



**ANNUAL
REPORT**
2018/2019



state diamond trader

REPUBLIC OF SOUTH AFRICA

STATE DIAMOND TRADER

ANNUAL REPORT

2018/2019

RP246/2019

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STATE
DIAMOND
TRADER

VISION

To be a catalyst for transformation
and growth of the local diamond
beneficiation industry

CONTENT PAGES

1. GENERAL INFORMATION	1-7
Entity Information	1
List of Abbreviations and Acronyms	2
Minister's Note to Parliament	3
Corporate Profile and Organisational Structure	4 - 5
Our Operations	6 - 7
2. OVERSIGHT REPORTS	8 - 17
Chairperson's Overview	9 - 12
Chief Executive Officer's Overview	13 - 15
Chief Financial Officer's Overview	16 - 17
3. STRATEGIC PERFORMANCE	18
Performance against Strategic Objectives	19 - 24
4. GOVERNANCE	26-39
Reporting Structure	26
The Board	27-30
Executive Management	33- 39
Corporate Governance Report	39
Remuneration Report	



5. OPERATIONAL PERFORMANCE	40 - 51
Trading Report	41 - 47
Diamond and Beneficiation Industry Development Programmes	47 - 50
Facilitating Access to Local and International Markets	50 - 51
6. SUSTAINABILITY DEVELOPMENT	52 - 54
Corporate Sustainability	53
Corporate Social Responsibility	53
Investing in Our People	53
Stakeholder Management	54
7. FINANCIAL INFORMATION	55 - 87
Audit and Risk Committee Report	56
Statement of Responsibility for Financial Statements	57
Report of the Auditor-General	58 - 62
Annual Financial Statements	63 - 87





GENERAL INFORMATION

ENTITY INFORMATION

Domicile	Johannesburg, South Africa
Nature of business	The State Diamond Trader is a creature of Statute, the Diamonds Act (Act No. 56 of 1986) as amended. Its main business is to promote equitable access to and local beneficiation of the Republic's diamonds.
Postal Address	P. O. Box 61212 Marshalltown South Africa 2107
Business address	Jewel City 225 Main Street Johannesburg 2001
Telephone	011 334 2691
Email	infosdt@statediamondtrader.gov.za
Website	www.statediamondtrader.gov.za
Twitter	@SDT_RSA
Facebook	State Diamond Trader sdt
Instagram	statediamondtrader
Shareholder	Government of the Republic of South Africa Represented by the Minister of Mineral Resources
Auditors	Auditor General of South Africa

LIST OF ABBREVIATIONS AND ACRONYMS

The Act	Diamonds Act, 56 of 1986, as amended
AGSA	Auditor General of South Africa
ARC	Audit and Risk Committee
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operations Officer
CS/LO	Company Secretary / Legal Officer
DBCIM	De Beers Consolidated Mines
DMR	Department of Mineral Resources
DTI	Department of Trade and Industry
EDP	Economic Development Programme
HDSA	Historically Disadvantaged South Africans
HR	Human Resources
HR and REMCO	Human Resources and Remuneration Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
KPCS	Kimberley Process Certification Scheme
LO	Legal Officer
MOA	Memorandum of Understanding
MHSC	Mine Health and Safety Council
MPRDA	Mineral and Petroleum Resources Development Act
MQA	Mining Qualifications Authority
NDP	National Development Plan
OCI	Other Comprehensive Income
PAA	Public Audit Act
PFMA	Public Financial Management Act
PPV	Provincial Promotion Visits
R	Rand(s)
ROM	Run of Mine
SADI	South Africa Diamond Indaba
SADPMR	South African Diamonds and Precious Metals Regulator
SAGAAP	South African Generally Accepted Accounting Practice
SARS	South African Revenue Services
SAYDBG	South African Young Diamond Beneficiators Guild
SEDA	Small Enterprise Development Agency
SMME	Small Medium and Micro-Enterprises
SOE	State Owned Entity
TOR	Terms of Reference
USD	United States Dollar
VAT	Value Added Tax

MINISTER'S NOTE TO PARLIAMENT

Honourable Speaker of Parliament

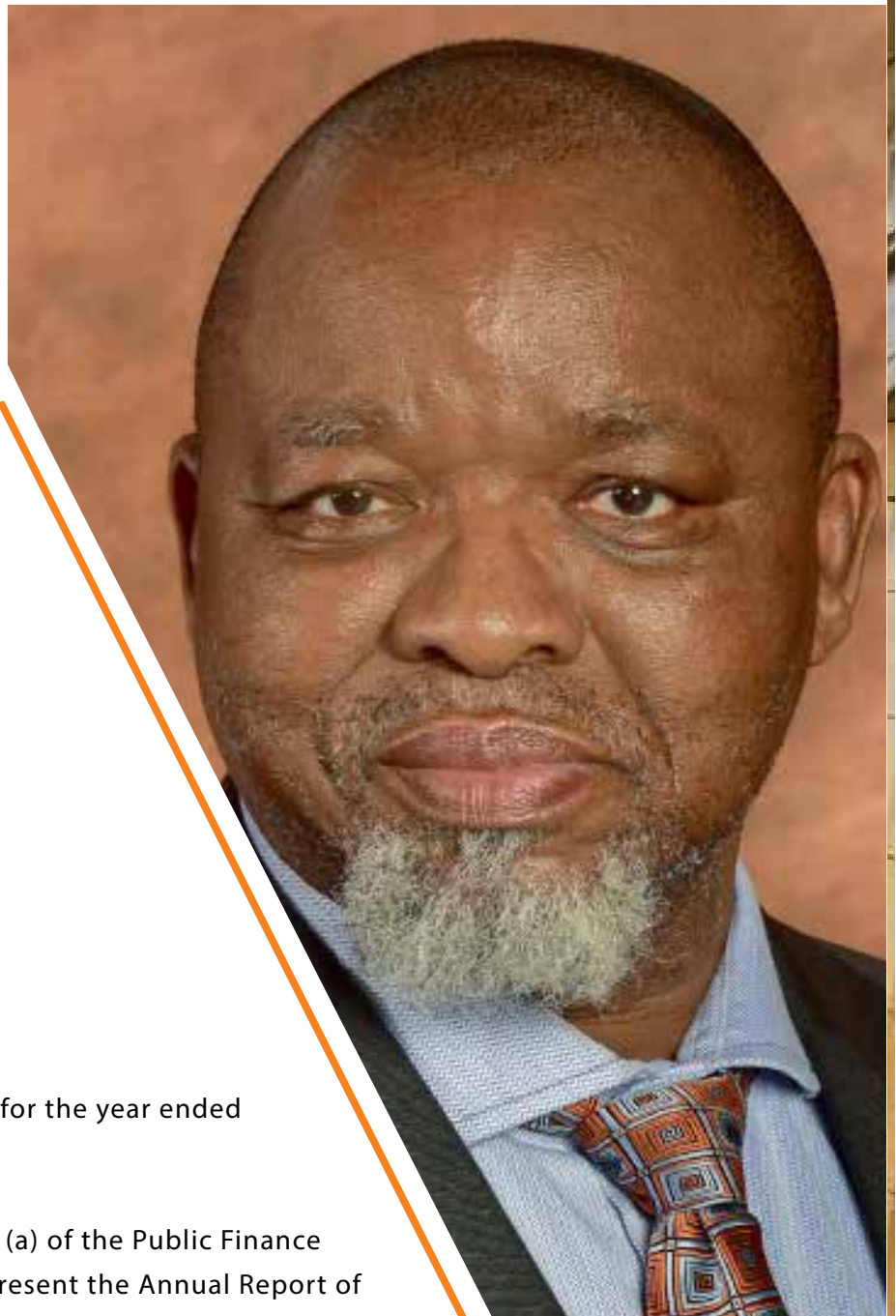
Annual Report of the State Diamond Trader for the year ended 31 March 2019.

I have the honour, in terms of section 65 (1) (a) of the Public Finance Management Act No. 1 of 1999 (PFMA), to present the Annual Report of the State Diamond Trader for the year ended 31 March 2019.



Mr Samson Gwede Mantashe (MP)

Minister of Mineral Resources
August 2019



Mr. S.G. Mantashe (MP)
Minister of Mineral Resources



CORPORATE PROFILE AND ORGANISATIONAL STRUCTURE

Who We Are

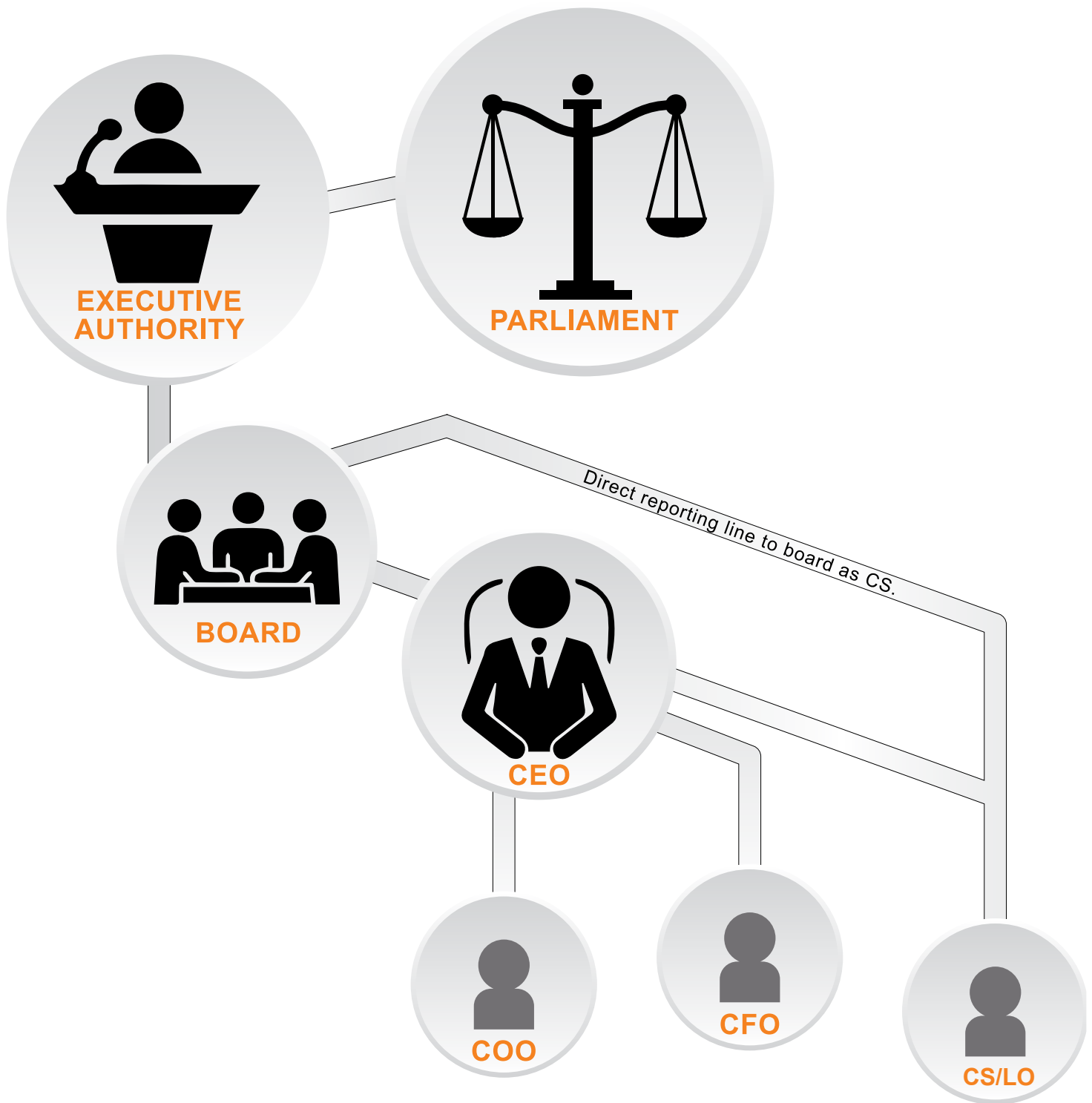
The State Diamond Trader is a state-owned entity established in terms of Section 14 of the Diamonds Act 56, 1986, as amended ("the Act"). It operates in the diamond industry with the aim to grow local diamond beneficiation.

The mandate of the State Diamond Trader is to buy and sell rough diamonds and to promote equitable access to and beneficiation of the country's diamond resources. The entity strives to address distortions created by the country's historical exclusion of certain population

groups from economic participation. It aims to grow South Africa's diamond cutting and polishing industry by enabling and increasing participation of Historically Disadvantaged South Africans (HDSAs) in the diamond beneficiation industry. The entity is empowered by law to purchase up to 10% of the run-of-mine (ROM) production from all diamond producers in South Africa. It sells to registered customers through an application and approval process.

The State Diamond Trader is a schedule 3B entity in terms of the Public Finance Management Act (PFMA), 1999, as amended.

Our Organisational Structure



* Functions of the Chief Operations Officer currently performed by the Operations Manager

OUR OPERATIONS

The State Diamond Trader is able to carry out its mandate of buying and selling rough diamonds and promoting equitable access to and beneficiation of the country's diamond resources through the following functions:

Purchasing

The State Diamond Trader's purchases are initiated through a process set out in Section 59B of the Act, as follows:

- An offer is extended by diamond producers for the State Diamond Trader to inspect production mined in that cycle in accordance with Section 59B of the Diamonds Act 56, 1986, as amended, and inviting the Government Diamond Valuator to attend all its inspections.
- The State Diamond Trader is presented with 10% and 90% of the production and the reserve price thereof and conducts the inspection. Once completed, the Government Diamond Valuator verifies the price set by the producer.
- The State Diamond Trader either accepts the reserve price and makes a purchase or negotiates further with the producer or declines the purchase.

Production (Sorting and Valuation)

The internal production process is concerned with the sorting, valuation and pricing of rough diamonds. Production assigns a value to each of the parcels, with the objective of unlocking value and preparing the diamonds for sale to State Diamond Trader clients. The processes undertaken by Production result in the entering of the rough diamond stock into the inventory management and financial reporting application.

Client Relations

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

- Addition and removal of entries on the State Diamond Trader customer base
- Maintenance of client records

- Client segmentation strategy development and implementation
- Compliance relating to licensing and SARS Certification
- Factory visits to ensure compliance with beneficiation targets
- Projects relating to industry and clients' development
- Diamond industry Public Relations
- State Diamond Trader participation at external events.

Sales

Sales works closely with the Client Relations to understand clients' needs and especially their compliance status. Sales will allocate diamonds to customers in line with its Sales Strategy that seeks to address the issues of transformation and considers the commercial imperative of the State Diamond Trader.

The system of allocating mixes to an approved, compliant customer base is heavily dependent on what the entity has purchased. The sales process is a function of State Diamond Trader's overall strategy, duly cognisant of its mandate as stated in the legislation. It is important to note that the entity employs the methodology of direct sales to its customers.

Supporting services include:

Finance: in charge of financial planning, budgeting, financial records and reporting, asset management, management of financial risk, supply management and information technology.

Information Technology: responsible for the provision and maintenance of hardware and software as well as ICT governance, policies and procedures.

Human Resources: deals with human resources issues including recruitment of personnel, training and development, employee benefits, employee wellness, labour relations and others.

Legal and Secretariat: responsible for the Board secretariat and related matters, legal compliance and litigation.

1

2

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PURCHASING

The State Diamond Trader's purchases are initiated through a process set out in Section 59B of the Act, as follows:

PRODUCTION (Sorting and Valuation)

The internal production process is concerned with the sorting, valuation and pricing of rough diamonds.

SALES

Sales works closely with the Client Relations to understand clients' needs and especially their compliance status.



**OVERSIGHT
REPORTS**



CHAIRPERSON'S OVERVIEW

Mr. M.J Carstens
Chairperson of the Board

I am pleased to present to you the State Diamond Trader Annual Report for the year ended 31 March 2019. The Board was appointed with effect from 1 September 2016 for a period of three (3) years. The last couple of years have been a challenging period for my colleagues and I, as we have pulled up our sleeves to understand and implement the entity's legislated mandate in terms of the governing legislation. The delivery of the mandate is a challenge in light of the competitiveness seen in other diamond economies globally driven by domestic imperatives relevant to each global centre.

In their industry report for the year 2017 and the first half of 2018, Bain & Company highlight the differences in cost-efficiency accounting for regional market share changes in the cutting and polishing industry. India continues to lead in terms of market share as a result of its continuous cost optimisation which continues to attract diamonds from around the world for beneficiation.

It further has advanced in terms of technology and skills and enjoys a more developed diamond financing infrastructure. The China and South East Asia region is in second place by cost efficiency while Africa takes third place as a result of market stagnation due to relatively low productivity and high cost structure in spite of the efforts to grow diamond beneficiation. Other centres such as Russia were reported to be consolidating efforts to grow diamond beneficiation to make it more competitive. Below is a graphic representation of cost efficiencies accounted for regional market-share changes in the cutting and polishing segment which have a significant impact on the growth of the local diamond beneficiation industry.



Figure 1: Differences in cost efficiency accounted for regional market-share changes in the cutting and polishing segment.

The State Diamond Trader continues to endeavour to identify possible ways for the local diamond cutting and polishing industry to find its niche in light of global competition.

During the course of the year under review, De Beers Group launched Lightbox Jewellery, a lab-grown fashion jewellery retailer with a new linear pricing model and no grading reports for its products. Companies operating in the diamond industry are still evaluating how to strategically respond to Lightbox Jewellery. However, according to Baine & Company, the outlook is that an estimated 5-10% demand substitution will be brought about by the jewellery line going into the future.

