

Cape Diamonds Plc (“Cape Diamonds” or the “Company”)

20 June 2007

Preliminary announcement of the final results for the year ended 30 June 2006 (audited) and interim results for the six months ended 31 December 2006 (unaudited)

Cape Diamonds Plc (AIM: CAPE), the diamond producing company with diamond assets in the Republic of South Africa, today reports its full year results for the year ended 30 June 2006 and the unaudited interim results for the six months to 31 December 2006. Their publication was delayed due to a number of factors which have now been addressed and the new Board is committed to ensuring that future statements will be made in a timely manner.

The interim results, at the Company’s request, have been reviewed by its auditors and this notification of the interim and final results to the market along with publication of the accounts for the year ended 30 June 2006 will result in the suspension of the ordinary shares being lifted and trading in the Company’s ordinary shares will resume on AIM.

The annual report and accounts for the year ended 30 June 2006, together with a notice convening the Annual General Meeting for 11.00 a.m. on 26 July 2007 at the Marriott London Grosvenor Square, Grosvenor Square, London, W1K 6JP, have been posted to shareholders and are also available from the Company’s offices at 19/20 Grosvenor Street, London W1K 4QH and from the Company’s website at [www.capediamonds.com](http://www.capediamonds.com).

### **Operational update**

- Mining activities have mainly focused on ore exposure in the Leicester and Russel pits.
- The Leicester pit is well developed and ready to supply the new Dense Medium Separation (“DMS”) plant.
- The Russel pit is currently under construction and will be able to supply ore feed from July 2007 onwards.
- The entrance and access ramps of these pits are fully constructed and ready for use, and the dewatering system is up and running to allow for mining activities at the bottom of the pits for fresh ore extraction. High-wall cut-backs (for pit-wall stability) are in place to support safe mining operations.
- Some radial drilling has been carried out at the Balmoral pit and is currently being evaluated.
- Commercial production using the interim phase one crushing, screening and rotary pan plant began on 1 October 2006.
- Between 1 October 2006 to 30 April 2007, the pan plant treated 413,725 tonnes resulting in processed tonnes after dilution of 181,952 tonnes of ore from which 3,673 carats were recovered.
- The first diamond sold since production commenced was in December 2006 – a 28 carat gem quality stone for US\$6,100 per carat, a total consideration of US\$172,568.
- Subsequently a package of 2,117 carats (including 795 carats of stock from pre-production activities prior to October 2006) was sold in late December 2006 for a

consideration of US\$1,090,415 (US\$515 per carat). A further parcel of 1,609 carats was sold in April 2007, a consideration of US\$484,720 (US\$301 per carat). The average price per carat on total sales during this period was US\$466 per carat.

- Crushing by the pan plant was restricted due to the hardness of the ore, which limited carats produced. However, the geological information gathered during the operation of the pan plant has provided useful information for the planning and implementation of the DMS system.
- Construction of the DMS commenced on site in May 2007. The Directors intend to commission the plant between July and September 2007 starting with production of 80,000 tonnes per month increasing to 200,000 tonnes per month as per the designed capacity by the end of September 2007. With the pan system also processing 100,000 tonnes per month, this will take production to 300,000 tonnes per month and is expected to increase ore processing significantly. In addition it should increase recovery rates, which are currently limited by the restricted crushing capacity in the existing pan circuits and use of grease tables for final sorting.
- Since the start-up in June 2006, around 2,700 metres of diamond drilling has been undertaken and 1.5 tonnes of face samples collected. Micro diamond count was activated and is in the process of being finalised. The new information is currently being evaluated and, in due course, will be used to update the current geological information and mine plan. For the optimisation of the new information an independent company, Surpac Minex Group, has been contracted to verify and to update the geological model. From the updated information, a new three-year mining plan will be scheduled and modelled, including the financial forecast, feasibility study and capital budget. Once all the information has been gathered and a new geological model produced, Surpac Minex Group will write an overview on our mining operations. Based on the overview report, a decision will be made, if needed, to conduct a feasibility study on the mining operation. A final metallurgical/geology report covering grades, recoveries and qualities will be submitted and/or made available for submission once the DMS plant is fully operational and has a six month production history. The Directors intend to complete a revised evaluation of resource by the end of the 2007 calendar year.

#### **Final results highlights for the year to 30 June 2006**

- Loss after tax for year to 30 June 2006: £4.3 million (2005: loss of £0.3m).
- Admission to AIM in May 2006.
- Raised £11.9 million (net of expenses) to upgrade equipment on site and finance the mining operations through to commercial production.
- Acquisition of the remaining 49% of Golden Falls Mining (Pty) Limited (“Golden Falls”) which operates the Elandslaagte mine and subsequent revaluation resulting in a gain of £12.2 million.

