the application monies from a single bank account, refund monies (if any) will be despatched to the application payment account in the form of e-Auto Refund payment instructions. If you apply through **HK eIPO White Form** service and paid the application monies from multiple bank accounts, refund monies (if any) will be despatched to the address as specified on your **HK eIPO White Form** application in the form of refund cheque(s), by ordinary post at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **HK eIPO White Form** Service Provider set out above in the paragraph headed “2. How to Apply Through HK eIPO White Form — Additional Information” in this section.

(d) If you apply by giving electronic application instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of application monies

No temporary document of title will be issued. No receipt will be issued for application monies received.

If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant stock account on Wednesday, 6 June 2012, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Hong Kong Public Offering in accordance with the details set out in the paragraph headed “8. Publication of Results” of this section above on Wednesday, 6 June 2012. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 6 June 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 6 June 2012. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit

HOW TO APPLY FOR HONG KONG OFFER SHARES

of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including the related brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 6 June 2012. No interest will be paid thereon.

11. Refund of Application Monies

If you do not receive any Hong Kong Offer Shares for any reason, your application monies, including brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005% will be refunded to you. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for our benefit.

If your application is accepted only in part, the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, will be refunded to you without interest.

If the Offer Price as finally determined is less than HK\$37.00 per Offer Share, appropriate refund payments, including the related brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005% attributable to the surplus application monies, will be made to successful applicants, without interest. Details of the procedure for refund are set out above in the paragraph headed "10. Despatch/Collection of Share Certificates and Refund Monies".

All such interest accrued prior to the date of despatch of refund will be retained for our benefit.

In a contingency situation involving a substantial over-subscription, at the discretion of the Company and the Joint Global Coordinators, cheques for applications for certain small denominations of Hong Kong Offer Shares on Application Forms (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, 6 June 2012 in accordance with the various arrangements as described in this section.

12. Commencement of Dealings in the Shares

Dealings in the Shares are expected to commence on Thursday, 7 June 2012. The Shares will be traded in board lots of 100 Shares each. The stock code of the Shares is 1306.

13. Shares will be Eligible for Admission into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

APPENDIX I
ACCOUNTANTS' REPORT

The following is the text of a report received from the Company's reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

28 May 2012

The Directors
Graff Diamonds Corporation

Credit Suisse (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Goldman Sachs (Asia) L.L.C.
Morgan Stanley Asia Limited

Dear Sirs,

We report on the financial information of Graff Diamonds Corporation (the "Company") and its subsidiaries upon the completion of group reorganisation (together, the "Group"), which comprises the combined balance sheets as at 31 December 2009, 2010 and 2011, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2009, 2010 and 2011 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to IV below for inclusion in Appendix I to the prospectus of the Company dated 28 May 2012 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 8 February 2012 as an exempted company with limited liability under the Cayman Companies Law. Pursuant to a group reorganisation as described in Note 1.1 of Section II headed "Reorganisation and Group Structure" (the "Reorganisation") below, the Company will become the holding company of the subsidiaries comprising the Group upon the completion of Reorganisation.

The Company's direct and indirect interests in the subsidiaries upon the completion of group reorganisation are set out in Note 1.1 of Section II below. All of these companies are private companies.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation. The audited financial

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statements of the other companies comprising the Group for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The details of the statutory auditors of these companies are set out in Note 1.1 of Section II.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods, in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”) pursuant to separate terms of engagement with the Company.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.2 of Section II below.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.2 of Section II below and in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.2 of Section II below, a true and fair view of the state of affairs of the Group as at 31 December 2009, 2010 and 2011 and of the Group's combined results and cash flows for the Relevant Periods then ended.

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I. FINANCIAL INFORMATION OF THE GROUP

The following is the combined financial information on the Group prepared by the directors of the Company as at 31 December 2009, 2010 and 2011 and for each of the years ended 31 December 2009, 2010 and 2011 (the "Financial Information"), presented on the basis set out in Note 1.2 of Section II below. All operations are continuing.

The financial information is presented in US dollars and all values are rounded to the nearest thousand (US\$'000) except when otherwise indicated.

COMBINED INCOME STATEMENTS

	Notes	Year ended 31 December		
		2009 <i>US\$'000</i>	2010 <i>US\$'000</i>	2011 <i>US\$'000</i>
REVENUE	5	541,343	616,667	755,570
Cost of sales		(360,939)	(348,564)	(467,472)
GROSS PROFIT		180,404	268,103	288,098
Selling and distribution costs		(47,794)	(48,111)	(53,529)
Administrative expenses		(68,842)	(85,208)	(86,371)
Other income	10.6	10,319	24	512
Other (losses)/gains — net	10.8	—	—	—
OPERATING PROFIT		74,087	134,808	148,710
Analysed as:				
Operating profit before exceptional items:	10.7	65,089	134,808	153,192
— Transaction costs		—	—	(4,482)
— Insurance surplus		8,998	—	—
Finance income	8	5,152	2,762	2,583
Finance costs	9	(8,913)	(9,021)	(8,391)
PROFIT BEFORE TAXATION		70,326	128,549	142,902
Taxation	19	(16,503)	(23,820)	(27,325)
PROFIT FOR THE YEAR		53,823	104,729	115,577
PROFIT ATTRIBUTABLE TO				
Owners of the Company		51,473	101,841	117,218
Non-controlling interest		2,350	2,888	(1,641)
DIVIDENDS	12	(14,298)	(25,877)	(50,975)

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COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2009	2010	2011
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit for the year		53,823	104,729	115,577
Other comprehensive income				
Revaluation of available-for-sale financial assets	13	6,696	3,799	(8,025)
Currency translation differences	21	2,376	(3,595)	(568)
Other comprehensive income for the year, net of tax .		9,072	204	(8,593)
Total comprehensive income for the year		<u>62,895</u>	<u>104,933</u>	<u>106,984</u>
Attributable to:				
Owners of the Company		60,545	102,045	108,625
Non-controlling interest		2,350	2,888	(1,641)
Total comprehensive income for the year		<u>62,895</u>	<u>104,933</u>	<u>106,984</u>

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COMBINED BALANCE SHEETS

	Notes	As at 31 December		
		2009	2010	2011
		US\$'000	US\$'000	US\$'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	6	57,237	58,962	70,352
Goodwill		1,894	1,894	1,894
Deferred income tax assets	11	9,341	9,122	10,456
Available-for-sale financial assets	13	28,214	35,360	37,967
Financial assets at fair value through profit or loss . . .	13.1	23,761	32,716	24,639
		<u>120,447</u>	<u>138,054</u>	<u>145,308</u>
CURRENT ASSETS				
Inventories	14	370,710	442,357	651,384
Trade and other receivables	15	122,677	127,394	94,518
Cash and cash equivalents	16	17,791	32,155	63,765
TOTAL CURRENT ASSETS		<u>511,178</u>	<u>601,906</u>	<u>809,667</u>
TOTAL ASSETS		<u>631,625</u>	<u>739,960</u>	<u>954,975</u>
EQUITY AND LIABILITIES				
COMBINED EQUITY ATTRIBUTABLE TO				
EQUITY HOLDERS				
Combined Capital	20	3,117	3,117	3,117
Other Reserves	21	4,927	(4,312)	(22,381)
Retained earnings		365,474	437,544	507,840
		<u>373,518</u>	<u>436,349</u>	<u>488,576</u>
NON-CONTROLLING INTERESTS		<u>56,580</u>	<u>55,575</u>	<u>57,986</u>
TOTAL COMBINED EQUITY		<u>430,098</u>	<u>491,924</u>	<u>546,562</u>
LIABILITIES				
NON-CURRENT LIABILITIES				
Borrowings	18	19,989	12,033	6,604
Financial liabilities at fair value through profit or loss .	17.3	23,761	32,716	24,639
Derivative financial instruments	17.2	5,201	7,011	7,647
Deferred income tax liabilities	11	1,093	1,070	1,471
		<u>50,044</u>	<u>52,830</u>	<u>40,361</u>
CURRENT LIABILITIES				
Trade and other payables	17.1	83,654	82,221	158,152
Current income tax liabilities		13,182	20,730	16,022
Borrowings	18	54,647	92,255	193,878
		<u>151,483</u>	<u>195,206</u>	<u>368,052</u>
TOTAL LIABILITIES		<u>201,527</u>	<u>248,036</u>	<u>408,413</u>
TOTAL EQUITY AND LIABILITIES		<u>631,625</u>	<u>739,960</u>	<u>954,975</u>
NET CURRENT ASSETS		<u>359,695</u>	<u>406,700</u>	<u>441,615</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>480,142</u>	<u>544,754</u>	<u>586,923</u>

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COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				Non- controlling interest	Total combined equity
	Combined Capital	Other Reserves	Retained earnings	Total		
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>		
Balance as at 1 January 2009	3,117	840	325,872	329,829	51,804	381,633
Comprehensive income:						
Profit or loss	—	—	51,473	51,473	2,350	53,823
Other comprehensive income:						
Available-for-sale financial assets (note 13)	—	6,696	—	6,696	—	6,696
Currency translation differences (note 21)	—	2,376	—	2,376	—	2,376
Total other comprehensive income	—	9,072	—	9,072	—	9,072
Total comprehensive income	—	9,072	51,473	60,545	2,350	62,895
Transactions with equity holders:						
Distribution for group relief (note 21) . . .	—	(4,985)	—	(4,985)	—	(4,985)
Dividends paid (note 12)	—	—	(14,298)	(14,298)	—	(14,298)
Contribution from controlling shareholder	—	—	2,427	2,427	2,426	4,853
Total transactions with equity holders . . .	—	(4,985)	(11,871)	(16,856)	2,426	(14,430)
Balance as at 31 December 2009	3,117	4,927	365,474	373,518	56,580	430,098
Comprehensive income:						
Profit or loss	—	—	101,841	101,841	2,888	104,729
Other comprehensive income:						
Available-for-sale financial assets (note 13)	—	3,799	—	3,799	—	3,799
Currency translation differences (note 21)	—	(3,595)	—	(3,595)	—	(3,595)
Total other comprehensive income	—	204	—	204	—	204
Total comprehensive income	—	204	101,841	102,045	2,888	104,933
Transactions with equity holders:						
Distribution for group relief (note 21) . . .	—	(9,443)	—	(9,443)	—	(9,443)
Dividends paid (note 12)	—	—	(25,877)	(25,877)	—	(25,877)
Distribution to controlling shareholder . . .	—	—	(3,894)	(3,894)	(3,893)	(7,787)
Total transactions with equity holders . . .	—	(9,443)	(29,771)	(39,214)	(3,893)	(43,107)
Balance as at 31 December 2010	3,117	(4,312)	437,544	436,349	55,575	491,924
Comprehensive income:						
Profit or loss	—	—	117,218	117,218	(1,641)	115,577
Other comprehensive income:						
Available-for-sale financial assets (note 13)	—	(8,025)	—	(8,025)	—	(8,025)
Currency translation differences (note 21)	—	(568)	—	(568)	—	(568)
Total other comprehensive income	—	(8,593)	—	(8,593)	—	(8,593)
Total comprehensive income	—	(8,593)	117,218	108,625	(1,641)	106,984
Transactions with equity holders:						
Distribution for group relief (note 21) . . .	—	(9,476)	—	(9,476)	—	(9,476)
Dividends paid (note 12)	—	—	(50,975)	(50,975)	—	(50,975)
Contribution from controlling shareholder	—	—	4,053	4,053	4,052	8,105
Total transactions with equity holders . . .	—	(9,476)	(46,922)	(56,398)	4,052	(52,346)
Balance as at 31 December 2011	3,117	(22,381)	507,840	488,576	57,986	546,562

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COMBINED STATEMENTS OF CASH FLOWS

	Notes	As at 31 December		
		2009	2010	2011
		US\$'000	US\$'000	US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations	22	90,930	68,847	50,727
Interest paid		(8,913)	(7,211)	(7,755)
Income tax paid		(6,717)	(16,076)	(32,966)
Net cash generated from operating activities		<u>75,300</u>	<u>45,560</u>	<u>10,006</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment ("PPE")		(8,163)	(12,627)	(21,961)
Proceeds from sale of PPE		2,412	1,251	78
Purchases of available-for-sale financial assets		(8,669)	(5,654)	(10,933)
Purchases of financial assets at fair value through profit or loss		(3,446)	(5,107)	—
Loans granted to related parties		(28,746)	(13,096)	(1,667)
Interest received		1,518	2,762	2,583
Net cash used in investing activities		<u>(45,094)</u>	<u>(32,471)</u>	<u>(31,900)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings		(33,206)	(5,765)	(7,292)
Proceeds from borrowings		4,322	40,815	103,484
Contributions from/(distribution to) controlling shareholder		4,853	(7,787)	8,105
Dividend paid		(14,298)	(25,877)	(50,975)
Net cash (used in)/generated from financing activities		<u>(38,329)</u>	<u>1,386</u>	<u>53,322</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of the year		(8,123)	14,475	31,428
Exchange gains/(losses) on cash and cash equivalents		25,736	17,791	32,155
		<u>178</u>	<u>(111)</u>	<u>182</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	16	<u>17,791</u>	<u>32,155</u>	<u>63,765</u>

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II. NOTES ON THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Graff Diamonds Corporation (the “Company”) was incorporated in the Cayman Islands on 8 February 2012 as an exempted company with limited liability under the Cayman Companies Law. The address of the Company’s registered office is 89, Nexus Way, Camana Bay, Grand Cayman, KY1-9007, Cayman Islands.

The Company is an investment holding company. The operating companies set out below are principally engaged in the design, manufacture, retail of high quality jewellery and watches and the sourcing, cutting and polishing of rough diamonds primarily for use in the retail operations and form the “Listing Business”, which together with the Company, are defined as the “Listing Group”.

The ultimate controlling party of the Listing Group is Laurence Graff (the “Controlling Shareholder”).

1.1 Reorganisation and group structure

Prior to the incorporation of the Company and the completion of the Reorganisation as described below, the Listing Business was principally operated through Graff Diamonds Holdings Limited (“GDHL”), Safdico Limited (“Safdico”) and SAM GRAFF Monte-Carlo (“Monaco”), and their respective subsidiaries. GDHL, Safdico and Monaco are all ultimately controlled by the Controlling Shareholder.

GDHL, through its subsidiaries, also conducted other businesses (the “Excluded Businesses”) during the Relevant Periods. These subsidiaries will be disposed of to the Controlling Shareholder pursuant to the Reorganisation, as described below, and thus do not and have never formed part of the Listing Group. Details of the subsidiaries comprising the Excluded Businesses are set out below:

<u>Company name</u>	<u>Place of incorporation/ establishment</u>	<u>Percentage shareholding held by GDHL as at the date of the Reorganisation</u>	<u>Principal activities</u>
Graff Aviation Limited	United Kingdom	100%	Air charter services
Graff Global Aviation Limited	United Kingdom	100%	Construction and commissioning of an aeroplane
Delaire (Pty) Ltd (previously Lexshell 576 Investments (Proprietary) Limited)	South Africa	100%	Production and distribution of wine and the rendering of related hospitality services
Selectcork Limited	United Kingdom	100%	Property investment and letting
Selectnews Limited	United Kingdom	100%	Property investment and letting
Searchmap Limited	United Kingdom	100%	Property investment and letting

In preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong (the “Listing”), the Group immediately prior to the Listing will undergo certain transactions to transfer the Listing Business to the Company and to dispose of the Excluded Businesses to a company ultimately controlled by the Controlling Shareholder (the “Reorganisation”).

As of the date of this report, executed irrevocable legal agreements are in place to effect the Reorganisation prior to the Listing. The Reorganisation will be carried out pursuant to those legal agreements and conditional only upon the occurrence of the Listing. Details of the Reorganisation steps comprise:

- (1) The transfer of the Excluded Businesses to AE Holding S.A. (a company owned and controlled by Laurence Graff) and the settlement of the Group’s balances with the Excluded Businesses, resulting in total net cash inflow of approximately US\$109.8 million.

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ACCOUNTANTS' REPORT

- (2) The acquisition of the entire issued share capital of GDHL by the Company from Laurence Graff and Anne-Marie Graff by way of a share for share exchange, thus inserting the Company as the ultimate holding company of the Listing Group.
- (3) The acquisition of the entire share capital of SAM Graff Monte-Carlo by GDHL from Laurence Graff and François Graff for a cash consideration of US\$198.0 million and US\$2.0 million, respectively.
- (4) The acquisition of Safdico's business by a new holding company Safdico International Limited with exactly the same shareholdings. Following that, the acquisition of the entire share capital of Safdico International Limited will be transferred from Laurence Graff and the non controlling interests to the Group. The aggregate amount payable by the Group in connection with the acquisition of Safdico International Limited is US\$196.1 million.

