

# 2013-14

ANNUAL REPORT



State Diamond Trader



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## **SPEAKER OF PARLIAMENT**

### **HONOURABLE SPEAKER**

Annual Report of State Diamond Trader for the year ended 31 March 2014.

I have the honour, in terms of section 65 of the Public Finance Management Act 1999 (Act No. 1 of 1999), to present the Annual Report of the State Diamond Trader for the year ended 31 March 2014.

**Advocate Ngoako Ramatlhodi**  
**Minister of Mineral Resources**  
**August 2014**



## OVERVIEW

I have pleasure to present the Annual Report of the State Diamond Trader for the year 2013/14. The Board is satisfied that the performance of the State Diamond Trader has been of high standard and the areas of performance as reported herein indicate the new path that it is taking to contribute further to the growth of the local diamond beneficiation industry.

## MARKET CONDITIONS

The market volatility continued throughout the year and the poor performance of polished prices put extreme pressure on the performance of the State Diamond Trader. In addition thereto, the legislative constraints placed on the State Diamond Trader in terms of purchasing Run of Mine productions from the local diamond producers continued to plague its operations. The State Diamond Trader will benefit from an improved legislation and a growth in beneficiation which would result from a better legislative environment.

Globally, the diamond market remained under pressure for the whole of 2013 and it had been hoped that 2013 would provide some respite but that did not happen. The market conditions remain challenging for the State Diamond Trader, but a solid financial performance was achieved. The Board has been focussing on meaningful interventions in improving the State Diamond Trader's impact on local beneficiation. The fundamental pattern of purchases and sales remains inconsistent due to the on-going global diamond market conditions and the lack of demand from State Diamond Trader clients for the rough diamonds deemed not suitable for local beneficiation.

The State Diamond Trader's vision to be a catalyst for the transformation and growth of the local was put to the test this year as the first national pavilion at the Hong Kong Gem and Jewellery Show took place. This is one of the larger projects undertaken by the State Diamond Trader since it opened its doors. The success achieved through this was better than expected, with 8 of its small clients participating and therefore benefiting from the exposure to international markets.

Despite these challenging conditions, it is pleasing to note that the State Diamond Trader still made an operating profit and maintained its financial viability for the financial year and thus laid another firm foundation for the future.

# Chairperson's Report

## **CORPORATE GOVERNANCE**

The tone set by the Board on the importance of complying with the principles of good governance underpinned the operations of the State Diamond Trader at all levels. The new strategy that was agreed upon at the beginning of the year began to bear fruit as the State Diamond Trader now has an approved Marketing Strategy, the implementation of which will ensure that more South Africans get to know about the diamond sector and young people will have an additional economic activity to consider for their future.

The award for good performance and a clean audit report by the Auditor-General bore testimony to the good governance principles implemented.

## **LOOKING TO THE FUTURE**

The Board is looking forward to the year ahead and therefore the implementation of more of its agreed strategic interventions to improve local access and diamond beneficiation in South Africa.

The State Diamond Trader will further formulate options to engage key stakeholders on.

These include certain identified constraints in its operating model and opportunities to enhance the same. It is hoped that these will build on the ongoing innovative initiatives that the State Diamond Trade embarks on to enhance the implementation of its mandate and sustainability



**Ms Dolly Mokgatle**  
**Chairperson**  
**State Diamond Trader**

# Chief Executive Officer's Report



## INTRODUCTION

The State Diamond Trader has been operating within the diamond sector in South Africa for over six years and has through that period established itself as a trading platform of note for the local beneficiating sector. In implementing its statutory mandate, it has decided to play an increasing role in the further development of the small, predominantly Historically Disadvantaged South Africans (HDSA), diamond beneficiators. This report seeks to provide insight into the operations and financial performance of the State Diamond Trader during the 2013/2014 financial year.

## TRADING ENVIROMENT

The diamond industry generally performed under par during the year and this affected the operations of the State Diamond Trader. The continued uncertainty and volatility in global markets coupled with the volatility in the exchange rate left a mark on its operations. Despite these challenges, the State Diamond Trader managed to deliver a fairly solid set of operational and financial results.

There was a small upward movement in prices during the 2013/14 financial year, in terms of the increase in value purchased; the effect of the weakening Rand against the US Dollar needs to be considered. A 17% increase in the quantity (carats) of rough diamonds presented to it by 12 (twelve) producers during the year was recorded, accompanied by a 9% rise in the total value presented.

To further demonstrate its resolve to contribute significantly to the growth of the local diamond beneficiation industry, the State Diamond Trader made a public call for new clients during the year. Through this process, a total of 18 new compliant clients were registered in the client register. This has provided an exciting opportunity as a number of these new clients are small businesses. The additional challenge of contributing to their development, in terms of both skills and marketing, has been met with a firm commitment from the State Diamond Trader to facilitate such and contribute to opening new marketing possibilities locally and internationally in the short to medium term.

# Chief Executive Officer's Report

A number of engagements were held with the leaders of the diamond producing companies who are important stakeholders of the State Diamond Trader to discuss matters of mutual interests such as diamond production, diamond beneficiation, diamond market performance and relationship. Two pilot projects resulted from these engagements and through these, the clients of the State Diamond Trader are set to benefit.

The State Diamond Trader was presented with an award for consistently performing well and achieving a clean audit during the year 2012 – 2013 by the Auditor General. The Minister of Mineral Resources together with a senior executive in the office of the Auditor General held a formal ceremony to hand over the trophies in March 2014.

## OPERATING ENVIROMENT

### Financial

The operations of the State Diamond Trader improved this year resulting to the Revenue for the year under review of R554 863 725 reflecting an increase of 35% from the previous year, (2013: R411 462 599), this was due increased demand by local beneficiators and positive spikes in market performance.

## HUMAN RESOURCES

The State Diamond Trader continued its to implement its objective of developing capacity internally. The five Diamond Trainees who returned from the State Diamond Trader sponsored six months course began the first leg of their on the job training which is scheduled to end in September 2014. A number of officials attended relevant short courses to build to enhance their capacity and skills. The Service Level Agreement with De Beers on staff secondment was extended for a further three years and this provided a welcome relief both financially and in terms of skills requirements. It has also ensured that training continued for the Diamond Trainees, some of whom have been absorbed into the permanent Human Resource structure of the State Diamond Trader and have been performing at peak.



**Ms P.N. ZIKALALA MVELASE**  
Chief Executive Officer



# Accounting Authority

# Accounting Authority

## COMPOSITION

Mrs D.D. Mokgatle	Chairperson
Ms P.N. Zikalala Mvelase	Chief Executive Officer
Mr I. Goondiwalla	Member
Mr T. Montoedi	Member
Mr S. Motloung	Member
Mr L. Rapoo	Member
Ms S. Mohale	Member
Ms N. Mpuntsha	Member
Ms S. Nxumalo	Member
Mr M.A. Luhlabo	Member
Brig. N. Mokoena	Member

# Accounting Authority



**Mrs DD Mokgale**  
CHAIRPERSON



**Mr MA Luhlabo**  
MEMBER



**Mr Shadrack Motloug**  
MEMBER



**Mr Imtiaz Goondiwalla**  
MEMBER



**Brigadier NH Mokoena**  
MEMBER



**Mr Levy Rapoo**  
MEMBER



**Ms S Mohale**  
MEMBER



**Mr Tshimane Montoedi**  
MEMBER



**Ms N Mpuntsha**  
MEMBER



**Ms S Nxumalo**  
MEMBER



**Ms PN Zikalala Mvelase**  
CHIEF EXECUTIVE OFFICER



**Ms N Nyweba**  
CHIEF FINANCIAL OFFICER

## COMPANY SECRETARY

Legal Best (Pty) Ltd Consultant Company Secretary



State Diamond  
Trader  
Staff Members

# State Diamond Trader Staff Members



**Ms P. N. Zikalala Mvelase**  
Chief Executive Officer



**Ms N Nyweba**  
Chief Financial Officer



**Mr F. Auger**  
Chief Operations Officer



**Ms N Sibeko**  
Legal Officer



**Mr C. Van Der Ross**  
Sales Manager



**Mr J Olifant**  
Production Controller



**Mrs D. McBride**  
Finance & Admin-Officer



**Ms N.C. Mdludu**  
Executive Assistant



**Ms S. Mashiloane**  
Sales Officer



**Mr B. Sekano**  
Purchasing Officer



**Ms K. Monama**  
Production Officer



**Mr G. Mance**  
Client Relations Officer



**Mr P. Bokaba**  
Finance Officer



**Mr M. Nkotsoe**  
Creditors Clerk



**Ms Patricia Fakude**  
Receptionist



**Ms S. Govender**  
Diamond Valuator Trainee



**Mr S. Lindi**  
Diamond Valuator Trainee



**Mr K. Moseki**  
Diamond Valuator Trainee



**Ms S. Mdoka**  
Diamond Valuator Trainee



**Mr T. Makgatho**  
Diamond Valuator Trainee

The image features five diamonds of different colors and cuts resting on a dark, cracked, and textured surface. In the top left is a clear, square-cut diamond. To its right is a yellowish, cushion-cut diamond. In the center is a clear, octahedral diamond. To the right of the center is a clear, round-cut diamond. At the bottom center is a clear, pear-cut diamond. The word "Governance" is overlaid in white text across the middle of the image.

Governance

# Governance

The State Diamond Trader operates on a strong corporate governance foundation that is representative of the interests of all stakeholders. The governance framework is aligned with King III recommendation and complies with the provisions of the Public Finance Management Act (PFMA). The framework underpins the organisation's risk-based, integrated approach to internal controls that are entrenched throughout management and governance processes and is reviewed on an on-going basis. Governance structures are focused on providing leadership within a framework of effective controls which enables risk to be assessed and managed throughout the organisation.

While the Accounting Authority of the State Diamond Trader is responsible for the maintenance of sound corporate governance, it believes that implementation is best managed at executive management level. The State Diamond Trader has, in all material aspects, complied with the PFMA and King III recommendations.

## **STATE DIAMOND TRADER AND PUBLIC FINANCE MANAGEMENT ACT (PFMA) 1999**

The As a public entity, the State Diamond Trader operates in terms of the PFMA. In terms of PFMA the Accounting Authority and the Accounting Officer are accountable for the use of resources to deliver services to all stakeholders. The Act emphasises:

- regular financial reporting;
- independent auditing and supervision of internal control systems;
- improved accounting standards;
- greater focuses on output and performance; and
- increased accountability at all levels.

## **SHAREHOLDERS' COMPACT**

In terms of the PFMA, the State Diamond Trader is obliged to conclude a Shareholder's Compact on an annual basis with its Shareholder, the Minister of Mineral Resources (the Minister, also referred to as the Shareholder). The compact sets out the mandate of the State Diamond Trader, together with the organisation's key performance indicators for the year. One of the Accounting Authority's responsibilities is to keep the Shareholder informed on all major developments affecting the organisation.

This is achieved through:

- quarterly reports to the Shareholder;
- the annual report;
- detailed three-year corporate plans;
- direct contact between the Chairperson of the Accounting Authority and Shareholder; and
- on-going engagement with the Shareholder.

# Role of the Accounting Authority

Sound governance entrenched by the Accounting Authority is integral to the sustainability of the State Diamond Trader. The Accounting Authority of the State Diamond Trader is appointed by the Minister of Mineral Resources. It has a Charter detailing processes and procedures that regulate its functioning. Similarly, each Committee of the State Diamond Trader has formal and written terms of reference to ensure optimal discharge of its duties within the mandate conferred upon it by the Accounting Authority. The Accounting Authority is the core of the State Diamond Trader's governance system and is responsible for:

- providing clear strategic direction of the organisation;
- ensuring that the appropriate management structures are in place;
- promoting a culture of ethical behaviour;
- overseeing risk management;
- entrenching sound corporate governance through an integrated governance structure; and
- Compliance with all relevant laws, regulations and codes of practice.

The Accounting Authority has a duty to address matters of significance and concerns of all stakeholders, taking into account greater demands for accountability, and recognising and balancing the interest of all stakeholders.

## COMPOSITION

The Accounting Authority of the State Diamond Trader represents a broad range of skills and experience to ensure an appropriate balance, to bring a sense of perspective and to add value and insight in strategic decision making. In line with best practice, the roles of the Chairperson and CEO are separate. The term of office of a non-executive member is for a period not exceeding five years. Non-executive members may be re-appointed by the Minister for a period not exceeding three consecutive terms in office.

The effectiveness and performance of all members of the Accounting Authority is assessed annually. The Accounting Authority reviews its own role and effectiveness. The Chairperson of the Accounting Authority reviews the performance of the CEO, and the CEO annually reviews the performance of executive management.

# Accounting Authority Composition

## Composition

Mrs D.D. Mokgatle	Chairperson
Ms P.N. Zikalala Mvelase	Chief Executive Officer
Mr I. Goondiwalla	Member
Mr T. Montoedi	Member
Mr S. Motlounge	Member
Mr L. Rapoo	Member
Ms S. Mohale	Member
Ms N. Mpuntsha	Member
Ms S. Nxumalo	Member
Mr M.A. Luhlabo	Member
Brig. N. Mokoena	Member

## REMUNERATION

The remuneration of members of the Accounting Authority is disclosed in note 21 of the Notes of the Financial Statements.

## ACCESS TO INFORMATION

The Accounting Authority has access to all information it may require and may, at the cost of State Diamond Trader, seek independent professional advice if necessary. Management provides the Accounting Authority and its committee members with timely and accurate information and documentation to fulfil its responsibilities.

## ACCOUNTING AUTHORITY CHARTER AND RESPONSIBILITIES

The Accounting Authority has a fiduciary duty to act in good faith, with due care and diligence, and in the best interests of its stakeholders. The Accounting Authority is the primary body responsible for corporate governance values. While control is delegated to management and various committees, the Accounting Authority retains full and effective control over the performance of the State Diamond Trader.

The Accounting Authority's responsibilities include the appointment of the executive management, formulation and approval of the corporate strategies, ensuring a proper governance framework, overseeing risk management and ensuring that State Diamond Trader's business is managed appropriately and prudently.

