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PROFILE

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

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

The SDT had 78 approved customers and 1 supplier as at 31 March 2008. The SDT sells only to approved customers through the SDT's application and approval process. The entity is eligible by law to buy up to 10% of the run off mine rough diamonds from all diamond suppliers in South Africa. For the period ended 31 March 2008, the SDT was only able to buy up to 3% of the run off mine rough diamonds, however in the future an increase to the targeted 10% is anticipated.

HIGHLIGHTS OF THE PERIOD

The SDT has secured 78 customers out of the 150 who applied. De Beers, as the largest rough diamond producer in South Africa, is our first supplier and also the only one with whom the SDT concluded the Diamond Supply Agreement as at year end, as other supplier contracts are still in the process of being finalized.

The pilot project, which constituted the first cycle of trading in January 2008, was a huge success as it exceeded the expected gross margin by about 5%.

The SDT was launched on 28 February 2008. The launch was attended by representatives of the Department of Minerals and Energy, Industrial Development Corporation, clients of the SDT, producers and the Board and management of the State Diamond Trader.

The SDT, which was established by government to buy and sell up to 10% of South Africa's diamond production, has until June 2008 to prove its commercial viability.
Furthermore, the institution had a three-year period of access to the skills and experience from De Beers Consolidated Mines (DBCM) as stipulated in the Services and Licence Agreement signed by the two parties, after which the SDT would have to prove itself to be sufficiently skilled to operate the entity.

MINISTER'S NOTE TO PARLIAMENT

Speaker of Parliament

Madam Speaker

Annual Report of State Diamond Trader for the 7 months ending 31 March 2008

I have the honour, in terms of Section 65 of the Public Finance Management Act, 1999 (Act No 1 of 1999), to present the annual report of the State Diamond Trader for the 7 months from 1 September 2007 to 31 March 2008.

B Sonjica, MP
Minister of Minerals and Energy
August 2008

CHAIRPERSON'S REPORT

The SDT was established in terms of section 14 of the Diamonds Amendment Act 29 of 2005. The objectives of the SDT are to promote equitable access to and local beneficiation of South Africa's diamonds and to promote the South African diamond industry through the necessary research, support and development required by the industry.

The SDT was provisionally designated by National Treasury as a Schedule (3b) entity of the PFMA. The initial period of operation granted to the SDT was 12 months. This period came to an end on 1 June 2008. This report is aimed at outlining activities of the SDT, its successes as well as its challenges.

The first challenge experienced by the SDT related to time. The first 2 months of the SDT's existence were dedicated to the setting up of the SDT, the appointment of the Board of Directors and of the Chief Executive Officer. To make the Board operational, various committees were established and additional members were appointed to enhance capacity.

The Board's main priority, at that stage, was finalising negotiations and the signing of the critical agreements that were necessary for the SDT's operation (the financing agreement with the Industrial Development Corporation and the Services and Licence Agreement with De Beers).

Once the operational environment had been created, the Board of Directors, guided by the clear legislative mandate of enhancing local beneficiation, developed a strategy and an operational plan that would guide management. The SDT then developed criteria for identifying qualifying clientele who were to be supplied by the SDT.

It is our view that the varying profile of SDT clientele, which includes large, medium and small operators, will allow the SDT to meet its broad objective of stimulating beneficiation. Our pilot project, initiated in December 2007 and concluded in January 2008, has allowed the company to learn the behavioural patterns of each of these groups and to better understand their needs and the type of goods that appeal to them. As varying as these are, the SDT has made an attempt to address each of these specific needs in an attempt to respond to their demands.

Through the pilot project, the SDT also understood that there was room for the company to further improve internal processes to ensure that our mandate was achieved. The Board was particularly concerned with the number of small SDT clients who have been unable to buy from the SDT. Currently, the Board has approved recommendations stemming from lessons learnt. As we enter our second year of operation, the Board of Directors, working closely with Management, will implement these improved internal procedures.

It would not be possible to measure the exact impact that the SDT has had on the beneficiation industry in South Africa after only having traded for 6 months. Any assessment at this stage would be premature. However, the Board is in no doubt that as a country, we have taken the most crucial step and a first for South Africa, towards the creation of a sustainable and growing beneficiation industry. The SDT's trading report and patterns will also provide to the SDT and the country, a realistic, accurate and up to date measurement tool of the progress and development of the beneficiation industry.

Furthermore, we believe that the development of a successful and sustainable beneficiation industry can be achievable if we continue our collaborative relationship with the South African Diamonds and Precious Metals Regulator, the Department of Minerals and Energy and the Department of Trade and Industry. Our focus, as a Board, is to work actively to strengthen and solidify our relationship with these stakeholders. Our priority is to ensure that the clients of the SDT do not export the diamonds that they access from the SDT but beneficiate them. Internal processes to ensure this are being developed with the Regulator.

As the Board of Directors, we have also been mindful of our duty to trade at a profit. The challenge presented to the SDT has been that of ensuring that, even though the law requires us to source diamonds from the producers at market related prices, we are still able to sell the diamonds to our clients at an acceptable and accessible price.

The pilot project, even though it focused on one producer, indicated that even with a Board approved "mark up", SDT clientele were still prepared to buy the diamonds, with the result that the SDT traded at a profit. We are also aware that some clients were unable to buy, citing reasons as being the price and type of goods available. In the next few months, management will be initiating a more structured research study on these reasons and on financial and technical capabilities of the SDT client base. This is because, despite the fact that we were able to operate at a profit in the pilot project phase, we remain mindful and concerned that our goods and price were out of reach for the majority of smaller clients. We continue to monitor this situation, while ensuring that the "mark up" remains modest without threatening the sustainability of the SDT and the accessibility of diamonds to our targeted group.

Management has submitted a proposal to the Board that the SDT client base, which currently stands at 78, be increased. To increase the number of clients, the Board published an invitation to apply in national newspapers. The approach of the Board during this initial period has been that of opening up the SDT to as many clients as possible. The Board has been and remains, mindful of the high expectations that the local industry has of the SDT. As part of this inclusiveness, the Board initially permitted non BEE compliant clients to be part of the pilot project, however, the SDT also set a time frame within which such companies had to comply or else lose their status as clients of the SDT. Going forward, full compliance will be a priority of the Board.

The Board remains convinced that the client base of the SDT will continue to grow. However, a tactical decision to develop this, in proportion with our ability to access rough, has been taken. Management estimates that due to limited funds, the SDT has accessed only 3% out of a possible 10% of diamonds availed by De Beers.

As we are in the process of finalising agreements with other producers, it is the intention of the Board to periodically review the clientele and to respond in accordance with the increased number of rough that will be available to the SDT.

Skills and capacity at the SDT remained a challenge during this period. This challenge was compounded by the fact that the SDT has not been able to approve any contract, whether for services or employment, that would fall outside the end of June 2008 (with the exception of the 12 month contract of the Chief Executive Officer that commenced on 1 September 2008). Other than the CEO, SDT staff comprises of a PA and two seconded staff members from the Department of Minerals and Energy. In order to avoid issues of non compliance, the position of CFO was outsourced. A consultant is currently acting in this capacity.

The uncertainty of the future of the SDT has resulted in a situation where permanent job advertisements were held back, subject to the confirmation of the SDT's operation. An organogram has been approved by the SDT Board.

In anticipation, the SDT has also developed a Human Resource Plan that seeks to address the enhancement of skills and training for SDT staff. The Board, mindful of the pending termination of the service level agreement between the SDT and De Beers, directed that management prioritise the strengthening and training of the SDT staff in order to guarantee the sustainability of the SDT beyond the existence of the service level agreement.

