

## **Cape Diamonds Plc**

Interim results for the six months ended 31 December 2008 (unaudited)

31 March 2009

Cape Diamonds Plc (AIM: CAPE), today reports its unaudited interim results for the six months ended 31 December 2008.

### **Chairperson's Statement**

#### **Events during the period**

During last year the Company successfully completed the construction of its DMS plant. However since that time, diamond recoveries have been considerably less than expected. In order to secure an ongoing cashflow, an agreement was entered into with KMG Diamond Resources (Pty) Limited ("KMG SA"), the operating subsidiary of KMG Diamond Resources Plc ("KMG"), to toll process the tailings on the nearby Frank Smith Mine, which in turn led to a proposed acquisition by Cape Diamonds of the entire issued share capital of KMG SA. Your Board believed that the toll processing agreement would secure a reasonable cashflow for the business. Unfortunately neither of these agreements proved capable of consummation and they were terminated.

The net result of this was that by August 2008 the Group was extremely close to immediate insolvency. Against this background the Directors attempted to raise funds by way of a capital raising but this proved impossible. Therefore, after taking advice and recognising the threat of immediate liquidation if funds were not raised, the Directors entered into the Convertible Loan Facility. The Company raised a total of £1 million before expenses from Keysha Investments 194 (Pty) Ltd ("Keysha") in August 2008. The net proceeds of the Convertible Loan Facility were and are being used for general working capital purposes at the Elandsplaagte Mine. The Group is still seeking to re-finance the UK holding company in order to allow it to return to normal trading terms.

This funding meant that the employees and all material creditors could be paid, IDC removed the threat of exercising its security and indeed indicated that subject, inter alia, to approval of a business plan to the satisfaction of the IDC, the £1.24 million (R17 million) balance of the ongoing financing facility remained available to the Company to be drawn down. However, pending recapitalisation of the holding company, the Mine has been placed on care and maintenance in order to minimise any cash burn. Given the financial situation of the Company no Director has drawn a salary or fee for the past 9 months and its advisers have extended their credit terms for which we are grateful. In addition, a new order mining licence application was submitted and the Company has filed the required social and labour plan with the DME.

#### **Events since the period end**

Following the General Meeting held on 7 January 2009 the loan from Keysha Investments converted into 100,000,000 ordinary shares of 1p each representing 69.16 per cent of the issued share capital of the Company.

The Directors continue to seek opportunities to recapitalise the holding company. This has not been helped however by the activities of a minority of shareholders who have sought, through the threat of legal action, to disrupt the activities of the Company. The Board is advised that this minority have no prospect of succeeding in their claims but they nevertheless continue to prove a distraction to management and a waste of funds at a difficult time for the Company. If the Directors fail to recapitalise, the holding company, Cape Diamonds, will not be able to meet its obligations as they fall due.

## **Strategy**

If the Board is able to recapitalise the holding Company then it will be able to pursue a two-part strategy:

The first part of the Board's strategy is to establish the extent of the resources at the Elandslaagte Mine and the economic feasibility of mining them. Information currently available suggests that former underground working in all three pipes may have been more extensive than had originally been understood. This in turn calls into question the competent persons' report published in the admission document dated 22 May 2006. In order to address this:

- The Group was carrying out a programme of bulk sampling in partnership with Altivex, the former site development contractor. This sampling was being carried out using the pan plant system to avoid the cost of starting up the DMS plant at this point. Under the agreement, Altivex incurred all of the sampling costs and it was agreed that they would receive 80 per cent of the proceeds of any diamonds recovered. The bulk sampling programme was postponed pending recovery in the diamond prices.
- The Board and Altivex intend to work with VSA Geoconsultants Group (Pty) Limited to review the results of the sampling and other production information currently available to re-evaluate the original estimates made in the competent persons' report dated 22 May 2006.

Depending on the outcome of that review, the Board then intend to make a decision as to whether:

- (i) to proceed with further sampling and a full third-party competent persons' report;
- (ii) to proceed with mining; or
- (iii) to close down the operations at the Mine.

At the same time the Board intend to undertake a review of the conduct of previous management and make an assessment as to whether there is any basis for taking action to recover any losses incurred by the Group and its Shareholders.

