

state
diamond
trader
REPUBLIC OF SOUTH AFRICA

annual report
19/2020

state diamond trader

REPUBLIC OF SOUTH AFRICA

ANNUAL REPORT

2019/2020

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STATE DIAMOND TRADER

VISION

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

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GENERAL INFORMATION

Entity Information

Domicile	Johannesburg, South Africa
Nature of business	The State Diamond Trader is a creature of Statute, the Diamonds Act (Act No. 56 of 1986) as amended. Its main business is to promote equitable access to and local beneficiation of the Republic's diamonds.
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Twitter	@SDT_RSA
Facebook	State Diamond Trader sdt
Instagram	statediamondtrader
Shareholder	Government of the Republic of South Africa Represented by the Minister of Mineral Resources
Auditors	Auditor General of South Africa

List of Abbreviations and Acronyms

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

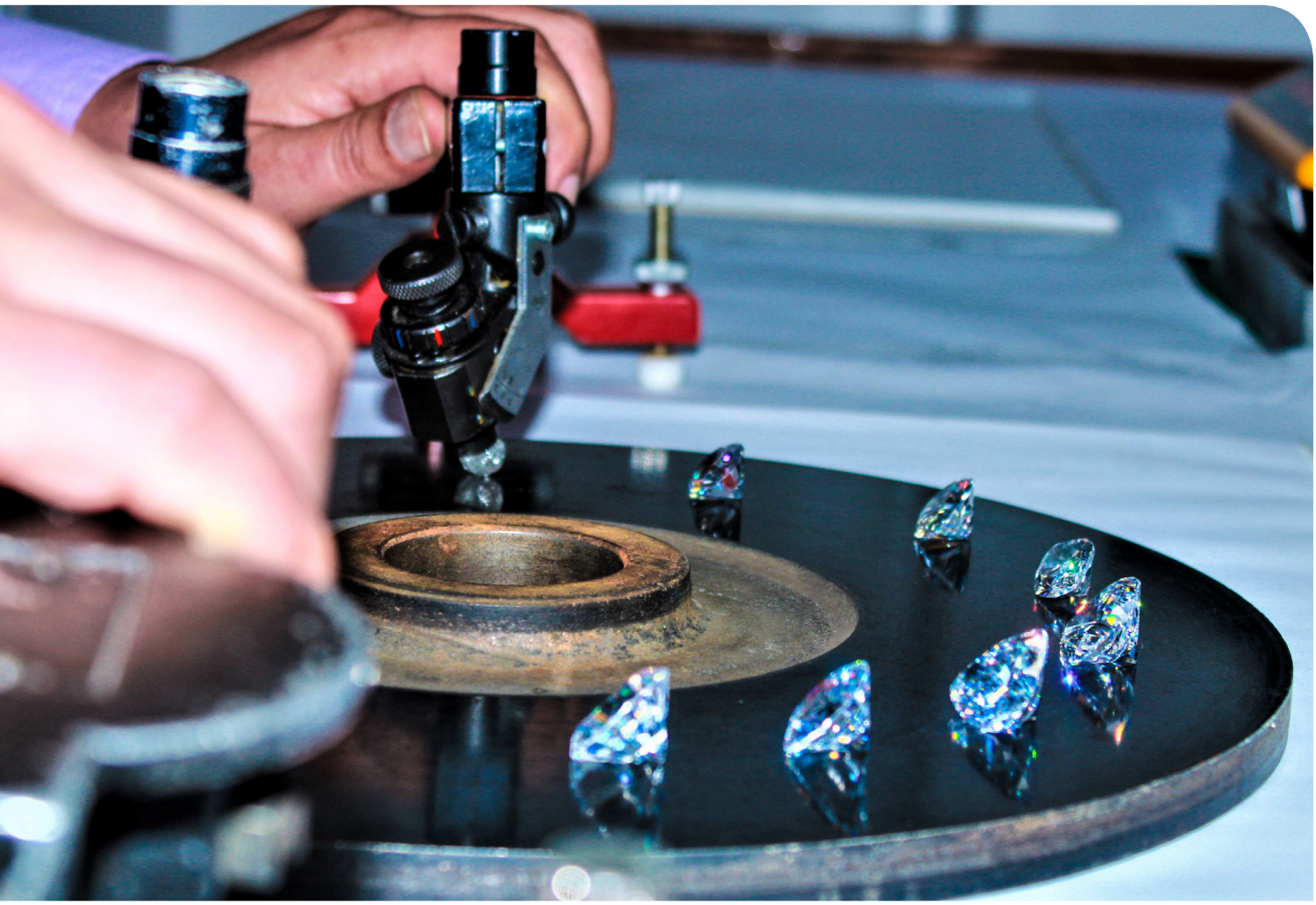
Corporate Profile and Organisational Structure

Who We Are

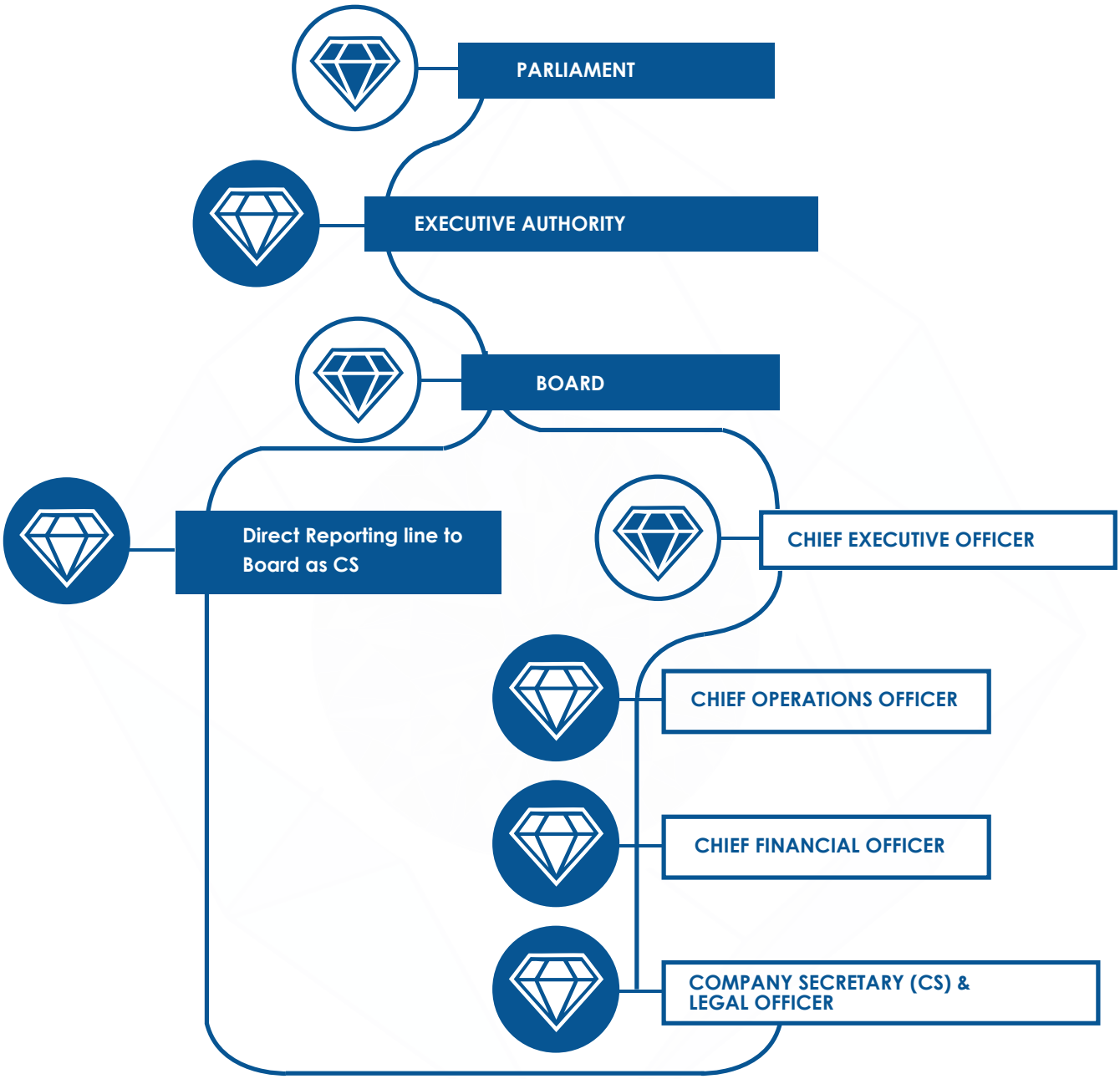
The State Diamond Trader is a state-owned entity established in terms of Section 14 of the Diamonds Act 56, 1986, as amended ("the Act"). It operates in the diamond industry with the aim to grow local diamond beneficiation.

The mandate of the State Diamond Trader is to buy and sell rough diamonds and to promote equitable access to and beneficiation of the country's diamond resources. The entity aims to grow South Africa's diamond cutting and polishing industry by enabling and increasing participation of Historically Disadvantaged South Africans (HDSAs) in the diamond beneficiation industry. The entity is eligible to purchase up to 10% of the run-of-mine (ROM) production from all diamond producers in South Africa. It sells to registered customers through an application and approval process.

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



Our Organisational Structure



*Vacant Position. Functions currently performed by the Operations Manager

Our Operations

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

Purchasing

The Purchasing process is concerned with enforcing and interpreting section 59B of the Diamonds Act of 1986 as Amended in 2005. This includes the inspection of diamonds from all compliant South African Diamond Producers for the purposes of selecting and purchasing up to ten percent of the legislated Run of Mine. The department is responsible for implementing processes by which rough diamonds will be presented and valued on a consistent basis. In conjunction with the Production department oversee the generating and updating the State Diamond Trader internal price book that is used in the valuation and purchasing of goods. All negotiations with producers in respect of price and composition. Stakeholder management with all compliant diamond producers is undertaken by the purchasing department. The department is also tasked with analysing global markets and collect analysis to acquire market intelligence, to analyse and update mine profile data and to compile statistics on the South African diamond production output.

Production (Sorting and Valuation)

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

Client Relations

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

- Addition and removal of entries on the State Diamond Trader customer base;
- Maintenance of client records;
- Client segmentation strategy development and implementation;
- Compliance relating to licensing and SARS Certification;
- Factory visits to ensure compliance with beneficiation targets;

- Projects relating to industry and clients' development;
- Diamond industry Public Relations; and
- State Diamond Trader participation at external events.

Sales

Sales works closely with the Client Relations to understand clients' needs and especially their compliance status. The sales process is a function of State Diamond Trader's overall strategy, duly cognisant of its mandate as stated in the legislation. It is important to note that the entity employs the methodology of direct sales to its customers.

Sales will allocate diamonds to customers in line with its Sales Strategy that seeks to address the issues of transformation and considers the commercial imperative of the State Diamond Trader. The system of allocating mixes to an approved, compliant customer base is heavily dependent on what the entity has purchased.

Supporting services include:

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

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

Marketing and Communications: deals with the external and internal communication which include stakeholder relations, media relations and marketing

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

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



OVERSIGHT *REPORTS*



CHIEF EXECUTIVE OFFICER'S OVERVIEW

Mr. S.M. Mnguni
Chief Executive Officer

The twelve months period ended on 31 March 2020 was marked by a tough diamond trading environment. The entity had focused on the recovery from the performance of the 2018-2019 financial year by improving and growing local beneficiation, however; its strategy was marred by a sharp declined in the diamond markets, accompanied by the closure of major diamond centres and riots in Hong Kong, a major trading centre. This resulted in a lack of demand for the commodity. The entity did not anticipate the depressed trading environment, the diamond industry and global markets found itself in and had to find innovative ways to ensure business continuity and maintain relations with major stakeholders, the producers and beneficiators.

Governance

The year under review was an anomaly in that the Board tenure ended on 31 August 2019 and was renewed by the Minister for a period of three months until 30 November 2019. As at 31 March 2020, the Board had not been appointed. This was a precarious position for the entity which had no oversight for the last four (4) months of the financial year, however; it has strived its best endeavours to perform under the circumstances.

The entity was under the leadership and supervision of the Accounting Officer assisted by his management team and guided by the office of the Executive Authority. During the period of absence of the accounting authority, this office assumed these responsibilities in line with section 49 (2) (b) of the Public Finance Management Act.

In the absence of the Audit and Risk Committee to perform some oversight and assurance duties during the final quarter of the financial year as well as on this report, the Internal Auditor, Accounting Officer, Company Secretary and Management played a significant role in ensuring that the entity performs its functions to the best interest of the entity. The Accounting Officer took overall responsibility to ensure that governance issues are adhered too.

Trading Environment

The continued pressure of a depressed global economy was felt by the State Diamond Trader, diamond producers and its clients in the 2019-2020 financial year. The entity struggled to meet its budged targets for purchases and sales for the year under review. The State Diamond Trader could not purchase from major diamond producers due to a general lack of appetite in the industry caused by the total shutdown of the Chinese market even before Covid-19 as well as the Hong Kong protest which negatively affected the rough market.

Although by December 2019 there was a sentiment that the market was on the recovery path, the sentiment was abruptly curtailed by the COVID 19 pandemic. The last quarter of the financial year was overwhelmed with a downward spiral as the market was in a complete shutdown. This had a significant impact on the operations of the State Diamond Trader.