Upon completion of the Reorganisation, the Company's directly or indirectly owned subsidiaries are set out below:

<u>Company name</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued and paid-up capital</u>	<u>Equity interest attributable to the Group</u>	<u>Principal activities</u>
Graff Diamonds Holdings Limited	British Virgin Islands/ 14 October 2009	1,788,885 shares of £1 each	100%	Intermediate holding company*
Graff Diamonds International Limited	England/ 13 December 1973	1,788,885 shares of £1 each	100%	Intermediate holding company**
Graff Diamonds Limited	England/ 23 December 1960	27,696,380 £0.05 shares	100%	Manufacturing and retailing of high quality jewellery**
Diamondline Limited	England/ 4 April 2001	100 shares of £1 each	100%	Jewellery exporter**
Diamondline Japan Limited	England/ 5 March 2008	100 shares of £1 each	100%	Jewellery exporter**
Diamondline Hong Kong Limited	England/ 27 February 2008	100 shares of £1 each	100%	Jewellery exporter**
Diamondline Taiwan Limited	England/ 25 January 2011	100 shares of £1 each	100%	Jewellery exporter**
Diamondline Switzerland Limited	England/ 2 September 2008	100 shares of £1 each	100%	Jewellery exporter**
Safdico International Limited#	Mauritius/ 13 January 2012	5,001 shares of US\$1 each	100%	Intermediate holding company**
Safant BVBA#	Belgium/ 23 February 2012	100 shares of €18.60 each	100%	Manufacturing and trader of rough and polished diamonds**
Safdico Israel Limited#	Israel/ 10 November 2009	100 shares of 1 shekel each	100%	Trader of rough and polished diamonds**
Safdico Inc. (USA)#	USA/ 5 August 2002	10 shares of US\$100 each	100%	Diamond manufacturing**
Safdico Botswana (Pty) Limited#	Botswana/ 19 December 2003	10,000 ordinary shares of no par value	100%	Diamond manufacturing**
Safdico RSA (Pty) Limited#	South Africa/ 10 November 1948	10,000 shares of 0.01 Rand each	74%	Diamond manufacturing**
Diamond Technology Park (Proprietary) Limited#	Botswana/ 7 September 2005	10,000 shares of no par value	100%	Landlord for diamond centre in Botswana**

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<u>Company name</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued and paid-up capital</u>	<u>Equity interest attributable to the Group</u>	<u>Principal activities</u>
Pastel Assets Limited#	Israel/ 10 December 2006	100 shares of NIS 1	100%	Property holding**
Safdico Rough (Pty) Limited#	South Africa/ 23 August 2007	100 shares of R1	100%	Trader of rough diamonds**
SAM GRAFF Monte-Carlo	Monaco/ 10 December 1999	150,000 shares of 1 Euro each	100%	Retailing of high quality jewellery in Monte-Carlo**
Graff Holdings Inc.	USA/ 16 January 2003	5,200 shares of 1 US\$ each	100%	USA holding company**
Graff Diamonds (New York), Inc.	USA/ 7 July 2000	3,100 shares of 1 US\$ each	100%	Retailing of high quality jewellery in USA**
Graff Diamonds (Chicago) Inc.	USA/ 15 January 2003	100 shares of 1 US\$ each	100%	Retailing of high quality jewellery in USA**
Graff Diamonds (Las Vegas) Inc.	USA/ 31 July 2003	100 shares of 1 US\$ each	100%	Retailing of high quality jewellery in USA**
Graff Diamonds (Palm Beach) Inc.	USA/ 25 February 2003	100 shares of 1 US\$ each	100%	Retailing of high quality jewellery in USA**
Graff Diamonds (Bal Harbour) Inc.	USA/ 14 November 2005	100 shares of 1 US\$ each	100%	Retailing of high quality jewellery in USA**
Graff Diamonds (San Francisco) Inc.	USA/ 13 May 2005	100 shares of 1 US\$ each	100%	Retailing of high quality jewellery in USA**
GLW SA	Switzerland/ 15 May 2007	500,000 shares of 1 CHF each	100%	Manufacturing of high quality watches**
Graff Diamonds (Taiwan) Limited	Taiwan/ 26 May 2011	13,860,000 of T\$1 each	100%	Retailing of high quality jewellery in Taiwan**
Venberg SA	Switzerland/ 1 November 1995	500,000 shares of 1 CHF each	100%	Retailing of high quality jewellery in Switzerland**
Graff Diamonds Hong Kong Limited	Hong Kong/ 4 October 2006	10,000 shares of 1 HKD each	100%	Retailing of high quality jewellery in Hong Kong**
Graff Investments Limited	England/ 19 December 2008	1,000 shares of 1 GBP each	100%	Investment holding**
Graff Diamonds (Shanghai) Limited	China/ 24 December 2009	US\$1,030,000	100%	Retailing of high quality jewellery in China**
Graff Diamonds Sarl	France/ 15 April 2008	7,500 shares of 1 Euro each	100%	Retailing of high quality jewellery in France**
Graff Diamonds Japan KK	Japan/ 6 July 2007	1,000 shares of 10,000 Yen each	100%	Retailing of high quality jewellery in Japan**
Graff Diamonds Japan	England/ 8 September 1999	2 shares of £1 each	100%	Retailing of high quality jewellery in Japan**
Commercial Land Equity Limited	England/ 10 October 1973	100 shares of £1 each	100%	Intermediate property leaseholder**

* Directly held by the Company

** Indirectly held by the Company

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The Controlling Shareholder held 50.01% equity interests in Safdico International Limited and its subsidiaries during the Relevant Periods. The equity interest held by other investors was accounted for as non-controlling interests during the Relevant Periods. Upon the completion of the reorganisation, Safdico International Limited will become a wholly owned subsidiary of the Company.

All subsidiaries have adopted 31 December as their financial year-end date.

For each of the years ended 31 December 2009 and 2010, all subsidiaries were audited by PricewaterhouseCoopers LLP, United Kingdom with the exception of the following entities:

- Graff Diamonds Hong Kong Limited which was audited by PricewaterhouseCoopers, Hong Kong;
- Safdico RSA (Proprietary) Limited and Safdico Rough (Proprietary) Limited which were both audited by Charles Orbach and Company;
- Safdico Botswana (Proprietary) Limited and Diamond Technology Park (Proprietary) Limited which were both audited by KPMG; and
- Graff Diamonds (Shanghai) Limited which was audited by Shanghai Certified Public Accountants for the year ended 31 December 2010.

Graff Diamonds Holdings Limited, Graff Holdings Inc, Graff Diamonds Sarl, Graff Diamonds Limited (Taiwan), Graff Diamonds Japan KK, SAM GRAFF Monte Carlo, GLW SA, Venberg SA, Safdico Inc (USA), Safdico Israel Limited and Pastel Properties Limited were not required to issue audited financial statements under the statutory requirements of their respective place of incorporation.

All of the Group's subsidiaries have not yet filed, by the date of this report, the audited financial statements for the year ended 31 December 2011, in accordance with the relevant local statutory requirements.

1.2 Basis of presentation

For the purpose of this report, the combined financial information of the Listing Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the HKICPA. The combined income statements, combined statements of comprehensive income, and combined statements of changes in equity and combined cash flow statements of the Listing Group for each of the years ended 31 December 2009, 2010 and 2011 have been prepared incorporating the financial information of the Listing Business, under the common control of the Controlling Shareholder, as if the group structure upon the completion of the Reorganisation had been in existence throughout each of the years ended 31 December 2009, 2010 and 2011, or since the respective dates of incorporation of the combining companies whichever is a shorter period. The combined balance sheets of the Listing Group as at 31 December 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the companies, as if the current group structure had been in existence as at these dates. The net assets and results of the Listing Group were combined using the existing book values from the Controlling Shareholder's perspective.

Due to the fact that the Excluded Businesses will be disposed of to the Controlling Shareholder pursuant to the Reorganisation and thus do not and have never formed part of the Listing Group, they are not included within the historical combined financial information contained within this report.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

The statement of changes in equity reflects certain equity movements which relate to transactions with the Excluded Businesses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Financial Information, which are in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The Financial Information has been prepared under the historical cost convention as modified by the fair valuation of financial assets at fair value through profit or loss, available-for-sale financial assets, financial liabilities at fair value through profit or loss and derivatives.

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These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations except for business combination under common control for the Reorganisation as described in Note 1.1 which are accounted for using the principles of merger accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated.

(b) Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been identified as the Executive Directors of the Board. The Executive Directors are responsible for resource allocation and assessing the performance of the operating segments. The operating segments are defined by distinctly separate product offerings and markets. The Board considers Graff's business through its two channels to the market being Retail operations and Procurement and Polishing. Retail revenues are generated by the sale of high quality jewellery through Graff stores as well as Graff franchisees and prestige department stores. Procurement and Polishing revenue arises from the manufacture and sale of diamonds by Safdico, from both sales to Graff and external customers. Inter-segment trading is eliminated in arriving at combined revenues and gross profit.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The combined financial information is presented in US dollars, which is the functional currency of the Company.

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(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses are presented in the income statement within administrative expenses.

(c) Translation of overseas net assets

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that statement;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in equity. On disposal of a foreign operation, any cumulative exchange differences held in equity are reclassified to the income statement.

On combination, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value. Property, plant and equipment are initially measured at cost.

Cost comprises the purchase price (after deducting discounts and rebates) and any directly attributable costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating expenses within the income statement.

Freehold land is not depreciated. Depreciation on other assets is provided on a straight line basis to write-down assets to their residual value evenly over the estimated useful lives of the assets from the date of acquisition by the Group. Assets under construction are not subject to depreciation until they are available for use, and are assessed for impairment at each reporting date.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

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The estimated useful lives of Group assets are as follows:

	<u>Straight line</u>
Leasehold land under finance lease	Shorter of lease term or useful life
Leasehold improvements	Over the term of the lease or life of leasehold improvements whichever is shorter
Computer equipment	5 years
Motor vehicles	4–5 years
Fixtures and fittings	4–13 years
Buildings	50 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date.

2.5 Goodwill

Goodwill arises on the acquisition of subsidiaries and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use calculated with reference to future discounted cash flows that the assets are expected to generate when considered as part of a cash-generating unit. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets and liabilities

In accordance with International Accounting Standards ("IAS") 39, "Financial Instruments Recognition and Measurement", all financial assets and liabilities, including derivative financial instruments, are recognised in the consolidated balance sheet and measured based on the IAS 39 category in which the instrument is classified.

2.7.1 Classification

The Group classifies its financial assets and liabilities in the following categories: at fair value through profit or loss — held for trading, at fair value through profit or loss — designated at fair value, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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(a) Financial assets and liabilities at fair value through profit or loss — held for trading

Financial assets and liabilities at fair value through profit or loss are financial assets acquired or incurred principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be realised within 12 months; otherwise, they are classified as non-current.

(b) Financial assets and liabilities at fair value through profit or loss — designated at fair value

These are assets and liabilities designated at fair value through profit or loss upon initial recognition (fair value option). This designation cannot be subsequently changed. In accordance with IAS 39, the fair value option can only be applied when (i) it reduces or eliminates an accounting mismatch, (ii) when financial instruments are part of a portfolio which risk is managed and reported to management based on its fair value or (iii) when these instruments consist of debt hosts and embedded derivatives that shall otherwise be separated.

The financial assets and liabilities included in this category are initially and subsequently recognized at fair value. Transaction costs are directly recognised in the combined income statement. Gains and losses arising from changes in fair value are directly included in the combined income statement under “Other Gains/(Losses) — net”. Financial assets are measured at fair value. The fair value of financial liabilities includes an adjustment for own credit risk and performance risk where this is considered to be a relevant risk. These assets and liabilities are not subject to interest income or expenses.

The Group designated certain assets and liabilities at fair value through profit or loss upon its initial recognition, to reduce or eliminate an accounting mismatch.

Assets in this category are classified as current assets if expected to be realised within 12 months; otherwise they are classified as non-current.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise ‘trade and other receivables’ and ‘cash and cash equivalents’ in the balance sheet.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The investment in Gem Diamonds Limited has been classified as an available-for-sale asset as management does not intend to dispose of the investment within the next 12 months.

2.7.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets, carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category relating to interest rate swaps are presented in the income statement within ‘Finance cost’ or ‘Finance income’ in the period in which they arise. Dividend income from financial assets at fair value

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through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement.

2.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are recognized as assets when the fair value is positive, and as liabilities when negative. The Group currently holds interest rate swaps which are classified as financial liabilities at the relevant reporting period ends. Changes in value of these swaps are recognised through the finance income/cost lines of the income statement.

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2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the basis of weighted cost for rough diamonds on a packet of diamonds and actual cost for polished stones. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred for completion and disposal.

2.11 Trade and other receivables

Trade receivables are recognised initially at fair value, and subsequently measured at amortised cost less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. Credit is only granted to external customers in the procurement segment and for wholesale sales within the retail segment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries are credited against 'operating expenses' in the income statement.

Other receivables comprise loans to related parties (note 24), which are recognised initially at fair value and subsequently measured at amortised cost. They are presented as non-current assets if collection is expected in more than one year.

2.12 Cash and cash equivalents

In the combined statements of cash flow, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue.

2.14 Trade payables

Trade payables are obligations to pay for goods and services which have been acquired in the commercial operations of the Group. Amounts payable are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Revenue recognition

Revenue represents the fair value of consideration received or receivable for goods supplied to the customer excluding sales taxes. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity as and when risks and rewards are transferred.

Wholesale sales and procurement and polishing division sales — on delivery of finished jewellery to the customer and when the risks and rewards of ownership have moved from the Group.

Retail sales — on receipt of funds and delivery of items to the customer.

Deferred income relates to customer deposits or cash advances and is deferred in the balance sheet until revenue recognition criteria are met.

2.17 Pension costs

The Group operates several defined contribution schemes for the benefit of employees. The assets of those schemes are held separately from those of the company.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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2.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term. Any incentives received at the inception of the lease are recognised on a straight-line basis over the life of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial information in the period in which the dividends are approved by the Company's shareholders.

2.22 Exceptional items

Exceptional items are items of income and expenditure that, in the judgement of management, should be disclosed separately on the basis that they are material, because of their nature and size, to an understanding of the Group's financial performance.

2.23 Changes in accounting policy and disclosures

The following standards/interpretations have been issued and are mandatory for the first time for the financial year beginning 1 January 2011 but these standards/interpretation are either not relevant to the Group (although they may affect the accounting for future transactions and events) or do not have a material impact:

- IAS 24 (revised), 'Related party disclosures', (effective from 1 January 2011).
- IFRIC 14 (amendment), 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction', (effective from 1 January 2011).
- IFRS 1 (amendment), 'First-time adoption of IFRS — Limited exemption from comparative IFRS 7 disclosures for first-time adopters', (effective from 1 July 2010).
- IFRIC 19 'Extinguishing financial liabilities with equity instruments'.
- IAS 32 (amendment), 'Financial instruments: Presentation — Classification of rights issues'.

The following standards/interpretations that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but the Group has not early adopted them:

- IFRS 7 (amendment), 'Financial instruments: Disclosures' (effective from 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.
- IFRS 1 (amendment), 'Severe hyperinflation and removal of fixed dates for first-time adopters' (effective from 1 July 2011). These amendments include two changes to IFRS 1, 'First-time adoption of IFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.
- IFRS 9, 'Financial instruments' (effective on or after 1 January 2013). This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement', by introducing new requirements for classifying and measuring financial assets. The Group will apply IFRS 9 from 1 July 2013. It is not expected to have a material impact on the Group's financial statements.

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- IAS 12 (amendment), 'Deferred tax — Recovery of underlying assets' (effective on 1 January 2012). IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes — recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- IAS 1 (amendment), 'Presentation of Items of other comprehensive Income' (effective on 1 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- IAS 19 (amendment), 'Employee Benefits' (effective from 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.
- IFRS 10, 'Consolidated financial statements' and IAS 27 (revised 2011), 'Separate financial statements' (effective from 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and separate financial statements', and SIC-12, 'Consolidation — special purpose entities'. IAS 27 is renamed 'Separate financial statements', and it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. The revised definition of control under IFRS 10 focuses on the need to have both power and variable returns before control is present.
- IFRS 11, 'Joint arrangements', and IAS 28 (revised 2011), "Investments in associates and joint ventures" (effective 1 January 2013), changes the definitions to reduce the types of joint arrangements to two, joint operations and joint ventures. It also eliminates the option to account for an interest in a joint venture under the proportionate consolidation method. IAS 28 has been amended to incorporate the consequential amendments arising from IFRS 11.
- IFRS 12, 'Disclosure of interests in other entities', (effective from 1 January 2013), sets out the required disclosures for entities reporting under the two new standards, IFRS 10, 'Consolidated financial statements', and IFRS 11, 'Joint arrangements'. It replaces the disclosure requirements currently found in IAS 28, 'Investments in associates'. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.
- IFRS 13, 'Fair value measurements', (effective from 1 January 2013), explains how to measure fair value and aims to enhance fair value disclosures. It does not say when to measure fair value or require additional fair value measurements. It does not apply to transactions within the scope of IFRS 2, 'Share-based payment', or IAS 17, 'Leases', or to certain other measurements that are required by other standards and are similar to, but are not, fair value.

The adoption of these standards, amendments and interpretations is not expected to have a material impact on the Group's profits, net assets or equity. The adoptions may affect the disclosures in the Group's financial statements.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate, fair value interest and cash flow risk), credit risk, foreign exchange risk, liquidity risk and price risk. The Group uses derivative financial instruments to minimise certain exposures.

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The policy for each of the above risks is described in more detail below.

(a) Market risk

Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities as detailed within the notes to this combined financial information. The Group uses derivative financial instruments to manage interest rate risk.

The Group has no significant interest bearing assets other than cash on deposit which attracts interest at a small margin above UK base rates.

The Group's interest rate risk arises from its long-term borrowings. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's bank borrowings are denominated principally in US dollars in both fixed and variable interest rates. Full details of the Group's borrowings and associated interest rates are set out in note 18.

The Group manages its cash flow interest rate risk where appropriate using interest rate swaps at contract lengths consistent with the repayment schedule of the long term bank borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group has entered into a number of swap agreements with terms remaining of between six and seven years, as disclosed in note 17.2.

As at 31 December 2009, 2010, and 2011 the fair value of these interest rate swaps was a liability of US\$5.2 million, US\$7.0 million and US\$7.6 million respectively.

The Group does not believe that it is materially exposed to interest rate movements.

Share price risk relating to the available for sale asset and asset at fair value through profit or loss

The carrying value of the investments in the available for sale asset and financial asset at fair value through profit or loss are sensitive to the movement in the quoted price of the investment. A movement of 10% of the share price would give rise to a movement of approximately US\$5.2 million, US\$6.8 million and US\$6.3 million as at 31 December 2009, 2010 and 2011, respectively, in the combined carrying value of the assets.

Cash flow risk

Cash flow forecasting is performed on a regular basis which includes rolling forecasts of the Group's liquidity requirements to ensure that the Group has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities.

The Group's borrowing facilities are described in note 18.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum credit exposure relates to the total of cash and cash equivalents and trade receivables balances as at 31 December 2009, 2010 and 2011 is US\$55.8 million, US\$63.8 million and US\$79.5 million respectively.

The Group has limited exposure to credit risk. The Group monitors on a regular basis the overall credit afforded to customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset included in the balance sheet. Management does not expect any material losses from non-performance by these counterparties.

To manage risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

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(c) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's exposure to foreign exchange risk is minimal because the Company's functional currency and the functional currency of its significant foreign operations is the US dollar and the vast majority of transactions are in this currency. Sales pricing is primarily driven by the US dollar.

Hence, given the size and nature of the Group's operations, the costs of proactively managing exposure to foreign exchange risk using hedging or derivatives exceed any potential benefits. The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

The Group operates internationally and is exposed to foreign exchange risk arising from various local currency exposures, primarily with respect to UK pound sterling and Hong Kong dollars. Other currencies apart from US dollars in which the Group makes sales include the Euro, the Renminbi, the Swiss Franc and Japanese Yen. Exposures to these currencies are also managed centrally, however the potential exposure to losses is considered immaterial.

Exposure to UK pound sterling is due to the payment of costs in the UK principally relating to staff costs, UK corporation tax, property rental and corporate overheads. This exposure is partly mitigated by sales received in UK pound sterling.

At December 31, 2011, if the US dollar had strengthened by 10% against the UK pound sterling with all other variables held constant, post-tax profit for the year would have been higher by US\$0.4 million, US\$1.8 million and US\$0.4 million for the year ended 31 December 2009, 2010 and 2011, respectively, mainly as a result of lower corporate and workshop costs incurred in the UK.

