

State Diamond Trader



Annual Report 2009 | 10





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State Diamond Trader



Ms Susan Shabangu

Speaker of Parliament

Madam Speaker

Annual Report of State Diamond Trader for the year ended 31 March 2010

I have the honour, in terms of section 65 of the Public Finance Management Act, 1999 (Act No 1 of 1999), to present the Annual report of the State Diamond Trader for the year ended 31 March 2010.

Ms Susan Shabangu, MP
Minister of Mineral Resources
August 2010



Ms L Makatini

The impact of the economic downturn, which we reported on last year, continued to dominate the industry throughout the year under review. Globally, the consumer demand for diamonds fell by 15 to 20% in some markets, and in response, it is reported that producers reduced production by approximately 40% by value. Significantly, in South Africa, production fell by an estimated 48% in carat terms and 47% by value. During this period, all players in the industry focused on their survival, whilst waiting for more positive signs of recovery.

The State Diamond Trader (SDT), like the other stakeholders, had to engage in a fine balancing act between ensuring its financial stability whilst ensuring availability of affordable rough diamonds to the SDT customers and minimising the negative impact of this downturn to the South African market. The SDT introduced an Interim Sales Strategy that was adapted to better respond to the unique challenges facing the industry. As a result of this strategy, inspite of the global and local challenges, the SDT continued on its growth path and increased its purchases from producers to three times more than it had purchased in the previous year. By the end of the financial year, the SDT was in a positive cash position, having recovered from the losses of the previous year.

Whilst this was positive news for the SDT and some of our customers, we remained painfully aware that the majority of our clients, particularly the previously disadvantaged, remained under siege. Various challenges, including amongst others, finances, affordability of goods and the reduced demand for polished goods, seriously dampened the majority of our client's appetite and capacity to purchase rough. Through our continued engagement with these stakeholders via our quarterly workshops as well as individually, we continue to explore possible solutions.

With a few exceptions, ongoing engagements with producers have yielded positive results resulting in a healthy co-operative relationship between the SDT and producers. Resistance of the SDT's mandate and role exists in a minority and the SDT, whilst it generally seeks to promote a harmonious relationship amongst all the stakeholders, has in these few instances been forced to deal with such conflicts and misunderstandings through the legal channels.

The efforts to improve the funding model of the SDT did not yield a positive result during the year under review. We were disheartened by this result as it seriously impacts on our long term plans but were encouraged by our new Minister, Minister Susan Shabangu's commitment to these efforts. Under her leadership and guidance, we remain hopeful that the funding model will be finalised favourably within the next financial year. As a sign of her commitment, the Minister has also re-committed the Department's seconded staff at the SDT for an

extended period, and in addition provided funding for trainees of the SDT, who are currently undergoing intensive training in Kimberley. I wish to thank Minister Susan Shabangu for her unwavering support.

The processes and policies of the SDT have improved and audit queries from the previous years were substantively addressed.

As we look forward to the 2010/11 year, analysts forecast a 20-30% increase growth in production. For these positive sentiments to impact on the clientele of the SDT, there needs to be corresponding growth of the demand for diamond jewellery. The SDT will in the coming year closely monitor the recovery of the industry and ensure that appropriate responses are applied for the benefit of the country.

We will also continue with our efforts for a revised funding model as well as explore the policy and legislative mechanisms through which the SDT can improve its operations in order to fulfill its mandate.

Lastly, I wish to thank all the Board members of the SDT, the Acting CEO, Ms Zikalala and her management for their commitment to the success of the SDT.



Linda Makatini
Chairperson
State Diamond Trader
31 July 2010


Ms I. Makatini (Chairperson)


Ms N. Zikalala (Acting CEO)


Mr P. Moeti


Mr A. Mngomezulu


Mr K. Joseph


Ms D. Maphatlane


Mr S. Motloung


Mr T. Montoedi


Mr I. Goondiwalla


Ms H. Tyler


Mr Y. Tenza


Ms B.F.N. Nzimande Ngcwabe


Mr L.G. Rapoo


Mr O. Temkin


Ms S. Motloung
(Company Secretary)

INTRODUCTION

The purpose of the report of the Acting Chief Executive Officer is to provide additional insight into the operations and financial performance of the SDT during the 2009/10 financial year.

Trading Environment

The current financial year began on a negative note for the SDT as it had suffered an accounting loss of R5,2 million and an impairment of its inventory at the end of the 2008/09 financial year. The financial crisis had a major impact on the operations of the SDT and brought about serious questions about its ability to continue operating as a going concern. As was reported last year, the Executive Authority committed to support the SDT financially. The SDT received an amount of R1 million from the shareholder and used it to pay a number of outstanding operating payables at that time.

In response to the financial crisis and its threat to the trading environment of the SDT, an interim innovative method of trading was developed. This interim measure became the SDT's Interim Sales Strategy (ISS) and the Accounting Authority resolved that it be implemented for an initial period of 6 months renewable. The ISS involved marketing the SDT goods (rough diamonds) on the basis of the client paying the SDT prior to the delivery of the goods to that client. The driver for the implementation of the ISS was that the CEO had to ensure that all the clients and customers who participated had both a beneficiation licence and an operating cutting and polishing factory. All the clients who had suspended their factory operations were thereby excluded.

The implementation of the ISS ensured that:

- The finance costs which are normally incurred by the SDT on acquisition of stock were eliminated and thereby a saving to the SDT;
- The risk of accumulation of stock, especially low quality and small stones which would be left over as clients were not willing to buy them, was reduced significantly;
- The SDT's cash flow continued to improve.

As the ISS introduced a marked departure from the normal trading route, the Accounting Authority suspended parts of the trading policies that would have required the sorting and allocation of SDT goods to its clients. The majority of the SDT's small clients did not participate as they were:

- Generally unwilling to purchase goods on a third party valuation;
- Similarly affected by the financial crisis and therefore unable to pay the prices set by the SDT.

The implementation of the ISS significantly improved the trading environment and the financial position of the SDT as the year progressed and the mandate of the SDT of promoting local beneficiation and ensuring equitable access to rough diamonds was carried out.

During the second half of the financial year, the SDT was able to purchase goods from the smaller producers using its own funds and accordingly made these available to its small clients. This meant a re-start of trading relations with this segment of clientele which resulted in improved sales activities between the SDT and its clients and accounted for a large part of the 34 clients who bought from the SDT during the financial year.

As indicated in the financial statements, the SDT made purchases amounting to R317 728 000 which accounted for the revenue amounting to R330 892 108 during the financial year. This indicates a fairly healthy performance for both purchases and sales compared with the previous financial year, and this was in spite of the difficult trading conditions mentioned herein. The development and implementation of the ISS is largely responsible for this improved financial performance, a marked improvement from the loss position at the end of the previous financial year.

Operating Environment

1. Financial

The volatility of the diamond market continued in 2009/10 and this impacted significantly on the business of the SDT which continued to operate under extremely difficult conditions. While the IDC funding arrangements and covenants were in place for diamond purchasing, it became difficult to use these as the interests thereon coupled with the costs of drawing down the funds eroded the meager profits that were being made from diamond sales. This meant that innovative ways of trading be developed and implemented to ensure that the financial position of the SDT was maintained at acceptable levels.

The SDT continued with the servicing of the subordinated loan facility from the IDC throughout the financial year. At the end of the financial year the balance stood at R2 216 330 with the interest paid for the whole financial year being R373 651.

In spite of the bleakness of the period particularly at the beginning of the financial year, the SDT managed to make a gross profit of R12 674 074 during the financial year and this was mainly due to the implementation of the Interim Sales Strategy coupled with sales based on purchases made with the SDT's own capital.

As the Shareholder was informed of the acute challenge of the funding capability of the State Diamond Trader previously, this continued to be a discussion area with the Shareholder during the financial year. The Shareholder is currently working on a diamond strategy which includes the role played by the SDT in the diamond pipeline. A submission has been made by the SDT to the DME for inclusion into its MTEF submission to the National Treasury later in 2010.

2. Human Resources

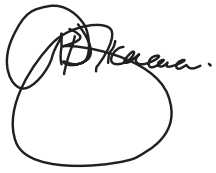
The SDT continued to operate with personnel seconded from the Department of Minerals and Energy and De Beers in terms of the Service Level Agreement (the SLA) between the latter and itself. Such secondments are treated as donations in the accompanying financial statements and the total value of such donations was R6,7 million(2009: 7,1 million). Four officials were employed on contract during the financial year, two of whom are part of the donation from De Beers.

As the SLA provides for the training of new staff in technical diamond skills, plans were made to have this in place by the beginning of the 2010/11 financial year. Four trainees were appointed by the end of the year and began the training in April 2010.

Conclusion

The 2009/10 financial year provided both a gloomy start and a brighter innovation-driven end to the SDT. While this added to the numerous challenges faced by this young institution, it also provided an opportunity for growth. It is hoped that going forward, the SDT will grow and be in an even better position to carry out its mandate and thereby contribute to the growth of the local diamond beneficiation sector.

The tireless efforts of the staff and management of the SDT and the support of the Accounting Authority, the then Department of Minerals and Energy, De Beers, diamond producers, SDT clients and other stakeholders is acknowledged.