Operational Environment

The following highlights the annual operational environment of the SDT:

- A total of 32 322.12 carats to the value of R 225 635 973 was purchased;
- A total of 32 866.05 carats with a value of R 230 992 151.91 were sold to 38 clients in varying segments; and
- Sales to HDSA clients decreased to an amount of R 80 923 628 in comparison to R 210 816 999 in the last financial year.

Facilitation of Access to International Markets

Despite the challenges faced during the year under review, the entity continued with its support to local beneficiators for access to markets and participated at the Hong Kong Jewellery and Gem Fair in the midst of uncertainty due to riots in Hong Kong. Clients reported 21% growth in sales despite the reduced footprint at the Show.

Financial Position

In response to the declined financial performance of the entity, drastic cost containment measures were implemented. This together with other measures put in place, has enabled the entity to continue its operations a going concern.

Enterprise development Program

The entity was able to acquire 4 (four) beneficiation licences for the Youth who formed part of the Enterprise Development Program (EDP). Our sincere appreciation to the South African Diamond and Precious Metals Regulator together, for their assistance in the issuance of these licences. The State Diamond Trader is left with 7 (seven) of the 27 (twenty-seven) participants in the programme and mentoring and coaching is still ongoing.

In an effort to curb youth unemployment in our country, Ambassador Geoff Doidge from the South African Embassy in Thailand had discussions with Mouawad Diamond Cutting and Polishing factory regarding a partnership between State Diamond Trader aimed at providing diamond processing skills to South Africa's youth. The collaboration resulted in the recruitment 5 (five) South African Youth, 3 (three) Females and 2 (males) who undertook a successful training in Thailand for a period of 6 (six) months in this current financial year under review.

Re-branding of the entity's Identity

As the entity strives to evolve and align itself with its commodity, it successfully launched the new branding aimed at creating a strong relationship with its clients and the public through a brand identity. The State Diamond Trader is pleased to announce that a new corporate identity was launched at the Africa Mining Indaba 2020 which was held in Cape Town on 3-7 February 2020.

Human Resources

The secondment from the Mine Health and Safety Council (MHSC) of Mr Molefe Lephoto to provide Chief Financial Officer Services to the entity, ended on 31 August 2019 as he returned to MHSC. The State Diamond Trader is grateful to MHSC for the secondment and to Mr Molefe Lephoto for his selfless and sterling service while posted at the State Diamond Trader under challenging circumstances. This abrupt change left the entity without the expertise of the Chief Financial Officer for a period of 3 (three) months. Our gratitude goes to Mintek who seconded Ms Somikazi Madolo. Her contribution to the entity has been nothing short of remarkable. Ms Madolo joined the entity on 2 December 2019, and she is still serving at the entity as the Acting Chief Financial Officer. The process of recruiting the Chief Financial Officer was completed on 29 August 2019 and still waits for final appointment as at the end of this reporting period.

Disciplinary Action

A misconduct was investigated in relation to supply chain management which resulted in disciplinary actions being instituted during the year under review.

The case of fraud reported in the 2018/2019 financial year was concluded internally with disciplinary actions instituted. The entity still awaits the finalisation by the SAPS.

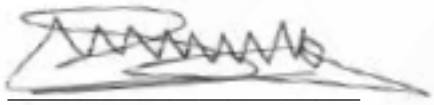
Consequence Management

Unfortunately, due to instability the finance department, reported above, there were some lapses in internal controls as a result, the historic and new irregular expenditure as well as financial misstatements occurred. However; even under these circumstances, the entity managed to fulfil its financial obligations and did not regress in its position. In the meantime, corrective measures have been put in place to address issues raised by the Auditor General.

Acknowledgement and Appreciation

My sincere gratitude to the Minister of Mineral Resources and Energy, Honourable Gwede Mantashe and his late Deputy Minister Bavelile Hlongwa for their Leadership during the year under review. To the Chairperson of the Board and all Board whose term came to an end on 30 November 2019, my sincere gratitude for your guidance and oversight. My acknowledgement goes to the Parliament Portfolio Committee on Mineral Resources and energey for their continued monitoring and guidance. Appreciation to the Director General, his Deputies and the entire Department of Mineral Resources and Energy. I also wish to thank our stakeholders for their continued willingness to engage and support to the entity. I sincerely give thanks to the State Diamond Trader clients and Producers for the role they continue to play, in particular, in the Mandela day activities as we strive together to contribute to the betterment of our Communities.

To the State Diamond Trader Management team and staff, thank you for your resilience and your ability to execute multiple tasks in order to ensure that the ship keeps sailing. My appreciation to you all for living the values of the entity.



Mr Stanley Mandla Mnguni

Chief Executive Officer

October 2020



CHIEF FINANCIAL OFFICER'S OVERVIEW

Ms. M Madolo
Acting Chief Financial Officer

Financial Performance

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

Financial Performance

The 2019/2020 financial year was quite challenging for the entity, but despite these tough trading conditions the organization remained financially sustainable. The diamond mining industry continued to face a lot of chronic challenges ranging from declining production to volatile exchange rates.

State Diamond Trader incurred a loss of R16.5 million compared to a net loss of R3 million during the 2019/2020 financial year. Revenue declined by R394 million to R231 million (FY 2019: R625 million). The decrease is mainly attributable to deteriorating production levels in the diamonds mining industry.

Total expenditure decreased to R24,8 million from R25,4 million during the 2019/2020. The decrease is mainly attributable to cost containment measures that management embarked on during the year under review.

Cash Flow

Cash and cash equivalents decreased from R99 million in 2018/2019 to R25 million during 2019/2020 due to tough trading conditions. Despite declining profitability, the State Diamond Trader has adequate cash reserves to finance its operations in the short term.

Going Concern

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

Events after the Reporting Date

Management has assessed the financial impact to the entity of the COVID-19 and the declaration of the National State of Disaster. The consequences of the COVID-19 outspread have adversely affected the acquisition and sales of rough diamonds for the first quarter for the 2020/21 financial period. The entity has implemented plans in order to ensure sales improves.



Ms. M Madolo

Acting Chief Financial Officer

October 2020


state
diamond
trader
MINTEK
Transform



STRATEGIC *PERFORMANCE*

STRATEGIC OVERVIEW

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

Vision

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

Mission

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

Performance Environment

Purchasing of Rough Diamonds

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

Local Supply

While local diamond beneficiation has been challenged in terms of supply as production levels and demand were depressed during the year under review, the suitability of rough diamonds for local beneficiation has been even more of a challenge. An analysis of SA production in the last few years shows that only about 15% by carats of diamonds mined in SA are preferred for local beneficiation by the State Diamond Trader's clients. Over and above, the data indicates that the entity inspected 95% of the diamonds produced in the country and purchased 2% of the total run-of-mine production by value and 0.5% by carats during the 2019/2020 financial year. Despite the development of some small new projects in recent years, there have been no significant new diamond discoveries in South Africa for decades. Much of the current production comes from older projects in which mining is costly.

Global influence

Most within the diamond industry has compared the depressed market conditions to the same conditions that were experienced during the recession of 2008. Profit margins continued to be pressured and resulted in most factories downsizing its operations. The diamond industry as a luxury industry has been forced to diversify its trading patterns to address the challenging global economic conditions.

Throughout the year, large producers such as De Beers and Alrosa allowed its customers to defer purchases of allocated boxes. This resulted in these producers having to contend with rising inventory. Trading in the secondary market (tenders) has been slow as dealers struggled to attain goods profitably and this on the other hand exerted pressure on the prices of polished diamonds as buyers persisted to buy these at huge discounts.

India, as a major trading centre continued to face difficulties following its state of some bankruptcies and banks tightening credit facilities. This impacted trade of 85% by volume of the South African rough production and State Diamond Trader continued to feel the pressure,



Amidst all this, South Africa continues to have a unique opportunity to transform itself into being at the forefront of diamond beneficiation and trading on the continent. The country has abundant diamond skills and is not lacking in diamond beneficiation services.

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



PERFORMANCE AGAINST STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 1: Increase the amount, by carats, of rough diamonds sold on primary allocation by 10 percent annually.					
KEY ACTIVITIES	**PERFORMANCE MEASURE**	**ANNUAL TARGET**	**ACTUAL**	**VARIANCE**	**COMMENTS**
Sell more rough diamonds by carats through primary allocation to clients.	Percentage increase in the amount of rough diamonds sold through primary allocation.	Increase by 1 866 carats (10%) of rough diamonds sold through primary allocation by 31 March 2020.	**Target not Achieved.** 7,483,65 carats sold on primary allocation.	13,036,50 carats not sold on primary allocation.	The State Diamond Trader did not meet the target by 64% due to the deteriorating market conditions and trade wars between US and China, as well as protest actions in Hong Kong. Asia is one of the State Diamond Traders clients largest markets. The State Diamond Trader was unable to purchase a large quantity of rough diamonds for primary allocation due to reduce demand by clients.
STRATEGIC OBJECTIVE 2: Increase local beneficiation of 3gr gem quality and all sizes of near gem quality and industrial diamonds by SDT clients to 10 000 carats per annum by 2022/23					
KEY ACTIVITIES	**PERFORMANCE MEASURE**	**ANNUAL TARGET**	**ACTUAL**	**VARIANCE**	**COMMENTS**
Roll out of the first phase of the pilot for the beneficiation of -3 grainer gem quality diamonds.	Increased local beneficiation amount of -3 grainer gem beneficiated by SDT clients.	To pilot a model that will increase local beneficiation of - 3 grainer gem quality to 500 carats by 31 March 2020.	**Target not Achieved.**	Target was put in abeyance. Target not achieved.	Due to the prices of the -3grainers deteriorating and demand decreasing as synthetics were being mixed into natural -3grainer parcels, this led to uncertainty and instability in the market for this size range. It was for this reason that a decision was taken to put this target in abeyance. A report was approved by Management.

STRATEGIC OBJECTIVE 3: Promote growth of the diamonds beneficiation industry through Enterprise Development Programme					
KEY ACTIVITIES	**PERFORMANCE MEASURE**	**ANNUAL TARGET**	**ACTUAL**	**VARIANCE**	**COMMENTS**
Assist with the establishment of the Enterprise Development Programme businesses.	Established businesses from the Enterprise Development Programme.	To establish 4 businesses from the Enterprise Development Programme by 31March 2020.	**Target Achieved.** 4 businesses developed from EDP program.	None	None
STRATEGIC OBJECTIVE 4: Profile and communicate programmes aimed at the promoting the entity brand and access to markets and improving relations with relevant stakeholders					
KEY ACTIVITIES	**PERFORMANCE MEASURE**	**ANNUAL TARGET**	**ACTUAL**	**VARIANCE**	**COMMENTS**
Develop and launch the CI manual Revamp website Participate in 1 International show Develop a concept for a South African Diamond Show.	Implementation of the approved Marketing and Communication Strategy and Plan.	Implement 5 key pillars of the approved Marketing and Communication Plan.	**Target over Achieved.** 7 Key Pillars of the approved Marketing and Communication Plan implemented.	2 additional pillars achieved.	None
STRATEGIC OBJECTIVES 5: Meet 30 percent by mass rough diamond requirements of clients by 2022/23					
KEY ACTIVITIES	**PERFORMANCE MEASURE**	**ANNUAL TARGET**	**ACTUAL**	**VARIANCE**	**COMMENTS**
Pursue new resources for acquisition in order to supply rough diamonds to clients according to requirements.	Increased amount of rough diamonds supplied to clients versus client's requirements.	Meet 20% of clients requirements, target being 50,628 carats.	**Target not Achieved.** The State Diamond Trader managed to sell only 20,990,66 carats.	29,637,34 carats of client requirements not met.	The reason for not achieving the target was due to the deteriorating market conditions due to trade wars between US and China, as well as protest actions in Hong Kong. Asia is one of the State Diamond Traders clients largest markets. Global market factors reduced the clients appetite for rough diamonds, as many as compared this year to that of the recession of 2008.

