2009

2009

ANNUAL • REPORT

CONTENTS

CHAIRMAN'S STATEMENT

It gives me pleasure to present the Annual Report of the South African Diamond and Precious Metals Regulator (Regulator) for the financial year ended 31 March 2009 to the shareholders and stakeholders.

Almost two years have passed following the promulgation of the Diamond Amendment Act 2005 as well as the Precious Metals Act 2005. These legislations were met with great challenges from the industry and this consequentially necessitated the hosting of the Diamond and Precious Metals Indaba to reflect on the status of the industry and to address contentious issues raised by the stakeholders. The purpose of the indaba was to seek constructive and amicable solutions to challenges facing the South African Diamond and Precious Metals Industries and where applicable to facilitate growth and sustainability of both sectors.

The industry experienced two periods during which prices were increasing underpinned by market speculation followed by a dramatic slow-down as the credit crunch and the uncertainty in the international banking system began to impact negatively on the diamond industry. This resulted in mining companies cutting production severely and even closing mines towards the later part of 2008. In South Africa our biggest producer De Beers cut production by almost 60% with dire consequence to the downstream industry.

Rough imports into and polished exports out of major trading centres such as Israel and Antwerp fell by some 20% in the wake of the crisis while cutting centres such as India retrenched at least a quarter of their workforce as rough supply and manufacturing slowed to a trickle.

We are made to believe that the downturn in the market is related predominantly to financial liquidity and will be temporary and that prices will recover as the fundamentals for the diamond industry in the medium to long term are still very favourable.

Precious metals which contribute significantly to the Gross Domestic Product of the country have not escaped the impact of the global financial crisis with subsequent suspension of major capital expenditure related to expansion,

mergers and acquisitions. There was a general worldwide deficit of 375 000 ounces of platinum in 2008 while South African platinum supply decreased to 4.53 million ounces.

The overall worldwide supply of platinum in the market fell by 9.5% matched by a global reduced demand equivalent to 5%. However significant interest has been shown by local beneficiation license holders to explore the investment and jewellery industries within the platinum group metal sector. These initiatives are of course opportunistic and the main target being the envisaged tourist market in South Africa as the country prepares to host the 2010 Soccer World Cup. Gold has performed fairly well during 2008 with great demand for gold as an alternative safe investment during the global financial crisis.

On the policy front it is noted with appreciation that government has now implemented all pieces of legislation regulating the diamond industry and we hope that there will be certainty for prospective investors in the country.

At the time of writing we were deeply saddened by the untimely death of our Chief Executive Officer Louis Selekane in a tragic car accident that took place on the 30th May 2009. His contribution to this organization has been remarkable. He will be dearly missed by the Board, his colleagues and the industry at large. Early this year Mr M. Grote Chairman of the Finance Committee resigned to work for the World Bank in the USA and we wish him well in his new job. Dr A. Colburn retired from the South African Reserve Bank and he was replaced by Mr R. Paola

I wish to express my gratitude to the Board, management as well as staff members for their cheerful and untiring efforts in servicing the industry and our stakeholders.

S PHIRI
CHAIRMAN

AN OVERVIEW FROM THE ACTING CEO

While the year 2009 started very well with the prices of some commodities at their highest levels ever it was not expected that the economic situation would deteriorate to the level we experienced towards the end of the year. The Regulator was not in any way immune to the impacts of events that unfolded as reflected by the statistics compiled during the current financial year.

The diamond industry was the worst casualty with diamond productions, local sales and exports drastically curtailed. Most small diamond producers, dealers and beneficiators had to close their businesses. The State Diamond Trader also experienced its share of problems to purchase diamonds from the producers at Fair Market Value and this matter is still receiving attention.

During the year under review the Regulator had its fair share of challenges relating specifically to the interpretation and constitutionality of the Diamonds Amendment Acts. It is worth noting that the interpretations were in line with the judgments handed down in such matters and we are gratified that this created greater rapport between the Regulator and the diamond industry at large. We can now look forward to open and candid communication with industry.

A transitional period for the Diamond Amendment Act 2005 expired on the 30th June 2008 and a large volume of applications were received. These applications were expeditiously processed and no backlogs were experienced. As eagerly awaited the Diamond Export Levy 2007 was finally implemented as

from 1st November 2008 to the relief of some of our clients and the Regulator simultaneously abolished its levy charged on all exports of unpolished diamonds.