Ms P N Zikalala
Acting Chief Executive Officer

July 2010




Ms N. Zikalala (Acting CEO)


Ms S. Motloung
(Company Secretary)

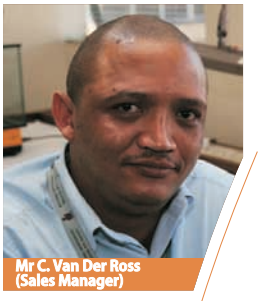

Mr F. Auger
(Operations Manager)


Mr P. Zonke
(CFO Consultant)

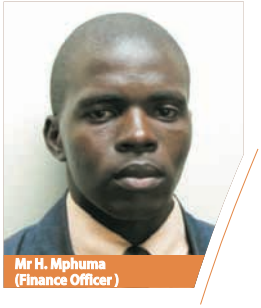

Ms D. Mc Bride
(Administration Officer)


Mr S. Martin
(Purchasing Manager)


Mr S. Kanjee
(Production Controler)


Mr C. Van Der Ross
(Sales Manager)


Ms V. Ntsala
(Finance Officer)


Mr H. Mphuma
(Finance Officer)


Ms A. Hlongwane
(Client Relations Officer)


Mr M. Vungwana
(Assistant Client Relations)


Ms N. Mbina
(PA to the CEO)

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

SDT is mandated to promote equitable access to and local beneficiation of the diamond resources of South Africa, therefore the SDT is fully committed to the highest standards of governance.

While the Accounting Authority of the SDT is responsible for the maintenance of sound corporate governance, it believes that implementation is best managed at executive management level. The SDT has, in all material respects, complied with King II and the PFMA.

State Diamond Trader and the Public Finance Management Act (PFMA) 1999

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

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

Shareholder's Compact

In terms of the PFMA, the SDT is obliged to conclude a Shareholder's Compact on an annual basis with its Shareholder, the Minister of Minerals and Energy (the Minister, also referred to as the Shareholder). The compact sets out the mandate of the SDT, together with the organisation's key performance indicators for the year. One of the Accounting Authority's responsibilities is to keep the Shareholder informed on all major developments affecting the organisation. This is achieved through:

- quarterly reports to the Shareholder;
- the annual report;
- detailed three-year corporate plans;
- direct contact between the Chairperson of the Board and Shareholder; and
- ongoing engagement with the Shareholder.

Role of the Accounting Authority of the State Diamond Trader

Sound governance entrenched by the Accounting Authority is integral to the sustainability of SDT. The Accounting Authority of the SDT is appointed by the Minister. It has a Charter detailing processes and procedures that

regulate its functioning. Similarly, each Committee of the Board has formal and written terms of reference to ensure optimal discharge of its duties within the mandate conferred upon each committee by the Accounting Authority.

The Accounting Authority is the core of SDT's governance system and is responsible for:

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

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

Composition

The Accounting Authority of the **State Diamond Trader** represents a broad range of skills and experience to ensure an appropriate balance, to bring a sense of perspective and to add value and insight in strategic decision making. There are thirteen non-executive members, and one executive member, the Acting Chief Executive Officer (CEO) but two positions are vacant as a result of the resignation of representatives from the National Treasury and the South African Police Services. In line with best practice, the roles of Chairperson and CEO are separate. The term of office of a non-executive member is for a period not exceeding five years. Non-executive members may be re-appointed by the Minister for a period not exceeding three consecutive terms in office.

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

Accounting Authority

Composition

Ms L Makatini (Chairperson)
Ms N Zikalala (Acting Chief Executive)
Ms D Maphatiane
Mr. O Temkin
Mr. I Goondiwalla
Mr. K Joseph
Mr. P Moeti
Mr. T Montoedi
Mrs. H Tyler
Mr. S Motloung
Ms L Ntshinga
Mr. L Selekane (passed away end of May 2009)
Mr. S Sikhosana (From August 2009 to January 2010)
Mr. L Rapoo (From February 2010)
Ms F Nzimande (From July 2009)
Mr. J Raphela (From July 2009) - Alternate Member
Ms Selloane Motloung (Company Secretary)
Mr. J Raphela (Appointed July 2009) - Alternate Member
Mr. A Mngomezulu (Trading, Clientele and BEE Committee) Not a Member
Mr. Y Tenza (Audit and Risk Management Committee) Not a Member
Ms B Luthuli (Audit and Risk Management Committee) Not a Member

Remuneration

The remuneration of members of the accounting authority is disclosed in note 22 of the Notes to the financial statements.

Access to information

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

Accounting Authority charter and responsibilities

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

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

Executive sessions and meetings of non-executive members of the accounting authority

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

Attendance

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

Meetings

The Accounting Authority of the SDT held quarterly meetings for the most part of the financial year and an additional special meeting to approve the 2009 financial statements. Apart from these meetings, the Accounting Authority also met a number of times to review the stratergy and risk profile and to attend client information sessions during the financial year.

The following members of the Accounting Authority's sub-committee attend Accounting Authority meetings by invitation:
Mr. A Mngomezulu (Trading, Clientele and BEE Committee) Not a Member
Mr. Y Tenza (Audit and Risk Management Committee) Not a Member
Ms B Luthuli (Audit and Risk Management Committee) Not a Member

	Board Meeting 28/04/09	Board Meeting 26/05/09	Board Meeting 28/07/09	Workshop 28/09/09	Workshop 28/09/09	Board Meeting 28/10/09	Strategic Planning 27/01/10	Board Meeting 28/01/10	Client Info Session 10/02/10	Risk Man-agement 16/02/10	Board Meeting 28/04/09	Meetings Attended
1. L Makatini	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	10
2. D Maphatiane	x	x	✓	✓	x	x	x	x	✓	x	x	4
3. O Temkin	x	✓	✓	✓	X	✓	✓	X	X	X	X	2
4. I Goondiwalla	x	✓	✓	✓	X	✓	✓	✓	X	X	✓	6
5. K Joseph	✓	✓	✓	✓	X	✓	✓	✓	X	✓	✓	7
6. P Moeti	✓	✓	X	✓	X	✓	X	✓	X	X	✓	7
7. T Montoedi	✓	✓	✓	✓	X	✓	X	X	X	✓	✓	6
8. H Tyler	✓	✓	✓	✓	X	✓	✓	✓	X	X	X	4
9. N Zikalala	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	10
10. S Motloung	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	10
11. L Ntshinga	X	✓	✓	✓	X	✓	X	✓	✓	X	X	3
12. L Selekane	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2
13. S Sikhosana	N/A	N/A	N/A	N/A	X		X	✓	N/A	N/A	N/A	2
14. L Rapoo	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	X	X	X	0
15. F Nzimande	N/A	N/A		X	X	N/A	✓	✓	✓	X	X	4
16. J Raphela	N/A	N/A	N/A	N/A	N/A	X	N/A	N/A	N/A	N/A	N/A	0
17. A Mngomezulu	✓	X	✓	✓	✓	✓	✓	✓	✓	X	X	7
18. B Luthuli	N/A		N/A	N/A	N/A	X	✓	N/A	X	✓	✓	3
19. Y Tenza	X	✓	✓	✓	X	✓	✓	X	X	✓	X	4
# Members Attended	**9**	**10**	**10**	**6**	**3**	**12**	**11**	**10**	**7**	**7**	**6**	**91**

Note1: Ms B Luthuli, Ms Mngomezulu and Mr. Tenza are board sub-committee and attend Board/strategic meetings as per invitation.
Note2. Mr. Selekane passed away in June 2009 and thereafter Mr. S Sikhosana as acting CEO of the SADPMR, was appointed from August 2010 and Mr. L Rapoo having been appointed as the permanent CEO of SADPMR was appointed as from February 2010.
Note3 N/A means that a specific members was not invited to attend a specific meeting(s)

Board sub-committees

Audit committee

Composition
Directors

Mr. Y Tenza	Chairperson
Ms N Zikalala	Acting CEO
Ms L Ntshinga	Member
Mr. L Selekane	Member (passed away in June 2009)
Ms D Maphatiane	Member
Ms H Tyler	Member

The Audit Committee (AC) is an advisory committee to the Accounting Authority and is accountable to the Accounting Authority. The AC consisted of 4 non- executive members. The Chairperson of the Accounting Authority is not eligible to be appointed as chairperson of the AC.

The overall purpose of the AC was to assist the Accounting Authority in discharging its duties relating to, among others:

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

Officials from the Office of the Auditor-General and internal auditor were invited to attend all AC meetings.

Audit Committee Meetings (before the Committee was combined with Risk Management Committee)

	21/04/09	# Meetings Attended
1. Y Tenza	✓	1
2. N Zikalala	✓	1
3. L Selekane	x	0
4. D Maphatiane	x	0
5. L Ntshinga	✓	0
# Members Attended	**2**	**2**

Note: Ms N Zikalala is not a member of the Audit Committee and attends meetings per invitation

Audit and Risk Management Committee

Composition
Directors

Mr. Y Tenza	Chairperson
Ms N Zikalala	Acting CEO
Ms L Ntshinga	Member
Mr. L Selekane	Member (passed away in June 2009)
Mr. S Sikhosana	Member (Appointed August 2009)(Resigned January 2010)
Mr. L Rapoo	Member (Appointed February 2010)
Ms D Maphatiane	Member
Ms H Tyler	Member
Ms B Luthuli	Member

The Audit and Risk Management Committee (ARMC) is an advisory committee to the Accounting Authority and is accountable to the Accounting Authority.

The ARMC consists of 6 non- executive members. The Chairperson of the Accounting Authority is not eligible to be appointed as chairperson of the ARMC.