The SDT has also focused on its compliance with the PFMA and on the development of appropriate policies. The Board is satisfied that it has sought to address all the anticipated as well as unexpected challenges that it has encountered in these formative stages of the SDT. Members of the Board have shown extraordinary commitment to the SDT at great personal time and cost. For the first 12 months, the Board of Directors has met on a monthly basis. The absence of designated management staff has not hindered the work of the SDT, as members engaged actively with challenging and detailed issues.

In spite of both our internal and external challenges, the SDT has managed to:

- establish the company;
- develop a strategic and operational plan that responds to the legislative mandate;
- establish various committees of the Board;
- develop appropriate SDT policies;
- advertise for and appoint SDT clientele;
- conduct a trading pilot to test processes and procedures; and
- comply with PFMA in most instances.

The Board is confident that solid groundwork has been laid for the successful operationalisation of the SDT. Going forward, the challenge that the SDT is likely to face is the availability of sufficient funds to respond to the growing needs of current and future SDT clientele.

A proposal, through DME, will however be developed by the Board, to respond timeously to this challenge.

The concept of "run of mine" will similarly require active engagement with the producers, with the aim of arriving at workable solutions.

The CEO's report will address some of the issues highlighted above in more detail.

Linda Makatini
Chairperson: State Diamond Trader

CHIEF EXECUTIVE'S STATEMENT

The SDT is a statutory body that was established in terms of Schedule (3b) of the Public Finance Management Act. The company is a wholly owned national government business enterprise. Its establishment is underpinned by the Diamonds Act, 56 of 1986 as amended.

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

Its operations commenced on 3 September 2007. On commencement, the company purchased rough diamonds and sold them to a carefully selected clientele. To date, the State Diamond Trader has selected 78 clients all of whom have equal access to rough diamonds supplied by the company. These include 66 small, 8 medium and 4 large cutting and polishing licence holders. During the period in review, the State Diamond Trader has purchased 100,762 carats valued at US$8,847,712 and sold them to cutting and polishing licence holders only[1].

It is estimated that State Diamond Trader clients employ 1,042 people of whom 810 are classified as Historically Disadvantaged Individuals. These represent 77.74% of the total work force[2] with women representing 48% of the total work force[3].

Prior to commencement of trade, the State Diamond Trader entered into a loan agreement with the Industrial Development Corporation aimed at financing its setting up and at financing the purchasing of rough diamonds from diamond producers. An amount of R62.6 million was agreed upon, of which the bulk amount of R35 million is designated to fund the State Diamond Trader's direct purchase of diamonds from the mines and R15 million is a stand-by revolving facility, whilst the balance goes towards setting up the infrastructure and funding six months of fixed costs (R8.4 million), plant and equipment (R2.8 million) plus six months capitalised interest – all of which are subject to detailed drawdown conditions.

The loan agreement between the State Diamond Trader and the Industrial Development Corporation made available R35 million only for the purchase of rough diamonds from producers. This amount represents about 3% instead of (up to) 10% of rough diamonds that are available to the State Diamond Trader. The understanding of the signatories to this agreement was that the amount was sufficient only for the "test trading period" of six months

1 The new legislation requires Cutting and Polishing Licences to be converted to Beneficiation Licences on 30 June 2008.

2 State Diamond Trader's client workforce.

3 Statistics provided in this document are based on information provided by clients and has not been verified through independent sources.

During the "test period" the State Diamond Trader was required to operate the revolving credit facility without the occurrence of a default for a period of at least 6 months. It is a notable achievement that indeed the State Diamond Trader has been able to operate this facility without any occurrence of a default.

Progress made thus far demonstrates that the State Diamond Trader is a commercially viable business enterprise. The company has proven that government's intention to promote equitable access to and local beneficiation of rough diamonds is achievable.

GOVERNANCE

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

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

While the SDT Board of Directors is responsible for the maintenance of sound corporate governance, the Board believes that implementation is best managed at executive management level as well as that we have, in all material respects, complied with King II and the PFMA.

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

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

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

Shareholder's Compact

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

- quarterly reports to the Minister;
- the annual report;
- detailed five-year business plans;
- direct contact between the Chairperson and Minister of Minerals and Energy; and
- ongoing engagement with DME.

State Diamond Trader's Board Role

Sound governance entrenched by the Board is integral to the sustainability of the SDT. The SDT Board is appointed by the Minister. It has a Draft Board Charter detailing processes and procedures that regulate the functioning of the Board. Similarly, each Board Committee has formal and written draft terms of reference to ensure optimal discharge of duties within the mandate conferred upon each committee by the Board.

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

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

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

Composition

The State Diamond Trader Board represents a broad range of skills and experience to ensure an appropriate balance, to bring a sense of perspective and to add value and insight in strategic decision making. There are 13 non-executive board members, and one executive board member, the Chief Executive Officer (CEO). In line with best practice, the roles of Chairperson and CEO are separate. The term of office of a non-executive board member is for a period not exceeding four years. Non-executive board members may be re-appointed by the Minister for a period not exceeding three consecutive terms in office.

The effectiveness and performance of all board members will be assessed annually (the period under review was only for seven (7) months). The Board reviews its own role and effectiveness. The Chairperson of the Board reviews the performance of the CEO, and the CEO going forward, will annually review the performance of executive management.

Board of Directors

Directors

Mr A Chikane

Chief Executive

Ms L Makatini

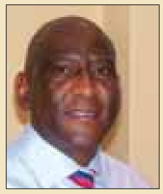
Chairperson

Mr A Mngomezulu

Member (until Dec 2007)

Mr L Selekane

Member



Mr S Motloung

Member

Mr P Moeti

Member

Ms D Maphatiane

Member

Mr T Montoedi

Member

Mr K Joseph

Member

Mr I Goondiwalla

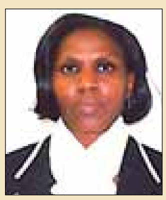
Member

Mr M Grote

Member

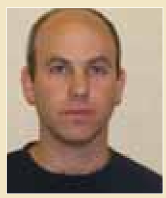
Mrs H Tyler

Member



Ms L Ntshinga

Member



Mr O Temkin

Member

Management Committee

Mr A Chikane

Chief Executive

Ms S Motloung

Company Secretary

Mr F Auger

Operations Manager

Remuneration

The remuneration of Directors is disclosed in note 4.1 of the annual financial statements.

Access to information

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

Board charter and responsibilities

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

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

Executive sessions and meetings of non executive Directors

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

Board attendance

Issues pertinent to business operations are identified. These issues are addressed with the relevant management representatives.

Board meetings

The Board meets at least four times a year as recommended by King II Code. However, as the SDT is a newly established entity, the Board meetings were held monthly where possible for the first six months of the SDT operations. Apart from these meetings, the Board also meets once a year for a strategic Board breakaway to discuss strategic issues.