STRATEGIC OBJECTIVES 6: Be a knowledge based organisation					
KEY ACTIVITIES	**PERFORMANCE MEASURE**	**ANNUAL TARGET**	**ACTUAL**	**VARIANCE**	**COMMENTS**
Training of staff members.	Number of staff members trained.	To provide training to 8 staff members in accordance with organisational needs.	**Target over Achieved.** 14 staff members were trained.	6 additional staff members trained.	12 staff members were trained on performance management in February 2020 and 2 staff members received training on Management Development Programme in February 2020.
Identify relevant institutions to Benchmark for industry intelligence and seek opportunities.	A Benchmarking exercise conducted.	Sign 2 MOUs with renowned international diamond centres by 31 March 2020.	**Target not Achieved.**	MOU not signed.	This was due to deteriorating market conditions and the entity's trading decline hence no funding to undertake these initiatives.
Identify relevant institutions to enter into agreements with, for various client support.	Number of agreements signed with various institutions for clients support in respect of training, funding and research.	Sign 2 agreements with various institutions for client support in respect of training, funding and research by 31 March 2020.	**Target Achieved.** MOU signed with Gauteng Innovation Hub and 5 (five) EDP candidates undertook training in Thailand.	None	None

STRATEGIC OBJECTIVES 7: Promote corporate governance and manage financial resources					
KEY ACTIVITIES	**PERFORMANCE MEASURE**	**ANNUAL TARGET**	**ACTUAL**	**VARIANCE**	**COMMENTS**
Adoption and implementation of a 3-year risk based internal audit Management Plan.	A Risk based internal audit management plan adopted and implemented.	To adopt a risk based Internal Audit Management Plan by 30 May 2019.	**Target Achieved.** A risk based internal audit management plan approved.	None	None
Implement management action plans from external audit.	Percentage of the external audit management action plan implemented.	To implement 100% of the approve external audit management action plan 31 March 2020.	**Target Achieved.** 100% implementation of external audit management action plan	None	None
Review the Corporate Governance Manual.	A reviewed Corporative Governance Manual to ensure its relevance and adequacy to guide good corporate governance.	To revise the Corporate Governance Manual by 31 March 2020.	**Target Achieved.** Corporate Governance Manual approved	None.	None
Approved records Management policy and Manual.	Approved records Management Policy and Manual.	To develop a records Management Policy and Manual by 30 March 2020.	**Target Achieved.** Records Management Policy and Manual approved.	None	None



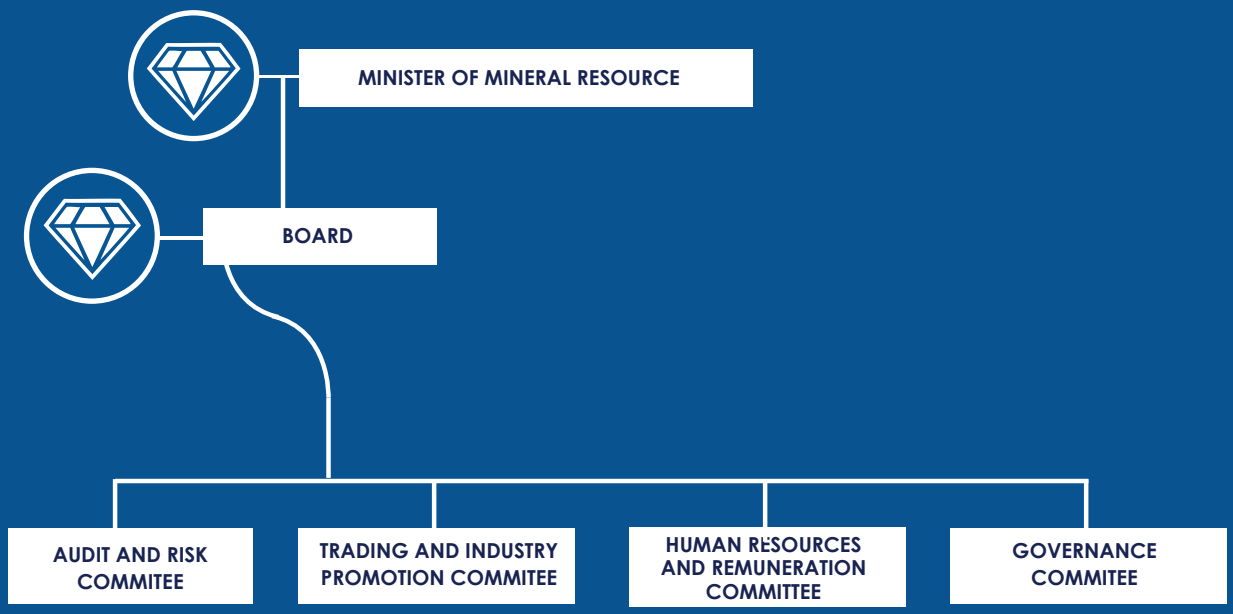
GOVERNANCE *& REMUNERATION*

THE BOARD

The Board of the State Diamond Trader is appointed by the Minister of Mineral Resources in terms of Section 17(2) of the Diamonds Act 56, 1986, as amended. The Board's tenure commenced on 1 September 2016 for a period of three years until 31 August 2019, however; the Executive Authority extended the term with effect from 1 September 2019 until 30 November 2019. As at 31 March 2020, the entity was still awaiting Board appointments by the Executive Authority.

Before appointing the members, the Minister is required by the Act to appoint an independent selection panel in line with the requisite knowledge and understanding of issues concerning the diamond industry. The ultimate authority to appoint and constitute the State Diamond Trader Board rests with the Executive Authority. The Board comprised of thirteen (13) members for the period 1 April 2019 until 31 August 2019. Following the extension of the Board tenure by the Executive Authority; Mr Mervyn Carstens (Chairperson), Mr Imtiaz Goondiwalla and Mr Lungile Mabece were not available for service and therefore, the Board comprised of 10 members for the three months period ended on 30 November 2019.

REPORTING STRUCTURE





Mr MJ Carstens (Chairperson) (56)

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



Mr G Du Plessis (50)

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

Dr M Matlou (61)



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

Mr R L Mabece (55)



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



Mr B Deka (38)

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



Mr S M Motloung (65)

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



Ms M McMaster (62)

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



Mr K J Menoe (39)

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



Major General N Mokoena (54)

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



Mr W M Mabapa (50)

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



Mr I Goondiwalla (47) CA (SA)

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



Mr S M Mnguni (CEO) (ex officio) (50)

Mr Mnguni holds a B.Admin (Hons) from the University of the North and has passed a Leadership Development Programme (GIBS) and a CPMD-MF (WITS). Until his appointment as the Chief Executive Officer of the State Diamond Trader, he spent most of his career at Steve Tshwete Local Municipality in various roles including Corporate Services, Deputy Municipal Manager and Acting Municipal Manager since 1995. Mr Mnguni also served at Bushbuckridge Water as Director of Corporate Services as well as Company Secretary. Mr Mnguni also served as Non-Executive Director at SAFCOL SOC Ltd until March 2020 and currently as Non-Executive Director at SADPMR.

Ms. N. C. Sibeko

Company Secretary and Legal Officer

EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT

The Executive Management Team is responsible for ensuring the implementation and execution of State Diamond Trader strategy as approved by the Board and for the operational management of the business. The Executive Management team consists of:



Mr S M Mnguni (50)

Chief Executive Officer

Mr Mnguni holds a B.Admin (Hons) from the University of the North and has a Leadership Development Programme (GIBS) and a CPMD-MF (WITS). Until his appointment as the Chief Executive Officer of the State Diamond Trader, he spent most of his career at Steve Tshwete Local Municipality in various roles including Corporate Services, Deputy Municipal Manager and Acting Municipal Manager since 1995. Mr Mnguni also served at Bushbuckridge Water as Director of Corporate Services as well as Company Secretary. Mr Mnguni also served as Non-Executive Director at SAFCOL SOC Ltd until March 2020 and currently as Non-Executive Director at SADPMR.



Ms Hlumela Somikazi Madolo (49)

Acting Chief Financial Officer (From December 2019)

Ms Madolo holds a B.Comm (Accounting) and a Postgraduate Diploma in Accounting from UNISA. She is also a registered Tax Practitioner. She has held various financial management positions in the public sector. Ms Madolo has extensive experience in both accounting and the auditing field, spanning over 15 years. Miss Madolo is on secondment from Mintek.



Mr Molefe Lephoto (48) CA (L)

Acting Chief Financial Officer – From 1 March 2019

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



Mr C Van der Ross (48)

Operations Manager

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



Ms N C Sibeko (39)

(Company Secretary and Legal Officer)

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

CORPORATE GOVERNANCE REPORT

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

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

The King IV Report on Corporate Governance was launched by the Institute of Directors (IOD) in late 2016 and came into effect from 1 April 2017. Significant corporate governance and regulatory developments have taken place locally and internationally since the release of King III in 2009, which are now incorporated in King IV. The entity has developed a checklist against which it measures its performance against the recommended principles in king IV.

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

The Board

The Board of the State Diamond Trader is appointed by the Minister of Mineral Resources in accordance with the provisions of the Act. The Board is responsible for setting the strategic direction of the State Diamond Trader. The Board is further responsible for, and plays a leadership role in, the establishment and maintenance of an ethical corporate culture. The Board also operates within a code of conduct and strives to ensure that the ethical culture it sets leads to performance in terms of the delivery of the mandate of the State Diamond Trader and ensures sustainable outcomes for the future of the diamond beneficiation industry in South Africa. All Board members, with the exception of the Chief Executive Officer, are non-executive. The Chief Financial Officer is a standing invitee at all Board meetings.

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

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

Attendance by Board members at Board and Committee meetings during the year is set out on page 36.

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



Attendance of Board and Committee Meetings

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

°Chairperson of the Board

[1]Chairperson of the ARC

[2]Chairperson of HR & REMCO

[3]Chairperson of the Trading Committee

*Alternate to Mr K.J Menoe

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

Primary Responsibilities of the Board

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

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

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

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

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

Composition

The Board is composed in pursuance of the provisions of the Diamonds Act 56, 1986, as amended, and is appointed by the Minister of Mineral Resources. The State Diamond Trader Chief Executive Officer as well as the Chief Executive Officer of the South African Diamonds and Precious Metals Regulator is an ex officio member of the Board. The Board members strive for independence and to execute their fiduciary duties in the best interests of the State Diamond Trader. The independence requirements recommended in the King III and King IV Reports represent a matter that is subject to the founding legislation; it is envisaged to endeavour to align, to the extent possible, with the corporate governance recommended practices in due course.

Board membership ceases in the event of a resignation, a disqualification on the grounds listed in the Act, for reasons of absence for more than two consecutive meetings without the leave of the Chairperson or at the expiration of the Board tenure.

Committees of the Board

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

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

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

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

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

All Board committees remained un-constituted for the period 1 December 2019 to 31 March 2020 due to the end of the Board tenure on 30 November 2019.

Audit and Risk Committee

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

Information technology governance is also the responsibility of the Committee. The Committee met five times during the year under review.

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

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

All members of the Committee are non-executive and possess the requisite skill and experience to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The Committee had three members during the year, namely, Mr Imtiaz Goondiwalla (Chairperson), Mr Bothwell Deka, and Dr Matlotleng Matlou. The Committee comprised of two (2) members from 1 September 2019 to 30 November 2019 being Mr Bothwell Deka and Dr Matlotleng Matlou.

The Audit and Risk Committee was satisfied with the quality of work produced by internal and external auditors and with the internal control environment of the organisation. The Committee is not aware of any adverse indicators that may impact the organisation.

Human Resources and Remuneration Committee (HR and REMCO)

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

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

Primary responsibilities of the Committee include *inter alia:*

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

All the members of the Committee are non-executive and possess the requisite skills and experience to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The members are Mr Shadrack Motloung (Chairperson), Mr Gideon Du Plessis, Mr Lungile Mabece and Mr William Mabapa. The Committee comprised of three (3) members for the period 1 September 2019 to 30 November 2019 following Mr Mabece's no acceptance of the extension of Board appointment from the Executive Authority.

Trading and Industry Promotion Committee

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

The Trading Committee assists the Board with trading related activities and the promotion of the diamond beneficiation industry and is responsible for the development and implementation of trading rules and sales strategies. The Committee interlinks with other sub-committees of the Board on interrelated issues as necessary. The Trading Committee's formal terms of reference stipulate that its deliberations must take into consideration Black Economic Empowerment and equitable access to rough diamonds deliberations at all times.

Primary responsibilities of the Committee include *inter alia:*

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

All members of the Trading Committee are non-executive and possess the requisite skills and experience to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The members are Mr Kagiso Menoe (Chairperson), Mr William Mabapa, Ms Michelle McMaster and Major General Nonhlanhla Mokoena.

Governance Committee

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

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

Performance Evaluations

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

Appointment and delegation to Management

Chief Executive Officer's (CEO) appointment and role

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

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

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

Professional Corporate Services to the Board

The Company Secretary provides professional corporate governance services to the Board. The Company Secretary is a full-time employee of the organisation and ensures that board procedures, regulations and governance codes are adhered to as necessary. The Company Secretary also serves as Legal Officer of the State Diamond Trader. The appointment, remuneration and removal of the Company Secretary are matters reserved for the Board. The Company Secretary has an arm's length relationship with the Board and works closely with the Chairperson to ensure the proper and effective functioning of the Board and the integrity of the Board regarding governance processes.

Ethics

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

Strategy and Performance

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

Risk Governance

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

Going concern

The Board monitors the ongoing viability of the organisation and its effects. It is apprised of the organisation's going-concern status on a quarterly basis and formally assesses its viability twice annually. This coincides with the Board meetings wherein the budget is approved and the review of the Annual Financial Statements. The Board is satisfied that the organisation is solvent. In consideration of a more impactful contribution towards the growth of local diamond beneficiation, the Board has identified a need for a more enabling environment as created by the State Diamond Trader's founding legislation. Therefore, while the organisation is a going concern for the foreseeable future, sustainability considerations indicate that the State Diamond Trader is placed in a unique position to create value and facilitate a more impactful implementation of its mandate, with appropriate resourcing.

Reporting

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

Conclusion

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

REMUNERATION REPORT

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

Our Philosophy for Remuneration

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

Influential Factors for Remuneration

Internal Factors

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

External Factors

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

Key Focus Areas for the Reporting Period

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

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

Use of Consultants

The State Diamond Trader engages consultants for remuneration every three years to benchmark salaries with other similar entities in the Government and Diamond Sectors.