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

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

Officials from the Office of the Auditor-General and internal auditor were invited to attend all ARMC meetings.

Audit and Risk Management Committee Meetings

	19/05/09	16/10/09	22/01/10	# Meetings Attended
1. Y Tenza	✓	✓	✓	**3**
2. N Zikalala	✓	✓	✓	**3**
3. D Maphatiane	x	x	x	**0**
4. H Tyler	✓	✓	x	**2**
5. B Luthuli	N/A	N/A	✓	**1**
6. L Selekane	X	N/A	N/A	**0**
7. S Sikhosana	N/A	X	X	**0**
8. L Rapoo	N/A	N/A	N/A	**0**
# Members Attended	**3**	**3**	**3**	**9**

Finance, Human Resources and Remuneration Committee

Composition
Directors

Mr. I Goondiwalla	Chairperson
Ms N Zikalala	Acting CEO
Mr. O Temkin	Member
Mr. T Montoedi	Member
Ms D Maphatiane	Member

The Finance, Human Resources and Remuneration Committee comprises of 4 non-executive members.

The overall purpose of Finance, HR and Remunerations Committee is to:

- Ensure that the SDT discharges its responsibilities of attraction, motivation, development and retention of the required staff competencies;
- Ensure that management has created and maintained an effective environment for financial management, internal control and procurement processes;
- Provide guidance and make recommendations to the Board in respect of annual budgets required for approval as well as any material financial matter impacting on the SDT;
- Make recommendations to the Board regarding the remuneration of the Chief Executive Officer (CEO) and the staff of SDT;
- Ensure that SDT complies with best practice regarding the remuneration of the executive management team and members of staff;
- Monitor the remuneration framework for the entire organisation and Ensure that at all material times it applies the principles of sound corporate governance.

Finance, Human Resources and Remuneration Committee Meetings

	30/04/09	13/05/09	15/10/09	21/01/10	# Meetings Attended
1. I Goondiwalla	✓	✓	✓	✓	4
2. N Zikalala	✓	✓	✓	✓	4
3. D Maphatiane	x	✓	x	✓	2
4. O Temkin	✓	✓	✓	✓	4
5. T Montoedi	x	x	x	x	0
# Members Attended	**3**	**4**	**3**	**4**	**14**

Joint Finance and Audit Committees Meeting

		# Meetings Attended
1. I Goondiwalla	✓	1
2. N Zikalala	✓	1
3. Y Tenza	✓	1
4. D Maphatiane	✓	1
5. O Temkin	✓	1
6. T Montoedi	✓	1
7. L Ntshinga	✓	1
8. H Tyler	x	0
# Members Attended	**7**	**7**

Trading, Clientele and BEE Committee

Composition
Directors

Mr. A Mngomezulu	Chairperson
Ms N Zikalala	Acting CEO
Mr. K Joseph	Member
Mr. P Moeti	Member
Mr. S Motloung	Member

The Trading, Clientele & BEE Committee comprises of 4 non-executive members.

The main purpose of the Trading, Clientele & BEE Committee is to ensure that the State Diamond Trader meets its mandate which is to purchase and sell rough diamonds for beneficiation.

Trading, Clientele and BEE Committee Meetings

	13/07/09	16/09/10	10/12/09	# Meetings Attended
1. A Mngomezulu	✓	✓	✓	3
2. N Zikalala	✓	✓	✓	3
3. K Joseph	✓	✓	x	2
4. P Moeti	x	✓	✓	2
5. S Motloung	✓	✓	✓	3
# Members Attended	**4**	**5**	**4**	**13**

Executive Committee

The Executive Committee is responsible for overseeing the business of the Accounting Authority from time to time and for reporting to the Accounting Authority on urgent matters and any matter as directed by the Accounting Authority.

The Committee comprises of at least all Chairpersons of the sub-committees of the Accounting Authority. It shall be attended by the CEO and the Company Secretary.

Composition
Directors

Ms L Makatini	Chairperson
Mr. I Goondiwalla	Chairperson of the Finance HR & Remuneration Committee
Mr. L Selekane	Member
Ms N Zikalala	Member- Acting CEO
Mr. A Mngomezulu	Chairperson of the Trading Committee
Mr. Tenza	Audit and Risk Management Committee

	09/09/09	# Meetings Attended
1. L Makatini	✓	1
2. I Goondiwalla	✓	1
3. N Zikalala	✓	1
4. A Mngomezulu	✓	1
5. Y Tenza	x	0
# Members Attended	**4**	**4**

GOVERNANCE

Company Secretary

SDT's Company Secretary is responsible for administering the proceedings and affairs of the Accounting Authority and is also a central source of guidance and advice on business ethics and issues pertaining to good governance.

Company Secretary Highlights

The Company Secretary has been able to organise Accounting Authority and Committee meetings. She has also been able to compile a Charter for the Accounting Authority and its sub-committees, take minutes and provide guidance on the statutory requirements of the SDT in line with the Diamonds Act as amended, PFMA and other applicable legislation. The Company Secretary was also responsible to vet contracts and engage producers on the position of the new legislation and what is expected from them.

Code of Ethics

In accordance with our commitment to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of SDT's affairs, the Accounting Authority has adopted a Code of Ethics which commits us and our employees to the highest standards of behaviour in dealing with stakeholders, including clients, suppliers and customers. This commitment provides the Shareholder and our clients with the assurance that our affairs are being managed in an ethical and disciplined manner. In business dealings on behalf of SDT, employees are expected to avoid activities that might give rise to conflicts of interest. Procedures have been put in place to deal with conflicts of interest which may arise in the course of employees1 day-to-day activities.

The Code of Ethics will be reviewed regularly to ensure that it remains abreast of developments inside and outside the SDT, and reflects current best practices. A Workshop was conducted to ensure that all members of staff understand the Code of Ethics and a copy was distributed to all staff members for information and signature.

Fraud Prevention Policy

The Accounting Authority approved the SDT's Fraud Prevention Policy on 28 April 2009, to protect the organisation from any form of dishonest or unethical conduct, including financial and/or other unlawful gains. The reviewed policy was presented to the Audit and Risk management Committee and is awaiting recommendation by the committee for approval by the Board.

The Accounting Authority expects management and all employees to adopt the highest standards of honesty, propriety, personal integrity and accountability, and to be fully attentive to any irregular transactions and other

GOVERNANCE

unlawful conduct affecting SDT. These standards are also expected from all people with whom we have business dealings, including consultants, vendors, contractors, members of the public and outside agencies conducting business with our employees.

Workshops were conducted to ensure that all members of staff understand the contents of the policy. A copy of policy was also distributed to all staff members.

Workshops were conducted to ensure that all members of staff understand the contents of the policy. A copy of policy was also distributed to all staff members.

Delegation of authority

The Accounting Authority retains full and effective control over the operations of SDT through well-formulated governing structures. Regular reports are submitted to the Accounting Authority by the chairpersons of the subcommittees. To ensure compliance with the approved delegation of authority, the terms of the delegations are monitored closely.

REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee is pleased to present the report for the financial year ended 31 March 2010 as required by the Public Finance Management Act, 1 of 1999, as amended.

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

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

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

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

RISK MANAGEMENT

Introduction

The Minister of Minerals and Energy appointed an Accounting Authority in terms of section 17 of the Diamonds amendment Act.

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

- Executive Committee
- Audit Committee and Risk Management Committee
- Trading, Clientele and BEE Committee
- Finance, Human Resources and Remuneration Committee

It is the responsibility of the Accounting Authority to oversee the risk management of the company. Members of the Accounting Authority and Management Committee held a workshop on 16 February 2010 to review the SDT's Risk Profile. A Risk Officer was also appointed to ensure that there is a daily monitoring of risk at the SDT.

Risk Governance Structure

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

The following is a proposed structure for discussion by members of the Accounting Authority:

- Accounting Authority
- Board Committees
- Management
- Risk Management Officer

TRADING REPORT

Inspections and Purchases

State Diamond Trader Inspections 2009/ 10 - Summary

Producer	100% Ct	100% US$*	US$/ Ct	No. of Inspections	% Purchased	
					Carats	Value
Alexkor	32,316.66	16,837,167.99	520.97	8	9%	9%
De Beers	4,553,553.36	376,548,390.86	82.69	6	10%	10%
DiamondCorp	6,562.37	445,266.31	67.85	2	0%	0%
Namakwa	8,607.78	4,082,305.55	474.26	8	5%	5%
Petra Diamonds**	1,029,365.27	117,056,178.86	113.72	48	1%	1%
Rockwell Diamonds	15,609.52	15,024,344.85	962.51	6	5%	2%
Southern Era	23,553.05	2,103,271.37	89.30	5	0%	0%
Supermix	66.94	10,576.52	158.00	1	0%	0%
Trans Hex	95,364.59	84,766,441.00	889.06	6	2%	1%
	5,765,001.54	**616,893,943.31**	**107.01**	**90**	**8%**	**7%**
2008 / 09	**11,052,434.54**	**1,166,505,639.28**	**105.54**	**46**	**1%**	**1%**
diff %	-48%	-47%	1%			