# Accounting Authority Composition

## EXECUTIVE SESSIONS AND MEETINGS OF NON-EXECUTIVE MEMBERS OF THE ACCOUNTING AUTHORITY

Non-executive members of the Accounting Authority meet separately to discuss issues of significance to the Accounting Authority and its operation. The Accounting Authority and its committees also hold executive sessions with management where issues pertinent to business operations are identified. These issues are addressed with the relevant management representatives.

### ATTENDANCE

Members continued to attend meetings at both the Accounting Authority and committee levels and discharged their fiduciary duties and ensured strategic direction to management throughout the financial year.

### MEETINGS

The Accounting Authority held four quarterly meetings during the financial year, apart from two meetings to review the strategic plan and the risk profile of the State Diamond Trader.

### WORKSHOPS AND SESSIONS:

Name	Board Meeting 23 Apr 13	Board Meeting 27 May 13	Board Meeting 25 Jul 13	Board Meeting 23 Oct 13	Board Meeting 23 Jan 14	Meetings Attended
Mrs D.D Mokgatle-Chairperson	√	√	√	√	√	5
Ms P.N. Zikalala- CEO	√	√	√	√	√	5
Mr I. Goondiwalla	√	√	√	√	√	5
Ms S. T Nxumalo	X	X	X	X	X	0
Mr T. Montoedi *	√	√	X	X	√	3
Mr S. Motloung	√	√	√	√	√	5
Mr M.A Luhlabo	√	√	√	√	√	5
Ms N.F Mpuntsha	√	X	√	√	√	4
Mr G.L Rapoo	√	√	X	X	√	3
Brig. N.H. Mokoena	√	√	√	√	√	5
Ms S. Mohale	X	√	√	X	X	2
Total Members Attended	9	9	8	7	9	

\* Mr Montoedi was not able to attend some of the meetings due to ill health.

In seeking to review the annual performance plan; prepare a plan for the medium term and strengthen capacity of the members, the Board held a Strategic Planning session; Risk Assessment workshop and Board workshop wherein 6; 9 and 6 members attended respectively.

# Accounting Authority Committees

## AUDIT AND RISK COMMITTEE

### Composition

Mr I. Goondiwalla	<b>Chairperson</b>
Ms P.N. Zikalala Mvelase	<b>Chief Executive Officer</b>
Ms S. Nxumalo	<b>Member</b>
Mr T. Montoedi	<b>Member</b>

The Audit and Risk Committee (ARC) is an advisory committee to the Accounting Authority and is accountable to the Accounting Authority. The ARC consists of three non-executive members. The Chairperson of the Accounting Authority is not eligible to be appointed as chairperson of the ARC.

**The overall purpose of the ARC is to assist the Accounting Authority in discharging its duties relating to, among others:**

- the safeguarding of assets;
- the operation of adequate systems and controls;
- effective risk management;
- ensuring the preparation of accurate reporting and statement in compliance with legal requirements and accounting standards;
- ensuring good corporate governance; and
- ensuring compliance with all statutory and regulatory legislation.

Officials from the office of the Auditor-General are invited to attend all ARC meetings.

## AUDIT AND RISK COMMITTEE MEETINGS

Name	18 Apr 13	15 May 13	18 Jul 13	17 Oct 13	16 Jan 14	Meetings Attended
Mr I .Goondiwalla -Chairperson	√	√	√	√	√	5
Ms P.N. Zikalala Mvelase -CEO	√	√	√	√	√	5
Ms S. T. Nxumalo	√	X	√	√	√	4
Ms N. Jiyane *	X	X	X	X	X	0
Mr T.S. Montoedi	√	√	√	X	X	3
Total Members Attended	4	3	4	3	3	

\*Ms Jiyane resigned in April 2013 and Minister's concurrence was subsequently sought and received.

# Accounting Authority Composition

## HUMAN RESOURCE AND REMUNERATION COMMITTEE

### Composition

Mr S. Motloug	<b>Chairperson</b>
Ms P.N. Zikalala Mvelase	<b>CEO</b>
Ms. N. Mpuntsha	<b>Member</b>
Mr L. Rapoo	<b>Member</b>

The Human Resources and Remuneration Committee comprises of three Non-executive members.

The Human Resource and Remuneration Committee purposes are to:

- ensure that the State Diamond Trader discharges its responsibilities which includes amongst others, motivation, development and retention of required and competent staff ;
- ensure that management has created and maintained an effective environment for financial management, internal control and procurement processes;
- provide guidance and make recommendations to the Accounting Authority in respect of annual budgets required for approval as well as any material financial matter impacting on the State Diamond Trader;
- monitor the remuneration framework for the entire organisation; and
- ensure that at all times it applies the principles of sound corporate governance.

The Human Resource and Remuneration Committee is authorised by the Accounting Authority to:

- investigate any activity within its terms of reference;
- seek any information it requires from any State Diamond Trader employee in pursuance of its responsibilities;
- obtain outside legal or other independent professional advise; and
- secure the attendance of outsiders with relevant experience and expertise it considers necessary.

## HUMAN RESOURCES AND REMUNERATION COMMITTEE MEETINGS

Name	22 Apr 13	4 Jul 13	1 Oct 13	3 Dec 13	20 Mar 14	Meetings Attended
Mr S.M. Motloug-Chairperson	√	√	√	X	√	4
Ms. P.N. Zikalala Mvelase -CEO	√	√	√	√	√	5
Ms N.F Mpuntsha	√	√	X	√	√	4
Mr G. L Rapoo	X	X	√	√	√	3
Mr T. S Montoedi	X	√	X	X	√	2
Total Members Attended	3	4	3	3	5	

# Accounting Authority Committees

## TRADING AND DIAMOND INDUSTRY PROMOTION COMMITTEE

### Composition

Mr M. A. Luhlabo	<b>Chairperson</b>
Ms P.N. Zikalala Mvelase	<b>CEO</b>
Brig. N. Mokoena	<b>Member</b>
Ms S. Mohale	<b>Member</b>

The main purpose of the Trading and Diamond Industry Promotion Committee is to ensure that the State Diamond Trader meets its mandate which is to purchase and sell rough diamonds for beneficiation and contribute to the growth of the local beneficiation industry.

## TRADING AND DIAMOND INDUSTRY PROMOTION COMMITTEE MEETINGS

Name	22 Apr 13	4 Jul 13	1 Oct 13	3 Dec 13	20 Mar 14	Meetings Attended
Mr M.A Luhlabo-Chairperson	✓	✓	✓	✓	✓	5
Ms P.N.Zikalala Mvelase -CEO	✓	✓	✓	✓	✓	5
Brig. N.T Mokoena	✓	✓	✓	✓	X	4
Ms S. Mohale	✓	✓	✓	X	✓	4
Mr. S.M. Motloun *	X	✓	X	X	X	1
Total Members Attended	4	5	4	3	3	

\*Mr Motloun was not a member of this committee, but attended as a Board member to provide assistance.

A collection of various diamonds and gemstones is displayed on a dark, textured surface. The stones include a large, round, white diamond at the top, a yellowish diamond to the left, and several clear, faceted diamonds of different shapes and sizes. A metal tool, possibly a diamond grader, is visible in the upper right corner, and tweezers are positioned at the bottom. The text "Report of the Audit and Risk Committee" is overlaid in white, centered on the image.

Report of the  
Audit and  
Risk Committee

# Report of the Audit & Risk Committee

The Audit and Risk Committee is pleased to present the report for the financial year ended 31 March 2014 as required by the Public Finance Management Act, 1 of 1999, as amended.

The Audit and Risk Committee reviewed its terms of reference and its charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit and Risk Committee has, inter-alia, reviewed the following:

- reports from external auditors detailing concerns arising out of audits and ensured there are appropriate responses from management, which will result in the concerns being addressed;
- the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- the effectiveness of the internal audit function;
- the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and
- the scope and results of the external audit function, its cost effectiveness, as well as the independence and objectivity of the external auditors.

The Audit and Risk Committee is of the opinion, based on the information and explanations given by management and the internal auditors and discussions with the independent external auditors on the result of their audits, that management is implementing appropriate internal controls to ensure that the financial records may be relied upon for preparing the financial statements, and that accountability for assets and liabilities is maintained. Nothing significant has come to the attention of the Audit and Risk Committee to indicate any material breakdown in the functioning of these controls, procedures and systems during the period under review.

## INTRODUCTION

The Minister of Mineral Resources appointed an Accounting Authority in terms of section 17 of the Diamonds Amendment Act, 2005.

In line with the Public Finance Management Act as well as good governance, the Accounting Authority has established committees to assist in performing its functions. These include:

- Audit and Risk Committee;
- Trading and Diamond Industry Promotion Committee
- Human Resource and Remuneration Committee

While the daily management of risk has been delegated to the Chief Executive Officer, it remains the responsibility of the Accounting Authority to oversee the risk management of the State Diamond Trader.

## RISK GOVERNANCE STRUCTURE

The Accounting Authority is the oversight structure of the State Diamond Trader and the Audit and Risk Committee is accountable to the Accounting Authority on all audit and risk related matters. Management is responsible for the implementation of risk policies and procedures. In addition, the Audit and Risk Committee is required to note reports of all other Committees' before Accounting Authority approval.

The following is the structure of the entity:

- Accounting Authority
- Accounting Authority Committees
- Management
- Staff

# Strategic Risk Review 2013-2014

## STATE DIAMOND TRADER STRATEGIC RISK PROFILE

The risk executive dashboard highlights the strategic risks identified by the Accounting Authority of the State Diamond Trader. The inherent risks (IR) identified depict the risk profile without taking current controls into account. The residual risks (RR) identified are the exposure to risk remaining after taking the current controls into account.

## THE STATE DIAMOND TRADER'S IDENTIFIED STRATEGIC RISKS 2013-14 RISK EXECUTIVE DASHBOARD

Strategic Objective	Risk Title	Inherent Level			Residual Level		
		Likelihood	Impact	Risk Rating	Likelihood	Impact	Risk Rating
Contribute to the growth of Diamond beneficiation industry	Shortage of supply of rough diamonds	4	4	16	4	4	15
	Client not beneficiating	4	4	16	4	4	16
	Dearth of new entrants and investments into the industry	4	4	16	4	4	16
	Lack of understanding of the diamond beneficiation pipeline	2	3	6	2	3	6
Develop efficient means to market diamonds not suitable for local beneficiation	Inability to purchase and sell ROM	4	4	16	4	3	12
	Inability to develop and implement new marking method	4	4	16	4	3	12
Develop and acquire appropriate human resource capacity	Inability to enquire skills	3	3	9	2	3	6
	Inability to develop skills within required timeline	3	3	9	2	2	4

## STRATEGIC RISK REVIEW 2013-14

### RISK 1 – Shortage of Supply of Rough Diamonds

Inherent Level Risk Rating = 16 (High)

Residual Level Risk Rating = 16 (High)

Despite implementation of the State Diamond Trader's controls and action plans, the Residual Risk remains high. This normally requires a review of the controls and/or the action plans. However, as many of the causal factors are outside of the State Diamond Trader's direct control or influence, it has limited ability to mitigate the risk.

# Strategic Risk Review 2013-2014

## **Causal Factors/ Mitigating Circumstances**

The supply of rough diamonds available to State Diamond Trader is determined by the amount of rough diamonds produced in the country, with the legislation indicating the maximum quantity that can be purchased.

The legislation also indicates the mechanism to determine the market value which the State Diamond Trader must pay the producer and that it must operate as a commercial entity, paying its operating expenses from trading margin.

To this extent, the supply of rough diamonds is outside the control of the State Diamond Trader.

The State Diamond Trader is currently permitted to purchase up to 10% of South African diamond production by carats and value. During 2013-14 it was able to purchase only 3% by carats and 4% by value of the rough diamonds it inspected.

Whilst the State Diamond Trader is purchasing at such levels, there is potential to grow the supply to local beneficiators. However, this requires the resolution of a number of trading issues, in particular pertaining to the nature of South African diamond production and its desirability in terms of local beneficiation.

## **IDENTIFIED ACTION PLANS**

### **1. Engage SADPMR to enforce compliance with legislation**

The State Diamond Trader continues to engage with the SADPMR on matters pertaining to diamond producers' compliance with the Diamond Act of 2005.

During 2013-14 12 producers presented their productions to the State Diamond Trader, including 3 for the first time.

### **2. Implement Producer Engagement Strategy**

The State Diamond Trader was able to obtain agreements with the country's largest producers to select from the representative sample those rough diamonds preferred by its clients for local beneficiation.

Such agreements give the State Diamond Trader more flexibility in its purchasing decisions, lessening the chances that purchases will be declined because of the large quantity of rough diamonds not preferred for local beneficiation contained within the selections presented. However, market pricing as determined by producers remains an issue and threatens to negate such gains.

### 3. Development of new Sales Strategy

The new sales strategy of the State Diamond Trader was approved by the Board in October 2013. Whilst its key aims are to grow and transform the diamond beneficiation sector, it also recognises that, in order for the maximum possible rough diamonds to be made available for all beneficiators, the efficient sale of rough diamonds not required for local beneficiation is required. To this extent, alternative sales methods for such rough diamonds have been piloted and will be expanded during the coming year.

#### **RISK 2 – Clients not beneficiating**

Inherent Level Risk Rating = 16 (High)

Residual Level Risk Rating = 16 (High)

Despite the implementation of the State Diamond Trader's controls and action plans, the Residual Risk remains high. This normally requires a review of the controls and/ or the action plans. However, as many of the causal factors are outside of the State Diamond Trader's direct control or influence, it has limited ability to mitigate the risk.

#### **Causal Factors/ Mitigating Circumstances**

The State Diamond Trader was established with the objective;

*"To promote equitable access to and local beneficiation of the Republic's diamonds."*

Since its establishment the State Diamond Trader has identified a number of shortcomings within its target market that impact on the ability to beneficiate rough diamonds.

These include;

- No economies of scale for new entrants and small players
- Lack of financial capability
- Lack of access to markets
- Inadequate skills and lack of experience in a complex industry

Whilst the State Diamond Trader has addressed equitable access to rough diamonds, it is the other factors outside its control that are more challenging in terms of growing the diamond beneficiation sector.