	08/08/07	28/08/07	01/10/07	19/10/07	12/11/07	04/12/07	31/01/08	29/02/08	MEETINGS ATTENDED
1. L Makatini	P	P	P	P	P	P	P	P	8
2. A Chikane	O	P	P	P	P	P	P	P	7
3. D Maphatiane	P	P	P	P	O	O	P	P	6
4. O Temkin	P	P	P	P	O	O	O	P	5
5. I Goondiwalla	P	O	O	O	O	P	P	P	4
6. K Joseph	P	P	P	P	P	P	P	P	8
7. P Moeti	P	O	P	O	O	P	P	P	5
8. T Montoedi	P	P	P	P	O	O	P	O	5
9. H Tyler	O	P	P	O	P	P	P	P	6
10. F Zikalala	O	O	O	O	O	P	O	P	2
11. S Motloung	O	O	O	P	P	P	P	P	5
12. L Ntshinga	P	P	P	O	O	O	O	P	4
13. A Mngomezulu	P	P	O	P	P	O	O	O	4
14. L Selekane	P	P	P	P	O	O	P	P	6
15. M Grote	P	O	P	P	P	P	P	P	7
MEMBERS ATTENDED	12	10	11	10	7	9	11	13	

***Note**: Mr A Chikane did not attend the meeting of the 8th August 2007 as he was only appointed in September 2007.*

Board subcommittees

Audit Committee

<u>Composition</u>

Directors

Mr Y Tenza	Chairperson
Mr A Chikane	CEO (ex-officio)
Mr M Grote	Member
Ms D Maphatiane	Member

Audit Committee Meetings

The Audit Committee (AC) is an advisory committee to the Board and is accountable to the Board.

The AC consists of 3 non executive Directors. The Chairman of the Board of Directors is not eligible to be appointed as chairperson of the AC.

The overall purpose of the AC is to assist the Board in discharging its duties relating to, among others:

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

The external auditors and representatives from the Office of the Auditor-General are invited to attend all AC meetings.

	26/03/08								MEETINGS ATTENDED
1. Y Tenza	P								1
2. A Chikane	P								1
3. D Maphatiane	P								1
4. M Grote	O								0
MEMBERS ATTENDED	3								

Risk Committee

<u>Composition</u>
Directors

Mr L Selekane	Chairperson
Mr A Chikane	CEO (ex-officio)
Ms S De Quintal	Member
Mrs H Tyler	Member
Ms L Ntshinga	Member

Risk Committee meetings

The Risk Committee (RC) is an advisory committee to the Board and is accountable to the Board.

The RC consists of 4 non executive Directors. The Chairman of the Board of Directors is not eligible to be appointed as chairperson of the RC.

The overall purpose of the RC is to assist the Board in discharging its duties relating to, among others:

- the safeguarding of assets;
- the operation of adequate systems and controls;
- effective risk management; and
- ensuring compliance with all statutory and regulatory legislation.

	22/10/07	28/01/08	19/02/08	25/03/08					MEETINGS ATTENDED
1. L Selekane	P	P	P	P					4
2. A Chikane	P	P	P	P					4
3. S de Quintal	O	O	O	P					1
4. H Tyler	P	P		O					2
5. L Ntshinga	P	O	P	O					2
MEMBERS ATTENDED	4	3	3	3					

***Note**: Ms S de Quintal did not attend the first two meetings of the Risk Committee as she was only appointed in January 2008. She tendered an apology for non attendance of the third meeting of the Risk Committee.*

Finance, Human Resources and Remuneration Committee

<u>Composition</u>

Director

Mr I Goondiwalla	Chairperson
Mr A Chikane	CEO (ex-officio)
Mr O Temkin	Member
Mr T Montoedi	Member
Mr M Grote	Member
Ms D Maphatiane	Member

The Finance, Human Resources and Remuneration Committee comprises of 5 non-executive Directors.

The main purpose of the Finance, HR and Remuneration Committee is to assist the Board in the oversight of SDT's remuneration structure and to ensure that it is in line with corporate principles, as well as to ensure that the reward and remuneration programme is market related and that the remuneration structure complies with local laws and regulations.

	01/10/07	15/11/07	22/01/08	14/02/08					MEETINGS ATTENDED
1. I Goondiwalla	O	P	P	P					4
2. A Chikane	P	P	P	P					5
3. D Maphatiane	P	O	P	O					2
4. O Temkin	P	P	O	P					3
5. T Montoedi	P	P	O	O					3
6. M Grote[1]	O	O	O	O					1
MEMBERS ATTENDED	4	4	3	3					

Trading Committee

Composition

Director

Ms Futhi Zikalala	Chairperson[1]
Mr A Chikane	CEO (ex-officio)
Mr K Joseph	Member
Mr P Moeti	Member
Mr S Motloung	Member
Mr A Mngomezulu	Member

Trading Committee Highlights

The Trading, Clientele and BEE Committee is a Committee of the Board. The Committee has successfully facilitated the State Diamond Trader Criteria for Clientele, Measuring Tool and the Rules of Engagement. It has also facilitated the selection of 78 clients and the production of a Generic Diamond Supply Agreement. The Committee is currently considering trading policies and procedure of the State Diamond Trader for recommendation to the Board.

The Trading, Clientele & BEE Committee comprises of 5 non-executive Directors.

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

	10/10/07	05/11/07	09/11/07	22/01/08	19/02/08	25/03/08			MEETINGS ATTENDED
1. F Zikalala	O	O	O	P	O				1
2. A Chikane	P	P	P	P	P	P			6
3. K Joseph	O	P	O	P	O	P			3
4. P Moeti	P	O	O	O	O	P			2
5. S Motloung	P	O	P	P	P				3
6. A Mngomezulu	P	P	O	O	P	P			5
MEMBERS ATTENDED	4	3	2	4	3	4			

***Note**: Ms F Zikalala did not attend the first three meetings of the Trading Committee as she was only appointed in December 2007.*

Company Secretary

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

Company Secretary Highlights

The Company Secretary has been able to organize Board and Committee meetings. She has also been able to take minutes and provide guidance on the statutory requirements of the SDT in line with the Diamonds Act as amended.

1 Ms Zikalala replaced Mr Mngomezulu in December 2007

Code of Ethics

In accordance with our commitment to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of the SDT's affairs, the Board of Directors has adopted a Code of Ethics which commits us and our employees to the highest standards of behaviour in dealing with stakeholders; including clients, suppliers and customers. This commitment provides the shareholder and our clients with the assurance that our affairs are being managed in an ethical and disciplined manner. In business dealings on behalf of SDT, employees are expected to avoid activities that might give rise to conflicts of interest. Procedures have been put in place to deal with conflicts of interest which may arise in the course of employees' day-to-day activities.
The Code of Ethics will be reviewed regularly to ensure that it remains abreast of developments inside and outside SDT, and reflects current best practice.

Fraud Prevention Policy

The Board expects management and all employees to adopt the highest standards of honesty, propriety, personal integrity and accountability and to be fully attentive to any irregular transactions and other unlawful conduct affecting SDT. These standards are also expected from all people with whom we have business dealings, including consultants, vendors, contractors, members of the public and outside agencies conducting business with our employees.

Delegation of authority

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

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is pleased to present the report for the financial year ended 31 March 2008 as required by the Public Finance Management Act, 1 of 1999, as amended.

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

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

- reports from external auditors;
- reports from external audits detailing concerns arising out of audits (and has ensured that there are appropriate responses from management, which will result in the concerns being addressed);
- the adequacy, reliability and accuracy of financial information provided by management and other users of such information.

The Audit Committee will also review the following once in place:

- the effectiveness of the internal audit function;
- the activities of the internal audit function, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations;
- the scope and results of the external audit function, its cost effectiveness, as well as the independence and objectivity of the external auditors.

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

ECONOMIC AND MARKET REVIEW

The SDT is trading in a closed market, that being the Diamond Industry Market. As SDT trades solely in rough diamonds, the demand is driven by the end product, which is the jewellery, which is manufactured and sold to the end consumer. Therefore the cutters, jewellery makers and the polishers, to whom SDT sells, are the ones who sell to the end consumer. A period of no demand by the end consumer, results in a market slow down. Furthermore, suppliers also have an effect on market movements as the mining sector does not always produce the same product and the price of mining is escalating annually. These factors may result in periodic shortages or over supply of rough diamonds.