* Value at Producer FMV
** inc. special stn

TRADING REPORT

State Diamond Trader Purchases 2009/ 10 - Summary

Producer	Carats	Cost ZAR	Cost US$	Rate	No. of Purchases
Alexkor	3,012.02	11,387,735.68	1,484,997.18	7.67	7
De Beers	456,823.41	284,161,055.20	37,587,256.00	7.56	6
Flawless Diamond Trading*	750.25	2,731,621.65	318,201.45	8.58	2
Namakwa	460.16	1,650,033.04	219,872.62	7.50	6
Petra Diamonds	11,674.22	10,125,326.93	1,325,797.54	7.64	7
Trans Hex	1,446.24	7,672,227.48	950,121.05	8.08	1
	474,366.30	**317,727,999.98**	**41,886,245.84**	**7.59**	**29**
2008 / 09	**110,206.64**	**92,024,575.31**	**11,773,907.17**	**7.82**	**11**
diff %	330%	245%	256%		

*Flawless Diamond Trading is the trading arm of Rockwell Diamonds

TRADING REPORT

Independent Valuations 2009/ 10

SDT selection

Producer	SDT Inspection date	IDV Valuation date	Carats	IDV Value US$	IDV AP US$	IDV Company	IDV cost (to SDT in ZAR)	Result
Rockwell	22/05/09	24/08/09	176.47	97,300.00	551.37	Ambrozzia	20,000.00	SDT purchase
Trans Hex	17/06/09	05/08/09	1,812.01	1,429,385.97	788.84	D. Hlakudi	9,997.12	Pending
Alexkor	23/07/09	05/08/09	338.61	68,399.22	202.00	D. Hlakudi	2,500.00	SDT purchase
Petra	23/09/09	16/11/09	551.77	101,525.68	184.00	Tal Diamonds	19,000.00	SDT purchase
Rockwell	19/01/10	26/02/10	426.68	309,769.68	726.00	Ambrozzia	20,000.00	Decline to purchase
						Total	**71,497.12**	

TRADING REPORT

Sales by HDSA Ownership 2009/ 10

HDSA Ownership	No. of Clients	Carats	Sales ZAR	% Sales	
				Cts	ZAR
>50%	18	11,954.08	13,402,076.84	3%	4%
26 - 50%	3	205,255.62	166,136,153.46	43%	50%
1 - 25%	8	257,461.60	150,464,255.27	54%	45%
0%	5	123.90	889,622.66	0.03%	0.3%
	34	**474,795.20**	**330,892,108.23**		

* The 5 clients without HDSA ownership are part of the Niche segment and are single person operations/companies.

Sales by Client Segment 2009/ 10

SDT Segment	No. of Clients	Carats	Sales ZAR	% Sales	
				Cts	ZAR
L/M	4	332,145.68	220,485,943.54	70%	67%
Mandate	15	130.18	1,260,068.12	0.03%	0.38%
Niche	13	2,873.23	10,041,856.49	1%	3%
Other	2	139,646.06	99,104,240.08	29%	30%
	34	**474,795.20**	**330,892,108.23**		

TRADING REPORT

L/M	Large/ Medium Beneficiators
Mandate	Equitable Access (Mandate)
Niche	Niche/ Other Beneficiators
Other	Unclassified, clients sold to under Interim Sales Strategy

Stock

There was Rnil stock at the State Diamond Trader as at 31st March 2010 (2009:R271 988).

In terms of stock turn around times, the time it takes to sell each purchase from the date of delivery to the sale of the final item from that purchase, the details are as follows;

Relations with Producers

During the course of a year when rough diamond production in the Republic of South Africa fell by approximately 48%, the State Diamond Trader was able to improve its relationships with the major diamond producers.

Ninety inspections were undertaken and purchases were secured that amounted to 8%(2009:1%) of the carats produced, 7%(2009:1%) of the value. This is a significant improvement on the previous year.

Despite on-going concerns as to its sustainability in terms of supporting beneficiation, purchases remained in run of mine format as determined by legislation.

The most contentious issue when dealing with producers is pricing which on five occasions led to the process of independent valuation during the year.

In one instance, a producer challenged the independent valuation process as indicated by the legislation and this is still subject to legal proceedings.

Most producers remain reluctant to sign the Operational Plan, an SDT administrative procedure, which indicates the terms of business between the State Diamond Trader and the producer. This will create logistical and planning difficulties in the future as more producers present their productions to the State Diamond Trader.

Although, the State Diamond Trader now inspects the large majority of the rough diamonds produced in the Republic of South Africa, the legislation dictates that all producers, regardless of size, must present their productions to it. To date, there has been little appetite on the part of the small producers to fulfill their statutory requirements.

Relations with Clients

As a result of the global financial crisis which also affected the diamond industry and threatened the continued survival and sustainability of companies operating in the industry, the SDT clients, like other participants operating within the industry, were challenged.

TRADING REPORT

In an attempt to assess the climate of client businesses after such difficult times, various engagements between clients and the SDT management and the Accounting Authority were held throughout the financial year. Sentiment from clients was about the impact of the recession, access to funding and access to rough diamonds on a consistent basis. The SDT is also of the view that their challenges coupled with the limited technical skills and limited market exposure, on their part, are issues that require urgent attention.

In spite of all the challenges experienced throughout the financial year, 34 clients made purchases of rough diamonds from the SDT and this was mainly as a result of the implementation of the Interim Sales Strategy and the ability of the SDT during the later part of the financial year to purchase diamonds from the smaller producers with its own financial resources.

The year also witnessed an increased influx of Diamond Beneficiating companies seeking and enquiring to be clients of the SDT. This influx could have been a result of the external demand, price and availability of rough diamonds. The SDT was, however, not in a position to open another client application process as it continued to watch market trends and recovery from the financial crisis, but continued to allow more customers to purchase through invitation.

PERFOMANCE AGAINST STRATEGIC BUSINESS TARGETS

Performance against objectives

The State Diamond Trader's overall objectives are defined within the Diamond Amendment Act 2005. By implementing the legislation as stated, the State Diamond Trader will facilitate the equitable access to the nation's rough diamond resources and the local beneficiation of those resources.

Strategic Objective	Key strategic Outputs	Key Activities	Measures	Target 2009	Perfomance against objectives during FY 2009/10
Source State funding for the operations of the SDT	Appropriate and adequate funding for the SDT	· Finalize revision of business case · Ensure Board approval of revised Business case · Submit revised Business case and recommendations to DME	Revised Business case	March 2009 April 2009 June 2009	**Submission of revised and submitted to DME/DMR was done in June 2009** **State funding not allocated to SDT during this period.**
Seek regulatory amendments on the mandate to ensure the SDT trades profitably	Improved trading conditions and profitability	· Finalize draft amendment proposals and ensure approval thereof · Submit draft to DME for further action · Promulgation of proposed amendments [DME] · Implement amendments	Amendment proposals Published Government Notice [DME] Tradable stock for improved trading	March 2009 April 2009 October 2009 January 2009	**Draft proposals sent to DMR and SDT participating in DMR amendment of legislation forum - ongoing** **Awaiting finalization of DMR process**
Improve profitability of SDT operations to ensure its sustainability	Sustainable growth of SDT	· Review trading policies to establish relevance during period · Improve stock turnaround time to increase revenue and reduce interest payable · Review gross margin rates to account for general decline in diamond values · Review client criteria to ensure consistent trading and better revenue	Appropriate trading policies Reduced turnaround Profit-linked gross margins Updated client criteria	April 2009 April 2009 March 2009 April 2009	**Interim Sales Strategy implemented in response to 2008/ 09 trading performance. 22 from 29 SDT purchases subject to the strategy.** **Average Stock turn = 1 Day** **Stock at end of FY = Zero** **No trading interest payable during the year.** 2008/09= R1.3M **Gross margin for the year = R12.9M (4%).** 2008/09 FY= R1.6M (1.5%) **New client segmentation strategy was approved during FY.** **Currently being implemented.**

PERFOMANCE AGAINST STRATEGIC BUSINESS TARGETS (CCONTINUED)

Strategic Objective	Key strategic Outputs	Key Activities	Measures	Target 2009	Perfomance against objectives during FY 2009/10
Improve profitability of SDT operations to ensure its sustainability	Sustainable growth of SDT	· Increase number of clients to ensure increased participation in diamond beneficiation	Improved trading	April 2009	**Due to economic conditions and Interim Sales Strategy a total of 34 clients were supplied.**(2008/ 09 = 68)
		· Increase number of clients to ensure increased participation in diamond beneficiation	Continued IDC funding	October 2009 March 2009 and ongoing	**No IDC loans were utilized for trading purposes during 2009 /10.** 2008/ 09 = loan facility used 7 times
		· Ensure growth in relations with the IDC and maintain funding arrangements	Appropriate interest rates on loans	April 2009	**Ongoing**
		· Negotiate appropriate interest rate charges on all loans with the IDC	Optimal utilization of resources	March 2009	**On-going cost cutting measures in place**
		· Review and streamline operational expenditure · Ensure appropriate and adequate insurance for diamond stock	Reduced risk	Ongoing	**On-going - Diamond Insurance in place.**
Develop and maintain trading relations with other African diamond producing countries	Enhanced quality of rough diamonds for trading	· Ensure participation of SDT in bi-national and multi-national negotiations · Ensure sourcing of rough diamonds suitable for SDT clients · Ensure compliance with Kimberley Process Certification Scheme	Continental diamond trade relations	March 2009 and ongoing	**On-going. Participation in bilateral meetings between RSA and Angola during the FY.** **To be considered in the coming financial years** **To be implemented once trade begins**
Contribute to sustainable development of local diamond beneficiation	Growth in diamond beneficiation	· Ensure all local diamond producers execute Operational Plan	Operational Plans with all local diamond producers	April 2009	**On-going. Negotiations on Operational Plans continued with producers who had not signed**
		· Establish production cycles and purchase rough diamonds in terms of section 59B(2)	Improved trading activities and compliance with the law	March 2009	**5 producers indicated their 2010 trading cycles upfront**
		· Ensure equitable sale of rough diamonds to all SDT clients in terms of approved trading policies	Continuous trading and growth in diamond beneficiation	Ongoing	**29 purchases made from 6 producers during the year. A further 61 inspections were undertaken without a purchase being made.** 2008/ 10; 11 purchases, 35 other inspections **Total sales increased from previous year; 2009 /10 = 474,795 cts, R 330,892,108.** 2008/ 09; 142,635 cts, R 117,209,265