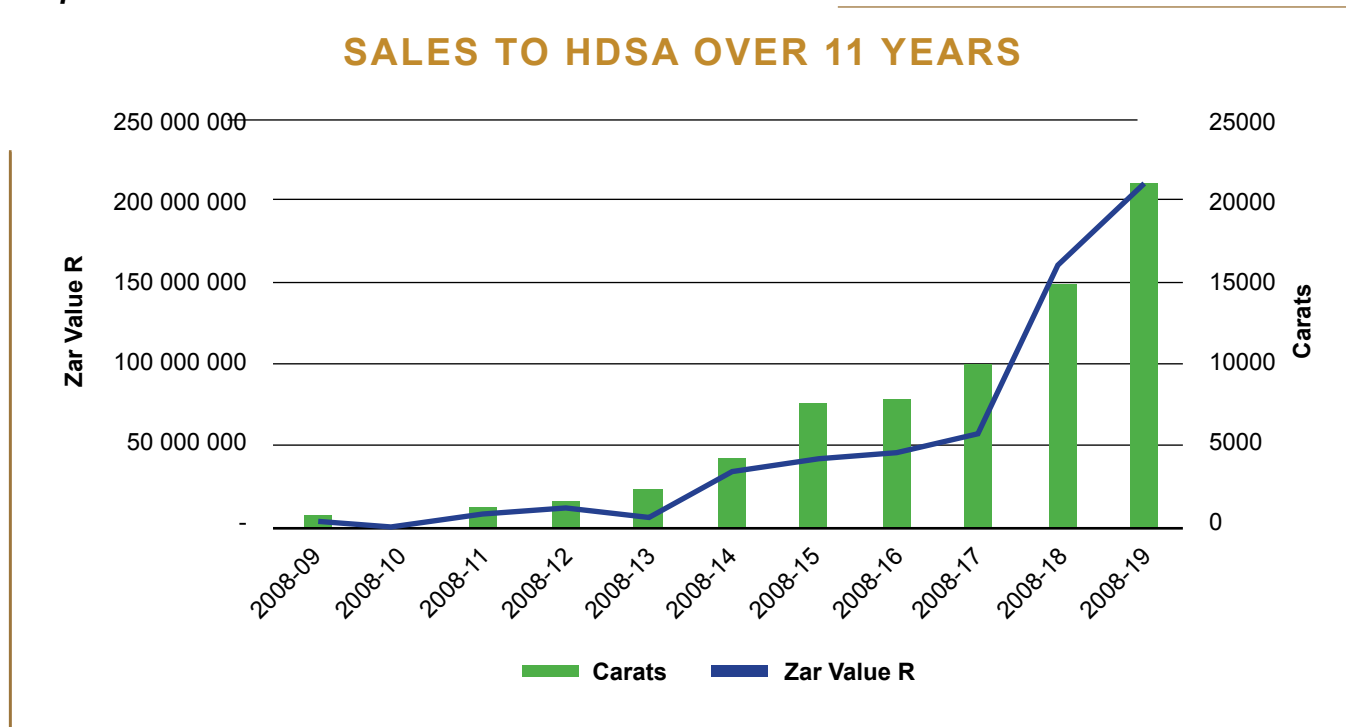
Diamond Production

The diamond industry has experienced a decline in rough diamond production over the years which intensified during the period under review. The volume of rough diamonds inspected in 2017/2018 was 10 million carats whereas in 2018/2019 it was 9 million carats. In value terms, the State Diamond Trader inspected USD 1.2 billion in 2017/2018 and USD 1.1 billion in 2018/2019. Production figures for our inspections are compared with those of the Kimberley Process Certification Scheme. The data indicates that the State Diamond Trader inspected 95% of the diamonds produced in the country and purchased 4% of total run-of-mine production by value and 1% by carats.

Sales to HDSAs

Sales to HDSAs increased significantly from 15 000 carats in 2017/2018 to 20 000 carats in 2018/2019. In rand terms, the growth increased from R163 million to R210 million. The participation of HDSAs in the diamonds beneficiation industry has taken great strides, from when the State Diamond Trader started its operations, as can be noted in the graph below. The entity is encouraged by the growth seen in 2018/2019 as it continues to forge ahead with its mission to be the catalyst for inclusive growth.

Graph 1: Sales to HDSAs



Hong Kong Jewellery and Gem Fair South African Pavilion

The State Diamond Trader facilitated its second National Pavilion at the Hong Kong Jewellery and Gem Fair in Hong Kong, partnering with the DMR, SADPMR, De Beers and, of course, its clients, who showcased their products at the show. The State Diamond Trader continues to enjoy the support of the office of the Consulate General (CG) in Hong Kong, Mr Madoda Ntshinga. In partnership with its associate, International Resource Limited (Pty) Ltd (IRL), The Royal House of Mandela hosted a Nelson Mandela Diamond Centenary Side Event and invited the entity and its clients. Ten (10) South

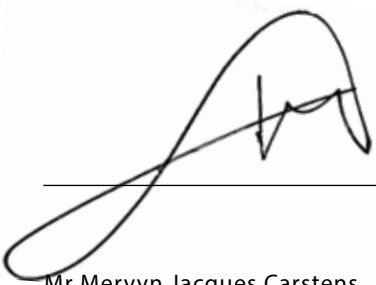
African exhibitors showcased their finest and beautiful stones to the invited guests. The evening was a great success; clients sold diamonds worth just over R41 million at the event.

Conclusion

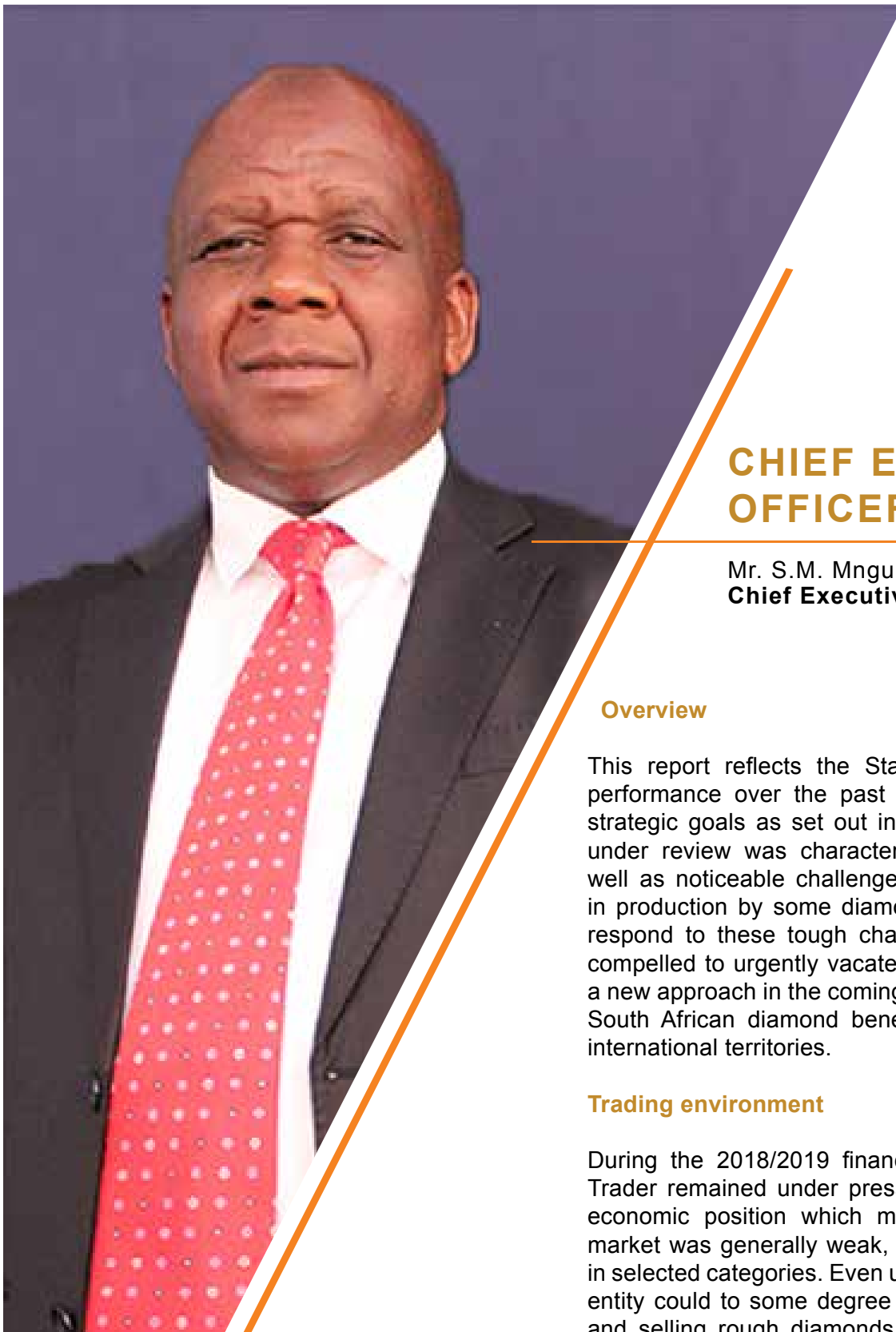
Time flies when one is having fun, as the saying goes. In my case, with respect to my Board tenure, I can confirm that time has indeed flown. The most important lesson we have learnt as a Board is that the State Diamond Trader had taken great strides since inception. Certainly, as we took over the baton as the Board, we continued to find ways to ensure the participation of small to medium players. In the medium term, in order to grow beneficiation, great focus must be placed on leveraging the entity's opportune positioning and changing the face of the industry by ensuring that small to medium players become industrial players. Although as a Board we have recognised that the State Diamond Trader does not have the capacity to

achieve this on its own, it is strategically positioned to collaborate with other stakeholders to realise this objective.

I am grateful to the leadership of the Parliamentary Portfolio Committee on Mineral Resources, Executive Authority under the stewardship of Minister of Mineral Resources, Mr. SG Mantashe and the Deputy Minister, Mr G. Oliphant, my colleagues on the Board and CEO and staff of the State Diamond Trader for their continued insights and strategic support to the entity.



Mr Mervyn Jacques Carstens
Chairperson of the Board
August 2019



CHIEF EXECUTIVE OFFICER'S OVERVIEW

Mr. S.M. Mnguni
Chief Executive Officer

Overview

This report reflects the State Diamond Trader's overall performance over the past financial year in attaining its strategic goals as set out in the Strategic Plan. The year under review was characterised by some successes as well as noticeable challenges, especially with the decline in production by some diamond producers. To adequately respond to these tough challenges, as an entity, we are compelled to urgently vacate our comfort zones and adopt a new approach in the coming years in pursuit of promoting South African diamond beneficiation while entering other international territories.

Trading environment

During the 2018/2019 financial year, the State Diamond Trader remained under pressure as a result of the global economic position which made it difficult to trade. The market was generally weak, with fewer polished diamonds in selected categories. Even under these circumstances, the entity could to some degree pursue its mandate of buying and selling rough diamonds to promote equitable market access to local beneficiaries, especially the historically disadvantaged. The year started on a high note, for the first two quarters, but a decline in sales was evident in the last two quarters. This can be ascribed to a reduction in production by the producers.

Operational Environment

The highlights of the State Diamond Trader's annual operational environment are as follows:

- A total of 126,562 carats to the value of R 606 million was acquired. • A total of 126,986 carats with a value of R 625 million was sold to clients in varying segments.
- Sales to HDSA clients increased to an amount of R 210 million in comparison to R 163 million in the last financial year.

International Footprint

In terms of pursuing international markets, the year under review was also marked by South Africa's 6th national pavilion participation at the Hong Kong Jewellery and Gem Fair. Team South Africa was led by the Deputy Minister of Mineral Resources, Mr Godfrey Oliphant. The team was also hosted by the South African Consul General in Hong Kong. The Royal House of Mandela hosted a successful Nelson Mandela 100th centenary year. The national pavilion platform facilitated by the entity in partnership with other stakeholders saw local diamond manufacturers increasing their sales by 100%. Words of appreciation also go to De Beers for their contribution towards this initiative and the clients for their participation.

Local Markets

In penetrating the domestic market and maintaining the entity's commitment to ensuring transformation in the South African economy, alleviating employment and retaining existing employment opportunities through skills development programmes, the entity also participated at Jewellex Africa 2018 and the 2019 Proudly South Africa (PSA) Buy Local Summit and Expo. These platforms provide access to local markets as well as promoting and creating awareness for local manufacturers.

Financial Position

Concerted efforts to manage the entity's overall expenditure and improve effectiveness, especially the introduction of cost containment measures, have yielded positive results. Apart from the matters identified by the Auditor-General as a basis for an unqualified audit opinion, I am satisfied that the State Diamond Trader's performance will continue to improve thanks to plans undertaken and the implementation of certain controls.

Over and above a prompt response by Management in dealing with fraudulent activity where a rough diamond measuring 3.65 carats was swapped on our premises, an internal investigation was conducted resulting in two senior staff members being suspended. A criminal case was opened for investigation and the entity elected to appoint an external investigator to cement the investigation and take appropriate actions. In the meantime, Management has further strengthened internal control measures while the matter is still being investigated.

The State Diamond Trader continues to strive to pursue its commercial competitiveness and ensure that beneficiation takes centre stage while complying with legislation.

Enterprise Development Programme and other Training

The entity concluded the year with 14 registered trainees, some of whom have been placed with clients and some within the entity. In partnership with KGK Diamonds, the entity was successful in placing a total of nine trainees (five females and four males) at KGK Diamonds in India for a period of three months as part of advanced training and exposure to international practices. Several workshops and training programmes were completed both internationally and through other institutions.

The TARI programme with students was at the exit point; however, not all students were fully equipped with start-up tools as well as the technical ability to set up their own businesses. Others still had to undergo some final training and do their trade tests. Overall, the programme was worth doing, with lessons learned for future modification. At the end of January 2019, two students submitted their Jewellers Permit applications to the South African Diamond and Precious Minerals Regulator; thus far one of the applications is in the final stages of approval.

Human Resources

The beginning of the last quarter of the year under review started on a sad note with the passing of our CFO, Ms Nompumelelo Danisa. This tragedy left a vacuum in the entity and prompted us to look for an urgent temporary replacement due to the pressure of preparing for the closure of the financial year. Our gratitude goes to Mine Health and Safety Council (MHSC) for allowing Mr Molefe Lephoto to assist during this crucial time of need. On the other hand, the State Diamond Trader started the process of benchmarking with other state-owned entities of similar size, with a view of reviewing its organisational structure and other Human Resources practices.

Acknowledgment and Appreciation

I would like to take this opportunity to thank the Minister of Mineral Resources, Mr. SG Mantashe, together with the Deputy Minister, Mr G. Oliphant, for their leadership during the year under review. My appreciation further goes to the Chairperson of our Board, Mr. Carstens, together with all Board members for their guidance and support to the entire management team throughout the year. The Parliament Portfolio Committee on Mineral Resources is commended for its oversight role and continued support. The availability of the entire DMR family under the stewardship of the Director-General and his Deputies is always appreciated. Gratitude goes to all diamond producers, clients, service providers, and other stakeholders. My sincere gratitude is also extended to the Mine Health and Safety Council for seconding the Acting CFO during our dire time of need.

Lastly, my special words of appreciation to the entity's management team and staff for guarding the interests of this entity by always observing its values and ensuring that it adheres to its mandate. The team has been my pillar of strength in the execution of my duties.



Mr Stanley Mandla Mnguni
Chief Executive Officer
August 2019



“ ... my special words of appreciation to the entity's management team and staff for guarding the interests of this entity ... ”



CHIEF FINANCIAL OFFICER'S OVERVIEW

Mr. M Lephoto
Acting Chief Financial Officer

The State Diamond Trader is a government business enterprise that generates its revenue through trading in rough diamonds, which is influenced by global economic activities. The State Diamond Trader does not receive funding from the State and as such depends on its margins achieved from the sale of rough diamonds.

Financial Performance

Profitability

The 2018/2019 financial year was quite a challenging one for the entity, but despite such conditions the organisation remained financially sustainable. The diamond mining industry continued to face lots of chronic challenges ranging from lack of financing to declining production and volatile exchange rates.

State Diamond Trader has incurred a loss of R3 million compared to a net surplus of just under R8 million during the 2017/2018 financial year. Revenue declined by 19% to R625 million (FY 2018: R769 million). The decrease is mainly attributable to deteriorating production levels in the mining industry. During 2018/2019, the industry production volume had declined by 16% and value had reduced by 19%.

Total expenditure only increased by 1% to R25,4 million (FY 2018: R25,1 million). The increase in expenditure

was mainly due to inflation which stood at 5.3% by 31 March 2019. Management had embarked on cost-cutting initiatives to ensure that the costs were contained.

Going Concern

The Annual Financial Statements have been prepared on a going-concern basis. There are no pending or threatened legal proceedings which have had or may have a material effect on the financial position of the entity

Events After the Reporting Date

There have been no facts or circumstances of a material nature that have arisen between the financial year-end and the date of this report.



Mr M Lepotho
Acting Chief Financial Officer
August 2019





**STRATEGIC
PERFORMANCE**

STRATEGIC OVERVIEW

The Board adopted the following as the Vision and Mission of the State Diamond Trader:

VISION

To be the catalyst for the transformation and growth of the local diamond beneficiation industry.



MISSION

- To ensure the acquisition of and equitable access to rough diamonds with a particular focus on HDSAs;
- To promote the growth of a globally competitive local diamond beneficiation industry through relevant interventions; and
- To establish and maintain a transformed client base of local diamond beneficiaries.



Performance Environment

Purchasing of Rough Diamonds

The government created the State Diamond Trader as a vehicle to address the failure of the diamond beneficiation industry to transform and/or to be inclusive, with the legislative mandate to provide equitable access to and promote local beneficiation of the country's diamonds. The Act supports this mandate by, among other things, enabling the entity to purchase up to 10% of the total Run of Mine (ROM) production from all local producers in the country as well as to source rough diamonds from other diamond-producing countries in support of a sustainable diamond beneficiation industry.

Local Supply

While local diamond beneficiation has been challenged in terms of supply as production levels were depressed during the year under review, the suitability of rough diamonds for local beneficiation has been even more of a challenge. An analysis of SA production in the last few years shows that only about 15% by carats of diamonds mined in SA are preferred for local beneficiation by the State Diamond Trader's clients. Over and above, the data indicates that the entity inspected 95% of the diamonds produced in the country and purchased 4% of the total run-of-mine production by value and 1% by carats during the 2018/2019 financial year. Despite the development of some small new projects in recent years, there have been no significant new diamond discoveries in South Africa for decades. Much of the current production comes from older projects in which mining is costly. The industry will be negatively affected by the underground extension of Venetia Mine as production levels decline. The situation should improve when the Mine begins production in 2022.