Exposure to Hong Kong dollars initially arises from sales in the Hong Kong shop which are partly received in this currency. This is mitigated by local staff costs and overhead costs arising in Hong Kong dollars. Additionally, as the Hong Kong dollar is pegged to the US dollar to a limited variance, the potential exposure to losses is considered immaterial.

Bank accounts are maintained centrally in each major currency to enable net proceeds from sales to be returned centrally for treasury management purposes. These funds need only be translated into other currencies if there is a shortfall in those other currencies. This allows foreign exchange exposure to be actively managed by the central finance function.

(d) Liquidity risk

The Directors regularly review the Group's financial position and actively discuss matters to ensure that there are sufficient funds available to continue in operational existence and meet liabilities as and when they fall due.

The Group's policy is to maintain a balance of continuity of funding and flexibility through the use of overdraft facilities and other borrowings as applicable. Ultimate responsibility for liquidity risk management rests with the Executive Directors of the Company. The Directors use management information tools including budgets and cash flow forecasts to be able to constantly monitor and manage current and future liquidity. The maturity profile of the Group's borrowings is presented in note 18 along with the Group's borrowing facilities as at each reporting date.

Surplus cash held by the operating entities over and above that required for working capital management are transferred to the Group treasury function. As at 31 December 2009, 2010 and 2011, the Group held cash and cash equivalents of US\$17.8 million, US\$32.2 million, and US\$63.8 million respectively.

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The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years ⁽²⁾
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 31 December 2009				
Borrowings (excluding finance leases)	50,550	3,840	6,831	5,223
Finance leases	4,736	4,717	3,441	—
Trading and net settled derivative financial instruments (interest rate swap)	—	—	—	5,201
Trade and other payables ⁽¹⁾	81,578	—	—	—
	<u>136,864</u>	<u>8,557</u>	<u>10,272</u>	<u>10,424</u>
As at 31 December 2010				
Borrowings (excluding finance leases)	87,601	3,300	6,487	663
Finance leases	5,058	3,399	298	—
Trading and net settled derivative financial instruments (interest rate swap)	—	—	—	7,011
Trade and other payables ⁽¹⁾	80,631	—	—	—
	<u>173,290</u>	<u>6,699</u>	<u>6,785</u>	<u>7,674</u>
As at 31 December 2011				
Borrowings (excluding finance leases)	190,325	3,758	2,635	35
Finance leases	3,743	592	591	—
Trading and net settled derivative financial instruments (interest rate swap)	—	—	—	7,647
Trade and other payables ⁽¹⁾	155,335	—	—	—
	<u>349,403</u>	<u>4,350</u>	<u>3,226</u>	<u>7,682</u>

Notes:

- (1) Social security and other taxes are excluded from trade and other payables balance, as this analysis is required only for financial instruments.
- (2) The fair value of the interest rate swap is considered to be a reasonable approximation of the undiscounted cash flows.

(e) Price risk

The Group's exposure to price risk arises from the fluctuation of diamond prices and is affected by numerous factors beyond the Group's control including worldwide levels of diamond discovery and production and the level of demand for, and discretionary spending on, luxury goods such as diamonds and jewellery. Diamonds are not a publicly traded commodity, which limits visibility on price and the Group's ability to hedge against price fluctuations. A significant decline in the price of diamonds could have an adverse impact on the results of operations.

3.2 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity ratio. The capital structure of the Group consists of the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in the combined statement of changes in equity.

After making inquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt

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the going concern basis in preparing its combined financial information. Further information on the Group's borrowing is given in note 18.

The Group's revolving credit facility and the senior secured notes contain certain restrictive covenants that limit the Group's ability to borrow additional funds.

The Group did not breach any of its borrowing covenants during the periods presented.

3.3 Fair value estimation

The following table presents the Group's assets and liabilities that are measured at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3)

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Available-for-sale financial assets (note 13)			
Listed trade investments marked to market value (level 1) . . .	28,214	35,360	37,967
Financial assets at fair value through profit or loss (note 13.1)			
Listed trade investments marked to market value (level 1) . . .	23,761	32,716	24,639
Financial liabilities at fair value through profit or loss (note 17.3)			
Loan (level 2)	(23,761)	(32,716)	(24,639)
Derivative financial instruments			
Interest rate swaps (level 2)	(5,201)	(7,011)	(7,647)
	23,013	28,349	30,320

The fair value of financial instruments that are traded in an active market is based on market prices quoted on the London Stock Exchange at the balance sheet date. The fair value of the swaps are based on valuations from third parties which maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group is required to make estimates and assumptions that affect certain asset, liability, income and expense items and certain disclosures regarding contingencies. Estimates and judgements applied by management are continuously evaluated and are based on information available, historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances at the dates of preparation of the combined financial statements. Principal matters where assumptions, judgement and estimates are made relate in particular to:

(a) Inventory valuation

The carrying value of inventory is reviewed by management at each reporting date to ensure that it is not recorded at a value higher than net realisable value. In order to carry out this review, inventory is analysed according to the period that it has been kept in stock and an obsolescence provision recorded. In calculating this provision, management consider the probability of sale of items of that age to the market

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based on the current status of the market, however, a change in the market may increase or decrease this probability.

(b) Depreciation

The Group's management determines residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete assets that have been abandoned or sold. The current estimated useful lives are stated in note 2.4.

(c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(d) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The financial instruments of the Group are considered to be Level 1 or Level 2 in the fair value hierarchy and additional information is included above.

5. SEGMENT INFORMATION

Management has determined the reportable segments based on the reports regularly reviewed by the Board of Directors in making strategic decisions. The Board assesses the performance of the reportable segments based on revenue and gross margin. Corporate costs, finance income and costs are not allocated to segments as they are managed on a central basis. The revenue from external parties reported to management is measured in a manner consistent with that in the income statement.

	<u>Year ended 31 December</u>		
	<u>2009</u>		
	<u>Retail</u>	<u>Procurement and Polishing</u>	<u>Total</u>
<i>(all figures in US\$000s)</i>			
Total segment revenue	399,300	212,572	611,872
Inter-segment revenue	—	(70,529)	(70,529)
Revenue from external customers	<u>399,300</u>	<u>142,043</u>	<u>541,343</u>
Gross profit	171,077	9,327	180,404
Corporate costs			(105,498)
Exceptional items			8,998
Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")			83,904
Depreciation			(9,817)
Operating profit			74,087
Net finance costs			(3,761)
Profit before tax			<u>70,326</u>

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	Year ended 31 December		
	2010		
	Retail	Procurement and Polishing	Total
<i>(all figures in US\$000s)</i>			
Total segment revenue	454,347	255,780	710,127
Inter-segment revenue	—	(93,460)	(93,460)
Revenue from external customers	<u>454,347</u>	<u>162,320</u>	<u>616,667</u>
Gross profit	245,809	22,294	268,103
Corporate costs			(124,249)
Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")			143,854
Depreciation			(9,046)
Operating profit			134,808
Net finance costs			(6,259)
Profit before tax			<u>128,549</u>

	Year ended 31 December		
	2011		
	Retail	Procurement and Polishing	Total
<i>(all figures in US\$000s)</i>			
Total segment revenue	623,468	266,274	889,742
Inter-segment revenue	—	(134,172)	(134,172)
Revenue from external customers	<u>623,468</u>	<u>132,102</u>	<u>755,570</u>
Gross profit	281,830	6,268	288,098
Corporate costs			(124,411)
Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA")			163,687
Depreciation			(10,495)
Exceptional items			(4,482)
Operating profit			148,710
Net finance costs			(5,808)
Profit before tax			<u>142,902</u>

Revenue arising in the UK includes sales of US\$85.6 million, US\$74.7 million and US\$100.0 million for the year ended 31 December 2009, 2010 and 2011, respectively, to one customer which is reported in the retail segment.

The Company's country of domicile is the Cayman Islands from which no revenue arises.

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Revenue is allocated to geographical areas on the basis of origin. Revenue in the procurement and polishing segment arises in Europe. Revenues from retail were derived from the following regions:

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
United Kingdom	182,999	200,051	263,165
Rest of Europe	68,174	103,461	146,972
Total Europe	251,173	303,512	410,137
US	97,049	96,446	92,918
Asia	51,078	54,389	120,413
Total retail revenue	399,300	454,347	623,468

Non-current assets (other than deferred tax assets) are located in the following geographical markets:

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
United Kingdom	68,615	88,032	86,617
Rest of Europe	5,195	5,784	7,116
Total Europe	73,810	93,816	93,733
US	20,144	16,759	20,392
Asia	313	354	3,665
Africa	16,839	18,003	17,062
Non-current assets excluding deferred tax assets	111,106	128,932	134,852
Deferred tax assets	9,341	9,122	10,456
Total non-current assets	120,447	138,054	145,308

6. PROPERTY, PLANT AND EQUIPMENT

	Freehold and Leasehold land and buildings	Leasehold Improvements	Fixtures and fittings	Computer equipment	Motor Vehicles	Assets under Construction	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost							
1 January 2009	11,787	35,008	34,736	3,535	443	532	86,041
Additions	2,091	1,516	2,920	220	—	1,416	8,163
Disposals	(560)	(818)	(2,577)	(79)	—	—	(4,034)
31 December 2009	13,318	35,706	35,079	3,676	443	1,948	90,170
Accumulated depreciation and impairment							
1 January 2009	124	12,547	9,789	2,052	210	—	24,722
Charged in the year	158	3,802	5,364	452	41	—	9,817
Disposals	(37)	(174)	(1,316)	(79)	—	—	(1,606)
31 December 2009	245	16,175	13,837	2,425	251	—	32,933
Net book amount							
31 December 2009	13,073	19,531	21,242	1,251	192	1,948	57,237

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	Freehold and Leasehold land and buildings	Leasehold Improvements	Fixtures and fittings	Computer equipment	Motor Vehicles	Assets under Construction	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost							
1 January 2010	13,318	35,706	35,079	3,676	443	1,948	90,170
Transfers	—	—	58	62	—	(120)	—
Additions	2,361	—	2,238	315	—	7,713	12,627
Disposals	(1,252)	—	(91)	(20)	—	—	(1,363)
31 December 2010	<u>14,427</u>	<u>35,706</u>	<u>37,284</u>	<u>4,033</u>	<u>443</u>	<u>9,541</u>	<u>101,434</u>
Accumulated depreciation and impairment							
1 January 2010	245	16,175	13,837	2,425	251	—	32,933
Charged in the year	193	3,010	5,332	472	39	—	9,046
Disposals	—	—	(91)	(14)	—	—	(105)
Impairment	—	598	—	—	—	—	598
31 December 2010	<u>438</u>	<u>19,783</u>	<u>19,078</u>	<u>2,883</u>	<u>290</u>	<u>—</u>	<u>42,472</u>
Net book amount							
31 December 2010	<u>13,989</u>	<u>15,923</u>	<u>18,206</u>	<u>1,150</u>	<u>153</u>	<u>9,541</u>	<u>58,962</u>
Freehold and Leasehold land and buildings							
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost							
1 January 2011	14,427	35,706	37,284	4,033	443	9,541	101,434
Additions	282	7,528	7,236	218	—	6,697	21,961
Disposals	—	—	(1,126)	(726)	—	—	(1,852)
31 December 2011	<u>14,709</u>	<u>43,234</u>	<u>43,394</u>	<u>3,525</u>	<u>443</u>	<u>16,238</u>	<u>121,543</u>
Accumulated depreciation and impairment							
1 January 2011	438	19,783	19,078	2,883	290	—	42,472
Charged in the year	—	2,319	7,607	527	42	—	10,495
Disposals	—	—	(1,071)	(705)	—	—	(1,776)
31 December 2011	<u>438</u>	<u>22,102</u>	<u>25,614</u>	<u>2,705</u>	<u>332</u>	<u>—</u>	<u>51,191</u>
Net book amount							
31 December 2011	<u>14,271</u>	<u>21,132</u>	<u>17,780</u>	<u>820</u>	<u>111</u>	<u>16,238</u>	<u>70,352</u>

Included in freehold and leasehold land and buildings above is freehold land with a cost and net book value of US\$0.8 million, as at 31 December 2009, 2010 and 2011.

As at 31 December 2009, 2010 and 2011, certain freehold and leasehold land and buildings with net book value of US\$12.4 million, US\$13.6 million and US\$13.8 million were pledged as collateral for the Group's borrowings, respectively (note 18).

Leasehold land of the Group, with a net book value of US\$0.1 million as at 31 December 2009, 2010 and 2011, is located in Botswana and is subject to the maximum 50 year lease allowable in that country. As at 31 December 2011 there were 44 years remaining on the lease.

Assets under construction principally relate to refurbishment work being carried out at the New Bond Street store.

Depreciation expense is recognised in administrative expenses.

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The leasehold improvements, comprising assets held under finance leases, are subject to 5 year lease terms and a nominal purchase option as follows:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cost	13,758	13,758	15,083
Accumulated depreciation	(5,833)	(8,584)	(11,534)
Net book amount	<u>7,925</u>	<u>5,174</u>	<u>3,549</u>

7. FINANCIAL INSTRUMENTS

7.1 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Loans and receivables (other financial assets):			
Trade and other receivables excluding prepayments and amounts due from related parties	43,389	43,896	27,722
Cash and cash equivalents	17,791	32,155	63,765
Total	<u>61,180</u>	<u>76,051</u>	<u>91,487</u>
Available-for-sale financial assets:			
Non-current assets investment	<u>28,214</u>	<u>35,360</u>	<u>37,967</u>
Financial assets at fair value through profit or loss:			
Non-current assets investment	<u>23,761</u>	<u>32,716</u>	<u>24,639</u>
Financial liabilities at fair value through profit or loss:			
Loan	<u>(23,761)</u>	<u>(32,716)</u>	<u>(24,639)</u>
Derivative financial instruments:			
Interest rate swap	<u>(5,201)</u>	<u>(7,011)</u>	<u>(7,647)</u>

All other financial liabilities are measured on the basis of amortised cost.

7.2 Credit quality of financial assets

Credit risk is managed on a Group basis and arises from cash and cash equivalents and credit exposures to customers.

For customers the directors consider that, based on the historical information about default rates and the current strength of customer relationships, a number of which are recurring long term customers, the credit quality of financial assets that are neither past due nor impaired is good.

None of the financial assets that are fully performing at each balance sheet date were renegotiated in the preceding twelve months.

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8. FINANCE INCOME

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest on bank deposits	15	21	4
Other income	1,503	2,741	2,579
Fair value gains on interest rate swap	3,634	—	—
	<u>5,152</u>	<u>2,762</u>	<u>2,583</u>

Other income principally relates to interest received from related parties (see note 24).

9. FINANCE COSTS

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest on bank loans wholly repayable within 5 years	4,470	3,279	4,054
Interest on loans wholly repayable in more than 5 years	3,273	3,084	3,050
Other interest	298	205	177
Fair value losses on interest rate swap	—	1,810	636
Interest on finance leases	872	643	474
	<u>8,913</u>	<u>9,021</u>	<u>8,391</u>

10. EXPENSES/OTHER INCOME (LOSSES)

10.1 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Wages and salaries	45,766	49,837	58,644
Social security costs	2,702	3,293	4,380
Other pension costs	1,019	1,097	1,472
	<u>49,487</u>	<u>54,227</u>	<u>64,496</u>

There were no pension contributions outstanding as at 31 December 2009, 2010 or 2011. There were no forfeited contributions utilised during 2009, 2010 or 2011 and no forfeited contributions were available as at 31 December 2009, 2010 and 2011 to reduce future contributions.

10.2 Key management compensation

Key management includes directors (executive and non-executive) of the Group and senior management who are responsible for the day-to-day management of the business. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Salaries and other short-term employee benefits	11,362	12,874	15,219
Post-employment benefits	230	264	257
	<u>11,592</u>	<u>13,138</u>	<u>15,476</u>

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10.3 Directors' remuneration

The remuneration of those directors who received emoluments during the Relevant Periods is set out below:

Year ended 31 December 2009

Name of Director	Fees <i>US\$'000</i>	Salary <i>US\$'000</i>	Discretionary bonuses <i>US\$'000</i>	Other benefits ^(a) <i>US\$'000</i>	Employer's contribution to pension scheme <i>US\$'000</i>	Total <i>US\$'000</i>
François Graff	—	1,174	1,599	4	—	2,777
Nicholas Paine	—	470	78	3	94	645
	—	1,644	1,677	7	94	3,422

Year ended 31 December 2010

Name of Director	Fees <i>US\$'000</i>	Salary <i>US\$'000</i>	Discretionary bonuses <i>US\$'000</i>	Other benefits ^(a) <i>US\$'000</i>	Employer's contribution to pension scheme <i>US\$'000</i>	Total <i>US\$'000</i>
François Graff	—	1,159	2,219	4	—	3,382
Nicholas Paine	—	541	78	3	108	730
	—	1,700	2,297	7	108	4,112

Year ended 31 December 2011

Name of Director	Fees <i>US\$'000</i>	Salary <i>US\$'000</i>	Discretionary bonuses <i>US\$'000</i>	Other benefits ^(a) <i>US\$'000</i>	Employer's contribution to pension scheme <i>US\$'000</i>	Total <i>US\$'000</i>
François Graff	—	1,206	3,500	4	—	4,710
Nicholas Paine	—	632	79	3	126	840
	—	1,838	3,579	7	126	5,550

(a) Other benefits include payments made for healthcare cover.

No other directors of the Company received any emoluments in respect of services to the Company and the Group during the Relevant Periods.

No directors of the Company waived remuneration for any of the relevant periods.

10.4 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Relevant Periods were:

	Year ended 31 December		
	2009 <i>US\$'000</i>	2010 <i>US\$'000</i>	2011 <i>US\$'000</i>
Salaries, other allowances and benefits in kind	8,695	8,980	5,918
Bonuses	1,599	2,219	5,625
Post-employment benefits	147	150	123
	10,441	11,349	11,666

One of the two directors of the Group named above is among the five highest paid individuals disclosed above.