This year is the final year wherein all precious metals licenses issued under previous legislations will in terms of the transitional provision expire on 30 June 2009. So far there has been a marked increase of previously disadvantaged individuals entering the precious metals downstream industries.

The Diamond Exchange and Export Centre (DEEC) is now operating at full capacity after the establishment of the internal Government

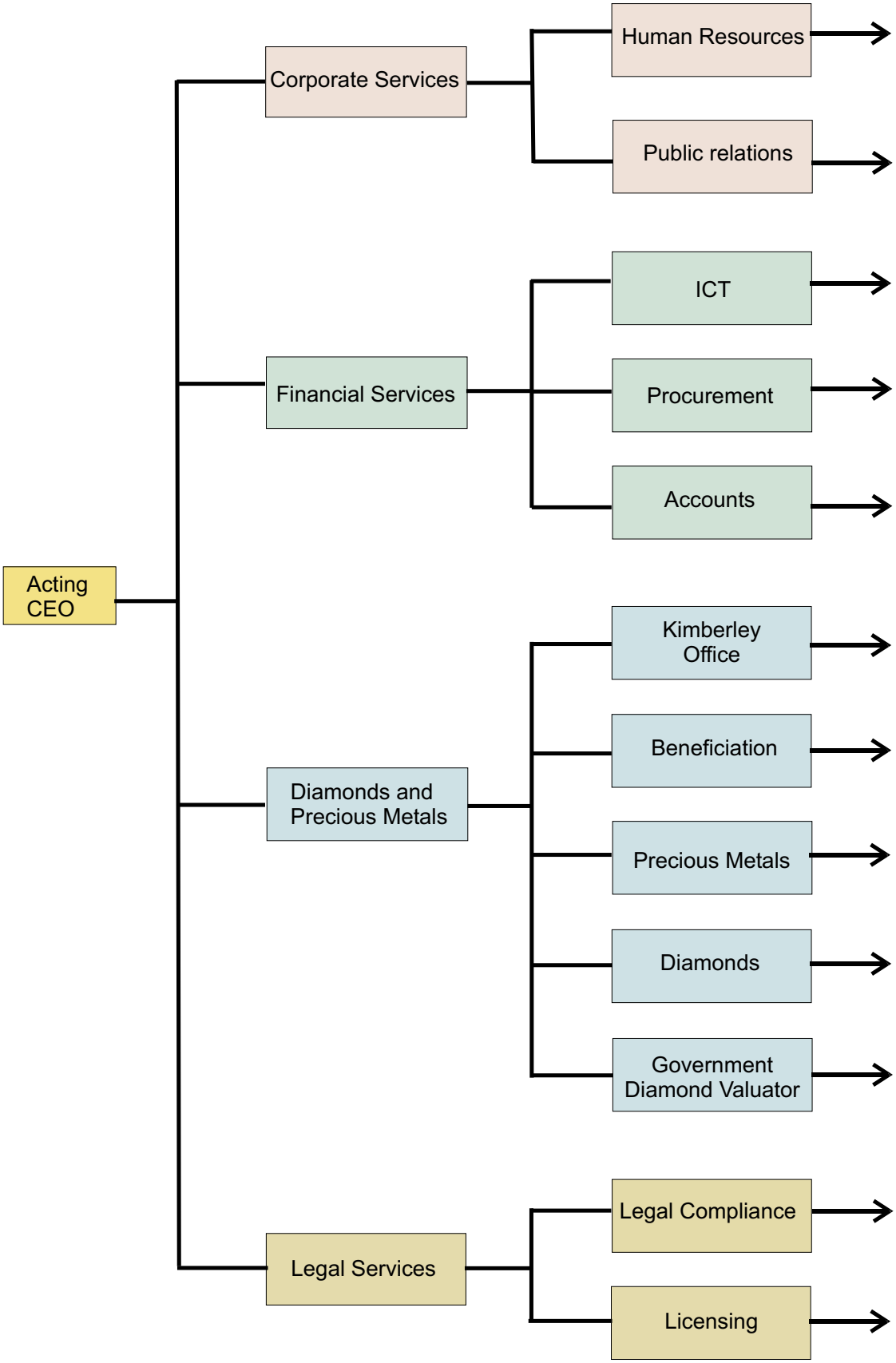
Diamond Valuator division. This division has a staff complement of seven trained diamond valuators placed at Head-Office and in Kimberley. To improve service delivery the Regulator has also invested wisely on information technology on the processing of imports, export licenses as well as tenders. Additional vehicles have also been bought to intensify inspections of diamond and precious metals businesses.