Global influence

Sentiment in the diamond industry improved after the relatively good holiday season, but traders and beneficiators are concerned about low profit margins, excess supply, and selective demand. De Beers launched the lab-grown diamond jewellery initiative Lightbox at the end of 2018, and the diamond industry has moved from a relatively stable environment to a highly uncertain environment. During the year under review, this had a negative impact on the lower quality range of diamonds as it caused the prices of smaller size diamonds to decline.

The prospects of the industry beyond 2018/19 are uncertain due to downside risks such as the possible implementation of protectionist measures by developed economies, which would dampen global trade and consequently economic growth. These include the trade wars between the United States of America and China, and Brexit, to mention a few.

Thanks to its good infrastructure, South Africa continues to have a unique opportunity to transform itself into being at the forefront of diamond beneficiation in the continent. The country has abundant diamond skills and is not lacking in diamond beneficiation services.

Diamond markets fluctuate significantly and are not always predictable. The South African diamond beneficiation industry has however stood the test of time, although it is not growing at the desired pace.

The Report on our performance against set targets starts on page 23 of this Report.

PERFORMANCE AGAINST STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 1: INCREASE THE AMOUNT, BY CARATS, OF ROUGH DIAMONDS SOLD ON PRIMARY ALLOCATION BY 10 PERCENT ANNUALLY

KEY ACTIVITY	PERFORMANCE MEASURE	TARGET	ACTUAL	VARIANCE	COMMENTS
Secure more gem quality rough diamonds for primary allocation	Percentage increase in the amount of rough diamonds sold through primary allocation (Baseline 2016/2017) primary allocation actual sales)	10%	Achieved. 28% in carats sold on primary allocation against the 2016/2017 baseline.	18%	Target exceeded by 18%.
Develop and implement process for rough diamonds aggregation from different producers to create suitable mixes for local beneficiators	Develop and seek approval for a rough diamond aggregation procedure.	1	Achieved. 1 Rough diamond aggregation procedures developed and approved.	None	None
Secure funding from other organs of State, for use in acquiring more rough diamonds for primary allocation	Submit proposals to organs of State identified from which funding can be secured.	4	Not Achieved 1 proposal submitted	3	One (1) proposal approved by the Board and submitted to the Industrial Development Corporation (IDC). Three (3) additional proposals will be submitted to the organs of the State in 2019/2020 Financial year.

STRATEGIC OBJECTIVE 2: INCREASE LOCAL BENEFICIATION OF 3GR GEM QUALITY AND ALL SIZES OF NEAR GEM QUALITY AND INDUSTRIAL DIAMONDS BY SDT CLIENTS TO 10 000 CARATS PER ANNUM BY 2023

KEY ACTIVITY	PERFORMANCE MEASURE	TARGET	ACTUAL	VARIANCE	COMMENTS
Facilitate local beneficiation of -3 grainer gem quality diamonds	Approved developmental model of -3 grainer gem quality	Approved developmental model for beneficiation of -3gr gem quality diamonds.	Achieved. Approved developmental model for beneficiation of -3gr gem quality diamonds.	None	None
Facilitate local beneficiation of all sizes of near gem and industrial quality diamonds		Report on non- jewellery applications of diamonds.	Achieved. The report on the non- jewellery application finalised.	None	None

STRATEGIC OBJECTIVE 3: INCREASE SALES TO BLACK OWNED COMPANIES, AS A PERCENTAGE OF TOTALSDT SALES BY MASS, TO 30 PERCENT BY 2022/23

KEY ACTIVITY	PERFORMANCE MEASURE	TARGET	ACTUAL	VARIANCE	COMMENTS
Supply rough diamonds to black owned companies on developmental terms	A developmental model for supplying rough diamonds to black owned companies.	Approved developmental model for supplying rough diamonds to black owned companies.	Not achieved. Developmental Model for supplying rough to Black owned companies.	None	Different options were identified; however, they require significant financial assistance. This model will be dealt with when reviewing the Business Plan in 2019/2020 Financial Year.
Create a talent pipeline of black diamond beneficiation entrepreneurs	EDP progress report submitted	4	Achieved. 4 Enterprise Development Programme (EDP) progress reports submitted.	None	None
Facilitate access to the major local and international diamond markets	Percentage implementation of Marketing and Communication Strategic Activities	100% Implementation of Marketing and Communication Strategic Activities	Achieved 100% Implementation of Marketing and Communication Strategic Activities	None	None

STRATEGIC OBJECTIVE 4: MEET 30 PERCENT BY MASS, ROUGH DIAMOND REQUIREMENTS OF CLIENTS BY 2022/23

KEY ACTIVITY	PERFORMANCE MEASURE	TARGET	ACTUAL	VARIANCE	COMMENTS
Provide clients with requisite volumes and qualities of rough diamonds	Percentage of total State Diamond Trader clients' rough diamond requirements met (measure to apply in 2019/20 once process for meeting client rough requirements is approved)	*	Achieved. Process for meeting clients' rough diamonds requirements developed.	None	None

** This annual target was omitted during printing of the Annual Performance Plan; however, it was accounted for on a quarterly basis as the target for the Strategic Implementation Plan that should have been included in this document is: 'In meeting a percentage of the total SDT clients rough requirements, a process must be developed to meet the clients rough diamond requirements'*

STRATEGIC OBJECTIVE 5: BE A KNOWLEDGE BASED ORGANISATION

KEY ACTIVITY	PERFORMANCE MEASURE	TARGET	ACTUAL	VARIANCE	COMMENTS
Provide training opportunities in accordance with organisational and strategic needs analysis	Number of staff trained as per conducted training needs analysis.	Six State Diamond Trader Staff members trained.	Achieved (10)	4	Target exceeded, more staff members were trained due to additional training needs identified in the third quarter.
Get staff trained in advanced diamond skills in renowned global centres	Number of staff trained.	2	Achieved (4)	2	Target exceeded, more staff received training as further needs for exposure were identified during the financial year.

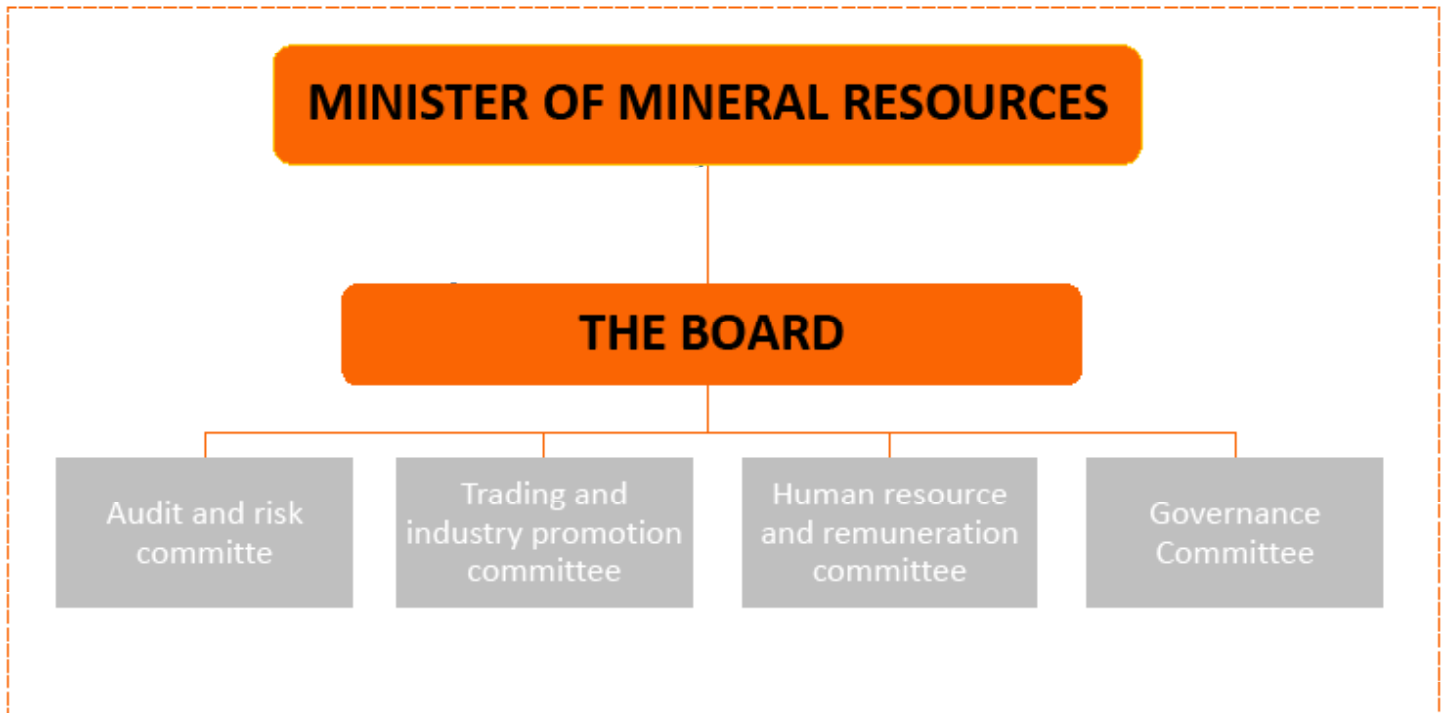
STRATEGIC OBJECTIVE 6: PROMOTE CORPORATE GOVERNANCE AND MANAGE FINANCIAL RESOURCES

KEY ACTIVITY	PERFORMANCE MEASURE	TARGET	ACTUAL	VARIANCE	COMMENTS
Implement management action plans (Internal Audit and External Audit)	Percentage implementation of management action plans.	100%	Achieved (100%)	None	None
Implement risk management action plans	Percentage implementation of risk management action plans.	100%	Not achieved (96%)	4%	Out of 26 issues identified, 25 were implemented. The last issue which was the implementation of Records Management system could not be achieved due to budgetary constraints.
Review the funding strategy of the SDT	State Diamond Trader business case submitted to the DMR.	One report	Not Achieved	None	To be finalised in 2019/2020 financial year.

A collection of various gemstones, including diamonds, sapphires, and rubies, displayed on a dark, textured surface. The stones are arranged in a scattered pattern, with some showing intricate facets and others appearing more raw or uncut. A white diagonal line runs across the image, and the word "GOVERNANCE" is overlaid in a white, outlined font.

GOVERNANCE

Reporting Structure



BOARD MEMBERS

The Board of the State Diamond Trader is appointed by the Minister of Mineral Resources in terms of Section 17(2) of the Diamonds Act 56, 1986, as amended. The Board's tenure commenced on 1 September 2016 for a period of three years until 31 August 2019.

Before appointing the members, the Minister is required by the Act to appoint an independent selection panel in line with the requisite knowledge and understanding of issues concerning the diamond industry. The ultimate authority to appoint and constitute the State Diamond Trader Board rests with the Minister of Mineral Resources. During the year under review, one (1) member resigned as a Board Member. The Board currently consists of twelve (12) members.



Mr MJ Carstens (Chairperson) (55)

Mr Carstens is a seasoned mining executive who has spent 33 years in the mining industry, of which 30 were spent in the diamond industry, occupying various senior management roles. He served as executive director of Land Operations for Trans Hex until 2011 and is currently the Chief Executive Officer for the Alexkor / RMC Joint Venture. He was appointed as the Chairperson of the State Diamond Trader by the Minister of Mineral Resources with effect from 1 September 2016 for a period of three years until 31 August 2019.



Mr G Du Plessis (49)

Mr Du Plessis started his professional career in 1994 at the Department of Constitutional Development as a senior constitutional planner and was mainly involved in conducting global constitutional research in support of the drafting of the new South African constitution. He has served as the Head of Collective Bargaining for trade union Solidarity and was appointed as Secretary General in 2012, a capacity in which he still serves to date. Mr Du Plessis also serves as a Board member at the Sentinel Retirement Fund and the Minerals Petroleum Board.



Dr M Matlou (60)

Dr Matlou completed his PhD in Sociology at the University of Essex, Colchester, England, and holds an M.A. in International Relations from the University of Kent, Canterbury, England, a B.A. in Political Science from the University of Ghana and a Bachelor of Philosophy (BPhil) degree in Knowledge Management from the University of Stellenbosch. Among several official roles he has held are Chief Executive Officer of the Africa Institute of South Africa and Deputy Director General of Tourism in the South African Department of Environmental Affairs and Tourism. Dr Matlou's board memberships have included the Johannesburg World Summit Company, South African Tourism Board, and Regional Organisation for Tourism in Southern Africa and Indian Ocean Tourism Organisation. He has also lectured in higher education institutions in Liberia, South Africa and Ghana.



Mr R L Mabece (54)

Mr Mabece holds a B Proc and an LLB degree (UWC). He also holds a Higher Certificate in Project Management (Damelin). He is an admitted attorney of the High Court of South Africa (1996). Throughout his career he has advised the government and the private sector on a wide range of legal matters. He is a Managing Director of Bulumko Corporate Advisors & Consultants (Pty) Ltd, and a Non-Executive Director at Broadband Infracore (SOC) Ltd, a director of Afrika Sentinel Enterprise Services (Pty) Ltd and Nunobiz (Pty) Ltd. He previously served as the external Member of the IDC Credit Committee and Chairperson of SAFCOL (SOC) Ltd.



Mr B Deka (37)

Mr Deka holds an MSc in Economics and a Master of Laws (Mercantile Law), and currently works at the National Treasury, where he is responsible for ensuring the effective and efficient use of public resources. He has wide experience in academia, and the private and the public sectors. Mr Deka brings a wealth of experience in economic policy, international trade, competition and public economics.



Mr S M Motloung (64)

Mr Motloung has a nursing background and a wealth of experience in labour matters and is involved with UASA, a trade union where he is responsible for various sectors including aviation, transport, motor manufacturing and diamonds. He is a member of the Sentinel Retirement Fund Board and the Services SETA.



Ms M McMaster (61)

Ms McMaster has a background in business administration and political science. She is a Certified Practitioner: Life Skills Coaching in the category of Leadership and Personal Credibility, as certified by the South African Board of People Practices (SABPP). Ms McMaster played a participative role in the political arena between 1994-2001 within the new democratic Parliament of South Africa, where she facilitated and coordinated various functions dealing with organisational transformation within government. Ms McMaster's skills and knowledge in the field of administration, both general and specific, cover a span of more than 20 years.



Mr K J Menoe (38)

Mr Menoe has been in the mining industry for over a decade and started as a bursar for DeBeers. He holds a BSC in Chemical Engineering (WITS) and a Certificate in Executive Development Programme (WITS). Following graduation, Mr Menoe worked for DeBeers as a Senior Plant Metallurgist and as the Ore Processing Engineer. He has also worked for the South African Diamonds and Precious Metals Regulator (SADPMR) as a Quality Assurance Inspector. Currently, Mr Menoe holds the position of Director: Beneficiation Economics in the Department of Mineral Resources. He further serves as a Board Member at SADPMR and the Council for Geoscience.



Major General N Mokoena (53)

Major General Mokoena holds a Diploma Qualification in Policing, Criminal Justice and Forensic Investigation, B-Tech Degree in Policing an honours degree in Safety and Security Executive Development and Certificate in Control Money Laundering, Compliance Management and Corporate Governance. She has served the south African Police Services (SAPS) in various Capacities and is currently the Provincial Head: Major General: Mpumalanga Directorate for Priority Crime Investigation. She Specialises in Money Laundering, Compliance Management and Corporate Governance.



Mr S M Mnguni (CEO) (ex officio) (49)

Mr Mnguni holds a B Admin (Hons) from the University of the North and has passed a Leadership Development Programme (GIBS) and a CPMD-MF (WITS). Until his appointment as the Chief Executive Officer of the State Diamond Trader, he spent most of his career at Steve Tshwete Local Municipality in various roles including Corporate Services, Deputy Municipal Manager and Acting Municipal Manager since 1995. Mr Mnguni also served at Bushbuckridge Water as Director of Corporate Services as well as Company Secretary. Mr Mnguni also served as Non-Executive Director at SAFCOL SOC and at SADPMR.



Mr W M Mabapa (49)

Mr Mabapa has extensive experience in human resources which has seen him being appointed to various roles since 1995, including his current role as Deputy General Secretary of the National Union of Mineworkers. Mr Mabapa serves on the Board of the Mineworkers Investment Company (executive director), the Mineworkers Investment Trust (Trustee) and Royal Bafokeng Platinum Ltd.



Mr I Goondiwalla (46)

Mr Goondiwalla holds a BSC in Engineering (Metallurgy) (WITS), he completed the Accountants Conversion Course at UCT and holds a BCOM Accounting Honours from UKZN. He is a CA SA registered with SAICA and currently holds a and holds position of Senior Dealmaker at the IDC. He also serves as a member of the Board of New Largo Coal (Pty) Ltd.



Ms N C Sibeko (Company Secretary and Legal Officer) (38)

Ms Sibeko joined the State Diamond Trader in the capacity of Company Secretary and Legal Officer in June 2014. She is an admitted attorney of the High Court of South Africa (2005). She holds an LLB degree, a postgraduate diploma in business administration and a postgraduate diploma in labour law. She practised law in private practice for three (3) years and has worked in corporate legal advisory roles in the fields of local government, labour, corporate secretariat and legal for a period spanning 16 years.

EXECUTIVE MANAGEMENT

The Executive Management Team is responsible for ensuring the implementation and execution of State Diamond Trader strategy as approved by the Board and for the operational management of the business. As the entity's Chief Financial Officer sadly passed away at the end of the third quarter, the position is yet to be filled. The Executive Management team consists of:



Mr S M Mnguni (CEO) (ex officio) (49)

Mr Mnguni holds a B Admin (Hons) from the University of the North and has passed a Leadership Development Programme (GIBS) and a CPMD-MF (WITS). Until his appointment as the Chief Executive Officer of the State Diamond Trader, he spent most of his career at Steve Tshwete Local Municipality in various roles including Corporate Services, Deputy Municipal Manager and Acting Municipal Manager since 1995. Mr Mnguni also served at Bushbuckridge Water as Director of Corporate Services as well as Company Secretary. Mr Mnguni also served as Non-Executive Director at SAFCOL SOC and at SADPMR.