#### **Interim results highlights for the six months to 31 December 2006**

- Turnover of £0.6m (2005: £nil).
- Loss of £1.4m (2005: £0.5m).

#### **Post Balance Sheet Events**

- In February 2007, the Black Economic Empowerment (“BEE”) Agreement to sell 25.6% interest to Wheatfields Investment No 223 (Pty) Ltd (“Wheatfields”), the Company’s

BEE partner was re-negotiated and finalised and £629,371 (R9 million) was received in March 2007. This resulted in benefits to both parties including the continuation of the mining licence and investment/business growth. Following this transaction Cape Diamonds owns 74.4% of Golden Falls.

- Mr Merika Johannes (“Joe”) Madungandaba has been appointed as Finance Director, Mr Sharon Sasson as Executive Director and Dr Anna Theresa Masamo Mokgokong and Mr Oren Jonathan Lubow have been appointed as non-executive directors of the Company. Keith Hardy has entered into a consultancy agreement to provide support to the finance function and will be appointed as Company Secretary when trading in the Company's ordinary shares resumes on AIM.
- Financing facilities have been arranged with the Industrial Development Corporation of South Africa Limited (“IDC”) for £3.5 million (R50 million) in respect of the DMS and Empimex Diamonds Limited, an Israeli diamond company, for £4 million for working capital.
- A further £1.5 million (net of expenses) has been raised via the placing of 1.6 million new ordinary shares in the Company at £1 per share with Golden Hope Limited for working capital requirements.
- The Board believes that it is necessary to give the Company the facility to raise further funds, to counter the risk that production from DMS plant is delayed or reduced. The Company is seeking the consent of shareholders to provide the Company with the authority to issue up to a further 10 million ordinary shares and 5 million warrants to facilitate when necessary, raising further finance by issue of shares. An AGM has been convened for 11.00 a.m. on 26 July 2007 to be held at the Marriott London Grosvenor Square, Grosvenor Square, London, W1K 6JP, notice of which has been posted to shareholders.

Commenting on the results, Masoud Alikhani, Non-executive Chairman of Cape Diamonds, said:

*“During the year ended 30 June 2006, our focus was on developing the infrastructure at Elandsplaagte and raising the funds via our AIM admission to invest in mine development and equipment upgrades.*

*Despite the softer market in smaller sized rough and polished diamonds, those being extracted by Cape Diamonds are larger and continue to achieve attractive prices. We expect the DMS to be fully operational by September 2007, at which time mining grades are expected to improve further with the introduction of the latest pit development technology, which we are currently implementing.*

*With our newly strengthened Board and our operations moving towards full operation of the DMS plant, we look forward to the future with renewed confidence.”*

20 June 2007

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**Chairman's Statement**

I am pleased to report the results of Cape Diamonds Plc ("Cape Diamonds") for the year ended 30 June 2006 (audited) and interim results for the six month period ended 31 December 2006 (unaudited), following its admission to AIM on 26 May 2006.

Cape Diamonds was established in March 2004 to capitalise upon the opportunity to acquire diamond assets in South Africa. In September of that year, the Company acquired a 51 per cent. interest in Golden Falls Mining (Pty) Limited ("Golden Falls") which wholly owned the Elandslaagte Project, an existing mining operation based on a diamondiferous kimberlite pipe system. The project currently has indicated and inferred diamond resources of 1.25 million carats with further upside potential from established kimberlite deposits.

In February 2006, Cape Diamonds acquired the remaining 490 ordinary shares in Golden Falls for a total consideration of £190,000 in cash and 11 million ordinary shares in the Company. Following this transaction, Cape Diamonds owned 100 per cent of Golden Falls.

In March 2006, the Group entered into an agreement to sell a 25.6 per cent interest in Golden Falls to Wheatfields Investments No. 223 (Pty) Limited ("Wheatfields"), a BEE company and an initial payment of £87,000 (R1 million) was received. This agreement was subsequently amended to allow Wheatfields longer to pay. This change has no impact on the mining licence granted to Golden Falls. The agreement was finalised in February 2007 and £629,371 (R9 million) was received in March 2007. This resulted in benefits to both parties, including an extension of the mining licence and future investment/business growth.

**Results for the year ended 30 June 2006**

The results for the year to 30 June 2006 show a pre-tax loss of £5.6 million (2005: loss £0.3 million).