The Global Economy

With the global crisis on sub-prime, high food and oil prices, a slowing down in global economic growth and increasing interest rates in many countries, end consumer spending has dropped on luxury items such as jewellery. This has resulted in the United States, which is the biggest market of the finished product, returning some of the polished and cut diamonds or jewellery which could not be sold after the December season. Simultaneously, cutters, jewellery makers and polishers slowed down on their purchase of rough, due to having adequate stock for current demand levels.

Local Economy

The local economy has also been adversely impacted by the effects of the global economy. In addition, the increase in inflation has caused an increase in interest rates which are used for the country targeting of inflation to keep it between 3% - 6% by our Central Bank, the South African Reserve Bank.

The South African economy is slowing down in terms of growth and is currently just below 4% of economic growth, compared to a growth rate of 5% in the previous year.

South Africa

South Africa is the third largest producer of diamonds after Botswana, Russia and Canada. According to figures provided by the South African Diamonds and Precious Metals Regulator, South Africa's 2007 production was estimated at US$1 500 000 000 000.00 per annum. Up to 10% of these diamonds are expected to be sold to the State Diamond Trader for local beneficiation.
The State Diamond Trader has estimated that US$150 000 000.00 of rough diamonds needs to be bought and sold to licensed local beneficiators.

Rough Diamond Supply

Rough Diamond Production RSA
Forecast 2008

Producer	Annual Production		SDT Availability		Ave. Price
	Carats	US$	Carats	US$	US$
De Beers	14,220,000	1,251,390,000	1,422,000	125,139,000	88.00
Transhex	140,000	120,000,000	14,000	12,000,000	857.14
Alexcor	40,000	20,000,000	4,000	2,000,000	500.00
Petra	230,000	56,810,000	23,000	5,681,000	247.00
Others	370,000	51,800,000	37,000	5,180,000	140.00
	15,000,000	**1,500,000,000**	**1,500,000**	**150,000,000**	**100.00**

Based on mine ownership and prices as of Jan 2008

According to the legislation, if the SDT were to purchase its full allocation it would receive 1.5M carats of rough diamonds at a value of US$ 150M.

Rough Diamond Production RSA
Forecast 2008 - by size of goods

	Total RSA Production (type of goods by size)				
Size range	% of carats produced	Actual carats produced	ROM AP US$	Total value US$	% of value produced
+10.8 Ct Specials	0.75%	112,500	2,000	225,000,000	15.00%
5-10 carats	1.50%	225,000	800	180,000,000	12.00%
2.5-4 carats	2.75%	412,500	500	206,250,000	13.75%
3-8 Grs	10.00%	1,500,000	210	315,000,000	21.00%
-3 Grs	85.00%	12,750,000	45	573,750,000	38.25%
	Total	**15,000,000**	**100**	**1,500,000,000**	

According to information collated from the SDT registered clients, there are no factories in South Africa currently processing (polishing) the -3 Grs (< 0.67 carats). These goods are all for export. This amounts to 85% of the carats produced or 38% of the value.

Challenges

The purchasing of "Run of Mine" does not match the requirements of the South African cutting and polishing industry. It ties up the financial resources of the SDT and will ensure that those clients willing to buy the undesirable goods will always be at risk of breaking the 80/20 rule as indicated in the Export Levy Bill and in the terms of the Beneficiation Licence.

TRADING PERFORMANCE REVIEW

Strategy

The State Diamond Trader is defined, in line with Government Policy and the Legal Framework, as enshrined in the Diamonds Act as amended.

To achieve this vision, the State Diamond Trader must play a pivotal role by:

- Facilitating equitable access to diamond resources;
- Facilitating local beneficiation of diamond resources;
- Becoming a primary source of rough diamonds on a consistent basis;
- Becoming a globally recognized and respected source of rough diamonds.

Primary Focus

While it is clear that the State Diamond Trader will cater for all types of clients, in effect giving each category a different service offering, it must be pointed out that the primary focus will be to supply those who do not have access to goods from other sources. As this applies predominantly to small clients, the aim of the allocation process will be to supply as many of these as is viable, in terms of commerciality and efficient working practices.

Trading performance

This report covers the period January to March 2008.

In this period, The State Diamond Trader was contracted to purchase from one supplier, De Beers.

In the same period, the State Diamond Trader had 78 registered clients. According to the segmentation indicated above:

- 4 were large companies
- 8 medium
- 66 small

Purchases

Total purchases for the period were:
100,816 carats for ZAR 65,739,084

In terms of the relevant legislation, De Beers made available to the State Diamond Trader:ZAR 258,709,018
Therefore the State Diamond Trade purchased only 25% of the total value available to it.

The rough diamonds were presented in "Run of Mine" format, as a representative sample of how the diamonds are received from the mining operations. This is, as stated within the legislation, however, this does not take into account the needs of local beneficiating diamond manufacturers.

Sales

In the period in question, the SDT sold to 56 of the 78 registered clients.
All 78 clients were shown goods during the period, but 22 small clients refused to purchase, predominantly for reasons of price.

In terms of value, 58% of sales were to large companies, 30% to medium, 12% to small.

Margins

Overall trading margin for the period = ZAR 5,514,669 (11.5% MU)
This is higher than forecast in the State Diamond Trader business plan (7%).
By client segment the following margins were achieved:

- Large 9.2%
- Medium 14.4%
- Small 5.0%

PERFORMANCE AGAINST STRATEGIC BUSINESS TARGETS

PURPOSE

The purpose of this section is to provide feedback on an overview of the SDT's newly defined strategy. This section lays a foundation for the strategy development that would inform a process of engagement with key stakeholders.

The strategy provides a framework to communicate short-term, medium-term and long-term decisions in order to determine programmatic choices. It also provides a common reference point for further discussion and work in developing the SDT strategy. Following the Board Strategy session at the end of May 2008 some of the original objectives were updated so as to focus primarily on the South African market and on the SDT as an entity.

OBJECTIVES

- To promote equitable access to and beneficiation of rough diamonds
- To facilitate research into and development of the diamond trade

The key areas of deliverables are based on a "Customer Value Proposition".

Customer value propositions are a unique set of product and service attributes, customer service, customer relations and corporate image that clients and stakeholders will experience in their interaction with the SDT. Ideally, this unique set of attributes should cover every aspect of the strategy and business plan.

The SDT Customer Value Proposition revolves around operational excellence (lowest cost of operation) and customer intimacy (complete solutions) rather than product/service leadership. It is postulated that the same Customer Value Proposition will apply to both clients and stakeholders.

STRATEGIC GOALS AND OBJECTIVES

The strategic goals and objectives in this section are what are required to be achieved for the SDT to execute its mission and fulfill its vision. The Board has articulated 5 strategic thrusts, which are:

1. To retain and strengthen the relationship between the State Diamond Trader and the Industrial Development Corporation;
2. To focus on the purchasing and selling of rough diamonds to local beneficiators;
3. To address issues of access to rough diamonds by previously disadvantaged individuals;
4. To ensure full compliance with Corporate Governance, the Public Finance Management Act and Treasury Regulations; and
5. To ensure that De Beers technical staff transfer skills to newly appointed State Diamond Trader staff.

It is important to mention that the SDT is performing well in fulfilling these strategic thrusts, as reflected in other parts of the annual report.