OPERATIONAL *PERFORMANCE*

TRADING REPORT

State Diamond Trader Trading Performance

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

	2019-20	2018/2019	2017/2018	2016/2017
State Diamond Trader Inspections US$* (US$million)	768	1 148	1 216	1 144
Carats inspected	7 126 213	9 873 078	10 012 744	8 994 894
US$ per carat	108	116	122	127
No. of producers	15	15	16	12
No. of Inspections	242	214	126	117
State Diamond Trader Purchases ZAR (Rmillion)	226	642	742	694
% purchased**	2%	4%	5%	4%
Carats	32 322	132 516	116 880	177 889
No. of purchases	67	124	67	60
State Diamond Trader Sales ZAR (Rmillion)	231	667	769	722
COGS	226	645	741	698
GM	5	21	27	24
GM%	2%	3%	4%	3%
Carats	32 866	132 940	116 351	178 052
No. of clients sold to	38	50	42	46

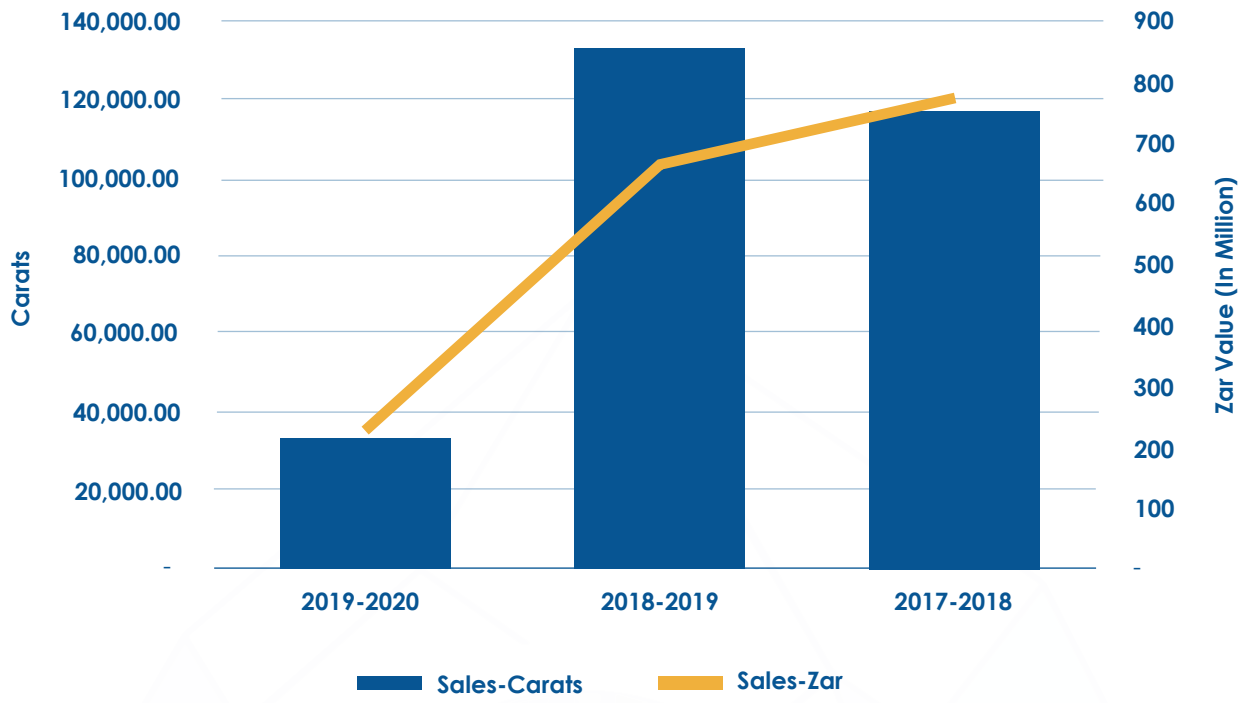
* At producer values

** % purchased of goods inspected (by value)

Trading Summary and Annual Comparison

The value of rough diamonds inspected during the year under review dramatically decreased from USD1,148 million in the previous financial year to USD 768 million, and the carats/volume decreased to 7,1 million as compared to the 9,8 million inspected in the previous financial year. The average price per carat also decreased from USD116 per carat in 2018/2019 to USD108 per carat for 2019/2020.

The value of purchases dramatically decreased by 63% to R226 million for 2019/2020 compared to R606 million for the 2018/2019 financial year. The volume purchased decreased by 75% to 32,322 carats in 2019/2020 compared to 126,986 carats in the 2018/2019 financial year. The number of purchases made from producers decreased from 124 (2018/2019) to 67 for the year under review.



Graph 1: Sales Comparison

Graph 1 indicates that sales value has gradually decreased from 2018 to 2019 and suddenly plunged in 2020. The value plunged by 65% to R231 million as compared to the previous financial year's sales of R667 million and the gross margin percentage achieved declined to 2% compared. This amounted to a decrease of R16 million compared to the gross margin achieved in 2018/2019. This is linked to the continued declining production levels by the major producer that contributes 60% of the entity's revenue, but also because of the depressed market conditions.

The State Diamond Trader clients sold to, also decreased to 38 clients in total for the year under review as compared to 50 in 2018/2019.

Rough Diamond Markets

The year under review has been among the most challenging, with some comparing it to the recession of 2008. Over the recent years, the diamond market as a luxury trading industry, had to diversify its trading patterns in order to align itself with the challenging global economic conditions.

Polished diamonds have not been trading normally as a result of dealers purchasing only what is required to fill orders owing to selected demand of specific categories. This called for manufacturers to reflect and tap into other markets that were not their traditional focus. Unfortunately, such an approach comes with its trading challenges and thus affects productivity. Consequently, profit margins continued to be pressured and resulted in most factories downsizing its operations.

To mitigate the impact, producers of rough diamonds reduced its production leading to inflation of rough prices. Throughout the year, large producers such as De Beers and Alrosa allowed its customers to defer purchases of allocated boxes. This resulted in these producers having to contend with rising inventory. Trading in the secondary market (tenders) has been slow as dealers struggled to attain goods profitably. This on the other hand, exerted pressure on the prices of polished diamonds as buyers persisted to buy these at huge discounts, below the Rapaport price list. Polished goods with deposit of fluorescence (yellow UV, medium and strong blue) have been selling up to 60% below the Rapaport price. However, commercial categories of 50 points to 2.50 carats in G to I colours with VS to SI2 clarifies have been trading fairly across the trading centres. Goods with high qualities and colours, particularly in larger sizes remained difficult to trade.

Major trading shows such as JCK Las Vegas and the Hong Kong Show, that normally indicates the market direction for the industry, have not been giving positive results and has highlighted the need for the industry to remain cautious. India, as a major trading centre continued to face difficulties following its state of some bankruptcies and banks tightening credit facilities. This impacted trade of 85% by volume of the South African rough production. The State Diamond Trader continued to feel the pressure.

The organisation has felt much pressure from the external economic environment such as the lack of general demand for goods, unstable exchange rate and mostly the outbreak of the COVID-19 towards the end of the year.

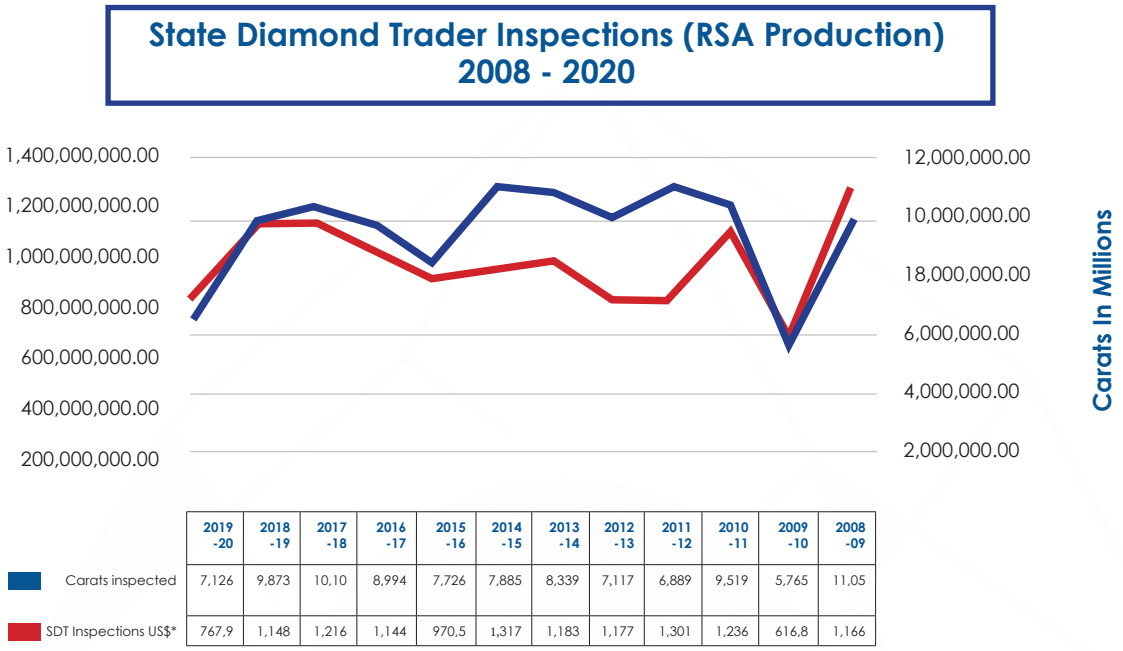
Additionally, although the special purchasing agreement of selecting goods from producers continues to be in place as a mitigating tool, clients did not have much appetite to participate on pre-finance in avoiding carrying the risk of high-priced rough diamonds and the uncertainty of the direction of the market. State Diamond Trader has been forced to decline most of the large productions which contributes about 60% revenue for the company.

The outbreak of the COVID-19 still imposes a serious risk towards to the trade. To this point majority of countries trading in diamonds have embarked on a total shutdown of business and restricted travelling. Additionally, as a result of the virus both the March 2020 Hong Kong Jewellery show and the JCK Las Vegas Show were suspended till further notice.

In March 2020, Rapaport indicated a general price drop of 10% to 25% for different categories of polished diamonds, this however was met with strong objections from the global industry, which resulted in Rapaport suspending its price review for the first time in history. This indicates that the diamond industry is in critical condition.

South African Diamond Production – State Diamond Trader Inspections 2019/2020

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



	2019 -20	2018 -19	2017 -18	2016 -17	2015 -16	2014 -15	2013 -14	2012 -13	2011 -12	2010 -11	2009 -10	2008 -09
Carats inspected	7,126	9,873	10,10	8,994	7,726	7,885	8,339	7,117	6,889	9,519	5,765	11,05
SDT Inspections US$*	767,9	1,148	1,216	1,144	970,5	1,317	1,183	1,177	1,301	1,236	616,8	1,166

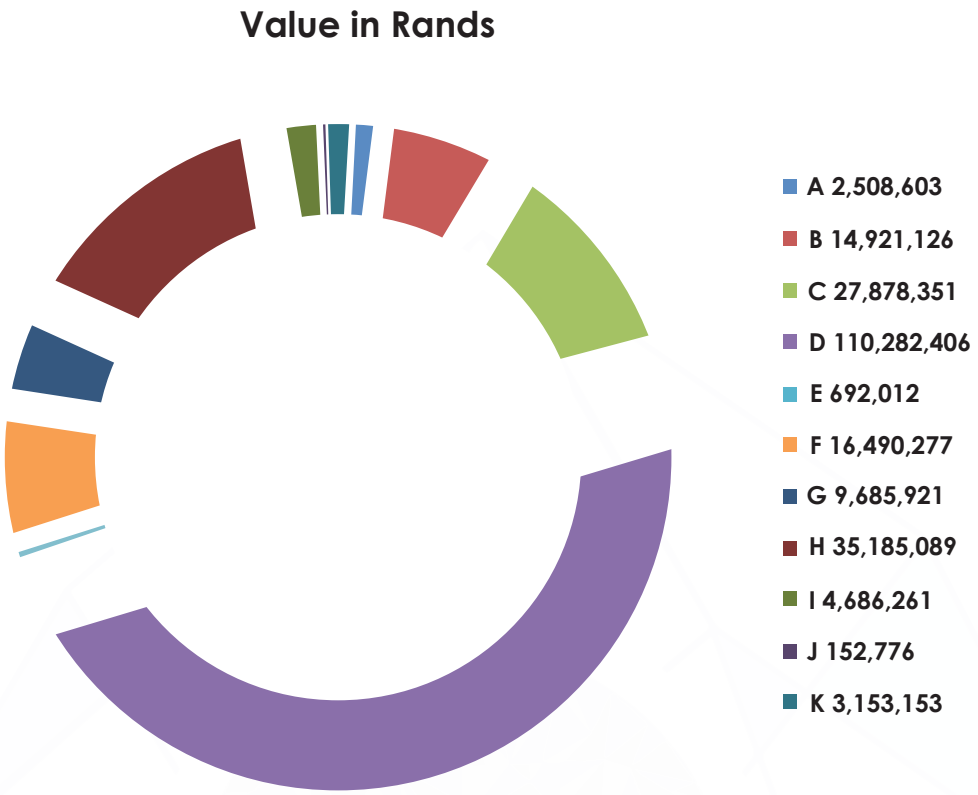
Graph 2: State Diamond Trader inspection comparison

The graph above indicates a dramatic decrease of both carats (volume) and value inspected by 28% and 33% respectively presented by 15 producers. The average price decreased from USD116 per carat in 2018/2019 to USD108 per carat for 2019/2020.

The decrease of the average price of inspected material is directly linked to the quality of rough diamonds produced, majority of those unsuitable for manufacturing in South Africa. It is noted that a comparison of the State Diamond Trader's statistics with those issued under the jurisdiction of the Kimberley Process Certification Scheme, reveals that the State Diamond Trader inspects a large majority (estimated at over 90%) of the diamonds produced in the country.

