

## **Cape Diamonds plc ("Cape Diamonds" or the "Company")**

**1 December 2008**

### **Proposals for the Sub-division of share capital, conversion of Convertible Loan Facility and General Meeting**

The Board of Cape Diamonds announces that it has posted a circular to all of its Shareholders (the "Circular"). The purpose of this Circular is to bring Shareholders up to date with the current activities at the Elandslaagte Mine, to advise them of the Board's strategy for the Company and to provide the Shareholders with details of, and the reasons for, the Resolutions being put forward for approval at the General Meeting. The General Meeting is convened for 2.30pm on 7 January 2009 at the offices of Beachcroft LLP, 100 Fetter Lane, London EC4A 1BN.

The Circular explains why the Board considers the Proposals to be in the best interests of the Company and the Shareholders as a whole and why the Board recommends that the Shareholders vote in favour of the Resolutions to be proposed at the General Meeting. The Notice of General Meeting is set out at the end of the Circular.

The Company announced on 15 August 2008 that it had raised a total of £1 million before expenses from Keysha Investments 194 pursuant to the terms of the Convertible Loan Facility. The net proceeds of the Convertible Loan Facility have been and are being used to recapitalise Golden Falls, the Group's RSA operating subsidiary, and for general working capital purposes at the Elandslaagte Mine. Whilst the subsidiary has now been financed the Group is still seeking to re-finance the UK holding company in order to allow it to return to normal trading terms.

Under the proposed Sub-division, each Existing Ordinary Share will be sub-divided into one new ordinary share of 1p each and one Deferred Share. If the Resolutions as set out below are passed then the loan made under the Convertible Loan Facility will convert into new ordinary shares of 1p each, ranking pari passu with the Company's New Ordinary Shares.

If the Resolutions are not passed the outstanding loan, to the extent not repaid, will be settled by the transfer to the lenders of 74.9 per cent. of the Group's interest in the shares of Golden Falls, the intermediate holding company through which the Group holds its interest in the Elandslaagte Mine. This would, in the opinion of the Board, be highly detrimental to the interests of the Company and may lead to insolvency and closure.

Should the Resolutions be passed, the loan made under the Convertible Loan Facility will automatically convert into new ordinary shares of 1p each. The Investor will then be the beneficial owner of 100,000,000 new ordinary shares of 1p each, representing 69.16 per cent. of the Enlarged Share Capital.

**Shareholders should note that the Proposals are inter-conditional. It is expected that the Conversion will take place and that Admission and trading in the New Ordinary Shares and the Conversion Shares will commence on 8 January 2009. The Convertible Loan Facility is not convertible into Conversion Shares unless and until the proposed Resolutions are passed at the General Meeting.**

**Shareholders should also note that further to consultation with the Panel, the Company is deemed, due to its central place of management and control being outside of the United Kingdom, Channel Islands and Isle of Man, not to be governed by the City Code.**

**The Directors, who have been so advised by W.H. Ireland, consider that the terms of the Conversion are fair and reasonable in so far as the Shareholders as a whole are concerned and accordingly unanimously recommend that Shareholders vote in favour of all of the Resolutions**

**to be proposed at the General Meeting. In giving its advice, W.H. Ireland has taken into account the Directors' commercial assessments.**

**Further, the Directors believe that if the Resolutions are not passed, the Company's financial position would be significantly impaired.**

All definitions in this announcement bear the same meaning as those set out in the Circular, unless otherwise stated. The Circular has been posted to Shareholders and is available on the Company's website, [www.capediamonds.com](http://www.capediamonds.com).

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