Development expenditure amounting to £2.8 million (2005: £2.0 million) was capitalised. The Group recognised a tax credit in South Africa of £1.3 million on the mining development costs. The results include share based payment costs on the issue of warrants of £3.2 million.

A gain of £12.2 million based on the fair value acquisition of 49% of the shares in Golden Falls has been credited to reserves.

On 26 May 2006, the Company's ordinary shares were admitted to trading on AIM, at which time the Company completed a placing raising £11.9 million, net of expenses.

A number of accounting issues including those relating to extensive restructuring of the South African sub-group, compounded by a lack of accountancy resource and by the resignation of the non-executive directors resulted in the delay in publishing our final results for the year ended 30 June 2006. We therefore also announce our unaudited interim results herewith. We are pleased to inform our shareholders that following the release of these results, suspension of the ordinary shares will be lifted and trading of the Company's ordinary shares will resume on AIM.

### **Interim results for the six months ended 31 December 2006 (unaudited)**

During this period, the Group completed the upgrade of the pan-based crushing and screening equipment at the mine, which enabled production to begin. From 1 October 2006 to 31 December 2006, a total of 1,812 carats have been recovered from 129,195 tonnes of ore processed resulting in 58,138 tonnes treated after ore dilution. The average value of the 2,145 carats sold (including 795 carats in stock from pre-production prior to October 2006) was US\$589 per carat.

The interim results show a pre-tax loss of £2.5 million compared with a loss of £0.5 million for the corresponding period in the prior year. The loss is after capitalisation of pre-production costs of £0.8 million and ore stock of £198,480. A tax credit of £1.1 million (2005: £ nil) has been recognised on development costs and losses. The main factor affecting the results was the reduced diamond extraction rates from the pan plant due to the unexpected hardness of the uncrushed ore. Substantially increased extraction and recovery rates are anticipated when the DMS system is installed and operational later this year.

### **Board Changes**

We are pleased to announce the following appointments in June 2007:

#### ***Merika Johannes ("Joe") Madungandaba (aged 49, Finance Director, South African)***

Joe joins Cape Diamonds from its Black Economic Empowerment Partner, Community Investment Holdings (Pty) Ltd ("CI Holdings"), the ultimate parent of Wheatfields which owns 25.6% of Golden Falls, Cape Diamonds' trading subsidiary that operates the Elandslaagte mine.

Joe is a co-founder of CI Holdings and has held the position of Chief Executive Officer for 11 years. CI Holdings is a black economic empowerment investment company with substantial interests in the Healthcare, Transport & Logistics, Power & Energy and Telecommunications sectors.

Joe has extensive experience serving as a Board member, both for private companies and a number of public companies listed on the Johannesburg Stock Exchange.

Joe completed his articles of clerkship with Ernst & Young in South Africa. He holds a certificate in taxation from UNISA and completed a Managing Enterprise Development Programme at Cranfield, in

addition to being a member of the Association of Black Accountants of Southern Africa, the Black Management Forum and the Institute of Certified Public Accountants of South Africa.

Joe takes overall responsibility for the financial functions at Cape Diamonds and Golden Falls. He will be based in South Africa.

***Sharon Sasson (aged 36, Executive Director, Israeli)***

Sharon is based in Israel and is a UK qualified lawyer who was for four years, until 2004, a founding partner of a law firm specialising in investments and fundraising. From 2004, Sharon has been a self employed businessman involved in various aspects of investment banking and business development, working in close contact and co-operation with leading Israeli investment houses and banks and high net worth private investors.

***Dr Anna Theresa Masamo Mokgokong (aged 50, Non-executive Director, South African)***

Anna is a leading business woman, recognised as such by awards from around the world, including the UK, Australia, France, Spain and Italy. She is co-founder and Executive Chairperson of CI Holdings, which Anna and her co-founders built from nothing in 1995 to a group turnover in excess of £279 million (R4 billion) in 2006.

She is on the board of a number of companies and institutions including the positions of Non-Executive Chairperson of Jasco Electronics (listed on the Johannesburg Stock Exchange), Air Liquide Healthcare and Tshwane International Convention Centre and Deputy Chairperson of Siemens Limited. Anna has been appointed by the President of South Africa, Mr Thabo Mbeki, to serve as a member of the Independent Commission for the Remuneration of Public Office Bearers for a period of five years from March 2004. Among other responsibilities she is a member of the Premier's Economic Advisory Council, President of South African Women Entrepreneurs Network ("SAWEN") and Chairperson of the Small Enterprise Development Agency ("SEDA"). She graduated from the Medical University of South Africa (Medunsa) in 1984.