The second leg of the Company's strategy will involve strengthening the asset base through the acquisition of further resource assets in South Africa. As shareholders in and directors of CI Holdings and because of the prominence of Dr Anna Mokgokong and Joe Madungandaba positions in the business community of the "new" South Africa, they have been privileged to see a strong flow of investment opportunities in the resource sector throughout South Africa and extending further into

West Africa. Where appropriate, it would be their intention to introduce these to the Company for review by the Board and its advisers. The Company is currently reviewing a number of projects.

### **Going concern**

1. Based on management's working capital forecasts, the Group currently has approximately three months cash in hand to meet essential costs in order to remain in operation.
2. The IDC has indicated that a R17 million facility remains available to be drawn down subject to, *inter alia*, their satisfaction with a business plan.

The Directors feel comfortable that with potential new opportunities available and an appropriate business plan, there is a reasonable chance that they can raise the additional capital necessary to meet the needs for the next twelve months to 1 April 2010. For this reason, the Directors continue to adopt the going concern basis in preparing the interim results.

If the Directors fail to raise additional capital, the holding company will not be able to meet its obligations as they fall due.

### **Results for the period**

The loss for the period amounts to £1.50 million compared with a loss of £1.69 million for the same period in the previous year.

Dr Anna T M Mokgokong  
Non-Executive Chairperson  
31 March 2009

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## Consolidated income statement

		Six months ended 31-Dec 2008 Unaudited £	Six months ended 31-Dec 2007 Unaudited £	Year ended 30-June 2008 Audited £
Revenue	4	--	305,690	--
Mining expenses		--	(861,988)	--
<b>Gross loss</b>		<b>--</b>	<b>(556,298)</b>	<b>--</b>
Other operating income		479	86,000	92,178
Administrative expenses		(412,098)	(591,658)	(2,974,626)
Impairment of assets		--	--	(48,880,547)
Other operating expenses		(759,143)	(671,528)	(835,183)
<b>Operating loss</b>		<b>(1,170,762)</b>	<b>(1,733,484)</b>	<b>(52,598,178)</b>
Investment income		53	38,470	66,503
Finance costs		(326,334)	(244,781)	(333,484)
<b>Loss before taxation</b>		<b>(1,497,043)</b>	<b>(1,939,795)</b>	<b>(52,865,159)</b>
Taxation	5	-	249,265	10,016,203
<b>Loss for the period</b>		<b>(1,497,043)</b>	<b>(1,690,530)</b>	<b>(42,848,956)</b>
Attributable to:				
Equity holders of the parent	7	(1,219,286)	(1,437,943)	(38,657,930)
Minority interest	7	(277,757)	(252,587)	(4,191,026)
		<b>(1,497,043)</b>	<b>(1,690,530)</b>	<b>(42,848,956)</b>
Loss per share				
Basic and diluted	6	2.73p	4.16p	97.66p

The above results relate to continuing operations.

## Consolidated statement of recognised income and expense

	Six month period ended 31 December 2008 Unaudited £	Six month period ended 31 December 2007 Unaudited £	Year ended 30 June 2008 Audited £
Exchange differences on translation of foreign operations	7,482	187,339	858,347
<b>Loss for the period</b>	<b>(1,497,043)</b>	<b>(1,690,530)</b>	<b>(42,848,956)</b>
<b>Total income and expense recognised</b>	<b>(1,489,561)</b>	<b>(1,503,191)</b>	<b>(41,990,609)</b>
Attributable to:			
Equity holders of the parent	(1,211,804)	(1,250,604)	(37,799,583)
Minority interest	(277,757)	(252,587)	(4,191,026)
	<b>(1,489,561)</b>	<b>(1,503,191)</b>	<b>(41,990,609)</b>