**Ms N Danisa (48) (Late)
Chief Financial Officer (until 28 December 2018)**

Ms Danisa was the Chief Financial Officer of the State Diamond Trader from February 2016 until 28 December 2018. She joined the Auditor General of South Africa in 2002 and she was the Audit Manager when she left the institution to join the State Diamond Trader. She was a Registered Government Auditor (RGA) and held a B.Comm: Accounting and Honours, a postgraduate Diploma in Applied Ethics and was studying at the Association of Chartered Certified Accountants (ACCA). Ms Danisa also served as a member of the Audit and Risk Committee at Construction SETA.



**Mr Molefe Lephoto (47)
Acting Chief Financial Officer – From 1 March 2019**

Mr M Lephoto is a qualified accountant CA (L), he is also a fellow member of ACCA (UK), and he holds an MBA (Finance) from the University of Kwazulu Natal. He has held financial management positions in various industries. Mr Lephoto has extensive experience in both accounting and auditing field spanning over 15 years. Mr Lephoto is on secondment from the Mine Health and Safety Council.



Ms N C Sibeko (38)
Company Secretary and Legal Officer

Ms Sibeko joined the State Diamond Trader in the capacity of Company Secretary and Legal Officer in June 2014. She is an admitted attorney of the High Court of South Africa (2005). She holds an LLB degree and a postgraduate diploma in business administration. She practised law in private practice for three (3) years and has worked in corporate legal advisory roles in the fields of local government, labour, corporate secretariat and legal for a period spanning 16 years.



Mr C Van der Ross (47)
Operations Manager

Mr Van der Ross has been the Operations Manager of the State Diamond Trader since June 2016. Prior to that, he was part of the technical team seconded to the organisation from 2007 until May 2016. This was as part of the Service Level Agreement with the De Beers Group of Companies to assist with technical skills. He started his career with De Beers in Kimberley at the beginning of 1991 and has worked in various leadership roles within the Group for 25 years. During this period, he spent a year at the London office in 1997 and two (2) years in Antwerp in 2003 and 2004, working in various areas within the valuation, buying and selling of rough diamonds. He serves on the Board of the Kimberley Diamond and Jewellery Incubator.

CORPORATE GOVERNANCE REPORT

The State Diamond Trader operates within a governance framework based on the principles of accountability, transparency, ethical management, inclusiveness and fairness. The Board recognises the value of an ethical culture and its link to value creation and sustainable development. The Board has approved a manual for corporate governance that is cognisant of the said principles. The manual is reviewed annually to ensure relevance.

The State Diamond Trader is listed in schedule 3B of the Public Finance Management Act, 1 of 1999 (“the PFMA”). Its shareholder is the government of the Republic of South Africa, represented by the Minister of Mineral Resources, who exercises executive authority on behalf of the government. The Board is the designated Accounting Authority and governs the State Diamond Trader in accordance with the laws of the Republic of South Africa and in particular, the Diamonds Act 56, 1986, as amended (“the Act”), and the PFMA, read with applicable Treasury Regulations.

The King IV Report on Corporate Governance was launched by the Institute of Directors (IOD) in late 2016 and came into effect from 1 April 2017. Significant corporate governance and regulatory developments have taken place locally and internationally since the release of King III in 2009, which are now incorporated in King IV. During the year, the State Diamond Trader formulated a checklist with timelines against which it will measure the principles already applied in the organisation against the recommended principles in King IV.

King IV raises a number of obligations in respect of disclosures as a means to promote transparency and accountability. It places focus on sustainability issues and to systems thinking in the manner in which business is conducted. The aim of this report is to assist stakeholders with information on the corporate governance environment of the State Diamond Trader to date.

The Board

The Board of the State Diamond Trader is appointed by the Minister of Mineral Resources in accordance with

the provisions of the Act. The Board is responsible for setting the strategic direction of the State Diamond Trader. The Board is further responsible for, and plays a leadership role in, the establishment and maintenance of an ethical corporate culture. The Board also operates within a code of conduct and strives to ensure that the ethical culture it sets leads to performance in terms of the delivery of the mandate of the State Diamond Trader and ensures sustainable outcomes for the future of the diamond beneficiation industry in South Africa. The current Board tenure commenced on 1 September 2016 and ends on 31 August 2019.

All Board members, with the exception of the Chief Executive Officer, are non-executive. The Chief Financial Officer is a standing invitee at all Board meetings.

Board members are suitably qualified for the roles they occupy and come from various diverse backgrounds including, but not limited to, finance, commercial, human resources, law, etc. The Board has access to professional advisers at the expense of the State Diamond Trader should they so require. Continuous training and development of Board members is undertaken in line with identified needs.

The Board has formed four Committees that assist in the execution of its duties, namely, the Audit and Risk Committee, the Human Resources and Remuneration Committee, the Trading and Industry Promotion Committee, and the Governance Committee. The Board met five (5) times during the year under review while the Audit and Risk Committee met five (5) times, the Human Resources and Remuneration Committee six (6) times, the Trading and Industry Promotion Committee four (4) times.

Attendance by Board members at Board and Committee meetings during the year is set out on page 34.

The State Diamond Trader is audited by the Auditor General of South Africa (AGSA), in line with the Public Audit Act, 2004. Internal auditing is an outsourced function, undertaken by Rakoma & Associates.

Attendance of Board and Committee Meetings

	BOARD	ARC	HR & REMCO	TRADING	≠GOVERNANCE COMMITTEE
NUMBER OF MEETINGS	5	5	6	4	0
Mr M.J Carstens [°]	5				0
Mr I Goondiwalla ¹	5	5			0
Mr S.M Motloung ²	5		6		0
Mr KJ Menoe ³	2			3	0
Ms M McMaster	4			2	
Mr G Du Plessis	4		6		
Mr F Mokoena	1			1	
Mr B. Deka	3	5			
Mr R Mabece	5		5		
Mr W Mabapa	3		2	2	
Dr M Matlou	5				
Major General N Mokoena	2	4		2	
Mr M Malie *	2				
Mr S M Mnguni	5				

[°]Chairperson of the Board

¹Chairperson of ARC

²Chairperson of HR & REMCO

³Chairperson of Trading and Industry Promotion Committee

*Alternate to Mr K.J Menoe

≠ Committee meets as and when required, no meetings held during the financial year under review

Primary Responsibilities of the Board

The Board serves as the focal point and custodian for good corporate governance in the organisation. Board members recognise that good governance contributes towards creating value for the benefit of all South Africans. The Board has adopted formal terms of reference outlining its scope of authority, responsibility and functioning. The terms of reference are reviewed once annually. Certain functions are delegated to committees.

Matters of strategic importance are reserved for the Board. These include decisions affecting the overall vision, mission and objectives of the organisation, together with changes to policies and frameworks. The following sets out the main areas where material decisions are taken by the Board:

- Approval of Policies;
- Approval of the strategy, shareholder's compact, business plans and budgets and of any subsequent material changes in strategic direction or material deviations from strategies and business plan;
- Determination of the structure, composition and terms of reference of Committees and approval of all changes to the management of the organisation and to the scheme of delegation;
- High-level monitoring of both financial and operational progress and performance, including an annual performance review covering the key performance indicators;
- Significant impacts on human resources and finances resources of the organisation; and
- High-Level Stakeholder interfaces such as reporting to the Minister and overall policies on communications with regulated entities, the press and the public.

The Board maintains a system of delegation within the organisation. Any delegations outside the approved framework are specifically recorded in the minutes or in round robin resolutions of the Board.

The Board is entitled to have access, at reasonable times, to members of Executive Management and to all relevant information to assist in the discharge of its duties. The Board is further entitled to enlist services of advisers as necessary from time to time at the expense of the organisation.

Composition

The Board is composed in pursuance of the provisions of the Diamonds Act 56, 1986, as amended, and is appointed by the Minister of Mineral Resources. Membership comprises one salaried executive and 12 non-executive Board members. Board members strive for independence and to execute their fiduciary duties in the best interests of the State Diamond Trader. The independence requirements recommended in the King III and King IV Reports represent a matter that is subject to the founding legislation; it is envisaged to endeavour to align, to the extent possible, with the corporate governance recommended practices in due course.

Board membership ceases in the event of a resignation, a disqualification on the grounds listed in the Act, or for reasons of absence for more than two consecutive meetings without the leave of the Chairperson. During the year under review, there was one resignation by a non-executive Board member, Mr France Mokoena, and the vacancy was still vacant at the time of publication of this Report.

Chairperson of the Board

The Chairperson of the Board, Mr Mervyn Carstens, was appointed by the Minister of Mineral Resources in accordance with the provisions of Section 17 of the Act.

Committees of the Board

The Act allows the Board to delegate responsibilities through the constitution of such committees as necessary. Delegation of authority to committees is set out in the formal terms of reference of each Committee, which set out, inter alia, the composition, purpose, powers and authority of the Committees and the scope of each Committee's mandate and its relationship with the Board. Committees of the Board have access to organisational records, facilities, employees and any other resources as necessary to discharge their duties and responsibilities. The terms of reference of Committees are reviewed once annually and any changes are approved by the Board. The Board has constituted the following Committees:

- Audit and Risk Committee;
- Human Resources and Remuneration Committee;
- Trading and Industry Promotion Committee; and
- Governance Committee.

The Board is satisfied that each Committee has the necessary knowledge, skills, experience and capacity to execute its duties effectively. Each Committee has a minimum of three members. This is a statutory requirement for the Audit and Risk Committee. Executive Management has a standing invitation to all Committee meetings.

Members of the Board are entitled to attend Committee meetings as observers. However, members attending a meeting of a Committee to which they do not belong are not entitled to remuneration for that meeting and may not participate without the consent of the Chairperson.

The Board applies its mind to all information and recommendations presented by Committees. The Board is not absolved of its responsibilities through the system of delegation and ensures the discharge of its duties in an accountable manner. The Board is satisfied that its Committees discharged their responsibilities during the year under review.

Audit and Risk Committee

The Audit and Risk Committee is a statutory committee of the Board appointed in terms of section 77 of the PFMA, read with Treasury Regulation 27.1.1. It has duties assigned to it by the Board over and above its statutory duties. Specific responsibilities include providing oversight in respect of the effectiveness of the organisation's finance function, external and internal assurance services, and risk management. The Committee also guides the Board through the budgeting process reviews and comments on and assumes responsibility for the integrity of the group's annual financial statements. Information technology governance is also the responsibility of the Committee. The Committee met five times during the year under review.

The Committee is tasked with ensuring that assurance providers assume a coordinated approach to services and the system of internal financial controls and risk management, including but not limited to the design, implementation and effectiveness of the internal financial controls through internal audit reports. The Audit and Risk Committee is also responsible for ensuring that the State Diamond Trader implements an effective risk mitigation plan and that disclosure of risks and mitigation plans is timely and relevant to the risks.

The Committee deliberates and makes recommendations to the Board, which assumes individual and collective responsibility in the exercise of due care and skill with regard to the affairs of the entity.

All members of the Committee are non-executive and possess the requisite skill and experience to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The Committee had three members during the year, namely, Mr Imtiaz Goondiwalla (Chairperson), Mr Bothwell Deka, and Dr Matlotleng Matlou.

The Audit and Risk Committee is satisfied with the quality of work produced by internal and external auditors and with the internal control environment of the organisation. The Committee is not aware of any adverse indicators that may impact the organisation. A Report of the Audit and Risk Committee is also included on page 56 of this Annual Report.

Human Resources and Remuneration Committee (HR and REMCO)

HR and REMCO assist the Board with the human resources strategy and the attraction, motivation, development and retention of required staff competencies. The Committee makes recommendations to the Board with respect to issues of staff remuneration and HR Policies. The HR and Remuneration Committee has adopted formal terms of reference approved by the Board. The Committee has conducted its affairs in compliance with the terms of reference and has discharged its responsibilities contained therein and met four times during the year under review.

The Committee executes its responsibilities in terms of the approved terms of reference and seeks to ensure that the State Diamond Trader has a competitive policy and governance framework for remuneration based on organisational performance and the achievement of strategic objectives set by the Board. The Committee achieves this through a salary benchmarking exercise conducted every three years.

Primary responsibilities of the Committee include inter alia:

- Review HR Policies and making recommendations to the Board for approval;

- Determining and recommending to the Board the appropriate framework for the remuneration of staff;
- Determining and recommending the remuneration levels of all staff;
- Reviewing, and where significant, reporting to the Board best practices, trends, and current emerging issues in HR matters;
- Obtaining reliable and current information in respect of remuneration in the market and commissioning any reports or surveys which it deems necessary to help it fulfil its obligations and responsibilities;
- Reviewing the development of codes of practice in relation to remuneration and advising the Board on issues arising from them;
- Advising the Board on all labour relations matters;
- Monitoring the effectiveness and applicability of all HR Policies; and
- Participating in the appointment of Executive Managers, which shall be carried out in terms of the provisions of Section 17G (3) of the Act.

All the members of the Committee are non-executive and possess the requisite skills and experience to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The members are Mr Shadrack Motloun (Chairperson), Mr Gideon Du Plessis, Mr Lungile Mabece and Mr William Mabapa.

Trading and Industry Promotion Committee

The Trading and Diamond Industry Promotion Committee (known as the Trading Committee) ensures that State Diamond Trader operations are in line with the mandate of the organisation and the objectives set by the Board in the strategic plan. The Committee operates in accordance with the terms of reference approved by the Accounting Authority. The Committee met five times during the year to review.

The Trading Committee assists the Board with trading related activities and the promotion of the diamond beneficiation industry and is responsible for the development and implementation of trading rules and sales strategies. The Committee interlinks with other sub-committees of the Board on interrelated issues as necessary. The Trading Committee's formal terms of reference stipulate that its deliberations must take

into consideration Black Economic Empowerment and equitable access to rough diamonds deliberations at all times.

Primary responsibilities of the Committee include inter alia:

- The establishment, review and monitoring of the organisation's contribution to the growth of local diamond beneficiation;
- Ensuring the existence of articulate Trading Policies and Rules for the organisation;
- Ensuring maintenance of the client base of local diamond beneficiaries; and
- Reviewing and making recommendations to the Board concerning marketing policies and strategies aimed at contributing to the growth of local diamond beneficiation.

All members of the Trading Committee are non-executive and possess the requisite skills and experience to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The members are Mr Kagiso Menoe (Chairperson), Mr William Mabapa, Mr France Mokoena, Ms Michelle McMaster and Major General Nonhlanhla Mokoena. Mr Mokoena resigned as a Board member with effect from 18 February 2019.

Governance Committee

The Board established the Governance Committee to assist the organisation with some functions that are recommended by the King IV reports on corporate governance, without interfering with the functions reserved for the Minister in the Act. The Committee assists the Chairperson of the Board to initiate and manage overall performance evaluations of the Chief Executive Officer. The Governance Committee has oversight over the induction programme for new members of the Board to ensure their understanding of the business environment and market in which the State Diamond Trader operates as well as oversee the continuing professional education.

The Governance Committee operates within a formal term of reference approved by the Board. All members of the Governance Committee are non-executive and possess the necessary skill and experience required to serve on the Committee. The Committee is chaired by the Chairperson of the Board, Mr. Mervyn Carstens.

Mr. Imtiaz Goondiwalla, Mr. Shadrack Motloung and Mr. Kagiso Menoe are all members of the Governance Committee.

Performance Evaluations

The Board is conscious of its responsibility to evaluate its own performance. During the year under review, the Board considered the question of whether board evaluation should be conducted internally or by an external independent service provider. The Board elected to be evaluated externally, which assessment was finalised in June 2019.

Appointment and delegation to Management

Chief Executive Officer's (CEO) appointment and role

The Minister of Mineral Resources is responsible for the appointment of the CEO. The Minister entrusts the recruitment process to the Board, which makes recommendations to the Minister. All delegations by the Board to management are delegated to the CEO so that the authority and accountability of management are considered to have the authority and accountability of the CEO insofar as the Board is concerned. The CEO is assisted by Executive Management to implement and execute the strategy approved by the Board and for the operational management of the business.

The CEO is an ex officio member of the Board and is held accountable by the Board as to the performance of Executive Management and the organisation. On a quarterly basis, the CEO reports to the Board on the performance of the organisation against strategic objectives set by the Board. The CEO is a standing invitee at all Committee meetings.

The Chairperson evaluates the performance of the CEO against specific and agreed targets on an annual basis, which are reviewed by the Governance Committee and recommended to the Board.

Professional Corporate Services to the Board

The Company Secretary provides professional corporate governance services to the Board. The Company Secretary is a full-time employee of the organisation and ensures that board procedures, regulations and governance codes are adhered to as necessary.

The Company Secretary also serves as Legal Officer of the State Diamond Trader. The appointment,

remuneration and removal of the Company Secretary are matters reserved for the Board. The Company Secretary has an arm's length relationship with the Board and works closely with the Chairperson to ensure the proper and effective functioning of the Board and the integrity of the Board regarding governance processes.

Ethics

The Board is committed to the highest standards of ethical behaviour, and in demonstration of this has adopted a Code of Governance and Ethics as recommended by the King III and King IV Reports on Corporate Governance as the standard against which the conduct of Members and staff will be measured.

Strategy and Performance

The Board sets the strategic tone for the entity and works closely with Executive Management to determine the strategic objectives of the organisation. Annually, Executive Management presents the short- (Annual Performance Plan), medium- and long-term strategy to the Board, which engages critically with Management's proposals in consideration of the entity's mandate, budget, budget-related assumptions, time frames, targets and strategic objectives. On a quarterly basis, the Board reviews performance reports against targets set. The Strategy is for a five-year period at any given time. In determining the strategy, the Board evaluates the availability of resources for implementation.

Risk Governance

The Board is responsible for oversight of the risk management process and has delegated responsibilities to the Audit and Risk Committee. The Board approved a framework policy which guides the risk identification process. The risks are updated annually in line with the strategic objectives of the organisation.

Reporting

The Board assumes responsibility for the Annual Report, including the Annual Financial Statements, assisted by the Audit and Risk Committee. The Board further assumes responsibility for statutory reporting to the Executive Authority and National Treasury. The preparation of the reporting documents is delegated to Executive Management.