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The emoluments fell within the following bands:

Emolument bands (HK\$)	Equivalent to US\$	Number of individuals		
		Year ended 31 December		
		2009	2010	2011
HK\$11,000,001 – HK\$11,500,000	US\$1,414,001 – US\$1,478,000	—	—	1
HK\$12,000,001 – HK\$12,500,000	US\$1,542,001 – US\$1,607,000	1	—	—
HK\$13,000,001 – HK\$13,500,000	US\$1,671,001 – US\$1,735,000	—	—	1
HK\$13,500,001 – HK\$14,000,000	US\$1,735,001 – US\$1,799,000	1	—	1
HK\$14,000,001 – HK\$14,500,000	US\$1,799,001 – US\$1,864,000	—	1	—
HK\$14,500,001 – HK\$15,000,000	US\$1,864,001 – US\$1,928,000	1	1	—
HK\$15,000,001 – HK\$15,500,000	US\$1,928,001 – US\$1,992,000	—	1	—
HK\$16,000,001 – HK\$16,500,000	US\$2,057,001 – US\$2,121,000	—	—	1
HK\$17,000,001 – HK\$17,500,000	US\$2,185,001 – US\$2,249,000	—	1	—
HK\$18,500,001 – HK\$19,000,000	US\$2,378,001 – US\$2,442,000	1	—	—
HK\$21,500,001 – HK\$22,000,000	US\$2,763,001 – US\$2,828,000	1	—	—
HK\$26,000,001 – HK\$26,500,000	US\$3,342,001 – US\$3,406,000	—	1	—
HK\$36,500,001 – HK\$37,000,000	US\$4,692,001 – US\$4,756,000	—	—	1
		5	5	5

During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10.5 Expenses by nature

	Year ended 31 December		
	2009	2010	2011
	US\$'000	US\$'000	US\$'000
Cost of inventories	327,656	304,012	442,242
Employee benefit expenses	49,487	54,227	64,496
Property related costs	16,280	17,891	18,745
Marketing and promotion costs	11,481	9,541	12,603
Insurance	14,549	18,886	12,461
Depreciation	9,817	9,046	10,495
Travel	5,050	6,473	4,668
Bank charges	2,266	3,940	5,349
Auditors' remuneration	500	500	600
Other professional fees	267	1,302	2,046
Transaction costs	—	—	4,482
	—	—	4,482

Included within property related costs are the following items:

Operating lease rentals			
— Minimum lease payments	9,157	9,605	11,249
— Others	15	13	3
	9,172	9,618	11,252

During the years ended 31 December 2011, profit sharing arrangements in respect of certain stones were in place with a third party that is indirectly operated for the benefit of a diamond industry participant with whom Laurence Graff has a long-standing professional relationship, and parties who are also non-controlling interest holders in the Group through Safdico. The amounts paid out to those parties as their share of profit amounted to US\$1.9 million, US\$2.1 million and US\$1.3 million in 2009, 2010 and 2011, respectively. These have been included within cost of sales in the Procurement and Polishing division.

Profit sharing arrangements involve the provision of working capital in order to fund the acquisition and maintenance of Procurement and Polishing division inventory in return for a share of the profit or loss realised upon the sale of those diamonds.

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10.6 Other income

Other income relates to income which is not generated by the principal activities of the Group. Other income in 2009 principally consists of the net surplus insurance proceeds.

10.7 Exceptional items

In 2011, exceptional items related to costs incurred to date as part of the IPO listing process and include legal and other professional fees. These are recorded within administrative expenses.

In 2009, exceptional items comprised the net surplus of an insurance claim. This item is recorded within other income.

10.8 Other (losses)/gains — net

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Financial assets at fair value through profit or loss (note 3.3):			
— Fair value losses	—	—	(8,077)
— Fair value gains	7,396	3,848	—
Financial liabilities at fair value through profit or loss (note 3.3):			
— Fair value losses	(7,396)	(3,848)	—
— Fair value gains	—	—	8,077
	<u>—</u>	<u>—</u>	<u>—</u>

The 'other (losses)/gains — net' relate to financial assets and financial liabilities designated at fair value through profit or loss.

The financial liability represents a loan where the repayment amount varies in line with an underlying index. Management have designated this instrument, including the embedded derivative, at fair value through profit or loss (note 17.3). Management have designated financial assets, representing equity investments in listed securities, at fair value through profit or loss in order to offset an accounting mismatch.

11. DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Deferred tax assets:			
Deferred tax asset to be recovered after more than 12 months	9	9	8
Deferred tax asset to be recovered within 12 months	9,332	9,113	10,448
	<u>9,341</u>	<u>9,122</u>	<u>10,456</u>
Deferred tax liabilities:			
Deferred tax liability to be recovered after more than 12 months	39	—	430
Deferred tax liability to be recovered within 12 months	1,054	1,070	1,041
	<u>1,093</u>	<u>1,070</u>	<u>1,471</u>
Deferred tax assets (net)	<u>8,248</u>	<u>8,052</u>	<u>8,985</u>

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The gross movement on the deferred income tax account is as follows:

	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January	5,257	8,248	8,052
(Charged)/credited to income statement (note 19)	2,991	(196)	933
As at 31 December	<u>8,248</u>	<u>8,052</u>	<u>8,985</u>

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

<u>Deferred tax liabilities</u>	Accelerated tax depreciation	Others	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January 2009	730	—	730
Charged to the income statement	120	243	363
As at 31 December 2009	<u>850</u>	<u>243</u>	<u>1,093</u>
As at 1 January 2010	850	243	1,093
Credited to the income statement	(23)	—	(23)
As at 31 December 2010	<u>827</u>	<u>243</u>	<u>1,070</u>
As at 1 January 2011	827	243	1,070
Charged to the income statement	401	—	401
As at 31 December 2011	<u>1,228</u>	<u>243</u>	<u>1,471</u>

<u>Deferred tax assets</u>	Provisions	Unrealised Profit	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January 2009	346	5,641	5,987
Credited to the income statement	18	3,336	3,354
As at 31 December 2009	<u>364</u>	<u>8,977</u>	<u>9,341</u>
As at 1 January 2010	364	8,977	9,341
Credited/(charged) to the income statement	912	(1,131)	(219)
As at 31 December 2010	<u>1,276</u>	<u>7,846</u>	<u>9,122</u>
As at 1 January 2011	1,276	7,846	9,122
Credited to the income statement	286	1,048	1,334
As at 31 December 2011	<u>1,562</u>	<u>8,894</u>	<u>10,456</u>

12. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

Dividends during the year ended 31 December 2009, 2010 and 2011 of US\$14.3 million, US\$25.9 million and US\$51.0 million represented dividends declared by SAM GRAFF Monte-Carlo and by Graff Diamonds Holdings Limited to the then equity holders of the companies. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January	10,256	28,214	35,360
Exchange differences	2,593	(2,307)	(301)
Additions	8,669	5,654	10,933
Net gains/(losses) transferred from equity (note 21)	6,696	3,799	(8,025)
As at 31 December	<u>28,214</u>	<u>35,360</u>	<u>37,967</u>

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Available-for-sale financial assets are denominated in Sterling and consist of an equity investment in Gem Diamonds Limited ('Gem Diamonds'), a British Virgin Island based company listed on the London Stock Exchange. The company carries out mining activities in Lesotho, Australia and Botswana.

The Group holds 20,861,931 ordinary shares purchased at a cost of GBP 40.2 million as at 31 December 2011 which represents an interest of 10.2%, 12.5% and 15.0% as at 31 December 2009, 2010 and 2011, respectively.

The purchase of the Gem Diamonds shares was partly funded by a loan payable to an unrelated third party. The loan becomes repayable on disposal of certain shares in Gem Diamonds held by the Group. The amount to be repaid to the lender is calculated based on the proceeds of the disposal of the shares. The loan is a derivative financial instrument and has been designated as a financial liability at fair value through profit or loss (see note 17.3) in accordance with IAS 39.

The Group, under IFRS, has made an accounting policy choice to designate some of the shares in Gem Diamonds (representing the shares financed by the underlying loan) as "fair value through profit or loss". This eliminates an accounting mismatch because the loan liability and the designated assets are both measured based on the Gem Diamonds share price with fair value movements recognised in the income statement. The remaining shares are accounted for as available-for-sale assets, and the movement in fair value is recorded in the statement of changes in equity.

13.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss relate to equity investments in Gem Diamonds Limited which have been designated at fair value through profit or loss (refer to note 13 for further detail of the Gem Diamonds shares).

	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January	12,919	23,761	32,716
Additions	3,446	5,107	—
Credit/(charge) to income statement	7,396	3,848	(8,077)
As at 31 December	<u>23,761</u>	<u>32,716</u>	<u>24,639</u>

14. INVENTORIES

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials and consumables	50,489	70,832	123,136
Polished stones	48,367	34,602	80,245
Finished goods and goods for resale	271,854	336,923	448,003
	<u>370,710</u>	<u>442,357</u>	<u>651,384</u>

The cost of inventories is recognised as an expense and included in 'cost of sales'. This amounted to US\$327.7 million, US\$304.0 million and US\$442.2 million for the year ended 2009, 2010 and 2011, respectively.

The provision for inventory was US\$37.2 million, US\$10.3 million and US\$4.9 million as at 31 December 2009, 2010 and 2011, respectively.

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15. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables	38,180	32,077	16,168
Less: Provision for impairment of receivables	(139)	(459)	(459)
Trade receivables — net	38,041	31,618	15,709
Other receivables	5,348	12,278	12,013
Prepayments	4,674	4,820	6,216
Amounts due from related parties (note 24)	74,614	78,678	60,580
	<u>122,677</u>	<u>127,394</u>	<u>94,518</u>

The payment terms for retail customers are cash on delivery of the goods. For Procurement and Polishing division customers, credit terms range from 30–60 days after invoice date.

As at 31 December 2009, 2010 and 2011, the aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
1–30 days	26,499	28,899	9,362
31–60 days	8,601	1,927	5,638
61–90 days	710	689	—
91–365 days	2,070	262	—
Over 1 year	300	300	1,168
	<u>38,180</u>	<u>32,077</u>	<u>16,168</u>

As at 31 December 2009, 2010 and 2011, trade receivables of US\$38.0 million, US\$31.6 million, and US\$15.7 million respectively, were fully performing.

As at 31 December 2009, 2010 and 2011, trade receivables overdue but not impaired were US\$nil, US\$nil and US\$0.7 million, respectively. These relate to a number of customers for whom there is no recent history of default.

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US dollar	90,977	111,861	86,739
Euro	28,506	13,242	2,490
Sterling	—	269	—
Swiss Francs	1,169	461	1,391
Hong Kong dollar	241	—	870
Japanese Yen	—	1,561	1,631
Chinese Renminbi	1,784	—	1,397
Total	<u>122,677</u>	<u>127,394</u>	<u>94,518</u>

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Movements on the Group provision for impairment of trade receivables are as follows:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
As at 1 January	366	139	459
Provisions for impairment of receivables	—	320	—
Unused amounts reversed	(227)	—	—
As at 31 December	139	459	459

16. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cash at banks and in hand	17,791	32,155	53,012
Short-term bank deposits	—	—	10,753
Net cash and cash equivalents	17,791	32,155	63,765

The short term bank deposit is interest bearing at 0.05% for 4 days' deposit.

Exchange restrictions apply in South Africa although the Group is, in practice, able to obtain currency to acquire rough diamonds and subsequently export polished stones. The Group's Renminbi ("RMB") balances are placed with banks in the People's Republic of China ("PRC"). RMB is not a freely convertible currency. The conversion of these RMB denominated balances into foreign currencies in the PRC is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Cash balances denominated in South African Rand and RMB will be used as part of the normal operating activities in South Africa and PRC and are classified with unrestricted cash on this basis. Other cash balances are unrestricted.

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Sterling	78	1,397	5,435
Euro	2,522	4,205	4,153
US dollar	12,249	14,504	40,851
Hong Kong dollar	1,933	6,364	7,714
Swiss Francs	142	1,947	641
Japanese Yen	732	1,371	467
Renminbi	—	311	57
South African Rand	105	1,477	690
Taiwan dollar	—	—	3,375
Israeli Shekel	—	12	25
Botswana Pula	23	564	357
Others	7	3	—
Total	17,791	32,155	63,765

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17. TRADE AND OTHER PAYABLES, DERIVATIVE FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

17.1 Trade and other payables

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Amounts falling due within one year			
Trade creditors	32,009	37,629	77,996
Other taxation and social security costs	2,076	1,590	2,817
Other creditors	4,222	3,676	25,942
Accruals and deferred income	9,205	13,051	35,129
Amounts due to related parties (note 24)	36,142	26,275	16,268
	<u>83,654</u>	<u>82,221</u>	<u>158,152</u>

Accruals and deferred income principally comprises goods received not invoiced and prepayments from customers in advance of procurement of jewellery.

Ageing analysis of trade payables by invoice date at the respective reporting dates is as follows:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Less than 1 month	15,276	17,869	27,460
1 to 2 months	12,964	3,219	38,717
3 to 6 month	—	10,297	11,513
Over 6 months	3,769	6,244	306
Total	<u>32,009</u>	<u>37,629</u>	<u>77,996</u>

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US dollar	57,160	44,221	105,280
Sterling	17,912	24,539	17,221
Euro	5,642	6,458	15,093
Swiss Francs	1,157	4,027	6,480
Hong Kong dollar	1,360	1,566	12,040
Japanese Yen	423	730	54
Renminbi	—	680	713
Taiwan dollar	—	—	1,271
Total	<u>83,654</u>	<u>82,221</u>	<u>158,152</u>

17.2 Derivative financial instruments

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Interest rate swaps	<u>5,201</u>	<u>7,011</u>	<u>7,647</u>

In 2006, the Group entered into one interest rate swap for a nominal principal amount of JPY 737.3 million maturing in 2018. Under this swap, the Group pays interest fixed at a rate of 1.87%. The notional principal amounts of the outstanding interest rate swap contracts as at 31 December 2009, 2010 and 2011 were JPY 559.0 million, JPY 553.0 million, and JPY 506.9 million, respectively.

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In July 2008, as part of the interest rate management strategy, the Group entered into one interest rate swap for a nominal principal amount of US\$48.6 million maturing in 2018. Under this swap, the Group pays interest fixed at a rate of 4.58%. The notional principal amounts of the outstanding interest rate swap contracts as at 31 December 2009, 2010 and 2011 were US\$48.4 million, US\$45.6 million and US\$69.8 million.

The interest rate swaps do not qualify as hedging instruments. The carrying value shown above is the market value of the liability arising if these swaps were liquidated at the relevant reporting date. Movements in this valuation have been recognised in 'finance costs' or 'finance income'.

17.3 Financial liabilities at fair value through profit or loss

The financial liabilities at fair value through profit or loss relates to a loan with an embedded derivative which has been designated at fair value through profit or loss (note 13.1).

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Financial liabilities at fair value through profit or loss	23,761	32,716	24,639

The loan is from an unrelated third party, is interest free and not repayable within the next five years.

18. BORROWINGS

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
NON-CURRENT			
Bank loans — unsecured	6,855	4,480	2,507
Bank loans — secured	5,473	3,983	3,011
Obligations under finance leases	7,661	3,570	1,086
	19,989	12,033	6,604
CURRENT			
Bank overdrafts — secured	31,006	60,656	3,331
Committed bank facility — secured	—	—	115,000
Other loans — unsecured	16,667	—	5,500
Bank loans — unsecured	2,250	2,375	1,972
Bank loans — secured	627	24,570	64,522
Obligations held under finance leases	4,097	4,654	3,553
	54,647	92,255	193,878
	74,636	104,288	200,482

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Maturity of borrowings			
Less than one year	54,647	92,255	193,878
In more than one year but not more than two years	7,894	6,514	3,614
In more than two years but not more than five years	9,956	4,447	2,701
In more than five years	2,139	1,072	289
	74,636	104,288	200,482

The Group has a revolving credit facility of US\$120.0 million of which US\$115.0 million was drawn as at 31 December 2011. Interest is payable on this balance at a margin of 1.65%. The facility is committed until March 2013 and is secured on assets of the Group.

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Unsecured loans comprise:

An unsecured bank loan with a principal amount of US\$11.75 million bears interest at 5.47% and is repayable by instalments over a term of 5 years. The loan is due to be fully repaid by 2013.

Other loans — unsecured relate to loans from unrelated parties to Safdico relating to the purchase of specific diamonds. The loans are interest free and repaid when the specific transaction is concluded.

Secured bank loans

The bank overdraft is secured over receivables and assets of the Safdico group on a 4 month revolving basis and bears interest at 2.5% above the bank's cost of funds.

Mortgage Bonds totalling US\$2.1 million are held with three banks by Safdico with interest rates ranging from 2% below the prime bank overdraft rate in South Africa to 1.85% over the USD LIBOR rate. The loans are secured over Safdico's land and buildings.

A 120 day term loan of US\$2.2 million with the Stanbic Bank of Botswana bears interest at 2.5% per annum below prime bank overdraft rate. Security is held over Safdico's property.

Safdico also has short term loans totalling US\$63.2 million comprising bank facilities. The balance bears interest at 1 month LIBOR plus costs of funds plus 250 basis points, repayable within 120 days. This facility is secured by a charge over receivables up to US\$20 million and a general notarial bond over all movable assets of US\$20 million.

The carrying value of the Group's borrowings are denominated in the following currencies:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US dollar	59,143	93,236	192,752
Japanese Yen	3,697	2,598	933
Sterling	—	—	1,024
Hong Kong dollar	1,504	1,030	529
Swiss Franc	3,133	2,475	1,412
Euro	95	112	—
South African Rand	410	1,943	1,423
Botswana Pula	6,654	2,894	2,409
Total	74,636	104,288	200,482

The Group also had the following undrawn facilities:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Floating rate:			
Revolving Credit Facility — expiring beyond one year	60,000	—	5,000

Finance lease liabilities:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Gross finance leases liabilities — minimum lease payments:			
In one year or less	4,736	5,058	3,743
Between one and two years	4,717	3,399	592
Between two and five years	3,441	298	591
Future finance charges on finance leases	(1,136)	(531)	(287)
Total	11,758	8,224	4,639

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The present value of finance leases is as follows:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Obligations under finance leases			
In one year or less	4,097	4,654	3,553
Between one and two years	4,338	3,277	538
Between two and five years	3,323	293	548
	<u>11,758</u>	<u>8,224</u>	<u>4,639</u>

19. TAXATION

	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Current tax:			
Current tax on profits for the year	(18,262)	(24,302)	(28,258)
Adjustments in respect of prior years	(1,232)	678	—
Total current tax	<u>(19,494)</u>	<u>(23,624)</u>	<u>(28,258)</u>
Deferred tax (note 11)	2,991	(196)	933
Income tax expense	<u>(16,503)</u>	<u>(23,820)</u>	<u>(27,325)</u>

The tax on the group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined entities as follows:

	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit before tax:	70,326	128,549	142,902
Tax calculated at UK Corporation tax rate (2009: 28%; 2010: 28%; 2011: 26.5%)	(19,691)	(35,994)	(37,869)
<i>Tax effects of:</i>			
— Effect of different taxation rates	2,563	11,406	7,263
— Income not taxable	978	38	835
— Expenses not deductible for tax purposes	(42)	(2,843)	(65)
— Tax losses not recognised	(1,017)	(908)	—
— Capital allowances in excess of depreciation	16	(147)	—
— Tax deduction for revaluation	526	376	—
— Tax effect of group relief	1,396	3,574	2,511
Adjustments in respect of prior years	(1,232)	678	—
Tax charge	<u>(16,503)</u>	<u>(23,820)</u>	<u>(27,325)</u>

The weighted average applicable tax rates were 23.5%, 18.5% and 19.1% for the year ended 2009, 2010 and 2011, respectively. The decrease is caused by relatively higher profits in foreign operations in tax jurisdictions with low tax rates.