PERFOMANCE AGAINST STRATEGIC BUSINESS TARGETS (CONTINUED)

Strategic Objective	Key strategic Outputs	Key Activities	Measures	Target 2009	Perfomance against objectives during FY 2009/10
Develop and maintain admin systems, procedures and controls in line with Treasury Regulations and other applicable policies	Appropriate admin controls for good governance Reduced exposure to risk and fraud	· Ensure approval of all financial, trading and administrative policies and procedures	Approved policies and procedures	March 2009	**Trading Policies approved by the Board. Management to table new draft policies to the Board in the new FY.**
		· Develop and review work flow/business processes in all areas of the business	Business processes	March 2009	**Business Processes were developed.**
		· Ensure timeous processing of all financial and trading transactions	Approved business processes	ongoing	**Ongoing**
		· Ensure approval of all work flow procedures · Ensure approval of risk management and fraud prevention policies	Risk Management and Fraud Prevention policies Asset registers	March 2009	**Business Processes were approved by MANCO and are continuously implemented** **Risk Management and Fraud Prevention policies approved**
		· Implement Risk Management and Fraud Prevention Policies	Audit findings addressed Policy review completed	March 2009 and ongoing	**Ongoing and staff training on these undertaken**
		· Ensure development and maintenance of asset registers· Ensure compliance with previous Audit management letter	Training conducted	March 2009 and ongoing	**Asset register developed and there is ongoing maintenance**
		· Review existing policies and procedures to ensure compliance and relevance	Monitoring and evaluation done	March 2009	**Audit findings addressed**
		· Train personnel on all approved policies and procedures	Approved HR policies	April 2009	**Trading Policies were reviewed**
		· Monitor implementation of all aproved policies and procedures	Reviewed HR policy	May 2009	**Training conducted periodically during the FY**
Develop and acquire appropriate Human Resource capacity	Appropriate skills and capacity	· Ensure approval of all HR policies · Review approved HR policy		Ongoing - January 2010 March 2010	**Ongoing** **HR Plan approved** **Review to be conducted in 2010**
		· Employ diamond trading trainee personnel for training by De Beers seconded personnel	Trainee personnel employed	March 2009	**4 Diamond Trainees to start 1st April.**
			Training commenced	April 2009 and ongoing	
		· Ensure implementation of relevant training for all trainee personnel	Adequate and appropriate capacity	April 2009 and ongoing	**Diamond Training provided through by De Beers as per SLA provisions.**
		· Ensure continuous capacity building for all personnel · Review and monitor training provided to ensure	Training review	January 2010 and ongoing	**Training on safety, fire management and financial administration undertaken by 4 personnel during the FYFurther training to take place in coming FY.**

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

Statement of responsibility by the directors, who constitute the Accounting Authority for the State Diamond Trader for the year ended 31 March 2010.

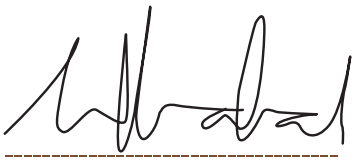
The responsibility of the Accounting Authority of the State Diamond Trader (SDT) ranges from the maintenance of appropriate records to the preparation and integrity of the quarterly reports and financial statements. Through its committees and its regular meetings, the Accounting Authority is able to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

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

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

It is the opinion of the Accounting Authority that based on the information available to date, the financial statements herein presented fairly present the financial position of the SDT at 31 March 2010 and the results of its operations and cash flow information for the financial year end.

The financial statements which appear hereunder were approved by the Accounting Authority on 28 of July 2010 and are signed on its behalf by:



Adv Linda Makatini



Ms Dineo Maphatiane

ACCOUNTING AUTHORITY'S REPORT

The Accounting Authority hereby presents its third report summarizing the activities of the State Diamond Trader. The State Diamond Trader (SDT) was established in July 2007 in terms of section 14 of the Diamonds Amendment Act 29 of 2005 and commenced its business in September 2007 and its trading operations in January 2008.

This review provides a context to the financial performance of the SDT's operations as detailed in the financial statements.

Financial performance

The objectives of the SDT are to promote equitable access to and local beneficiation of diamond resources of South Africa. The main aim of the SDT is to address distortions in the diamond industry and correct historical market failures to develop and grow South Africa's diamond cutting and polishing industry.

The SDT has set itself the objective of operating its business in a profitable and self-sustaining manner to ensure its sustainability in the future.

The State Diamond Trader had 105 registered customers throughout the financial year, of which 34 made purchases during the period. According to the segmentation of the clients, during the earlier parts of the financial year, based on size of operation, 4 were large, 15 were medium and 86 were small. A review of the segmentation strategy was undertaken during the course of the financial year and this resulted in a new approved Client Segmentation Strategy comprising four segments which are Equitable access (mandate), Large/Medium beneficiators, skills development (provincial ≷ public/private partnerships and the Niche beneficiators.

The SDT performed poorly at the end of the 2008/9 financial year, resulting in a loss of R5, 2 million. Its inventory of around R1,2 million was impaired to R271 900. This was a result mainly of the global financial crisis that impacted negatively on its operations. The diamond industry globally was severely impacted upon by the financial crisis and this resulted in reduced rough diamond production in South Africa and elsewhere in the world and the attendant turmoil in the cutting and polishing side of this industry.

The Accounting Authority and the Shareholder had to make quick decisions at the early stages of the financial year to ensure the continued operations of the SDT. The Shareholder made a decision to offer financial support and an amount of R1 million was thereby transferred to the SDT in April 2009. The Accounting Authority resolved to embark on an innovative way of trading within its trading policy framework and this gave birth to the Interim Sales Strategy which was approved by the Accounting Authority during the year. The risks associated with this form of trading were considered and with mitigation applied thereto, the need to continue implementing it far outweighed the identified risks.

ACCOUNTING AUTHORITY'S REPORT

With the improvements in the global diamond trade that began to take effect through the middle of the financial year, some improvement was also recorded in the financial affairs of the SDT. This resulted in a turnaround in its cash flows and resulted in a healthy financial position at the end of the financial year.

The SDT could still not employ a permanent Chief Financial Officer during the financial year as a result of its funding structure and consequently outsourced the service to a private company which provided this service from June 2009 to date. One of the issues raised by the Auditor-General in the report of 2008/9 was that the SDT was not registered for income tax. This has been addressed and the registration occurred in November 2009. The income tax returns for both 2007/2008 and 2008/2009 years were subsequently filed. However, for 2008/2009, due an administrative error that occurred at the time of filing, the donation expense was not saved on e-filing and this resulted in the overstating of profit on the Income Tax calculation sheet of the return even though the Income Statement correctly reflected the correct profit. While the objection that was then lodged was being considered at SARS, the SDT made part payment of the assessed amount. In April 2010 the objection was disallowed by SARS and the SDT immediately paid the outstanding balance and simultaneously lodged an appeal as it still contends and believes that the assessment was based on a mistaken factor.

Financial position

Revenue for the year of R330 892 108 (2009: R117 209 264) reflects an increase of 182% mainly due to the implementation of the Interim Sales Strategy and to a lesser extent, the natural growth of the State Diamond Trader. A Gross Margin percentage of 4% on average was achieved on trading transactions.

Capital expenditure for the year amounted to R23 940 (2009: R873 039)

Administrative expenses have decreased from R12 331 117 the previous year to R10 050 138 in the current year and this is mainly due to the implementation of drastic cost-cutting measures by management. There was Rnil inventory at the end of the financial year (2009:R271 988).

Net assets as at 31 March 2010 amounted to R4.39 million (2009: (4.24 million)).

Cash flow position

Cash resources at the end of the financial year amounted to R8.25million (2009: R61 785-overdraft). The cash and cash equivalents of R8.25million belonged to State Diamond Trader.

Going concern

The performance of the State Diamond Trader as a going concern improved significantly throughout this financial year, but this does not yet address the fundamental question of an appropriate funding model for the State Diamond Trader.

ACCOUNTING AUTHORITY'S REPORT

The Executive Authority undertook to address this by establishing a developmental case for the State Diamond Trader and is currently working on a diamond strategy that seeks to address the needs and future of the State Diamond Trader. The Executive Authority's intention is to ensure that the State Diamond Trader continues to operate as a going concern. In addition thereto, the State Diamond Trader managed to achieve profitability from its trading activities by the end of the financial year. Consequently, the Accounting Authority has reason to believe that the State Diamond Trader, under current trading conditions, will continue operating as a going concern in the foreseeable future.