## **IDENTIFIED ACTION PLANS**

### 1. Develop marketing and promotion strategy

The Marketing and Promotion Strategy was approved by the Board in January 2014. An implementation plan has been developed and is to be implemented during the coming year.

The objectives of the Marketing and Promotion Strategy include the development of the beneficiation sector to ensure its sustainability and growth.

## 2. Call for new clients

During its existence the State Diamond Trader has had reason to remove 60 clients because of a lack of compliance with its Trading rules. As a result of the significant number of client removals, a further client application process was undertaken during 2013.

In this instance 23 clients applied and 18 were subsequently accepted – of which 9 are companies wholly owned by HDSAs.

## 3. Facilitation of access to finance and training for small clients and new entrants During the year the State Diamond Trader has facilitated the following activities;

- Business development workshop for small clients – included presentation from the Department of Trade and Industry on grants and incentives
- Continued to liaise with relevant bodies to gain access to funding for its clients such as the Black Business Supplier Development Programme
- In order to address issues regarding small clients access to markets, facilitated participation at external events such as JewelleX 2013 and the March 2014 Hong Kong Show In participating at such events the State Diamond Trader's HDSA clients gained experience and training in marketing their businesses at a local and international level. Such interventions are vital for the long-term sustainability of these businesses.

### RISK 3 – Dearth of new entrants and investment into the industry

Inherent Level Risk Rating = 16 (High)

Residual Level Risk Rating = 16 (High)

Despite implementation of the State Diamond Trader's controls and action plans, the Residual Risk remains high. This normally requires a review of the controls and/ or the action plans. However, as many of the causal factors are outside of the State Diamond Trader's direct control or influence, it has limited ability to mitigate the risk.

#### Causal Factors/ Mitigating Circumstances

There are a number of factors affecting the numbers of new entrants and investment into the industry. These include;

- High barriers to entry – a mature and well developed industry makes it difficult for new entrants
- Lack of knowledge about the industry

## IDENTIFIED ACTION PLANS

### 1. Call for new clients

As a result of its call for new clients during 2013, the State Diamond Trader has identified a number of new HDSA entrants, some of whom have business experience outside of the diamond industry. The State Diamond Trader intends to work closely with these clients to ensure that their entrepreneurial skills can be fully utilised to ensure the growth and transformation of the diamond beneficiation sector.

## 2. Promotional efforts at local exhibitions and business forums

The State Diamond Trader has participated in a number of local events in order to facilitate the promotion of the diamond industry in South Africa. These have included the 2014 Mining Indaba and the Proudly SA “Buy Local” Summit.

In addition, the State Diamond Trader played a major role in the establishment of the South African National Pavilion at the Hong Kong International Diamond, Gem and Pearl Show and International Jewellery Show in March 2014.

## 3. Marketing and promotion strategy

The Marketing and Promotion strategy, approved by the Board of the State Diamond Trader during 2013, recognises the need to attract new entrants into the industry.

### RISK 4 - Lack of understanding of the diamond beneficiation pipeline

Inherent Level Risk Rating = 6 (Low)

Residual Level Risk Rating = 6 (Low)

A low Residual Risk indicates that the State Diamond Trader’s interventions are sufficient at this time.

#### Causal Factors/ Mitigating Circumstances

Much of the focus of diamond beneficiation has been on the growth of cutting and polishing in the country. However, this neglects other parts of the diamond pipeline such as jewellery manufacturing and retailing which could have a positive impact on the growth of the economy.

## IDENTIFIED ACTION PLANS

### Marketing and Promotion strategy

The approved Marketing and Promotion Strategy will identify means to develop the industry beyond the cutting and polishing of rough diamonds

#### 1. Engage stakeholders in the diamond industry and State to promote the industry

Discussions underway with relevant stakeholders and outcomes of Jewellery Forum, an initiative of the Minister of the Department Mineral Resources, are to be addressed.

### RISK 5 - Inability to purchase and sell ROM

Inherent Level Risk Rating = 16 (High)

Residual Level Risk Rating = 12 (Medium)

After implementation of the State Diamond Trader’s controls and action plans, the Residual Risk although reduced, remains at Medium. This normally requires a review of the controls and/ or the action plans. However, as many of the causal factors are outside of the State Diamond Trader’s direct control or influence, it has limited ability to mitigate the risk.

## **Causal Factors/ Mitigating Circumstances**

Since commencing operations in November 2007, the State Diamond Trader has established that the South African diamond beneficiation industry shows a preference for a narrow range of rough diamonds, those that produce +1 carat, SI1+ quality, I+ colour round polished diamonds. These rough diamonds form a relatively small percentage (<10% of the carats, <50% of the value) of South African diamond production.

### **The reasons for this preference include the following;**

- **Social and economic**

As rough diamonds become smaller or of lower quality the proportion that labour costs take of the overall cost of production becomes larger. There is a point in the size, quality and labour cost equation where the South African labour force cannot compete with low cost centres in Asia.

- **Lack of skills and technology**

Due to lack of appetite for cutting and polishing small and low quality rough diamonds, predominantly because of the labour costs indicated previously, there has been little incentive to develop the required skills or technology to cut and polish such diamonds.

## **IDENTIFIED ACTION PLANS**

### **1. Purchasing agreements**

The State Diamond Trader was able to obtain agreements with the country's largest producers to select from the representative sample those rough diamonds preferred by its clients for local beneficiation.

### **2. Allocations and sales methods**

In its desire to continue trading, despite limited demand for a large part of the South African production, the State Diamond Trader has had to identify larger, more established companies that have the ability to cut and polish a wider range of rough diamonds or market the rough diamonds not required for beneficiation purposes in accordance with legislation.

### **3. Development of new Sales Strategy**

The new Sales Strategy recognises that the efficient sale of rough diamonds not required for local beneficiation is required.

## **Risk 6 - Inability to develop and implement new marketing method**

Inherent Level Risk Rating = 16 (High)

Residual Level Risk Rating = 12 (Medium)

After implementation of the State Diamond Trader's controls and action plans, the Residual Risk although reduced, remains Medium. This normally requires a review of the controls and/ or the action plans. However, as many of the causal factors are outside of the State Diamond Trader's direct control or influence, it has limited ability to mitigate the risk.

## **Causal Factors/ Mitigating Circumstances**

The State Diamond Trader recognises that in order for it to achieve the objectives for which it was established, grow and transform the diamond beneficiation sector, it needs to change its trading operations due to the nature of South African production. The identified risk relates to the fact that, in some cases, changes in policy are required that necessitate approval at various stakeholder levels.

In addition, it is identified that a shortage of technology will have an impact on mitigating the risk.

## **IDENTIFIED ACTION PLANS**

### **1. Stakeholder engagement**

Industry stakeholders are being engaged on a collaborative effort which is to be implemented from 2014.

### **2. Acquire technology and skills**

The State Diamond Trader has invested in technology to assist it in its purchasing and sales activities.

The acquisition of skills is on-going, both internally (Staff) and externally – in terms of facilitating the development of local beneficiators.

## **Risk 7 - Inability to acquire skills**

Inherent Level Risk Rating = 9 (Medium)

Residual Level Risk Rating = 6 (Low)

A low Residual Risk indicates that the State Diamond Trader's interventions are sufficient at this time.

## **Causal Factors/ Mitigating Circumstances**

The State Diamond Trader is a relatively new organisation and has not had the time to develop completely the skills required to operate a diamond trading entity. In addition, a lack of funding has meant that the State Diamond Trader has had limited ability to acquire personnel from the market with the required skills

## **IDENTIFIED ACTION PLANS**

### **1. Third party sourcing**

As indicated in the legislation, the State Diamond Trader has the remit to source expertise from external parties when required. Agreements are in place with service providers to provide the necessary skills for rough diamond trading, diamond sorting and valuation training, Human Resources and Company Secretarial services.

### **2. Skills Development Funding Strategy**

The development of a Skills Development Funding Strategy is on-going, having been initiated in March 2014.

# Strategic Risk Review 2013-2014

## **RISK 8 - Inability to develop skills within required timeframe**

Inherent Level Risk Rating = 9 (Medium)

Residual Level Risk Rating = 4 (Low)

A low Residual Risk indicates that the State Diamond Trader's interventions are sufficient at this time.

### **Causal Factors/ Mitigating Circumstances**

A lack of funding has meant that the State Diamond Trader has not been able to source from the market the skilled employees required to undertake its operations. As a result the focus has been on developing employees by giving relevant experience and skills development by on-the-job training. Such programmes, by their nature, require time.

## **IDENTIFIED ACTION PLANS**

### **1. Agreement with De Beers**

The agreement with De Beers whereby it will provide skilled staffed to provide services relating to the purchasing, sorting and sales of rough diamonds and the training of State Diamond Trader employees to undertake such activities has been extended for a further period.

### **2. Human Resources Plan**

The approved plan is being implemented and associated salary structure and HR policies are approved.

### **3. On-the-job Training**

On-the-job training continues with some employees have been identified for leadership training to augment their diamond skills.



**Mr I Goondiwalla**

**Chairperson of the Audit and Risk Committee**



Trading Report

# Trading Report 2013-2014

## SUMMARY

The objects of the State Diamond Trader are to promote equitable access to and local beneficiation of the Republic's diamonds.

	2013-14	2012-13	2011-12
<b>SDT Inspection US\$</b>	<b>1,283,935,876</b>	1,177,840,751	1,301,572,083
Carats Inspected	<b>8,339,781</b>	7,117,642	6,889,931
US\$ per carat	<b>153,95</b>	165,48	188,91
No. of producers	<b>12</b>	9	7
No. of Inspections	<b>134</b>	126	125

<b>SDT Purchases ZAR</b>	<b>527,791,954</b>	407,998,978	410,405,051
% purchased**	<b>4%</b>	4%	4%
No. of purchases	<b>68</b>	48	72

<b>SDT Sales ZAR</b>	<b>554,863,725</b>	411,462,599	433,053,736
COGS ZAR	<b>538,258,752</b>	399,803,045	410,440,045
GM ZAR	<b>16,404,973</b>	11,659,554	22,613,690
GM%	<b>3%</b>	3%	5%
Carats	<b>230,188</b>	290,449	293,087
No. of clients sold to	<b>46</b>	42	58

<b>SDT Stock ZAR (31/03)</b>	<b>4,978,366</b>	15,163,853	6,726,132
Ave age of stock (days)	<b>5</b>	21	16

## South African Diamond Production – State Diamond Trader Inspections 2013-14

Trading activity at the State Diamond Trader is determined by the amount of rough diamonds produced in the country, with the legislation indicating the maximum quantity that can be purchased.

The State Diamond Trader noted a 17% increase in the quantity (carats) of rough diamonds presented to it by 12 producers during the year. This was accompanied by a 9% rise in the total value presented. The difference in the increases in volume (carats) and value resulted in a 7% reduction in the average price to US\$ 154 per carat.

Whilst a rise in production levels does benefit the State Diamond Trader in terms of the rough diamonds it can access to support local beneficiation, a falling average price indicates a reduction in the quality of rough diamonds produced, in particular those suitable for cutting and polishing in South Africa.

# Trading Report 2013-2014

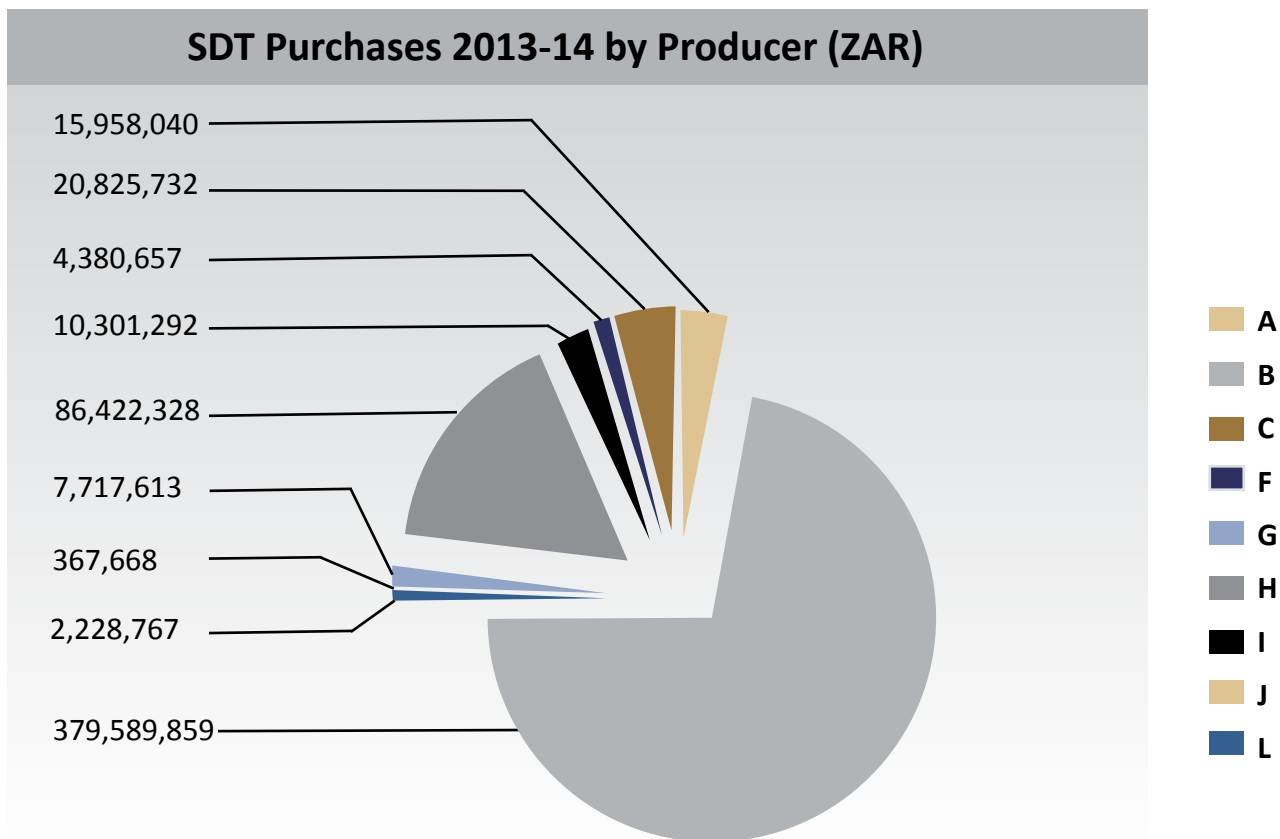
It is noted that by comparing the State Diamond Trader's statistics with those issued under the jurisdiction of the Kimberley Process Certification Scheme, the State Diamond Trader does inspect the large majority (estimated at over 95%) of the diamonds produced in the country.