## Consolidated balance sheet

	Notes	As at 31 December 2008 Unaudited £	As at 31 December 2007 Unaudited £	As at 30 June 2008 Audited £
<b>Non-current assets</b>				
Property, plant and equipment		5,355,021	52,314,897	4,433,389
Investment – insurance policy Sanlam (S Africa)		196,395	108,207	119,296
Deferred tax		--	185,837	--
		<u>5,551,416</u>	<u>52,608,941</u>	<u>4,552,685</u>
<b>Current assets</b>				
Inventory		60,921	--	52,525
Diamond stock		2,949	29,764	2,542
Trade and other debtors		326,843	632,999	326,471
Cash and cash equivalents		119,565	3,208,650	114,078
		<u>510,278</u>	<u>3,871,413</u>	<u>495,616</u>
<b>Total assets</b>		<u><b>6,061,694</b></u>	<u><b>56,480,354</b></u>	<u><b>5,048,301</b></u>
<b>Current liabilities</b>				
Trade and other payables		(1,633,377)	(2,854,722)	(1,283,325)
Provisions		(482,106)	(38,974)	(20,895)
		<u>(2,115,483)</u>	<u>(2,893,696)</u>	<u>(1,304,220)</u>
<b>Net current (liabilities) assets</b>		<u>(1,605,205)</u>	<u>977,717</u>	<u>(808,604)</u>
<b>Non-current liabilities</b>				
Long term liability – IDC loan		(4,989,131)	(3,120,014)	(4,021,071)
Provisions		--	(298,134)	(282,920)
Deferred tax		--	(10,009,142)	--

		(4,989,131)	<b>(13,427,290)</b>	<b>(4,303,991)</b>
		<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>		(7,104,614)	(16,320,986)	(5,608,211)
		<hr/>	<hr/>	<hr/>
<b>Net (liabilities)/assets</b>		<b>(1,042,920)</b>	<b>40,159,368</b>	<b>(559,910)</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Equity</b>				
Share capital	7	4,459,605	4,459,605	4,459,605
Share premium	7	28,244,541	28,244,541	28,244,541
Convertible loan	7/9	1,000,000	--	--
Translation reserve	7	634,959	(28,566)	642,441
Accumulated (loss)/profit	7	(35,390,892)	3,048,380	(34,171,606)
		<hr/>	<hr/>	<hr/>
Equity attributable to equity holders of the parent	7	(1,051,787)	35,723,960	(825,019)
Minority interest	7	8,867	4,435,408	265,109
		<hr/>	<hr/>	<hr/>
<b>Total equity</b>		<b>(1,042,920)</b>	<b>40,159,368</b>	<b>(559,910)</b>
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Consolidated cash flow statement

		Six month period ended 31 December 2008 Unaudited £	Six month period ended 31 December 2007 Unaudited £	Year ended 30 June 2008  Audited  £
Net cash outflow from operating activities	Notes 8	(654,152)	(174,758)	(932,873)
<b>Investing activities</b>				
Interest received		53	38,470	66,503
Pre-production development costs		--	(1,996,653)	(3,718,005)
Acquisition of property, plant and equipment		(300,128)	(2,454,110)	(3,342,020)
Investment – insurance policy Sanlam (S Africa)		(52,268)	57,037	
		<hr/>	<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>(352,343)</b>	<b>(4,355,256)</b>	<b>(6,993,522)</b>
		<hr/>	<hr/>	<hr/>
<b>Financing activities</b>				
Proceeds on issue of shares	7	--	3,000,000	3,000,000
Share issue costs	7	--	(150,000)	(150,000)
Convertible loan received	7/9	1,000,000	--	--
Loan received - IDC		325,276	1,874,116	2,403,676
Interest paid		(326,334)	(244,781)	(333,484)
		<hr/>	<hr/>	<hr/>
<b>Net cash from financing activities</b>		<b>998,942</b>	<b>4,479,335</b>	<b>4,920,192</b>
		<hr/>	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>		<b>(7,553)</b>	<b>(50,679)</b>	<b>(3,006,203)</b>
Cash and cash equivalents at 1 July 2008		114,078	3,013,191	3,013,191
Effect of foreign exchange rate changes		13,040	246,138	107,090
		<hr/>	<hr/>	<hr/>

**Cash and cash  
equivalents at 31  
December 2008**

**119,565**

**3,208,650**

**114,078**

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## **Interim results for the six months ended 31 December 2008 (unaudited)**

### **Notes to the financial information**

#### **1. General information and accounting policies**

Cape Diamonds Plc is a company incorporated in the United Kingdom under the Companies Act 1985. It was incorporated on 25 March 2004 under the name of Dominion Mining Plc and changed its name to Cape Diamonds Plc on 26 January 2006.

This announcement is for the unaudited interim results for the six month period ended 31 December 2008.

The interim results including all comparatives have been prepared using the accounting policies consistent with the audited financial statements for the year ended 30 June 2008.