The Interim Sales strategy remains an interim measure and therefore the support of and active engagement by the Executive Authority to address the long-term business case of the State Diamond Trader is crucial. It is anticipated that by the middle of the new financial year the Executive Authority will be in a better position to pronounce on the future of the State Diamond Trader.

Fruitless and wasteful expenditure
As disclosed in notes 14 and 23 to the financial statements, penalties and interest may have been incurred during the year due to a possible underpayment of provisional tax.

Subsequent Events
There were no subsequent events identified for reporting purposes.

Entity Information

Postal address:	P. O. Box 61212 Marshalltown South Africa 2107
Business address:	Suite 510, 5th Floor SA Diamond Centre 225 Main Street Johannesburg, 2000
Website:	www.statediamondtrader.gov.za
Shareholder:	Government of the Republic of South Africa Represented by Minister of Minerals and Resources
Country of incorporation:	Republic of South Africa

ACCOUNTING AUTHORITY'S REPORT

Name	Date appointed
Ms Linda Makatini (Chairperson)	1 July 2007
Ms N Zikalala (Acting CEO)	1 October 2008
Ms D Maphatiane	1 July 2007
Mr O Temkin	1 July 2007
Mr I Goondwalla	1 July 2007
Mr K Joseph	1 July 2007
Mr P Moeti	1 July 2007
Mr T Montoedi	1 July 2007
Mrs H Tyler	1 July 2007
Mr S Motloung	1 July 2007
Ms F Nzimande (DMR rep)	1 July 2009
Mr J Raphela (DMR alternate rep)	1 July 2009
Ms I Ntshinga	1 July 2007
Mr I Selekane (ex SADPMR CEO)	1 July 2007 (passed away in June 2009)
Mr S Sikhosana (acting SADPMR CEO)	1 August 2009 to 31 January 2010
Mr I Rapoo (newly appointed SADPMR CEO)	5 February 2010

*SADPMR means South African Diamond and Precious Metals Regulator

Company Secretary: Ms Selloane Motloung

REPORT OF THE AUDITOR-GENEREAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF STATE DIAMOND TRADER

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the State Diamond Trader, which comprise the statement of financial position as at 31 March 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting authority's report, as set out on pages 44 to 73.

Accounting Authority's responsibility for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the Public Finance Management Act, 1999 (Act no. 1 of 1999) (PFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa and section 13 of the Diamond Second Amendment Act, 2005 (Act No. 30 of 2005), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor 's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity 's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity 's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the f inancial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2010 , and its financial performance and its cash flows for the year then ended in accordance with SA Statements of GAAP and in the manner required by the PFMA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA of South Africa and General notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009 I include below my findings on the report on predetermined objectives, compliance with the PFMA and financial management (internal control).

Findings
Predetermined objectives

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the entity reported on its performance with regard to its objectives, indicators and targets in its approved corporate plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relates to the above criteria:
For the selected objectives, all of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance.

Compliance with laws and regulations

No matters to report.

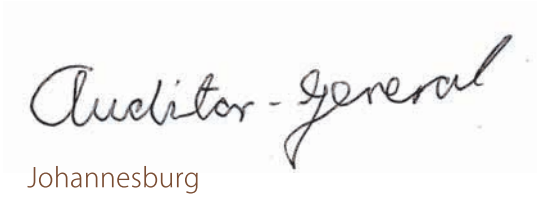
INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

- **Leadership**
  Roles and responsibilities for collecting, coordinating and compiling performance information and for ensuring data integrity and quality assurance are not documented and communicated to all relevant staff.

- **Financial and performance management**
  No matters to report

- **Governance**
  No matters to report



Johannesburg

July 2010



As at 31 March 2010

Statement of Financial Position
As at 31 March 2010

Assets	Notes	2010 Rands	2009 Rands
Non-current assets		**836,227**	**1,012,853**
Property and equipment	6	836,227	1,012,853
Current assets		**8,359,675**	**332,648**
Inventory	7	-	271,988
Trade and other receivables	8	106,993	57,988
Cash and cash equivalents	9	8,252,682	2,672
Total Assets		**9,195,902**	**1,354,501**
Equity and Liabilities			
Equity		**4,390,798**	**(4,237,020)**
Retained income/ (Loss)		4,390,798	(4,237,020)
Non-current liabilities		**863,474**	**1,966,492**
Loans and borrowings	10	816,330	1,966,492
Deferred tax liability	19	47,144	-
Current liabilities		**3,941,630**	**3,625,029**
Trade and other payables	11	486,687	1,205,132
Loans and borrowings	10	1,400,000	1,853,384
Cash and cash equivalent	9	-	61,785
Tax payable		2,054,943	504,728
Total equity and liabilities		**9,195,902**	**1,354,501**

For the year ended
31 March 2010

Statement of Comprehensive Income
For the year ended 31 March 2010

	Notes	2010 Rands	2009 Rands
Revenue	12	330,892,108	117,209,264
Cost of sales	12	(318,218,034)	(115,456,836)
Gross profit		**12,674,074**	**1,752,428**
Other income	13	7,865,903	7,652,779
Administrative expenses		(10,050,138)	(12,331,117)
Profit/(Loss) from operating activities	**14**	**10,489,839**	**(2,925,910)**
Finance income	15	180,829	63,695
Finance expenses	16	(374,288)	(2,351,183)
Profit before income tax		**10,296,380**	**(5,213,398)**
Income tax expense	17	(1,668,562)	2,434
Profit/(Loss) for the period		**8,627,818**	**(5,210,964)**
Total comprehensive income		**8,627,818**	**(5,210,964)**

Statement of Changes in Equity
For the year ended 31 March 2010

	Retained Income/(Loss)
	Rands
Balance at 01 April 2008	**973,944**
Loss for the year	(5,210,964)
Balance at 31 March 2009	**(4,237,020)**
Profit for the year	8,627,818
Balance at 31 March 2010	**4,390,798**

For the year ended
31 March 2010

Statement of Cash Flows For the year ended 31 March 2010	Notes	2010 Rands	2009 Rands
Cash flows from operating activities			
Cash generated by operations	18	9,483,006	23,064,092
Interest paid		(374,288)	(2,164,089)
Interest received		180,829	63,695
Income tax paid		(395,865)	-
Other income from DBCM		-	399,726
Net cash inflow from operations		**8,893,682**	**21,363,424**
Cash flows from investing activities			
Acquisition of property and equipment		(23,940)	(873,039)
Net cash outflow from investing activities		**(23,940)**	**(873,039)**
Cash flows from financing activities			
Payment of IDC revolving credit facility		(157,947)	(26,423,183)
Payment of IDC standby facility		(1,400,000)	(500,666)
Proceeds from government grant		1,000,000	
Net cash outflow from financing activities		**(557,947)**	**(26,923,849)**
Net increase/(decrease) in cash and cash equivalents		**8,311,795**	**(6,433,464)**
Net increase/(decrease) in cash and cash equivalents		(59,113)	6,374,351
Cash and cash equivalents at the end of the period		**8,252,682**	**(59,113)**

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

State Diamond Trader is an entity domiciled in South Africa. The address of the entity's registered office is Suite 510, 5TH floor, SA Diamond Centre, 225 Main Street, Johannesburg, 2000. The entity is primarily involved in the purchase and sale of rough diamonds.

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

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

e) Changes in accounting policies

The Entity applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Entity presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on amounts disclosed previously.

3. Significant accounting policies

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

a) Revenue

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

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

b) Finance Income and Expenses

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

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

c) Inventories

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

d) Property and equipment

The cost of an item of property and equipment is recognised as an asset when:
- it is probable that the future economic benefits associated with the item will flow to the Entity; and
- the cost of the item can be measured reliably.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

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:

Motor vehicles	10%
Furniture and fixtures	10%
Computer hardware	33.3%
Other office equipment	10%
Leasehold improvements	Over the remaining period of the lease

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

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

e) Financial instruments

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

(1) Classification

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

(2) Recognition

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

(3) Measurement

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

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

- Cash and cash equivalents
  Cash comprises cash balances with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts the cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These are initially and subsequently measured at amortised cost.

- Trade and other receivables (Accounts receivable)
  Trade receivables are initially stated at fair value and subsequently at amortised cost using the effective interest rate method. The recoverable amount of trade receivables is calculated at the present value of expected future cash flows discounted using the original effective interest rate inherent in the asset. Short-term receivables are not discounted.

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

(4) Impairment

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

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

(5) Derecognition

SDT 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 derecognition in accordance with IAS 39.

SDT 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.

f) Operating leases

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

g) Provisions

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

h) Employee benefits

The cost of all short term employee benefits, such as salaries, medical aid, leave payouts and other contributions is recognised during the year in which the employee renders the related service. SDT employees are not entitled to bonuses.

i) Income tax

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

Deferred taxation is recognised using the balance sheet method providing for all temporary differences except to the extent that the deferred tax liability or asset arises from the initial recognition of an asset of liability in a transaction that is not a business combination which at the time of the transaction, affects neither accounting nor taxable profit or loss. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred taxation is calculated using the taxation rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

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

j) Related parties

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

k) Critical accounting estimates and judgements

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

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

The SDT 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 SDT 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 SDT. Technological innovation and maintenance programs impact the useful lives and residual values of the assets.