However, it is recorded that there are more than 12 registered diamond producers in the country and the lack of engagement with the State Diamond Trader by a large number of predominantly small producers signifies a lack of compliance with the Diamond Act of 2005 on their part.

The State Diamond Trader continues to liaise with the SADPMR in terms of identifying non-compliant diamond producers, following-up with them directly when it is apparent that production is on-going.

However, it is the responsibility of the regulatory body (SADPMR) to ensure adherence to the Diamond Act.

## STATE DIAMOND TRADER PURCHASES 2013-14



The State Diamond Trader purchased rough diamonds from 9 producers during the course of the year. In terms of volume (carats), the amount purchased declined by 27% when compared with the previous year.

However, in terms of value (ZAR), the purchased amount increased by 29%.

A decrease in the carats purchased is due to the engagement undertaken with the country’s largest producers, whereby the State Diamond Trader was able to obtain agreements to select from the representative sample those rough diamonds preferred by its clients for local beneficiation. Such agreements are beneficial, allowing the State Diamond Trader to access on a consistent basis those rough diamonds required by its clients with the main constraint being the pricing of the selections.

In terms of the increase in value purchased – the effect of the weakening Rand against the US Dollar needs to be considered. This is due to the fact that rough diamonds are priced in US Dollars up until the point of purchase, an invoice issued and an exchange rate applied.

In US Dollars, State Diamond Trader purchases rose by 9% (compared to 29% in ZAR) with the average exchange rate of purchases in 2013-14 being ZAR 10.40 to US\$ 1.00. This compares with the 2012-13 average exchange rate of ZAR 8.74 to US\$ 1.00 – a difference of 19%.

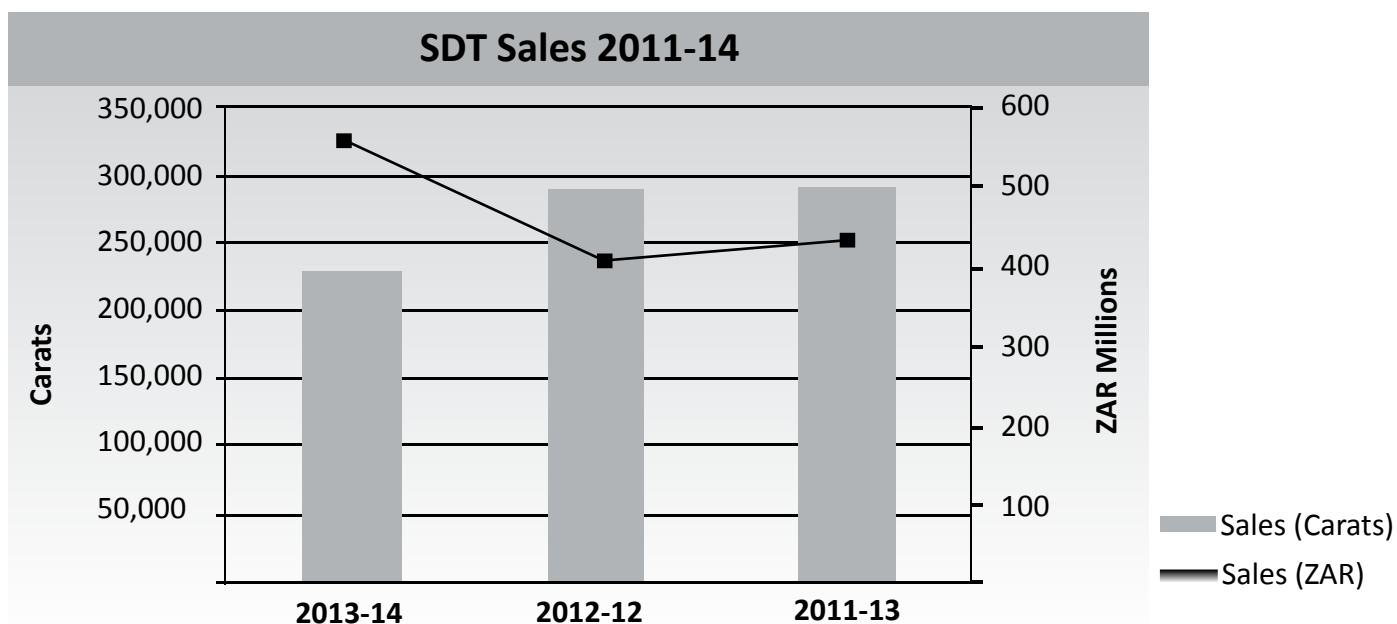
The State Diamond Trader is currently permitted to purchase up to 10% of South African diamond production by carats and value in order to meet its objectives in terms of supporting local beneficiation.

However, during the course of 2013-14 the State Diamond Trader was able to purchase 3% by carats and 4% by value of the rough diamonds it inspected under the terms of the Diamond Act.

These relatively low percentages reflect the fundamental inability to purchase consistently from the country’s diamond producers. The main reasons for this are as follows;

- The constraints placed on the State Diamond Trader in terms of purchasing Run of Mine selections
- The quantity of goods not preferred for beneficiation within South African Run of Mine productions
- The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader’s capability to operate commercially
- The State Diamond Trader’s legislated position as a passive role player, “price-taker”, in the inspection and purchasing of diamonds from the producers in terms of section 59B of the Act.

## STATE DIAMOND TRADER SALES 2013-14



# Trading Report 2013-2014

## SUMMARY AND BUDGET COMPARISON 2013-14

2012-14	Sales ZAR	Cost ZAR	GM ZAR	GM%
<b>Actual</b>	554,863,725	538,458,752	16,404,973	3%
<b>Budget</b>	331,360,035	321,708,772	9,651,263	3%
<b>Variance</b>	223,503,690	216,749,980	6,753,710	0%
<b>Variance%</b>	<b>67%</b>	<b>67%</b>	<b>70%</b>	<b>0%</b>

Although the State Diamond Trader only purchased 4% (by value) of the rough diamonds produced in the country, it was able to achieve sales significantly above its budget due to;

- Some renewed (but inconsistent) demand for Run of Mine selections, including those rough diamonds deemed not suitable for local beneficiation, from the State Diamond Trader's large clients
- A weakening Rand, which resulted in US Dollar calculated purchases and sales producing rand values in terms of revenue and margin

Although the year saw an increase in trading, the fundamental macro-economic and diamond specific issues affecting the industry remain;

- Economic uncertainty in Europe and the USA
- The slowing of growth in Asian markets
- Slow retail sales growth for diamond jewellery
- Polished diamond prices showing little or no growth
- A reduction of financing facilities due to the withdrawal of banks from the industry
- The continued misalignment of rough and polished prices
- A lack of profitability in the manufacturing and trading sectors

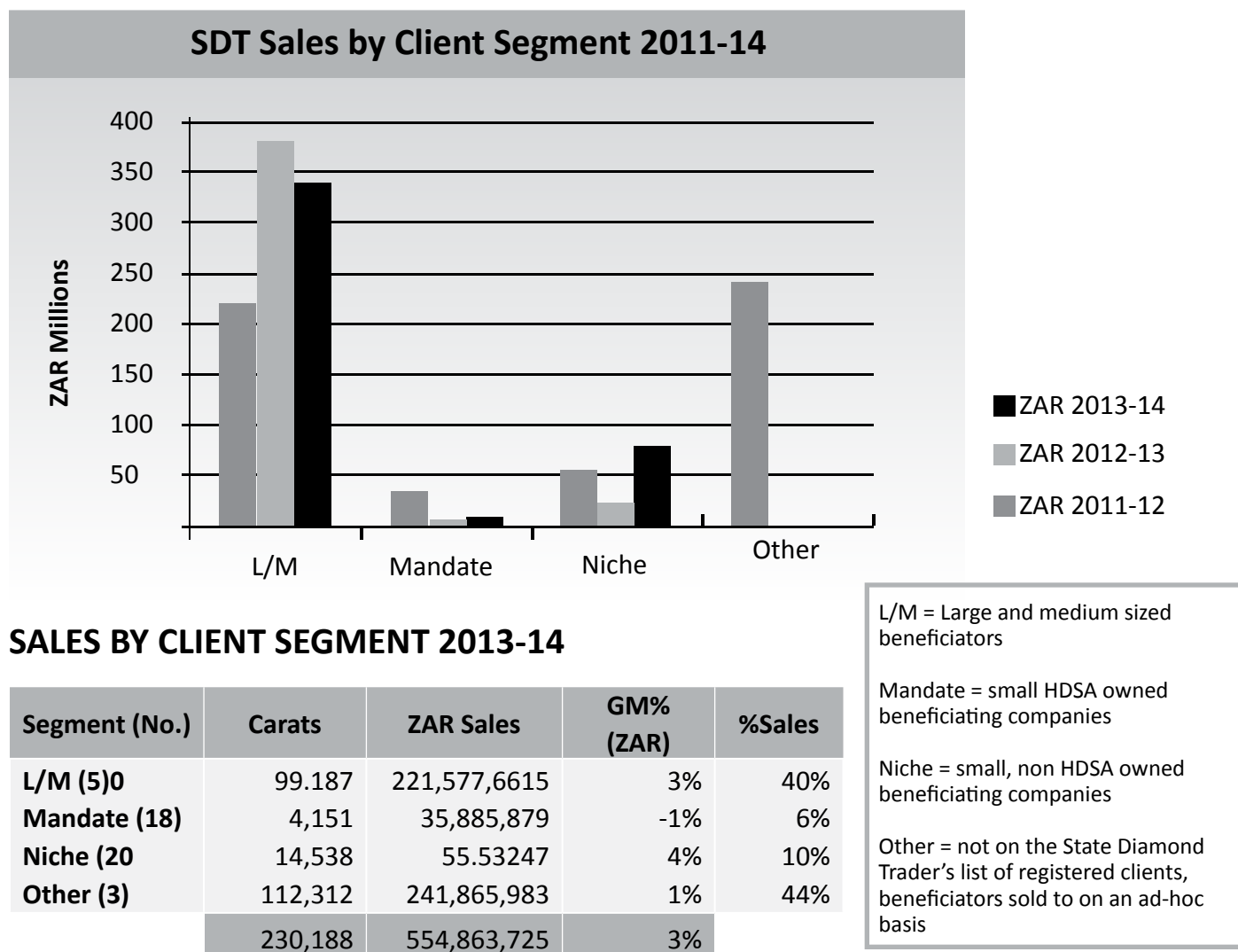
From a trading perspective, in order to mitigate these circumstances which were outside of the State Diamond Trader's control, it continues to trade on the basis of;

- Understanding rough diamond demand and price sensitivity of its clients
- Purchasing only to its clients' demands
- Balancing the requirements of the Stock Holding Policy and minimum gross margin requirements

As a result the State Diamond Trader was able to trade within its existing policy framework.

# Trading Report 2013-2014

## SALES BY CLIENT SEGMENT 2013-14



The total number of clients that purchased rough diamonds from the State Diamond Trader during 2013-14 increased from 42 (2012-13) to 46.

The State Diamond Trader continues to facilitate the transformation the diamond beneficiation industry by targeting HDSA clients that were previously unable to access rough diamonds produced in the country.

- The total value of sales to the Mandate client segment rose from R6.8 million (2012-13) to R35.9 million, an increase of over 400%.
- The number of Mandate clients that purchased also rose from 16 (2012-13) to 18.
- Sales to companies with greater than 50% HDSA ownership made up 6% of the annual sales value, as opposed to 2% in the previous year
- Sales to the Mandate segment recorded a negative margin – indicating that the State Diamond Trader is able to balance the requirements of developing and transforming the industry whilst operating as a commercial entity.

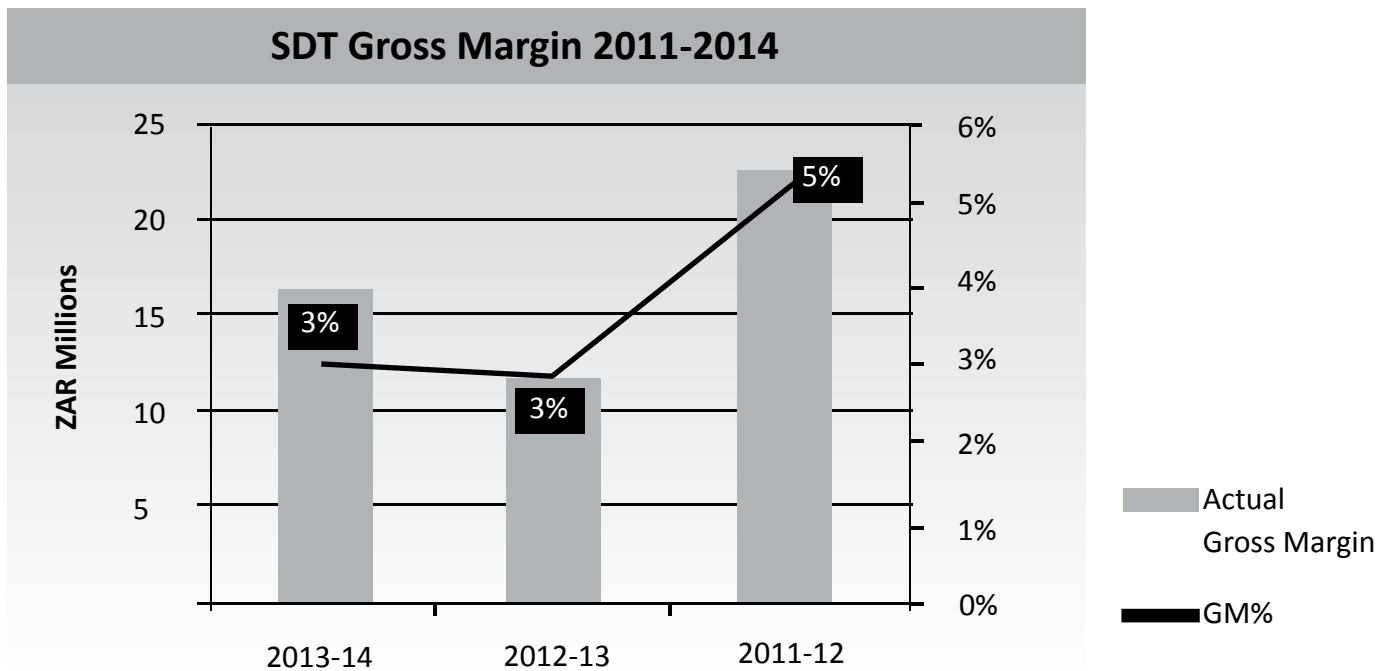
# Trading Report 2013-2014

The constraints placed on the State Diamond Trader in terms of it purchasing Run of Mine production from local diamond producers means that it is obliged to sell to larger, more established companies that have the ability to cut and polish a wider range of rough diamonds or market the rough diamonds not required for beneficiation purposes in accordance with legislation.

