

Annual Report
2020/2021

state
diamond
trader
REPUBLIC OF SOUTH AFRICA



Annual Report

2020/2021

RP161/2021

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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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1. GENERAL INFORMATION

Entity Information

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

List of Abbreviations and Acronyms

The Act	Diamonds Act, 56 of 1986, as amended
ADPA	Africa Diamonds Producer Association
AGSA	Auditor General of South Africa
ARC	Audit and Risk Committee
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSI	Corporate Social Investment
DBCM	De Beers Consolidated Mines
DMRE	Department of Mineral Resources and Energy
DTI	Trade, Industry and Competition
EDP	Enterprise Development Programme
HDSA	Historically Disadvantaged South Africans
HR	Human Resources
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
MOU	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
SDT	State Diamond Trader
SMME	Small Medium and Micro-Enterprises
SOE	State-Owned Entity
TOR	Terms of Reference
USD	United States Dollar
VAT	Value Added Tax
WSP	Workplace Skills Plan

Minister's Note to Parliament



Mr S. G. Mantashe (MP)

Minister of Mineral Resources and Energy

Honourable Speaker of Parliament

Annual Report of the State Diamond Trader for the year ended 31 March 2021

I have the honour, in terms of section 65 (1) (a) of the Public Finance Management Act No. 1 of 1999 (PFMA), to present the Annual Report of the State Diamond Trader for the year ended 31 March 2021.

Mr Samson Gwede Mantashe (MP)

Minister of Mineral Resources and Energy

August 2021

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

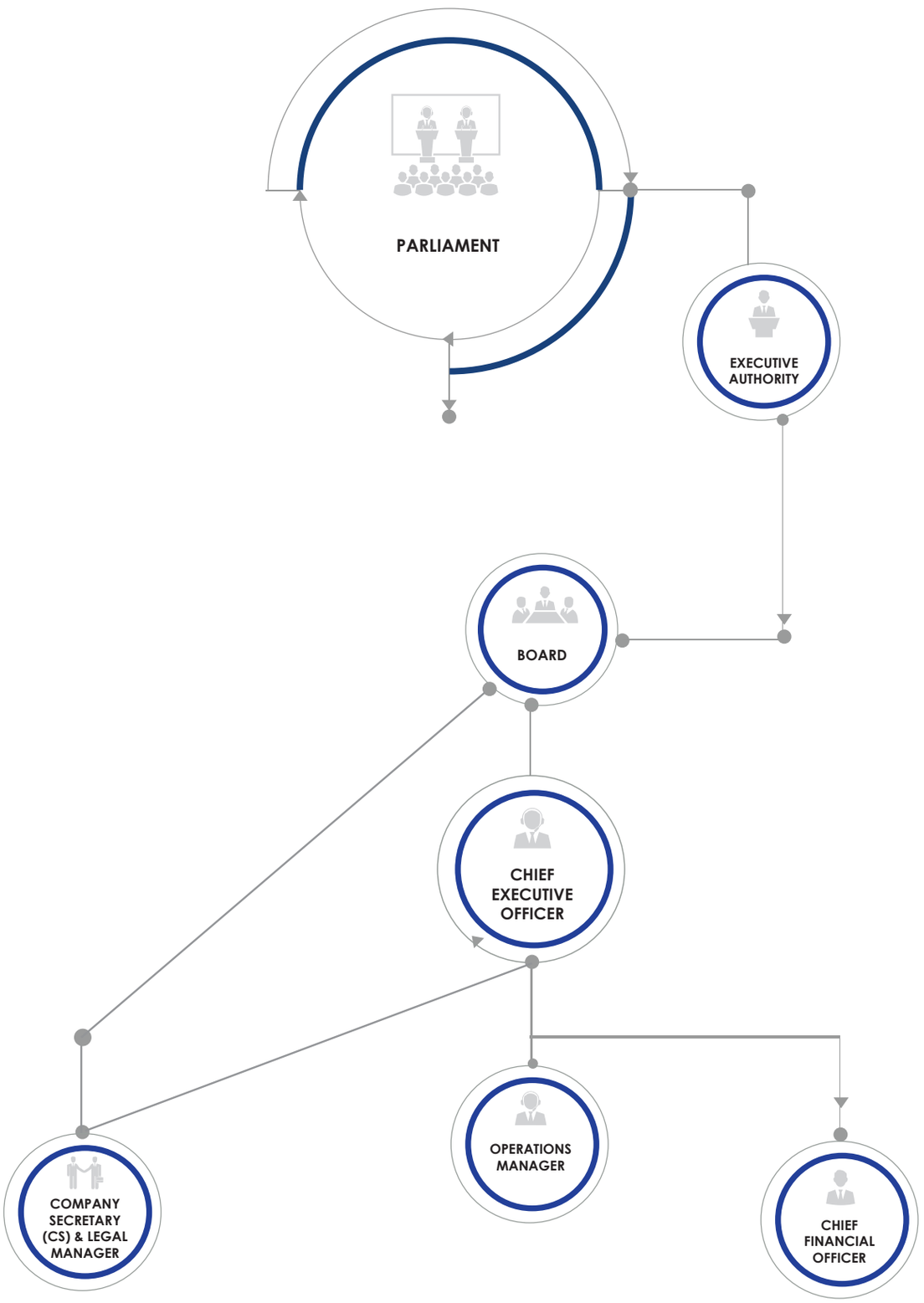


Figure1: *Our Organizational Structure*



OVERVIEW
REPORTS

Chairperson's Overview



Ms Maletlatsa Monica Ledingwane
Chairperson of the Board

It is my distinct honour and privilege to present the Annual Report of the State Diamond Trader (SDT) for the year ended on 31 March 2021. The current Board was appointed during the third quarter of the financial year 2020/2021. The Board is appointed for a three-year term, being 1st November, 2020 to 30 October 2023.

The Board membership is drawn from a diverse group of stakeholders in the diamond industry as dictated by the Diamonds Act 56, 1986, as amended (**the Act**). In line with Government's goal to strengthen the governance of State entities, the Minister's choice of the members of the Board reflects a good balance of continuity, qualifications, experience, age, race and gender. The Board thanks the Minister for the confidence he showed in appointing it.

The Board is grateful to its predecessor Board, led by Mr. Mervyn Carstens, for leaving behind a capable workforce. We intend to provide continuity in leadership and to cooperate with management to meet SDT's goals.

Performance

Admittedly, the diamond industry presents a unique and challenging environment even in normal times. COVID-19 pandemic, occurring as it did in the year under review, raised the level of these challenges. However, despite the epidemic, during the year under review, the Board managed to meet at least five (5) times.

During the year under, the SDT's scored also 68%, in performance by having achieved 21 of its 31 planned annual targets. The rest of the targets were either partially (1) achieved or not achieved (9).

Of significance in the SDT's achievements, is also the turnaround from a loss of ±R16 million in 2019/20 to a profit position of about R1 million in 2020/2021. Given the conditions presented by, in particular, COVID-19, the purchase increase on the sales to the historically disadvantaged South Africans (HDSAs) was very encouraging. More details on performance are well covered in the Report of the Chief Executive Officer (CEO).

Legal Enquiries and Investigations

At the commencement of the Board's tenure, SDT was summoned to a hearing by the Commission of inquiry into Allegations of State Capture Corruption and Fraud in the Public Sector including Organs of State (State Capture Commission). SDT filed a submission refuting the claims and attended the hearing. SDT awaits the Report of the Commission on the matter.

Stakeholder Engagements

The year under review was left with only four months when the Board took over. This notwithstanding, the Board was able to undertake some stakeholder engagements. During the engagements, it was pleasing to me to again see the determination and passion that always characterized the diamond industry. The Board looks forward to meaningful engagements with diamond beneficiators in 2021/2022 and to determine impactful strategies for the growth of the industry together.

Conclusion

I am grateful to the leadership of the Minister of the Department of Mineral Resources and Energy and the department's leadership for continued leadership and guidance during the year under review. Gratitude also goes to my colleagues in the Board for their dedication to the fulfilment of their fiduciary duties. I thank the CEO the management and staff of SDT for delivering on the majority of the SDT's goals even at the height of the pandemic. As we get better and more accustomed to navigating the new normal of COVID-19 and as we relocate to the new and more accessible premises at OR Tambo, 2021/2022 seems to hold a promise of an improved performance.



Ms 'Maletlatsa Monica Ledingwane
Chairperson of the Board
August 2021

Chief Executive Officer's Overview



Mr S.M. Mnguni

Chief Executive Officer

Overview

The year started in an unprecedented manner, as the country went into a national lockdown on 27 March 2020 due to the global pandemic COVID 19. Similar to other entities the State Diamond Trader was forced to navigate the unexpected storm that affected most of businesses negatively both locally and internationally. Having had submitted the 2020/2021 Shareholders Compact to the Shareholder that was affected by unfavourable diamond conditions experienced in the previous financial, it also became clear beforehand that the entity was not going to achieve its set targets for the year due to the prevailing economic conditions, hence in response to the troubling condition facing the industry and the entity, interventions strategies to ignite trading was developed in consultation with the shareholder to improve operations to capture the opportunities created by the supply demand created during the lockdown period. This move facilitated a return to financial and operational sustainability as revenue grew compared to the previous financial year.

Trading Environment

During the beginning of the first quarter the entity did not conduct any trading activities due to the international lockdown restrictions as most part of the world was affected. It was at the end of the first quarter in June 2020 where the diamond industry began trading slightly and displayed improvements with time, with countries such as Hong Kong, China and Belgium began trading whilst adhering to COVID 19 protocols as a result the State Diamond Trader also experienced a slight improvement with its clients beginning to buy goods that were purchased.

The entity had to find innovative ways as a turnaround strategy to make goods attractive to its clients. Diamond Producers were engaged and amicable ways of conducting business in these unprecedented times were put in place. The diamond industry saw an unexpected improvement from the second-fourth quarter as a result the entity's liquidity improved in comparison to the last financial year of 2019-2020 with a profit achieved.

Operational Environment

The following highlights the annual operational environment of the SDT:

- A total of 268,147 carats to the value of R650 million were purchased.
- A total of 268,061 carats with a value of R682 million were sold to 30 clients in varying segments, and
- Sales to HDSA clients increased to an amount of R81 million in comparison to R78 million in the previous financial year.

International Markets and Collaborations

The pandemic further hampered the entity by preventing international access for the annual marketing of the country to its clients. Participation at international events such as the Hong Kong show, and Botswana Diamond show, were cancelled for the year. Some activities were also put on hold pending the review of the entity's strategy.

Financial Position

Despite the difficult trading environment since the preceding year, the entity managed to weather the storm through utilising its reserves. Restriction procedures were implemented to introduce cost containment measures which included human resource issues such as: no cost-of-living adjustments or bonuses, limited bursaries, no filling of vacant posts for shorter periods and cutting of international trips. The financial position and stability were observed as a result of increase trading and the presence of a constant permanent Chief Financial Officer.

Enterprise Development Programme

The term of the Enterprise Development Programme (EDP) came to an end, and it was decided to halt the EDP while the entity reviewed the model and undertook a formal assessment of it. The aim is to inaugurate it in the forthcoming financial years as it is an instrument used to create future clients and skills development within the industry. The target group or the EDP will remain young previously disadvantaged communities who are passionate about the diamond industry.

Human Resources

The State Diamond Trader was successful in appointing the Chief Financial Officer, Ms Nelisile Mncwango who commence her duties on 1 May 2020. As a result, the secondment of her predecessor Ms Somikazi Madolo came to an end on 30 July 2020. Ms Madolo's outstanding service to the entity could not go unnoticed and the entity is forever indebted to Mintek for availing her to the entity. The entity recorded 2 (two) termination of services due to resignation and dismissal. I am grateful that no staff member lost life due to this pandemic even though some were directly affected.

Positive response was received from students enrolled for the Management program and those awarded bursaries.

Governance

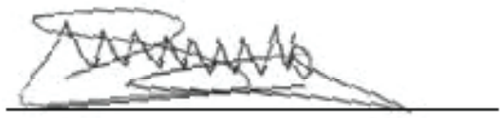
The newly appointed Board resumed their functions towards the end of this term in November 2020. The Board was immediately inducted and had to immediately give direction on the last two quarterly reports and new strategy for 2021 to 2025 financial years and submitted the 2021/2022 Annual Performance Plan to the shareholder.