***Oren Jonathan Lubow (aged 32, Non-executive Director, Israeli)***

Oren is based in Israel and is the owner and Managing Director of Taurus-IL Ltd, an investment house with a portfolio of Israeli and overseas companies representing a wide range of business sectors. He is also a Director and member of the Investment Committee of Rahkia Mutual Funds Limited. Oren qualified for the Israeli Bar in May 2001 and worked in the corporate department of Naschitz, Brandes & Co Law Offices, one of Israel's largest law firms from 2001 to 2004.

As a result of the recent appointments and the resulting new distribution of responsibilities on the Board, the Chairman, Masoud Alikhani became Non-executive Chairman of the Company with effect from 15 June 2007.

Andrew Coxon, Robert Stubbs and John Vergopoulos resigned in January 2007.

**Other appointment**

***Keith J Hardy, FCA (aged 59, Consultant, British)***

Keith is retained as a consultant to the Company providing support to Joe Madungandaba, our Finance Director based in South Africa, to advise on UK specific matters. Keith is a Chartered Accountant with thirty five years experience and will be appointed as Company Secretary when trading in the Company's ordinary shares resumes on AIM.

**Outlook**

Commercial production of the Leicester pit began on 1 October 2006. The next stage of development, to build a 200,000 tonne DMS plant and main electrical substation, is progressing well and is expected to reach full production during the second half of the 2007 calendar year, at which time the newly built DMS plant and the current operational pan plant together are expected to increase production to 300,000 tonnes of ore per month. We anticipate diamond recoveries will improve significantly once the DMS plant is operational. The equipment being installed is the latest in mining technology and has significantly greater crushing capacity. Mining grades are also expected to improve with the ongoing pit development.

## Financing

- Financing facilities have been arranged with the Industrial Development Corporation of South Africa Limited (“IDC”) for £3.7 million (R50 million) in respect of the DMS, and with Empimex Diamonds Limited, an Israeli diamond company, for £4 million for working capital.
- A further £1.5 million (net of expenses) has been raised via the placing of 1.6 million new ordinary shares at £1 per share with Golden Hope Limited for working capital requirements.
- The Board believes that it is necessary to give the Company the facility to raise further funds, to counter the risk that production from DMS plant is delayed or reduced. The Company is seeking the consent of shareholders to provide the Company with the authority to issue up to a further 10 million ordinary shares and 5 million warrants to facilitate when necessary, raising further finance by issue of shares. An AGM has been convened for 11.00 a.m. on 26 July 2007 to be held at the Marriott London Grosvenor Square, Grosvenor Square, London, W1K 6JP, notice of which has been posted to shareholders.

## Resource

The resource summary as shown in the Admission Document dated 22 May 2006 is:

Resource	In-Situ Tonnes	Diamond	Internal waste	Tonnage	Feed Grade Tonnes	Carats
Category	Tonnage	Grade	%	t	Diamond Grade cpht	Ct
	t	cpht				
Indicated*	7,926,007	8.4	18.68	6,423,301	10.4	668,672
Inferred**	9,265,710	6.3	21.63	7,255,478	8.0	582,343
	17,191,717	7.3	20.27	13,678,779	9.1	1,251,015

\* Indicated diamond resource to a depth of 120m

\*\* Inferred diamond resource to a depth of 220m

This summary will be reviewed in the light of current production, bulk sampling, mining and micro count analysis, and will be subject to refinement and change.

M. Alikhani  
 Non-executive Chairman  
 20 June 2007

### Consolidated income statement

		Year ended 30 June 2006	Period from 25 March 2004 to 30 June 2005	Six months ended 31 December 2006	Six months ended 31 December 2005
		Audited	Audited	Unaudited	Unaudited
	Notes	£	£	£	£
Continuing operations					
Revenue	5	-	-	607,787	-
Other operating income		24,842	8,853	21,767	1,384
Administrative expenses		(4,551,337)	(300,386)	(1,038,884)	(139,132)
Other operating expenses		(975,787)	(616,127)	(2,233,106)	(164,677)
Negative goodwill		-	600,733	-	-
Operating loss		(5,502,282)	(306,927)	(2,642,436)	(302,425)
Investment income/(expenses)		41,791	-	141,935	2,942
Finance costs		(134,237)	(13,421)	(3)	(231,872)
<b>Loss before taxation</b>		<b>(5,594,728)</b>	<b>(320,348)</b>	<b>(2,500,504)</b>	<b>(531,355)</b>
Taxation	6	1,286,487	-	1,134,465	-
<b>Loss for the period</b>		<b>(4,308,241)</b>	<b>(320,348)</b>	<b>(1,366,039)</b>	<b>(531,355)</b>
Attributable to:					
Equity holders of the parent		(4,463,396)	(41,646)	(1,366,039)	(204,238)
Minority interest	8	155,155	(278,702)	-	(327,117)
		<u>(4,308,241)</u>	<u>(320,348)</u>	<u>(1,366,039)</u>	<u>(531,355)</u>
Loss per share					
Basic and diluted	7	23.19p	0.06p	4.15p	0.24p
Proforma	7	18.64p	0.60p	4.15p	2.43p