The gross amount of tax losses for which no deferred tax asset has been recognised is US\$6.3 million as at 31 December 2011.

During the historical track record period, Graff Diamonds Limited received tax losses from other UK companies which form part of the Excluded Businesses subsequent to the Reorganisation including, but not limited to, Graff Aviation Limited and Selectcork Limited (“group relief”). For UK Corporation Tax purposes, these companies were considered to be part of the same tax group at the time the tax losses were transferred. Therefore, the tax charge in Graff Diamonds Limited has been reduced to reflect the benefits of those losses in accordance with UK Corporation Tax legislation.

The amounts described in relation to group relief in the Statement of Changes in Equity represent the gross amount of tax losses for which payments were made. The amounts described in the tax reconciliation note above represent the tax benefit of losses including losses for which no payment was made.

The income tax (charged)/credited directly to equity during the year is nil.

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20. COMBINED CAPITAL

As mentioned in Note 1.2 in Section II, the Financial Information has been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2009, 2010 and 2011 or since the date when the combining companies first came under the control of the Controlling Shareholder, where this is a shorter period. The combined capital during the Relevant Periods represents the combined share capital of the subsidiaries after eliminations of investments in subsidiaries.

21. OTHER RESERVES

As mentioned in Note 1.2 in Section II, the Financial Information has been prepared as if the current group structure had been in existence throughout each of the years ended 31 December 2009, 2010 and 2011 or since the date when the combining companies first came under the control of the Controlling Shareholder, where this is a shorter period.

Movements in combined equity during the Relevant Periods comprised:

	Capital Reserves	Available- for-sale Investment	Other reserves	Currency Translation Reserves	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Balance as at 1 January 2009	1,768	(4,106)	—	3,178	840
Revaluation of available-for-sale financial asset	—	6,696	—	—	6,696
Currency translation differences . . .	—	—	—	2,376	2,376
Payment for group relief	—	—	(4,985)	—	(4,985)
As at 31 December 2009	<u>1,768</u>	<u>2,590</u>	<u>(4,985)</u>	<u>5,554</u>	<u>4,927</u>
Revaluation of available-for-sale financial asset	—	3,799	—	—	3,799
Currency translation differences . . .	—	—	—	(3,595)	(3,595)
Payment for group relief	—	—	(9,443)	—	(9,443)
As at 31 December 2010	<u>1,768</u>	<u>6,389</u>	<u>(14,428)</u>	<u>1,959</u>	<u>(4,312)</u>
Revaluation of available-for-sale financial asset	—	(8,025)	—	—	(8,025)
Currency translation differences . . .	—	—	—	(568)	(568)
Payment for group relief	—	—	(9,476)	—	(9,476)
As at 31 December 2011	<u><u>1,768</u></u>	<u><u>(1,636)</u></u>	<u><u>(23,904)</u></u>	<u><u>1,391</u></u>	<u><u>(22,381)</u></u>

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22. CASH GENERATED FROM OPERATIONS

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit before income tax	70,326	128,549	142,902
<i>Adjustments for:</i>			
— Depreciation (note 6)	9,817	9,046	10,495
— Impairment	—	598	—
— Loss/(profit) on disposal of property, plant and equipment	16	7	(2)
— Finance costs — net (note 8 and note 9)	3,761	6,259	5,808
— Foreign exchange (gains)/losses on operating activities . . .	(179)	109	(182)
<i>Changes in working capital</i>			
Decrease/(increase) in inventories	53,887	(71,647)	(208,847)
(Increase)/decrease in trade and other receivables	(10,539)	(684)	16,840
(Decrease)/increase in trade and other payables	(36,159)	(3,390)	83,713
Cash generated from operations	<u>90,930</u>	<u>68,847</u>	<u>50,727</u>

23. COMMITMENTS

At each reporting date the Group had total commitments for future minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Land and building	76,307	67,998	78,111
Other	18	14	517
	<u>76,325</u>	<u>68,012</u>	<u>78,628</u>
<i>Group expiry date:</i>			
— within one year	9,364	10,215	13,757
— between two and five years	30,541	27,184	34,665
— after five years	36,420	30,613	30,206
	<u>76,325</u>	<u>68,012</u>	<u>78,628</u>

These leases relate to the rental of shops with leases outstanding for between 1-10 years.

Capital commitments contracted but not provided for amounted to US\$9.3 million, US\$5.6 million and US\$10.8 million as at 31 December 2009, 2010 and 2011, respectively.

24. RELATED PARTY TRANSACTIONS

For the purposes of this combined financial information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions, or vice versa. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

Related party transactions are carried out with related parties at terms initially agreed by both parties.

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(A) Names of and relationship with related parties

<u>Related Party</u>	<u>Nature of Relationship</u>	<u>Related Party</u>	<u>Nature of Relationship</u>
Laurence Graff	Director	Delaire Proprietary Limited	Company controlled by Controlling Shareholder
François Graff	Director	DiamondWorks SA	Company controlled by Controlling Shareholder
Brian Gutkin	Beneficiary of a trust which controls Nandi International Limited (a minority shareholder)	Graff Aviation Limited	Company controlled by Controlling Shareholder
Jonas Kneller	Sole shareholder of Phase Holdings Ltd (a minority shareholder)	Graff Global Aviation Limited	Company controlled by Controlling Shareholder
The FACET Foundation	Trustee	New York Estate Inc	Company controlled by Controlling Shareholder
The Graff Foundation	Trustee	Selectcork Limited	Company controlled by Controlling Shareholder
Albermarle Equity SA	Company controlled by Controlling Shareholder	Searchmap Limited	Company controlled by Controlling Shareholder
Azur Chartering Limited	Company controlled by Controlling Shareholder	Selectnews Limited	Company controlled by Controlling Shareholder
Chicago Estate Inc	Company controlled by Controlling Shareholder		

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(B) Transactions with related parties

Continuing transactions

	Year ended 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
(i) Charitable donations:			
The FACET Foundation	(102)	(5)	(13)
The Graff Foundation	(550)	(1,000)	(5)
Total	<u>(652)</u>	<u>(1,005)</u>	<u>(18)</u>
(ii) Purchases of goods and services:			
From DiamondWorks SA by Graff Diamonds Limited	(103,506)	(86,570)	(152,912)
Total	<u>(103,506)</u>	<u>(86,570)</u>	<u>(152,912)</u>
(iii) Property rental expenses paid :			
Searchmap Limited	(751)	(1,501)	(1,500)
Chicago Estate Inc.	(850)	(850)	(850)
New York Estate Inc	(827)	(827)	(827)
Albermarle Equity SA	(1,546)	(1,546)	(1,545)
Total	<u>(3,974)</u>	<u>(4,724)</u>	<u>(4,722)</u>
(iv) Hire of aeroplane			
Graff Aviation Limited	(2,039)	(1,423)	(1,566)
(v) Key management compensation is disclosed in note 10.			

Non-continuing transactions

(vi) Sales of diamonds			
To DiamondWorks SA by Safdico	16,241	28,734	—

Revenue and gross profits in respect of diamond sales from Safdico which have passed through to DiamondWorks SA are included within the Procurement and Polishing division in the segmental analysis in Note 5. Gross profit recognised in respect of these transactions relating to DiamondWorks SA was a loss of US\$4.4 million, a profit of US\$8.5 million and US\$nil for the year ended 31 December 2009, 2010 and 2011, respectively. All of the diamonds related to these transactions with DiamondWorks SA were either subsequently sold to Graff Diamonds Limited or are within the stones being held on consignment for Graff Diamonds Limited.

(vii) Interest on loans/funding :			
Loan to Graff Global Aviation Limited	9	67	74
Loan from Graff Aviation Limited	(83)	(120)	(94)
Loan to Searchmap Limited	41	61	59
Loan to Selectcork Limited	—	30	31
Loan from Selectnews Limited	(85)	(74)	(64)
Loan to Delaire Proprietary Limited	1,356	2,400	2,392
	<u>1,238</u>	<u>2,364</u>	<u>2,398</u>
(viii) Dividends paid to Controlling Shareholder:			
SAM Graff Monte Carlo	4,298	25,877	30,975
Graff Diamonds Holdings Limited	10,000	—	20,000
Total	<u>14,298</u>	<u>25,877</u>	<u>50,975</u>
(ix) Share of profit or loss accruing to Safdico minority shareholders:			
Nandi International Limited	649	711	258
Phase Holdings Ltd	649	711	258
	<u>1,298</u>	<u>1,422</u>	<u>516</u>

- (i) Charitable donations paid to charity of which the Controlling Shareholder is a trustee.
- (ii) Purchases of diamonds and jewellery at terms agreed between the parties.
- (iii) Payments made to companies controlled by the Controlling Shareholder for rental of properties.
- (iv) Payments made to a company controlled by the Controlling Shareholder for rental of aeroplane.
- (v) Remuneration to senior management including members of the Controlling Shareholder's family.
- (vi) Sales of diamonds to a related party.
- (vii) Interest receivable/(payable) to companies controlled by the Controlling Shareholder for loans to/from those companies.
- (viii) Dividends paid to the Controlling Shareholder by companies within the Group.
- (ix) Share of profit or loss accruing to Safdico minority shareholders charged to cost of goods sold.

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(C) Balances with related parties

(i) Due from related parties:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade related:			
Graff Global Aviation Limited	467	4,469	4,317
Non-trade related:			
Selectcork Limited	1,440	1,945	2,434
Searchmap Limited	4,014	4,029	4,490
Laurence Graff	16,232	24,358	1,461
Delaire Proprietary Limited	28,748	40,316	46,379
Azur Chartering Limited	20,183	—	—
Jonas Kneller	2,382	1,372	1,499
Brian Gutkin	1,148	2,189	—
	74,147	74,209	56,263
	74,614	78,678	60,580

An unsecured interest free loan to Laurence Graff which stood at US\$16.2 million, US\$24.4 million and US\$1.5 million as at 31 December 2009, 2010 and 2011, respectively, and was owed to SAM GRAFF Monte-Carlo.

Advance to a director or director's interests

The loans advanced to a director have the following terms and conditions:

Name of director	Amount of loan			Term	Interest rate
	At end of year	At beginning of year	Maximum outstanding during the year		
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>		
2011					
Laurence Graff	1,461	24,358	31,876	To be cleared prior to the Initial Public Offering	0%
2010					
Laurence Graff	24,358	16,232	39,610	Balance as at 31 December 2010 cleared by 31 December 2011	0%
2009					
Laurence Graff	16,232	13,624	19,916	Balance as at 31 December 2009 cleared by 31 December 2010	0%

The receivables from related parties arise mainly from sale transactions and loans. The receivables are unsecured and bear no interest. The Delaire Proprietary Limited receivable is shown net of a provision of US\$9.0m based on the available net assets of Delaire Proprietary Limited.

The year end balance for Delaire Proprietary Limited and Azur Chartering Limited also represent the maximum amount outstanding during the year.

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For Graff Global Aviation Limited, the maximum amount outstanding during the year was US\$0.9 million, US\$5.4 million and US\$6.1 million in 2009, 2010 and 2011, respectively.

For Selectcork Limited, the maximum amount outstanding during the year was US\$3.3 million, US\$2.6 million and US\$2.5 million in 2009, 2010 and 2011, respectively.

For Searchmap Limited, the maximum amount outstanding during the year was US\$4.4 million, US\$4.3 million and US\$4.5 million in 2009, 2010 and 2011, respectively.

(ii) Due to related parties:

	As at 31 December		
	2009	2010	2011
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade related:			
DiamondWorks SA	(4,886)	(4,870)	(2,065)
Graff Aviation Limited	(12,583)	(12,912)	(8,231)
Total	(17,469)	(17,782)	(10,296)
Non-trade related:			
François Graff	(186)	(428)	(729)
Selectnews Limited	(4,915)	(4,982)	(4,052)
Jonas Kneller	(388)	(476)	(109)
Brian Gutkin	(1,177)	(2,357)	(582)
Laurence Graff	(12,007)	(250)	(500)
	<u>(36,142)</u>	<u>(26,275)</u>	<u>(16,268)</u>

The payables to related parties arise mainly from purchase transactions and borrowings. The payables are unsecured, bear no interest and are repayable on demand.

All balances with related parties will be settled on Listing pursuant to the Reorganisation, with the exception of the following balances which will be settled prior to Listing:

- Balance due to François Graff which was settled by cash in April 2012;
- Balance due from Laurence Graff which was settled prior to the transaction via a dividend declared by SAM Graff Monte-Carlo; and
- Balance due to DiamondWorks SA which was settled in the normal course of trade.

25. CONTINGENCIES

The Group has no contingent liabilities in respect of legal claims in the ordinary course of business.

26. EARNINGS PER SHARE

No earnings per share information is presented because its inclusion, for the purpose of this report, is not considered as meaningful due to the presentation of the results of the Group for the Relevant Periods being on a combined basis.

27. SUBSEQUENT EVENTS

As discussed in note 1.1, the combined financial information has been prepared incorporating the financial information of the Listing Business as if the group structure upon completion of the Reorganisation had been in existence throughout each of the years ended 31 December 2009, 2010 and 2011, or since the respective dates of incorporation of the combining companies whichever is the shorter period. As of the date of this report, executed irrevocable agreements are in place to effect the Reorganisation prior to the Listing. These legal agreements were signed on 18 May 2012.

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On 18 May 2012, the Group entered into conditional acquisition agreements to acquire the minority interests in Safdico International Limited from the non-controlling shareholders as part of the Reorganisation, conditional only upon the pricing of the Global Offering. This will be accounted for as an equity transaction with non-controlling interests in accordance with IAS 27 "*Consolidated Financial Statements*".

On 29 February 2012, SAM Graff Monte-Carlo declared a dividend of €1.6 million, equivalent to US\$2.1 million.

On 30 April 2012, SAM Graff Monte-Carlo declared a dividend of €2.3 million, equivalent to US\$3.0 million.

III. FINANCIAL INFORMATION OF THE COMPANY

As at 31 December 2011, the Company had not been incorporated and, accordingly, it had no assets, liabilities or distributable reserves as at that date.

IV. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared for the Company and its subsidiaries in respect to any period subsequent to 31 December 2011. Save as disclosed in this report, no dividend or distribution has been declared or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX II
UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountants' Report prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountants' Report" set out in Appendix I to this prospectus.

The following unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to provide further information on how the financial information of our Group might be affected by the completion of the Global Offering as if the Global Offering had been completed on 31 December 2011.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of Graff Diamonds Corporation which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2011. This pro forma financial information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of Graff Diamonds Corporation had the Global Offering been completed as at 31 December 2011 or at any future date.

	Audited combined net tangible assets attributable to equity holders of our Company as at 31 December 2011 ⁽¹⁾	Pro forma adjustments		Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company as at 31 December 2011	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾	
		Estimated net proceeds from the Global Offering ⁽²⁾	Completion of the Reorganisation ⁽³⁾		US\$	HK\$
		US\$'000	US\$'000			
Based on an Offer Price of HK\$25.00 per Share	486,682	800,000	(217,479)	1,069,203	1.15	8.97
Based on an Offer Price of HK\$37.00 per Share	486,682	800,000	(217,479)	1,069,203	1.28	9.94

Notes:

- (1) The audited combined net tangible assets of our Group attributable to equity holders of our Company as at 31 December 2011 of US\$486,682,000 has been extracted from the Accountants' Report of our Company as set out in Appendix I to this Prospectus and is based on the audited combined net assets of our Group attributable to equity holders of our Company as at 31 December 2011 of US\$488,576,000 with an adjustment for the intangible assets of US\$1,894,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price range of HK\$25.00 per Share at the bottom of the range and HK\$37.00 per Share at the top of the range, respectively, after deduction of the underwriting fees, a 0.75% discretionary incentive fee (assuming such amount will be paid in full to the underwriters) and other expenses related to the Global Offering payable by our Company. No account has been taken of the Shares that may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (3) In preparation for the Global Offering, the Group immediately prior to Listing will undergo certain transactions (the "Reorganisation") pursuant to the Reorganisation Agreement and the Safdico Acquisition Agreement. The audited combined net assets of our Group in the Accountants' Report include the net assets of the companies under the common control of the Controlling Shareholder which form part of the Listing Group, and exclude the net assets of the Excluded Businesses on the basis these have not and will not form part of the Listing Group, pursuant to the Reorganisation Agreement and Safdico Acquisition Agreement. The pro forma adjustments include the effect of net payments to legally separate the Excluded

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

Businesses and acquire the Listing Group. The adjustment represents the net effects arising from the Reorganisation assuming that the Reorganisation had been completed on 31 December 2011, details of which are as follows:

<u>Increase/(decrease) in net assets</u>	<u>Pro forma adjustments—completion of Reorganisation</u>					
	<i>US\$'000</i> Note (a)	<i>US\$'000</i> Note (b)	<i>US\$'000</i> Note (c)	<i>US\$'000</i> Note (d)	<i>US\$'000</i> Note (e)	<i>US\$'000</i> Total
Assets						
Property, plant and equipment	—	—	—	—	(2,100)	(2,100)
Inventories	—	—	—	226,889	—	226,889
Trade and other receivables	(57,504)	—	—	—	—	(57,504)
Cash and cash equivalents	107,062	(200,000)	(153,111)	(226,889)	8,200	(464,738)
Total assets	<u>49,558</u>	<u>(200,000)</u>	<u>(153,111)</u>	<u>—</u>	<u>6,100</u>	<u>(297,453)</u>
Liabilities						
Trade and other payables	12,283	—	10,435	—	—	22,718
Total liabilities	<u>12,283</u>	<u>—</u>	<u>10,435</u>	<u>—</u>	<u>—</u>	<u>22,718</u>
Non-controlling interests	<u>—</u>	<u>—</u>	<u>57,256</u>	<u>—</u>	<u>—</u>	<u>57,256</u>
Net impact to net tangible assets						
attributable to equity holders of the						
company	<u>61,841</u>	<u>(200,000)</u>	<u>(85,420)</u>	<u>—</u>	<u>6,100</u>	<u>(217,479)</u>

- (a) The net cash inflow of US\$107,062,000 from the Controlling Shareholder as a result of:
- (i) the transfer of the Excluded Businesses to AE Holdings S.A. for cash consideration of US\$78,219,000, together with US\$30,000,000 cash consideration in settlement of the Group's loan receivable of US\$46,378,000 from Delaire; and
 - (ii) a net cash payment of US\$1,157,000 by the Group to settle all other balances with the Excluded Businesses, as at 31 December 2011.