2020-2021 Audit

The entity obtained an unqualified audit outcome with findings on performance information and compliance with legislation. However, there has been improvement on the quality of submitted financial statements and healthy financial position. Positive comments were received on Human Resources Management, Risk Management and IT system controls.

Conclusion

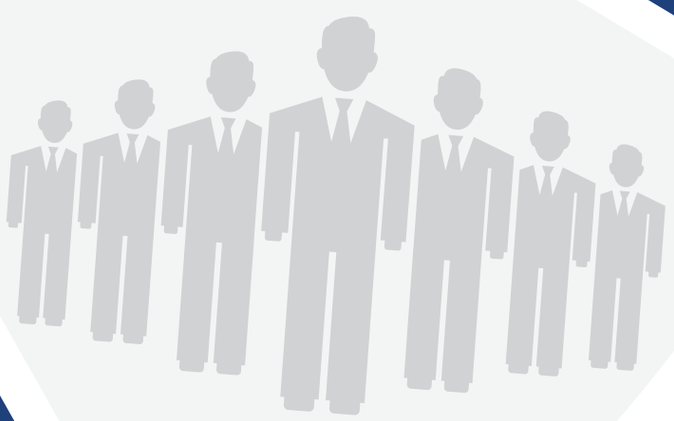
I am grateful that the entity has been blessed with a credible and competent Board who have displayed commitment and brought stability. Special appreciation to the Executive Management and all staff for their resilience and support during this rough journey. Last appreciation goes to all our stakeholders especially the Department of Mineral Resources and Energy (DMRE) team, producers, clients and service providers.



Mr S.M. Mnguni
Chief Executive Officer of the Board
August 2021

The Board

The Board of the State Diamond Trader is appointed by the Minister of the Department of Mineral Resources and Energy ("the Minister") in terms of Section 17(2) of the Diamonds Act 56, 1986, as amended. The last financial year saw delays in the appointment of the Board, however; the Minister appointed the Board for a period of three (3) years with effect from 1 November 2020.



GOVERNANCE AND REMUNERATION

Reporting Structure

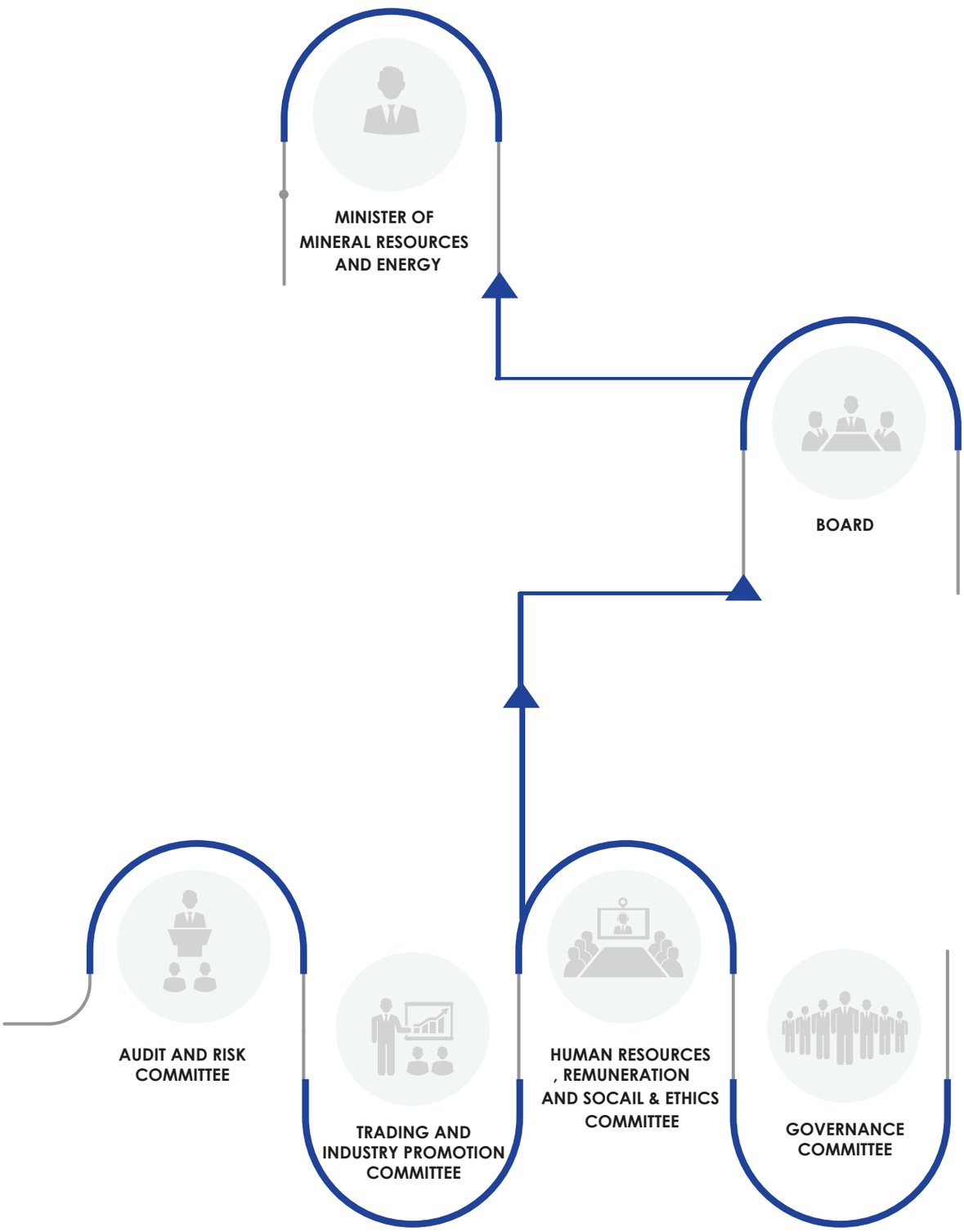


Figure 2: *SDT Reporting Structure*

The Board

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 current Board tenure commenced on 1 November 2020 following a period of at least 11 months without a Board while appointment was awaited. Consequently, the newly appointed Board had to get the ball rolling immediately starting with an induction process held in December 2020. The Board has worked hard to attend to some of the issues that required its immediate oversight and attention and continues to do so. All Board members, except for the Chief Executive Officer, are non-executive. The Chief Financial Officer is a standing invitee at all Board meetings.

Composition

The Board is composed in pursuance of the provisions of the Diamonds Act 56, 1986, as amended, and is appointed by the Minister. Membership comprises one salaried executive and 11 non-executive Board members. The Chief Executive Officer as well as the Chief Executive Officer of the South African Diamonds and Precious Metals Regulator are *ex officio* members of the Board. 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 Members

The Board has the requisite mixture of qualification and skills for the task at hand including, but not limited to, finance, commercial, human resources, and law. 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. Details of the mixture of qualifications and skills of individual Board members and the Executive team are provided below.



Ms M. M. Ledingwane (54)
Chairperson

Appointed: 1/11/20
Principal Skills:
Commercial Law, Governance and Business Leadership, Legal Drafting and Compliance in the Mining Industry
Other Leadership Positions:
Companies Tribunal, Goldfields Thusano Share Trust, Impala Esot
Educational Background: Law

Board Members



Ms M. Mosing (42)

Appointed: 1/11/20
Background:
Principal Skills:
Legal, Public Management, HR Management, Business Leadership
Other Leadership Positions:
South African Diamonds and Precious Metals Regulator (SADPMR)

Educational Background: Law, Public Management



Mr N. C. Khosa (47)

Appointed: 1/11/20
(1st appointed in 2019)
Principal Skills: Compliance, Mining, Business Leadership
Other Leadership Positions: SADPMR
Educational Background: Earth Science



Mr K. J. Menoe (40)

Appointed: 1/11/20
(1st appointed in 2016)
Principal Skills: Mining, Quality Assurance, Beneficiation Economics
Other Leadership Positions: DMRE

Educational Background: Chemical Science



Mr G Du Plessis (52)
Appointed: 1/11/20
(1st appointed in 2016)
Principal Skills:
Labour Policy, , Strategy, Business Leadership, Negotiations.
Other Leadership Positions:
Solidarity (Trade Union) Solidarity Strategy Institute, Sentinel Retirement Fund
Educational Background: Labour Policy and Globalisation



Major General N Mokoena (55)
Appointed: 1/11/20
(1st appointed in 2012)
Principal Skills:
Policing, Criminal Justice and Forensic Investigation, Compliance Management,
Law in Money Laundering, Corporate Governance
Other Leadership Positions:
Directorate for Priority Crime Investigation, SADPMR
Educational Background: Police, Criminal, Justice Forensic Investigations



Mr J. Hugo (54)
Appointed: 1/11/20
Principal Skills:
Business Leadership, Finance, Labour, Dispute Resolution
Other Directorships:
FEDUSA, Presidential Climate Change Commission, NEDLAC, Sentinel Retirement Fund
Educational Background: Business Management , Business Administration



Mr W. M. Mabapa (51)
Appointed: 1/11/20
(1st appointed on 1/09/16)
Principal Skills:
Human Resource Management, Labour Policy
Other Leadership Positions:
National Union of Mineworkers (NUM), Mineworkers Investment Trust, Royal Bafokeng Platinum LTD, NUMPROP
Educational Background: Labour Law



Mr B. Deka (43)
Appointed: 1/11/20
(1st appointed in 2016)
Principal Skills:
Economics, Mercantile Law, Public Finance Management
Other Leadership Positions:
National Treasury
Educational Background: Economics, Mercantile Law



Ms T. Mokwena(35)
Appointed: 1/11/20
Principal Skills: Business Administration, Mining, SMME Development, Project Management *Other Leadership Positions:*Kimberley Diamond & Jewellery
Educational Background: Import and Export Management, Business Administration



Mr L. Rapoo (64)
Appointed: 1/11/20
Principal Skills:
Mining, Business Leadership, Project Management, Mineral Regulation, Mineral Policy
Other Leadership Positions:
Rivanet Mining and Exploration (Pty) LTD
Educational Background: Mine Surveyiner

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.



Mr S. M. Mnguni (51)
Chief Executive Officer
Appointed: 1/2/2018
Principal Skills:
Management and Administrator, Strategic Leadership, Communication Development, Compliance to MFMA and PFMA Educational
Educational Background: Business Administration



Ms N. Mncwango (CA/SA) (36)
Chief Financial Officer
Appointed: 1/5/2020
Principal Skills: Registered Chartered Accountant with SAICA, Accounting and Auditing, Finance and Staff Management, Public Finance Management
Educational Background: Finance and Auditing



Mr C. Van der Ross (49)
Operations Manager
Appointed: 1/6/2016
Principal Skills: Technical Diamond Skills, Management, worked at De Beers South Africa, London and Antwerp offices, Specialising in Valuation, Buying and Selling of Rough Diamonds
Other Leadership Projects: Board Member of the Kimberley Diamond and Jewellery Incubator



Ms N. C. Sibeko (40)
Company Secretary and Legal Manager
Appointed: 1/6/2014
Principal Skills:
Legal, Compliance and Governance, Risk Management, Business Administration, Public Finance Management
Educational Background: Law, Business Administration

Corporate Governance Report

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

The State Diamond Trader is listed in Schedule 3B of the Public Finance Management Act, 1 of 1999 ("the PFMA"). Its shareholder is the government of the Republic of South Africa, represented by the Minister of DMRE 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.

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 issued in 2016. The entity strives to align with the recommended principles of Corporate Governance espoused in King IV to an extent possible for its environment.

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

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.
- 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

The Board met five (5) times during the year under review, inclusive of the Board induction. Attendance was as recorded in the table below.

Table 1: Attendance of Board Meetings

Number of Meetings	5
Ms M. M. Ledingwane (Chairperson)	5
Mr N.C. Khosa	4
Mr J. Hugo	5
Mr K. J. Menoe	4
Mr W. M. Mabapa	5
Mr G. Du Plessis	5
Ms M. Mosing	5
Ms T. Mokwena	4
Major-General N. Mokoena	4
Mr L. Rapoo	5
Mr B. Deka	4
Mr S. M. Mnguni	5

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.

Assurance Providers

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.