STRATEGIC GOALS

The SDT's strategic goals represent the broader outcomes and themes to be achieved in pursuit of its vision and mission:

- To build an effective diamond trading company that possesses a sound vision and strategy and presents a solid business case for implementation.
- To create and establish a conducive environment for the South African cutting and polishing industry to grow, by facilitating value-adding partnerships and networks among key stakeholders and thereby helping customers to achieve success in their own businesses.
- To define and adopt the strategic direction of the diamond industry, aligned with new legislation, industry sectors, stakeholder interests and international markets and focused on a set of initiatives that serve to provide a coherent framework of action for key stakeholders.
- To develop adequate capacity for the SDT to fulfill its mandate based on knowledge, transfer of skills, resources and procedures that draw on its leadership and technical expertise and encourage value adding and collaborative partnerships
- To grow a financially sound company with financial systems which are transparent, predictable and accountable and with prudent procurement practices.

The Chairperson's report and the CEO's report address some feedback as to the positive progress achieved in working towards these strategic goals.

STRATEGIC OBJECTIVES

The SDT's objectives fall within the framework of its strategic goals and are divided into the four Balanced Scorecard Perspectives.

INTERNAL PERSPECTIVE

The Internal Perspective describes how SDT will deliver on its customer value proposition by building outstanding performance in operations management, customer management and innovative processes, in compliance with regulatory and social issues.

Internal perspective				
Objective	**Measure**	**Target**	**Accountability**	**Feedback**
Operations management processes				
Market and industry intelligence at hand	Establish industry information database	October 2009	CEO	In progress
Effective industry communication	Media coverage - Print and electronic - Customer relations - Forums and mass media	June 2008	CEO	In progress

Internal perspective				
Objective	**Measure**	**Target**	**Accountability**	**Feedback**
Facilitating access to rough diamonds	Up to 10% of SA's total annual production	June 2008	CEO	In progress
Facilitating access to R&D	Market research	June 2008	CLO	In progress
Customer management processes				Customer management processes
Customer relations initiatives	Information dissemination Feedbacks Consultation forums	2008	CLO	In progress (two sessions already held)
Increased SDT website visits	Interesting content News and views Reference material	2008	IT Expert	In progress
Understand customer needs	Customer needs assessment	June 2008	CLO	In progress (done in each sales cycle)
Improve customer service	Customer satisfaction assessment	2009	CLO	In progress
Strengthen partnerships with stakeholders	MOUs TOR	2008	CLO	In progress
Regulatory and social processes				
Empowerment	Policies and processes to ensure achievement of BBBEE imperatives	2008	CLO	Done and ongoing
Compliant with the legislation and Corporate Governance	Diamonds Act as amended, PFMA, King Code, etc	2008	CS	Mostly Done and ongoing

LEARNING AND GROWTH PERSPECTIVE

The Learning and Growth Perspective describes how the SDT will build its human, information and organizational capital to generate and sustain the unique demands of its internal processes and customer value proposition.

Learning and growth perspective				
Objective	**Measure**	**Target**	**Accountability**	**Feedback**
Human capital				
Retain staff	Staff turnover	20%	CFO	In progress
Improve staff morale	Staff satisfaction survey	80%	CEO/CFO	In progress
Train staff	No. of training initiatives	2009	CEO/CFO	In progress
Transfer skills	No. of candidates (6)	2009	CEO/CFO	In progress
Information capital				
Accurate and timely information	Improved IT infrastructure and applications	June 2008	CFO	Ongoing
Organisation capital				
Operationalise strategy	Balanced Scorecards for every organisational unit	June 2008	CEO	In progress and ongoing
Update strategy	Strategic review	July 2008	Board/CEO	In progress and ongoing
Align business and personal goals	Individual performance management tied to BSC	80%	CEO/CFO	In progress
Develop leadership skills	Leadership skill appraisal	100%	CEO/CFO	In progress and ongoing

RISK MANAGEMENT

Introduction

The SDT is a statutory body established in terms of Schedule (3b) of the Public Finance Management Act. The company is required to comply with the Public Finance Management Act as well as good governance. In line with sound corporate governance, the Minister of Minerals and Energy appointed a Board of (Non-Executive) Directors.

The Board has established committees to assist in performing its functions. These include:

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

It is the responsibility of the Board to oversee the risk management of the company. It is anticipated that members of the Board will hold a workshop to discuss issues pertaining to the risks associated with the company.

Risk Governance Structure

The Board is the oversight structure of the company and the Risk Committee is accountable to the Board on all risk related matters. Management is responsible for the implementation of risk policies and procedures. In addition, The Risk Committee is required to consult with Board Committees on all matters, which affect their respective areas of specialization.

ANNUAL FINANCIAL STATEMENTS FOR THE 7 MONTHS ENDED 31 MARCH 2008

REPORT OF THE AUDITOR GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE STATE DIAMOND TRADER (SDT) FOR THE SEVEN (7) MONTHS 31 MARCH 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the State Diamond Trader which comprise the balance sheet as at 31 March 2008, income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 63.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:

   - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
   - selecting and applying appropriate accounting policies;
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 13 of the Diamond Second Amendment Act, 2005 (Act No. 30 of 2005) my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

6. An audit also includes evaluating the:

   - appropriateness of accounting policies used;
   - reasonableness of accounting estimates made by management;
   - overall presentation of the financial statements.

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

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2008 and its financial performance and cash flows for the period then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the PFMA.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter:

Highlighting critically important matters presented or disclosed in the financial statements

Fruitless and wasteful expenditure

9. As disclosed in note 2 to the financial statements, fruitless and wasteful expenditure to the amount of R48 109 was incurred due to the late payment of VAT.

OTHER MATTERS

Non-compliance with applicable legislation

10. The entity has not complied with section 51(1)(a)(i) of the PFMA which requires the entity maintains effective, efficient and transparent systems of internal control.

    The entity does not have an approved risk management strategy which includes a fraud prevention plan as required by section 27.2.1 of the Treasury Regulations.

    The entity does not have an approved corporate plan covering a period of three years as required by section 29.1.1 of the Treasury Regulations.

    The above circumstances are mainly due to the fact that State Diamond Trader is a start-up entity and has only been in operation for a period of 7 months in the current financial year. Most of the policies and procedures and other documentation required by the PFMA and Treasury Regulations are still in draft, pending approval by the accounting authority.

Matters of governance

11. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which we have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The public entity has an audit committee.	✓	
• The audit committee operates in accordance with approved written terms of reference.		✓
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10/27.1.8.		✓
Internal audit		
• The public entity has an internal audit function.		✓
• The internal audit function operates in terms of an approved internal audit plan.		✓

Matter of governance	Yes	No
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.		⍰
Other matters of governance		
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		⍰
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	⍰	

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

12. I have reviewed the performance information as set out on pages 29 to 32.

Responsibilities of the accounting authority

13. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against pre-determined objectives of the public entity.

Responsibility of the Auditor-General

14. I conducted my engagement in accordance with section 13 of the PAA, read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

15. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

16. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

17. The assistance rendered by the staff of the State Diamond Trader during the audit is sincerely appreciated.

Place of signing: Houghton

Date of signing: 31 July 2008

AUDITOR-GENERAL

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

Statement of Responsibility by the Board of Directors for the 7 months ended 31 March 2008.