Conclusion

The Board is satisfied with the organisation's governance framework and corporate governance processes. Having taken cognisance of the King IV Report on corporate governance, the Board has reflected on the corporate governance environment and will strive to ensure that organisational processes remain relevant and promote an ethical, transparent culture within the organisation.

REMUNERATION REPORT

The Board takes responsibility for the governance of remuneration and determines the approach to employee remuneration. The Minister of Finance takes responsibility for the determination of remuneration for Board members who are also entitled to claims for out-of-pocket expenses.

Our Philosophy for Remuneration

The aim of the Remuneration Policy and its Performance Management and Reward Policy is to guide the organisation in the management of processes and practices required to attract and retain competent, well-motivated and committed employees who will support the achievement of the State Diamond Trader's mandate and objectives.

Influential Factors for Remuneration

Internal Factors

- Vision, mission and objectives;
- Position accountability levels linked to the benchmarked Paterson job grading system;
- Performance Management and benefits linked to Performance Management Policy and Remuneration Policy;
- Internal position growth linked to the approved organizational structure; and
- Length of service period with the entity.

External Factors

- Annual cost-of-living adjustments linked to inflation rates;
- Remuneration influenced by attracting, retaining and motivating key and talented people;
- Benchmarking salary grades with similar entities within the government and the diamond sector; and
- Positive diamond-trading markets resulting in a better revenue-generating platform that allows

the State Diamond Trader to afford rewarding its employees with approved bonuses.

Key Focus Areas for the Reporting Period

The Human Resources and Remuneration Committee focused on the following key areas in relation to remuneration during the reporting period:

- Cost-of-living adjustments;
- Performance bonuses;
- Discretionary bonuses; and
- Amendment of the Remuneration Policy to provide for discretionary bonuses.

Use of Consultants

The State Diamond Trader engages consultants for remuneration every three years to benchmark salaries with other similar entities in the Government and Diamond Sectors. A salary benchmarking exercise was duly conducted during the year under review, and the Board is satisfied that processes are in place to ensure that the entity remains competitive in the market place.

Conclusion

The Committee is satisfied that it met its objectives during the year under review.



**OPERATIONAL
PERFORMANCE**

TRADING REPORT

State Diamond Trader Trading Performance

Table 1: Year-on-year comparison of inspections purchases and sales

	2018/2019	2017/2018	2016/2017
State Diamond Trader Inspections US\$* (US\$million)	1,148	1,216	1,144
Carats inspected	9,873,078	10,012,744	8,994,894
US\$ per carat	116	122	127
No. of producers	15	16	12
No. of Inspections	214	126	117

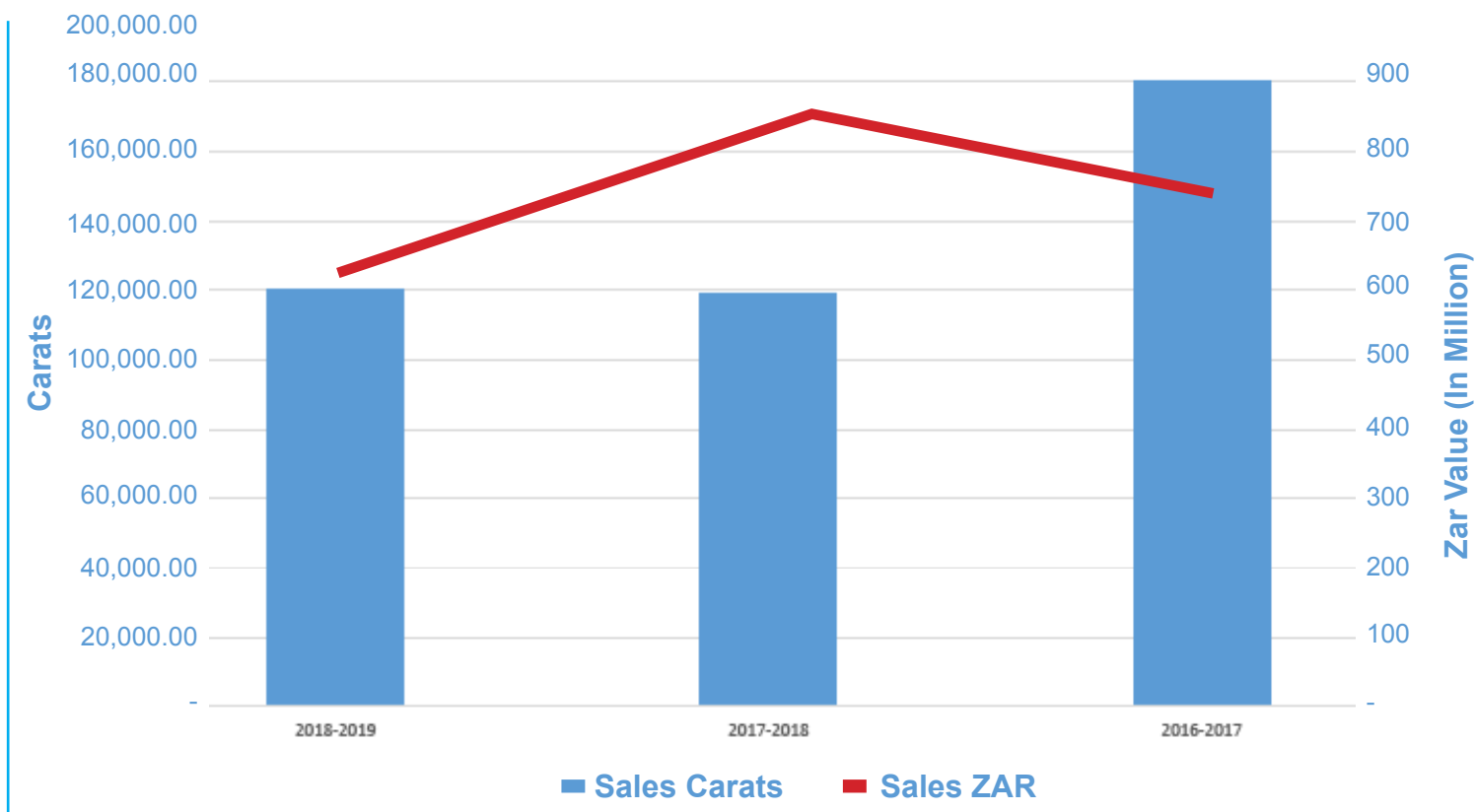
State Diamond Trader Purchases ZAR (Rmillion)	606	742	694
% purchased**	4%	5%	4%
Carats	126,562	116,880	177,889
No. of purchases	124	67	60

State Diamond Trader Sales ZAR (Rmillion)	625	769	722
COGS	606	741	698
GM	19	27	24
GM%	3%	4%	3%
Carats	126,986	116,351	178,052
No. of clients sold to	50	42	46

Trading Summary and Annual Comparison

The value of rough diamonds inspected during the year under review increased to USD1,148 billion, compared to the USD1,216 billion inspected in the 2017/2018 financial year, and the carats/volume decreased to 9,873 million as compared to the 10 million inspected in the 2017/2018 financial year. The average price per carat also decreased from USD122 per carat in 2017/2018 to USD116 per carat for 2018/2019.

The value of purchases decreased by 19% to R602 million for 2018/2019 compared to R742 million for the 2017/2018 financial year. Although the value of purchases decreased, the volume purchased increased by 8% to 126,562 carats in 2018/2019 compared to 116,880 carats in the 2017/2018 financial year. This is attributed to the type of diamonds purchased and the special purchasing model. The number of purchases made from producers increased from 67 (2017/18) to 124 for the year under review.



Graph 1: Sales Comparison

Graph 1 indicates that sales has decreased in value by 19% to R625 million as compared to the previous financial year's sales of R769 million. The gross margin percentage achieved decreased to 3% in 2018/2019 compared to 4% in 2017/2018. This amounted to a decrease of R8million compared to the gross margin achieved in 2017/2018. This is directly linked to declining production levels by the major producer that contributes 60% of State Diamond Trader's purchases and resistance to prices that manufacturers are prepared to pay for rough diamonds.

The State Diamond Trader sold to 50 clients in total for the year under review as compared to 42 in 2017/2018.

Rough Diamond Markets

The diamond sector has experienced a number of developments over the period of 2018, from the record-setting discoveries of large diamonds across the globe but more significantly in the Southern African regions and to the unveiling of the world's first lab-grown synthetics fashion jewellery line. It was in late September that one of the diamond powerhouses launched Lightbox Jewellery, a line of lab-grown white and coloured synthetics in jewellery, and this caused major concerns especially among those diamond producing countries that have seen this as a threat to natural diamonds.

During the financial year 2018/2019, the trading of rough diamonds was rather cautious as prices were high and polished prices were rather weak. Production levels from

producers decreased during the year of 2018/2019 as compared to previous years resulting in rough prices increasing. The reduction impacted companies who buy rough for manufacturing and therefore manufacturers had to tread extra carefully as the prices of polished achieved were not at the levels anticipated. Many manufacturers opted not to buy excessive rough to avoid excess inventory levels. The midstream continued experiencing strong manufacturing demand during 2018/2019; however, businesses in this sector will need to continue adapting to the evolving landscape in order to ensure that the desired profitability is realised.

Global diamond supply is estimated to decrease marginally; within South Africa, it is estimated that production will decrease by on average 5-10% by volume for 2019/2020. These declines are due to the anticipated closure or downsizing of mining productions as mines reach the end of their lifespans, together with the fact that a large diamond producer is shifting from open-pit to underground mining.

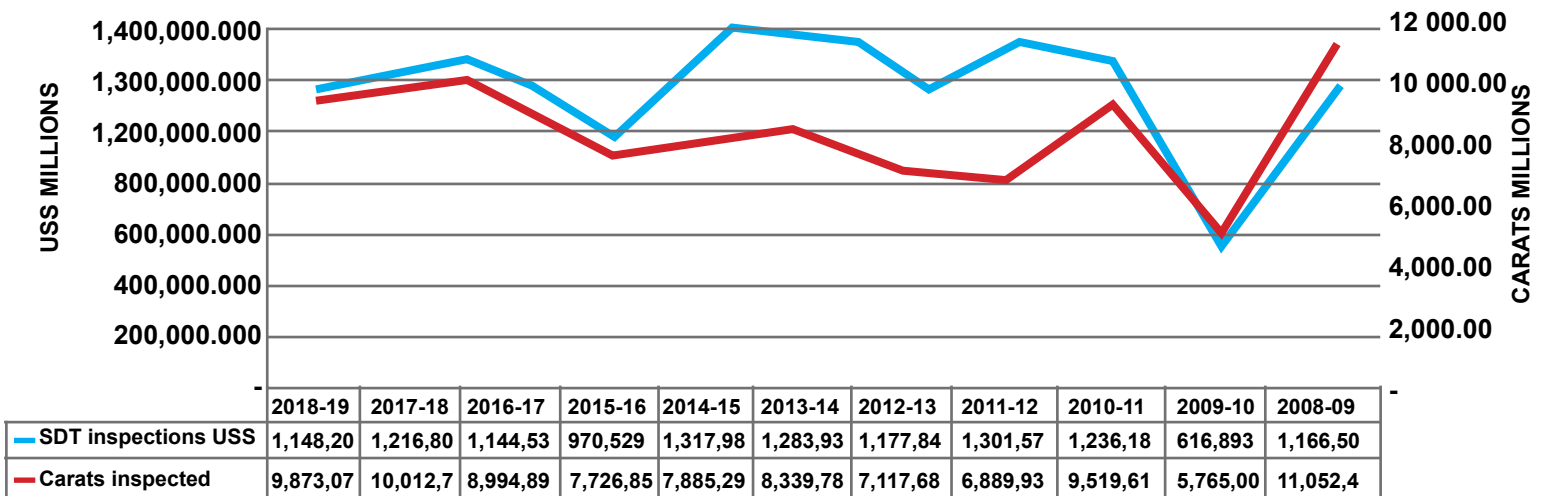
The State Diamond Trader continues to engage producers in an attempt to increase access to diamonds deemed suitable for beneficiation. Although this arrangement helps to alleviate some of the challenges faced in purchasing run-of-mine diamonds within difficult market conditions, it does have a negative impact on the State Diamond Trader's revenue. The general decline in production levels among compliant South African diamond producers translates to fewer diamonds being available to the State Diamond Trader within its legislated 10% access.

It is forecast that the challenges experienced during the second half of 2018/2019 will continue, with the result that rough diamond prices will remain sluggish in the first half of 2019. This is due to the challenges that were experienced during the second half of 2018/2019 and beyond.

South African Diamond Production – State Diamond Trader Inspections 2018/2019

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

State Diamond Trader Inspections (RSA Production) 2008-2018



Graph 2: State Diamond Trader inspection comparison

The graph above indicates a decrease of both carats (volume) and value inspected by 1% and 8% respectively presented to State Diamond Trader by 15 producers. The average price decreased from USD122 per carat in 2017/2018 to USD116 per carat for 2018/2019.

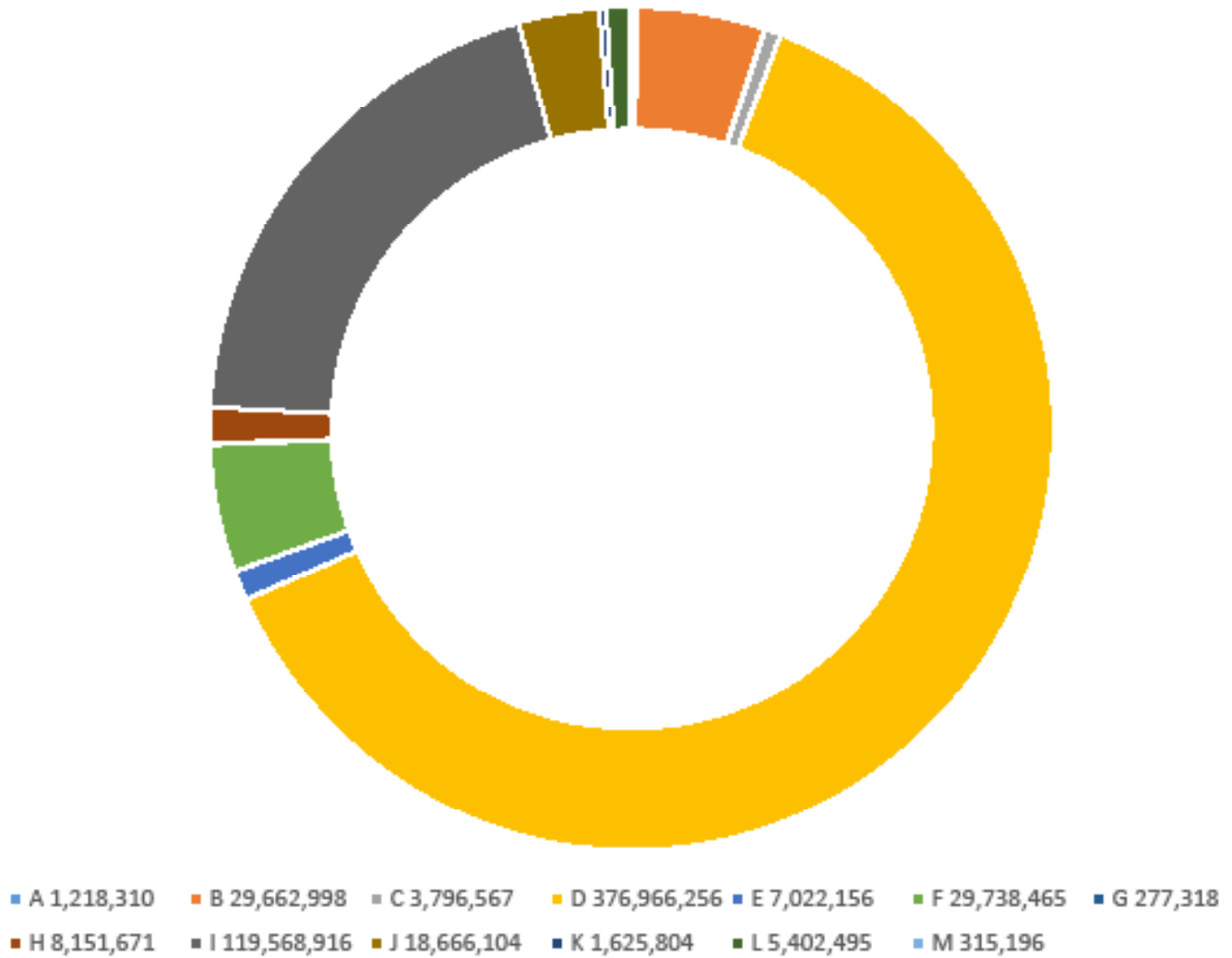
The decrease of the average price of inspected material is directly linked to the quality of rough diamonds produced, especially those unsuitable for cutting and polishing in South Africa. It is noted that a

comparison of the State Diamond Trader’s statistics with those issued under the jurisdiction of the Kimberley Process Certification Scheme reveals that the State Diamond Trader inspects a large majority (estimated at over 94%) of the diamonds produced in the country.

The challenge of non-compliance with the law persists. There are still producers that do not present their 100% production to the State Diamond Trader to inspect.

State Diamond Trader Purchases 2018-2019

Values in Rands



Graph 3: State Diamond Trader Purchases 2018-2019

Graph 3 indicates the distribution by value purchased from each legally compliant producer. The State Diamond Trader purchased rough

diamonds from 13 producers during the course of the year in comparison to 11 in the previous financial year

The average price of diamonds purchased by the State Diamond Trader was USD 367 per carat compared to the USD 487 per carat of the previous year. This reflects a 28% decrease in the average price which reflects the lower quality of diamonds purchased. The State Diamond Trader purchased 1% by carats and 4% by value of the rough diamonds it inspected under the terms of the Diamond Act. These relatively

low percentages reflect a fundamental inability to purchase consistently from the country’s diamond producers and the reasons for this are as follows:

- The constraints placed on the State Diamond Trader in terms of purchasing run-of-mine, which translates to all sizes and quality of diamonds from producers. These then include a high percentage of those diamonds that are not deemed suitable or preferred for beneficiation by State Diamond Trader clients.
- The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader’s capability to operate commercially and support its beneficiation mandate.