Board Committees

The Board has formed four committees that assist in the execution of its duties, namely, the Audit and Risk Committee, the Human Resources, Remuneration, Social and Ethics Committee, the Trading and Industry Promotion Committee, and the Governance Committee. The Audit and Risk Committee met three (3) times during the year under review.

the Human Resources, Remuneration, Social and Ethics Committee met twice, as did the Trading and Industry Promotion Committee. The Governance Committee had not met as at the end of the year under review; however, the Governance Committee held a combined meeting with the Human Resources, Remuneration, Social and Ethics Committee and therefore met once.

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

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

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

Audit and Risk Committee

The Audit and Risk Committee (ARC) 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 three (3) times during the year under review.

The achievements of the Audit and Risk Committee (ARC) are particularly laudable given the rather rough and atypical start it had. During the year under review, the committee experienced delays in the confirmation of the appointment of the member designated to chair the committee on a permanent basis. The said member happened to be the only Chartered Accountant in the Board and was therefore deemed the most suitable following her nomination to be a member of the Board. The Committee improvised and, through the selfless and dedicated efforts of its members, it exercised leadership that ensured the continuation and fulfilment of the mandate of SDT. The Board is grateful and thankful for this demonstration of leadership, determination and goodwill.

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.

To complement the skills and expertise of the Committee, the Board has co-opted Ms D. Nyakale as a member of the Committee while a decision on the Chairpersonship of the Committee was pending as at the end of the financial year. Mr J. Hugo and Mr K. Menoe are members of the Committees who are also members of the Board. All members of the Committee are non-executive and possess the requisite skills and experience to serve on the Committee.

The Audit and Risk Committee is satisfied with the quality of work produced by internal and external auditors and with the internal control environment of the organisation. The Committee is not aware of any adverse indicators that may impact the organisation. A Report of the Audit and Risk Committee is also included on page 62 of this Annual Report.

Table 2: shows attendance of ARC Committee Meetings during the year under review.

Number of Meetings	3
Mr J. Hugo	3
Mr K. J. Menoe	3
Ms D. Nyakale	3

Human Resources, Remuneration and Social & Ethics Committee (HR, REM and S&E)

HR and REMCO assist the Board with the human resources strategy and the attraction, motivation, development, and retention of required staff competencies. The Committee is also entrusted with the oversight of the entity's social and ethical concerns. It makes recommendations to the Board with respect to issues entrusted to it through the approved terms of reference. The Committee has conducted its affairs in compliance with the terms of reference and has discharged its responsibilities contained therein and met two (2) times during the year under review.

Primary responsibilities of the Committee include *inter alia:*

- The review and recommendation of policies that results in fair, responsible, and transparent remuneration and that promote the achievement of strategic objectives, attract, motivate, reward, and retain high-quality talent, and encourage individual performance without encouraging undue risk taking.
- The review and recommendation of performance management policies applicable to Senior Management to ensure that they are fairly rewarded for individual and joint performance towards the State Diamond Trader.
- Oversight of the establishment of a training and development policy that will promote the achievement of strategic objectives and encourage individual performance.
- The review of the social and economic developments environment, including the entity's standing in terms of the goals and objectives of applicable legislation and codes.

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. Its members during the year under review were Mr. Gideon Du Plessis (Chairperson), Ms. M. Mosing (Member), Major-General N. Mokoena (Member) and Mr. W. Mabapa (Member).

Table 3: shows attendance of the Committee's meetings during the year under review.

Number of Meetings	2
Mr G. Du Plessis (Chairperson)	2
Major-General N. Mokoena	1
Mr W.M. Mabapa	2
Ms M. Mosing	2

Trading and Industry Promotion Committee

The Trading and 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 two times (2) 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.
- 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 members. The Chairperson and all members are appointed by the Board and are Board members. The members are Mr L. Rapoo (Chairperson), Ms T. Mokwena (Member), Mr B. Deka (Member), and Mr C. Khosa (Member).

Table 4 shows attendance of the Committee's meetings during the year under review.

Number of Meetings	2
Mr L Rapoo (Chairperson)	2
Mr C Khosa	1
Ms T Mokwena	2
Mr B Deka	2

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 oversees 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 skills and experience required to serve on the Committee. The Committee is chaired by the Chairperson of the Board, Ms. M.M. Ledingwane. Its members are Mr. L. Rapoo and Mr. G. Du Plessis. The Committee had not me as at the end of the year under review and was in the process of reviewing its Terms of Reference to ensure its effectiveness going forward.

Appointment and Delegation to Management

Chief Executive Officer's (CEO) Appointment and Role

The Minister 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 is 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.

Company Secretary's Appointment and Role

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

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 claim for out-of-pocket expenses. Details of remuneration is available on page 97 in the Annual Financial Statements.

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. Financial Performance for 2019/2020 considered together with the uncertainty in 2021 brought about by the COVID-19 pandemic resulted in the entity not being able to consistently pursue its philosophy; however, the entity strives to ensure that its employees are fairly remunerated, in line with the Remuneration Policy and the Performance Management and Reward Policy.

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.
- The entity's financial performance.
- Internal position growth linked to the approved organisational structure.
- 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.
- The impact of market volatility on the entity's financial performance.

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.
- Management of overhead costs

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

STRATEGIC PERFORMANCE

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

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

Production (Sorting and Valuation)

The 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.

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 communications which include stakeholder relations, media relations and marketing.

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

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



STRATEGIC OVERVIEW

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.

Mandate

- Buy and sell rough diamonds for local beneficiation.
- Promote equitable access to and beneficiation of the country's diamond resources.
- Address distortion created by excluding previously disadvantages groups from economic participation, (transform diamond industry).
- Purchase up to 10% of the run of mine from SA producers.
- Sell to registered customers through an application and approved process.

Performance Environment

Purchasing of Rough Diamonds

In 2007, 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

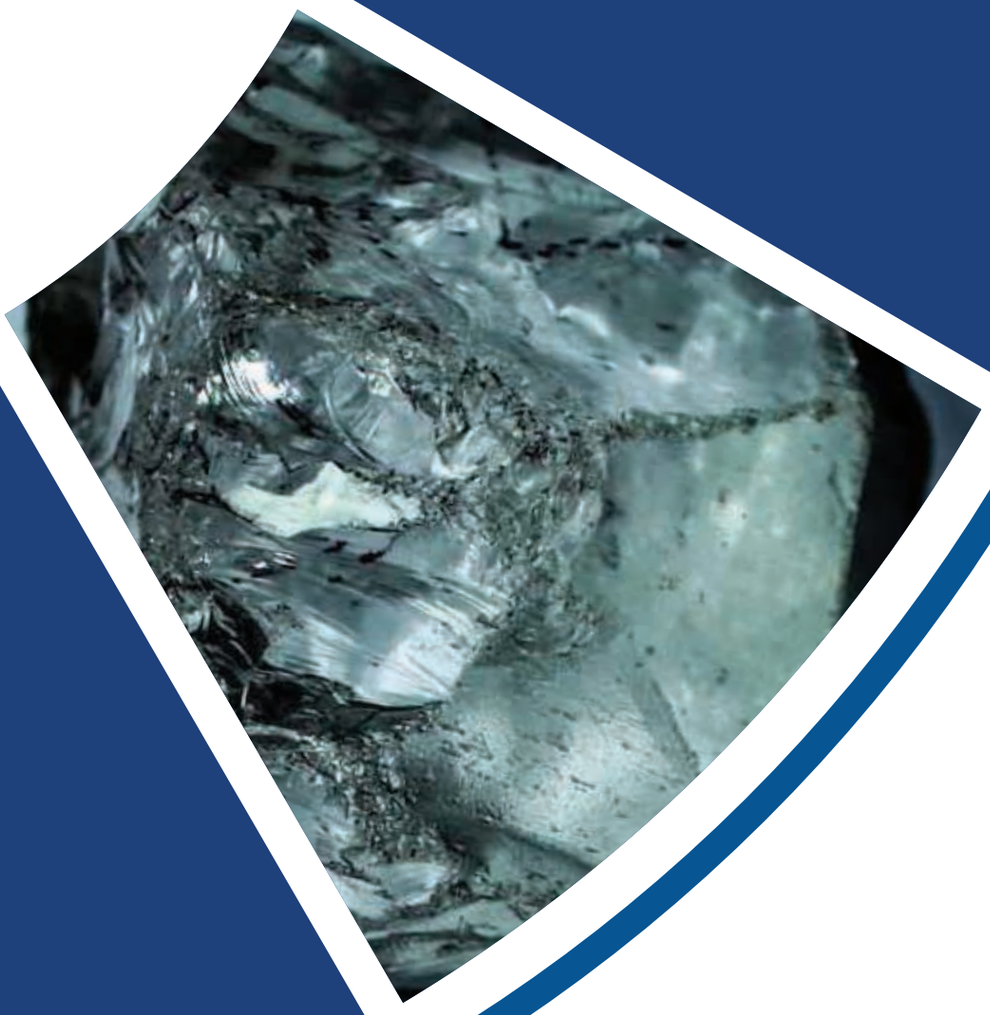
While local diamond beneficiation has been challenged in terms of supply as production levels and demand were depressed during the year under review, the suitability of rough diamonds for local beneficiation has been even more of a challenge. An analysis of South African production in the last few years shows that only about 15% by carats of diamonds mined in South Africa 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

The outbreak of the Covid-19 pandemic had a negative effect on global markets, and the diamond industry, as a luxury sector, was equally impacted. In South Africa, the national lockdown was declared from 27th March 2020, resulting in international travel being restricted, among others. The lockdown meant that trade activities were completely prohibited for a period of two full months in April and May. Global markets sentiments were subdued, with a slight improvement commencing from June as countries such as Hong Kong, China, and India demonstrated some trading activity.

Consequently, for the first two quarters of the year, globally, manufacturers were very cautious and reduced their demand, while miners' inventories grew as rough sales slumped. Large producers of rough began offering more goods on digital platforms as travel restrictions remained in place. However, the industry witnessed an improved appetite towards the end of September, and this enabled a healthy situation throughout the diamond pipeline until the end of the year. Polished inventory shortages emerged and the need to replenish inventory created a huge demand for rough diamonds, particularly for the larger polished stock.

This trend continued into the last quarter of the financial year; however, the pandemic had a huge negative impact on the cash flow of most of the South African diamond companies, more so primarily the 100% black-owned companies, this therefore impacted their buying power. The report on our performance against set targets starts is presented next.



PERFORMANCE AGAINST STRATEGIC OBJECTIVES

Achievement	Partial Achievement	Non-Achievement

STRATEGIC OUTCOME 1:	A transformed and inclusive diamond beneficiation industry that ensures an increased black ownership and participation in the sector.
STRATEGIC OBJECTIVE 1:	To grow and transform the diamond industry.

KEY ACTIVITIES	PERFORMANCE MEASURE	PLANNED ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET	COMMENTS ON THE DEVIATION
1. Inspection and purchasing of rough diamonds.	Percentage of rough diamonds purchased.	Purchase 2% of inspected rough diamonds.	**Achieved**. Purchased 4.2% of inspected rough diamonds.	Target exceeded by 2.2.%.	The target was exceeded due to a strong demand in polished diamonds which created a huge demand for rough diamonds resulting in an increased number of inspections conducted and innovation measures implemented. This was due to the adjustments made during the Covid-19 lockdown period.
2. Increase of diamonds sold to HDSA.	Increase of diamonds sold to HDSA.	R15 millions of diamonds sold to HDSA.	**Achieved.** The entity sold diamonds valued at R81million to its HDSA clients.	Target was exceeded by R 66million.	The target was exceeded due to a strong demand in polished diamonds which created a huge demand for rough diamonds resulting in an increased number of inspections conducted and innovation measures implemented. This also had positive sales to HDSA. This was due to the adjustments made during the Covid-19 lockdown period.
3. Purchase rough diamonds by carats in order to supply clients according to their requirements.	Increased amount of rough diamonds supplied to clients versus clients' requirement.	Meet 4% of clients' requirements by supplying 10,125 carats to clients.	**Achieved.** 94.88% of clients' requirements were met by supplying 240,195 carats	The target was exceeded by 230,070.01carats.	The target was exceeded due to a strong demand in polished diamonds which created a huge demand for rough diamonds resulting in an increased number of inspections conducted and innovation measures implemented. The client requirements supply improved. This was due to the adjustments made during the Covid-19 lockdown period.
4. Establish a Task Team to undertake a comparable study.	Increase accessibility of services to clients.	To conduct a feasibility study on the establishment of a satellite office in Northern Cape Province.	**Achieved.** The feasibility study was conducted.	-	-
5. Review the existing selling methods.		Revised selling methods.	**Not Achieved.** The selling methods were not reviewed due to COVID 19 pandemic.	The review was conducted with a view to revise the selling methods however due to COVID 19 a conclusion that the entity will maintain the status quo was reached.	The review was conducted with a view to revise the selling methods however due to COVID 19 a conclusion that the entity will maintain the status quo was reached.