The remaining amount of the Group's loan receivable from Delaire of US\$16,378,000 is recognised in equity.

The net cash payment of US\$1,157,000 comprises the payment of amounts due to the Excluded Businesses of US\$12,283,000 less amounts due from the Excluded Businesses of US\$11,126,000 as at 31 December 2011.

The total movement of trade and other receivables of US\$57,504,000 relates to:

Cash settlement of amounts due from the Excluded Businesses	US\$11,126,000
Cash consideration relating to the Delaire loan receivable	US\$30,000,000
Equity movement relating to the Delaire loan receivable	US\$16,378,000
Total	<u>US\$57,504,000</u>

No adjustment has been made to reflect the movement on balances due to and from the Excluded Businesses subsequent to 31 December 2011. The subsequent movement resulted in additional cash received of US\$2,764,000, resulting in total net cash inflow of US\$109,826,000.

- (b) This represents the deemed distribution to the Controlling Shareholder by the Group upon acquisition of SAM Graff Monte-Carlo at cash consideration of US\$200,000,000.
- (c) The aggregate amount payable in connection with the acquisition of Safdico International Limited is US\$196,120,000, comprising:
- (i) consideration of US\$182,676,000 to the Safdico Sellers, comprising US\$142,676,000 in the form of a cash payment and US\$40,000,000 in Shares to be issued by the Company at the Offer Price;
 - (ii) a cash payment of US\$13,424,000 in settlement of outstanding shareholder loans and third party loan balances (the relevant loan balances as at 31 December 2011 were US\$10,435,000); and
 - (iii) consideration of US\$20,000 to Graff Diamonds International Limited, a subsidiary of the Group.

The net impact arising from the acquisition of Safdico International Limited was a reduction of the net tangible assets of the equity holders of the Company by US\$85,420,000, being (a) a reduction in shareholders equity of US\$142,676,000 and (b) the de-recognition of the non-controlling interests of Safdico amounting to US\$57,256,000. Upon completion, Safdico International Limited will become a wholly owned subsidiary of the Group.

The total cash payment by the Group assuming the acquisition of Safdico International Limited completed on 31 December 2011 was US\$153,111,000 representing cash consideration of US\$142,676,000 to the Safdico Sellers and cash payment of US\$10,435,000 for settlement of outstanding loan balances as at 31 December 2011. No pro forma adjustment has been made to reflect the movement on these loan balances subsequent to 31 December 2011 or the US\$20,000 payable to Graff Diamonds International Limited, a subsidiary of the Group.

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- (d) This represents the purchase of the DiamondWorks Inventory for a cash payment of US\$226,889,000 by the Group.
- (e) This represents the disposal of certain paintings with a net book value as at 31 December 2011 of US\$2,100,000 for a cash consideration of US\$8,200,000, resulting in a gain of US\$6,100,000 to the Group.

Details of the Reorganisation mentioned above are set out on page 69 of this prospectus under the heading of “Our History and Corporate Structure—Reorganisation of the Group”.

The adjustments (a) to (e) above relate to steps 2, 4, 5, 6 and 7 of the Reorganisation, respectively.

- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding notes and on the basis that 926,968,000 Shares and 837,140,510 Shares based on the Offer Price of HK\$25.00 per Share and HK\$37.00 per Share, respectively, were in issue assuming that Shares to be issued pursuant to both the Reorganisation and the Global Offering had been issued on 31 December 2011, but takes no account of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.
- (5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to 31 December 2011.
- (6) For the purpose of the estimated net proceeds from the Global Offering, the translation of US\$ into HK dollars was made at the rate of HK\$7.78 to US\$1.00.
- (7) The following is additional information to further illustrate the effect of Global Offering on certain balance sheet components as if it had taken place on 31 December 2011 as discussed above.

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	Audited combined balance sheet of the Group as at 31 December 2011 (a)	Pro forma adjustments			Unaudited proforma adjusted combined balance sheet of the Group at 31 December 2011
		Estimated net proceeds from the Global Offering (b)	Completion of the Reorganisation (c)	Repayment of borrowings (d)	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	70,352	—	(2,100)	—	68,252
Goodwill	1,894	—	—	—	1,894
Deferred income tax assets	10,456	—	—	—	10,456
Available-for-sale financial assets	37,967	—	—	—	37,967
Financial assets at fair value through profit or loss	24,639	—	—	—	24,639
	<u>145,308</u>	<u>—</u>	<u>(2,100)</u>	<u>—</u>	<u>143,208</u>
CURRENT ASSETS					
Inventories	651,384	—	226,889	—	878,273
Trade and other receivables	94,518	—	(57,504)	—	37,014
Cash and cash equivalents	63,765	800,000	(464,738)	(150,000)	249,027
TOTAL CURRENT ASSETS	<u>809,667</u>	<u>800,000</u>	<u>(295,353)</u>	<u>(150,000)</u>	<u>1,164,314</u>
TOTAL ASSETS	<u>954,975</u>	<u>800,000</u>	<u>(297,453)</u>	<u>(150,000)</u>	<u>1,307,522</u>
EQUITY AND LIABILITIES					
Combined equity attributable to equity holders	488,576	800,000	(217,479)	—	1,071,097
Non-controlling interests	57,986	—	(57,256)	—	730
TOTAL COMBINED EQUITY	<u>546,562</u>	<u>800,000</u>	<u>(274,735)</u>	<u>—</u>	<u>1,071,827</u>
NON-CURRENT LIABILITIES					
Borrowings	6,604	—	—	—	6,604
Financial liabilities at fair value through profit or loss	24,639	—	—	—	24,639
Derivative financial instruments	7,647	—	—	—	7,647
Deferred income tax liabilities	1,471	—	—	—	1,471
TOTAL NON-CURRENT LIABILITIES	<u>40,361</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>40,361</u>
CURRENT LIABILITIES					
Trade and other payables	158,152	—	(22,718)	—	135,434
Current income tax liabilities	16,022	—	—	—	16,022
Borrowings	193,878	—	—	(150,000)	43,878
TOTAL CURRENT LIABILITIES	<u>368,052</u>	<u>—</u>	<u>(22,718)</u>	<u>(150,000)</u>	<u>195,334</u>
TOTAL LIABILITIES	<u>408,413</u>	<u>—</u>	<u>(22,718)</u>	<u>(150,000)</u>	<u>235,695</u>
TOTAL EQUITY AND LIABILITIES	<u>954,975</u>	<u>800,000</u>	<u>(297,453)</u>	<u>(150,000)</u>	<u>1,307,522</u>
NET CURRENT ASSETS	<u>441,615</u>	<u>800,000</u>	<u>(272,635)</u>	<u>—</u>	<u>968,980</u>
TOTAL ASSETS LESS LIABILITIES	<u>546,562</u>	<u>800,000</u>	<u>(274,735)</u>	<u>—</u>	<u>1,071,827</u>

Notes:

- (a) These amounts are derived from the Accountants' Report of the Company as set out in Appendix I to this prospectus.
- (b) See note (2) above.
- (c) See note (3) above.
- (d) US\$150.0 million of the net proceeds from the Global Offering will be used to repay outstanding current indebtedness as at 31 December 2011. There is no impact on the Group's adjusted net tangible assets upon repayment of the borrowings.

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**B. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION**

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE
DIRECTORS OF GRAFF DIAMONDS CORPORATION**

We report on the unaudited pro forma financial information of Graff Diamonds Corporation (the "Company") and its subsidiaries upon the completion of group reorganisation (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-4 under the heading of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 28 May 2012 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-4 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at 31 December 2011 with the accountant's report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis

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stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the adjusted net tangible assets of the Group as at 31 December 2011 or any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants
Hong Kong, 28 May 2012

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SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2012 under the Cayman Companies Law. The Memorandum and the Articles of Association comprise the Company's constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles of Association were conditionally adopted on 17 May 2012 and will become effective upon the Listing. The following is a summary of certain provisions of the Articles of Association:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Cayman Companies Law, the Listing Rules, the Memorandum and Articles of Association, any share may be issued on terms that, at the option of the Company or the holder thereof, they are to be redeemed or are liable to be redeemed.

The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles of Association and, where applicable, the Listing Rules and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

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(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles of Association relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles of Association or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles of Association, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles of Association, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles of Association. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested as a vendor, shareholder or otherwise, and shall not be accountable for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles of Association, the Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles of Association, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. Subject to the Cayman Companies Law and the Articles of Association, a Director may, pursuant to the Policy on Directors' Personal Diamond Purchases, be authorised to purchase diamonds and diamond jewellery from third parties, notwithstanding that this may give rise to a potential or actual conflict with the interests of the Company and, provided that such purchases are conducted in accordance with the Policy on Personal Diamond Purchases from Third Parties, he shall not be disqualified from office by making such purchases, no such purchase or related contract or arrangement (whether contemporaneous or future) shall be liable to be avoided, and the director shall not be liable to account to the Company or its members for any remuneration, profit or other benefits realised by any such purchase or related contract or arrangement (whether contemporaneous or future) by reason of the director holding office or of the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into

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the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any proposal, contract or arrangement that gives any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, their associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he held office. Such remuneration shall be deemed to accrue from day to day. The Directors shall also be entitled to be prepaid or repaid all necessary travelling, hotel and incidental expenses expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. A Director appointed to be chairman of the Board, a managing director, or any other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

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(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall be determined in the following manner:

- (aa) first, any Director who wishes to retire and who does not wish to offer himself for re-election shall be included in the number of Directors to retire by rotation;
- (bb) secondly, of the remaining Directors, the Directors who shall retire to make up the necessary number of Directors to retire by rotation are those who have been longest in office since their last re-election or appointment. If more than the necessary number became or were last re-elected Directors on the same day, those to retire shall be determined by lot, unless they otherwise agree among themselves.

There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. In either case, the Director shall hold office until the next general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification to hold that office.

Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of Director shall be terminated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being;
- (bb) he is prohibited by any applicable law from acting as a Director or he ceases to be;
- (cc) he is made bankrupt or has a receiving order made against him or makes an arrangement or composition with his creditors generally;
- (dd) he is made subject to any law relating to mental health or incompetence, whether by court order or otherwise;
- (ee) without the consent of the other directors, he is absent from meetings of directors for a continuous period of six months; or
- (ff) he is removed from office by an ordinary resolution of the members.

The Board may from time to time appoint one or more of its body to be chairman of the Board, a managing Director or to hold any other executive office with the Company for such period and upon such terms as the Board think fit and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees, local boards or agencies consisting of such Director or Directors and other persons as the Board thinks fit, and it may at any time remove any person so appointed and annul or vary any such delegation. Every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, unless otherwise permitted by the Directors, follow the procedures prescribed in the Articles of Association for the taking of decisions by Directors.

(viii) Borrowing powers

The Board may exercise all the powers of the Company to borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock and other securities of the Company, whenever

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money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles of Association in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

Any Director may call a meeting of Directors at any time and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall not have an additional or casting vote.

(x) Register of Directors and Officers

The Cayman Companies Law and the Articles of Association provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles of Association may be amended in whole or in part by the Company in general meeting by special resolution. The Articles of Association state that a special resolution shall be required to change the provisions of the Memorandum, to amend the Articles of Association or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

- (i) increase its share capital by new Shares of the amount fixed by that ordinary resolution and with the attached rights, priorities and privileges set out in that ordinary resolution;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) convert all or any of its fully paid Shares into stock, and reconvert that stock into fully paid Shares of any denomination;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, so, however, that in the sub-division, the proportion between the amount paid and the amount, if any, unpaid on each reduced Share shall be the same as it was in case of the Share from which the reduced Share is derived; and cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, subject to the provisions of the Cayman Companies Law and to any rights for the time being conferred on the members holding a particular class of Shares, reduce its share capital.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles of Association relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be one or more persons holding or representing by proxy not less than one-third of the issued shares of that class and at any adjourned meeting one or more holders present in person or by

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proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution — majority required

Pursuant to the Articles of Association, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear Business Days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting in person or by their proxies or, in the case of Members that are corporations, by their duly authorised representatives, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear Business Days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles of Association, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder unless any Share carries special voting rights but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll, save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)), being a corporation, is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange (as defined in the Articles of Association), required to abstain from voting on any particular resolution of the

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Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of its incorporation. The Company's first annual general meeting shall be held within eighteen months of its incorporation. For subsequent annual general meetings, they should be held within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting, unless a longer period is authorised by the Stock Exchange. The annual general meeting shall be held at such time and place as may be determined by the Board.

(h) Accounts and audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the Board or passed by ordinary resolution.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report, a statement of income and expenditure made up to the end of that financial year and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles of Association; however, subject to compliance with the Cayman Companies Law, all applicable laws and the Listing Rules, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles of Association. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear Business Days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear Business Days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear

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Business Days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat in person or by their proxies, or, in the case of Members that are corporations, by their duly authorised representatives; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting in person or by their proxies, or, in the case of Members that are corporations, by their duly authorised representatives, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration of the accounts and balance sheet and the reports of the directors or the auditors;
- (cc) the election of Directors, whether by rotation or otherwise, in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the auditors and voting on the remuneration or extra remuneration of the Directors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent. (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Stock Exchange or in such other form as the Board may approve. The instrument of transfer shall be executed where the Shares are fully paid, by or on behalf of the transferor; and where the Shares are partly paid, by or on behalf of the transferor and the transferee. Title to shares to be listed on the Stock Exchange may be evidenced and transferred in accordance with the laws of Hong Kong, the Listing Rules and any other applicable laws.

The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any Share which is not fully paid up, and it may also refuse to register any transfer of any Share to more than four joint holders or any transfer of any Share on which the Company has a lien.

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The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of Share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement published on the Stock Exchange's website, subject to the Listing Rules, by electronic means to all members in accordance with the notice provisions in the Articles of Association or in a relevant newspaper in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year or such longer period, not exceeding 60 days in any calendar year, as the members by ordinary resolution determine.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own Shares including any redeemable Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company provided the manner of purchase is first authorised by an ordinary resolution and subject to any applicable requirements imposed from time to time by the Stock Exchange.

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles of Association relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with all applicable laws and the rules and regulations of the Stock Exchange and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Cayman Companies Law, the Company in general meeting may by ordinary resolution declare dividends in any currency to be paid to the members in accordance with their respective rights but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles of Association provide that dividends may be declared and paid out of any funds of the Company lawfully available for distribution. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid proportionately according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

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Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend or other sum payable in cash to the holder of shares may be paid, if the member holding that Share or other person entitled to that Share nominates a bank account for that purpose — by wire transfer to that bank account; or by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles of Association and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (including any premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at the rate fixed by the terms of allotment of the Share or in the notice of the call; or if no rate is fixed, at ten per cent. (10%) per annum, but the Board may waive payment of such interest wholly or in part. The Company may receive from any member willing to advance the same, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the

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Company may pay interest at a rate not exceeding, without the sanction of an ordinary resolution, 10% (ten per cent.) per annum as may be agreed upon between the member making the advance and the directors as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and any expenses which have been incurred by the Company due to that person's default and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at the rate of which interest was payable on those moneys before forfeiture; or if no interest was so payable, at 10% (ten per cent.) per annum.

(p) Inspection of register of members

Pursuant to the Articles of Association the register and branch register of members shall be open to inspection for at least two (2) hours on every Business Day by members without charge. The Listed Share Register shall be open for inspection during normal business hours by any member without charge or by any other person upon a maximum payment of HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business.

Save as otherwise provided by the Articles of Association the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles of Association relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound

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up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. Alternatively, the liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles of Association, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) after the end of the 12 year period, the Company has caused an advertisement to be published in accordance with the rules of the Stock Exchange giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Stock Exchange, has elapsed since the date of such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully

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paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Cayman Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void,

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and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Cayman Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share. The Company's Memorandum and Articles of Association do not currently permit the Company to hold shares as treasury shares.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate.

There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly

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and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

A Cayman Islands company shall cause all its books of account to be retained for a minimum period of five years from the date on which they are prepared.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, on 21 February 2012 the Company was granted an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

This undertaking has been granted for a period of twenty years from the date of grant.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Articles of Association.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Cayman Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. A Cayman Islands exempted company may also maintain a separate register of members in respect of its listed shares. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

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(n) Winding up

A company may be wound up compulsorily by either an order of the Court or voluntarily subject to the supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their

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shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Mergers and Consolidations

The Cayman Companies Law provides that any two or more Cayman Islands companies limited by shares (other than segregated portfolio companies) may merge or consolidate in accordance with the Cayman Companies Law. The Cayman Companies Law also allows one or more Cayman Islands companies to merge or consolidate with one or more foreign companies (provided that the laws of the foreign jurisdiction permit such merger or consolidation).

To effect a merger or consolidation of one or more Cayman Islands companies, the directors of each constituent company must approve a written plan of merger or consolidation in accordance with the Cayman Companies Law. The plan must then be authorised by each constituent company by a special resolution of members and such other authorisation, if any, as may be specified in such constituent company's articles of association.

Where a Cayman Islands parent is merging with one or more of its Cayman Islands subsidiaries, shareholder consent is not required if a copy of the plan of merger is given to every member of each subsidiary company to be merged, unless that member argues otherwise.

To effect a merger or consolidation of one or more Cayman Islands companies with one or more foreign companies, in addition to the approval requirements applicable to the merger or consolidation of Cayman Islands companies (in relation to Cayman Islands company(ies) only), the merger or consolidation must also be effected in compliance with the constitutional documents of, and laws of the foreign jurisdiction applicable to, the foreign company(ies).

(q) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (for example, for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Ogier, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Cayman Companies Law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Appendix V — Documents Delivered to the Registrar of Companies and for inspection" in this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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(A) FURTHER INFORMATION ABOUT OUR COMPANY

1. INCORPORATION

We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 8 February 2012. We have established a principal place of business in Hong Kong at 18/F Ashley Nine, 9-11 Ashley Road, Tsim Sha Tsui, Kowloon, Hong Kong and we were registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 30 April 2012. Charles Sparrow has been appointed our agent for acceptance service of process and notices on our behalf in Hong Kong.

As we are incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution, comprising our Memorandum and Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in the section entitled “Appendix III — Summary of the Constitution of Our Company and Cayman Islands Law”.