There are still producers that do not comply with legislation by presenting its full 100% production to the State Diamond Trader.

State Diamond Trader Purchases 2019/2020



Graph 3: State Diamond Trader Purchases 2019/2020

Graph 3 indicates the distribution by value purchased from each legally compliant producer. The State Diamond Trader purchased rough diamonds from 11 producers during the year in comparison to 13 in the previous financial year.

The average price of diamonds purchased by the State Diamond Trader was USD480 per carat compared to the USD350 per carat of the previous year. This reflects an increase of 37%, which reflects better quality of diamonds purchased. The State Diamond Trader purchased 0.5% by carats and 2% by value of the rough diamonds it inspected under the terms of the Diamond Act. These relatively low percentages reflect a fundamental inability to purchase consistently from the country's diamond producers and the reasons for this are as follows:

- This was exasperated by depressed market conditions;
- The constraints placed on the State Diamond Trader in terms of purchasing run-of-mine, which translates to all sizes and quality of diamonds from producers. These then includes high percentages of those diamonds that are not deemed suitable or preferred for beneficiation by State Diamond Trader clients; and
- The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader's capability to operate commercially and support its beneficiation mandate.

Summary and Budget Comparison 2019/2020

Table 2: Budget vs Actuals

		YTD Totals
Purchases	Budget	584 506 841
	Actual	225 635 974
	Diff	*-358 870 867*
	Diff %	*-61*
Sales	Budget	615 722 475
	Actual	230 992 151
	Diff	*-384 730 324*
	Diff %	*-62*
Gross Margin	Budget	30 786 123
	Actual	5 326 624
	Diff	*-25 459 499*
	Diff %	*-83*

The State Diamond Trader did not achieve its budgeted purchases, which were -61% below the target. Sales achieved was -62% below the target and gross margin attained was -83%. The factors that impacted this performance were as follows:

- The productions of the largest producer, which contributes on average 66% by value of the State Diamond Trader's total purchases, declined by an average of 115% by carats and 157% by value compared to the previous financial year;
- The inability to purchase rough diamonds at prices that could have resulted in sales to Beneficiators at the required margins;
- Lacklustre demand from Beneficiators for rough diamonds from representative samples selected (run-of-mine) deemed not suitable for local beneficiation; and
- Continued pressure exerted on the prices for cheaper and smaller sized rough diamonds.

It should be noted that a 2% gross margin achieved is in line with industry norms for a rough diamond trading entity such as the State Diamond Trader. The only way for the State Diamond Trader to effectively increase actual gross margin levels in order to offset any future rise in expenses, is to increase revenue. Although the State Diamond Trader purchased only 2% of local production by value during the year, the scope to increase remains subject to favourable market conditions. State Diamond Trader continues to trade based on:

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

Sales by Client Segment 2019/2020

Table 3: Sale by Segments

Segment	No. of clients	Carats	ZAR Sales	% of Sales (ZAR)
Equitable Access	12	1 733	19 694 861	9%
Growth & Transformation	4	6 924	45 562 477	20%
Growth & Transformation Incubation	5	1 631	15 666 290	7%
Niche and Large/ Medium Beneficiators	14	12 998	127 509 455	55%
Other	3	9 581	22 559 069	10%
	38	**32 866**	**230 992 151**	

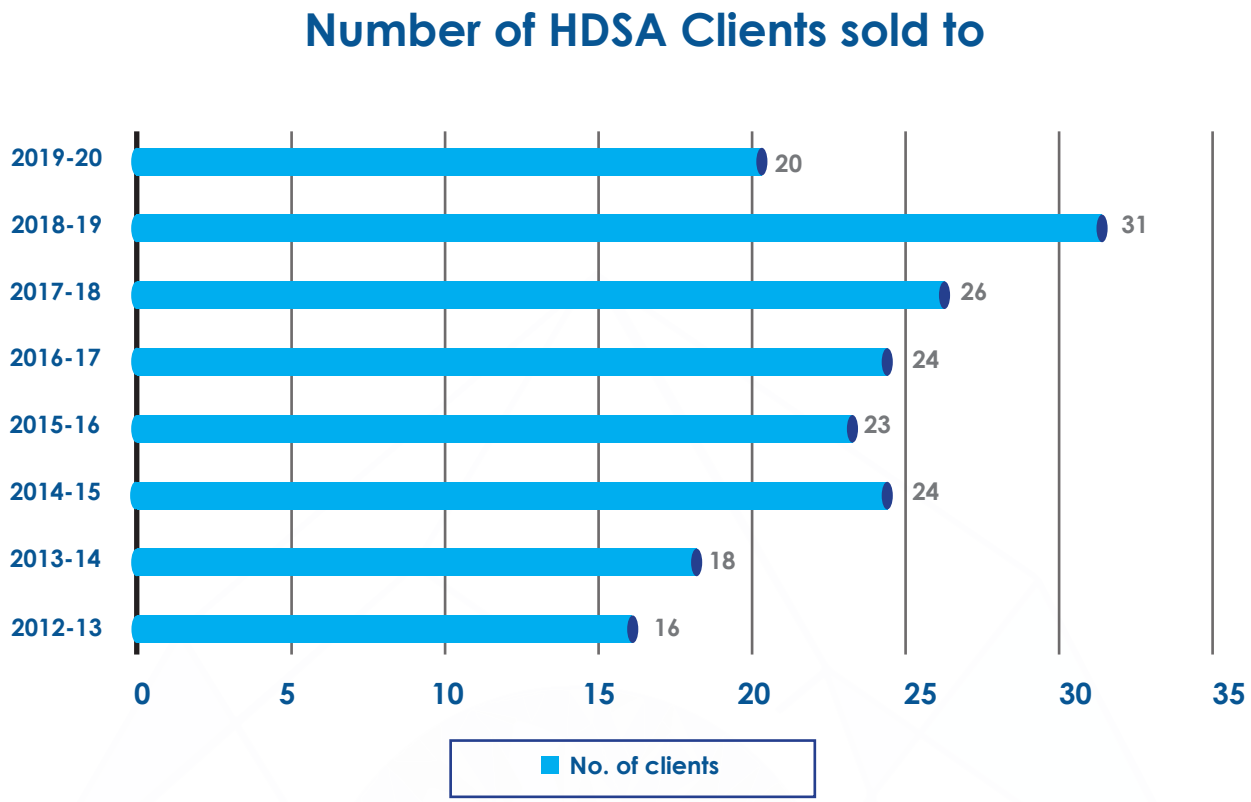
**ZAR cost excludes shipping costs*

The total number of clients that purchased rough diamonds from the State Diamond Trader during 2019-2020 decreased from 50 (2018/2019) to 38. The decrease in the number of clients sold to is attributed to a depressed market.

Table 4: Suitability for Beneficiation

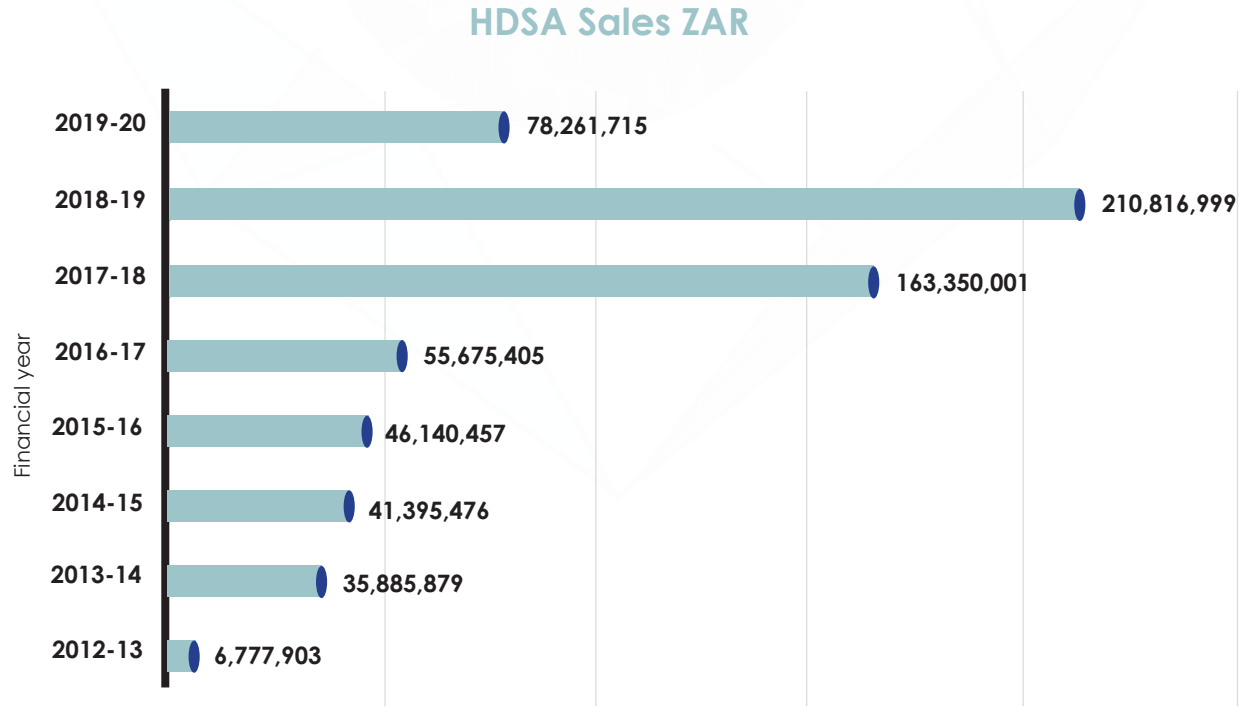
			% of total	
2019-2020	**Carats**	**ZAR Sales**	**Carats**	**Value**
Suitable for beneficiation	21 407	207 489 409	45%	89%
Not suitable for beneficiation	11 459	23 502 742	55%	11%
	32 866	**230 992 151**		

Sales of rough diamonds suitable for beneficiation remained at 89% of total sales (by value) compared to 2018/2019. By volume (carats), diamonds deemed suitable for beneficiation remained at 45% compared to 2018/2019.



Graph 4: Number of HDSA clients sold to

Graph 5 indicates a decrease of the number of HDSA clients sold to which is 20 for 2019/2020 as compared to the 31 HDSA clients sold to in 2018/2019. This financial year saw decrease in the sales to HDSA clients due to market conditions.



Graph 5: Sales by value to HDSA

There has been a noticeably significant decrease in realised sales value from R210 million in 2018/2019 to R78 million in 2019/2020. This equates to a decrease in sales value of R132 million (169% decrease), which is directly linked to a depressed market. The breakdown of sales are as follows:

- Sales to companies with 100% HDSA ownership decreased to R78 million of the annual sales value in comparison to R157 million in 2018/2019; and
- Sales to companies with 51% black ownership purchases decreased to R4,6 million during the financial year under review in comparison to R53 million sold in the 2018/2019.

State Diamond Trader allocated diamonds to 28 historically disadvantaged South African clients of which 20 clients purchased.

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

The purpose of registering clients is to ensure compliance, with the laws of the country pertaining to the holding of a valid beneficiation licence and South African Revenue Services Tax Clearance Certificate. The 2019/2020 process saw four applicants being accepted to the State Diamond Trader client list, all being HDSA owned companies. During the 2019/2020 financial year, the State Diamond Trader found cause to remove six clients from its list due to compliance reasons. The State Diamond Trader segments its clients in the following manner:

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

The State Diamond Trader ended the quarter with 73 registered clients within the following segments:

Growth & Transformation	9
Niche & Large/Med. Beneficiators	30
Equitable Access	34

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

DIAMOND AND BENEFICIATION INDUSTRY DEVELOPMENT PROGRAMMES

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

Annual sales and development of the Growth and Transformation segment

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

During the year under review, the segment contained a total of nine clients. Clients have to identify new markets for polished diamonds manufactured and have shown continuous willingness to participate in all State Diamond Trader initiatives. It is important to indicate that these clients' main source for rough diamonds is the State Diamond Trader, but some also purchase from other sources, i.e. producers, accredited local tenders and dealers. Out of the eleven clients, five clients from the Growth and Transformation segment have graduated from the De Beers Developmental Programme.

Sales to the Growth and Transformation segment for 2019/2020 financial year, comparing them to the previous financial year

	Financial Year 2019/2020	Financial Year 2018/2019	% Difference
Sales to Growth & Transformation Zar	60,332,805.77	151,742,816.00	-60
No.of Productions purchased by the State Diamond	67	79	-15
Caratage Purchased by the State Diamond Trader	32,322.12	132,516.00	-76
Caratage Sold to Growth & Transformation	8,510.79	14,602.00	-42

Table 6: Sales to the Growth and Transformation segment

The table above comprises of sales to Growth and Transformation and Growth and Transformation Incubation. Sales to Growth and Transformation was R45.6 million and Growth and Transformation incubation segment was R14.7 million during the 2019/2020 financial year.

Sales for this segment for the financial year under review decreased by 60% compared to the 2018/2019 financial year due to clients' appetite for rough diamonds declined drastically due to the depressed diamond market, with the downward trend that started in June 2019.