Achievement | Partial Achievement | Non-Achievement

STRATEGIC OUTCOME 2:	A capable workforce and developmental industry.
STRATEGIC OBJECTIVE 2:	Contribute to training and skills development.

KEY ACTIVITIES	PERFORMANCE MEASURE	PLANNED ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET	COMMENTS ON THE DEVIATION
6. Develop WSP Report.	Enhanced Skills Development.	To submit WSP compliance report.	**Achieved.** The WSP compliance report was submitted.	-	-
7. Adoption and Implementation of WSP.	Number of Employees trained in line with WSP.	Training of 8 employee members.	**Achieved.** 15 Staff members were trained by the entity.	Target exceeded by 7 employees.	The target was exceeded by 7 employees trained.
8. Implementation of Bursary Policy.	Number of employees granted bursaries.	2 employee members granted bursaries.	**Achieved.** 2 Bursaries granted to employees.	-	-
9. Review of the HR Strategy.	Revised HR Strategy.	To revise the HR Strategy.	**Partially Achieved.**	The HR Strategy was submitted to the HR Committee outside the reporting period	The revised HR Strategy was finalised before the financial year end but tabled at the HR Committee meeting outside the reporting period. This was due to the outstanding review of the Corporate Strategy.
10. Review the existing EDP Strategy.	Revised EDP Strategy and Implementation Plan.	To revise the EDP Strategy.	**Achieved.** The EDP Strategy was revised.	-	-
11. Arrange Employees' Health and Wellness activity.	Enhanced Employees' Health and Wellness programme.	To improve the employee's health and wellness.	**Achieved.** 17 employees attended a wellness program.	-	-

Achievement | Partial Achievement | Non-Achievement

STRATEGIC OUTCOME 3:	A knowledge-based and innovative organization.
STRATEGIC OBJECTIVE 3:	Collaborate in promoting and investing in research and innovation for sustainable development of the diamond beneficiation industry.

KEY ACTIVITIES	PERFORMANCE MEASURE	PLANNED ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET	COMMENTS ON THE DEVIATION
12. Liaise with relevant stakeholders.	Enhanced collaboration with research institutions for new technology.	To submit proposals to Mintek and CSIR on research collaborations.	**Achieved.** Proposals were submitted to both Mintek and CSIR.	-	-

Achievement	Partial Achievement	Non-Achievement

STRATEGIC OUTCOME 4:	Improved corporate performance, accountability and transparency.
STRATEGIC OBJECTIVE 4:	Promote good corporate governance and improve internal processes and procedures.

KEY ACTIVITIES	PERFORMANCE MEASURE	PLANNED ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET	COMMENTS ON THE DEVIATION
13. Review Corporate Governance Manual.	A reviewed Corporate Governance Manual.	Revise the Corporate Governance Manual.	**Achieved.** The Corporate Governance Manual was revised.	-	-
14. Review the Delegation Register	Strengthened internal controls and accountability through delegation of authority.	To revise and strengthen the Delegation Register.	**Achieved**. The Delegation Register was revised and strengthened.	-	-
15. Revise the Fraud Policy.	Compliance with national and international Regulatory Framework and appliance standards.	To revise the Fraud and Prevention Policy.	**Achieved.** The Fraud and Prevention Policy was revised.	-	-
16. Develop and Implement CSI Policy and Strategy.	Improved social conditions of communities.	To develop Corporate Social Investment Policy and Strategy.	**Achieved.** Corporate Social Investment Policy and Strategy approved.	-	-
17. Communicate SDT programmes with internal and external stakeholders.	Accessible and accountable entity.	Implement 4 key pillars of the approved Marketing and Communication plan. • Online Newspaper • Media and stakeholder engagement Manage online platforms (website, internet, intranet, social media).	**Achieved.** The 4 key pillars of the approved Marketing Strategy were implemented.	-	-

Achievement	Partial Achievement	Non-Achievement

STRATEGIC OUTCOME 5:	A financially viable and sustainable entity.
STRATEGIC OBJECTIVE 5:	To provide strategic financial support and management for the sustainability of the entity.

KEY ACTIVITIES	PERFORMANCE MEASURE	PLANNED ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET	COMMENTS ON THE DEVIATION
18. Implementation of an annual Risk Management plan based on internal audit.	100% implementation of Risk Management plan.	To implement management of all risks identified on the annual internal management plan.	**Not Achieved.**	Management of 77% of the identified risk was implemented.	The annual risk assessment and implementation plan was done before financial year end. Only 77% of identified risks were implemented and the remaining 23% relate to the outstanding Business Plan.
19. Implement Management Action Plans from external audit.	Percentage of the external audit Management Action Plan implemented.	To implement 100% of the approved external audit Management Action Plan by 31 March 2021.	**Not Achieved.**	92 % of the action plan was implemented from external audit.	The external audit management plan was approved and 92% of the audit management action plan was implemented. The outstanding ICT policies were tabled at Board Committee before year end and approved by the Board after year end.
20. Development and submission of a Revenue Enhancement Strategy.	Approved Revenue Enhancement Strategy.	To develop the SDT Revenue Enhancement Strategy.	**Not Achieved.**	The SDT Revenue Enhancement Strategy was not tabled to the Board.	The draft work of Resource Mobilisation was submitted and a full Revenue Strategy is to be incorporated with the revised Business Plan upon its finalisation.

Achievement	Partial Achievement	Non-Achievement

STRATEGIC OUTCOME 5:	A financially viable and sustainable entity.
STRATEGIC OBJECTIVE 5:	To provide strategic financial support and management for the sustainability of the entity.

KEY ACTIVITIES	PERFORMANCE MEASURE	PLANNED ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET	COMMENTS ON THE DEVIATION
21. Development and submission of the ICT Strategy.	Approved ICT Strategy.	To adopt an ICT Strategy.	**Achieved.** ICT Strategy was approved and adopted.	-	-
22. Strengthen internal financial controls, optimal yield on investment, enhance liquidity ratio and improved cash flow.	Enhanced fiscal discipline and the effective management of resources.	Unqualified Audit opinion.	**Achieved.**	-	-
23. Submit State Diamond Trader business case to DMRE.	A revised State Diamond Trader business case.	To review the State Diamond Trader business model.	**Not Achieved.**	The SDT Business Plan was not tabled at the Board meeting.	The draft document was not presented to the Board due to changes in the business environment. A further feasibility study has to be conducted on the impact of the Covid-19 lockdown for future trading.

Achievement	Partial Achievement	Non-Achievement

STRATEGIC OUTCOME 6:	A coordinated Regional development, achieving a universal rules-based and equitable trading system that is fair and open and benefits all.
STRATEGIC OBJECTIVE 6:	To promote partnerships with African diamond producing countries to stimulate competitive markets.

KEY ACTIVITIES	PERFORMANCE MEASURE	PLANNED ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET	COMMENTS ON THE DEVIATION
24. Coordinate participation of clients at one international show.	Expose clients to international markets.	To participate in one international show with 6 clients.	**Not Achieved.**	International show not undertaken.	The Hong Kong show was cancelled due to international Covid-19 lockdown.
25. Facilitate the signing of MOUs.	Secured additional diamonds from other countries.	Sign MOU with 1 African diamond producing country.	**Not Achieved.**	MOU not signed.	The target to undertake international trips in order to meet the targeted diamond producing countries was not achieved due to international Covid-19 travel restrictions.
26. Establish and strengthen existing relations with African diamond producing countries and stakeholders.	Improved partnerships.	To participate at the 3 African shows and activities. • Botswana Diamond Conference	**Not Achieved.**	The Botswana Diamond Conference was cancelled	The Botswana Diamond Conference was cancelled in the 2020/2021 financial year.
		• Mining Indaba	**Achieved.** The entity attended a Virtual Mining Indaba conference.	-	-
		• ADPA meetings	**Achieved.** The entity participated in ADPA meetings.	-	-
27. Participation at Kimberley Process.	Complied with international standards.	To attend 3 activities relating to the Kimberley Process.	**Achieved.** The entity participated in 5 Kimberley process activities.	Target exceeded by 2 activities.	More activities were arranged in respect of the Kimberley Process.
28. Facilitate the South African Diamond Show.	Stimulated economy Regional economy.	To host South African Diamond Show.	**Not Achieved.**	The Diamond Show concept document was approved; however, the hosting of the show was not achieved.	The target was not achieved due to the Covid-19 lockdown prohibition on public gatherings.
29. Liaise with relevant stakeholders for fact finding mission.	Stimulated economy Regional economy.	To conduct a feasibility study on the creation and hosting an African Diamond Bourse.	**Achieved.** The feasibility study was conducted.	-	-

Grey: Achieved
Blue: Partially Achieved
Blue: Not chieved

ABBREVIATIONS:

1. ADPA - African Diamonds Producers Association
2. EDP - Enterprise Development Programme
3. HDSA - Historically Disadvantaged South Africans
4. MOU - Memorandum of Understanding
5. WSP - Workplace Skills Development Plan



OPERATIONAL PERFORMANCE

State Diamond Trader Trading Report 2020/2021

Year-on-year comparison of inspections, purchases and sales

	2017/2018	2018 /2019	2019/2020	2020/2021
State Diamond Trader Inspections US$* (US$ million)	1,216	1,148	768	972
Carats inspected	10,012.,744	9,873,078	7, 126,213	8,666,911
US$ per carat	122	116	108	112
No. of producers	16	15	15	14
No. of Inspections conducted	126	214	242	164

State Diamond Trader Purchases ZAR (Rmillion)	742	642	226	650.000
% purchased••	5%	4%	2%	3%
Carats	116,880	132,516	32,322	268,147
No. of purchases	67	124	67	71

State Diamond Trader Sales ZAR (Rmillion)	769	667	231	683
COGS	741	645	225	662
GM	27	21	5	21
GM%	4%	3%	2%	3%
Carats	116,351	132,940	32,866	268,061
No. of clients sold to	42	50	38	30

Table 1: *State Diamond Trader Trading Summary and Annual Comparison*

- The value of purchases increased by 188% to R650 million for 2020/2021 compared to the value of R226 million for purchases in the 2019/2020 financial year.

- The volume purchased increased to 268,147 carats in 2020/2021 compared to the volume of 32,322 carats in the 2019/2020 financial year. These increases of value and volume are contributed to by depleted polished inventory, which led to greater demand for rough diamonds, resulting in a much healthier trading environment throughout the diamond pipeline.

- The number of purchases made from the producers increased to 71 for the year under review in comparison to 67 in 2019/2020.

- Sales increased by 196% to the value of R683 million compared to the previous year's sales of R231 million.