The State Diamond Trader is continuing in its efforts to identify efficient means to market the rough diamonds not required by beneficiators – one that does not rely on a small base of local trading clients. By doing so, the State Diamond Trader will be able to establish itself as global trading entity and unlock value that can benefit the local industry.

## TRADING (GROSS) MARGIN

Under the terms of the legislation under which it was established, the State Diamond Trader has no recourse to public funding and shall operate as a commercial entity. Operating expenses are covered by the trading margin achieved after the purchase and sale of its inventory.



During 2013-14 the State Diamond Trader achieved a trading (gross) margin of R 16 Million which equates to 3%. In terms of the GM% achieved, this is in line with the budget and is similar to the previous year.

It is noted that a 3% gross margin is in line with industry norms for a rough diamond trading entity such as the State Diamond Trader. The only way for the State Diamond Trader to effectively increase actual gross margin levels in order to offset any future rise in expenses is to increase revenue. Whilst the State Diamond Trader only purchased 4% of local production during the year, there is scope to do this. However, this requires the resolution of a number of trading issues, in particular pertaining to the nature of South African diamond production and its desirability in terms of local beneficiation.

# Trading Report 2013-2014

## END OF YEAR STOCK – ROUGH DIAMOND INVENTORY AS OF 31<sup>ST</sup> MARCH 2014

	Carats	ZAR Cost	Ex.Rate	US\$ Cost	Age (Days)
<b>Stock as of 01/04/2013</b>	10,876	15,163,853	8.98	1,689,334	21
<b>Purchases</b>	220,597	527,791,954	10.40	50,734,150	
<b>Sales (COGS)</b>	230,183	537,977,441	10.35	51,958,965	
<b>Stock as of 31/03/2014</b>	1,385	4,978,366	10.72	464,519	5

The State Diamond Trader's rough diamond inventory at year end consisted of 1,385 carats at a value of ZAR 4,978,366. This reflects a significant reduction from the position at the end of the previous trading year (10,876 carats, ZAR 15,163,853).

The State Diamond Trader continues to implement a strict stock holding policy whereby all purchased rough diamonds must be sold within an average of 20 working days. This is to ensure that the State Diamond Trader efficiently utilises its finance facilities and ensure consistent cash flow.

At year end, the average age of the diamond inventory was 5 working days.

The average turnaround time for all purchases made during 2013-14 was 12 working days.



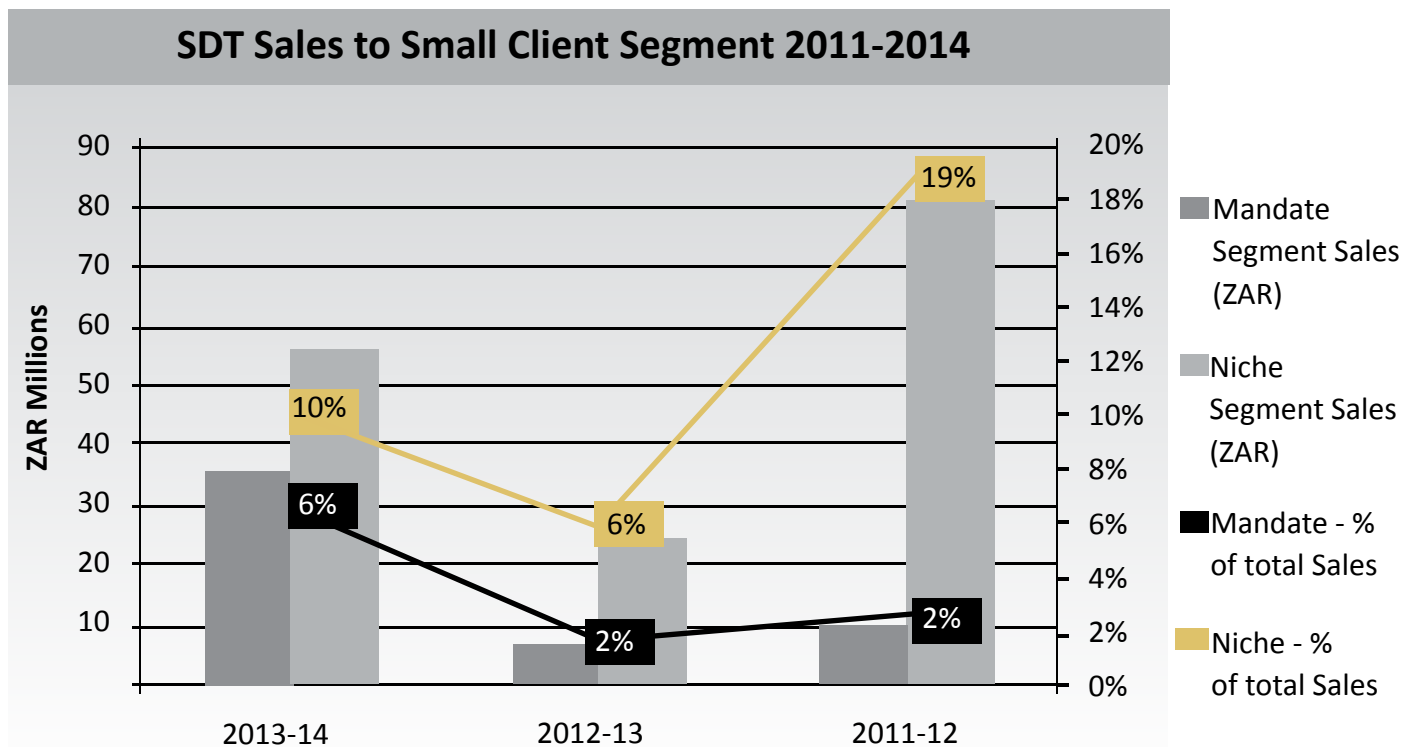
State Diamond  
Trader  
Client Review

# Client Review 2013-2014

Since commencing its operations, the State Diamond Trader has focused on the equitable access component of the mandate – offering all its small clients access to the rough diamonds they require on a rotational basis.

The policy has not enabled the State Diamond Trader to differentiate between its small clients based on growth potential and fulfilment of the broader aspects of the beneficiation agenda. At the same time, the State Diamond Trader has had to balance its commercial requirements and find solutions to its Run of Mine supply.

The result has been that there has been limited growth in the small beneficiaries' segments.



Patterns of trading and growth have been inconsistent, with very few clients showing that they have consistently grown their businesses over the period that the State Diamond Trader has been in existence.

**In reviewing its sales strategy, the State Diamond Trader has noted the following:**

- The most powerful tool the State Diamond Trader has at its disposal is the allocation of rough diamonds it makes to its clients
- The allocation process can be used to stimulate growth and increased beneficiation amongst selected clients
- The State Diamond Trader needs to identify a selected group of clients that it can work closely with in order to achieve the goals of growing the beneficiation sector and HDSA participation within it

# Client Review 2013-2014

In revising its sales strategy, the State Diamond Trader is also mindful of the fact that in order for the maximum possible rough diamonds to be made available for all beneficiators, the efficient sale of rough diamonds not required for local beneficiation is required.

It is envisaged that the successful implementation of the new sales strategy will enable the State Diamond Trader to:

- Have a greater impact on the beneficiation landscape of South Africa
- Grow small, HDSA owned, diamond beneficiating businesses

## **State Diamond Trader Client Relations 2013-14**

The role of the Client Relations Office is to engage with the State Diamond Trader's clientele, current and potential, on all matters not pertaining to the sales of rough diamonds. In this regard, the activities of the Client Relations Office are summarised as the following:

- Managing the State Diamond Trader's clientele and updating the client register
- Ensuring client compliance
- Client segmentation strategy development and implementation
- Conducting factory inspections - ensuring compliance in line with beneficiation objectives
- Facilitating projects relating to the diamond industry and client development
- State Diamond Trader participation at relevant events

## **Clientelehip – Addition and removal**

Prior to 2013, the State Diamond Trader held two application processes for diamond beneficiators wishing to register as clients:

- 2007 – 150 clients applied
- 2008 – 37 clients applied

In the intervening period, the State Diamond Trader has, as prescribed in its Trading Rules, had reason to remove 60 clients from its list.

The predominant reason for removal is a lack of compliance with the State Diamond Trader's Trading rules, in particular to those relating to the laws of the country pertaining to the holding of a valid beneficiation licence and SARS (tax) certificate.

A new client application process was undertaken during 2013. In this instance 23 clients applied and 18 were subsequently accepted. At the end of the year, State Diamond Trader had 60 compliant registered clients. This number includes the 18 newly accepted clients.

# Client Review 2013-2014

In terms of the segments stated on page 5, the State Diamond Trader's clients are segmented as per the following;

Segment	No of Clients
Mandate	22
Niche	28
Large/Medium	9
Public, Private Partnership	1
<b>Total</b>	<b>60</b>

## DIAMOND INDUSTRY DEVELOPMENT

The State Diamond Trader has a responsibility in terms of the Act to promote the diamond industry through the necessary research, support and development as deemed necessary from time to time. To that end, various marketing initiatives have been deemed as the support necessary for the exposure and marketing of the businesses of its clients. Its new Marketing Strategy seeks, in part, to provide a framework within which these interventions are being done. Clients were supported through sponsorships for the following exhibitions and platforms:

### JEWELLEX AFRICA 2013

The State Diamond Trader once again facilitated the participation of its clients at the 2013 Jewellex Africa Show. Exhibitions such as Jewellex Africa have been identified by the State Diamond Trader as part of a variety of initiatives aimed at addressing the challenge of access to polished diamond markets that confronts many of its clients. 8 Mandate clients participated at 2013 show, presenting their businesses and, in some cases, polished diamonds for sale.

The availability of polished diamonds, the influx potential buyers combined with the improved layout and presentation of the State Diamond Trader's stand contributed to a successful participation and has given indicators as to how the show could contribute further to the growth of the beneficiation sector.

### INVESTING IN AFRICAN MINING INDABA 2014

The State Diamond Trader participated at the Investing in African Mining Indaba held in February 2014. This gathering is the world's third largest mining conference and Africa's largest annual professional conference dedicated to the capitalisation and development of mining interests in Africa.

The participation at this conference allows the State Diamond Trader to share its vision, mission and objectives with the relevant industry players.

### PROUDLY SA "BUY LOCAL" SUMMIT 2014

The Proudly SA Summit affords all South African goods producers and service renderers an opportunity to inform South Africans as a whole of their businesses.

For this year's Summit, the State Diamond Trader facilitated the participation of three Mandate clients and a jewellery manufacturer from Soweto.

During the Summit exposure was given to the participants by the South African Broadcasting Corporation (SABC) and Kaya FM.

# Client Review 2013-2014

## NATIONAL JEWELLERY FORUM

The State Diamond Trader participated at the inaugural National Jewellery forum (NJF) held during October 2013, an initiative of the Minister of Mineral Resources.

The purpose of the NJF is to grow the beneficiation sector in order to maximise the value derived from South Africa's (well endowed) commodity sector by means of creating a Jewellery Hub. The hub is envisaged to support the creation of sustainable employment opportunities and to facilitate the transformation of the sector by ensuring meaningful participation by HDSAs. The focal point of the NJF was finding ways and means of training and developing the "Entrepreneur Jeweller" concept.

## HONG KONG INTERNATIONAL DIAMOND, GEM AND PEARL SHOW AND INTERNATIONAL JEWELLERY SHOW MARCH 2014



The State Diamond Trader together with its stakeholders instigated the first South African National Pavilion at the Hong Kong International Diamond, Gem and Pearl Show and International Jewellery Show.

# Client Review 2013-2014

The show is one of a number of events held around the world to promote the sales of precious stones and finished jewellery to retailers and end users in a range of markets. Particular importance is placed on these shows within the diamond industry as it enables the sales of loose stones and jewellery as well developing contacts for future sales.

The origin of the South Africa National Pavilion was as a result of an exploratory visit to the Hong Kong Jewellery Show in September 2011 by the CEO of the State Diamond Trader.

After engaging with Trade and Investment SA (Department of Trade and Industry), a proposal was submitted whereby the Department of Trade and Industry (DTI) would sponsor the event as the initiative would benefit the country, particularly the minerals sector.

The State Diamond Trader played a significant role in;

- Identifying potential exhibitors
- Providing liaison between exhibitors and organisers (Hong Kong Trade Development Council (HKTDC))
- Ensuring that all criteria was met regarding the securing of DTI funding for participation

After an extensive planning process, 16 companies – diamond beneficiators (including 5 State Diamond Trader Mandate clients) and jewellery manufacturers – participated at the show held from the 5<sup>th</sup> to 9<sup>th</sup> March 2014.