Summary and Budget Comparison 2018/2019

Table 2: Budget vs Actuals

		YTD Totals
Purchases	Budget	718,196,759
	Actual	606,118,802
	Diff	-112,077,957
	Diff %	-16
Sales	Budget	751,378,905
	Actual	624,878,531
	Diff	-126,500,374
	Diff %	-17
Gross Margin	Budget	30,487,774
	Actual	18,759,729
	Diff	-11,728,045
	Diff %	-38

The State Diamond Trader was not able to achieve its budgeted purchases, which were -16% difference against the target. Sales achieved were -17% against the target and gross margin attained was -38%. The factors that impacted this performance were as follows:

- The decline in production of one of the largest producers, which contributes on average 60% by value of the State Diamond Trader's total purchases, by an average of 14% by carats and 16 % by value;
- The inability to purchase rough diamonds at prices that could have resulted in sales to Beneficiators at the required margins;
- Lacklustre demand from Beneficiators for rough diamonds from representative samples selected (run-of-mine) deemed not suitable for local beneficiation; and
- Continued pressure exerted on the prices for cheaper and smaller sized rough diamonds.

It should be noted that a 3% gross margin achieved 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. Although the State Diamond Trader purchased only

3% of local production by value during the year, there is scope to increase this. However, this requires the resolution of a number of trading issues, in particular pertaining to the nature of South African diamond production and the price at which the State Diamond Trader is able to purchase. From a trading perspective, in order to attempt to mitigate these circumstances, which are outside of its control, the State Diamond Trader continues to trade on the basis of:

- Understanding rough diamond demand and price sensitivity of its clients;
- Active engagement with all compliant diamond producers; and
- Balancing clients' demands with the State Diamond Trader's commercial imperative.

Sales by Client Segment 2018/2019

Table 3: Sale by Segments

Segment	No. of clients	Carats	ZAR Sales
Equitable Access	20	6,367	59,074,182
Growth & Transformation	5	12,187	118,247,714
Growth & Transformation incubation	6	2,415	33,495,102
Niche and Large/Medium Beneficiators	15	49,448	374,388,564
Other	4	56,569	39,672,968
	50	126,986	624,878,531

*ZAR cost excludes shipping costs

The total number of clients that purchased rough diamonds from the State Diamond Trader during 2018-2019 increased from 42 (2017-2018) to 50. The increase in the number of clients sold to is attributed to the State Diamond Trader's continued efforts to ensure equitable access.

Table 4: Suitability for Beneficiation

2018-19	Carats	ZAR Sales	% of total	
			Carats	Value
Suitable for beneficiation	55,239	551,749,745	45%	89%
Not suitable for beneficiation	71,748	73,128,786	55%	11%

Sales of rough diamonds suitable for beneficiation increased to 89% of total sales (by value) in 2018/2019, compared to 81% in 2017/2018. By volume (carats), diamonds deemed suitable for beneficiation increased to 45% for 2018/2019 compared to 41% in 2017/2018. The increase in suitable diamonds for beneficiation is attributed to the effective execution of the State Diamond Trader's special purchasing model.

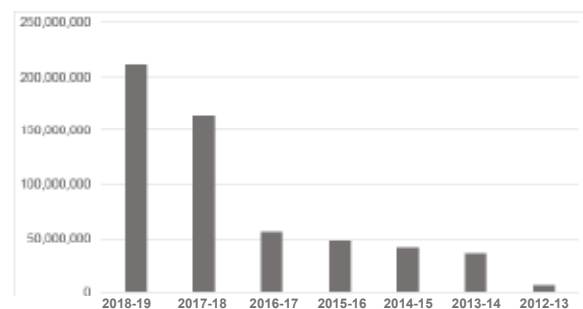
Sales to HDSA Clients



Graph 5: Number of HDSA clients sold to

Graph 5 indicates that the number of HDSA clients sold to increased to 31 for 2018/2019 as compared to the 26 HDSA clients sold to in 2017/2018. It is noteworthy that since the establishment of the State Diamond Trader, there has been a gradual increase in this regard, as the State Diamond Trader continues to facilitate the transformation of the diamond beneficiation industry by targeting HDSA clients previously unable to access rough diamonds produced in the country.

HDSA Sales ZAR



Graph 6: Sales by value to HDSA

With regard to value sold, there has been a noticeably significant increase in realised sales value from R163 million in 2017/2018 to R210 million in 2018/2019. This equates to increased sales value of R47,466,998 (29% increase). The reasons for the drastic increase in sales to HDSA is directly related to the fact that some clients were able to raise finance through partnerships and so participate in the pre-finance sales model. However, the State Diamond Trader is concerned that some clients that participate in the pre-finance model are doing so to gain a certain percentage on the sale of rough diamonds, without these clients benefitting from manufacturing or sharing in the profits of polished sales. State Diamond Trader have initiated meetings with the clients concerned.

Despite the disparity between rough and polished diamond prices during the year:

- Sales to companies with 100% HDSA ownership increased to 24% (R157 million) of the annual sales value in comparison to 21% (R125 million) in 2017/2018.
- Sales to companies with 51% black ownership purchases increased to R53 million during the financial year under review in comparison to R37 million sold in the 2017/2018 financial year. Three companies have 51% black ownership.

An increase in purchases from historically disadvantaged South African clients was noted in the financial year under review as most participated in the acquisition of larger productions on pre-finance. Clients purchased run-of-mine productions on primary allocation, which allowed a larger quantity of carats to be sold to historically disadvantaged South African clients. During the financial year under review, the State Diamond Trader allocated diamonds to 43 historically disadvantaged South African clients, of which 31 clients purchased.

State Diamond Trader Client Relations 2018-2019

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 addition, it has the responsibility for overseeing projects established to enable the growth of the State Diamond Trader's clients and general industry development.

The State Diamond Trader's Registered Clients – Addition and Removal

The State Diamond Trader has an annual process to advertise for and register clients wishing to purchase from it. The purpose of registering clients is to ensure compliance, in particular with the laws of the country pertaining to the holding of a valid beneficiation licence and South African Revenue Services Tax Clearance Certificate. The 2018/2019 process saw four applicants being accepted to the State Diamond Trader client list, all being HDSA owned companies. During the 2018/2019 financial year, the State Diamond Trader found cause to remove six clients from its list due to compliance reasons. The State Diamond Trader segments its clients in the following manner:

- **Growth and Transformation** – HDSA owned companies given preferential allocation in order to support business growth
- **Equitable Access** – small/medium HDSA owned beneficiating companies that have yet to develop or are in the process of developing their business models that will lead to growth
- **Niche and Large/Medium Beneficiators** – larger, non-HDSA owned beneficiating companies that can purchase larger quantities and a wider range of rough diamonds
- **Other** – not on the State Diamond Trader's list of registered clients sold to on approval of the Chief Executive Officer.

The State Diamond Trader ended the year with 77 registered clients within the following segments:

• Growth & Transformation	11
• Niche & Large/Medium Beneficiators	31
• Equitable Access	35

It should be noted that the number of clients within the Niche and Large/Medium category declined by three, while the Equitable Access category increased by two when compared to the previous financial year.

DIAMOND AND BENEFICIATION INDUSTRY DEVELOPMENT PROGRAMMES

One of the State Diamond Trader's key strategic objectives is to promote the growth and development of the local diamond and beneficiation industry. As such, the entity embarked on various initiatives aimed at contributing towards the development and growth of the local diamond and beneficiation industry during the financial year under review.

Annual sales and development of the Growth and Transformation segment

The Growth and Transformation segment includes the sub-segment called the Growth and Transformation incubation which comprises of six clients. Clients within this sub-segment are groomed for the Growth and Transformation segment.

Sales to the Growth and Transformation segment for 2018/2019 financial year, comparing them to the previous financial year

Table 6: Sales to the Growth and Transformation segment

	Financial Year 2018-2019	Financial Year 2017-2018	% Difference
Sales to Growth & Transformation ZAR	151,742,816	117,742,770	29%
Number of productions purchased by State Diamond Trader	79	67	18%
Caratage Purchased by State Diamond Trader	126,562	116,880	8%
Caratage sold to Growth & Transformation	14,602	12,301	19%

Sales within this segment for the 2018/2019 financial year increased by 29% compared to the 2017/2018 financial year due to the following reasons:

- All 11 clients in this segment purchased utilising the primary and secondary allocation.
- Client appetite for rough diamonds increased.
- The number of productions purchased increased by 18% during the year under review compared to 2017/2018 financial year.
- During the year under review, the 11 clients employed a total number of 56 employees in comparison to 50 employees in the 2017/2018 financial year.
- The table above comprises of sales to Growth and Transformation and Growth and Transformation Incubation. Sales to Growth and Transformation was R118 million and Growth and Transformation incubation segment was R33 million during the 2018/2019 financial year.

Growth and Transformation segment clients are still faced with challenges which include the inconsistent supply of rough diamonds, rough diamond prices being higher than polished prices leading to less desired profits, and the volatility of the rand/dollar exchange rate. Access to finance remains a challenge as most clients have to partner with companies when it comes to larger purchases.

The baseline for annual sales to clients participating in both local and international shows

The State Diamond Trader drafted a framework to establish how the entity can increase the revenue of clients participating in local and international shows initiated and facilitated by the State Diamond Trader. In the 2017/2018 financial year, sales to clients who participated in trade shows amounted R124 million overall, a figure which increased to R221 million in 2018/2019. This resulted in a revenue increase of 78% over 2017/2018 overall. Clients who participated in local and international exhibitions enjoyed increased revenue because they were able to increase their range of purchases to satisfy an international client base. Of 27 clients that participated in local and international exhibitions in 2017/2018, only 10 participated again in 2018/2019. The decline in the size of Jewelllex has stopped clients from wanting to participate in the show as they do not see value in exhibiting at the show.

Jewelllex Africa has declined significantly over the past few years in terms of foot traffic and the number of exhibitors who participate has declined. It seems as if the show has lost its spark; clients who exhibited through the DTI did not find any benefit from exhibiting at the show from a transaction point of view.

Enterprise Development Programme (EDP)

The State Diamond Trader continued facilitating the Enterprise Development Programme (EDP), which was launched in January 2015 in collaboration with key industry stakeholders. The programme to date had 27 trainees being trained within the diamond industry. The time frame of the programme is for three years, to provide technical training to the participants in diamond manufacturing. The first two groups of eight trainees successfully completed the programme and five resigned, resulting in the number of trainees left within the programme being 14 at the end of the financial year.

Table 7: EDP participants that either left or completed the programme

Number of trainees	Status
5	Resigned from the programme
6	Employed by beneficiation companies after completion of programme
1	Beneficiation client of the State Diamond Trader
1	Rough diamond dealer
13	

The above table highlights the status of those that have either completed the programme or have left before the completion of the programme with reasons.

In partnership with a key industry stakeholder, the State Diamond Trader agreed to send two groups comprising nine trainees for further training in a diamond factory in Surat, India. The first group of four female trainees were trained for three months from July to September 2018; the second group of five were trained for two months from January 2019 to February 2019. Training in India is a vital aspect of the programme as it exposes the trainees to a different culture of working and processing diamonds. The trainees are also exposed to polishing smaller diamonds deemed economically unviable for polishing

in South Africa. Since access to finance is the primary challenge that these trainees face in setting up their operations is access to finance, the State Diamond Trader continues to seek partnership with entities able to provide financing and other support.

TARI Students

The State Diamond Trader continues to prioritise youth skills development within the jewellery fabrication industry as a powerful tool to ensure innovation-driven growth, inclusive development and sustainable livelihoods. The entity partnered with the Mining Qualifications Authority (MQA) on the TARI Student programme as a vital core for skills development in the country. The programme is a partnership between MQA and the Department of Higher Education whereby jewellery designers and watchmakers were sent to Italy for training in their respective fields. The two-year training programme's strategic focus is to expose South African designers to world-class designs and impart valuable skills.

The State Diamond Trader committed to playing an important catalytic role towards the success of the programme through an agreement to facilitate and implement the Exit Training Programme upon the students' return. The Tari exit programme came to an end on 31 July 2018. Ten students completed the exit programme facilitated by the State Diamond Trader, MQA and accredited coaches within the jewellery industry. During the financial year under review, four students underwent their trade tests and all passed.

Table 8: Status of Tari Students

Number of trainees	Status
2	Established own business in jewellery manufacturing
1	Studying language in Italy
2	Studying CAD at Design @ 50
1	Studying Engineering
1	Employed at Jewellery company
7	

The above table highlights the status of those students that left the programme before the exit date with reasons.

The tools and equipment stipulated in the Service Level Agreement were procured and delivered to the students at the beginning of 2019. It should be noted that the students did not receive all the tools and equipment they required due to the limited budget set aside to purchase the tools. This resulted in the students not having many of the essential tools and equipment needed as start-up jewellery manufacturers. The State Diamond Trader and MQA have identified the need to ensure that issues around Trade Tests, Jewellery Permits and additional equipment receive attention in order to ensure the successful execution of the programme. At the end of January 2019, two (2) students submitted their Jewellers Permit applications to the South African Diamond and Precious Minerals Regulator; thus far one of the applications is in the final stages of approval.

FACILITATING ACCESS TO LOCAL AND INTERNATIONAL MARKETS

The State Diamond Trader continued in its pursuit of facilitating market access for its clients as well as promoting South Africa's diamond and beneficiation as a preferred and competitive industry.

Penetrating International Markets

The year 2018 marked South Africa's sixth participation at the Hong Kong Jewellery and Gem Fair, the world's premier trading hub for jewellery and diamonds. As accustomed, the State Diamond Trader facilitated the country's national pavilion at the show, inviting ten (10) diamond manufacturers to exhibit and sell their diamonds while promoting their companies and South African produced diamonds. The South African delegation, led by the Deputy Minister of Mineral Resources, Mr Godfrey Oliphant (MP), participated in the show and other relevant side events and meetings aimed at attracting investment to the diamond beneficiation industry. Once more, the country's participation at the show was positively overwhelming, further intensifying South Africa's footprint and the promotion of the Republic's diamond and beneficiation industry. For the first time this year, with the support

of the South African Consul General in Hong Kong, the State Diamond Trader and its clients collaborated with the Royal House of Mandela in hosting the Nelson Mandela 100th centenary year. The event provided an opportunity for South African diamond manufacturers to showcase their finest and most beautiful stones to a select number of diamond buyers and investors, who were treated to a "South African Diamond Night" and purchased stones instantly. The concerted promotional initiatives in Hong Kong resulted in overall sales of R75 million (R34 million being sold at the show and R41 million sold at the Nelson Mandela Diamond Centenary side event), a significant increase from the 2017 participation in which manufacturers' sales at the show amounted to R17 million. Such outcomes further demonstrate the global community's increased demand for diamonds produced in South Africa. It is the State Diamond Trader's intention to continue to build on this going forward and provide such platforms and exposure for South African diamond manufacturers to exhibit and sell their polished goods.

Penetrating Local Markets

In line with its efforts to infiltrate the domestic market and ensure its commitment to ensuring transformation in the South African economy, alleviating unemployment and retaining existing employment opportunities through skills deployment programmes, the State Diamond Trader participated in Jewelllex Africa 2018 and the 2019 Proudly South African (PSA) Buy Local Summit and Expo. Diamond and jewellery manufacturers were invited to exhibit under the SDT's umbrella in order to provide an opportunity for them to promote and create awareness of their business. The State Diamond Trader also participated in investment promotion initiatives facilitated by its shareholder, the DMR, including 2019 Africa Mining Indaba, Ministerial Budget Vote and Learner Focus Week, with the aim of promoting the country's diamond beneficiation industry at these programmes. For the first time, the State Diamond Trader invited diamond and jewellery manufacturers to use the Mining Indaba and Budget Vote as platforms for them to promote their businesses. This proved to be an effective approach affording manufacturers market access. The State Diamond Trader continues to create awareness and promote itself and the diamond industry by participating in various platforms, including career guidance events.

Programmes for the new financial year

During the year under review, the process of reviewing the State Diamond Trader's Marketing and Communication strategy commenced. The strategy will guide the entity's marketing and communication efforts and ensure structured efforts. The entity also commenced with the process and project of re-branding itself with the aim of aligning its identity with its mandate to promote the diamond and beneficiation industry as well as to revitalise its corporate identity to ensure that it is positioned for growth in the diamond market.



SUSTAINABILITY
DEVELOPMENT

CORPORATE SUSTAINABILITY

The King IV Report on corporate governance advocates integrated thinking which must take into account the interconnectedness and interdependencies of varying factors affecting the State Diamond Trader and its ability to create value over time.

Furthermore, in consideration of its effect and impact on society as guided by the King IV Report, the State Diamond Trader recognises the interdependencies and interconnectedness of various factors in its operating environment. The Board is in the process of defining its policies and processes more articulately. Meanwhile, activities impacting on corporate sustainability undertaken during the year are outlined below.

CORPORATE SOCIAL RESPONSIBILITY

The State Diamond Trader values the importance of positively impacting communities and has adopted an approach of contributing towards sustainable development by delivering social and economic benefits to its surrounding communities. The entity constantly strives to conduct its business in an ethical manner, taking account of its social responsibility in consideration of human rights.

In living up to our values of promoting a caring attitude, not only towards our clients and stakeholders but also towards the general disadvantaged South African populace, the State Diamond Trader is committed to making a positive difference to the lives of the disadvantaged communities.

The State Diamond Trader and its clients commemorated the 100 years of Nelson Mandela's legacy by visiting Leratong Joy for One, a children's home in the heart of Alexander in Johannesburg. On 20 July 2018, the State Diamond Trader dedicated time to interacting with and motivating children at the home as well as treating them to a braai. As part

of their effort to make a difference, staff contributed monetarily as well as donating clothing towards the home. All funds raised were used to buy much-needed groceries and toiletries. Clients also assisted in this initiative by donating groceries and money, which was used to buy additional groceries and toiletries.

Our sincere gratitude to all our clients who partnered with us in making a difference to the lives of the children of Alexander. The entity intends to make its own investments into Corporate Social Responsibility going forward.

INVESTING IN OUR PEOPLE

State Diamond Trader Employees

The State Diamond Trader trained 61% of its employees during the year under review. The Board is in the process of approving a bursary policy for staff aimed at augmenting the entity's annually prepared Workplace Skills Plan.