- Gross profits increased from 3% achieved in comparison to the 2% achieved in 2019/2020 which translates to an increase of R16 million

Summary and Budget Comparison 2020/2021

		YTD Totals
Purchases	Budget	41,463,000
	Actual	650,059,616
	Diff	608,596,616
	Diff%	1,467.81
Sales	Budget	42,706,890
	Actual	682,931,632
	Diff	640,224,742
	Diff%	1,499.11
Gross Margin	Budget	1,243,890
	Actual	21,107,216
	Diff	19,863,326
	Diff%	1,596.87

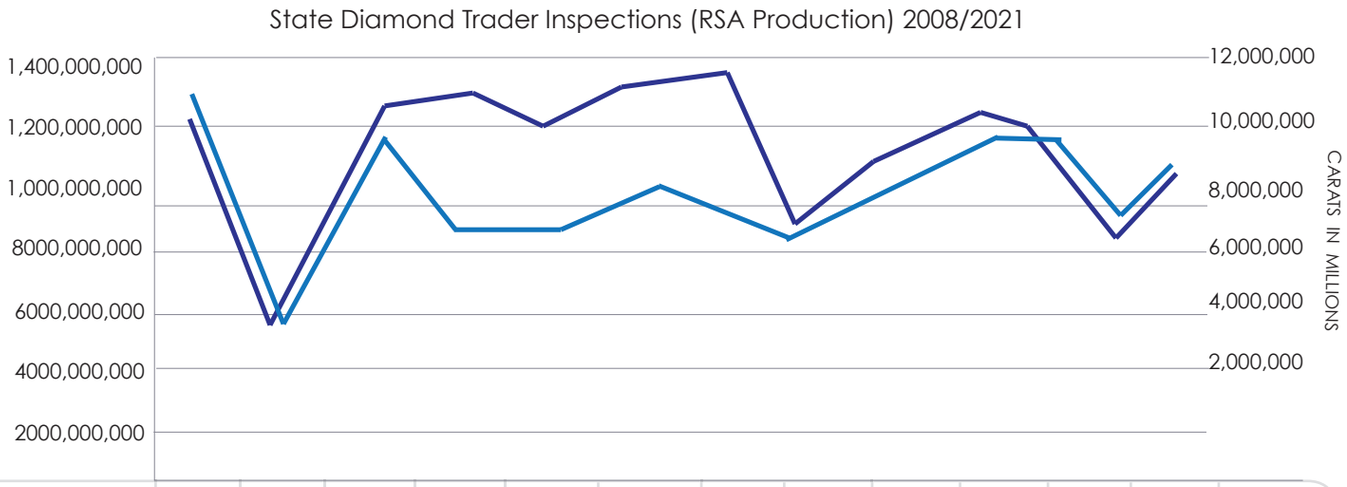
Table 2: *Summary and Budget Comparison*

The State Diamond Trader was able to exceed its budgeted purchases by R608 million, purchasing rough diamonds to the value of R650 million. The entity exceeded sales by R640 million, realising sales value of R683 million and achieving a gross margin of R21 million.

- It should be noted that the Purchasing figures relate only to all purchases made during the 2020/2021 financial year.
- The Sales figures, however, include the sale of the old stock which amounted to R10 million.
- The Gross Margin considers the profit and loss that were made from all trading activities inclusive of the old stock.

South African Diamond Production – State Diamond Trader Inspections 2020/2021

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



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Carats inspected	11,052,435	5,765,002	9,519,617	6,889,931	7,117,642	8,339,781	7,885,298	7,726,850	8,994,894	10,012,744	9,873,078	7,126,213	8,666,911
SDT Inspection US$ *	1,166,505,639	1,301,572,083	1,177,840,751	1,283,935,876	1,317984,510	970,529,959	1,144,536,663	1,216,804,132	1,148,204,471	767,903,936	972,178,205		

Graph 1: *State Diamond Trader Inspections 2020/2021*

Graph 1 indicates an increase of both carats (volume) and value inspected by 22% and 27% respectively, presented to the State Diamond Trader by 14 producers. There was an increase of 4% on the average price per carat.

State Diamond Trader Purchases 2020/2021

The State Diamond Trader purchased rough diamonds from 12 producers. Although inspections were completed with 14 producers, two of the producers were not purchased from based on the composition and size of the productions. Following is a list of those producers that are compliant with legislation:

1. De Beers Consolidated Mines (Pty) Ltd
2. Petra Diamonds Southern Africa (Pty) Ltd
3. Ekapa Resources (Pty) Ltd
4. Belton Park 127 (Pty) Ltd
5. Rooipoort Developments (Pty) Ltd
6. Alexkor SOC Limited
7. Jagersfontein Developments (Pty) Ltd
8. Namakwa Diamonds Holdings (Pty) Ltd
9. Kareevlei Mining (Pty) Ltd
10. African Minerals Star (Pty) Ltd
11. Moonstone Diamond Marketing (Pty) Ltd
12. DMI Minerals South Africa (Pty) Ltd
13. Helam Mining (Pty) Ltd
14. Ghunu Diamonds (Pty) Ltd

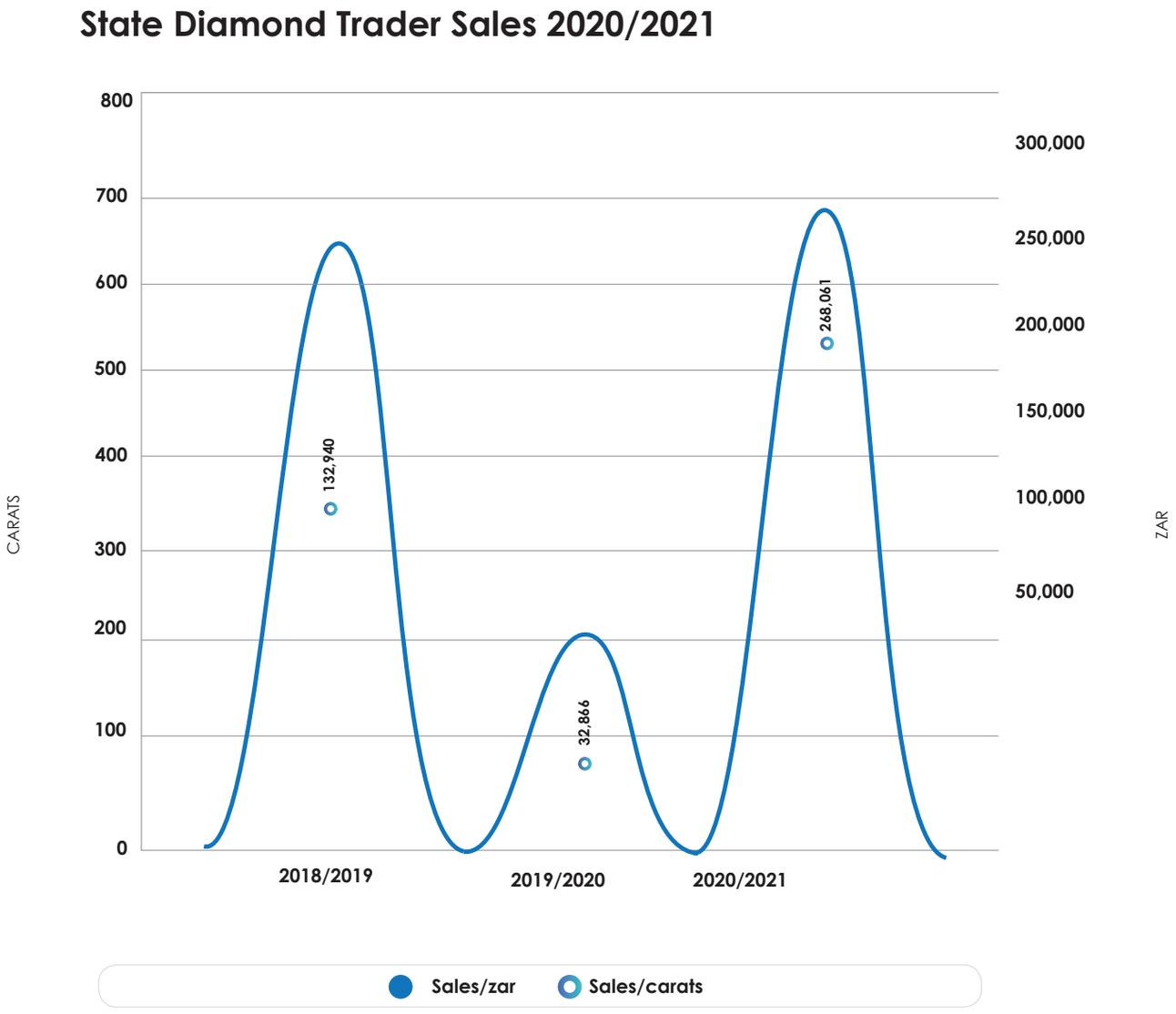
It should be noted that the top two producers contribute approximately 70% of the total purchases by value. The average price of diamonds purchased by the State Diamond Trader was US$ 153 per carat compared to the US$ 480 per carat of the previous year. The average price reflects that the entity purchased more run-of-mine productions for the year, which is an indication of a healthier trading environment and is contributed to by the following factors:

- The good demand for rough in the market as wholesalers and retailers need polished diamonds to replenish their stock.
- There was healthy demand and profit being made through the whole diamond pipeline.
- The execution of the sales strategy and good stakeholder engagement with all producers during and post the pandemic in the diamond industry.
- State Diamond Trader's clients also diversified their businesses, which meant that they manufactured what they deemed suitable and were in a position to trade those diamonds deemed non-suitable for beneficiation.

The State Diamond Trader is currently permitted to purchase up to 10% run-of-mine of South African diamond production by carats and value in order to meet its objectives in terms of supporting local beneficiation. However, during this financial year, the entity was able to purchase 3% by carats and 4% by value of the rough diamonds it inspected.

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

- The quantity of goods not preferred for beneficiation within South African run-of-mine productions.
- The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader's capability to operate commercially.
- The State Diamond Trader's legislated position as a passive role player, "price-taker", in the inspection and purchasing of diamonds from the producers.



Graph 2: *State Diamond Trader Sales 2020/2021*

Graph 2 indicates that the sales by value and carats/volume has increased compared to the previous financial year. Sales increased by R452 million to the value of R683 million compared to the previous financial year sales of R231 million. The gross margin percentage increased from 2% achieved in 2019/2020 to 3% for 2020/2021 which translates to an increase of the gross margin by R16 million and the carats sold increased by 235,195 carats.

The State Diamond Trader sold to 30 clients in total, which is a decrease compared to the 38 clients sold to in 2019/2020. Of the 30 clients sold to, 16 were greater than 50% black owned. The following should be noted:

- The top 5 clients that purchased accounted for more than 50% of the total sales and amongst these 5 clients, 1 is 100% black owned.
- The top 10 clients that purchased accounted for more than 50% of the total sales, and amongst these 10 clients, 2 clients are 100% black owned and 1 has 51% black ownership.
- The top 15 clients that purchased accounted for more than 50% of the total sales and amongst these 15 clients, 4 clients are 100% black owned and 2 have 51% black ownership.
- The top 20 clients that purchased accounted for more than 50% of the total sales and amongst these 20 clients, 6 clients are 100% black owned and 3 have 51% black ownership.

It is noticeable that in order to increase the number of black owned companies in the top tiers, it is imperative that access to finance for these entities is provided to ensure that transformation within the diamond industry is realised.

Sales by Suitability

			% of total	
2020-21	**Carats**	**ZAR Sales**	**Carats**	**Value**
Suitable for beneficiation	52 007	511 454 804	19%	75%
Not suitable for beneficiation	216 055	171 476 828	81%	25%
	268 061	**682 931 632**		

Table 3: *Sales by Suitability*

Sales of rough diamonds deemed suitable for beneficiation declined from 89% in the previous financial year to 75% of the total sales for this financial year. By volume, they decreased from 45% in the previous financial year to 19% of the total sales in this financial year. This indicates that more acquisitions were made in the smaller sizes and cheaper end diamonds that are found in run-of-mine productions.

State Diamond Trader Registered Clients

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 2020/2021 process saw the addition of 14 new clients registered with the entity. During this financial year, State Diamond Trader found cause to remove nine clients from its list due to non-compliance.

The State Diamond Trader segments its clients in the following manner:

Growth and Transformation: Black 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 are able to purchase larger and a wider range of quantities of rough diamonds.

Other: not listed as a registered clients sold to on approval of the Chief Executive Officer.

It should be noted that the segmentation was reviewed and expanded to further separate small, medium, and large clients within each segment.

The entity ended the financial year with 73 registered clients, which is the same as the previous financial year and these clients are segmented as follows:

- Growth and Transformation 5
- Growth and Transformation Incubation 3
- Niche and Large/Medium Beneficiators 27
- Equitable Access 38

Sales by Client Segment 2020/2021

Segment	No. of Clients	Carats	ZAR Sales	% of Sales (ZAR)
Equitable Access	9	1405	28 394 190	4%
Growth & Transformation	4	19 756	75 903 608	11%
Growth & Transformation Incubation	3	234	2 520 148	0%
Niche and Large/Medium Beneficiation	11	218 800	552 503 179	81%
Other	3	27 866	23 570 508	3%
	30	**268 061**	**682 931 632**	

Table 4: *Sales by Client Segment 2020/2021*

Table 4 provides details of the volume and value purchased by the different segments and the percentage contribution of total sales for each segment.