This financial information is presented in pounds sterling. The currency of the primary economic environment in which the group operates is South African Rand ("R").

The R/£ exchange rates for the period are as follows:

	Six months ended 31 December 2008	Six months ended 31 December 2007	Year ended 30 June 2008
Period end rate	13.70	13.69	15.89
Average rate for period	15.21	14.14	14.64

#### **2. Basis of accounting**

The accounting policies for the interim financial information are consistent with those applied in the preparation of the audited financial statements for the year ended 30 June 2008, which were prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

This financial information has been prepared on a historical cost basis, except for certain financial instruments which are carried at fair value in accordance with IFRS.

The financial information of the subsidiaries is prepared for the same reporting period as the parent company, using consistent accounting policies.

IFRS 7 Financial Instruments: Disclosures will be adopted for June 2009 statements and is not mandatory for interim financial information.

#### **3. Interim results for the six month period ended 31 December 2008 (unaudited)**

The financial information presented for the interim period covers the period from 1 July 2008 to 31 December 2008. The comparative figures cover the period from 1 July 2007 to 31 December 2007.

The financial information set out in the interim report is unaudited.

This announcement was approved by the Board of Directors of the Company on 31 March 2009.

#### 4. Revenue

Revenue for the six month period ended 31 December 2008 of £nil (2007: £305,690) comprises the sale of diamonds in the South African market which is the Group's only segment.

#### 5. Current Tax - Group

	Six month period ended 31 December 2008 Unaudited £	Six month period ended 31 December 2007 Unaudited £	Year ended 30 June 2008 Audited £
Current tax			
- UK corporation tax	-	-	-
- South African tax	-	-	-
Deferred taxation - South Africa	-	249,265	10,016,203
Total tax credit	-	<b>249,265</b>	<b>10,016,203</b>

The current tax credit is significantly different to the statutory tax charge due to non-deductible expenses, timing differences and tax losses not recognised.

#### 6. Loss per share

From continuing operations:

The calculation of the basic and diluted loss per share is based on the following data:

	<b>Six month period ended 31 December 2008 Unaudited £</b>	<b>Six month period ended 31 December 2007 Unaudited £</b>	<b>Year ended 30 June 2008 Audited</b>
<b>Earnings</b>			
Loss for the purposes of basic and diluted loss per share being share attributable to equity holders of the parent	(1,219,286)	(1,437,943)	(38,657,930)
<b>Statutory number of shares</b>			
Weighted average number of ordinary shares for the purpose of basic loss per share	44,596,053	34,596,053	39,582,354
Effect of dilutive potential ordinary shares: Share warrants	3,929,150	4,739,150	3,929,150
Weighted average number of ordinary shares for the purpose of diluted earnings per share	48,525,203	39,335,203	43,511,504
Basic and diluted loss per share	2.73p	4.16p	97.66p

The outstanding share warrants are anti-dilutive as the Group made a loss during the current and prior periods.

#### **7 (a) Statement of change in equity for the six month period ended 31 December 2008**

	<b>Share capital £</b>	<b>Share premium £</b>	<b>Convertible loan £</b>	<b>Translation reserve £</b>	<b>Retained earnings £</b>	<b>Minority interest £</b>	<b>Total £</b>
At 1 July 2008	4,459,605	28,244,541	-	642,441	(34,171,606)	265,109	(559,910)
Net loss for the period	-	-	-	-	(1,219,286)	(277,757)	(1,497,043)
Convertible loan	-	-	1,000,000	-	-	-	1,000,000
Exchange differences on translation of overseas operations	-	-	-	(7,482)	-	21,515	14,033
At 31 December 2008	<b>4,459,605</b>	<b>28,244,541</b>	<b>1,000,000</b>	<b>634,959</b>	<b>(35,390,892)</b>	<b>8,867</b>	<b>(1,042,920)</b>

(b) **Statement of change in equity for the six month period ended 31 December 2007**

	<b>Share capital</b>	<b>Share premium</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Minority interest</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 July 2007	3,459,605	26,394,541	(215,906)	4,259,047	4,687,995	38,585,282
Net loss for the period	-	-	-	(1,437,943)	(252,587)	(1,690,530)
Shares issued	1,000,000	2,000,000	-	-	-	3,000,000
Share issue expenses	-	(150,000)	-	-	-	(150,000)
Exchange differences on translation of overseas operations			187,340			187,340
Share-based payments	-	-	-	227,276	-	227,276
At 31 December 2007	<b>4,459,605</b>	<b>28,244,541</b>	<b>(28,566)</b>	<b>3,048,380</b>	<b>4,435,408</b>	<b>40,159,368</b>