The above results relate to continuing operations.

## Consolidated statement of recognised income and expenses

	Year ended 30 June 2006 Audited £	Period from 25 March 2004 to 30 June 2005 Audited £	Six months ended 31 December 2006 Unaudited £	Six months ended 31 December 2005 Unaudited £
Exchange differences on translation of foreign operations	(42,743)	(181)	(159,198)	70,830
<b>Loss for the period</b>	<u>(4,308,241)</u>	<u>(320,348)</u>	<u>(1,366,039)</u>	<u>(531,355)</u>
<b>Total income and expense recognised</b>	<u><u>(4,350,984)</u></u>	<u><u>(320,529)</u></u>	<u><u>(1,525,237)</u></u>	<u><u>(460,525)</u></u>
Attributable to:				
Equity holders of the parent	(4,506,139)	(41,827)	(1,525,237)	(133,408)
Minority interest	<u>155,155</u>	<u>(278,702)</u>	<u>-</u>	<u>(327,117)</u>
	<u><u>(4,350,984)</u></u>	<u><u>(320,529)</u></u>	<u><u>(1,525,237)</u></u>	<u><u>(460,525)</u></u>

## Consolidated balance sheet

	30 June 2006 Audited	30 June 2005 Audited	31 December 2006 Unaudited	31 December 2005 Unaudited
	£	£	£	£
<b>Non-current assets</b>				
Property, plant and equipment	41,204,633	5,560,253	42,932,022	7,109,654
Deferred tax	713,078	-	1,815,589	-
	<u>41,917,711</u>	<u>5,560,253</u>	<u>44,747,611</u>	<u>7,109,654</u>
<b>Current assets</b>				
Diamond stock	45,280	-	240,376	77,840
Trade and other debtors	412,973	600,957	1,500,444	933,750
Cash and cash equivalents	9,731,664	3,509	3,239,143	13,868
	<u>10,189,917</u>	<u>604,466</u>	<u>4,979,963</u>	<u>1,025,458</u>
<b>Total assets</b>	<u>52,107,628</u>	<u>6,164,719</u>	<u>49,727,574</u>	<u>8,135,112</u>
<b>Current liabilities</b>				
Trade and other payables	(2,696,211)	(3,517,727)	(1,458,304)	(4,099,236)
Provisions	(49,886)	(15,336)	(50,440)	(38,187)
	<u>(2,746,097)</u>	<u>(3,533,063)</u>	<u>(1,508,744)</u>	<u>(4,137,423)</u>
<b>Net current assets/(liabilities)</b>	<u>7,443,820</u>	<u>(2,928,597)</u>	<u>3,471,219</u>	<u>(3,111,965)</u>
<b>Non-current liabilities</b>				
Provisions	(196,970)	(215,530)	(193,313)	(238,100)
Deferred tax	(10,009,142)	-	(10,009,142)	-
	<u>(10,206,112)</u>	<u>(215,530)</u>	<u>(10,202,455)</u>	<u>(238,100)</u>
<b>Total liabilities</b>	<u>(12,952,209)</u>	<u>(3,748,593)</u>	<u>(11,711,199)</u>	<u>(4,375,523)</u>
<b>Net assets</b>	<u>39,155,419</u>	<u>2,416,126</u>	<u>38,016,375</u>	<u>3,759,589</u>
<b>Equity</b>				
Share capital	3,282,105	1,284,336	3,299,605	1,567,195
Share premium	25,089,041	-	25,089,041	2,367,629
Share application funds	-	846,500	-	-
Translation reserve	(42,924)	(181)	(267,354)	70,649
Accumulated profit/(loss)	10,827,197	(41,646)	9,895,083	(245,884)
Equity attributable to equity holders of the parent	<u>39,155,419</u>	<u>2,089,009</u>	<u>38,016,375</u>	<u>3,759,589</u>
Minority interest	-	327,117	-	-
<b>Total equity</b>	<u>39,155,419</u>	<u>2,416,126</u>	<u>38,016,375</u>	<u>3,759,589</u>