The South African Pavilion created much interest and all the exhibitors that were afforded the opportunity to participate indicated their desire to be considered for such an event again in the future. The State Diamond Trader's partnership with the Department of Trade and Industry ensured the attendance by the clients and the success of this task.



A collection of various diamonds and gemstones is displayed on a dark, textured surface. The stones include a large, clear, round-cut diamond at the top, a yellowish-orange rough-cut diamond to the left, a clear, faceted diamond to the right, and a clear, square-cut diamond at the bottom left. A pair of tweezers and a metal tool are visible at the bottom of the frame. The text "Performance Against Strategic Business Target" is overlaid in white, centered on the image.

Performance  
Against  
Strategic Business  
Target

# Performance Against Strategic Business Target

## **MANDATE**

Promote the diamond beneficiation industry through research and development over the next phase of State Diamond Trader's existence.

## **VISION**

Be a catalyst for the transformation and growth of the local diamond beneficiation industry.

## **MISSION**

- Ensure acquisition of and equitable access to rough diamonds with particular focus on HDSAs
- Promote the growth of the diamond beneficiation industry through relevant interventions
- Establish and maintain a transformed client base of local diamond beneficiators

## **VALUES**

- We will respect the rights of our stakeholders and promote a caring attitude
- We will promote diversity and create an empowering working environment
- Commitment to mandate – it's promotion, defence and execution
- Agility – anticipation, proactive problem solving and resourcefulness
- Efficiency – professionalism and excellence in all that the State Diamond Trader does
- Innovation – continuous generation of new ideas and innovative thinking

## **STRATEGIC OBJECTIVES**

1. Contribute to the growth of the local diamond beneficiation industry
2. Develop efficient means to market diamonds not suitable for local beneficiation
3. Develop and acquire appropriate Financial and Human Resource capacity

# Strategic Objectives Linked to DMR and Outcomes

National Outcome Number	National Outcome	DMR Programme	SDT Strategic Objectives
4	Decent employment through inclusive economic growth	Mineral Regulation	Contribute to the growth of the local diamond beneficiation industry
		Mineral Policy and Promotion	Develop efficient means to market diamonds not suitable for local beneficiation
12	A development orientated Public Service and inclusive citizenship	Administration	Develop and acquire appropriate Financial and Human Resource capacity

## LEGISLATIVE AND OTHER MANDATES

The State Diamond Trader's main business is to buy and sell rough diamonds in order to promote equitable access to and beneficiation of diamond resources. The main aim of the State Diamond Trader is to address distortions in the diamond industry and correct historical market failures to develop and grow South Africa's diamond cutting and polishing industry.

The State Diamond Trader is a state owned entity established in terms of Section 14 of the Diamonds Amendment Act, 29 of 2005. The company is classified as a Schedule 3b entity of the Public Finance Management Act (PFMA).

The State Diamond Trader sells to approve customers through the State Diamond Trader's application and approval process. The entity is eligible by law and proclamation to purchase up to 10% of the run of mine from all diamond producers in South Africa.

# Annual Performance Plan 2013-2014

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2013- 2014	ANNUAL PERFORMANCE 2013- 2014	VARIANCE
1. A sustainable, growing and transformed diamond beneficiation industry	Contribute to the growth of the local diamond beneficiation industry	Develop and implement marketing and industry promotion strategy	A marketing and promotion strategy	Completed by December 2013  3 local and 1 international by March 2014	Marketing Strategy was approved in January 2014 and Implementation Plan Developed for implementation in 2014-2015 Participated with clients at these platforms: Jewellery 2013; Mining Lekgotla 2013; Hong Kong Show 2013 – information stand; Mining Indaba 2014; Proudly SA “buy Local” Expo 2014; Hong Kong Show – March 2014 All these platforms provided marketing opportunities for more than 30 SDT clients as well as 10 Jewellers (Hong Kong Show)	
		Establish collaborations with relevant skills development State institutions	Skills development platforms created	2 functional by March 2014	Collaboration with a DTI Network Support Agency, Ndala Consulting, on the DTI BBSDP programme provided clients with knowledge and capability to apply. National Jewellery Forum (DMR led) with SDT clients participating. Partnership with the DTI (Hong Kong project), DIRCO (Hong Kong office), Brand SA and DMR where marketing skills and exposure to markets were maximised.	
		Facilitate relevant capacity building for HDSA and small beneficiaries	Number of HDSA and small beneficiaries provided with advanced diamond and business skills	15 trained by March 2014	Business development training for 19 clients completed; Export readiness training workshop conducted for clients who participated at March Hong Kong show, 6 of whom were mandate and HDSA clients. In doing so gained knowledge of international markets and marketing techniques	

# Annual Performance Plan 2013-2014

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2013- 2014	ANNUAL PERFORMANCE 2013- 2014	VARIANCE
		Realign sales strategy to grow beneficiation	Transformative sales strategy	September 2013	Sales Strategy was approved in Q2. Implementation Plan on the approved Sales Strategy was finalised and for implementation from 2014-15 FY.	
		Advertise for new/ additional clients	Increased number of trading HDSA clients	Increase by 25% by December 2013	Client application process was done and completed. 18 new clients were accepted with 6 having traded with the SDT 18/23 compliant HDSA clients traded during the year (79%)  18 Complaint HDSA clients traded 2012-13=16 (Increase of 13%)	
		Contribute to the development of a regional trading hub	Number of HDSA and broad based small beneficiaries supplied with diamonds Number of jobs created	75% of HDSA and small clients by March 2014  100 new jobs created	38 out of 50 compliant HDSA and small clients traded (76%)  184 new jobs from new clients [Benchmark established at 334 jobs (from existing)]	
		Supply rough diamonds to local beneficiaries	Increased amount and value of rough diamonds benefited	By 25% by March 2014	Benchmark not established From the SDT sales figures, annual sales are +35%	

# Annual Performance Plan 2013-2014

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2013- 2014	ANNUAL PERFORMANCE 2013- 2014	VARIANCE VARIANCE
		Enforce compliance with section 59B of the Diamond Amendment Act, 2005, by all producers	Increased inspections and amount of diamonds available to SDT	30% increase in inspections and 10% increase in amount by March 2014	Inspections increased by 6% Purchased amount increased by 29%	The continued non-compliance by numerous smaller producers resulted in the target not being achieved.
		Engage other diamond producing countries on purchasing of diamonds for local beneficiation	Agreement with at least one country  Enhanced access to diamonds for local beneficiaries	1 purchasing agreement concluded by March 2014  2% increase in supply by March 2014	The attempts made did not yield positive results. The SDT made an application to Botswana (Okavango Diamond Company) but no response was received throughout. While there was an increase in purchases, it came from local purchases through increased local inspections. Purchases from local production increased by 29%. Increase was not as a result of purchases from outside the RSA as planned.	The challenges of sourcing outside RSA were considered by the Board and strengthening local activities was seen as the better option until a workable solution can be found.

# Annual Performance Plan 2013-2014

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2013- 2014	ANNUAL PERFORMANCE 2013- 2014	VARIANCE
2. Be the leading and innovative rough diamond trader for the local beneficiation industry	Develop efficient means to market diamonds not suitable for local beneficiation	Engage and agree with relevant stakeholders in the diamond pipeline (DMR included) on a special marketing model	Agreed and approved special marketing model	December 2013	Approved Pilot projects with two major producers to select rough diamonds suitable for beneficiation from ROM continued and have been extended for further investigation.	
		Unlock and increase rough diamonds suitable for local beneficiaries	Stabilised continuous supply  Increased financial reserves for SDT	March 2014  March 2014	By implementing the above - 40 clients were given enhanced access, 17 actually purchased. Market conditions and pricing played a role. Overall GM achieved is an increase from the previous year.	

# Annual Performance Plan 2013-2014

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2013- 2014	ANNUAL PERFORMANCE 2013- 2014	VARIANCE
3. Be an efficient, innovative and development oriented organisation	Develop and acquire appropriate Human Resource capacity	Efficiently implement HR Plan	HR Plan responding to SDT requirements	March 2014	Continued throughout the year with two new positions being approved for recruitment. Required amendments were effected.	
		Identify skills gaps and capacity building requirements	Appropriate HR capacity and skills	April 2013	Skills gap analysis was done and capacity building requirements established.	
		Develop HR capacity building dashboard for all personnel	Approved HR capacity building dashboard	July 2013	The dashboard was done and approved and development, as approved, was conducted.	
		Ensure continuous capacity building for all personnel	Relevant capacity throughout SDT operations	Quarterly and on going	On-the-job training for new diamond trainees continued throughout the year as planned. Other personnel attended various relevant courses as part of the identified gaps.	
		Review and monitor training provided to ensure appropriateness	Review and monitoring report	March 2014	Training provided to all Trainees is being reviewed monthly. Training for other personnel was recorded.	
		Develop retention strategy	Retention Strategy implemented	March 2014	Completed as planned and presented to the Board in April 2014 for approval.	

A pile of rough-cut diamonds, some clear and some with a yellowish tint, is scattered on a dark, cracked stone surface. The diamonds are of various sizes and shapes, some showing facets. The background is a dark, textured stone with visible cracks and crevices.

# Statement of Responsibility for Financial Statements

# Statement of Responsibility for Financial Statements

## Statement of responsibility by the directors, who constitute the Accounting Authority for the State Diamond Trader for the year ended 31 March 2014.

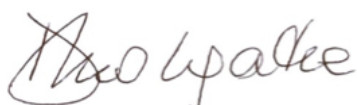
The responsibility of the Accounting Authority of the State Diamond Trader ranges from the maintenance of appropriate records to the preparation and integrity of the quarterly reports and financial statements. Through its committees and its regular meetings, the Accounting Authority is able to engage with the management on all areas of responsibility and make recommendations and decisions.

The financial statements presented herein represent the state of affairs of the State Diamond Trader, its financial results, its performance against predetermined objectives and its financial position at the end of the financial year. The financial statements have been prepared in terms of the South African Statements of Generally Accepted Accounting Practice, the Public Finance Management Act and the Treasury Regulations. The financial statements are thus based on appropriate accounting policies supported by reasonable and prudent judgments and estimates.

The Accounting Authority establishes policies and sets of standards that are designed to provide reasonable assurance against material misstatements and losses and this enables the Accounting Authority to execute its responsibilities as required. The State Diamond Trader maintains internal financial controls thereby to provide assurance regarding the management and maintenance of its assets and the integrity of its financial records. The internal policies are underpinned by its policy framework and the strategic objectives, which provide a strategic direction to management on the expected performance and the outcomes. These are regularly reviewed to ensure compliance and relevance.

It is the opinion of the Accounting Authority that based on the information available to date, the financial statements herein presented fairly present the financial position of the State Diamond Trader at 31 March 2014 and the results of its operations and cash flow information for the financial year end.

The financial statements which appear hereunder were approved by the Accounting Authority on 29 July 2014 and are signed on its behalf by:



**Chairperson of the Board**



**Chairperson Audit and Risk Committee**

# Report of the Auditor-General

## REPORT TO PARLIAMENT ON THE STATE DIAMOND TRADER ON THE FINANCIAL STATEMENTS

### INTRODUCTION

1. I have audited the separate financial statements of the State Diamond Trader set out on pages 57 to 78, which comprise statement of financial position as at 31 March 2014, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE SEPARATE FINANCIAL STATEMENTS

2. The Accounting authority is responsible for the preparation and fair presentation of these separate financial statements in accordance South African Statement of Generally Accepted Accounting Principles (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR-GENERAL'S RESPONSIBILITY

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### OPINION

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2014 and its financial performance and cash flows for the year then ended, in accordance with South African Statement of Generally Accepted Accounting Principles (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

# Report of the Auditor-General

## COMPLIANCE WITH LEGISLATION

7. Included below is material finding of non-compliance with specific requirements in key applicable laws and regulations.

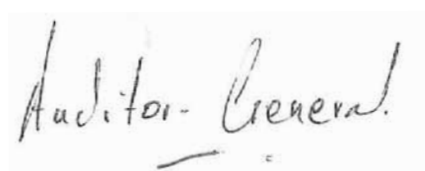
## PROCUREMENT AND CONTRACT MANAGEMENT

8. Proper control systems to prevent irregular expenditure were not adequately implemented, as required by section 51(b) (ii) of the Public Finance Management Act.

## INTERNAL CONTROL

## LEADERSHIP

Management did not exercise adequate oversight responsibility regarding financial reporting and related compliance.



Pretoria

31 July 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

A close-up photograph of a metal tray filled with numerous small, faceted diamonds. The diamonds vary in color from clear to light yellow. A pair of black tweezers is positioned on the right side of the tray, with its tips pointing towards the diamonds. The background is a plain, light-colored surface.

# Accounting Authority Report

# Accounting Authority's Report

This report marks the seventh report by the Accounting Authority and presents a summary of the activities of the State Diamond Trader. The State Diamond Trader was established in July 2007 in terms of section 14 of the Diamonds Amendment Act 29 of 2005.

The review provides context to the financial performance of the State Diamond Trader's operations as detailed in the financial statements.

The objectives of the State Diamond Trader are to promote equitable access to and local beneficiation of diamond resources of South Africa. The State Diamond Trader has set itself the objective of operating its business in a profitable and self-sustaining manner to ensure its sustainability in the future.

## FINANCIAL PERFORMANCE

### FINANCIAL POSITION

Revenue for the year of R554 863 725 reflects an increase of 35% from the previous year, (2013: R411 462 599). The increase was primarily due increased demand and the weakening of the Rand. An average gross margin percentage of 3% was achieved.

Capital expenditure for the year amounted to R238 930 (2013: R158 863) and was mainly in respect of the acquisition of a rough diamond planning machine.

Administrative expenses increased from R15 863 442 the previous year to R17 264 335 in the current year. This is mainly due to the increase in salary expenses as a result of implementation of the Human Resources Plan, resulting in the employment of more personnel. General expenses also increased as a result of the increase in number of personnel.

Inventory at the end of the financial year amounted to R4 978 366 (2013: R15 163 853)

The net assets as at 31 March 2014 amounted to R50 355 175 (2013: R46 085 280).