2. CHANGES IN THE SHARE CAPITAL OF OUR COMPANY

Our Company was incorporated with an authorised share capital of US\$50,000 divided into 5,000,000 ordinary shares with a nominal value of US\$0.01 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- On 8 February 2012, the Company was incorporated with authorised share capital of US\$50,000 divided into 5,000,000 Shares of US\$0.01 each. On incorporation, one subscriber Share was issued to Ogier Nominees (Cayman) Limited and was transferred to Laurence Graff on 17 May 2012.
- On 17 May 2012, in anticipation of the Reorganisation and the Global Offering, the authorised share capital of the Company was increased from US\$50,000 to US\$50,000,000 by the creation of 4,995,000,000 Shares.
- On 18 May 2012, the Company entered into the Reorganisation Agreement pursuant to which it agreed to issue 389,999,999 Shares to Laurence Graff and 260,000,000 Shares to Anne-Marie Graff in exchange for the entire issued share capital of Graff Diamonds Holdings Limited (as more fully described in the section headed “Our History and Corporate Structure — Step 3: Insertion of the Company as the ultimate holding company of the Group” in this prospectus).
- On 18 May 2012, the Company entered into the Safdico Acquisition Agreement pursuant to which it agreed to issue Shares with a value of US\$40 million to the two minority shareholders in Safdico in connection with the acquisition of the Procurement and Polishing Division (as more fully described in the section headed “Our History and Corporate Structure — Step 5: Acquisition of Safdico International Limited” in this prospectus).

Assuming that the Global Offering becomes unconditional and the issue of the maximum number of Offer Shares as mentioned in this prospectus is made, the authorised share capital of our Company will be US\$50,000,000 divided into 5,000,000,000 Shares, of which 926,968,000 Shares will be issued fully paid or credited as fully paid, and 4,073,032,000 Shares will remain unissued. Our Company does not have any present intention to issue any of the authorised but unissued share capital and no issue of Shares will be made which would effectively alter the control of our Company within 12 months from the Listing Date.

Save as disclosed herein and in the sub-paragraphs headed “Resolutions of Shareholders of our Company passed on 17 and 18 May 2012” in this Appendix, there has been no alteration to the share capital of our Company since its incorporation.

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3. CHANGES IN THE SHARE CAPITAL OF OUR COMPANY'S SUBSIDIARIES

No alterations in the share capital of our Company's subsidiaries have taken place within the two years immediately preceding the date of this prospectus.

4. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Our principal subsidiaries are set out in the Accountants' Report, which is set out in Appendix I to this prospectus.

5. RESOLUTIONS OF THE SHAREHOLDERS OF OUR COMPANY PASSED ON 17 AND 18 MAY 2012

Pursuant to the written resolutions passed by our sole shareholder on 17 and 18 May 2012, among others:

- (a) our Company approved and adopted the Articles of Association conditional upon Listing;
- (b) the authorised share capital of our Company was increased from US\$50,000 to US\$50,000,000 by the creation of an additional 4,995,000,000 Shares;
- (c) our Company adopted the Memorandum of Association with immediate effect reflecting the above amendment to the authorised share capital of the Company;
- (d) the Directors were authorised to allot and issue shares pursuant to the Reorganisation;
- (e) conditional on the same conditions as stated in the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus:
 - (i) the Global Offering was approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering;
 - (ii) the proposed Listing was approved and the Directors were authorised to implement the Listing;
 - (iii) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles of Association, (c) the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution, (d) a specific authority granted by our shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (v) below, such mandate to remain in effect during the period from the passing of the resolution until whichever is the earliest of:
 - (a) the conclusion of our next annual general meeting;
 - (b) the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
 - (c) the passing of an ordinary resolution by our shareholders in a general meeting revoking, varying or renewing such mandate (the "Applicable Period"); and
 - (iv) a general unconditional mandate was granted to the Directors authorising them to exercise all the powers for and on behalf of our Company to repurchase the Shares on the Hong Kong Stock Exchange or on any other stock exchange(s) on which the securities of our Company may be listed and which is recognised by the SFC and the Hong Kong Stock Exchange for this purpose,

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with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering, such mandate to remain in effect until during the Applicable Period.

6. REPURCHASE BY OUR COMPANY OF ITS OWN SHARES

This section sets out information required by the Hong Kong Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their own securities on the Hong Kong Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Hong Kong Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association and Articles of Association of our Company and the Listing Rules and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, under the Cayman Companies Law any repurchases by our Company may be made out of our Company's funds which would otherwise be available for dividend or distribution, out of our Company's share premium account, out of the proceeds of a new issue of Shares made for the purpose of the repurchase or, if authorised by the Articles of Association of our Company and subject to the Cayman Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of the funds which would otherwise be available for dividend or distribution or from sums standing to the credit of our Company's share premium account or, if authorised by the Articles of Association of our Company and subject to the Cayman Companies Law, out of capital.

On the basis of the current financial position of us as disclosed in this prospectus and taking into account the current working capital position of us, our Directors consider that, if the repurchase mandate were to be exercised in full at any time during the share repurchase period, there could be a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in these circumstances, have a material adverse effect on our working capital requirements or the gearing levels, which in the opinion of our Directors, are from time to time appropriate for our Company.

The exercise in full of the Repurchase Mandate, on the basis of 873,361,210 Shares in issue immediately after the Listing (assuming an Offer Price of HK\$31.00 being the mid-point of the indicative Offer Price range), would result in up to 87,336,121 Shares being repurchased by us during the period in which the repurchase mandate remains in force.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Hong Kong Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options

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or similar instruments requiring the company to issue securities, which were outstanding prior to such repurchase) without the prior approval of the Hong Kong Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Hong Kong Stock Exchange if the purchase price is higher than the average closing market price for the five preceding trading days on which its shares were traded on the Hong Kong Stock Exchange by 5% or more. The Listing Rules also prohibit a listed company from repurchasing its securities resulting in shares that are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Hong Kong Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Hong Kong Stock Exchange such information with respect to the repurchase as the Hong Kong Stock Exchange may require.

(iv) Status of repurchased Shares

All repurchased securities (whether effected on the Hong Kong Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Hong Kong Stock Exchange other than in exceptional circumstances. In addition, the Hong Kong Stock Exchange may prohibit a repurchase of securities on the Hong Kong Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Hong Kong Stock Exchange or otherwise must be reported to the Hong Kong Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(vii) Connected persons

A listed company is prohibited from knowingly repurchasing securities on the Hong Kong Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a connected person is prohibited from knowingly selling his securities to the company.

(viii) General

None of our Directors nor, to their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the laws of Hong Kong.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong

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Code on Takeovers and Mergers (“Takeovers Code”). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Our Directors will not exercise the repurchase mandate if the repurchase would result in the number of Shares held by the public being reduced to less than 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules or as otherwise required by the Hong Kong Stock Exchange pursuant to any waivers granted).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the repurchase mandate is exercised.

(b) Reasons for Repurchases

Our Directors believe that the ability to repurchase Shares is in the best interest of our Company and our Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share. Our Directors have sought the grant of a general mandate to repurchase Shares to give our Company flexibility to do so if and when appropriate, and such repurchases will only be made where our Directors believe that the repurchases will benefit our Company and our Shareholders.

(B) CORPORATE ORGANISATION

Please refer to the section headed “Our History and Corporate Structure” in this prospectus.

(C) FURTHER INFORMATION ABOUT OUR GROUP’S BUSINESS

1. SUMMARY OF THE MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) Reorganisation Agreement, further details of which are set out in the section titled “Our History and Corporate Structure” in this prospectus;
- (b) Artwork Sale Agreement, further details of which are set out in the section titled “Our History and Corporate Structure” in this prospectus;
- (c) Safdico Acquisition Agreement, further details of which are set out in the section titled “Our History and Corporate Structure” in this prospectus;
- (d) Deed of Non-Competition dated 17 May 2012, entered into between the Company and Laurence Graff, further details of which are set out in the section headed “Relationship with Our Controlling Shareholder” in this prospectus; and
- (e) Hong Kong Underwriting Agreement, further details of which are set out in the section headed “Underwriting” in this prospectus.

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2. MATERIAL INTELLECTUAL PROPERTY RIGHTS OF OUR GROUP

Trademarks

Our intellectual property is an important part of our business. As at the Latest Practicable Date, we had approximately 90 trademark registrations and approximately 40 applications for registrations relating to the name and logos of the Group in countries throughout the world, including in the countries in which we currently operate, apart from Taiwan, in which the “triangle” (device) and the collection names for our watches have not yet been filed. Of these trademarks, ten have been filed in Hong Kong (of which nine have been registered and one is pending). The trademarks which we consider to be most important are Graff and our trademark Triangle device.

As at the Latest Practicable Date, we had registered the following trademarks which are material to our Group:

Trademark	Registration Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
<i>Marque GRAFF</i>	14	Graff Diamonds Limited	Argentina	2.136.171	08/01/2017
	14	Graff Diamonds Limited	Austria	778623	28/02/2022
	14	Graff Diamonds Limited	Bahrain	43126	23/12/2014
	14	Graff Diamonds Limited	Belgium	778623	28/02/2022
	14	Graff Diamonds Limited	Benelux Trademark	778623	28/02/2022
	14	Graff Diamonds Limited	Bulgaria	778623	28/02/2022
	14	Graff Diamonds Limited	China	778623	28/02/2022
	16	Graff Diamonds Limited	China	998579	26/03/2019
	34	Graff Diamonds Limited	China	1038541	19/04/2020
	14	Graff Diamonds Limited	Cyprus	778623	28/02/2022
	14	Graff Diamonds Limited	Czech Republic	778623	28/02/2022
	14	Graff Diamonds Limited	Denmark	778623	28/02/2022
	14	Graff Diamonds Limited	Estonia	778623	28/02/2022
	14	Graff Diamonds Limited	European Community	778623	28/02/2022
	14	Graff Diamonds Limited	Finland	778623	28/02/2022
	14	Graff Diamonds Limited	France	778623	28/02/2022
	33	Graff Diamonds Limited	France	073527821	01/10/2017
	16	Graff Diamonds Limited	France	998579	26/03/2019
	3, 9, 34, 35	Graff Diamonds Limited	France	1038541	19/04/2020
	14	Graff Diamonds Limited	Germany	778623	28/02/2022
	14	Graff Diamonds Limited	Greece	778623	28/02/2022
	14	Graff Diamonds Limited	Hong Kong	300318942	14/11/2014
	16	Graff Diamonds Limited	Hong Kong	301313937	26/03/2019
	9	Graff Diamonds Limited	Hong Kong	301490742	02/12/2019
	35	Graff Diamonds Limited	Hong Kong	301490751	02/12/2019
	14	Graff Diamonds Limited	Hungary	778623	28/02/2022
	14	Graff Diamonds Limited	India	1398716	14/11/2015
	14	Graff Diamonds Limited	Indonesia	IDM000129002	14/11/2015
	14	Graff Diamonds Limited	Ireland	778623	28/02/2022
	14	Graff Diamonds Limited	Israel	180172	01/05/2015
	14	Graff Diamonds Limited	Italy	778623	28/02/2022
	16	Graff Diamonds Limited	Italy	998579	26/03/2019
	3, 34, 35	Graff Diamonds Limited	Italy	1038541	19/04/2020
14	Graff Diamonds Limited	Jamaica	47637	15/11/2015	

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Trademark	Registration Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
	14, 35	Graff Diamonds Limited	Japan	5398649	18/03/2021
	14	Graff Diamonds Limited	Japan	778623	28/02/2022
	3	Graff Diamonds Limited	Japan	1038541	19/04/2020
	14	Graff Diamonds Limited	Latvia	778623	28/02/2022
	14	Graff Diamonds Limited	Lebanon	102518	08/06/2020
	14	Graff Diamonds Limited	Lithuania	778623	28/02/2022
	14	Graff Diamonds Limited	Luxembourg	778623	28/02/2022
	14	Graff Diamonds Limited	Macao	N/041178	24/06/2016
	14	Graff Diamonds Limited	Malaysia	04017938	17/11/2014
	9	Graff Diamonds Limited	Malaysia	2010/02878	19/02/2020
	14	Graff Diamonds Limited	Malta	778623	28/02/2012
	18, 25	Graff Diamonds Limited	Monaco	10.27899	19/04/2020
	14	Graff Diamonds Limited	Monaco	778623	28/02/2022
	16	Graff Diamonds Limited	Monaco	998579	26/03/2019
	3, 9, 34, 35	Graff Diamonds Limited	Monaco	1038541	19/04/2020
	14	Graff Diamonds Limited	Namibia	778623	28/02/2022
	14	Graff Diamonds Limited	Nigeria	84068	28/11/2012
	14	Graff Diamonds Limited	Oman	31974	08/12/2013
	14	Graff Diamonds Limited	Panama	148355-01	18/01/2016
	14	Graff Diamonds Limited	Netherlands	778623	28/02/2022
	14	Graff Diamonds Limited	Poland	778623	28/02/2022
	14	Graff Diamonds Limited	Portugal	778623	28/02/2022
	14	Graff Diamonds Limited	Qatar	31070	01/12/2013
	14	Graff Diamonds Limited	Romania	778623	28/02/2022
	14	Graff Diamonds Limited	Russian Federation	778623	28/02/2022
	35	Graff Diamonds Limited	Russian Federation	1038541	19/04/2020
	35	Graff Diamonds Limited	Saudi Arabia	1234/42	25/10/2019
	14	Graff Diamonds Limited	Sierra Leone	778623	28/02/2022
	14	Graff Diamonds Limited	Singapore	778623	28/02/2022
	16	Graff Diamonds Limited	Singapore	998579	26/03/2019
	9, 35	Graff Diamonds Limited	Singapore	1038541	19/04/2020
	14	Graff Diamonds Limited	Slovakia	778623	28/02/2022
	14	Graff Diamonds Limited	Slovenia	778623	28/02/2022
	14	Graff Diamonds Limited	South Africa	2005/23532	01/11/2015
	16	Graff Diamonds Limited	South Africa	2010/02654	08/02/2020
	14	Graff Diamonds Limited	Spain	778623	28/02/2022
	14	Graff Diamonds Limited	Sweden	778623	28/02/2012
	3, 8, 9, 16, 20, 21, 24, 33, 34	Graff Diamonds Limited	Switzerland	560294	12/07/2017
	32	Graff Diamonds Limited	Switzerland	565205	27/11/2017
	35	Graff Diamonds Limited	Switzerland	602276	24/02/2020
	14	Graff Diamonds Limited	Switzerland	778623	28/02/2022
	14	Graff Diamonds Limited	Taiwan	1127319	15/11/2014
	34	Graff Diamonds Limited	Taiwan	1435376	15/10/2020
	9	Graff Diamonds Limited	Thailand	TM332876	01/03/2020
	14	Graff Diamonds Limited	Turkey	778623	28/02/2022

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Trademark	Registration Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
	16	Graff Diamonds Limited	Turkey	998579	26/03/2019
	14	Graff Diamonds Limited	Ukraine	778623	28/02/2022
	35	Graff Diamonds Limited	Ukraine	1038541	19/04/2020
	14	Graff Diamonds Limited	United Kingdom	2196643	07/05/2019
	14	Graff Diamonds Limited	United Kingdom	778623	28/02/2022
	16	Graff Diamonds Limited	United Kingdom	998579	26/03/2019
	3, 9, 35	Graff Diamonds Limited	United Kingdom	1038541	19/04/2020
	14	Graff Diamonds Limited	United States	2,687,758	18/02/2013
	35	Graff Diamonds Limited	United States	2,859,452	06/07/2014
	35	Graff Diamonds Limited	United States	3,672,962	25/08/2019
	16, 35	Graff Diamonds Limited	United States	3,920,345	15/02/2021
	14	Graff Diamonds Limited	Uruguay	366808	13/10/2016
	14	Graff Diamonds Limited	Venezuela	P276820	21/02/2017
	14	Graff Diamonds Limited	Zimbabwe	1088/2005	02/11/2015
	14	Graff Diamonds Limited	Austria	992489	22/01/2019
	14	Graff Diamonds Limited	Bahrain	992489	22/01/2019
	14	Graff Diamonds Limited	Benelux Trademark	992489	22/01/2019
	14	Graff Diamonds Limited	Brazil	830200037	01/11/2021
	14	Graff Diamonds Limited	China	992489	22/01/2019
	14	Graff Diamonds Limited	Spain	992489	22/01/2019
	14	Graff Diamonds Limited	France	992489	22/01/2019
	14	Graff Diamonds Limited	Germany	992489	22/01/2019
	14	Graff Diamonds Limited	Italy	992489	22/01/2019
	14	Graff Diamonds Limited	Japan	992489	22/01/2019
	14	Graff Diamonds Limited	Macao	N/041179	24/06/2016
	14	Graff Diamonds Limited	Monaco	992489	22/01/2019
	14	Graff Diamonds Limited	Oman	992489	22/01/2019
	14	Graff Diamonds Limited	Republic of Korea	992489	22/01/2019
	14	Graff Diamonds Limited	Russian Federation	992489	22/01/2019
	14	Graff Diamonds Limited	Saudi Arabia	1147/73	14/10/2018
	14, 35	Graff Diamonds Limited	Switzerland	580105	25/11/2018
	14	Graff Diamonds Limited	Turkey	992489	22/01/2019
	14	Graff Diamonds Limited	Ukraine	992489	22/01/2019
	14	Graff Diamonds Limited	United Kingdom	992489	22/01/2019
	14	Graff Diamonds Limited	Singapore	T10/09345F	22/07/2020



G R A F F

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Trademark	Registration Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
	14	Graff Diamonds Limited	United States	3,855,993	05/10/2020
GRAFF 	14, 16, 35	Graff Diamonds Limited	Switzerland	596937	02/02/2020
 GRAFF	14	Graff Diamonds Limited	Hong Kong	301286082	11/02/2019
GRAFF	16, 35	Graff Diamonds Limited	Taiwan	1434217	30/09/2020

Designs

Although our trademark registrations are the most significant element of our intellectual property portfolio, we also protect new and innovative designs by filing design registrations where we feel it would be significantly advantageous to do so. As at the Latest Practicable Date, we had approximately 40 design registrations and approximately 25 design applications in countries throughout the world including the majority of the countries in which we currently operate. Of these designs, 12 have been filed in Hong Kong (of which 11 are registered and 1 is pending). The designs which we consider to be most important are our watch case designs and triangular decorative element that is a signature of our watches.

(D) FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. DIRECTORS' REMUNERATION

The aggregate amounts of emoluments (including fees, salaries, contributions to pensions schemes and other allowances and benefits in kind and discretionary bonuses and other incentives) paid to the Directors for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011 were US\$3.4 million, US\$4.1 million and US\$5.6 million, respectively.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus and share-based compensation, payable to our Directors in respect of the year ending 31 December 2012 to be approximately US\$3.3 million.