## Consolidated cash flow statement

		Year ended 30 June 2006  Audited	Period from 25 March 2004 to 30 June 2005  Audited	Six months ended 31 December 2006  Unaudited	Six months ended 31 December 2005  Unaudited
	Notes	£	£	£	£
<b>Net cash (outflow)/inflow from operating activities</b>	10	(2,640,076)	304,466	(4,208,602)	(471,219)
<b>Investing activities</b>					
Interest received		41,791	-	141,935	2,942
Pre-production development costs		(2,266,649)	(2,000,588)	(2,258,142)	(919,522)
Acquisition of property, plant and equipment		(292,074)	(237,658)	-	(78,847)
Disposal of plant		50,305	-	-	-
Acquisition of subsidiary		(190,000)	(43)	-	-
<b>Net cash used in investing activities</b>		<u>(2,656,627)</u>	<u>(2,238,289)</u>	<u>(2,116,207)</u>	<u>(995,427)</u>
<b>Financing activities</b>					
Proceeds on issue of shares (net of share issue costs)		15,178,293	1,112,605	17,500	1,681,070
Share application funds		-	846,500	-	-
Interest paid		(134,237)	(13,421)	-	(231,872)
<b>Net cash from financing activities</b>		<u>15,044,056</u>	<u>1,945,684</u>	<u>17,500</u>	<u>1,449,198</u>
<b>Net increase /(decrease) in cash and cash equivalents</b>		9,747,353	11,861	(6,307,309)	(17,448)
Cash and cash equivalents at beginning of the year		3,509	-	9,731,664	3,509
Effect of foreign exchange rate changes		(19,198)	(8,352)	(185,212)	27,807
<b>Cash and cash equivalents at end of the year</b>		<u>9,731,664</u>	<u>3,509</u>	<u>3,239,143</u>	<u>13,868</u>

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## 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 preliminary results for the year ended 30 June 2006 (audited) and the interim results for the six month period ended 31 December 2006 (unaudited).

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 2006.

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"). Foreign operations are consolidated in accordance with the policies set out in note 2.

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

	Year ended 30 June 2006	Year ended 30 June 2005	Six months ended 31 December 2006	Six months ended 31 December 2005
Year end rate	13.20	12.06	13.82	10.92
Average rate for year/period	11.44	11.63	13.74	11.56

### 2. Basis of accounting

The accounting policies for both the preliminary announcement and the interim financial information are consistent with those applied in the preparation of the audited financial statements for the year ended 30 June 2006, which have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The financial information has also been prepared in accordance with IFRS adopted for use in the European Union and therefore complies with Article 4 of the EU IAS Regulation.

The financial information has been prepared on the historical cost basis, except for certain financial instruments which are carried at fair value or historical cost and 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.

### 3. Interim results for the six months ended 31 December 2006 (unaudited)

The financial information presented for the interim period cover the period from 1 July 2006 to 31 December 2006. The comparative figures cover the period from 1 July 2005 to 31 December 2005.

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

### 4. Compliance with applicable law and IFRS

The financial information for the year ended 30 June 2006 has been prepared in accordance with those parts of the Companies Act 1985 applicable to Companies reporting under IFRS, Article 4 of the IAS Regulation and International Financial Reporting Standards (IFRS) as adopted by the European Union and related interpretations.

For Cape Diamonds, there are no differences between IFRS as adopted for use in the European Union and full IFRS as adopted for use by the International Accounting Standards Board.

While the financial information for the year ended 30 June 2006 contained in this announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. This announcement does not constitute the Group's statutory accounts for the year ended 30 June 2006 but it is derived from those accounts. The statutory accounts for the year ended 30 June 2006 will be delivered to the Registrar of Companies following this announcement.

The auditors' report on the accounts for the year ended 30 June 2006 was unqualified and did not contain statements under section 237(2) of the Companies Act 1985 (regarding adequacy of accounting records and returns) or under section 237(3) (regarding provision of necessary information and explanations).

Copies of the published accounts of the Company have been posted to shareholders and are available free of charge during normal business hours from the offices of the Company at 19-20 Grosvenor Street, London W1K 4QH and from the Company's website at [www.capediamonds.com](http://www.capediamonds.com).