Growth and Transformation segment clients are still faced with challenges which include the inconsistent supply of rough diamonds, rough diamond prices being higher than polished prices leading to less desired profits, and the volatility of the rand/dollar exchange rate. Access to finance remains a challenge as most clients partnered with companies when it came to larger purchases. The nine clients within this segment employ a total number of 47 employees.

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

The State Diamond Trader drafted a framework to establish how the entity can increase the revenue of clients participating in local and international shows initiated and facilitated by the State Diamond Trader. In the 2018/2019 financial year, sales to clients amounted R55 million, this however, decreased to R31 million in 2019/2020. This resulted in a revenue decrease of -44% compared to the previous financial year. Out of 10 clients that participated in local and international exhibitions in 2018/2019, only six participated again in 2019/2020. The Hong Kong show yielded good results as most participating clients sold polished diamonds and were able to secure networks which have yield good results. Exhibitors realised sales of polished diamonds to the value of R41 million, amidst the ongoing challenges that were faced in Hong Kong, it was these challenges that forced some clients not to participate.

Enterprise Development Programme (EDP)

The State Diamond Trader continued facilitating the Enterprise Development Programme (EDP), which was launched in January 2015 in collaboration with key industry stakeholders. The programme has to date exposed 27 participants to the processes within the South African and global diamond industry. The programme training duration was set for three years, with the intention of providing technical training to the participants in diamond manufacturing. Thus far, five out of seven Enterprise Development Programme groups have completed the three years training duration. However, it should also be noted that out of the 27 trainees that were registered within the programme, a total of six trainees have resigned from the programme since 2017. Therefore, as a result some have completed the three years training during the 2019/2020 financial year and one trainee resigned from the programme, the total number of trainees remaining in the programme to date amounts to seven participants.

The State Diamond Trader 2019/2020 Annual Performance Plan required that by the end of the year, four businesses from the programme should be established. Therefore, the entity is proud to indicate four of the trainees that completed the three-year training programme has established their businesses and were all compliant to qualify for their Diamond Beneficiation Licenses.

State Diamond Trader partnered with Trigon in South Africa, which is part of the Mouawad Group, through the Mouawad Diamond Impact Fund (MDIF). MDIF seeks to make a difference in countries and communities across the world where Mouawad sources and manufactures diamonds. This collaboration saw five Enterprise Development Programme participants being selected and trained for six months at its headquarters in Thailand from September 2019 to February 2020. This was made possible with the active assistance of Ambassador GQM Doidge, Ambassador accredited to Thailand, Cambodia, Laos and Myanmar, who has a passion for the upliftment of youth in South Africa.

The aim of this training was to provide further exposure to global standards of diamond manufacturing. The goal was that Trigon, after the training, would offer permanent employment for two or three of the trainees in South Africa. However, the offering of the permanent employment in South Africa, which was supposed to take place at the end of March, was impacted by the COVID-19 outbreak.

The below table indicates the status of the 27 participants of the programme

Number of trainees	Status	Ethincity	Male	Female
6	Resigned from the programme	African	3	3
4	Completed the three years training but could not be absorbed by the industry post training	African	3	1
6	Employed by beneficiation companies after completion of the programme	African	3	3
5	Underwent further 6 months diamond manufacturing training with an industry stakeholders in Thailand	African	2	3
1	Beneficiation client of the State Diamond Trader	African	0	1
1	Rough diamond Dealer	African	0	1
4	Beneficiation Licenses issued by the South African Diamond and Precious Metals Regulator	African	4	0
27				

Tari Students

The State Diamond Trader identifies upskilling of youth within the Diamond and Jewellery Sector to be of utmost importance to grow and develop a thriving Jewellery fabrication industry in South Africa. The State Diamond Trader further continues to partner with industry stakeholders to identify opportunities and platforms to exhibit the talent of these young individuals.

In 2017, the State Diamond Trader partnered with the Mining Qualifications Authority to provide an exit programme for the students who returned from training in Italy, 17 students completed the programme.

Though the programme has ended, the State Diamond Trader identified that start up jewellery manufacturers still face significant challenges when entering the market and thus in 2019/2020 the State Diamond Trader continued working with the MQA and partnering with various industry organisations in order to address these challenges as a collective.

Table 8: Status of Tari Students

Number of Trainees	Status	Ethnicity	Male	Female
2	Working at Jewellery Company	African	2	
2	Working at Watch Manufacturers	African	2	
12	Entrepreneurs	African	7	5
1	Working at Mine in Free State	African	1	
17				

"The above table highlights the status of those students who completed the programme

The State Diamond Trader works in close partnership with the South African Diamond and Precious Metals Regulator to assist with the Jewellers Permits and three applications were submitted in the 2019/2020 financial year, one has been approved and the other two were in the final stages of approval as at 31 March 2020.

FACILITATING ACCESS TO LOCAL AND INTERNATIONAL MARKETS

The marketing and communication programme aim to shape perceptions of the State Diamond Trader and to actively promote the diamond industry. It further strives to increase the visibility of the State Diamond Trader brand through the creative use of a suite of corporate communication channels such as media relations, advertising, exhibition and stakeholder relations to positively influence stakeholders to provide support to the strategic direction of the State Diamond Trader.

Penetrating International Markets

The year 2020 marked South Africa's seventh year of participation at the Hong Kong Jewellery and Gem Fair, the world's premier trading hub for jewellery and diamonds. The Hong Kong Jewellery and Gem-fair is home to Asia's largest gem marketplace with over 1700 exhibitors showcasing a wide range of loose gems diamonds, gemstone and pearls from around the world. The State Diamond Trader facilitated the country's National Pavilion at the show. Although 10 exhibitors were offered space, but due to the concerns of unrest that took place in Hong Kong, six diamond manufacturers exhibited and sold diamonds while promoting their companies and proudly South African polished diamonds. The companies generated more than R41 million through the sales of polished diamond products. Such outcomes demonstrate the continued demand for South Africa polished diamonds by the global market. Initiatives such as this are interventions that the entity spearheads to promote diamond Beneficiators and to access the international market.

Penetrating Local Markets

The State Diamond Trader participated at the 2020 Africa Mining Indaba, Ministerial Budget Vote and Learner Focus Week facilitated by its shareholder, the DMRE. The programmes are aimed at promoting the country's diamond beneficiation industry. The State Diamond Trader invited a jewellery manufacturer to promote and sell proudly manufactured products and resulted in sales R20 000.00. This demonstrated to be an effective tactic in promoting and creating market access. The State Diamond Trader continues to create awareness of the entity and promoting the diamond industry by participating in various platforms and conducting stakeholder engagements.

Stakeholder management

During the 2019/2020 financial year the entity also focussed on the rebranding of the entity and therefore the following were key, stakeholder management, brand management and employee communication which are the three component that fall under this programme. Several initiatives were undertaken under this programme in efforts to enhance and protect corporate image and reputation of the State Diamond Trader.

In continuous efforts to understand our stakeholders, the entity conducted a consultative programme with its clients and government entities to build and enhance relationships with its key stakeholders, The State Diamond Trader also introduced its new corporate identity in the SA Mining, March 2020 Issue.

Programmes for the new financial year

The Marketing and Communication Strategy was approved and will guide the entity's marketing and communication efforts and ensure structured efforts. The entity also commenced with its project of rebranding itself with the aim of aligning its identity with its mandate to promote the diamond and beneficiation industry as well as to revitalise its corporate identity to ensure that it is positioned for growth in the diamond market.







SUSTAINABLE *DEVELOPMENT*

CORPORATE SUSTAINABILITY

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

Furthermore, in consideration of its effect and impact on society as guided by the King IV Report, the State Diamond Trader recognises the interdependencies and interconnectedness of various factors in its operating environment.

CORPORATE SOCIAL RESPONSIBILITY

The State Diamond Trader and its clients honoured Nelson Mandela Day once again on the 25 July 2019 by visiting Leratong Joy for One, a children's home in the heart of Alexander in Johannesburg.

The State Diamond Trader dedicated time to interacting and motivating children at the home as well as treating them to a braai. As part of their effort to make a difference, staff and clients contributed monetarily and donating clothing towards the home. All funds raised were used to buy much-needed groceries, toiletries and a gas stove which the home was in need of.

Our sincere gratitude to all our clients who partnered with us in making a difference to the lives of the children of Alexander.



STAKEHOLDER MANAGEMENT FOR THE YEAR ENDED ON 31 MARCH 2020		
STAKEHOLDER GROUP	**OBJECTIVES OF STAKEHOLDER MANAGEMENT FOR THE STAKEHOLDER GROUP**	**RELEVANCE OF STAKEHOLDER GROUP**
Parliament of the Republic of South Africa	To report, keep informed, engage	The State Diamond Trader was established through an act of Parliament to which it is accountable. The Public Finance Management Act applies to the entity in terms of Section 14(2) of the Diamonds Act.
Executive Authority	To report, engage and keep informed	The Executive Authority is the Shareholder representative nominated by the Republic of South Africa as such for the State Diamond Trader in terms of the Diamonds Act. The Entity reports to the Executive Authority in terms of the PFMA.
Employees	To engage, keep informed, to facilitate optimum output levels for operations	Employees are the engine of the organisation
Regulators	Compliance, engagements and to keep informed	Continuous engagement with stakeholder group for the purposes of compliance management and for sustainability
Clients	Engagement, collaboration, keeping the clients satisfied, keeping the clients informed	The State Diamond Trader is mandated by the Diamonds Act 56 of 1986, as amended, to establish and maintain a client base for local diamond beneficiation and to sell its purchases to local diamond beneficiators who are part of the client base
Key players in the Diamond Industry	To engage, collaborate and gather market intelligence for operations	Key players in the diamond industry from producing sector to downstream activities all play a role in the implementation of the mandate of the entity.
Media	Keep informed	Media facilitates the supply of information to the general public



FINANCIAL *PERFORMANCE*

Report of the auditor-general to Parliament on the State Diamond Trader

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the State Diamond Trader set out on pages 73 to 107, which comprise the statement of financial position as at 31 March 2020, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and Diamonds Amendment Act (Act No. 29 of 2005) (DAA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the public entity in accordance with sections 290 and 291 of the *Code of ethics for professional accountants* and parts 1 and 3 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

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

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses - Inventory

7. As disclosed in note 7 to the financial statements, material losses of R1 938 745 was incurred as a result of a write-down of inventory to net realisable value.

Subsequent event

8. I draw attention to note 23 in the financial statements, which deals with subsequent events and specifically the possible effects of the future implications of Covid-19 on public entity's future prospects, performance and cash flows. Management have also described how they plan to deal with these events and circumstances. My opinion is not modified in respect of this matter.

Responsibilities of the accounting authority for the financial statements

9. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the PFMA and DAA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

10. In preparing the financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

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

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

12. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

13. In accordance with the Public Audit Act of South Africa 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

14. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance measures included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the annual performance report of the public entity for the year ended 31 March 2020:

Strategic objective	Pages in the annual performance report
Strategic objective 1 – increase the amount by carats of rough diamonds sold on primary allocation by 10% annually	23 –26

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

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

Strategic objective 1 – increase the amount by carats of rough diamonds sold on primary allocation by 10 percent annually

Percentage increase in the amount of rough diamonds sold through primary allocation

18. Achievement of 7 483,65 carats sold on primary allocation was reported against the indicator and its planned target of increase by 1866 carats (10%) of rough diamonds sold through primary allocation by 31 March 2020 that are unrelated to the planned indicator and its predetermined measurement processes. As a result, I am unable to audit the reliability of the reported achievements.

Report on the audit of compliance with legislation

Introduction and scope

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

20. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

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

Procurement and contract management

22. Some of the goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA. Similar non-compliance was also reported in the prior year.

Consequence management

23. Disciplinary steps were not taken against some of the officials who had incurred and permitted irregular expenditure, as required by section 51(1)(e)(iii) of the PFMA.

Other information

24. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the directors' report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

25. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

26. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Internal control deficiencies

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

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

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

31. Senior management did not ensure that sufficient controls are in place to prepare accurate and complete financial statements that are supported and evidenced by reliable information. A number of material corrections were made to the annual financial statements.