2. DISCLOSURE OF INTERESTS OF DIRECTORS

Immediately following completion of the Global Offering, without taking into account the Shares which may be sold pursuant to the exercise of the Over-allotment Option, the interests or short positions of the Directors of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions on the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered into in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities

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Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Hong Kong Stock Exchange, once the Shares are listed will be as follows:

<u>Name of Directors</u>	<u>Nature of Interest</u>	<u>Relevant company (including associated corporations)</u>	<u>Number of shares in the relevant company</u>	<u>Approximate percentage of total issued shares in the relevant company immediately after completion of the Global Offering</u>
Laurence Graff ⁽¹⁾	Long	The Company	607,335,546	69.5%
	Short	The Company	37,645,100	4.3%
François Graff ⁽²⁾	Long	The Company	2,509,677	0.3%
Nicholas Paine	—	nil	nil	nil
Douglas Daft	—	nil	nil	nil
Graeme Jack	—	nil	nil	nil
Ollie Oliveira	—	nil	nil	nil
Philippe Pascal	—	nil	nil	nil

- (1) Laurence Graff's deemed interests under Part XV of the SFO include those Shares held by Anne-Marie Graff, his wife, and those Shares held on trust for the benefit of François Graff, Kristelle Graff and Stephane Graff, and assumes an offer price of HK\$31.00, being the mid-point of the indicative Offer Price range.
- (2) François Graff's interests under Part XV of the SFO assume an Offer Price of HK\$31.00, being the mid-point of the indicative Offer Price range, and comprise his interest in 2,509,677 Shares held on trust for him.

3. SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or Chief executive of our Company, immediately following the completion of the Global Offering and assuming an Offer Price of HK\$31.00, being the mid-point of the indicative Offer Price range, without taking into account the Shares which may be sold pursuant to the exercise of the Over-allotment Option or Shares which may be taken up by any person under the Global Offering and which would affect disclosure in this section, the following persons will have an interest or a short position in Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

<u>Name of Shareholder</u>	<u>Name of Interest and Capacity</u>	<u>Number of Shares (assuming no exercise of the Over-allotment Option)</u>	<u>Approximate percentage of shareholding</u>
Laurence Graff	Legal and beneficial owner	377,451,615	43.2%
	Deemed Interest ⁽¹⁾	607,335,546	69.5%
Anne-Marie Graff	Legal and beneficial owner	222,354,900	25.5%
	Deemed Interest ⁽²⁾	607,335,546	69.5%

Notes:

- (1) Laurence Graff's deemed interests under Part XV of the SFO include those Shares held by Anne-Marie Graff, his wife, and those Shares held on trust for the benefit of François Graff, Kristelle Graff and Stephane Graff.
- (2) Anne-Marie Graff's deemed interests under Part XV of the SFO include those interests in Shares of Laurence Graff (including those interests in Shares held on trust for the benefit of François Graff, Kristelle Graff and Stephane Graff), her husband.

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4. AGENCY FEES OR COMMISSIONS RECEIVED

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries.

5. PRELIMINARY EXPENSES

The preliminary listing expenses of the Global Offering are estimated to be approximately US\$128,500 or HK\$1 million and are payable by our Company.

6. PROMOTER

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor have any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

7. DISCLAIMERS

Save as disclosed in this prospectus and as at the Latest Practicable Date:

- (a) none of our Directors nor any of the parties listed in paragraph headed “(F). Other Information — 8. Qualifications of Experts” of this Appendix is interested, in the promotion of, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (b) none of our Directors is materially interested in any contract or arrangement with the Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group taken as a whole;
- (c) so far as is known to our Directors, none of our Directors or their associates or any Shareholder (which to the knowledge of our Directors owns 5% or more of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of the Group;
- (d) none of our Directors was a director or employee of a company which has an interest in the share capital of our Company, which, once the Offer Shares are listed on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Division 2 and 3 of Part XV of the SFO;
- (e) none of the Directors or chief executive of our Company has any interests and short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and the Hong Kong Stock Exchange, in each case once the Shares are listed on the Hong Kong Stock Exchange;
- (f) so far as is known to any of the Directors or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares of our Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (g) save in connection with Underwriting Agreements, none of the persons listed in the paragraph headed “(F) Other Information — 8. Qualification of Experts” below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

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- (h) save for the Underwriting Agreements, none of the persons listed in the paragraph headed “(F) Other Information — 8. Qualification of Experts” below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (i) none of the Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (j) none of our Controlling Shareholder and our Directors are interested in any business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with the business of our Group.

(E) SHARE OPTION PLANS

1. PRINCIPAL TERMS OF THE 2012 LONG TERM INCENTIVE PLAN (THE “LTIP”)

No new Shares may be issued under the LTIP and, accordingly, the LTIP is not required to be subject to the restrictions under Chapter 17 of the Listing Rules.

The LTIP provides for two types of award:

- phantom option: this is a right to receive a cash payment (“Gain”) equal to the market value of a Share on the date it is exercised, minus any amount determined by the Remuneration Committee (“Starting Price”). The Starting Price can be any price (including zero); and
- restricted shares: this is an award of Shares to the employee on terms that the award holder owns the Shares but can forfeit them in certain circumstances.

An award of restricted shares will always be settled using shares already in issue; hence the LTIP will not result in any dilution for shareholders. As of the Latest Practicable Date, no phantom options or restricted shares have been granted under the LTIP.

The key terms of the LTIP are set out below:

Grant of Awards

The Remuneration Committee will in its absolute discretion decide whether or not any awards are made at any particular time and, if they are, who they are made to and the terms of such awards. Awards can only be granted to directors and employees of the Company and its subsidiaries. Awards may be made at any time except:

- when prevented by any Dealing Restrictions; or
- after the tenth anniversary of Listing.

The LTIP may be operated using a Trustee. No Trustee has yet been appointed.

Award Limits

The total market value (measured at the award date) of Shares subject to awards granted to an employee in any financial year shall not exceed an amount equal to 600% of the higher of that employee’s (i) basic salary expressed as an annual rate as at the grant date or (ii) basic salary for the period of 12 months prior to the grant date. Awards made under the Option Plan (defined below) will not count towards this limit.

Performance Targets

The vesting of an award and the extent to which it vests will be subject to the satisfaction of any performance target or any other conditions set by the Remuneration Committee. Such conditions may include a requirement that, in order to be made an award, an award holder must defer all or a proportion of any cash bonus. Performance targets may be amended or waived if an event occurs as a result of which such amendment or waiver is reasonable in the circumstances.

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Dividend equivalents

A holder of Restricted Shares will normally receive dividends on his shares prior to vesting. A phantom option may be granted on the basis that an amount equal to the dividends paid between grant and vesting will be paid on vesting.

Vesting

Awards will vest on the later of the date specified in the award certificate and the date on which the Remuneration Committee determines that any performance target and any further condition imposed have been satisfied.

Exercise of Phantom Options

When an award holder exercises a phantom option, the employee will normally be paid the Gain in cash but the Company may decide to settle it by transferring existing shares of equal value to the Gain.

Cessation of Employment

LTIP awards will lapse on cessation of employment except if an employee leaves employment as a Good Leaver, in which case, his awards will be treated in the same way as options of Good Leavers under the Option Plan (described below).

Change of Control

General

The provisions for adjustment of awards on a variation of capital and vesting on a change of control are substantially the same as those which apply to the Option Plan (described below).

Accounting

The LTIP will be accounted for under IFRS2 as cash settled share based payment. The total profit and loss cost of any grant will equal the benefit received by the participant. As a result, it is not possible to provide a good estimate of the LTIP's impact on earnings per share as this will depend on the Company's future share price performance.

Reporting

The Company will comply with its obligations to disclose grants made under the LTIP in its annual report and accounts.

The LTIP is operated in compliance with Rule 9.09 of the Listing Rules and other applicable rules and regulations.

2. PRINCIPAL TERMS OF THE 2012 SHARE OPTION PLAN (THE "OPTION PLAN")

The Option Plan was adopted by the Board on 17 May 2012. The following is a summary of the principal terms of the Option Plan which is compliant with Chapter 17 of the Listing Rules.

Purpose of the Option Plan

The purpose of the Option Plan is to give the Company the flexibility in the future to award options to attract, retain and motivate key executives to work for the Group following Listing. Since options under the Option Plan may be subject to the achievement of performance targets, and since optionholders can derive no benefit from their options unless the market value of a Share increases, it is expected that optionholders will optimise their performance and efficiency, which should promote the long-term growth of the Company and an increase in Share price. No options have been awarded and there is no present intention to award any options under the Option Plan.

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Eligibility and Selection of Participants

Subject to the rules, the Remuneration Committee will decide who options are granted to, over how many Shares and on what terms. The Remuneration Committee will consider recommendations made by the Chief Executive Officer but is not obliged to follow such recommendations.

The Remuneration Committee can grant options only to directors and employees of the Company and its subsidiaries. The Remuneration Committee may not grant an option to a director, the Chief Executive Officer or a substantial shareholder of the Company (or any of their respective associates) unless the Remuneration Committee for these purposes consists exclusively of independent non-executive directors of the Company (excluding any independent non-executive director to whom such an option is granted).

Nature of an Option

The Option Plan provides for the grant of options to subscribe for new Shares. The exercise price of an option shall be a price determined by the Remuneration Committee but shall not be less than the higher of (i) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the grant date of the option, which must be a business day; and (ii) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations for the five business days immediately preceding the grant date of the option.

When an optionholder exercises an option, the Remuneration Committee may decide to settle it by making a cash payment to the optionholder based on the market value of a Share on the exercise date minus the exercise price or by arranging for existing Shares to be transferred to the optionholder.

Limits on Issue of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Option Plan and any other scheme adopted by the Company shall not in aggregate exceed 10% of the Shares in issue as at Listing.

The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Option Plan and any other scheme adopted by the Company shall not in aggregate exceed 30% of the Shares in issue from time to time. No options may be granted under any scheme of the Company if this would result in the limit being exceeded.

The following types of awards and options will not be counted for the purpose of calculating the above limits:

- options which have lapsed in accordance with the terms of the Option Plan; and
- options which are granted on the basis that they cannot be satisfied using newly issued Shares.

Individual Limits

The total market value (measured at the grant date) of Shares subject to options granted to an employee in any financial year shall not normally exceed an amount equal to 600% of the higher of that employee's (i) basic salary expressed as an annual rate as at the grant date; or (ii) basic salary for the period of 12 months prior to the grant date. Awards made under the LTIP will not count towards this limit. The Remuneration Committee may grant options above this limit if it considers that there are exceptional circumstances that justify such grant.

The total number of Shares issued and to be issued through options granted to any individual optionholder (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

No option may be granted to a substantial shareholder or an independent non-executive director of the Company (or any of their respective associates) which would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the grant date:

- representing in aggregate over 0.1% of the Shares in issue; and

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- having an aggregate value, based on the closing price of a Share at the grant date, in excess of HK\$5 million

unless such grant of options is approved by the members of the Company in general meeting. The Company must send a circular to the shareholders. All connected persons of the Company must abstain from voting in favour at such general meeting.

Restrictions on the Time of Grant of Options

Options may not be granted after a price-sensitive event has occurred or a price-sensitive matter has been the subject of a decision until an announcement of such price-sensitive information has been published. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- the date of the board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules); and
- the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarter or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement.

Exercise Period of Options

When granting an option, the Remuneration Committee will determine the minimum period (if any) until the option becomes exercisable. It is currently expected that options will become exercisable as to 25% on each of the first, second, third and fourth anniversaries of the grant date. No option may be exercised more than ten years after the grant date.

Performance Targets

The Remuneration Committee may attach performance targets to any options. The Remuneration Committee may design different performance targets for different options. Performance targets may be amended or waived if an event occurs as a result of which such amendment or waiver is reasonable in the circumstances.

Consideration for an Option

No amount is payable by an employee to apply for or accept an option.

Cessation of Employment

Options will lapse on cessation of employment except if an employee leaves employment due to ill-health, injury, disability, retirement, redundancy or the employing company or business being sold or transferred outside the Group or otherwise at the discretion of the Remuneration Committee (a "Good Leaver") or if the employee dies. Options granted to a Good Leaver will vest on the normal vesting date(s) (unless the Remuneration Committee decides they should vest immediately) taking into account the extent to which the performance targets have been achieved and the period of time from the grant date to the date of cessation of employment. The options will be exercisable for six months and will then lapse. If an optionholder dies, his options will vest immediately taking into account the extent to which the performance targets have been achieved and the period of time from the grant date to the date of death. The options will be exercisable for 12 months and will then lapse.

Change of Control

If there is a change of control of the Company, options will vest immediately taking into account the extent to which the performance targets have been achieved and the period of time from the grant date to the date of change of control. The Remuneration Committee may declare such options to be exercisable

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shortly before the change of control for tax or administrative efficiency. Options will be exercisable for a limited period and will then lapse. Alternatively, if the acquiring company agrees, options may be exchanged for options over shares in the acquiring company.

Rights attaching to Shares

Shares allotted under the Option Plan shall rank equally with the fully-paid Shares of the Company already in issue (save as regards any rights attaching to such Shares by reference to a record date prior to the date of issue). For this reason, Shares allotted under the Option Plan will not be separately designated.

Life of Option Plan and Lapse of Options

No options may be granted under the Option Plan more than ten years after Listing.

Options will automatically lapse on the earliest of the following events:

- the tenth anniversary of the grant date;
- the Remuneration Committee determining that any performance target cannot be satisfied;
- the optionholder terminating employment, except as a Good Leaver;
- the end of the period during which a Good Leaver is permitted to exercise an option;
- six months after a takeover, reconstruction or amalgamation of the Company; and
- unless otherwise determined by the Remuneration Committee at its discretion, the optionholder becoming bankrupt or entering into a compromise with his creditors.

Adjustment of Options

In the event of any rights issue, demerger, special distribution or variation in the Company's share capital, the Remuneration Committee may make such adjustments as it considers appropriate to the total number or description of shares subject to an option and/or the exercise price. Any such adjustments required on a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital shall give an optionholder the same proportion of the Company's share capital as that to which that person was previously entitled. No such adjustments may be made to the extent that a Share would be issued at less than its nominal value. The issue of securities as consideration in a transaction may or may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, an independent financial adviser or the Company's auditors must confirm to the Board in writing that the adjustments satisfy the above requirements.

Options that are cancelled but not exercised

Options which have been granted but not exercised cannot be unilaterally cancelled by the Company under the rules.

Termination of Option Plan

The Remuneration Committee may decide to terminate the Option Plan before the end of its life. If it does so, any options already granted will continue in effect but no further options may be granted.

Options are Not Transferable

An option is personal to the optionholder and is not transferable (other than on death when it may be transmitted to the optionholder's personal representative).

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Amendments to the Option Plan

The Remuneration Committee may at any time amend the Option Plan in any respect provided that:

- the prior approval of the Company in general meeting is obtained for amendments made for the benefit of optionholders to the provisions relating to:
 - the persons to whom an option may be granted;
 - the method for determining the exercise price;
 - the limits on the aggregate number of Shares which may be issued;
 - the limits on the number and value of Shares over which options may be granted;
 - the periods during which options may be exercised;
 - the rights attaching to Shares issued under the Option Plan;
 - the non-transferability of options;
 - the adjustment of options on a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of capital;
 - the life of the Option Plan; and
 - this amendment power;
- the prior approval of the Company in general meeting is obtained for any material alteration to the Option Plan or to the terms of any option already granted unless the alteration takes effect automatically under the rules.

(F) OTHER INFORMATION

1. ESTATE DUTY, TAX AND OTHER INDEMNITIES

The Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Hong Kong

Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax.

Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a maximum rate of 15.0%. Gains from sale of the Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sale of the Shares effected on the Hong Kong Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares.

In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of the Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) will be

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chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee will be liable to pay such duty.

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose deaths occur on or after 11 February 2006.

Consultation with professional advisors

Prospective holders of Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

2. LITIGATION

During the Track Record Period and as at the Latest Practicable Date, to our knowledge, we were not subject to any litigation, arbitration or legal proceeding that may have a material adverse effect on our business or results of operations.

3. JOINT SPONSORS

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue pursuant to the Global Offering and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

4. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our Group's financial or trading position or prospects since 31 December 2011 (being the date to which our Company's latest audited financial statements were made up) up to the date of this Prospectus.

5. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance insofar as applicable.

6. COMPLIANCE ADVISOR

Our Company has appointed Rothschild (Hong Kong) Limited as its compliance advisor pursuant to Listing Rule 3A.19. Pursuant to Listing Rule 3A.23, the compliance advisor will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of the Shares or any other matters.

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The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date.

7. MISCELLANEOUS

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus,

- (a) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of its subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) there were no procedures for the exercise of any right of pre-emption or transferability of subscription rights;
- (h) our Company has no outstanding convertible debt securities; and
- (i) neither our Company nor any of its subsidiaries have any authorised debentures outstanding.

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8. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice contained in this prospectus:

<u>Name</u>	<u>Qualification</u>
Credit Suisse (Hong Kong) Limited	Licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), and Type 7 (providing automated trading services) regulated activities under the SFO
Deutsche Bank AG, Hong Kong Branch	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 9 (asset management) of the regulated activities under the SFO and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
Goldman Sachs (Asia) L.L.C.	Licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO
Morgan Stanley Asia Limited	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on future contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO
Ogier	Cayman Islands legal advisor to our Company
PricewaterhouseCoopers	Certified Public Accountants

9. CONSENTS OF EXPERTS

Each of the Joint Sponsors, Ogier and PricewaterhouseCoopers has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or valuation certificate and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of its subsidiaries.

10. PROPERTY VALUATION REPORT

The Company has not obtained a valuation report in respect of its property interests in reliance upon the exemption provided by section 9 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. BILINGUAL PROSPECTUS

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX V

DOCUMENTS DELIVERED TO THE REGISTRAR AND AVAILABLE FOR INSPECTION

Documents Delivered to the Registrar of Companies in Hong Kong

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, (ii) the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV, (iii) a copy of each of the material contracts referred to in the paragraph headed “Summary of the Material Contracts” in Appendix IV and (iv) the statement of particulars of the Selling Shareholder and Controlling Shareholder.

Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of Linklaters at 10th Floor, Alexandra House, Charter Road, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (1) our Memorandum and Articles of Association;
- (2) the Accountants’ Report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this Prospectus;
- (3) the report in relation to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (4) the audited combined financial statements of our Group for each of the three years ended 31 December 2009, 31 December 2010 and 31 December 2011;
- (5) the material contracts referred to in the paragraph headed “Summary of the Material Contracts” of Appendix IV to this prospectus;
- (6) the written consents referred to in the paragraph headed “Consents of experts” of Appendix IV to this prospectus;
- (7) the letter prepared by Ogier on the summary of certain aspects of Cayman Islands company law and regulations referred to in Appendix III;
- (8) the Companies Law; and
- (9) the statement of particulars of the Selling Shareholder and Controlling Shareholder.

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This page MasterGraff Diamond Skeleton Limited Edition 48mm watch, in rose gold (Diamonds 23.70cts).
Back cover Multishape diamond chandelier earrings (Diamonds 38.40cts). Multishape diamond necklace (Diamonds 108.09cts).
19.23ct Pear shape D Internally Flawless diamond ring with pear shape diamond shoulders. Pear shape and round diamond bracelet (Diamonds 38.10cts).



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