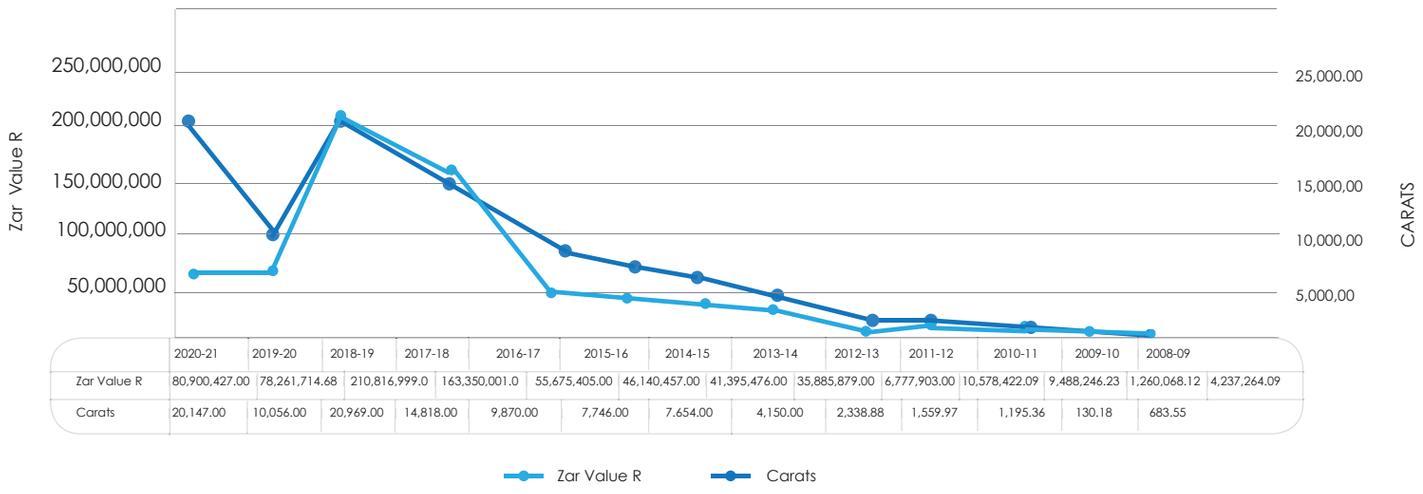
The Covid-19 pandemic had a negative impact on the cash flow of the small-to-medium companies, which in turn had an impact on their buying power and forced most of these companies to partner with larger companies to conclude partnership acquisition of rough diamonds.

The *Niche and Large/Medium Beneficiators* contributed 81% of the total sales value of the entity. State Diamond Trader's focus is to address this disparity; however, that can only be achieved if the medium to small entities have access to finance, which will enable them to be competitive as the diamond industry is a capital-intensive industry.

Diamond and Beneficiation Industry Development Programmes

One of State Diamond Trader's strategic objectives is to promote growth of the diamond beneficiation industry through various platforms.

Annual Sales to Historically Disadvantaged South Africans

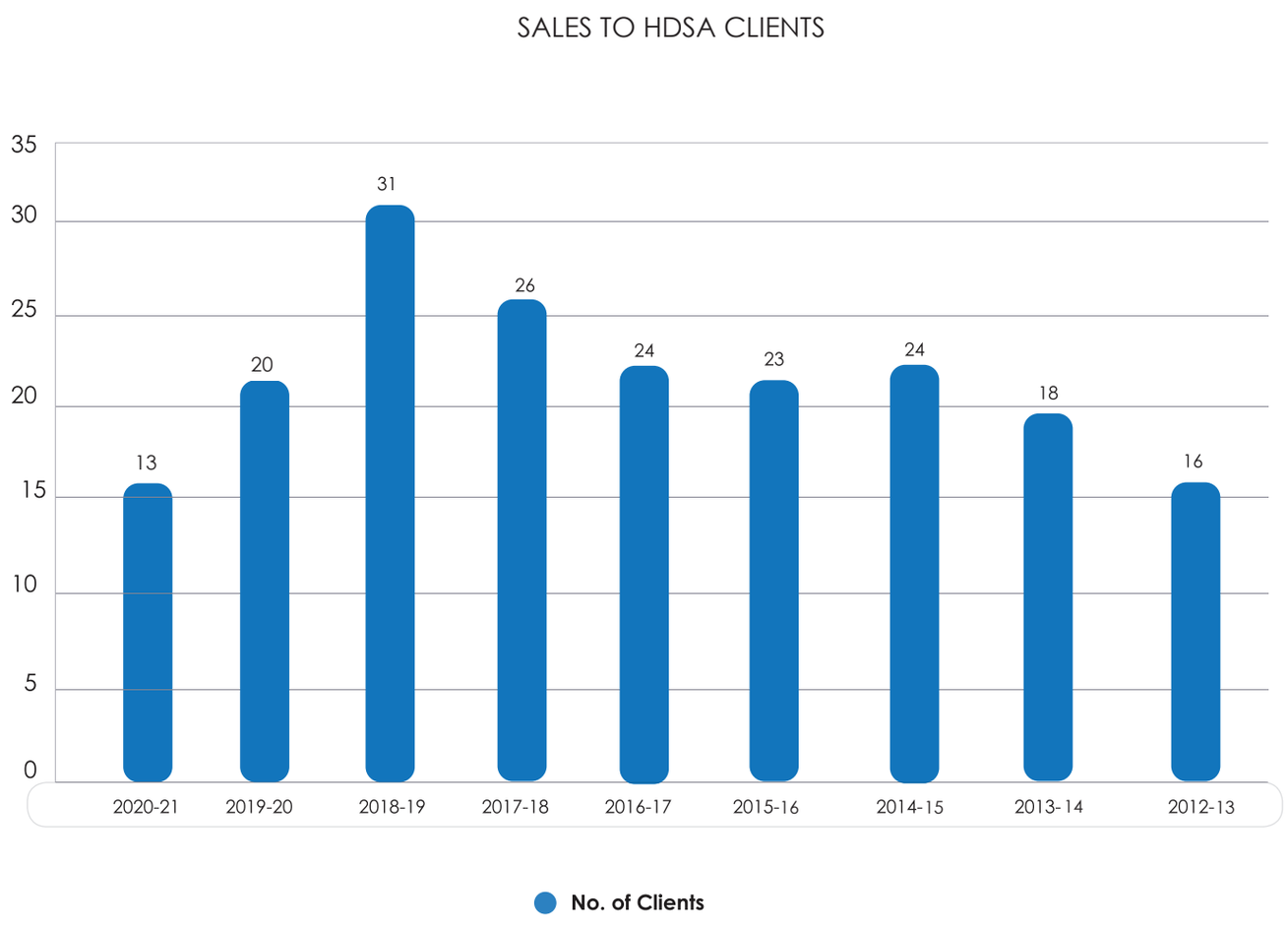


	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Zar Value R	80,900,427.00	78,261,714.68	210,816,999.0	163,350,001.0	55,675,405.00	46,140,457.00	41,395,476.00	35,885,879.00	6,777,903.00	10,578,422.09	9,488,246.23	1,260,068.12	4,237,264.09
Carats	20,147.00	10,056.00	20,969.00	14,818.00	9,870.00	7,746.00	7.654.00	4,150.00	2,338.88	1,559.97	1,195.36	130.18	683.55

Graph 3: *Annual Sales to HDSA (2008-2021)*

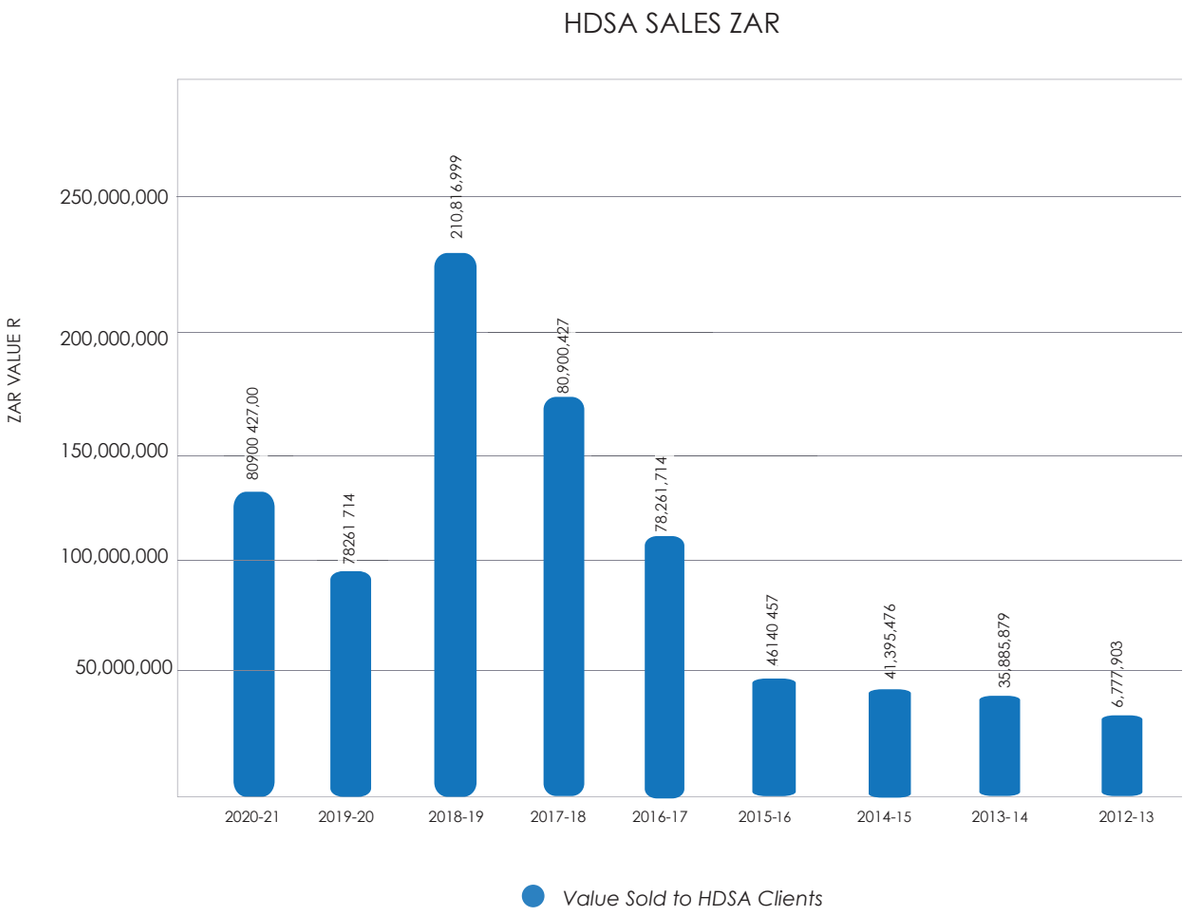
Graph 3 indicates the sales trends to HDSA clients since the entity's inception.

Sales to the number of HDSA clients decreased to 13 for 2020/2021 compared with the 20 HDSA clients sold to in the previous financial year.



Graph 4: *Sales to HDSA Clients (2012-2021)*

Sales to HDSA inclusive of 51% black ownership



Graph 5: *Value of HDSA sales in ZAR*

With regards to value sold, it is noticeable that there has been an increase of realised sales with a value of R81 million in 2020/2021 compared to the R78 million in the previous financial year. This equates to an increased sales value of R3 million. The carats/volume sold also increased from 10,056.04 carats in 2019/2020 to 20,146.58 in this financial year. The breakdown of sales are as follows:

- Sales to companies with 100% HDSA ownership increased to R81 million of the annual sales value in comparison to R78 million of 2019/2020.
- Sales to companies with 51% black ownership increased to R26 million in this financial year compared to R4,6 million in 2019/2020.

Annual Sales and Development of the Growth and Transformation Segment

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

During the year under review, the segment comprised a total of nine clients. Clients must identify markets for polished diamonds and must have shown continuous willingness to participate in all State Diamond Trader's initiatives. It is important to indicate that the main source of rough supply for these clients is the State Diamond Trader, but some do purchase from other sources, namely producers, accredited local tender houses, and dealers. Out of the nine clients, three clients have been selected for the second De Beers Development Programme.