The Directors are required to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Entity as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice and in terms of Treasury Regulation 28.1.1 of the Public Finance Management Act, 1999 (Act No 1 of 1999, as amended) (PFMA). The prescribed disclosure of emoluments in terms of Treasury Regulation 28.1.1 is reflected in note 4 of the annual financial statements. As the SDT is a start up entity and started 7 months ago, it is still doing all it can to fully comply with the PFMA and as at year end some of the sections of the PFMA were not fully complied with.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonably prudent judgements and estimates. The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the State Diamond Trader (SDT) and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. These standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Organisation and all employees are required to maintain the highest ethical standards in ensuring that the Organisation's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Organisation is on identifying, assessing, managing and monitoring all known forms of risk across the Organisation. While operating risk cannot be fully implemented, the Organisation endeavours to minimise it, by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within pre determined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Directors have reviewed the Organisation's cash flow forecast for the year ended 31 March 2008 and, in light of this review and the current financial position, they are satisfied that SDT has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements have been audited by the Auditor-General, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The audit report of the Auditor-General is presented on page 28. The annual financial statements set out on pages 42 to 64, which have been prepared on the going-concern basis, were approved by the Board of Directors on 31 July 2008 and are signed on its behalf by:

Linda Makatini
Chairperson of the Board

BOARD MEMBERS' REPORT

The Board of Directors is pleased to present the first report summarizing the activities of the SDT. The SDT was established in July 2007 in terms of section 14 of the Diamonds Amendment Act 29 of 2005 and commenced its business in September 2007 and its trading operations in January 2008.

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

Financial performance

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

While not aiming for profit maximisation, the SDT has set the objective of operating its business in a manner, which allows it to be self-sustaining.

The SDT, in aiming to fulfill its objectives, has secured 78 Customers out of 150 who applied and has sold to about 56 customers on average to date, ranging from large to small. The SDT only commenced trading in January 2008 with the first shipment of goods purchased in the week beginning 7 January 2008 at R19.90million. It took five weeks to sell all the goods that had been purchased in that cycle and the targeted gross margin for that cycle was exceeded. Cycle 2 started with the purchase of goods in the week beginning 18 February 2008 and all the goods were sold within four weeks. Cycle 3 commenced with the purchase of goods in the week beginning 17 March 2008 and by the period end 31 March 2008 there had been no third cycle sales recorded.

SDT is in line with the budget and corporate plan in terms of both forecasted purchases and operational targets including the targeted margins, however sales are behind by one month when compared to budget, as only 2 cycles of sales were effected before 31 March 2008 instead of 3 cycles as per budget. This is due chiefly to the first cycle starting in mid January 2008 instead of at the beginning of January 2008. Public holidays in Cycle 3 also contributed.

The acting CFO appointment occurred only in March 2008, with the result that SDT could not pay its VAT, as there was no CFO to sign off VAT returns before March 2008. This resulted in late payment of VAT and in a penalty being incurred by the SDT to the amount of R48,108.84 (Refer to Note 2). This qualifies as a Fruitless and Wasteful expenditure as per PFMA.

Financial position

Net assets as at 31 March 2008 amounted to R0.97million. As at 31 March 2008 we had inventory to the levels of R23.4million.

Cash flow position

Cash at the end of the period amounted to R6.37million. The cash and cash equivalents of R6.37million belonged to SDT as at period end.

Going concern

The board is satisfied that State Diamond Trader (SDT) has adequate resources to sustain its operation for the foreseeable future. Accordingly, SDT continues to adopt the going-concern basis in preparing its accounts. A condition of the shareholders compact with DME (clause7) required the SDT to perform a detailed review on the performance, viability and impact of the State Diamond Trader on the market and to motivate for its continued existence to National Treasury by 1 June 2008. With the approval of National Treasury, the review and motivation report were not submitted on the due date, but will be submitted together with these Audited Annual Financial Statements as required by the National Treasury.

Subsequent Events

No material events have occurred since Balance Sheet date.

Entity Information

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

BOARD OF DIRECTORS:

NAME	DATE APPOINTED
MS LINDA MAKATINI (CHAIRPERSON)	1 SEPTEMBER 2007
MR ABBEY CHIKANE (CEO)	1 SEPTEMBER 2007
MS D MAPHATIANE	1 SEPTEMBER 2007
MR O TEMKIN	1 SEPTEMBER 2007
MR I GOONDWALLA	1 SEPTEMBER 2007
MR K JOSEPH	1 SEPTEMBER 2007
MR P MOETI	1 SEPTEMBER 2007
MR T MONTOEDI	1 SEPTEMBER 2007
MRS H TYLER	1 SEPTEMBER 2007
MR S MOTLOUNG	1 SEPTEMBER 2007
MR A MNGOMEZULU	1 SEPTEMBER 2007 UNTIL DECEMBER 2007
MS L NTSHINGA	1 SEPTEMBER 2007
MR M GROTE	1 SEPTEMBER 2007
MR L SELEKANE	1 SEPTEMBER 2007

Company Secretary: MS SELLOANE MOTLOUNG

BALANCE SHEET

Balance Sheet
as at 31 March 2008

	Notes	2008 Rands
Assets		
Non-current assets		**536,014**
Property, Plant and Equipment	6	536,014
Intangible assets		-
Current assets		**32,966,399**
Inventory	7	23,400,489
Trade and Other Receivables	9	3,191,559
Cash and Cash Equivalents	8	6,374,351
Total Assets		**33,502,413**
Equity & Liabilities		
Equity		**973,944**
Retained Income		973,944
Non-current liabilities		**3,465,029**
Loans and Borrowings	10	3,462,595
Deferred Tax Liability	5	2,434
Current liabilities		**29,063,440**
Trade and Other Payables	11	1,384,933
Loans and Borrowings	10	27,281,130
Income Tax Payable	5	395,865
Leave pay provision		1,512
Total equity and liabilities		**33,502,413**

INCOME STATEMENTS

Income Statement for the 7 months ended 31 March 2008

	Notes	2008
		Rands
Revenue	1.2 ; 2.2	48,089,650
Less: Cost of sales		(42,574,981)
Gross profit		**5,514,669**
Other income	2.1	4,014,199
Administrative Expenses		(6,073,295)
Net operating income	**2**	**3,455,573**
Finance Income		6,614
Finance Expenses	3	(2,089,944)
Profit before income tax		**1,372,243**
Taxation	5	(398,299)
Profit for the period		**973,944**

STATEMENT OF CHANGES IN EQUITY

Statement of changes in Equity for the 7 months ended 31 March 2008

Rands

	Share Capital	Accumulated surplus	Rands Total
Opening balance 01 September 2007	-	-	-
Profit for the period	-	973,944	973,944
Balance as at 31 March 2008	-	973,944	973,944

CASH FLOW STATEMENT

Cash Flow Statement for the 7 months ended 31 March 2008

	Notes	2008
		Rands
Cash flow from Operating activities		
Cash utilised by operations	12	(22,179,753)
Interest paid		(1,645,601)
Interest received		6,614
Net cash outflow from operations		**(23,818,740)**
Cash flows from investing activities		
Purchases of Property, plant and equipment		(550,634)
Net cash outflow from investing activities		**(550,634)**
Cash flows from financing activities		
IDC Loan - Revolving Credit facility		26,581,130
IDC Loan - Standby facility		4,162,595
Net cash inflow from financing activities		**30,743,725**
Net increase in cash and cash equivalents		6,374,351
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		**6,374,351**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Notes to the Annual Financial Statements for the 7 months ended 31 March 2008

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

1.1 Basis of preparation

The annual financial statements are prepared in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice and the Public Finance Management Act, 1999 (Act No 1 of 1999). The annual financial statements are further prepared in accordance with the going-concern principle under the historical cost basis, except for certain financial instruments, (refer to note 1.80). The Financial Statements are presented in rands, which is the entity's functional currency. All financial information presented in rands, has been rounded to the nearest rand.