An application to retain surplus funds generated by the erstwhile Diamond Board was forwarded to the National Treasury late last year. This application was approved for the funds to be utilized to decentralize services of the Regulator to Durban and Cape Town as well as to establish a Jewellery Precinct at the OR Tambo International Airport.

I am indebted to the late Chief Executive Officer Mr Louis Selekane who passed on while we were preparing this report. His great vision for the Regulator and the industry was inspiring. My gratitude also goes to the Board of Directors for their leadership and strategic guidance, my colleagues for their unwavering support and co-operation. It was indeed a difficult year for the Regulator and the industry as a whole.

S. M. SIKHOSANA
ACTING CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE



BOARD MEMBERS

Standing(L-R) : A Luhlabo, L Delport, K Rana, M Mobeng, R Baxter, P Bersiks, E Blom, L Ntshinga, R Paola, F Zikalala, E Majadibodu,
Seated (L-R) : RA Manoko, S Phiri, S Sikhosana

Not present : F Petersen, L Grobler, M Lotter

Board of Directors

Composition

Messrs.	S Phiri	Chairperson
	R A Manoko	Deputy Chairperson
	L Selekane	CEO
	S Sikhosana	Acting CEO
	R Paola	Member (appointed in March 2009)
	K Rana	Member
Dr.	F Petersen	Member
	L Delport	Member
	M Lotter	Member
Dr.	ARH Colburn	Member (resigned January 2009)
	M Grote	Member (resigned September 2008)
	E Majadibodu	Member
	L Grobler	Member
	R A Baxter	Member
	M Luhlabo	Member
	E Blom	Member
	P Bersiks	Member
Ms.	F Zikalala	Member
	L Ntshinga	Member
Ms.	M Mobeng	Company Secretary

Head office - Johannesburg

Suite 501 SA Diamond Centre
225 Main Street Johannesburg 2001
PO Box 16001 Doornfontein 2028
Tel: +27 11 334 8980/6
Fax: +27 11 334 8898
Website: www.sadpmr.co.za

Kimberley Regional Office

Trust Centre 3rd Floor
66 Jones Street Kimberley 8301
PO Box 2990 Kimberley 8301
Tel: +27 53 831 3121
Fax: +27 53 831 3184
Website: www.sadpmr.co.za

Board Committees

- **The Executive Committee: chaired by Mr S Phiri**

  Members: Messrs. RA Manoko, L Selekane, M Grote, RA Baxter and P Bersiks

Member	28/05/08	30/07/08	29/10/08	28/01/09
S Phiri	Yes	Yes	No	Yes
RA Manoko	Yes	Yes	Yes	Yes
P Bersiks	Yes	Yes	Yes	Yes
L Selekane	Yes	Yes	Yes	Yes
F Zikalala	No	No	No	No

- **Finance Committee: chaired by Mr M Grote (**Who has resigned as a Board member and he was subsequently replaced by Mr Llewelyn Delport)

  Members: Dr F Petersen, Dr ARH Colburn, Messrs. E Majadibodu, R J Paola and Mr A Luhlabo.

Member	13/06/08	13/08/08	21/01/09	17/04/09
Mr M. Grote (Chairperson)	Yes	Yes	No	No
Mr L Delport	Yes	Yes	Yes	Yes
Mr M Luhlabo	Yes	Yes	Yes	No
Dr ARH Colburn	Yes	Yes	Yes	No
Mr L Sekekane	Yes	Yes	Yes	Yes
Mr E Majadibodu	Yes	No	Yes	Yes

- **Audit and Risk Committee: chaired by Mr P Bersiks**

  Members: Messrs. K Rana, E Blom, L Selekane, M Ntumba and B Mngoma

Member	16/04/08	27/05/08	16/07/08	27/02/09
P Bersiks	Yes	Yes	Yes	Yes
K Rana	Yes	Yes	No	Yes
M Ntumba	Yes	No	Yes	Yes
E Blom	No	No	No	No

- **Technical Committee: chaired by Mr R Baxter**

  Members: Dr F Petersen, Messrs. E Blom, L Selekane and L Grobler.