Sales to the Growth and Transformation Segment for 2020/2021 Financial Year in Comparison to the Previous Financial Year

	2019/2020	2020/2021
No. of clients sold to	8	7
Sales Value	R60, 322,805	R77, 668,297
Sales Carats/Volume	8,510.79	19,892.64

Table 5: *Comparison of Sales to the Growth and Transformation Sector*

The value sold to these clients increased by R17 million and by 11,381.85 carats/volume. The number of clients sold to decreased. It should be noted that the pandemic had a negative impact on the cash flow of these clients which in turn affected their buying capabilities.

Marketing and Communications

The Marketing and Communication programme aims to increase the visibility of the State Diamond Trader through four focus areas combining brand and reputation management: Media Relations; Stakeholder Relations; Exhibitions, and Social Media. With the impact of the pandemic, many local and international shows were cancelled, and organisations were forced to use virtual platforms.

Penetrating Local Markets

The State Diamond Trader participated in the 2021 Africa Mining Indaba and 9th Annual Proudly South African Buy Local Summit. Both events were held virtually for the first time due to the Covid-19 pandemic. The State Diamond Trader continues to create awareness of the entity and promotes the diamond industry by participating in various platforms and developing conducive stakeholder relations.

Stakeholder Management

During the 2020/2021 financial year, the entity also focused on stakeholder management and some of the meetings were held virtually. The following engagements took place:

- Producer engagement
- Collaboration meeting with Mintek
- Collaboration meeting with CSIR
- Meeting with South African Young Diamond Beneficiation Guild
- Client roadshow meeting with the CEO of State Diamond Trader

As part of compliance and at a strategic level, the entity also engaged with the following key stakeholders:

- Parliament Portfolio Committee (PPC)
- National Treasury
- Department of Minerals Resource and Energy (DMRE)
- South African Diamond and Precious Metals Regulator (SADPMR)

Engaging with our key stakeholders is an important and continuous effort to strengthen relationships and to understand our stakeholders. The entity continues to conduct consultative programmes with its clients and government entities in order to build and enhance relationships. The entity remains consistent in participating in shareholders' virtual engagements to stay abreast with any new developments. In terms of social media, the State Diamond Trader participates extensively and continues to promote the activities within the sector.

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 (PFMA) 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 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 the 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 the production sector to downstream activities, all play a role in the implementation of the mandate of the entity.
Media	Keep informed.	The media facilitates the supply of information to the general public.



FINANCIAL PERFORMANCE

Audit and Risk Committee Report

We are pleased to present our report for the year ended 31 March 2021.

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

Audit and Risk Committee's Terms of Reference

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

Role and Responsibilities

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

External Auditors and Independence

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

Financial Statements and Accounting Practices

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

Internal Controls

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

Governance of Risk

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

Internal Audit

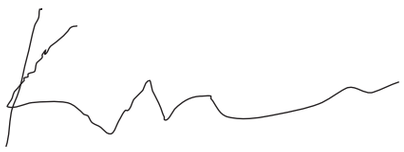
The Audit and Risk Committee is responsible for ensuring that the entity's internal audit function is independent and able to discharge its duties. Furthermore, the Committee oversees cooperation between the internal and external auditors and serves as a link between the Board and these assurance functions.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

Going Concern

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

Conclusion

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



Mr K.J. Menoe
Acting Chairperson of the Audit and Risk Committee
23 August 2021

Statement of Responsibility for Financial Statements

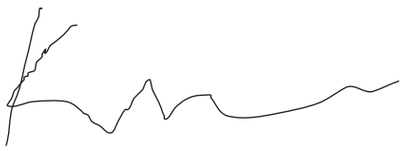
Statement of Responsibility by the Directors, who constitute the Accounting Authority of the State Diamond Trader for the Year Ended 31 March 2021

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

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

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

The Board establishes policies and sets of standards that are designed to provide reasonable assurance against material misstatements and losses. This enables the Board to execute its responsibilities as required. The State Diamond Trader maintains internal financial controls, thereby providing assurance regarding the management and maintenance of its assets and the integrity of its financial records. The internal policies are underpinned by its policy framework and strategic objectives, which provide strategic direction to management on the expected performance and outcomes. These are regularly reviewed to ensure compliance and relevance. The financial statements that appear hereunder were approved by the Accounting Authority on 23 August 2021 and are signed on its behalf by:



Mr K.J. Menoe

Acting Chairperson of the Audit and Risk Committee

23 August 2021



Ms M. M. Ledingwane

Chairperson of the Board

23 August 2021

Chief Financial Officer's Overview



Ms. N. Mncwango

Chief Financial Officer

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 derived from the sale of rough diamonds.

Financial Performance

The 2020/2021 financial year was quite challenging for the entity in the first quarter, but despite these tough trading conditions the organisation remained financially sustainable. The diamond mining industry was challenged by the impact of the pandemic; however, the conditions improved in the latter part of the financial period due to a strong demand for polished diamonds and improved retail activities.

State Diamond Trader generated a profit of R1.2 million compared to a net loss of R16,5 million during the 2019/2020 financial year. Revenue increased by R452 million to R683 million (FY 2020: R231 million). The increase is mainly attributable to favourable market conditions experienced by the diamond mining industry.

Total expenditure decreased to R21 million from R25 million during the 2020/2021 financial year. The decrease is mainly attributable to cost containment measures that management embarked on and also due to lockdown restrictions, no international travel occurred during the financial period.

Cash Flow

Cash and cash equivalents have increased from R24 million in 2019/2020 to R39 million during 2020/2021 due to improvement in sales of rough diamonds.

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

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



Ms N. Mncwango
Chief Financial Officer
August 2021

Report of the auditor-general to Parliament on 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 74 to 102 which comprise the statement of financial position as at 31 March 2021, 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 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 2021, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Diamonds Amendment Act 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 my report.

4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other 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 code.

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

Emphasis of matter

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

Material losses – Inventory

7. As disclosed in notes 7 to the financial statements, material losses of R945 314 was incurred as a result of a write-down of inventory to net realisable value.

Responsibilities of the accounting authority for the financial statements

8. 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 the 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.

9. 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

10. 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.

11. 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

12. In accordance with the Public Audit Act 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 the selected strategic outcome presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

13. My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.

14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic outcome presented in the public entity's annual performance report for the year ended 31 March 2021:

Strategic outcome	Pages in the annual performance report
Strategic outcome 1 – A transformed and inclusive diamond beneficiation industry that ensures an increased black ownership and participation in the sector	40 to 40

15. 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.

16. The material findings on the usefulness and reliability of the performance information of the selected strategic outcome are as follows:

Strategic outcome 1 – A transformed and inclusive diamond beneficiation industry that ensures an increased black ownership and participation in the sector

Various indicators

17. The targets for the indicators listed below were changed without the necessary approval. In addition, the method of calculation for achieving the planned indicator were not clearly defined.

Indicator description	Initial target	Revised target
Percentage amount of rough diamonds purchased	Purchase 3% of suitable inspected rough diamonds	Purchase 2% of inspected rough diamonds
Increased amount of rough diamonds supplied to clients versus client's requirement	Meet 14% of client's requirements by supplying 50,628 carats	Meet 4% of client's requirements by supplying 10,125 carats to clients

Establish businesses from the EDP

18. The planned indicator "Establish businesses from the EDP" and target of "To establish 2 business from EDP" as per the approved initial shareholders compact and the performance against the planned target were not reported in the annual performance report.

Increase of diamonds sold to HDSA

19. The reported indicator of "Increase of diamonds sold to HDSA" and related target of "R15 millions of diamonds sold to HDSA" did not agree with the planned indicator "Percentage increase of diamonds sold to HDSA and related target of "5% increase of diamonds sold to HDSA". Consequently the reported achievement of "The entity sold diamonds valued at R81 million to is HDSA clients" was not consistent with the planned indicator and target or its predetermined measurement processes. As a result, I was unable to audit the reliability of the reported achievements.

Other matters

20. I draw attention to the matters below.

Achievement of planned targets

21. Refer to the annual performance report on pages 40 to 44 for information on the achievement of planned targets for the year of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 17 to 19 of this report.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Strategic outcome 1, A transformed and inclusive diamond beneficiation industry that ensures an increased black ownership and participation in the sector. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

23. 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.

24. The material finding on compliance with specific matters in key legislation is as follows:

Consequence management

25. 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

26. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected strategic outcome presented in the annual performance report that have been specifically reported in this auditor's report.

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

28. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic outcome presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

29. 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 finding on compliance with legislation included in this report.

30. 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 performance report. This resulted in material non-compliance with laws and regulations and material findings on the annual performance report.

31. Senior management did not ensure that sufficient monitoring controls were in place; this resulted in the material findings on the annual performance report.

Auditor - General

Johannesburg

25 August 2021

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected strategic outcome 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 provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear 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 2021

	Notes	2021 R	2020 R
Assets			
Non-current assets		**622 691**	**1 051 520**
Property and equipment	6	622 691	1 051 520
		45 494 578	**42 403 422**
Current assets			
Inventory	7	4 926 828	16 810 476
Trade and other receivables	8	709 283	1 366 781
Cash and cash equivalents	9	39 858 468	24 226 165
Total Assets		**46 117 269**	**43 454 942**
Equity and Liabilities			
Equity		**42 505 886**	**41 220 655**
Retained income		42 505 886	41 220 655
Current liabilities		**3 611 383**	**2 234 287**
Trade and other payables	10	2 731 066	2 234 287
Incentive bonus provision	11	880 318	–
Total equity and liabilities		**46 117 269**	**43 454 942**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 R	2020 R
Revenue	12	683 908 930	230 992 151
Cost of sales	13	(661 824 416)	(225 665 545)
Gross profit		**22 084 514**	**5 326 606**
Other income	14	58 004	1 112 370
Administrative expenses	15	(21 776 039)	(24 743 060)
Profit/(Loss) from operating activities		**366 478**	**(18 304 084)**
Finance income	16	930 540	1 880 202
Finance expenses	17	(35 051)	(39 838)
Profit/(Loss) for the period		1 261 967	**(16 463 721)**
Total comprehensive income/(Loss)		1 261 967	**(16 463 721)**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Retained Income R
Balance at 1 April 2019		57 684 376
Loss for the year		(16 463 721)
Balance at 31 March 2020 Restated	19	41 220 655
Prior period error		23 264
Balance at 31 March 2020 Restated		41 243 919
Profit for the year		1 261 967
Balance at 31 March 2021		42 505 886

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 R	2021 R
Cash flows from Operating activities			
Cash generated by operations	18	15 373 658	(76 682 222)
Interest paid	17	(35 051)	(39 838)
Interest received	16	949 854	1 880 202
Net cash inflow (outflow) from operations		16 288 461	(74 841 859)
Cash flows from investing activities			
Acquisition of equipment		(66 020)	(94 032)
Net cash outflow from investing activities		(66 020)	(94 032)
Cash flows from financing activities			
Repayment of lease liabilities		(590 140)	(581 145)
Net cash outflow from financing activities		(590 140)	(581 145)
Net increase/(decrease) in cash and cash equivalents		15 632 301	(75 517 036)
Cash and cash equivalents at the beginning of the period		24 226 165	99 743 201
Cash and cash equivalents at the end of the period	9	**39 858 468**	**24 226 165**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

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 Reporting Standards (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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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 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.

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.

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.

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 that is measured at the 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	29 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 Cash Generating Unit (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 financial position include cash and cash equivalents, trade and other receivables 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

- 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**
  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.

3.8 Impairment of Trade and Other Receivables (Simplified Approach)

- As allowed by IFRS 9(Financial Instruments), 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.

- There were no expected credit losses in the current year

- The State Diamond Trader has used the following provision matrix to determine the

lifetime expected credit losses on other receivables in 2019/2020:

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**

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

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 Lease liability will mature within 12 months.

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

3.10 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.

3.11 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.

3.12 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 of the State Diamond Trader.

3.13. 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.

- **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 Statement of Financial Performance. Contingent assets and contingent liabilities are not recognised on the Statement of Financial Position.

- **Contingent liabilities**

Contingent liability is a condition or circumstance at the end of the reporting period of which the eventual result will only be confirmed upon the occurrence or non-occurrence of one or more uncertain future events that are beyond the control of the entity. 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.

- **Contingent Assets**

Contingent asset is a possible asset that arises from the past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

3.14 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.

3.15 Un-recognised Commitments

Un-recognised commitments arise when the State Diamond Trader 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:

- liquidity risk,
- currency risk, and
- market risk.