The preparation of annual financial statements in conformity with SA GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the SDT's accounting policies. The areas involving a higher degree of judgment or complexity or areas, where assumptions and estimates are significant to the annual financial statements, are disclosed in note 1.16 (Critical accounting estimates and judgments).

1.2 Revenue

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

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

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

1.3 Finance Income and Expenses

Finance Income comprises interest income on bank balances. Finance Expenses 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. Interest is accrued on a time proportionate basis at the effective interest rate applicable.

1.4 Inventories

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

1.5 Property, plant and equipment

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

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

All equipment is stated at historical cost less accumulated depreciation and, if applicable, accumulated impairment losses.

Historical cost includes expenditure that is directly attributable to the acquisition of the items and bringing the item to working condition for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Finance costs on borrowings to finance the construction of qualifying equipment are capitalised, during the period of time that is required to complete and prepare the equipment for its intended use, as part of the cost of the asset. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Motor vehicles	20,0%
Furniture and fixtures	10,0%
Computer hardware	33,3%
Other office equipment	10,0%
Leasehold improvements	10,0%

Depreciation is recognised in the income statement.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 the income statement.

1.6 Intangible assets

Expenditure on research activities, undertaken with the prospect of gaining technical knowledge and an improved understanding is recognised in the income statement as an expense as incurred.

Expenditure on development costs is capitalised if it is technically feasible and it is probable that future economic benefits will be derived from the use of the asset. Capitalised development costs are stated at cost, less accumulated amortisation and accumulated impairment losses.

Amortisation of website cost is charged to the income statement on a straight-line basis over an estimated five year useful life.

Amortisation of software is charged to the income statement on a straight-line basis over an estimated three-year useful life.

Subsequent expenditure relating to intangible assets is capitalized, when it is probable that future economic benefits from the use of the assets will be increased and will be realised. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

Surpluses/(deficits) on the disposal of intangible assets are credited/(charged) to income. The surplus/(deficit) is the difference between the net disposal proceeds and the carrying value of the asset at the date of sale.

1.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment of non-financial assets is recognised in the income statement in the year which it occurs.

1.8 Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable and accounts payable.

(i) Classification

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held-for-trading purposes and which may be sold.

Financial liabilities that are not classified as fair value through profit or loss, including accounts payable.

(ii) Recognition

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

A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets are recognised in the income statement.

Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of IAS 39 (AC 133).
SDT classifies its financial liabilities at amortised cost. The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities at initial recognition and re-evaluates this classification at every reporting date.

Financial liabilities are initially recognised at fair value, this generally being their issue proceeds, net of transaction costs incurred.

(iii) Measurements

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

Subsequent to initial recognition, these financial liabilities are measured at amortised cost and any differences between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest rate method.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs.

If a quoted market price is not available on a recognised stock exchange, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

(v) Gains and losses on subsequent measurement

Gains and losses arising from change in the fair value of instruments classified as "Instruments at fair value through profit or loss" are recognised in the income statement.

(vi) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognized in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If in a subsequent year the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been previously recognised.

(vii) Derecognition

SDT derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39 (AC 133).

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

(viii) Specific instruments

- *Cash and cash equivalents*
  Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

- *Trade and other receivables (Accounts receivable)*
  Accounts receivable are stated at cost, less impairment losses. An impairment loss is recognised where the recoverable amount of an asset exceeds its carrying amount. The recoverable amount of trade and other receivables is calculated at the present value of expected future cash flows discounted using the original effective interest rate inherent in the asset. Short-term receivables are not discounted.

- *Trade and other payables (Accounts payable)*
  Accounts payable are presented at their respective outstanding balances at year-end. These are subject to normal trade credit terms and relatively short payment cycles.

1.9 Operating leases

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

1.10 Provisions

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

1.11 Employee benefits

The cost of all short-term employee benefits, such as salaries, medical, leave payouts and other contributions is recognised during the year in which the employee renders the related service. Although a present obligation (constructive) exists, the amount of bonuses payable can not be reliably estimated at year-end and is therefore not provided for. Bonuses are accounted for in the year in which these are paid.

1.12 Income tax

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

1.13 Deferred income tax

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred taxation is calculated using taxation rates that have been enacted at balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

1.14 Related parties

Parties are considered to be related to the SDT if the SDT has the ability, directly or indirectly, to control the party, jointly control or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the SDT and the party are subject to common control or common significant influence. Related parties also include key management personnel, which are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the SDT.

1.15 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.16 Critical accounting estimates and judgements

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

1.16.1 Estimates of residual values and useful lives of equipment

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

1.16.2 Contingent liabilities

Management applies its judgement to the fact 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.

1.17 Financial Risk Management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the SDT's exposure to each of the above risks, and the objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the SDT's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the SDT's risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the SDT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the SDT's activities. The SDT, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

Credit risk

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

Trade and other receivables

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

Cash and Cash equivalents

The SDT manages the exposure to credit risk by only depositing cash with well established banking institutions with high credit ratings assigned by international credit rating agencies.

Liquidity risk

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

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

Market risk

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

Currency risk

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

1.18 Grants

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

1.19 Comparatives

There are no comparatives as this is the first year of trading for the State Diamond Trader.

1.20 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Entity’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Entity’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Entity presents segment information in respect of its business and geographical segments (see note 6). Under the management approach, the Entity will present segment information in respect of Standard Papers, Recycled Papers, Forestry, Timber Products, and Research and Development.

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Entity’s 2009 financial statements and will constitute a change in accounting policy for the Entity. In accordance with the transitional provisions, the Entity will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions require a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Entity’s 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

- IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Entity's 2008 financial statements, is not expected to have any effect on the financial statements.

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Entity's 2009 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions, in relation to defined benefit assets, should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Entity's 2008 financial statements, with retrospective application required. The Entity has not yet determined the potential effect of the interpretation.

		2008
		Rands
2.	**NET OPERATING INCOME**	
	Net Operating income is after taking into account the following:	
	-Operating lease charges – Premises	95,785
	-Depreciation expense	14,620
	-Non-Executive Director's emoluments (Refer note 4.1)	182,352
	-Professional services: Consulting fees	59,400
	-Penalty and interest on late payment of VAT (Fruitless and Wasteful Expenditure. Also Refer to Note 17)	48,109
	-Personnel expenses	4,955,557
2.1	**OTHER INCOME**	
	Other income consists of donations received	
		4,014,199
	De Beers (DAIMDEL) staff costs	3,492,351
	DME staff costs	492,313
	Use of De Beers Assets and Diamond equipment	29,535

Staff costs include the bonuses of about R500 000 that De Beers (Diamdel) paid its staff in March 2008 and also all expenses paid by DME to seconded staff from Cape Town.
Diamond equipment would not be donated to SDT but would be for use by SDT.

(Refer to Note 4.3)

2.2 REVENUE

Revenue consists of only two cycles of purchase and selling of rough diamonds as the SDT only started trading in January 2008.