(c) **Statement of change in equity for the year ended 30 June 2008**

	<b>Share capital</b>	<b>Share premium</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Minority interest</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
At 1 July 2007	3,459,605	26,394,541	(215,906)	4,259,047	4,687,996	38,585,283
Net loss for the period	-	-	-	(38,657,930)	(4,191,026)	(42,848,956)
Shares issued	1,000,000	2,000,000	-	-	-	3,000,000
Share issue expenses	-	(150,000)	-	-	-	(150,000)
Exchange differences on translation of overseas operations			858,347		(231,861)	626,486
Share-based payments	-	-	-	227,277	-	227,277
At 30 June 2008	<b>4,459,605</b>	<b>28,244,541</b>	<b>642,441</b>	<b>(34,171,606)</b>	<b>265,109</b>	<b>(559,910)</b>

- (d) The translation of the Group's foreign operations to the functional currency at each balance sheet gives rise to a foreign exchange difference that is initially recorded as a separate component of the equity in the translation reserve. This reserve is recognised in the income statement on the disposal of the foreign operation.

## 8. Notes to the cash flow statement

	Six months ended 31 December 2008 Unaudited	Six months ended 31 December 2007 Unaudited	Year ended 30 June 2008  Audited
	£	£	£
Operating loss from continuing operations	(1,170,762)	(1,733,484)	(52,598,178)
Adjustments for:			
Impairment of asset	--	--	48,880,547
Depreciation of property, plant and equipment	108,331	285,377	304,816
Bad debt write off	--	--	205,290
Amortisation of rehabilitation assets	--	--	15,786
Increase in provisions	116,846	102,287	50,437
Share-based payments	--	227,276	227,276
Net foreign exchange (gain)/loss	--	(423,314)	1,531,941
Other non-cash items	(39,330)	--	26,795
	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	(984,915)	(1,541,858)	(1,355,290)
Decrease in stock	--	118,779	81,245
Decrease in receivables	38,223	764,234	786,640
Increase / (decrease) in payables	292,540	484,087	(445,468)
	<hr/>	<hr/>	<hr/>
Net cash outflow from operating activities	<b><u>(654,152)</u></b>	<b><u>(174,758)</u></b>	<b><u>(932,873)</u></b>

## 9. Events after the balance sheet date

At 31 December 2008, there was a non-interest bearing convertible loan from Keysha Investments 194 (Pty) Limited (“Keysha”) which was converted into ordinary shares of the Company following shareholder approval at the General Meeting on 7 January 2009.

A summary of the Company’s share capital pre and post the General Meeting is as follows:

### Pre:

*Authorised*

70 million shares of 10p each

*Issued*

44,596,053 ordinary shares of 10p each

### Post (on 8 January 2009):

*Authorised*

800 million shares of 1p each

44,596,053 deferred shares of 9p each

*Issued*

44,596,053 deferred shares of 9p each

144,596,053 ordinary shares of 1p each

The issued shares include 100 million new ordinary shares of 1p each, issued to Keysha, representing 69.16% of the enlarged share capital. The deferred shares have very limited rights and are effectively valueless.

#### *Warrants*

Following the sub-division the number of ordinary shares subject to the warrants granted by the Company and the exercise price will be adjusted. Warrant holders will be notified of the adjustments to their warrants in due course.

### **10. Going concern**

1. Based on management's working capital forecasts, the Group currently has approximately three months cash in hand to meet essential costs in order to remain in operation.

2. The IDC has indicated that a R17 million facility remains available to be drawn down subject to , *inter alia*, their satisfaction with a business plan.

The Directors feel comfortable that with potential new opportunities available and an appropriate business plan, there is a reasonable chance that they can raise the additional capital necessary to meet the needs for the next twelve months to 1 April 2010. For this reason, the Directors continue to adopt the going concern basis in preparing the interim results.

If the Directors fail to raise additional capital, the holding company will not be able to meet its obligations as they fall due.