### CASH FLOW POSITION

Cash resources at the end of the financial year amounted to R46 465 662 (2013: R24 707 188).

### GOING CONCERN

The Accounting Authority is of the view that the performance of the State Diamond Trader during the financial year has grown and that it will continue operating as a going concern.

### SUBSEQUENT EVENTS

There were no subsequent events identified for reporting purposes.

# Statement of Financial Position

**AS AT 31 MARCH 2014**

	Notes	2014 Rands	2013 Rands
<b>ASSETS</b>			
<i><b>Non-current assets</b></i>			
Property and equipment	6	1 610 334	1 839 750
<i><b>Current assets</b></i>			
Inventory	7	4 978 366	15 163 853
Trade and other receivables	8	1 604 474	5 240 395
Cash and cash equivalents	9	46 465 662	24 707 188
<b>TOTAL ASSETS</b>		<b>54 658 836</b>	<b>46 951 186</b>
<b>EQUITY AND LIABILITIES</b>			
<i><b>Equity</b></i>			
Retained income		50 355 175	46 085 280
<i><b>Non-current liabilities</b></i>			
Operating Lease Rental Liability		-	-
<i><b>Current liabilities</b></i>			
Trade and other payables	11	4 203 605	781 715
Operating lease: Rental liability		100 057	84 191
Loans and borrowings	10	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>54 658 836</b>	<b>46 951 186</b>

# Statement of Comprehensive Income

## FOR THE YEAR ENDED 31 MARCH 2014

	Notes	2014 Rands	2013 Rands
Revenue	12	554 863 725	411 462 599
Cost of sales	12	(538 458 752)	(399 803 045)
<b>Gross profit</b>		<b>16 404 973</b>	<b>11 659 554</b>
Other income	13	4 271 502	8 180 890
Administrative expenses		(17 214 789)	(15 863 442)
<b>Profit/(Loss) from operating activities</b>	<b>14</b>	<b>3 461 686</b>	<b>3 977 002</b>
Finance income	15	1 543 577	1 643 698
Finance expenses	16	(735 368)	(435 025)
<b>Profit before income tax</b>		<b>4 269 894</b>	<b>5 185 675</b>
Income tax expense	18	-	-
<b>Profit/(Loss) for the period</b>		<b>4 269 894</b>	<b>5 185 675</b>
<b>Total comprehensive income</b>		<b>4 269 894</b>	<b>5 185 675</b>

# Statement of Changes in Enquity

## FOR THE YEAR ENDED 31 MARCH 2014

**Balance at 01 April 2012**

Profit for the year

**Balance at 31 March 2013**

Profit for the year

**Balance at 31 March 2014**

<b>Retained Income/(Loss)</b>
<b>Rands</b>
<b>40 899 605</b>
5 185 675
<b>46 085 280</b>
4 269 894
<b>50 355 175</b>

# Statement of Cash Flows

## FOR THE YEAR ENDED 31 MARCH 2014

	Notes	2014 Rands	2013 Rands
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated by operations	17	21 010 521	(8 294 770)
Interest paid		(735 368)	(435 025)
Interest received		1 543 577	1 643 698
Other Income from DBCM		178 675	-
<b>Net cash inflow from operations</b>		<b>21 997 404</b>	<b>(7 086 097)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment		(238 930)	(158 863)
<b>Net cash outflow from investing activities</b>		<b>(238 930)</b>	<b>(158 863)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of IDC revolving credit facility		-	-
<b>Net cash outflow from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		<b>21 758 474</b>	<b>(7 244 960)</b>
Cash and cash equivalents at the beginning of the period		24 707 188	31 952 148
<b>Cash and cash equivalents at the end of the period</b>		<b>46 465 662</b>	<b>24 707 188</b>

# Notes to the Financial Statements

## FOR THE YEAR ENDED 31 MARCH 2014

### 1. REPORTING ENTITY

State Diamond Trader is an entity domiciled in South Africa. The address of the entity's registered office is Jewel City, 225 Main Street, Johannesburg, 2001. The entity is primarily involved in the purchase and sale of rough diamonds.

### 2. BASIS OF PREPARATION

#### a) Statement of compliance

The financial statements have been prepared in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice (SA GAAP) and the Public Finance Management Act, 1999 (Act No 1 of 1999).

#### b) Basis of measurement

The financial statements have been prepared in accordance with the going-concern principle on the historical basis except for financial instruments, refer note 3(e).

#### c) Functional and presentation currency

These financial statements are presented in Rands which is the entity's functional currency. All financial information presented in Rands has been rounded to the nearest rand.

#### d) Use of estimates and judgements

The preparation of financial statements in conformity with SA GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. It also requires management to exercise its judgement in the process of applying the State Diamond Trader's accounting policies.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(k) (Critical accounting estimates and judgements).

#### e) Changes in accounting policies

The Entity applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Entity presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on amounts disclosed previously.

# Notes to the Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

### a) Revenue

Revenue comprises the fair value of the consideration received or receivable for the goods sold in the ordinary course of State Diamond Trader's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The entity has transferred to the buyer the significant risks and rewards of ownership of goods;
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### b) Finance Income and Expenses

Finance income comprises interest income on bank balances. Interest is accrued on a time proportionate basis using the effective interest rate method.

Finance expenses comprise interest expense on borrowings and changes in the cost of financial liabilities at amortised costs. All borrowing costs are recognised in profit or loss using the effective interest rate method.

### c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the cost of acquiring the inventory and other costs incurred in bringing them to the existing location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### d) Property and equipment

The cost of an item of property and equipment is recognised as an asset when:

- it is probable that the future economic benefits associated with the item will flow to the Entity; and
- the cost of the item can be measured reliably.

All property and equipment is stated at historical cost less accumulated depreciation and, if applicable, accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and bringing the item to working condition for its intended use.

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 entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

# Notes to the Financial Statements

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost (including capitalised leased assets) over the estimated useful lives, as follows:

Furniture and fixtures	10%
Computer hardware	33.3%
Other office equipment	10%

Leasehold improvements over the remaining period of the lease

Depreciation is recognised in profit or loss. The depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

## e) Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other receivables, loans and borrowings and trade and other payables.

### (1) Classification

Financial instruments are measured at amortised cost using the effective interest rate method less any impairment losses.

### (2) Recognition

State Diamond Trader recognises financial assets and financial liabilities on the date it become party to the contractual provisions of the instrument.

### (3) Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are capitalised.

Subsequent to initial recognition, these financial instruments are measured as follows:

- **Cash and cash equivalents**  
Cash comprises cash balances with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts the cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These are initially and subsequently measured at amortised cost.
- **Trade and other receivables (Accounts receivable)**  
Trade receivables are initially stated at fair value and subsequently at amortised cost using the effective interest rate method. The recoverable amount of trade receivables is calculated at the present value of expected future cash flows discounted using the original effective interest rate inherent in the asset. Short-term receivables are not discounted.

# Notes to the Financial Statements

- **Trade and other payables (Accounts payable)**

Trade payables are initially measured at fair value and are subsequently measured at amortised costs using the effective interest rate method. These are subject to normal trade credit terms and relatively short payment cycles. Trade and other payables are classified as other financial liabilities.

#### **(4) Impairment**

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of Impairment. If any such indication exists, an impairment loss is recognised in profit and loss as the difference between the asset's carrying amount and present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent year the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been previously recognised.

#### **(5) De-recognition**

State Diamond Trader derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for de-recognition in accordance with IAS 39.

State Diamond Trader uses the weighted average method to determine realised gains and losses on de-recognition. The financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

#### **f) Operating leases**

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

#### **g) Provisions**

Provisions are recognised when the entity has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

#### **h) Employee benefits**

The cost of all short term employee benefits, such as salaries, medical aid, leave pay outs and other contributions is recognised during the year in which the employee renders the related service.

#### **i) Income tax**

As of February 2012 the entity was granted income tax exempt status and therefore would not be liable for any income tax for the year.

# Notes to the Financial Statements

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised in equity. Current taxation comprises tax payable, calculated on the basis of the expected taxable income for the year, using tax rates expected at the balance sheet date and any adjustments of the tax payable for the previous year.

Deferred taxation is recognised using the balance sheet method providing for all temporary differences except to the extent that the deferred tax liability or asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination which at the time of the transaction, affects neither accounting nor taxable profit or loss. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised.

Deferred taxation is calculated using the taxation rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at balance sheet date.

The effect on deferred taxation of any changes in taxation rates is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

## **j) Related parties**

State Diamond Trader operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be related parties. Related parties also include key management personnel, which are persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any members of the accounting authority (whether executive or otherwise) of the State Diamond Trader.

## **k) Critical accounting estimates and judgements**

The State Diamond Trader makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are as follows:

### **(1) Estimates of residual values and useful lives of equipment**

The State Diamond Trader reassesses annually the residual values and remaining useful lives of fixed assets. The residual values of these assets have been estimated as the amount that the State Diamond Trader would currently obtain from disposal of each asset, in its current location, if the asset were already of the age and in the condition expected at the end of its useful life. The useful life is estimated as the period over which an asset is expected to be available for use by the State Diamond Trader. Technological innovation and maintenance programs impact the useful lives and residual values of the assets.

# Notes to the Financial Statements

## **(2) Contingent liabilities**

Management applies its judgement to the patterns and advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable, more likely than not, or remote. This judgement application is used to determine whether the obligation is recognised as a liability or disclosed as a contingent liability.

## **l) Donations**

Donations consist primarily of use of the De Beers staff seconded to the entity, De Beers assets that are in the premises that were used by the State Diamond Trader and use of DMR staff seconded to the State Diamond Trader in 2012. Donations are intended to compensate expenses and to provide immediate financial support to the State Diamond Trader with no future related costs and are recognised as income in the period in which they are received and expensed, as they are used by the State Diamond Trader.

## **m) Irregular, fruitless and wasteful expenditure**

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA, or
- Any national/provincial legislation providing for procurement procedures in that national/provincial government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular, fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

## **4. FINANCIAL RISK MANAGEMENT**

### **Overview**

The State Diamond Trader has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the State Diamond Trader's exposure to each of the above risks, and the objectives, policies and processes for measuring and managing risk.

The accounting authority has an overall responsibility for the establishment and oversight of the State Diamond Trader's risk management framework. It has established the Risk Management Committee, which is responsible for developing and monitoring the State Diamond Trader's risk management policies. The committee reports regularly to the accounting authority on its activities.

# Notes to the Financial Statements

Risk management policies are established to identify and analyse the risks faced by the State Diamond Trader, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the State Diamond Trader's activities.

The State Diamond Trader, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The accounting authority, through its relevant Committees, oversees how management monitors compliance with the State Diamond Trader's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the State Diamond Trader.

## **Credit risk**

Credit risk is the risk of financial loss to the State Diamond Trader if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the State Diamond Trader's receivables from customers.

## **Exposure to Credit Risk**

The State Diamond Trader is not exposed to credit risk from its customers, as its policy is not to grant credit. Goods will not be released to the customer until payment has been received and cleared.

## **Liquidity risk**

Liquidity risk is the risk that the State Diamond Trader will not be able to meet its financial obligations as they fall due. The State Diamond Trader's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the State Diamond Trader's reputation.

The State Diamond Trader manages liquidity risk by following a cycle approach to the purchase and sale of diamonds. Only once all diamonds from the previous cycle have been sold and the revolving credit facility has been settled in full will the next order to purchase diamonds be placed. In this manner the State Diamond Trader is able to manage its cash flow requirements.

## **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the State Diamond Trader's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return on the risk.

# Notes to the Financial Statements

## Currency risk

The State Diamond Trader is exposed to currency risk on sales and purchases, which are denominated in US Dollars (USD). The State Diamond Trader manages currency risk by settling the foreign currency denominated purchases on or about the date of purchase and receiving payments for foreign currency denominated sales on or about the date of sale, thereby minimising foreign currency exposure.

## Cash Flow interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. The entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk.

The sensitivity analysis below focuses on cash flow sensitivity (the impact on future interest-related cash flows). A change of 100 basis points in the interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

SENSITIVITY ANALYSIS	Effect on profit or (loss)	
	Increase	Decrease
<b>At 31 March 2014</b>		
Revolving Facility	-	-
Cash flow sensitivity (net)	-	-
<b>At 31 March 2013</b>		
Revolving Facility	-	-
Cash flow sensitivity (net)	-	-

The IDC Loan Facility was not used under the current new agreement that has a different interest rate.

## Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

In Rands	31 March 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and Borrowings	-	-	-	-
Cash and cash equivalents	46 465 662	46 465 662	24 707 188	24 707 188
Trade and other payables	338 326	338 326	565 012	565 012

## Capital management

The State Diamond Trader is Government Business Enterprise and does not have any share capital. The State Diamond Trader is not funded by government and it is expected to be self-sufficient. The accounting authority monitors gross profit margins and operating expenditure to ensure that the State Diamond Trader generates sufficient profit from its operations to cover operating expenses.