Member	10/04/08	09/07/07	25/11/08	16/03/09
RA Baxter (Chairperson)	Yes	Yes	Yes	Yes
L Grobler	Yes	Yes	Yes	No
F Petersen	Yes	Yes	Yes	No
E Blom	No	Yes	Yes	Yes

- **Licence Committee: chaired by Mr RA Manoko**

  Members: Ms L Ntshinga and Ms F Zikalala

Member	02/04/08	05/09/08	08/10/08	18/02/09
R.A. Manoko (Chairperson)	Yes	Yes	Yes	Yes
F Zikalala	No	No	No	No
L Ntshinga	Yes	No	No	No

MEETING ATTENDANCE

Board

Member	25/06/08	14/08/08	15/11/08	28/01/08
1. S Phiri	No	Yes	Yes	Yes
2. RA Manoko	Yes	No	Yes	Yes
3. L Selekane	Yes	Yes	Yes	Yes
4. L Delport	No	Yes	No	Yes
5. K Rana	Yes	Yes	Yes	No
6. M Lotter	Yes	No	No	No
7. F Petersen	Yes	Yes	Yes	Yes
8. E Majadibodu	Yes	No	Yes	Yes
9. L Grobler	Yes	Yes	Yes	Yes
10. F Zikalala	Yes	No	No	No
11. M Grote	Yes	Yes	No	No
12. ARH Colburn	Yes	Yes	No	Yes
13. RA Baxter	Yes	Yes	Yes	No
14. M Luhlabo	Yes	Yes	Yes	Yes
15. E Blom	Yes	Yes	Yes	Yes
16. L Ntshinga	No	No	No	Yes
17. P Bersiks	No	Yes	No	Yes

MISSION STATEMENT AND OBJECTIVES

Mission

The mission of the Regulator is to facilitate value addition and orderly development of diamond and precious metals resources through best practices.

Legal mandate

The South African Diamond and Precious Metals Regulator was established by the Diamonds Act 1986 as amended in 2005 to administer the following legislations.

- Diamonds Act 1986 (as amended)
- Precious Metals Act 2005
- Diamond Export Levy Act 2007 in collaboration with South African Receiver of Revenue (SARS)

Key Strategic Objectives

- To regulate the diamond and precious metals industries to the benefit of all South Africans.
- To ensure efficient and cost-effective administration.
- To ensure that the precious metals and diamond resources of South Africa are exploited and developed in the best interest of the people of South Africa.
- To promote equitable access to and local beneficiation of South Africa's precious metals and diamonds.
- To promote the sound development of precious metals and diamond enterprises in South Africa.

Diamond Act

The Diamond Act 1986 (Act 56 of 1986) as amended, seeks to promote the local beneficiation of rough diamonds by imposing a 5 % levy on rough diamonds exported from South Africa. The export levy essentially operates as a "regulatory" measure to ensure an adequate supply of rough diamonds to the local polishing and cutting industries.

The 2005 Diamond Amendment Act (Act 29 of 2005) and Diamond Second Amendment (Act 30 of 2005) creates a State Diamond Trader. Producers are required to sell 10% of their rough diamonds to the State Diamond Trader at market value. The State diamond Trader will in turn sell these diamonds to local cutters and polishers. This process should create steady long-term supply for local cutting and polishing industry.

Diamond Export Levy Act

The Diamond Levy Act (Act of 2007) provides for two set of levy payers : producers (miners) and non-producers (dealers and cutters). All diamond producers are required to register with the South African Receiver of Revenue(SARS). Registered producers must pay these export levies twice per year (i.e. every 6 months). Non-producers must pay the full levy when a diamond is exported(i.e. when a bill of entry for export is submitted to Customs)

The Diamond Export Levy replaces the 15% export levy on rough diamonds as contained in the Diamond Act 1986 as amended. In addition all other diamond levies imposed by the Diamond Act were removed.

COMMUNITY OUTREACH

Report on Ubuhle Bemvelo Consortium

Ubuhle Bemvelo is a women consortium based in Kwazulu Natal which was established with the aim of transferring skills to the disadvantaged.

The South African Diamond and Precious Metals Regulator has assisted two members of Ubuhle Bemvelo with funds towards studying for a six month diamond polishing course at the Harry Oppenheimer Diamond Training School and a rough evaluation course at the Diamond Education College.

The aim of this assistance is to allow and introduce more women into the diamond industry who can then assist with empowering other women in the industry.

World Aids Day

On World Aids Day the staff of SADPMR focused on making a contribution to the Alexandra Aids Orphan's Project. Within a short period they collected groceries, clothing, shoes, etc; and delivered these items to Alexandra Aids Orphanage.

This Project is providing care and assistance to children and grandmothers of families that are infected and affected by HIV/AIDS.

The target groups are orphans and vulnerable children.