Investing in skills development for the Industry

During the year under review, the entity invested in training 27 trainees in the ED Project, 24 trainees for Jewellery Manufacturing and four (4) trainees in watch-making in partnership with the MQA.

STAKEHOLDER MANAGEMENT

The Board recognises that the State Diamond Trader's relationship with its stakeholders and its ability to create value for itself depend on its ability to create value for others. During the year under review, the Board recognised the need for a more focused approach to stakeholder management in order to achieve balanced interests as guided by the King IV Report on corporate governance. The following stakeholders were engaged, inter alia, during the year under review:

STAKEHOLDER MANAGEMENT FOR THE YEAR ENDED ON 31 MARCH 2019

STAKEHOLDER GROUP	OBJECTIVES OF STAKEHOLDER MANAGEMENT FOR THE STAKEHOLDER GROUP	RELEVANCE OF STAKEHOLDER GROUP
Parliament of the Republic of South Africa	To report, keep informed, engage	The State Diamond Trader was established through an act of Parliament to which it is accountable. The Public Finance Management Act applies to the entity in terms of Section 14(2) of the Diamonds Act.
Executive Authority	To report, engage and keep informed	The Executive Authority is the Shareholder representative nominated by the Republic of South Africa as such for the State Diamond Trader in terms of the Diamonds Act. The Entity reports to the Executive Authority in terms of the PFMA.
Employees	To engage, keep informed, to facilitate optimum output levels for operations	Employees are the engine of the organisation
Regulators	Compliance, engagements and to keep informed	Continuous engagement with stakeholder group for the purposes of compliance management and for sustainability
Clients	Engagement, collaboration, keeping the clients satisfied, keeping the clients informed	The State Diamond Trader is mandated by the Diamonds Act 56 of 1986, as amended, to establish and maintain a client base for local diamond beneficiation and to sell its purchases to local diamond beneficiaries who are part of the client base
Key players in the Diamond Industry	To engage, collaborate and gather market intelligence for operations	Key players in the diamond industry from producing sector to downstream activities all play a role in the implementation of the mandate of the entity.
Media	Keep informed	Media facilitates the supply of information to the general public



FINANCIAL PERFORMANCE

AUDIT AND RISK COMMITTEE REPORT

We are pleased to present our report for the year ended 31 March 2019.

The Audit and Risk Committee was established terms of Section 77 of the PFMA, read with Treasury Regulation 27. Its objective is to assist the Board to maintain an effective, efficient and transparent system of financial and risk management and internal control. The Committee has adopted formal terms of reference approved by the Board.

Audit and Risk Committee's Terms of Reference

The Audit and Risk Committee functions under formal terms of reference approved by the Board. The Committee has conducted its affairs in compliance with the terms of reference and has discharged its responsibilities contained therein.

Role and responsibilities

The Audit and Risk Committee's role includes statutory duties, as well as further responsibilities assigned to it by the Board. The Audit and Risk Committee is satisfied by the level of execution of its duties during the year under review.

External auditors and independence

The Audit and Risk Committee is satisfied that the external auditor, appointed in terms of the Public Audit Act, Act No. 25 of 2004, is independent. The Committee, in consultation with management, agreed to the audit strategy and budget for the year under review. Officials from the office of the Auditor-General is invited to attend all Audit and Risk Committee meetings and attended all meetings of the Committee during the year under review.

Financial Statements and Accounting Practices

The Audit and Risk Committee has reviewed the accounting policies and financial statements of the State Diamond Trader and is satisfied that they are appropriate and comply with International Financial Reporting Standards (IFRS).

Internal controls

The Audit and Risk Committee oversaw the internal audit process in terms of which the effectiveness of the entity's system of internal control and risk assessments, including internal financial controls, was assessed.

Governance of risk

The Board has assigned oversight of the State Diamond Trader's risk management function to the Audit and Risk Committee. The Committee has an oversight role in respect of the entity's Risk Register, financial reporting risks, internal controls, fraud risk, and information technology risk.

Internal Audit


The Audit and Risk Committee is responsible for ensuring that the entity's internal audit function is independent and able to discharge its duties. Furthermore, the Committee oversees cooperation between the internal and external auditors and serves as a link between the Board and these assurance functions. The internal audit function reports to the Committee and is responsible for reviewing and providing assurance on the adequacy of the internal control environment across the entity's operations.

Going Concern

The annual financial statements were prepared on a going-concern basis, and the Committee is satisfied that the entity is financially sound and has adequate resources to continue operating for the foreseeable future.

Conclusion

I wish to express my appreciation to the Board and to the members of the Audit and Risk Committee for their support and contributions during the year, as well as to all three incumbents that held the position of CEO during the year under review. Furthermore, I wish to express my appreciation to external and internal auditors for their contribution in ensuring that our reports are audited in a fair and professional manner.



Mr Imtiaz Goondiwalla
Chairperson of the Audit and Risk Committee
August 2019

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

Statement of responsibility by the directors, who constitute the Accounting Authority of the State Diamond Trader for the year ended 31 March 2019

The Board is required by the Public Finance Management Act 1 of 1999 (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report.

The Board has a responsibility to ensure that the financial statements fairly represent the affairs of the State Diamond Trader as at the end of the financial year and that the results of operations and cash flows are in conformity with International Financial Reporting Standard (IFRS) and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

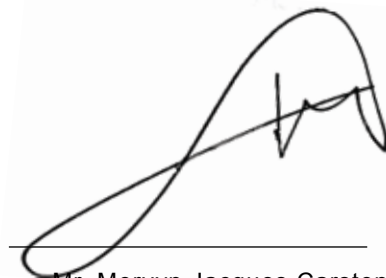
The Board is satisfied that the financial statements presented herein represent the state of affairs of the State Diamond Trader, its financial results, its performance against predetermined objectives, and its financial position at the end of the financial year. Furthermore, the Board is satisfied that the results of operations and cash flows are in conformity with International Financial Reporting Standard (IFRS) and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board establishes policies and sets of standards that are designed to provide reasonable assurance against material misstatements and losses. This enables the Board to execute its responsibilities as required. The State Diamond Trader maintains internal financial controls, thereby providing 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 strategic objectives, which provide strategic direction to management on the expected performance and outcomes. These are regularly reviewed to ensure compliance and relevance.

The financial statements that appear hereunder were approved by the Accounting Authority on 27 May 2019 and are signed on its behalf by:



Mr. Imtiaz Goondiwalla
**Chairperson of the Audit and Risk
Committee**



Mr. Mervyn Jacques Carstens
Chairperson of the Board

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE STATE DIAMOND TRADER

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the State Diamond Trader set out on pages 63 to 87, which comprise the statement of financial position as at 31 March 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and Diamonds Amendment Act (Act No. 29 of 2005) (DAA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the public entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the accounting authority for the financial statements

6. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the PFMA and DAA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against

predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objectives presented in the annual performance report of the public entity for the year ended 31 March 2019:

Strategic objectives	Pages in the annual performance report
Strategic objective 1 - increase the amount by carats of rough diamonds sold on primary allocation by 10 percent annually	21 - 21
Strategic objective 2 - increase local beneficiation of 3gr gem quality and all sizes of near gem quality and industrial diamonds by SDT clients to 10 000 carats per annum by 2023	22 - 22
Strategic objective 3 - increase sales to black owned companies as a percentage of total SDT sales by mass to 30 percent by 2022/23	22 -22
Strategic objective 4 - meet 30 percent by mass rough diamond requirements of clients by 2022/23	23 - 23

13. I performed procedures to determine whether the reported performance information was

properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the measures and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Strategic objective 4 - meet 30 percent by mass rough diamond requirements of clients by 2022/23

Percentage of total SDT client rough requirements met (Measure to apply in 2019/20 once process for meeting client rough requirements is approved)

15. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of process for meeting clients' rough diamonds requirements developed. This was due to inadequate technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of process for meeting clients' rough diamonds requirements developed as reported in the annual performance report.
16. The planned measure was percentage of total of State Diamond Trader client's rough diamond requirements met (measure to apply in 2019/20 once process for meeting client rough requirements is approved), but the reported achievement referred to was process for meeting clients rough diamonds requirements developed.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for these strategic objectives:
 - Strategic objective 1 - increase the amount by carats of rough diamonds sold on primary allocation by 10 percent annually

- Strategic objective 2 - increase local beneficiation of 3gr gem quality and all sizes of near gem quality and industrial diamonds by SDT clients to 10 000 carats per annum by 2023
- Strategic objective 3 - increase sales to black owned companies as a percentage of total SDT sales by mass to 30 percent by 2022/23

Other matter

18. I draw attention to the matter below.

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Increase the amount by carats of rough diamonds sold on primary allocation by 10 percent annually and Increase sales to black owned companies as a percentage of total SDT sales by mass to 30 percent by 2022/23. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

20. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
21. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

22. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) (a) and (b) of the PFMA. Material misstatements of current liabilities, revenue, cost of sales, financial instruments identified by the auditors in the submitted financial statement were corrected and supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

23. Annual returns of income tax were not submitted to the tax exemption unit of the South African Revenue Services, as required by section 10(1) (cA)(i) of the Income Tax Act.

Expenditure management

24. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R1 883 171 as disclosed in note 28 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by extension of contract without prior approval from the relevant treasury which is a non-compliance with paragraph 9.1 and 9.2 of Treasury instruction note 3 of 2016-17. Irregular expenditure amounting to R1 698 736 was incurred on the lease of a building.

Procurement and contract management

25. Some of the goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

Other information

26. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected strategic objectives presented in the annual performance report that have been specifically reported in this auditor's report.
27. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
28. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise

29. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

30. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

31. The accounting authority did not exercise adequate oversight responsibility over internal controls relating to compliance with key laws and regulations and the preparation of the annual financial statements and the annual performance report.

32. Senior management did not ensure that sufficient monitoring controls were in place to prevent non-compliance with laws and regulations relating to expenditure management and procurement and contract management.

33. Senior management did not ensure that sufficient controls are in place to prepare accurate and complete financial statements and performance reports that are supported and evidenced by reliable information.

Other reports

34. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigation

35. An independent consultant was investigating an allegation of the possible misappropriation of the public entity's assets at the request of the public entity, covering the period 10 January 2019 to 4 February 2019. The outcome of the investigation is expected on 15 August 2019.

Auditor - General

Johannesburg

31 July 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE - AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected strategic objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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 public entity's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
 - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the public entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

	Notes	2019 R	2018 R
Assets			
Non-current assets		694,903	749,828
Property and equipment	6	694,903	749,828
Current assets		119,031,945	62,606,392*
Inventory	7	17,957,735	20,971,889
Trade and other receivables	8	1,331,009	2,925,228*
Cash and cash equivalents	9	99,743,201	38,709,275
Total Assets		119,726,848	63,356,220*
Equity and Liabilities			
Equity		58,046,618	61,104,757*
Retained income		58,046,618	61,104,757*
Non-current liabilities		-	-
Current liabilities		61,680,230	2,251,462
Loans and borrowings	10	-	-
Trade and other payables	11	60,765,887	1,373,768
Operating lease liability		34,025	9,052
Incentive bonus provision	12	880,318	868,642
Total equity and liabilities		119,726,848	63,356,220*

*There is a prior year adjustment of R662,764 relating to an incorrect other income recognition

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 R	2018 R
Revenue	13	624,878,531	769,096,151
Cost of sales	14	(606,118,802)	(742,214,312)
Gross profit		18,759,729	26,881,839
Other income	15	903,678	3,887,744*
Administrative expenses	16	(25,408,425)	(25,141,888)
Profit/(Loss) from operating activities		(5,745,017)	5,627,695
Finance income	17	2,964,447	3,091,801
Finance expenses	18	(277,569)	(876,068)
Profit/(Loss) before income tax		(3,058,139)	7,843,428*
Profit /(Loss) for the period		(3,058,139)	7,843,428*
Total comprehensive income/(Loss)		(3,058,139)	7,843,428*

*There is a prior year adjustment of R662,764 relating to an incorrect other income recognition.

STATEMENT CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Retained income R
Balance at 1 April 2017	53,261,329
Profit for the year	7,843,428*
	<hr/>
Balance at 31 March 2018	61,104,757
Loss for the year	(3,058,139)
	<hr/>
Balance at 31 March 2019	<u>58,046,618</u>

**There is a prior year adjustment of R662,764 relating to an incorrect other income recognition.*

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 R	2018 R
Cash flows from Operating activities			
Cash generated by operations	19	58,581,182	4,098,471
Interest paid		(277,569)	(876,068)
Interest received		2,964,447	3,091,801
Net cash inflow from operations		61,268,060	6,314,204
Cash flows from investing activities			
Acquisition of equipment		(234,134)	(80,654)
Net cash outflow from investing activities		(234,134)	(80,654)
Revolving Credit Facility amount drawn during the reporting period		36,251,234	35,160,170
Revolving Credit Facility amount paid during the reporting period		(36,251,234)	(35,160,170)
Net cash outflow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		61,033,926	6,233,550
Cash and cash equivalents at the beginning of the period		38,709,275	32,475,725
Cash and cash equivalents at the end of the period		99,743,201	38,709,275

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. REPORTING ENTITY

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

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with, and comply with, the International Financial Report Standard (IFRS) and the PFMA.

b) Basis of measurement

The financial statements have been prepared in accordance with the going-concern principle on the historical basis.

c) And presentation currency

These financial statements are presented in Rands, which is the State Diamond Trader'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 IFRS, 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. The practice 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3(m): Accounting estimates and judgements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements,

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 State Diamond Trader has identified the contract with the customer which is concluded orally as per the customary practices within the diamond industry.
- The State Diamond Trader has satisfied the performance obligation which varies in accordance to the method of sale.
- The entity has determined the transaction price, which is the selling price that both the entity and the customer agree on.
- The entity has allocated the transaction price to the performance obligation.
- The SDT will then recognise revenue when (or as) it satisfies the performance obligation.

b) Cost of Sales

Cost of sales comprises of cost of purchasing the goods, the cost of bringing the merchandise to the State Diamond Trader premises and the cost of distributing the goods.

c) Expenditure

Payment of cash or cash-equivalent for goods or services, or a charge against available funds in settlement of an obligation as evidenced by an invoice, receipt, voucher or other such documents.

Finance Income and Expense

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

Finance expense comprises 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.

e) 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.

f) 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 State Diamond Trader; and
- the cost of the item can be measured reliably. All property and equipment are 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 State Diamond Trader 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.

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:

Asset category	Depreciation rate
Furniture and fittings	10%
*Computer hardware	20%
Security equipment	10%
Diamond equipment	10%
Leasehold improvements	Over the lesser of the useful life or the remaining period of the lease term

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.

g) 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.

Classification

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

Recognition

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

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 measured at fair value and subsequently measured at amortised cost.

• Trade and other receivables (accounts receivable)

Initially, the State Diamond Trader shall measure its trade receivables at their transaction price due to the fact they do not contain a financing component. After initial recognition the State Diamond Trader will measure a financial asset at fair value through profit and loss.

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

The State Diamond Trader will initially measure financial liabilities at transaction price. After initial recognition the entity shall measure financial liability at amortised cost. These are subject to normal trade credit terms and relatively short payment cycles. Trade and other payables are classified as financial liabilities.

Recognition and Measurement of Impairment

The SDT shall recognise and measure the expected credit losses on a financial asset measured at fair value through profit and loss.

Derecognition

The 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 IFRS 9.

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

Loans and Borrowings

The State Diamond Trader will initially measure loans and borrowings at transaction price. After initial recognition the entity shall measure financial liability at amortised cost.

h) 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.

i) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the State Diamond Trader has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the Income Statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on the Statement of Financial Position.

t) Employee benefits

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

k) Income tax

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

l) Related parties

The 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, who are persons having authority and responsibility for planning, directing and controlling the activities of the State Diamond Trader, directly or indirectly, including any members of the accounting authority (whether executive or otherwise) of the State Diamond Trader.

m) 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:

- **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.

- **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.

n) 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.

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.

o) Un-recognised Commitments

Un-recognised commitments arise when the SDT has ordered goods/services in the normal course of business but for which no delivery has taken place and the contract has been approved and awarded at the reporting date.

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, and
- market risk.

The financial risk management 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.

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.

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.

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 State Diamond Trader's interest rate risk arises from revolving credit facility. The facility is issued at prime plus 2% and on that basis, changes in prime expose the company to cash flow interest rate risk. The revolving credit facility was paid in full at year-end.

	31 March 2019	31 March 2018
In R	Carrying Amount	Carrying Amount
Cash and cash equivalents	99,743,201	38,709,275
Trade and other payables	60,200,911	1,373,768
Trade and other receivables	1,196,946	2,592,811

Capital management

The State Diamond Trader is a government business enterprise and does not have any share capital. The State Diamond Trader is not funded by government and it is 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.

6. ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

- Accounting policies are the specific principles, bases, conventions, rules and practices applied by the State Diamond Trader in preparing and presenting financial statements.
- A change in in accounting estimate is an adjustment

of the carrying amount of an asset or liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and accordingly are not corrections of errors.

- Prior Period errors are omissions from and misstatements in the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of reliable. This will be disclosed as a specific note in the financial statements.

With reference to paragraph 6(a) and 6(b), in terms of IFRS 15, both prior year and current figures does not warrant any change due to the implementation of the new standard. The figures disclosed in terms of note 13 are not affected by the conditions set out in IFRS 15. The revenue disclosed in note 13 is in terms of contracts with customers only.

With reference to paragraph 6(a) and 6(b), in terms of IFRS 9, both prior year and current figures does not warrant any change due to the implementation of the new standard. The figures disclosed in terms of note 4 are not affected by the conditions set out in IFRS 9.