Auditor - General

Johannesburg

30 September 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

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

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority

- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the State Diamond Trader to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Notes	2020 R	2019 R
Assets			
Non-current assets		**1,051,520**	**694,904**
Property and equipment	6	1,051,520	694, 904
Current assets		**42,403,422**	**119, 031, 945**
Inventory	7	16,810,476	17,957,735
Trade and other receivables	8	1,366,781	1,331,009
Cash and cash equivalents	9	24,226,165	99,743,201
Total Assets		**43,454,942**	**119, 726,848**
Equity and Liabilities			
Equity		**41,160,988**	**58,046,618**
Retained income		41,160,988	58,046,618
Current liabilities		**2,293,054**	**61,680,230**
Loans and borrowings	10	-	-
Trade and other payables	11	2,293,954	61,799,912
Incentive bonus provision	12	-	880,318
Total equity and liabilities		**43,454,942**	**119,726,848**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020	2019
		R	R
Revenue	13	230,992,151	624,878,531
Cost of sales	14	(225,665,545)	(606,118,802)
Gross profit		**5,326,606**	**18,759,729**
Other income	15	1,112,370	903,678
Administrative expenses	16	(24,802,727)	(25,408,425)
Profit/(Loss) from operating activities		**(18,363,751)**	**(5,745,017)**
Finance income	17	1,880,202	2,964,447
Finance expenses	18	(39,838)	(277,569)
Profit/(Loss) before income tax		**(16,523,388)**	**(3,058,139)**
Profit /(Loss) for the period		(16,523,388)	(3,058,139)
Total comprehensive income/(Loss)		**(16,523,388)**	**(3,058,139)**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Retained Income
		R
Balance at 1 April 2018		61, 104,757
Loss for the year		(3,058,139)
Balance at 31 March 2019		58,046,618
Prior period error	21	(362,242)
Balance at 31 March 2019 (Restated)		57,684,376
Loss for the year		(16,523,388)
Balance at 31 March 2020		**41,160,988**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020	2019
		R	R
Cash flows from Operating activities			
Cash generated by operations	19	(76,682,222)	58,581,182
Interest paid		(39,838)	(277,569)
Interest received		1,880,202	2,964,447
Net cash inflow (outflow) from operations		(74,841,859)	61,268,060
Cash flows from investing activities			
Acquisition of equipment		(94,032)	(234,134)
Net cash outflow from investing activities		(94,032)	(234,134)
Revolving Credit Facility amount drawn during the reporting period		-	36,251,234
Revolving Credit Facility amount paid during the reporting period		-	(36,251,234)
Repayment of lease liabilities		(581,145)	-
Net cash outflow from financing activities		(581,145)	-
Net increase/(decrease) in cash and cash equivalents		(75,517,036)	61,033,926
Cash and cash equivalents at the beginning of the period		99,743,201	38,709,275
Cash and cash equivalents at the end of the period		**24,226,165**	**99,743,201**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1. REPORTING ENTITY

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

The financial statements have been prepared in accordance with the going-concern basis. Management has assessed that it has a reasonable expectation that the entity has adequate resources to continue in operational existence for the 12 months from the date of approval of these financial statements. Therefore, management continues to adopt the going concern basis of accounting in preparing these financial statements

c) Presentation currency

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

d) Use of estimates and judgements

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

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

e) **Changes in accounting policies**

New and amended accounting standards and interpretations

IFRS 9

The entity fully adopted IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' in these Annual Financial Statements with effect from 1 April 2019.

IFRS 9 Financial Instruments

This standard replaces IAS 39, Financial Instruments: Recognition and measurement' (IAS 39). It revises the classification and measurement of financial assets and financial liabilities, introduces a forward looking 'expected credit loss' impairment model. At 1 April 2019 the entity reassessed the classification and measurement of financial assets and liabilities based on the business model by which they are managed and their cash flow characteristics.

Financial assets previously classified as loans and receivables were recategorized as amortised cost. Financial assets carried at amortised cost are tested for impairment based on expected losses, whereas the previous policy required that impairments were recognised only when there was objective evidence that a credit loss was present.

IFRS 15 Revenue from Contracts with Customers

The entity adopted IFRS 15 with effect from 1 April 2018. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. Revenue is recognised when control of the promised goods or services passes to the customer. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The impact of measurement differences identified between IAS 18 and IFRS 15 was immaterial at 1 April 2019.

IFRS 16 Leases

The entity adopted IFRS 16 with effect from 1 April 2019. This standard provides a new model for lessee accounting under which all leases, with the exception of short term (under 12 months) and low-value leases, will be accounted for by the recognition on the balance sheet of a right of use asset and a corresponding lease liability.

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.

3.1 Revenue from contracts with customers

a) Revenue

The entity generates revenue from rough diamonds sales.

b) Contracts with Customers

The entity has no written contracts with its customers. Contracts with customers are implied by its customary business practices.

The entity accounts for contracts with its customers when the following criteria are met:

- The State Diamond Trader and the customer have approved the contract orally and in accordance with the customary business practices (Mazal).
- The entity can identify each party's rights regarding the rough diamonds to be transferred.
- The entity can identify the payment terms for the rough diamonds to be transferred. Sales of rough diamonds are on a cash basis.
- The contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flow is expected to change as a result of the contract.
- It is probable that the entity will collect the consideration to which it will be entitled in exchange for the rough diamonds.

c) Performance Obligation

At inception of each sales transaction the State Diamond Trader identifies its performance obligation. The performance obligation is the transfer of rough diamonds to a customer.

d) The Transaction Price

The entity determines the price of diamonds through a technical evaluation process that considers the unique characteristics of the diamonds to be sold, expected calculation of the polished outcome, demand, market sentiments, macro-economic factors, the USD/Rand exchange rate, diamond pricing models and expected margins. The price of rough diamonds is determined as the amount of consideration that the State Diamond Trader expects to receive in exchange for transferring the promised rough diamonds to a customer. The amount of the consideration is fixed and there are no variations.

The entity's contracts with its customers do not have a significant financing component as customers pay before collecting rough diamonds.

e) Allocation of the transaction price to the performance obligation

The State Diamond Trader allocates the price of diamonds to a single performance obligation namely transfer of rough diamonds to a customer. This allocation is based on the stand-alone selling price of rough diamonds determined through the technical evaluation process mentioned in (b) above.

f) Revenue recognition

The entity recognizes revenue at a point in time when it satisfies the performance obligation by transferring the promised rough diamonds to a customer. This is determined as the point at which the customer obtains control of the rough diamonds. When the customer collects the rough diamonds, she/he becomes the rightful owner of the diamonds. A document known as the Broker's Note is signed by both the State Diamond Trader and the customer to indicate the transfer of control of rough diamonds to the customer.

g) Contract Liability (Income Received in Advance)

The entity recognizes a contract liability when it receives a consideration for rough diamonds from a customer before control of rough diamonds is transferred to a customer.

h) Assets recognized for costs to fulfil contracts

The State Diamond Trader does not recognize the costs incurred to fulfil its contracts as they do not meet some of the following requirements:

- The costs directly relate to a contract or to an anticipated contract that the entity can specifically identify.
- The costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future and
- Costs are expected to be recovered.

i) Critical estimates and judgements

Management has assessed the point of transfer of control of rough diamonds based on its understanding of the critical terms and conditions of sale. This assessment has concluded that control is transferred at the point of collection of rough diamonds by the customer and when the Broker's note is signed by both parties. This is due to management being of the view that at this point the customer has obtained physical possession of the goods and accepted the risks and rewards associated therewith. At this point the customer has the ability to direct the use of rough diamonds and has the ability to receive the benefits from the diamonds. This is the point at which the customer is able to beneficiate the rough diamonds through a process of manufacture in order to generate a higher sales value from the finished product.

Inventory

Accounting for inventory involves the use of estimates, particularly related to the measurement and valuation of inventory on hand. Critical estimates include expected

market conditions, rough diamond prices, expected demand, the USD exchange rate to the Rand. Estimates used are periodically reassessed by the State Diamond Trader considering technical analysis and historical performance. Changes in estimates are adjusted for on a prospective basis.

3.2 Cost of Sales

- State Diamond Trader recognizes the carrying amount of inventory as an expense when it is sold, in the period in which the related revenue is recognised.
- The amount of any write down of inventory to net realizable value is recognized as an expense in the period that the write down occurs.
- The amount of any reversal of a write down of inventory, arising from an increase in net realizable value is recognized as a reduction in the amount of inventory recognized as an expense in the period in which the reversal occurs.

3.3 Expenditure

- Expenditure is a payment or the incurrence of a liability in exchange of goods and services. It is measured at cost.

3.4 Finance Income and Expense

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

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

3.5 Inventories

Inventories consists of rough diamonds and are measured at the lower of cost and net realisable value. The cost of inventories is based on the cost of acquiring the inventory

and other costs incurred in bringing them to the existing location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

State Diamond trader use specification identification of cost for each rough diamond based on its identification characteristics i.e. colour, clarity, cut and carat weight.

3.6 Property and equipment

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

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

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

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

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

Asset category	Depreciation rate
Furniture and fittings	10%
Computer hardware	33%

Security equipment	10%
Diamond equipment	10%
Leasehold improvements	10%
Right-of-use asset	23 months

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.

Impairment of non-current assets

Recognition and measurement

Impairment tests for all assets are performed when there is an indication of impairment. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to the income statement to reduce the carrying amount in the balance sheet to its recoverable amount. Previously impaired assets are reviewed for possible reversal of previous impairment at each reporting date. Impairment reversal cannot exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset.

How recoverable amount is calculated

The recoverable amount is the higher of an asset's fair value less cost of disposal (FVLCD) and its value in use (VIU).

Valuation methods

Fair value less cost of disposal

FVLCD is an estimate of the amount that a market participant would pay for an asset or CGU, less the cost of disposal. FVLCD for the entity's assets is generally determined using independent market assumptions to calculate the present value of the estimated future cash flows expected to arise from the continued use of the asset, including the anticipated cash flow effects of any capital expenditure to enhance production or reduce cost, and its eventual disposal where a market participant may take a consistent view. Cash flows are discounted using an appropriate post-tax market discount rate to arrive at a net present value of the asset, which is compared against the asset's carrying value. FVLCD may also take into consideration other market-based indicators of fair value.

Value in use

VIU is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. VIU is determined by applying assumptions specific to the entity's continued use and cannot consider future development. These assumptions are different to those used in calculating FVLCD and consequently the VIU calculation is likely to give a different result (usually lower) to a FVLCD calculation.

3.7 Financial instruments

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

Classification

Financial instruments are measured at fair value

Recognition

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

Measurement

Financial instruments are initially measured at fair value and where applicable, adjusted for transaction costs.

These financial instruments are subsequent measured as follows:

- **Cash and cash equivalents**
  Cash comprises cash balances with banks. Cash and cash equivalents are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These are initially measured at fair value and subsequently measured at amortised cost.

- **Trade and other receivables (accounts receivable)**

  State Diamond Trader initially measures trade and other receivables at fair value and after initial recognition the entity measures a financial asset at amortised cost.

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

  The State Diamond Trader will initially measure financial liabilities at fair value. After initial recognition the entity measures a financial liability at amortised cost. These are subject to normal trade credit terms and relatively short payment cycles.

- **Loans and Borrowings**

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

3.8 Impairment of Trade and Other Receivables (Simplified Approach)

- As allowed by IFRS 9, the State Diamond Trader has elected to use a simplified approach to determine expected credit losses for trade receivables that do not contain a significant financing component. In terms of the simplified approach, the entity recognises a loss allowance equal to the lifetime expected credit losses on every reporting date.
- These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The entity uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.
- The State Diamond Trader has used the following provision matrix to determine the lifetime expected credit losses on other receivables:

Other Receivables	Gross Carrying Amount	Default Rate	Lifetime expected credit loss allowance
Current	0	0%	0
1-30 days past due	15,272	100%	15,272
31-60 days past due	77,064	100%	77,064
61-90 days past due	0	100%	0
More than 90 days past due	92,161	100%	92,161
Total	**184,499**	**100%**	**184,499**

The following were reclassified as financial instruments in accordance with IFRS 9 at 31 March 2020:

Financial Instrument	Classification IAS 39	Classification IFRS 9	2020	2019
Cash and cash equivalents	Loans and Receivables	Amortised Cost	24,226.165	99,743,201
Trade Payables	Amortised Cost	Amortised Cost	440,821	10,820,105
Other Receivables (Less : Expected credit losses)	Loans and Receivables	Amortised Cost	184,499 (184,499)	693,120
IDC Credit Facility	Amortised Cost	Amortised Cost	0	0

Derecognition

The State Diamond Trader derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for de-recognition in accordance with IFRS 9.

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

3.9 Leases

a) Measurement and Recognition

The State Diamond Trader recognises a right-of-use asset and lease liability on the balance sheet date. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability.

The entity depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At transition, lease liabilities were measured at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liabilities have been included in Trade and other payables.

The new Standard has been applied using the modified retrospective approach and therefore comparative information has not been restated and continues to be reported under IAS 17.

On transition to IFRS 16 the incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 11.75% (prime rate plus 2%)

3.10 Provisions, Contingent liabilities and Contingent assets.

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

3.11 Employee benefits

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

3.12 Income tax

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

3.13 Related parties

The State Diamond Trader operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be related parties.

Related parties also include key management personnel, who are persons having authority and responsibility for planning, directing and controlling the activities of the State Diamond Trader, directly or indirectly, including any members of the accounting authority (whether executive or otherwise) of the State Diamond Trader.

3.14. Accounting estimates and judgements

The State Diamond Trader makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are as follows:

- **Estimates of residual values and useful lives**

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

- **Contingent liabilities**

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

3.15 Irregular, fruitless and wasteful expenditure

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

Fruitless and wasteful expenditure means expenditure that was made in vain and would 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.

3.16 Un-recognised Commitments

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

4. FINANCIAL RISK MANAGEMENT

4.1 Overview

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

- credit risk,
- liquidity risk, and
- market risk.

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

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

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

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

The Accounting Authority, through its relevant committees, oversees how management monitors compliance with the State Diamond Trader's risk management policies and

procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the State Diamond Trader.

4.2 Liquidity risk

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

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

4.3 Market risk

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

4.4 Currency risk

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

4.5 Cash flow interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. The State Diamond Trader's interest rate risk arises from revolving credit facility. The facility is issued at prime plus 2% and on that basis, changes in prime expose the company to cash flow interest rate risk. The revolving credit facility was paid in full at year-end.

4.6 Capital management

The State Diamond Trader is a government business enterprise and does not have any share capital. The State Diamond Trader is not funded by government and it is self-sufficient. The Accounting Authority monitors gross profit margins and operating expenditure to ensure that the State Diamond Trader generates sufficient profit from its operations to cover operating expenses.