(2) Contingent liabilities

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

l) Donations

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

m) Irregular, fruitless and wasteful expenditure

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

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

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

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

4. Financial Risk Management

Overview

The SDT has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the SDT'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 SDT's risk management framework. It has established the Risk Management Committee, which is responsible for developing and monitoring the SDT'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 SDT, 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 SDT's activities. The SDT, 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 SDT's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the SDT.

Credit risk

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

Exposure to Credit Risk

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

Liquidity risk

Liquidity risk is the risk that the SDT will not be able to meet its financial obligations as they fall due. The SDT'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 SDT's reputation.

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

Cash Flow interest rate risk

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

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

Sensitivity Analysis	Effect on profit or (Loss)	
	Increase	Decrease
At 31 March 2010		
Revolving Facility	-	-
Standby Facility	(22,163)	22,163
Cash Flow Sensitivity (Net)	**(22,163)**	**22,163**
At 31 March 2009		
Revolving Facility	(130)	130
Standby Facility	(48,123)	47,834
Cash Flow Sensitivity (Net)	**(48,253)**	**47,964**

Fair values versus carrying amounts

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

	31 March 2010		31 March 2009	
In Rands	Carying amount	Fair value	Carying amount	Fair value
Loans and Borrowings	2,216,330	2,216,330	3,819,876	3,819,876
Cash and cash equivalents	8,252,682	8,252,682	2,672	2,672
Trade and other payables	54,643	54,643	425,089	425,089
Bank overdraft	-	-	61,785	61,785

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

5. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 March 2010, and have not been applied in preparing these financial statements:

	Standard/Interpretation	Effective date
IAS 24 (AC 126) (revised)	Related Party Disclosures IAS 24 (AC 126) (revised) addresses the disclosure requirements in respect of related parties, with the main changes relating to the definition of a related party and disclosure requirements by government-related entities. Under IAS 24 (AC 126) (revised) the definition of a related party has been amended with the result that a number of new related party relationships have been identified. Government-related entities Government-related entities will be exempted from presenting certain related party disclosures, although information concerning the nature of the relationship and details of any significant balances and transactions will still be required. This statement would have an impact on the Entity as there exist Related Parties.	Annual periods beginning on or after 1 January 2011*

	Standard/Interpretation	Effective date
IAS 27 (AC 132) amendment	Consolidated and Separate Financial Statements In accordance with IAS 27 (AC 132) amendments, acquisitions of additional non-controlling equity interests in subsidiaries have to be accounted for as equity transactions. Disposals of equity interests while retaining control are also accounted for as equity transactions. When control of an investee is lost, the resulting gain or loss relating to the transaction will be recognised in profit or loss. This statement will not impact the results of the Entity as it does not have any consolidation needs as there are no subsidiaries.	Annual periods beginning on or after 1July 2009*
IAS 32 (AC 125) amendment	IAS 32 (AC 125) Financial Instruments: Presentation: Classification of Rights Issues IAS 32 (AC 125) requires certain puttable instruments that meet the definition of a financial liability to be classified as equity if and only if they meet the required conditions This statement will not impact the results or disclosure of the Entity as the Entity has not entered into any transactions that result in the need to apply the accounting contained within IAS 32 (AC 125).	Annual periods beginning on or after 1February 2010*
IAS 39 (AC 133) amendment	Eligible Hedged Items The amendments to IAS 39 (AC 133) clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied for the following: - designation in a hedged item of a one-sided risk - designation of inflation in a financial hedged item This statement will not impact the results or disclosure of the Entity as the Entity has not entered into any transactions that result in the need to apply the accounting contained within this standard.	Annual periods beginning on or after 1 July 2009*

	Standard/Interpretation	Effective date
Improvements IFRS 5 (AC 142)	Improvements to IFRSs 2008 - Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations This statement will not impact the results of the Entity as the Entity does not hold any such assets.	Annual periods beginning on or after 1 July 2009*
IFRS 1 (AC 138) (revised)	First-time adoption of International Financial Reporting Standards This statement would not impact the results of the Entity as the Entity is not first time adopters of IFRS.	Annual periods beginning on or after 1 July 2009*
IFRS 1 (AC 138) amendment	Additional Exemptions for First-time Adopters This statement would not impact the results of the Entity as the Entity is not first time adopters of IFRS.	Annual periods beginning on or after 1 January 2010*
IFRIS 1 (AC 138) amendment	First-time adoption of International Financial Reporting Standards This statement would not impact the results of the Entity as the Entity is not first time adopters of IFRS.	Annual periods beginning on or after 1 July 2010*
IFRS 2 (AC 139) amendment	Group Cash-settled Share-based Payment The amendments expand the scope of IFRS 2 (AC 139) to include group cash-settled share-based payments. Arrangements that are settled in cash or other assets based on the price or value of the entity or another group entity's equity instruments should be accounted for as share-based payments. This statement will not impact the results of the Entity as the Entity does not enter into any share based payments	Annual periods beginning on or after 1 January 2010*

	Standard/Interpretation	Effective date
IFRS 3 (AC 140)	Business Combinations IFRS 3 (AC 140) applies to all new business combinations that are occur after 1 July 2009. For these business combinations after 1 July 2009, the group will change its accounting policies to be in line with the revised IFRS 3 (AC 140). In future all transaction costs will be expensed and contingent purchase consideration will be recognised at fair value at acquisition date. For successive share purchases, any gain or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree will be recognised in profit or loss. This statement will not impact the results of the Entity as the Entity does not have any Business Combinations transactions.	Annual periods beginning on or after 1 July 2009*
IFRS 9 (AC 146)	Financial Instruments IFRS 9 (AC 146) addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39 (AC 133). Under IFRS 9 (AC 146) there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. This statement will impact the results of the Entity as the Entity does have Financial Assets.	Annual periods beginning on or after 1 January 2013*

	Standard/Interpretation	Effective date
IFRIC 14 (AC 447) amendment	Prepayments of a Minimum Funding Requirement The amendments to IFRIC 14 (AC 447) address the accounting treatment for prepayments made when there is a minimum funding requirement (MFR). Under the amended IFRIC 14 (AC 447) an asset would be recognised in respect of such a prepayment, made to the defined benefit pension plan, on the basis that the entity has a future economic benefit from the prepayment. This statement will not impact the results of the Entity as the Entity does not have prepayments of a MFR.	Annual periods beginning on or after 1 January 2011*
IFRIC 17 (AC 450)	Distribution of Non-Cash Assets to Owners IFRIC 17 (AC 450) addresses the accounting treatment for non-cash distributions made to owners. Under IFRIC 17 (AC 450) a liability will be recognised at the fair value of the asset to be distributed when the distribution is authorised. The asset to be distributed will be reclassified as held for distribution and measured in accordance with IFRS 5 (AC 142). Remeasurement of the liability at fair value of the asset to be distributed will be recognised in equity. When the distribution is made, the liability and the asset will be derecognised. This statement will not impact the results of the Entity as the Entity does not make any distributions to owners.	Annual periods beginning on or after 1 July 2009*

	Standard/Interpretation	Effective date
IFRIC 19 (AC 452)	Extinguishing Financial Liabilities with Equity Instruments IFRIC 19 (AC 452) addresses the accounting treatment for the extinguishment of financial liabilities with equity instruments. Under IFRIC 19 (AC 452), equity instruments issued to a creditor to extinguish all or part of a financial liability would represent "consideration paid". The equity instruments will be measured on initial measurement at their fair value, unless such fair value cannot be reliably measured, in which case the fair value of the financial liability will be used. The difference between the carrying amount of the financial liability (or part thereof) extinguished and the initial measurement amount of the equity instruments shall be recognised in profit or loss. This statement will not impact the results of the Entity as the Entity does not enter into such transactions.	Annual periods beginning on or after 1 July 2010*

6. Property and equipment

	Leasehold Improvement	Furniture and fittings	Security Equipment	Computers	Total
	R	R	R	R	R
Year ended 31 March 2010					
Opening net carrying amount	**186,738**	**161,658**	**401,028**	**272,429**	**1,021,853**
Gross carrying amount	446,200	178,418	436,528	362,527	1,423,673
Accumulated depreciation	(259,462)	(16,760)	(35,500)	(90,098)	(401,820)
Additions	12,360	-	11,580	-	23,940
Depreciation	(25,896)	(17,823)	(44,413)	(121,434)	(209,566)
Closing net carrying amount	**173,202**	**143,835**	**368,195**	**150,995**	**836,227**
Gross carrying amount	458,560	178,418	448,108	362,527	1,447,613
Accumulated depreciation	(285,358)	(34,583)	(79,913)	(211,532)	(611,386)
Year ended 31 March 2009					
Opening net carrying amount	**361,397**	**111,724**	**4,769**	**58,124**	**536,014**
Gross carrying amount	368,503	114,006	4,902	63,223	550,634
Accumulated depreciation	(7,106)	(2,282)	(133)	(5,099)	(14,620)
Additions	77,697	64,412	431,626	299,304	873,039
Depreciation	(252,356)	(14,478)	(35,367)	(84,999)	(387,200)
Closing net carrying amount	**186,738**	**161,658**	**401,028**	**272,429**	**1,021,853**
Gross carrying amount	446,200	178,418	436,528	362,527	1,423,673
Accumulated depreciation	(259,402)	(16,760)	(35,500)	(90,098)	(401,820)

	2010	2009
	Rands	Rands
7. Inventory	**-**	**271,988**
Cost of Inventory	-	1,505,805
Inventory write down	-	(1,233,817)

Inventory is stated at the lower of cost and net realisable value. There was no inventory at year end (2009: 271,988)

8. Trade and other receivables	**106,993**	**57,988**
Prepayments	72,906	18,000
Other receivables	30,834	12,949
Refund receivables	3,253	27,039

- Credit risk and impairment losses

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

9. Cash and cash equivalents	**8,252,682**	**(59,113)**
FNB Operational Account	8,174,283	-
FNB Joint Account	76,398	672
Bank overdraft	-	(61,785)
Petty cash	2,000	2,000

- Interest rate risk

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

	2010	2009
	Rands	Rands

10. Loans and borrowings

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

Non-current portion of long term goals	**816,330**	**1,966,492**
Standby Loan Facility	816,330	1,966,492
Current portion of long term loans	**1,400,000**	**1,853,384**
Standby Loan Facility	1,400,000	1,853,384
Revolving Credit Facility	-	157,947

The Standby Loan is at the interest rate of prime + 1.5%, once off raising fee of 1% and is repayable over 36 months in equal monthly installments of R116 667 from the first day of the 13th month (which is 1 October 2008) from the date of the first drawdown of the Standby Loan.