3.	**FINANCE EXPENSES**	**2,089,944**
	Finance expenses relate to:	
	Finance cost on IDC facilities	444,343
	Interest charged by:	1,645,601
	IDC	1,327,895
	De Beers	317,706

4. PERSONNEL EXPENSES include:

4.1 Non- Executive Directors Emoluments

	Board and subcommittee meeting fees	Expenses	Total
MS L MAKATINI (Board Chairperson)	38,975	-	38,975
MS D MAPHATIANE (Audit Committee)	16,432	-	16,432
MR O TEMKIN (HR, Finance and Remuneration Committee)	12,059	-	12,059
MR I GOONDIWALLA(HR, Finance and Remuneration Committee)	19,536	-	19,536
MR K JOSEPH (Trading Committee)	22,913	-	22,913
MR P MOETI (Trading Committee)	17,839	-	17,839
MR T MONTOEDI (Board Member)	14,142	-	14,142
MRS H TYLER (Board Member)	15,442	-	15,442
MR S MOTLOUNG (Trading Committee)	20,130	-	20,130
MR Y TENZA (Audit Committee) Not a Board Member	2,801	-	2,801
MS S DE QUINTAL (Risk Committee) Not a Board Member	2,083	-	2,083
	182,352	**-**	**182,352**

	Basic Salary	Bonus	Total
4.2 Executive directors			
A Chikane - Chief Executive Officer CTC	700,000	-	**700,000**
4.3 Staff seconded from Diamdel and DME (Refer Note 2.1)			**3,984,664**

The following Non Executive Directors and Board Members are public servants and do not get paid by the SDT:

MR A MNGOMEZULU
MR L SELEKANE
MS L NTSHINGA
MR A GROTE

5. TAXATION

South African normal tax	
-Current	395,865
-Deferred tax	2,434
	398,299

DEFERRED TAX	
Reduction in tax rate	-
Origination of temporary differences	2,434
Deferred tax liability	**2,434**

The statutory rate has changed from 29% to 28% with effect from 1 April 2008. The deferred tax has been raised at 28%.

Tax Rate Reconciliation:

Statutory rate%	29%
Adjustments:	
Decrease in statutory rate applied to deferred tax	0.2%
Effective tax rate	**28.8%**

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net
Property, Plant and Equipment		8,694	8,694
Net Tax Assets and liabilities		8,694	8,694

	Furniture	Computer Hardware	Other office equipment	Leasehold improvements	Total
	Rand	Rand	Rand	Rand	Rand
6. PROPERTY, PLANT AND EQUIPMENT					
Additions	114,006	63,223	4,902	368,503	550,634
Depreciation for the year	-2,282	-5,099	-133	-7,106	-14,620
Cost	114,006	63,223	4,902	368,503	550,634
Accumulated depreciation	-2,282	-5,099	-133	-7,106	-14,620
Carrying amount					
at 31 March 2008	**111,724**	**58,124**	**4,769**	**361,397**	**536,014**

No impairment losses were recognised during 2007/08 financial year as the assets' carrying value were considered to exceed their recoverable amounts.

7. INVENTORY **23,400,489**

Inventory comprises rough diamonds purchased for resale and capitalised insurance and handling costs while the inventory is in transit. This amount excludes VAT. Inventory serves as security for the IDC Revolving Credit Facility.(Refer to Note 10)

8. CASH AND CASH EQUIVALENTS

Cash at bank (Joint Account)	4,113,216
Cash at bank (Operational account)	2,259,135
Petty cash	2,000
	6,374,351

9. TRADE AND OTHER RECEIVABLES

Accounts receivable other	8,650
Prepaid Insurance Premium	315,901
VAT refundable	2,867,010
	3,191,561

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.
The SDT does not hold any collateral as security.

10. LOANS AND BORROWINGS

Non-current	
Industrial Development Corporation	
Standby Loan Facility	**3,462,595**
Current	
Industrial Development Corporation	
Standby Loan Facility	**700,000**
Revolving Credit Facility	**26,581,130**

IDC Loans consist of a Standby Loan facility of R4 200 000 and a Revolving Loan facility of R35 000 000. The SDT took out the whole Standby Loan facility of R4 200 000. Standby Loan is at interest rate of Prime + 1.5%, once off raising fee of 1% and repayable over 36 months in equal monthly instalments of R116 666.67 from the first day of the 13th month (which is 1 October 2008) from the date of the first drawdown of the standby loan. The SDT uses the Revolving Loan up to R35 000 000 to buy the goods and as at 31 March 2008 an amount of R26 581 130 was still outstanding. Loan is at interest rate of Prime + 1.5%, raising fee of 1% of value of the facility, loan fee of the higher of R1 500 or 15 basis points of the value of each loan and repayable in full within 30 days from date of raising the loan. The Revolving Loan amount of R26 581 130 is secured over Inventory. (Refer to Note 7)

11. TRADE AND OTHER PAYABLES

Accounts payable other (PAYE,UIF)	264,781
VAT payable	269,420
Accruals	850,732
	1,384,933

12. CASH UTILISED BY OPERATIONS

Profit before taxation	1,372,243
Non-cash items and separately disclosable items	
- Depreciation	14,620
- Interest received	(6,614)
- Interest Paid	1,645,601
-Leave Pay Provision	1,512
-Donation received	(4,014,199)
-Staff services donated - De Beers	3,492,351
-Staff services donated – DME	492,313
-Use of assets – De Beers	29,535
	3,027,362
Changes in working capital:	(25,207,115)
Increase in trade and other receivables	(3,191,559)
Increase in trade and other payables	1,384,933
Increase in inventory	(23,400,489)
Cash utilised by operations	**(22,179,753)**

13. RELATED PARTIES

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

The SDT, in the ordinary course of business, enters into various agreements with other parties within the national sphere of Government. The significant transactions (in the normal course of business) and balances outstanding at 31 March 2008 entered into between the SDT and entities outside the company are as follows:

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

DME staff costs	**492,313**

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

Industrial Development Corporation
Standby Loan Facility
4,162,595

Industrial Development Corporation
Revolving Credit Facility
26,581,130

(Refer to Note 10 above)

Key Management personnel compensation – Refer to Note 4 above.

14. SUBSEQUENT EVENTS

There were no subsequent events of any material significance after 31 March 2008.

15. CONTINGENT LIABILITIES

The SDT is not aware of any contingent liabilities or assets that existed as at 31 March 2008.

16. CAPITAL COMMITMENTS

The SDT is not aware of any capital commitments as at 31 March 2008.

17. FRUITLESS AND WASTEFUL EXPENDITURE

Penalty and interest on late payment of VAT	48,109

The acting CFO appointment was only made in March 2008. As a result SDT could not pay its VAT as there was no CFO to sign off on the VAT returns before March 2008. This resulted in late payment of VAT and penalty and interest being incurred by the SDT to the amount of R48,109 (Refer to Note 2). This qualifies as a Fruitless and Wasteful expenditure as per PFMA.

COMPANY INFORMATION

Postal address:	P. O. Box 61212 Marshalltown South Africa 2107
Business address:	Suite 510, 5th Floor SA Diamond Centre 225 Main Street Johannesburg 2000
Website:	www.statediamondtrader.gov.za
Shareholder:	Government of the Republic of South Africa Represented by Minister of Minerals and Energy
Country of incorporation:	Republic of South Africa
Directors:	Ms L Makatini (Chairperson) Mr A Chikane (Chief Executive) Ms D Maphatiane Mr O Temkin Mr I Goondiwalla Mr K Joseph Mr P Moeti Mr T Montoedi Mrs H Tyler Mr S Motloung Mr A Mngomezulu (Until December 2007) Ms L Ntshinga Mr M Grote Mr L Selekane Ms Selloane Motloung (Company Secretary)

1 Due to a busy National Treasury schedule, Mr. M Grote has been able to make written submissions to the Finance Committee on days that he could not attend the meeting.