The financial risk management 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 Audit and 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 Market risk-sensitivity analysis

Currency Risk

State Diamond Trader is exposed to exchange rate risks as the industry it operates in as a standard is trading and negotiated in US Dollar and the company is a rand-based entity. State Diamond Trader manages this fluctuation of the exchange rate by selling at the rate at which it concluded purchases of rough diamonds from producers.

Liquidity Risk

Although State Diamond Trader is based in South Africa, the industry that is its core, the trading of rough diamonds is a global industry phenomenon, that is impacted both positively and negatively by various factors, the demand of rough diamonds being one of them. The entity is depended on the profit it can derive from the sale of rough diamonds, which is influence by the demand for rough diamonds. For this period based on factors of strong demand polish and shortage of rough diamonds within the diamond pipeline has led to an increase in demand for rough diamonds.

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 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.

4.7 Financial Assets and Liabilities

Financial Instruments	31 March 2021 R	31 March 2020 R
Cash and cash equivalents	39 858 468	24 226 165
Trade and other payable	886 975	1 068 747
Trade and receivables	14 936	28 951

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 information that was available and could be reasonably be expected to have obtained and taken into account in preparing the financial statements. This will be disclosed as a specific note in the financial statements.

At the date of authorisation of these financial statements, the following standards were in issue but not yet effective:

Standard or Interpretation	Effective Date	Expected Impact
IAS 1 Presentation of Financial Statements	1 January 2023	Impacting on SDT
IAS 8 Accounting policies, Changes in Accounting Estimates and Errors	1 January 2023	Impacting on SDT
IAS 37 Provisions, Contingent liabilities and Contingent Assets	1 January 2022	Impacting on SDT
IFRS 9 Financial Instruments	1 January 2022	Impacting on SDT
IFRS 17 Insurance Contracts	1 January 2023	No impact
IFRS 1First-time adoption of IFRS	1 January 2022	No impact
IFRS 3 Business Combinations	1 January 2022	No impact

6. PROPERTY AND EQUIPMENT

Year ended 31 March 2021	Leasehold Improvements R	Furniture and Fittings R	Security Equipment R	Computer Equipment R	Diamond Equipment R	Right of Use R	Total R
Opening net carrying amount	**11 717**	**124 538**	**93 151**	**177 514**	**121 128**	**523 471**	**1 051 520**
Gross carrying amount	14 800	639 384	554 075	558 035	469 421	1 116 380	3 352 095
Accumulated depreciation	(3 083)	(514 846)	(460 923)	(380 521)	(348 293)	(592 909)	(2 300 575)
Additions/Adjustment	-	(12 336)	16 351	(49 028)	40 899	335 659	331 545
Depreciation	(1 480)	(49 873)	(57 042)	(119 859)	(46 103)	(579 414)	(853 771)
Adjustment		21 040	(7 785)	76 791	3 352		93 398
Closing net carrying amount	**10 237**	**83 368**	**44 676**	**85 418**	**119 276**	**279 716**	**622 691**
Gross carrying amount	14 800	627 047	570 426	509 007	510 320	1 452 039	3 683 639
Accumulated depreciation	(4 563)	(543,679)	(525 751)	(423 589)	(391 044)	(1 172 323)	(3 060 948)

6. PROPERTY AND EQUIPMENT

Year ended 31 March 2020	Leasehold Improvements R	Furniture and 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**	**126 365**	**220 704**	**170 730**		**694,910**
Gross carrying amount	14 800	683 199	953 425	524 333	469 421	-	2 625 178
Accumulated depreciation	(1 603)	(519 285)	(827 060)	(303 629)	(298 691)	-	(1 950 274)
Additions	-	3 500	16 858	77 174	-	1 116 380	1 213 912
Depreciation	(1 480)	(60 273)	(54 214)	(133 079)	(49 602)	(592 909)	(891 557)
* Closing net carrying amount	**11 717**	**124 538**	**93 152**	**177 516**	**121 128**	**523 471**	**1 051 520**
Gross carrying amount	14 800	639 384	554 075	558 035	469 421	1 116 380	3 352 089
Accumulated depreciation	(3 083)	(514 846)	(460 923)	(380 521)	(348 293)	(592 909)	(2 300 575)

* Property and Equipment closing net carrying amount were adjusted for fully depreciated assets that were written-off in the previous periods.

	2021	2020
	R	R
7. INVENTORY	**4 926 828**	**16 810 476**
Finished goods: Rough diamonds	5 872 142	18 749 221
Write down of inventory to net realisable value	(945 314)	(1 938 745)

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

8. TRADE AND OTHER RECEIVABLES	**709 283**	**1 366 781**
Prepayments	694 347	1 337 830
Other receivables	5 300	184 499
Loss allowance on other receivables		(184 499)
Accrued interest	9 636	28 951

9. CASH AND CASH EQUIVALENTS	**39 858 468**	**24,226,165**
FNB operational accounts	7 134 532	6 250 799
Petty cash	3 000	3 000
FNB call accounts	30 051 992	15 387 638
Standard Bank call account	2 668 944	2 584 728

Interest rate risk

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

10. TRADE AND OTHER PAYABLES

	2 731 066	2 234 287
Accrued expenses	167 805	166 658
Creditors	438 416	366 854
Leave accrual	1 058 935	895 229
VAT Payable	785 156	270 311
Lease Liability	280 754	535 235

11. INCENTIVE BONUS

	880 318	0
Opening balance	0	880 318
Amount paid	0	(221 532)
Adjustment	880 318	(658 786)

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

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from sale of rough diamonds	**683 908 930**	**230 992 151**

13. COST OF SALES

	661 824 416	225 665 545
Opening inventory	16 810 476	17 957 735
Purchases	650 059 616	225 635 973
Security and transport costs	826 466	821 058
Less: Carrying amount of inventory	(5 872 142)	(18 749 221)

14. OTHER INCOME

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

Other income	58 004	1 112 370

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

Audit Fees	1 241 918	1 410 473
Board Fees	311 415	406 679
Bank Charges	23 008	33 774
ICT services	581 449	778 654
Conference & Meetings	-	1 953 724
Depreciation	853 771	891 557
Employee Benefits	14 167 177	12 136 431
General Expenses	407 681	650 917
Insurance	307 006	225 332
Stock write-down	945 314	1 938 745
Legal Services	455 153	133 345
Marketing & Advertising	134 858	481 469
Postage, Printing & Delivery	72 293	69 312
Repairs & Maintenance	83 138	194 593
Office Supplies	19 221	107 296
Security & Cleaning	413 590	539 975
Travelling	242 804	1 728 334
Telephone	72 370	193 539
Training and Development	204 988	404 461
Foreign Exchange Loss	977 298	-
Water & Electricity	261 589	279 954
Expected credit losses	-	184 499
TOTAL	**21 776 039**	**24 743 060**

16. FINANCE INCOME

Interest received	930 540	1 880 202

17. FINANCE EXPENSES

	35 051	**39 838**
Interest on lease liability	35 051	39 838

18. CASH GENERATED FROM OPERATIONS

Net income / (loss) before taxation	**1 261 967**	**(16 463 721)**
Adjusted for:		
- depreciation	853 771	891 557
- interest expense	35 051	39 838
- interest received	(949 854)	(1 880 202)
-Prior period error	-	(400 000)
Adjusted net loss before taxation	**1 200 935**	**(17 812 528)**
Changes in working capital:	**14 172 723**	**(58 810 026)**
- decrease/(increase) in trade and other receivables	657 498	(35 772)
- decrease/(increase) in inventory	11 883 648	1 147 259
- (decrease)/ increase in trade and other payables	1 631 577	(59 921 513)
Cash utilised for operations	**15 373 658**	**(76 622 554)**

19. PRIOR PERIOD ERROR

During the financial year ended 31 March 2021, it was discovered that two invoices were incorrectly raised, and comparative figures were restated. The accumulated depreciation was overstated in the previous financial period. The correction of the error had the following impact:

	2020
Decrease in Trade and other payable	59 667
Decrease in accumulated depreciation	23 264
Increase in Retained Earnings	(82 931)

20. RELATED PARTIES

The State Diamond Trader is wholly owned by the National Government of the Republic of South Africa represented by the Minister of Mineral Resources and Energy. 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.

21. REMUNERATION

	2021	2020
Mr SM Mnguni	2 036 751	2 036 751
Ms N Mncwango (from 1 May 2020)	1 265 000	
Ms N Sibeko	1 108 214	1 108 214
Mr C van der Ross	1 551 428	1 551 428
Mr M Lephoto(Acting CFO until 31 August 2019)	-	127 232
Ms S Madolo (Acting CFO until 31 July 2020)	101 785	101 785
	6 063 178	**4 925 410**

EXECUTIVE MANAGEMENT

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

Mr SM Mnguni

Ms N Sibeko

Mr C van der Ross

Ms N Mncwango

NON-EXECUTIVE MEMBERS (BOARD FEES)	**2021**	**2020**
	R	R
Mr J Hugo (from 1 November 2020)	59 232	-
Mr GL Rapoo(from 1 November 2020)	62 286	
Ms T Mokwena (from 1 November 2020)	34 132	-
Mr G du Plessis (from 1 November 2020)	57 668	-
Mr W Mabapa (from 1 November 2020)	34 832	-
Ms M Mosing (from 1 November 2020)	55 350	-
Mr M Carstens (Chairperson) (up to 31 August 2019)	-	62 760
Mr SM Motloung (up to 31 October 2019)	-	71 490
Mr G du Plessis (up to 31 October 2019)	-	53 778
Mr MW Mabapa (up to 31 October 2019)	-	50 968
Mr L Mabece (up to 31 August 2019)	-	42,419
Dr M Matlou (up to 31 October 2019)	-	76 452
Ms M McMaster (up to 31 October 2019)	-	48 812
Total	**303 500**	**406 679**

NON-EXECUTIVE MEMBERS
(Reimbursement i.e. Travel claims and Data allowance)

	R	R
Ms MM Ledingwane (from 1 November 2020)	5 265	-
Ms Nyakale (from 1 November 2020)	2 650	
Total	**7 915**	

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 board fees from the State Diamond Trader:

Major-General NH Mokoena

Mr C Khosa

Mr K Menoe

Mr B Deka

*Ms MM Ledingwane (Chairperson)

*Ms S Nyakale

***Board members were only paid data allowance and/or travel claims.**

22. SUBSEQUENT EVENTS

There were no subsequent events identified for reporting purposes.

23. 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 on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.

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

24. CONTINGENT LIABILITIES

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2021.

25. CONTINGENT ASSET

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2021.

26. IRREGULAR, WASTEFUL & FRUITLESS EXPENDITURE

26.1 Details of Irregular Expenditure

Reconciliation of Irregular Expenditure	2021 R	2020 R
Opening Balance	4 096 940	3 102 870
Add: Irregular expenditure relating to current year	98 593	994 070
Add: Irregular expenditure relating to prior year (Discovered in the current year)	-	-
Less: Irregular expenditure relating to prior year	-	-
Less: amounts condoned	(1 496 949)	-
Less: Amounts recovered	-	-
Less: Amounts not recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	2 698 584	4 096 940

Analysis of Irregular Expenditure per age classification	2021 R	2020 R
Current Year	98 593	994 070
Prior Year	2 599 991	3 102 870
Total	**2 698 584**	**4 096 940**

Incident	Disciplinary Steps taken/ criminal proceedings	2021 R	Incident	Disciplinary Steps taken/ criminal proceedings	2020 R
Minimum quotes not obtained as per SCM policy	No	98 593	Minimum quotes not obtained as per SCM policy	Yes	178 657
			The extension of the contract was not in accordance with Treasury Regulations regarding lease rental agreement	No	815 413

26.2 Details Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful Expenditure	2021 R	2020 R
Opening Balance		**12 777**
Fruitless and Wasteful expenditure – Current Year		-
Less Amount Resolved		-
Less Amount written off as irrecoverable		12 777
Closing Balance	**0**	**0**

27. Commitments

27.1 Unrecognised Commitments

	2021 R	2020 R
Unrecognised commitments	**616 455**	**1 444 679**

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

27.2 Lease commitments

Lease commitments	2021 R	2020 R
Within one year	312 058	559 438
In second to fifth year inclusive	62 603	
	374 661	**559 438**

Lease commitments 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 six months from 1 March 2021 to 31 August 2021.

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