The revolving facility was not used in the current financial year and thus has a balance of RNil at period end (2009: R157 947).

11. Trade and other payables	**486,687**	**1,205,132**
Accruals	308,110	742,063
Creditors	54,643	425,089
VAT payable	16,522	-
Provisions	107,412	37,980

- Liquidity risk

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

	2010	2009
	Rands	**Rands**

12. Revenue

Revenue consits of sales of rough diamond to local beneficiators	**330,892,108**	**117,209,264**
Cost of Sales		
Reconciliation:		
Opening Inventory	271,988	23,400,489
Purchases	317,829,814	92,024,575
Vaulting, Security and Transport costs	116,233	303,760
Closing Inventory	-	(271,988)
Cost of Goods Sold	**(318,218,035)**	**(115,456,836)**

13. Other Income

Other Income is Donations to the SDT in respect of Staff donated by the DBCM and DME and use of Equipment from DBCM

Other Income	**7,865,903**	**7,652,779**
Donations DBCM	5,291,932	5,936,152
Other Income from DBCM	-	399,726
Donations DBCM: Use of Equipment	167,366	129,012
Donations DME	1,406,605	1,187,889
Government Grant	1,000,000	-

There were no terms and conditions for the Grant Received

	2010	2009
	Rands	Rands
14. Profit/(loss) from operating activities is stated after accounting for the following:		
Audit Fees	352,473	234,398
Emoluments		
For service as members	374,251	518,993
For managerial services	-	500,000
Depreciation	209,566	387,200
Operating lease charges	246,795	305,004
Fruitless and wasteful expenditure	324,662	153,636
Salaries	131,392	836,435
Salaries - Donations	6,698,537	7,124,041
Use of De Beers Assets and Diamond Equipment	167,366	129,012
15. Finance Income		
Interest received	**180,829**	**63,695**
16. Finance expenses		
Finance costs on IDC facilities	-	187,094
Interest charged by:	374,288	2,164,089
IDC	373,651	2,162,969
Other	636	1,120
	(374,288)	**(2,351,183)**

	2010	2009
	Rands	Rands

17. Income tax expenses

Current tax expense:		
South African Normal Tax	1,621,418	-
Deferred tax expense	47,144	-
Reversal of temporary differences	-	(2,434)
Income tax expense	**1,668,562**	**(2,434)**
Reconciliation of effective tax rate:		
Statutory rate%	28.00%	28.00%
Adjustments:		
Non-deductable expenses	0.88%	-0.71%
Prior year losses for which no deferred tax was recognised	-13.84%	-26.58%
Other deferred tax assets not recognised	0.57%	-0.66%
Effective tax rate	**16.21%**	**0.05%**

	2010	2009
	Rands	Rands

18. Cash generated from operations

Net income / (Loss) before taxation	**10,296,380**	**(5,213,398)**
Adjusted for:		
- Depreciation	209,566	387,200
- Interest expense	374,288	2,164,089
- Interest received	(180,829)	(63,695)
- SARS penalties and interest	324,661	-
- Other non cash items	(45,598)	-
- Other income received from DBCM	-	(399,726)
- Donations received - DME and DBCM	(6,865,903)	(7,253,053)
- Government Grant received	(1,000,000)	-
- Staff services donated - DBCM	5,291,932	5,936,152
- Staff services donated - DME	1,406,605	1,187,889
- Use of assets - De Beers	167,366	129,012
Adjusted net loss before taxation	**9,978,468**	**(3,125,530)**
Changes in working capital:		
- decrease / (increase) in trade and other receivables	(49,004)	3,133,571
- decrease / (increase) in inventory	271,988	23,128,501
- (decrease) / increase in trade and other payables	(718,446)	(72,450)
	(495,462)	**26,189,622**
Cash generated from operations	**9,483,006**	**23,064,092**

	2010	2009
	Rands	**Rands**

19. Deferred tax liability

In the current year R1 422 560 of previously unrecognised tax losses were recognised and utilized as there were taxable profits against which these losses could be utilized.

Recognised deferred tax liability
Deferred tax liabilities are attributable to the following:

Property and equipment	44,860	-
Leave pay	(18,130)	-
Prepayments	20,414	-
	47,144	-

Unrecognised deferred tax liability

Temporary differences	-	36,888
Assessed loss	-	(1,422,560)
	-	**(1,385,672)**

20. Commitments

Operating Leases - as lessee (expense)

Minimum lease payments due

- within one year	34,200	34,200
- in second to fifth year inclusive	19,950	54,150
	54,150	**88,350**

Operating lease payments represent rental payable by the entity for its equipment. The lease was negotiated for a term of 3 years with escalation of 0% per annum from starting 1 November 2008. No contingent rent is payable.

	2010	2009
	Rands	Rands

21. Related Parties

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

The SDT, 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 2010 entered into between the SDT and entities outside the entity are as follows:

Department of Minerals and Energy (DME) seconded two of its staff members to the SDT as the Chief Executive Officer and the Company Secretary respectively and the costs paid by DME on behalf of SDT were as follows:

DME Staff Costs	1,406,605	1,187,889

The SDT borrowed funds from the Industrial Development Corporation (IDC) a government entity for the start up of its operations and the borrowings were as follows:

Industrial Development Corporation		
Standby Loan Facility	2,216,330	3,661,929
Revolving Credit Facility	-	157,947

Key Management personnel compensation refer to Note 22

	2010	2009
	Rands	Rands

22. Emoluments

Executive members

Mr A Chikane - Chief Executive Officer (Contract expired - Sept 08)	-	500,000

Non-Executive members Accounting and Sub-committee meeting fees

Ms L Makatini (Chairperson)	96,515	121,280
Ms D Maphatiane	32,271	54,074
Mr O Temkin	31,510	27,194
Mr I Goondiwalla	-	53,356
Mr K Joseph	-	45,114
Mr P Moeti	36,364	36,154
Mr T Montoedi	30,557	44,800
Mrs H Tyler	26,464	24,797
Ms S Motloung	56,212	54,388
Mr Y Tenza (Audit and Risk Management Committee) Not a Member	51,076	28,559
Ms S De Quintal (Risk Committee) Not a Member	-	29,277
Ms B Luthuli (Audit and Risk Management Committee) Not a Member	13,282	-
Total	**374,251**	**518,993**

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

Ms L Ntshinga
Ms BFN Nzimande
Mr. A Mngomezulu
Mr. L Selekane
Mr. L Rapoo
Mr. S Sikhosana

	2010	2009
	Rands	Rands

23. Fruitless and Wasteful Expenditure

Penalties and fines on late payment VAT / PAYE / SDL / UIF and normal tax	324,662	153,636

The fruitless and wasteful expenditure is in respect of SARS penalties and interest of R324 662 relating to a possible under payment of the 2009/2010 provisional tax.

24. Subsequent Events

There were no subsequent events identified for reporting purposes.

25. Contigent Liabilities

The SDT is not aware of any contingent liabilities that existed as at 31 March 2010.

26. Contingent Asset

A contingent asset in the form of monies paid as a 50% deposit for the printing of the annual report for the 2008/2009 year to a supplier that did not perform in terms of agreement. The matter has been taken to court and the SDT is awaiting court judgement relating to the deposit.

27. Expenditure Related to Soccer World Cup

The State Diamond Trader did not incur any expenditure related to soccer world cup clothing and tickets for the year ended 31 March 2010.

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Website:	www.statediamondtrader.gov.za
Shareholder:	Government of the Republic of South Africa Represented by Minister of Minerals and Resources
Country of incorporation:	Republic of South Africa
Directors:	Ms L Makatini (Chairperson) Ms N Zikalala (Acting Chief Executive) Ms D Maphatiane Mr. O Temkin Mr. I Goondiwalla Mr. K Joseph Mr. P Moeti Mr. T Montoedi Mrs. H Tyler Mr. S Motloung Ms L Ntshinga Mr. L Selekane (From July 2007- May 2009) Mr. S Sikhosana (From August 2009 to January 2010) Mr. L Rapoo (From February 2010) Ms F Nzimande (From July 2009) Mr. J Raphela (From July 2009) - Alternate Member Ms Selloane Motloung (Company Secretary)

State Diamond Trader



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