NEW STANDARDS AND INTERPRETATIONS EFFECTIVE FROM 1 JANUARY 2018

A number of new standards, amendments to standards and interpretations issued that were not yet adopted since 1 January 2018, have to be applied in preparing these financial statements:

Standard or interpretation	Detail	Effective date	Expected Impact
IAS 40 (amendment)	<p>Investment property</p> <p>The amendment clarifies and provides more guidance for transfers of property under construction to Investment property.</p> <p>The amendment will be applied retrospectively and will not have a material impact on the group's financial statements.</p> <p>Annual Improvements 2014-2016 Cycle: Deletion of short-term exemptions that are no longer applicable</p>	Annual periods beginning on or after 1 January 2018.	No Impact
IFRS 1, First-time Adoption of International Financial Reporting Standards	Annual Improvements 2014-2016 Cycle: Deletion of short-term exemptions that are no longer applicable	1 January 2018	Impacting on the SDT
IFRS 2, Share-based Payment	<p>Classification and Measurement of Share-based Payment Transactions: A collection of three distinct narrow-scope amendments dealing with classification and measurement of share-based payments. The amendments address:</p> <ul style="list-style-type: none"> • the effects of vesting conditions on the measurement of a cash-settled share-based payment; • the accounting requirements for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled; and • classification of share-based payment transactions with net settlement features. 	1 January 2018	No Impact
IFRS 3, Business Combinations	Annual Improvements 2015 - 2017 Cycle: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.	1 January 2019	No Impact

Standard or interpretation	Detail	Effective date	Expected Impact
IFRS 4, Insurance Contracts	<p>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</p> <p>Two amendments to IFRS 4 to address the interaction between IFRS 4 and IFRS 9:</p> <ul style="list-style-type: none"> • A temporary exemption from IFRS 9 has been granted to insurers that meet specified criteria; and • An optional accounting policy choice has been introduced to allow an insurer to apply the overlay approach to designated financial assets when it first applies IFRS 9. 	1 January 2018	No Impact
IFRS 9 (new)	<p>Financial instruments</p> <p>The standard requires financial assets to be measured either at amortised cost or fair value, depending on the business model under which they are held and the cash flow characteristics of the instrument.</p> <p>The standard contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised.</p> <p>The new standard will be applied retrospectively and could have a material impact on the group's financial statements. The group has not yet quantified the potential impact of the new standard on the group.</p>	Annual periods beginning on or after 1 January 2018.	Impacting on SDT

Standard or interpretation	Detail	Effective date	Expected Impact
IFRS 9 with IFRS 4 (amendment)	<p>The amendments address reservations for issuing the IFRS 9 and IFRS 4 on different effective dates as there would be accounting mismatch and volatility that will arise in profit or loss if IFRS 9 is applied before the new insurance contract.</p> <p>Two approaches were included in the amended IFRS 4 to address issues raised by interested parties which are the following:</p> <ul style="list-style-type: none"> • The overlay approach: With this approach, entities will reclassify from profit or loss a certain portion of income and expenses to OCI for financial assets measured at fair value through profit or loss through application of IFRS 9. These financial assets classified at fair value through profit or loss should not be instruments that would have been classified as such under IAS 39 and the financial assets should relate to contracts that fall within the scope of IFRS 4. • Temporary exemption approach: With this approach, entities whose activities are predominantly issuing insurance contracts and have never applied any version of IFRS 9 will be exempted from applying IFRS 9 up till the earlier of 1 January 2021 and the adoption of the new IFRS 4 standard. 	Annual periods beginning on or after 1 January 2018.	Minimal Impact on the SDT
IFRS 11 Joint Arrangements	<p>The amendments will be applied retrospectively and will not have a material impact on the group's financial statements.</p> <p>Annual Improvements 2015 – 2017 Cycle:</p> <p>Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</p>	January 2019	No Impact

Standard or interpretation	Detail	Effective date	Expected Impact
IFRS 15 (new)	<p>Revenue from contracts with customers</p> <p>The IFRS replaces IAS 18: Revenue and provides a single, principle-based, five-step model to be applied to all contracts with customers. The steps involve identifying the contract, identifying the performance obligations under the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognising revenue when the entity satisfies a performance obligation.</p>	Annual periods beginning on or after 1 January 2018.	Minimal Impact. The underlying principle of revenue recognition still apply
	<p>Clarification to IFRS 15 revenue from contracts with customers:</p> <p>The amendment does not change the underlying principles of IFRS 15 but it provides clarity as to how to apply those principles.</p> <p>The amendments clarify how to identify a performance obligation in a contract; determine whether a company is a principal or an agent; and determine whether the revenue from granting a licence should be recognised at a point in time or over time. The amendments also provide reliefs to reduce cost and complexity for a company when it first applies the new standard.</p> <p>The new standard could have a material impact on the group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The group has not yet quantified the potential impact of the new standard on the group.</p>	Annual periods beginning on or after 1 January 2018.	

Standard or interpretation	Detail	Effective date	Expected Impact
IFRS 16 (new)	<p>Leases</p> <p>The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases.</p> <p>The new standard could have a material impact on the group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The group has not yet quantified the potential impact of the new standard on the group.</p>	Annual periods beginning on or after 1 January 2019.	Impacting on the SDT 1 January 2019.
IFRS 17 Insurance contracts	<p>IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.</p> <ul style="list-style-type: none"> • IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. • The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. • Insurance contracts are required to be measured based only on the obligations created by the contracts. • An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. • This standard replaces IFRS 4 – Insurance contracts. 	January 2019	No impact

Standard or interpretation	Detail	Effective date	Expected Impact
IAS 23 Borrowing Costs	Annual Improvements 2015 -2017 Cycle: • The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.	January 2019	No Impact
IAS 28 Investments in Associates and Joint Ventures	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Annual Improvements 2014-2016 Cycle: Clarification that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture. Long-term interest in Associates and Joint Ventures: Clarification provided that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 2019	No Impact
IFRIC 22 Foreign Currency Transactions and Advance Consideration	This interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency	January 2019	No Impact

6. PROPERTY AND EQUIPMENT

	Leasehold Improvements R	Furniture and Fittings R	Security Equipment R	Computers Equipment R	Diamond Equipment R	Total R
Year ended 31 March 2019						
Opening net carrying amount	14,800	184,362	189,893	140,440	220,332	749,827
Gross carrying amount	475,733	651,505	953,425	1,375,392	469,421	3,925,476
Accumulated depreciation	(460,933)	(467,143)	(763,532)	(1,234,952)	(249,089)	(3,175,649)
Additions	-	31,694	-	202,440	-	234,134
Depreciation	(1,603)	(52,142)	(63,533)	(122,177)	(49,602)	(289,058)
Closing net carrying amount	13,197	163,913	126,360	220,703	170,730	694,903
Gross carrying amount	475,733	683,199	953,425	1,577,832	469,421	4,159,610
Accumulated depreciation	(462,536)	(519,286)	(827,065)	(1,357,129)	(298,691)	(3,464,707)
Year ended 31 March 2018						
Opening net carrying amount	-	248,359	281,533	151,718	255,841	937,450
Gross carrying amount	460,933	651,505	953,425	1,322,496	456,463	3,844,822
Accumulated depreciation	(460,933)	(403,146)	(671,892)	(1,170,779)	(200,622)	(2,907,372)
Additions	14,800	-	-	52,892	12,958	80,654
Depreciation	-	(63,997)	(94,640)	(64,173)	(48,467)	(268,277)
Closing net carrying amount	14,800	184,362	189,893	140,441	220,332	749,828
Gross carrying amount	475,733	651,505	953,425	1,375,393	496,421	3,464,544
Accumulated depreciation	(460,933)	(467,143)	(763,532)	(1,234,952)	(249,089)	(2,714,716)

	2019 R	2018 R
7. INVENTORY	17,957,735	20,971,889
Cost of inventory	17,957,735	20,971,889
Inventory is stated at the lower of cost and net realisable value. Inventory relates to rough diamonds on hand at year-end.		
8. TRADE AND OTHER RECEIVABLES	1,331,008	2,925,228
Prepayments	582,720	729,206
Other receivable	693,120	1,427,577
SARS receivable: VAT receivable	-	735,888
Accrued interest	55,168	32,557
9. CASH AND CASH EQUIVALENTS	99,743,201	38,709,275
FNB operational accounts	57,963,816	2,030,818
Petty cash	3,000	3,000
FNB call accounts	39,341,606	34,384,125
Standard Bank call account	2,434,779	2,291,332

Interest rate risk

The state Diamond Trader's exposure to interest rate risk for financial assets and liabilities is disclosed in (note 4)

10. LOANS AND BORROWINGS

BORROWINGS

This note provides information about the contractual terms of the revolving credit facility held with the Industrial Development Corporation. The credit facility available to the State Diamond Trader is R60 million. The interest payable on use of this facility is prime plus two percent (2%) and other finance charges are also payable. Details on the finance total costs are provided in Note 17. The analysis on use of the facility during the year is as follows:

	2019 R	2018 R
Analysis of revolving credit facility:		
Amount drawn	36,251,234	35,160,170
Amount paid	(36,251,234)	(35,160,170)
Balance on revolving credit facility	-	-
11. TRADE AND OTHER PAYABLES	60,765,887	1,373,768
Accrued expenses	110,882	289,651
Creditors	10,828,105	548,079
Leave accrual	564,976	536,038
Vat payable	968,315	-
Income Received in Advance	48,293,609	-

Liquidity risk

The State Diamond Trader's exposure to currency and liquidity risk relating to trade and other payables is disclosed in Note 4.

12. INCENTIVE BONUS PROVISION

	880,318	868,642
Opening balance	868,642	557,204
Amount paid	(635,559)	(868,642)
Adjustment made	647,235	1,180,080

The provision has been calculated by multiplying the cost to company total by 7% taking into account the fact that actual bonus paid had never been over 7% in the prior years.

	2019 R	2018 R
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13. REVENUE

Revenue consists of sales of rough diamonds to local beneficiators.

	624,878,531	769,096,151
14. COST OF SALES	(606,118,802)	(742,214,312)
Opening inventory	20,971,889	20,320,813
Purchases	602,412,252	742,336,249
Security and transport costs	692,396	529,139
Less: Closing inventory	17,957,735	20,971,889

15. OTHER INCOME

Other income is primarily in respect of reimbursements to the State Diamond Trader regarding students who are being trained and exposed to the mining industry.

Other income	903,678	3,887,744
Sponsorship	903,678	3,887,744

16. PROFIT/(LOSS) FROM OPERATING ACTIVITIES IS STATED AFTER ACCOUNTING FOR THE FOLLOWING ADMINISTRATIVE COSTS:

Audit Fees	622,177	847,269
Board Fees	629,393	502,544
Bank Charges	29,455	29,877
Computer Expenses	723,879	483,001
Conference & Meetings	1,682,244	555,941
Depreciation	289,058	268,278
Employee Benefits	14,319,804	14,234,983
General Expenses	739,125	524,574
Insurance	267,856	258,088
Loss on Stock	166,715	-
Legal Services	-	55,231
Marketing & Advertising	201,008	1,776,512
Office Rent	667,380	613,700
Postage, Printing & Delivery	227,600	325,497
Repairs & Maintenance Office Supplies	125,620	121,242
Office Supplies	138,283	109,847
Security & Cleaning	483,718	266,758
Travelling	2,370,529	2,540,253
Telephone	228,976	207,715
Training and Development	1,272,983	1,243,779
Water & Electricity	222,622	176,799
TOTAL	25,408,425	25,141,888

17. FINANCE INCOME

Interest received from Investments in various Banks	2,964,447	3,091,801
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18. FINANCE EXPENSES

	(277,569)	(876,068)
Finance fees on IDC facility	(54,377)	(663,440)
Interest charged by: IDC	(223,192)	(212,628)

	2019 R	2018 R
19. CASH GENERATED FROM OPERATIONS		
Net income / (loss) before taxation.	(3,058,139)	7,843,428
Adjusted for:		
- depreciation	289,058	268,278
- interest expense	277,569	876,068
- interest received	(2,964,447)	(3,091,801)
Adjusted net profit before taxation	(5,455,959)	(5,895,973)
Changes in working capital:		
- decrease/(increase) in trade and other receivables	1,594,220	(1,398,969)
- decrease/(increase) in inventory	3,014,153	(651,076)
- (decrease)/ increase in trade and other payables	59,428,768	252,543
	64,037,141	(1,797,502)
Cash generated from operations	58,581,182	4,098,471

20. PRIOR YEAR ADJUSTMENT

In the financial year ended 31 March 2018, there was an incorrect calculation relating to other Income to the value of R 662,764. The entity had based its recoverable amount incurred on the Enterprise Development Programme trainees on the budgeted amount instead of the actual amount.

The below listed line items were reduced by R 662,764 per category:

- Other income
- Trade and other receivables
- Profit for the year
- Retained Earnings

21. COMMITMENTS

Operating leases – as lessee (expense)

Minimum lease payments due		
- within one year	597,459	242,821
- in second to fifth year inclusive	24,204	72,611
	621,663	315,432

Operating lease payments represent rental payable by the State Diamond Trader for its equipment and office premises. The office rental lease has been extended for a period of one year and five months starting from 1 September 2018 to 31 January 2020.

22. 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 PFMA. 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 2019 entered into between the State Diamond Trader and other entities are as follows:

The State Diamond Trader had a revolving facility of R60 million with the IDC for use as working capital from time to time, and the outstanding balance on the facility at year end was nil. The total amount drawn and repaid during the year amounted to R36,251,234.

	2019 R	2018 R
23. REMUNERATION		
Mr SM Mnguni	2,036,751	317,251
Ms N Danisa (Employment terminated on 31 December 2018)	1,113,902	1,388,040
Ms N Sibeko	1,078,029	1,007,504
Mr C van der Ross	1,551,428	1,449,933
Mr K J Menoe	-	314,299
Ms Zikalala Mvelase	-	566,441
*Mr M Lephoto (Acting CFO March 2019)	24,753	-
EXECUTIVE MANAGEMENT	5,804,863	5,043,468

The following are executive management members of the State Diamond Trader.

Mr SM Mnguni
 Ms N Danisa (Employment terminated on 31 December 2018)
 Ms N Sibeko
 Mr C van der Ross
 *Mr M Lephoto (Seconded from Mine Health and Safety Council from the month of March 2019)

NON-EXECUTIVE MEMBERS

Mr M Carstens (Chairperson)	78,450	79,312
Mr SM Motloung	117,884	49,997
Mr G du Plessis	87,507	54,152
Mr MW Mabapa	71,594	70,346
Mr NM Diseko		35,090
Mr L Mabece	119,622	40,056
Dr M Matlou	73,078	42,358
Ms M McMaster	73,482	39,288
Mr F Mokoena	7,776	91,945
Total	629,393	502,544

The following non-executive members of the Accounting Authority are either public servants as defined in the Public Service Act, or are executives at state-owned entities and therefore do not receive any remuneration from the State Diamond Trader:

Mr I Goondiwalla
 Major-General NH Mokoena
 Mr K Menoe
 Mr B Deka

24 SUBSEQUENT EVENTS

There were no subsequent events identified for reporting purposes.

25. SEGMENT REPORTING

IFRS 8: Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters. The IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.

The State Diamond Trader generates its revenue from the sale of rough diamonds and it operates in one geographic area, that is, Johannesburg. Hence its revenue and expenses are not divided into segments; as a result, no segmental reporting is done in the financial statements.

26. CONTINGENT LIABILITIES

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2019.

27. CONTINGENT ASSET

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2019.

28. IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

28.1 Details of Irregular Expenditure

Reconciliation of Irregular Expenditure	2019 R	2018 R
Opening Balance	1,219,699	31,344
Add: Irregular expenditure relating to current year	675,111	633,208
Add: Irregular expenditure relating to prior year (Discovered in the current year)	1,208,060	-
Less: Irregular expenditure relating to prior year	-	586,491
Less: Prior year amounts condoned	-	31,344
Less: Amounts recovered	-	-
Less: Amounts not recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	3,102,870	1,219,699

Analysis of Irregular Expenditure per age classification	2019 R	2018 R
Current Year	675,111	633,208
Prior Year	2,427,759	586,491
Total	3,102,870	1,219,699

Incident	Disciplinary Steps taken/ criminal proceedings	2019 R	Incident	Disciplinary Steps taken/ criminal proceedings	2018 R
The deviation was not in accordance with the State diamond Trader's policy, it was as a result of prior year's contraventions.	No	184,435	The deviation was not in accordance with the State Diamond Trader's policy	No	633,208
The extension of the contract was not in accordance with Treasury Regulations regarding lease rental agreement	No	490,676	The extension of the contract was not in accordance with Treasury Regulations regarding lease rental agreement	No	1,208,060

28.2 Details Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful Expenditure	2019 R	2018 R
Opening Balance	31,832	-
Fruitless and Wasteful expenditure – Current Year	-	31,832
Less Amount Resolved	19,055	-
Less Amount transferred to Receivables for Recovery	-	-
Closing Balance	12,777	31,832

The prior year amount of R31,382, was a result of payments made of a terminated employee and some employee exceeded their limits. No disciplinary steps were necessary. Efforts are in place to recover the whole balance.

29. DETAILS OF UNRECOGNISED COMMITMENTS

Companies	2019 R	2018 R
Amathuba Cleaning and Gardening Services (Pty) Ltd	88,279	-
Rise Security Services	1,129,096	-
Kunene & Makopo Risk Solutions	391,000	-
Valdilex Projects (Bill as per work executed)	30,575	106,032
SAGE South Africa (Pty) Ltd	153,954	5,042
ICAS Employee and Organisational Enhancement Services SA	32,299	12,768
*Ram Transport (Proprietary) Ltd (As per services rendered)	-	-
Ram International Insurance Brokers	-	29,167
Marsh (Pty) Ltd	-	56,127
Protea Coin Group	-	100,747
Tsebo Cleaning Services	-	36,618
*Basadzi Personel (cost per services rendered)	-	-
*Konica Minolta South Africa (As per services rendered)	-	-
*Skynet South Africa (Pty) Ltd (As per services rendered)	-	-
*C Square Connectedness (Pty) Ltd (As per service Rendered)	-	-
Redwill ICT (Plus per service rendered)	303,660	1,347,145
*Travel with Flair – Moreleta Park (Pty) Ltd (as per Services rendered)	-	-
Masana Hygiene Services (Pty) Ltd	12,956	-
*Meropa Communications (Pty) Ltd (As per services Rendered)	-	-
*Rakoma & Associates Inc. (As per Authorised Audit Plan	-	-
*Tsealena Media (As per services rendered)	-	-
GIB Insurance Brokers	14,868	35,000
Total	2,156,687	1,728,646

*These are rate based contracts therefore it is impractical to calculate total costs



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