# Notes to the Financial Statements

## 5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 March 2014, and have not been applied in preparing these financial statements:

STANDARD/INTERPRETATION		EFFECTIVE DATE
IFRS 10, IFRS 12 and IAS 27	<p><i>Investment Entities</i></p> <p>A qualifying investment entity is required to account for investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit and loss; the only exception would be subsidiaries that are considered an extension of the investment entity’s investing activities. The consolidation exception is mandatory – not optional.</p> <p>This statement will not impact the results of the Entity as the Entity does not have Investment Entities.</p>	Annual periods beginning on or after 1 January 2014*
IAS 32 and IFRS 7	<p><i>Offsetting Financial Assets and Financial Liabilities</i></p> <p>The amendments to IAS32 clarify that:</p> <ul style="list-style-type: none"> <li>• An entity currently has the legal enforceable right to offset if that right is:</li> <li>• Not contingent on future event; and</li> <li>• Enforceable both in normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and</li> <li>• Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:</li> <li>• Eliminate or result in insignificant credit and liquidity risk; and</li> <li>• Process receivable and payables in a single settlement process or cycle.</li> </ul> <p>The amendments to IFRS 7 include minimum disclosure requirements related to financial assets and financial liabilities that are:</p> <ul style="list-style-type: none"> <li>• Offset in the statement of financial position; or</li> <li>• Subject to enforceable master netting arrangements or similar agreements.</li> </ul> <p>This statement will impact the results of the Entity as the Entity does have Financial Assets and Liabilities.</p>	Annual periods beginning on or after 1 January 2014*

# Notes to the Financial Statements

<p>IFRS 9 (2009) (AC 146)</p>	<p><i>Financial Instruments</i></p> <p>IFRS 9 (AC 146) addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39 (AC 133).</p> <p>Under IFRS 9 (AC 146) there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.</p> <p>Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host.</p> <p>This statement will impact the results of the Entity as the Entity does have Financial Assets and Liabilities.</p>	<p>Annual periods beginning on or after 1 January 2015*</p>
<p>IFRS 9 (2010) (AC 146)</p>	<p><i>Financial Instruments</i></p> <p>IFRS 9 (2010) (AC 146) addresses the measurement and classification of financial liabilities and will replace the relevant sections of IAS 39 (AC 133).</p> <p>Under IFRS 9 (2010), the classification and measurement requirements of financial liabilities are the same as per IAS 39 (AC 133), except for the following two aspects:</p> <p>fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining amount of the fair value change is recognised in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed.</p> <p>Under IFRS 9 (2010) (AC 146) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value.</p> <p>IFRS 9 (2010) (AC 146) incorporates, the guidance in IAS 39 dealing with fair value measurement, and accounting for derivatives embedded in a host contract that is not a financial asset, as well as the requirements of IFRIC 9 <i>Reassessment of Embedded Derivatives</i>.</p> <p>This statement will impact the results of the Entity as the Entity does have Financial Assets and Liabilities.</p>	<p>Annual periods beginning on or after 1 January 2015*</p>

# Notes to the Financial Statements

## 6. PROPERTY AND EQUIPMENT

	Leasehold Improvements R	Furniture and fittings R	Security Equipment R	Computers R	Diamond Equipment R	Total R
<b>Year ended 31 March 2014</b>						
<b>Opening net carrying amount</b>	<b>115 594</b>	<b>487 780</b>	<b>662 610</b>	<b>367 845</b>	<b>205 921</b>	<b>1 839 750</b>
Gross carrying amount	460 933	631 038	953 425	1 124 389	238 000	3 407 785
Accumulated depreciation	(345 339)	(143 258)	(290 815)	(756 544)	(32 079)	(1 568 035)
Additions	-	20 467	-	-	218 463	238 930
Depreciation	(22 153)	(64 497)	(95 329)	(257 702)	(28 668)	(468 348)
<b>Closing net carrying amount</b>	<b>93 441</b>	<b>443 750</b>	<b>567 281</b>	<b>110 143</b>	<b>395 716</b>	<b>1 610 334</b>
Gross carrying amount	460 933	651 505	953 425	1 124 389	456 463	3 646 715
Accumulated depreciation	(367 492)	(207 755)	(386 144)	(1 014 246)	(60 747)	(2 036 383)
<b>Year ended 31 March 2013</b>						
<b>Opening net carrying amount</b>	<b>130 983</b>	<b>454 501</b>	<b>758 296</b>	<b>550 152</b>	<b>227 307</b>	<b>2 121 239</b>
Gross carrying amount	454 592	537 340	953 425	1 065 566	238 000	3 248 923
Accumulated depreciation	(323 609)	(82 839)	(195 129)	(515 414)	(10 693)	(1 127 684)
Additions	6 341	93 699	-	58 823	-	158 863
Depreciation	(21 730))	(60 419)	(95 686)	(241 130)	(21 386)	(440 351)
<b>Closing net carrying amount</b>	<b>115 594</b>	<b>487 780</b>	<b>662 610</b>	<b>367 845</b>	<b>205 921</b>	<b>1 839 750</b>
Gross carrying amount	460 933	631 038	953 425	1 124 389	238 000	3 407 785
Accumulated depreciation	(345 339)	(143 258)	(290 815)	(756 544)	(32 079)	(1 568 035)

# Notes to the Financial Statements

## 7. INVENTORY

	2014 R	2013 R
Cost of inventory	4 978 366	15 163 853

Inventory is stated at the lower of cost and net realisable value. Inventory relates to rough diamonds purchased.

## 8. TRADE AND OTHER RECEIVABLES

	1 604 474	5 240 395
Prepayments	76 329	145 693
Interest and DBCM receivable	94 574	79 384
SARS Receivable: VAT Receivable	1 433 571	1 382 744
Income Tax Refund Receivable	-	3 632 574

### - Credit risk and impairment losses

The entity's exposure to credit risk and impairment losses is disclosed in Note 4.

## 9. CASH AND CASH EQUIVALENTS

	46 465 662	24 707 188
FNB Operational Accounts	24 001 897	8 021 010
Petty cash	3 000	3 000
FNB Call Accounts	11 037 764	5 738 003
Standard Bank Call Account	11 423 001	10 945 175

### - Interest rate risk

The entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 4.

## 10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the interest bearing loans and borrowings, which are measured at amortised cost. For more information about the entity's exposure to interest rate and liquidity risk, see note 4.

Current portion of long term loans	-	-
Revolving Credit Facility	-	-

The revolving facility was did not have any outstanding balance in the current financial year and thus has a balance of R0 at period end (2013: R0).

# Notes to the Financial Statements

## 11. TRADE AND OTHER PAYABLES

	2014 R	2013 R
	<b>4 203 605</b>	<b>781 715</b>
Accruals	387 959	173 453
Creditors	338 326	565 012
Provisions	18 776	43 250
Vat payable 31 March 2014	3 458 543	-

### - Liquidity risk

The entity's exposure to currency and liquidity risk relating to trade and other payables are disclosed in note 4.

## 12. REVENUE

Revenue consists of sales of rough diamonds to local beneficiators.

**554 863 725**      **411 462 599**

### Cost of sales

Reconciliation:

Opening inventory	15 163 853	6 726 132
Purchases	537 791 954	407 998 978
Security and Transport costs	481 311	241 788
Less: Closing inventory	4 978 366	15 163 853
Cost of goods sold	<b>(538 458 752)</b>	<b>( 399 803 045)</b>

## 13. OTHER INCOME

Other Income is Donations to the State Diamond Trader in respect of staff donated by DBCM and use of equipment from DBCM and an Income Tax Refund due to the State Diamond Trader.

<b>Other income</b>	<b>4 271 502</b>	<b>8 180 890</b>
Donations DBCM	4 090 909	4 249 695
Other Income from DBCM	-	71 540
Donations DBCM: Use of Equipment	1 918	5 753
DBCM Transfer of assets Unrealised Profit	-	-
Other Income – Trading	178 675	221 328
Income Tax Refund due to State Diamond Trader	-	3 632 574

# Notes to the Financial Statements

## 14. PROFIT/(LOSS) FROM OPERATING ACTIVITIES IS STATED AFTER ACCOUNTING FOR THE FOLLOWING:

Audit Fees	
Emoluments	
For service as members	
For managerial services	
Depreciation	
Operating lease charges	
Salaries	
Salaries – Donations	
Use of De Beers Assets and Diamond Equipment	

2014	2013
R	R
589 917	642 446
447 220	265 254
1 703 022	1 560 000
468 348	440 351
479 270	475 456
3 512 760	1 820 044
4 909 909	4 249 695
1 918	5 753

## 15. FINANCE INCOME

Interest received	
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<b>1 543 576</b>	<b>1 643 698</b>
------------------	------------------

## 16. FINANCE EXPENSES

Finance costs on IDC facilities	
Interest charged by: IDC	

7 500	169 550
727 868	265 475
727 868	265 475
<b>(753 368)</b>	<b>(435 025)</b>

## 17. CASH GENERATED FROM OPERATIONS

### Net income / (loss) before taxation

Adjusted for:

- depreciation	
- other non-cash items	
- interest expense	
- interest received	
- other income	
- Donations received – DBCM	
- Staff services donated – DBCM	
- Use of assets - De Beers	
<b>Adjusted net profit before taxation</b>	
Changes in working capital:	
- decrease/(increase) in trade and other receivables	
- decrease/(increase) in inventory	
- (decrease)/ increase in trade and other payables	

<b>4 269 894</b>	<b>5 185 675</b>
468 348	440 351
15 866	46 818
735 368	435 025
(1 543 577)	(1 643 689)
(178 675)	(3 925 442)
(4 092 826)	(4 255 448)
4 090 908	4 249 695
1 918	5 753
<b>3 767 225</b>	<b>4 464 171</b>
3 635 921	(4 269 466)
10 185 487	(8 437 722)
3 421 890	(51 754)
<b>17 243 297</b>	<b>(12 758 942)</b>
<b>21 010 521</b>	<b>(8 294 770)</b>

**Cash generated from operations**

# Notes to the Financial Statements

## 18. DEFERRED TAX LIABILITY

As the State Diamond Trader is exempt from Income Tax, there is no deferred tax liability effect.

2014	2013
R	R

## 19. COMMITMENTS

### Operating Leases – as lessee (expense)

#### Minimum lease payments due

- within one year
- in second to fifth year inclusive

470 260	463 397
696 934	1 167 194
<b>1 167 194</b>	<b>1 630 591</b>

Operating lease payments represent rental payable by the entity for its equipment and office premises. The lease for equipment was negotiated for a term of 3 years with escalation of 0% per annum starting from 1 September 2011.

The prior lease came to end on 31 August 2011. The lease for the Office premises was negotiated for a term of 5 years with escalation of 8% per annum starting from 1 September 2011. No contingent rent is payable on both leases.

## 20. RELATED PARTIES

The State Diamond Trader is wholly owned by the National Government of the Republic of South Africa represented by the Minister of Mineral Resources. The State Diamond Trader is a Schedule 3B public entity in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999, as amended). It therefore has a significant number of related parties including other state owned entities, government departments and all other entities within the national sphere of Government.

The State Diamond Trader, in the ordinary course of business, enters into various agreements with other parties within the national sphere of Government. The significant transactions (in the normal course of business) and balances outstanding at 31 March 2014 entered into between the State Diamond Trader and entities outside the entity are as follows:

# Notes to the Financial Statements

The State Diamond Trader has a Revolving Facility account with the Industrial Development Corporation (IDC) a Government entity for use as working capital from time to time and the outstanding balances on the facilities were as follows:

IDC Revolving Facility

-

-

Key Management personnel compensation refer to note 21

**2014**

**2013**

**R**

**R**

## 21. EMOLUMENTS

Executive members

1 703 022

1 560 000

Non-Executive members Accounting Authority and Sub-committee meeting fees  
The term of the first Board of State Diamond Trader came to its end on 30 September 2012 and the new Board assumed its responsibilities on 1 October 2012.

Ms L. Makatini (Chairperson – Term ended 30 September 2012)

-

15 522

Ms D. Maphatiane (also up to 30 September 2012)

-

23 250

Mr P. Moeti (resigned in November 2012)

-

9 678

Ms N. Jiyane

-

5 784

Mr Y Tenza (Audit and risk Management Committee)

-

36 708

Ms B Luthuli

-

19 356

Mr T Montoedi

43 008

40 716

Mr S. Motloung

90 712

48 390

Mrs D.D. Mokgatle (Chairperson – Appointed 1 October 2012)

206 114

23 328

Ms N. Mpuntsha

47 008

21 246

Mr M. Luhlabo

90 378

21 246

### Total

**447 220**

**265 254**

The following Non-Executive members of the Accounting Authority are either public servants as defined in the Public Service Act, or are executives of State Owned Entities and therefore do not get paid by the State Diamond Trader:

Mr L. Rapoo

Ms S Mohale

Mr I Goondiwalla

Ms S Nxumalo

Brig N Mokoena

# Notes to the Financial Statements

## 22. SUBSEQUENT EVENTS

There were no subsequent events identified for reporting purposes.

## 23. CONTINGENT LIABILITIES

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2014.

## 24. CONTINGENT ASSET

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2014.

## 25. IRREGULAR EXPENDITURE

### 25.1 Reconciliation of Irregular expenditure

	2014 R	2013 R
Opening balance	-	-
Add: Irregular expenditure relating to current year	-	-
Add: Irregular expenditure relating to current year	233 562	-
Less: Prior year amounts condoned	-	-
Less: Current year amounts condoned	233 562	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
<b>Irregular expenditure awaiting condonation</b>	<b>-</b>	<b>-</b>

Analysis of awaiting condonation per age classification

Current year	-	-
Prior years	-	-

### Total

### 25.2 Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	2014 R
Contracts extended without obtaining quotations/bids	No sanctions taken	233 562
<b>Total</b>		<b>233 562</b>

### 25.3 Details of irregular expenditure condoned

Incident	Condoned by (condoning authority)	2014 R
Contracts extended without obtaining quotations/bids	Yes	233 562
<b>Total</b>		<b>233 562</b>

# Entity Information

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<b>Website:</b>	<a href="http://www.statediamondtrader.gov.za">www.statediamondtrader.gov.za</a>
<b>Email:</b>	<a href="mailto:infosdt@statediamondtrader.gov.za">infosdt@statediamondtrader.gov.za</a>
<b>Shareholder:</b>	Government of the Republic of South Africa Represented by Minister of Mineral Resources
<b>Country of incorporation:</b>	Republic of South Africa
<b>Directors:</b>	
Mrs D.D. Mokgatle	Chairperson
Ms PN. Zikalala Mvelase	Chief Executive Officer
Mr I. Goondiwalla	Member
Mr P. Moeti	Resigned November 12
Mr T. Montoedi	Member
Mr S. Motloug	Member
Mr L. Rapoo	Member
Ms S. Mohale	Member
Ms N. Mpuntsha	Member
Ms S. Nxumalo	Member
Ms N. Jiyane	Resigned April 2013
Mr M. Luhlabo	Member
Brig. N. Mokoena	Member
<b>Company Secretary:</b>	Legal Best (Pty) Ltd - Consultant











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