5. Accounting Policies, Changes in Accounting Estimates and Errors

a) Accounting policies are the specific principles, bases, conventions, rules and practices applied by the State Dimond Trader in preparing and presenting financial statements.

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

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

New Standards and interpretations effective from 1 January 2020

Standard or Interpretation	Effective Date	Expected Impact
Definition of Material- Amendments to IAS 1 and IAS 8	1 January 2020	Impacting on SDT
The Conceptual Framework for Financial Reporting	1 January 2020	Impacting on SDT
Classification of Liabilities as Current or Non-Current Amendments to IAS 1	1 January 2022	Impacting on SDT
IFRS 17 Insurance Contracts	1 January 2021	No impact

6. PROPERTY AND EQUIPMENT

Year ended 31 March 2020	Leasehold Improvement R	Furniture & Fittings R	Security Equipment R	Computer Equipment R	Diamond Equipment R	Right of use R	Total R
Opening net carrying amount	**13,197**	**163,913**	**126,360**	**220,704**	**170,730**	**-**	**694,904**
Gross carrying amount	14,800	683,199	953,425	524,333	469,421	-	2,645,178
Accumulated depreciation	(1,603)	(519,285)	(827,065)	(303,629)	(298,691)	-	(1,950,274)
Additions	-	3,500	16,858	77,174	-	1,116,380	1213,912
Depreciation	(1,480)	(60,273)	(54,214)	(133,079)	(49,602)	(592,909)	(891,557)
Closing net carrying amount	**11,717**	**124,534**	**93,153**	**177,517**	**121,128**	**523,471**	**1,051,520**
Gross carrying amount	14,800	595,908	974,432	601,507	469,421	1,116,380	3,772,448
Accumulated depreciation	(3,083)	(471,374)	(881,279)	(423,990)	(348,293)	(592,909)	(2,720,928)

Year ended 31 March 2019

Opening net carrying amount	***14,677**	**184,362**	**189,892**	*** 140,441**	**220,332**	-	**749,705**
Gross carrying amount	14,800	651,505	953,425	321,893	469,421	-	2,411,043
Accumulated depreciation	(123)	(467,143)	(763,532)	(181,452)	(249,089)	-	(1,661,339)
Additions	-	31,694	-	202,440	-	-	234,134
Depreciation	(1,480)	(52,142)	(63,532)	(122,177)	(49,602)	-	(288,935)
Closing net carrying amount	**13,197**	**163,913**	**126,360**	**220,704**	**170,730**	**-**	**694,904**
Gross carrying amount	14,800	683,199	953,425	524,333	496,421	-	2,645,178
Accumulated depreciation	(1,603)	(519,286)	(827,065)	(303,629)	(298,691)	-	(1,950,274)

* Leasehold improvements and computer equipment were adjusted by R1,5 million for fully depreciated assets that do not exist. The adjustment had no impact on the carrying amount of these assets

7. INVENTORY

	2020	2019
	R	R
	16,810,476	**17,957,735**
Finished goods: Rough diamonds	18,749,221	17,957,735
Write down of inventory to net realisable value	(1,938,745)	-

Inventory is stated at the lower of cost and net realisable value. Inventory relates to rough diamonds on hand at year-end.

8. TRADE AND OTHER RECEIVABLES

	1,366,781	**1,331,009**
Prepayments	1,337,830	582,720
Other receivables	184,499	693,120
Loss allowance on other receivables	(184,499)	-
Accrued interest	28,951	55,168

9. CASH AND CASH EQUIVALENTS

	24,226,165	**99,743,201**
FNB operational accounts	6,250,799	57,963,816
Petty cash	3,000	3,000
FNB call accounts	15,387,638	39,341,606
Standard Bank call account	2,584,728	2,434,779

Interest rate risk

The State Diamond Trader's exposure to interest rate risk for financial assets and liabilities is disclosed in Note 4.

10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the revolving credit facility held with the Industrial Development Corporation. The credit facility available to the State Diamond Trader is R60 million. The interest payable on use of this facility is prime plus two percent (2%) and other finance charges are also payable. Details on the finance total costs are provided in Note 19 The analysis on use of the facility during the year is as follows:

Analysis of revolving credit facility:

Amount drawn	-	36,251,234
Amount paid	-	(36,251,234)
Balance on revolving credit facility	-	-

11. TRADE AND OTHER PAYABLES	**2,293,954**	**60,799,912**
Accrued expenses	166,658	110,882
Creditors	426,521	10,828,105
Leave accrual	895,229	564,976
VAT Payable	270,311	1,240,329
Income Received in Advance	-	48,021,595
Lease liability	535,235	34,025

12. INCENTIVE BONUS PROVISION	**-**	**880,318**
Opening balance	880,318	868,642
Amount paid	(221,532)	(635,559)
Adjustment	(658,786)	647,235

13. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue	**230,992,151**	**624,878,531**

14. COST OF SALES

	(225 665,546)	**(606, 118,802)**
Opening inventory	17,957,735	20,971,889
Purchases	225,635,973	602,412,252
Security and transport costs	821,058	692,396
Less: Carrying amount of inventory	(18,749,221)	(17,957,735)

15. OTHER INCOME

Other income is primarily in respect of recoveries of amounts paid to beneficiaries for the Hong Kong show.

Other income	1,112,370	903,678

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

Audit Fees	1,410,473	622,177
Board Fees	406,679	629,393
Bank Charges	33,774	29,455
ICT services	778, 654	723,879
Conference & Meetings	1,953,724	1,682,244
Depreciation	891,557	289,058
Employee Benefits	12,136,431	14,319,804
General Expenses	650,917	739,125

Insurance	225,332	267,856
Loss on Stock	1,938,745	166,715
Legal Services	153,657	-
Marketing & Advertising	520,823	201,008
Office Rent	-	667,380
Postage, Printing & Delivery	69,312	227,600
Repairs & Maintenance Office Supplies	194,593	125,620
Office Supplies	107,296	138,283
Security & Cleaning	539,975	483,718
Travelling	1,728,334	2, 370,529
Telephone	193,539	228,976
Training and Development	404,461	1, 272,983
Water & Electricity	279,954	222,622
Expected credit losses	184,499	-
TOTAL	**24,802,727**	**25,408,425**

17. FINANCE INCOME

Interest received	**1,880,202**	**2,964,447**

18. FINANCE EXPENSES

	39,838	**277,569**
Finance fees on IDC facility	-	54,377
Interest charged by IDC	-	223,192
Interest on lease liabilities	39,838	-

19. CASH GENERATED FROM OPERATIONS

Net income / (loss) before taxation	**(16,523,388)**	**(3,058,139)**
Adjusted for:		
- depreciation	891,557	289,058
- interest expense	39,838	277,569
- interest received	(1,880,202)	(2,964,447)
-Other income -Prior error	(400,000)	-
Adjusted net loss before taxation	**(17,872,194)**	**(5,455,959)**
Changes in working capital:	**(58,810,026)**	**64,037,141**
- decrease/(increase) in trade and other receivables	(35,772)	1,594,220
- decrease/(increase) in inventory	1,147,259	3,014,153
- (decrease)/ increase in trade and other payables	(59,921,513)	59,428,768
Cash utilised for operations	**(76,682,222)**	**58,581,182**

20. PRIOR PERIOD ERROR ADJUSTMENT

During the financial year ended 31 March 2020, it was discovered that a R400,000 invoice for the Mining Qualifications Authority was incorrectly raised. The invoice was paid in full during the 2018/2019 financial year. The correction of the error had the following impact:

Other income	**2020**	**2019**
	R	R
Decrease in Trade and other receivables	-	(400,000)
Decrease in Retained Earnings	-	(400,000)

Restatement of useful lives

Retained income was reduced by R37,757 due to a restatement of useful life of assets with a zero-book value.

Increase in property, and equipment	37,757	-
Increase in Retained Earnings	(37,757)	-

21. RELATED PARTIES

The State Diamond Trader is wholly owned by the National Government of the Republic of South Africa represented by the Minister of Mineral Resources. The State Diamond Trader is a Schedule 3B public entity in terms of the PFMA. It therefore has a significant number of related parties, including other state-owned entities, government departments and all other entities within the national sphere of government.

The State Diamond Trader, in the ordinary course of business, enters into various agreements with other parties within the national sphere of government. The significant transactions (in the normal course of business) and balances outstanding at 31 March 2020 entered between the State Diamond Trader and other entities are as follows:

The State Diamond Trader had a revolving facility of R60 million with the IDC for use as working capital from time to time, and the outstanding balance on the facility at year end was nil. The credit facility was not utilised during the financial year 2019/2020.

22. REMUNERATION

Mr SM Mnguni	2,036,751	2,036,751
Ms N Danisa (until 31 December 2018)	-	1,113,902
Ms N Sibeko	1,108,214	1,078,029
Mr C van der Ross	1,551,428	1,551,428
Mr M Lephoto(Acting CFO until August 2019)	127,232	24,753
MS S Madolo (Acting CFO from 1 December 2019)	101,785	-
	4,925,410	**5,804,863**

EXECUTIVE MANAGEMENT

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

Mr SM Mnguni

Mr M Lephoto (Seconded from 1 March 2019 – 31 August 2019)

Ms N Sibeko

Mr C van der Ross

Ms S Madolo (Seconded from 1 December 2019)

NON-EXECUTIVE MEMBERS	**2020**	**2019**
	R	**R**
Mr M Carstens (Chairperson) (until 31 August 2019)	62,760	78,450
Mr SM Motloung (until 31 October 2019)	71,490	117,884
Mr G du Plessis (until 31 October 2019)	53,778	87,507
Mr MW Mabapa (untilto 31 October 2019)	50,968	71,594
Mr L Mabece (until 31 August 2019)	42,419	119,622
Dr M Matlou (until 31 October 2019)	76,452	73,078
Ms M McMaster (until 31 October 2019)	48,812	73,482
Mr F Mokoena	-	7,776
Total	**406,679**	**629,393**

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

Mr I Goondiwalla

Major-General NH Mokoena

Mr K Menoe

Mr B Deka

23. SUBSEQUENT EVENTS

Management has assessed the financial impact to the entity of the COVID-19 and the declaration of the National State of Disaster.

The COVID-19 pandemic has developed rapidly in 2020, with significant number of cases. Measures taken by governments around the world to contain the virus have impacted the economic activity since all borders were closed. Producers could mine at 50% capacity in level 4 and most manufactures returned very cautiously.

The consequences of the COVID-19 outspread have adversely affected the acquisition and sales of rough diamonds for the first quarter for the 2020/21 financial period. As a result, the entity had an operating loss (R4.7 million) in the first quarter. The cash reserves were utilised to pay for the entity's operating costs/overheads.

The entity has implemented the following plans in order to ensure improves sales;

- Effective market intelligence of the diamond industry globally
- Effective continues engagements with both Producers and Clients
- Submission of Intervention Strategy to ignite growth post COVID 19 to DMRE
- State Diamond Trader deferred its 10% allocation with most producers as this would also assist producers that were struggling with cash flow
- Implementation of special agreements with producers
- Implemented stringent cost containment measures

24. SEGMENT REPORTING

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

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

(c) for which discrete financial information is available.

The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters. The IFRS requires identification of operating segments based on internal reports that are regularly

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

25. CONTINGENT LIABILITIES

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2020.

26. CONTINGENT ASSETS

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2020.

27. IRREGULAR, WASTEFUL & FRUITLESS EXPENDITURE

27.1 Details of Irregular Expenditure

Reconciliation of Irregular Expenditure	2020 R	2019 R
Opening Balance	3,102,870	1,219,699
Add: Irregular expenditure relating to current year	993,800	675,111
Add: Irregular expenditure relating to prior year (Discovered in the current year)	-	1,208,060
Less: Irregular expenditure relating to prior year	-	-
Less: Prior year amounts condoned	-	-
Less: Amounts recovered	-	-
Less: Amounts not recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	**4,096,670**	**3,102,870**

Analysis of Irregular Expenditure per age classification	2020 R	2019 R
Current Year	993,800	675,111
Prior Year	3,102,870	2,427,759
Total	**4,096,670**	**2,102,870**

Incident	Disciplinary Steps taken/ criminal proceedings	2020 R	Incident	Disciplinary Steps taken/ criminal proceedings	2019 R
The extension of the contract was not in accordance with Treasury Regulations regarding lease rental agreement	No	815,413	The extension of the contract was not in accordance with Treasury Regulations regarding lease rental agreement	No	490,676
Minimum quotes not obtained as per SCM Policy	Yes	178,657			-

27.2 Details Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful Expenditure	2020 R	2019 R
Opening Balance	**12,777**	**31,832**
Fruitless and Wasteful expenditure – Current Year	-	-
Less Amount Resolved	-	19,055
Less Amount written off as irrecoverable	12,777	-
Closing Balance	**-**	**12,777**

28.1 Unrecognised Commitments

	2020 R	2019 R
Unrecognised commitments	**1,444,679**	**2,156,687**

Unrecognised Commitments relates to items that have been contracted for but not provided for.

28.2 Lease commitments

Lease commitments	2020 R	2019 R
Within one year	559,438	597,459
In second to fifth year inclusive	-	24,204
	559,438	**621,663**

Lease payments represent rental payable by the State Diamond Trader for its equipment and office premises. The office rental lease has been extended for a period of 13 months starting from 1 February 2020 to 28 February 2021.

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