This announcement and financial statements were approved by the board of Directors of the Company on 15 June 2007.

### 5. Revenue

Revenue for the six month period ended 31 December 2006 £607,787 (2005: nil) comprises the sale of diamonds to Israel.

### 6. Current Tax - Group

<b>Year ended 30 June 2006 Audited</b>	<b>Period from 25 March 2004 to 30 June 2005 Audited</b>	<b>Six months ended 31 December 2006 Unaudited</b>	<b>Six months ended 31 December 2005 Unaudited</b>
£	£	£	£

Current tax				
- UK corporation tax	-	-	-	-
- South African tax	(25,545)	-	-	-
Deferred taxation - South Africa	1,312,032	-	1,134,645	-
Total tax credit	<u>1,286,487</u>	<u>-</u>	<u>1,134,645</u>	<u>-</u>

## 7. Loss per share

### From continuing operations:

	<b>Year ended 30 June 2006 Audited</b>	<b>Year ended 30 June 2005 Audited</b>	<b>Six months ended 31 December 2006 Unaudited</b>	<b>Six months ended 31 December 2005 Unaudited</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
The calculation of the basic and diluted loss per share is based on the following data:				
Loss for the purposes of basic and diluted loss per share being attributable to equity holders of the parent	(4,463,396)	(41,646)	(1,366,039)	(204,238)
Pro forma number of shares for the basic loss per share				
Statutory number of shares				
Weighted average number of ordinary shares for the purpose of basic loss per share	19,247,938	73,503,008	32,910,999	83,982,870
Effect of dilutive potential ordinary shares:				
Share warrants	<u>4,744,150</u>	<u>31,441,500</u>	<u>4,569,150</u>	<u>31,441,500</u>

Weighted average number of ordinary shares for the purpose of diluted earnings per share	23,992,088	109,944,508	37,480,149	115,424,370
Proforma number of ordinary shares for the purpose of basic loss per share	19,247,938	7,350,301	32,910,999	8,398,287
	_____	_____	_____	_____
Basic and diluted loss per share	23.19p	0.06p	4.15p	0.24p
	_____	_____	_____	_____
Pro forma basic loss per share	18.64p	0.60p	4.15p	2.43p

The pro forma number of shares is adjusted for the share consolidation on 26 January 2006 whereby the ordinary shares of £0.01 each were consolidated so that 10 shares of £0.01 each became one ordinary share of £0.10 each; and for the shares issued on admission to AIM.

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

#### 8(a). Statement of change in equity for the year ended 30 June 2006

	Share capital	Share premium	Share application funds	Translation reserve	Accumulated (loss)/profit	Minority interest	Total
	£	£	£	£	£	£	£
At 1 July 2005	1,284,336	-	846,500	(181)	(41,646)	327,117	2,416,126
Net loss for the period	-	-	-	-	(4,463,396)	155,155	(4,308,241)
Deferred taxation	-	-	-	-	-	(489,237)	(489,237)
Shares issued	1,997,769	26,629,019	(846,500)	-	-	-	27,780,288
Share issue expenses	-	(1,539,978)	-	-	-	-	(1,539,978)
Gain on acquisition of minority	-	-	-	-	12,157,700	6,965	12,164,665
Exchange differences on translation of overseas operations	-	-	-	(42,743)	-	-	(42,743)
Share-based payments	-	-	-	-	3,174,539	-	3,174,539
At 30 June 2006	3,282,105	25,089,041	-	(42,924)	10,827,197	-	39,155,419

**8(b). Statement of change in equity for the year ended 30 June 2005**

	Share capital	Share application funds	Translation reserve	Accumulated (loss)/profit	Minority interest	Total
	£	£	£	£	£	£
At incorporation	-	-	-	-	-	-
Shares issued	1,284,336	-	-	-	-	1,284,336
Share application funds received	-	846,500	-	-	-	846,500
Acquisition of subsidiary	-	-	-	-	605,819	605,819
Net loss for the period	-	-	-	(41,646)	(278,702)	(320,348)
Exchange differences on translation of overseas operations	-	-	(181)	-	-	(181)
At 30 June 2005	1,284,336	846,500	(181)	(41,646)	327,117	2,416,126

**8(c). Statement of change in equity for the six month period ended 31 December 2006**

	Share capital	Share premium	Translation reserve	Accumulated profit/(loss)	Total
	£	£	£	£	£
At 1 July 2006	3,282,105	25,089,041	(42,924)	10,827,197	39,155,419
Net loss for the period	-	-	-	(1,366,039)	(1,366,039)
Shares issued	17,500	-	-	-	17,500
Share-based payments	-	-	-	368,694	368,694
Exchange differences on translation of overseas operations	-	-	(159,199)	-	(159,199)
At 31 December 2006	3,299,605	25,089,041	(202,123)	9,829,852	38,016,375

**8(d). Statement of change in equity for the six month period ended 31 December 2005**

	Share capital	Share premium	Share application funds	Translation reserve	Accumulated loss	Minority interest	Total
	£	£	£	£	£	£	£
At 1 July 2005	1,284,336	-	846,500	(181)	(41,646)	327,117	2,416,126
Net loss for the period	-	-	-	-	(204,238)	(327,117)	(531,355)
Shares issued	282,859	2,545,729	(846,500)	-	-	-	1,982,088
Share issue expenses	-	(178,100)	-	-	-	-	(178,100)

Exchange differences on translation of overseas operations	-	-	-	70,830	-	-	70,830
At 31 December 2005	1,567,195	2,367,629	-	70,649	(245,884)	-	3,759,589

**8(e).** 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 into the income statement on the disposal of the foreign operation.

## 9. Acquisition of Minority Interest

On 24 February 2006, the Company acquired the remaining 49 per cent of its 51 per cent held subsidiary, Golden Falls.

	£
Minorities share of net assets at acquisition	-
Fair value adjustments:	
Mining properties	33,363,807
Deferred tax	(10,009,142)
	<hr/>
Fair value of net assets acquired	23,354,665
Consideration paid in shares	(11,000,000)
Consideration paid in cash	(190,000)
	<hr/>
Gain on acquisition of minority interest	12,164,665

## 10. Notes to the cash flow statement

	Year ended 30 June 2006 Audited	Year ended 30 June 2005 Audited	Six months ended 31 December 2006 Unaudited	Six months ended 31 December 2005 Unaudited
	£	£	£	£
Operating loss from continuing operations	(5,502,282)	(306,927)	(2,642,436)	(302,425)
Adjustments for:				

Depreciation of property, plant and equipment	71,827	48,133	166,816	30,129
Negative goodwill released to income	-	(600,733)	-	-
Amortisation of rehabilitation assets	2,972	1,977	-	1,099
Loss on disposal	41,341	-	-	-
Increase/(decrease) in provisions	15,990	15,901	(3,104)	20,074
Share-based payments	3,174,539	-	368,692	-
Other non-cash items	41,428	-	-	-
Net foreign exchange losses/(gain)	813,070	61,593	370,767	(208,452)
	<hr/>	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	(1,341,115)	(780,056)	(1,739,265)	(459,575)
Increase in stock	(52,247)	-	(198,275)	(77,840)
Decrease/(increase) in receivables	386,527	(576,537)	(1,096,020)	(269,862)
(Decrease)/increase in payables	(1,633,241)	1,661,059	(1,175,042)	336,058
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(2,640,076)	304,466	(4,208,602)	(471,219)
	<hr/>	<hr/>	<hr/>	<hr/>

## 11. Events after the Balance Sheet date

Dominion Investments (Pty) Ltd (“DMI”) sold 25.6% of its holding in Golden Falls to a BEE accredited company, Wheatfields, on 16 March 2006 when £87,000 (R1 million) was received. The contact was subject to certain conditions which were not met and the contract lapsed on 2 October 2006.

DMI re-entered into negotiations with Wheatfields and entered into a new contract on 8 February 2007 whereby Wheatfields acquired 25.6% of DMI’s holding in Golden Falls for an amount of £0.7 million (R10 million), the balance of £629,371 (R9 million) was received in March 2007. Golden Falls has issued preference shares to DMI. The terms of preference shares are that 50% of preference dividends are paid to DMI until £6.6 million (R 89 million) is paid over a period of ten years, subject to dividends being declared by the Directors of Golden Falls.

The transaction will also attract capital gains tax on the difference between the cost of the shares and the proceeds received of R10 million at a rate of 50% of 29%.

Application has been received for 1.6 million new £0.10 ordinary shares for a consideration of £1.6 million (£1 each). The new shares will be issued following the lifting of suspension of the Company’s ordinary shares.

## Independent Review Report to Cape Diamonds Plc

### Introduction

We have been instructed by the company to review the financial information for the six months ended 31 December 2006 which comprises the consolidated income statement, the consolidated statement of

recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company, in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modification that should be made to the financial information as presented for the six months ended 31 December 2006.

Deloitte & Touche LLP  
Chartered Accountants  
London

15 June 2007