The core activities of this group is to provide food, material support and support groups for the grandmothers that look after the children. Provide home-based care, visitation and also assisting in obtaining social grants. Bereavement counseling and after school care form part of the services they provide. Currently, they have over 130 children who are being assisted.

The staff of SADPMR have made a commitment to observe these significant days and respond to the call of action and showing our solidarity with all the affected and infected families as a sign of our continued support. We can make the difference in our communities at large.

Gems and Jewellery:
The South African Handbook

The South African Diamonds and Precious Metals Regulator was one of the sponsors that helped fund Gems and Jewellery: the South African Handbook, the first book of its kind which serves as a guide and introductory manual to all operating within the industry.

Gems and Jewellery: the South African Handbook was written as a practical handbook to assist with the development of the jewellery trade and the people who work in the industry.

Written by Dr Petre Prins and published by Isikhova Publishing and Communications the book is divided into three volumes with the first section containing "how to" information for the entrepreneur and guidelines for the management of a retail jewellery shop. The second section offers "need to know" information on diamonds, gemstones, precious metals and jewellery as well as a few specialist chapters on the identification and valuation of gems and jewellery while the third section contains tables and charts essential for retailers.

KIMBERLY PROCESS CERTIFICATION SCHEME 2008

Highlights of the year relating to the Kimberley Process and the Kimberley Process Certification Scheme

South Africa is a Participant in the Kimberley Process Certification Scheme (KPCS) which was implemented by our country together with 40 other Participants in 2003. The Kimberley Process (KP) is the name given to the body that negotiated the KPCS.

In its sixth year of implementation the Kimberley Process was chaired by India.

The KP has established working groups to ensure the smooth running of the KPCS. Of these, South Africa is a member of the following working groups:

- Working Group Diamond Experts (WGDE)
- Working Group on Statistics (WGS)
- Working Group on Monitoring (WGM)
- Working Group of Alluvial and Artisanal Producers (WGAAP)
- Participation Committee (PC)

A brief summary of the activities of these working groups and the Plenary proceedings are given below.

WORKING GROUP DIAMOND EXPERTS (WGDE)

The KP Working Group Diamond Experts of which South Africa is the Assistant Chair participated in the New Delhi Plenary held between 3 and 6 November 2008.

The Working Group of Diamond Expert (WGDE) has strengthened its understanding of the valuation methodologies implemented by KPCS Participants. This information has been collected in a comprehensive data matrix for follow-up. The WGDE is also preparing a comprehensive update of the Explanatory Notes to the HS Classification and Coding System in order to present this update when finalized to the HS Committee of the World Customs Organisation (WCO).

WORKING GROUP ON MONITORING (WGM)

The Working Group on Monitoring reviewed risk-based monitoring arrangements for Ghana's exports in light of progress achieved and agreed that implementation of Ghana's action plan would greatly contribute to the effectiveness of the KP.

The WGM deliberated on the continuing challenges to KP implementation in Zimbabwe and recommended further monitoring of developments and concerted actions in that respect. The Working Group committed itself to developing KP guidance on strengthening co-operation in KP on issues such as fake certificates, handling of suspicious shipments and infringements.

PLENARY MEETING

The Sixth Annual meeting of the KP was held during 3-6 November 2008 in New Delhi, India. A total of 42 Participants of the Kimberley Process Certification Scheme (KPCS) attended the Plenary meeting.

The Plenary welcomed Mexico as a Participant to the KPCS in 2008 and the total number of Participants in the KP stood at 49 at the end of 2008 representing 75 countries.

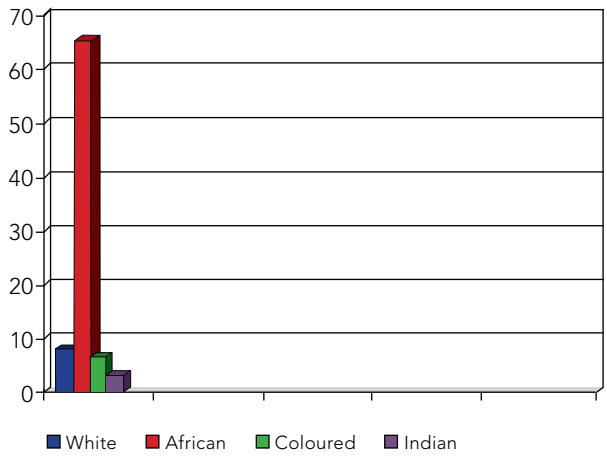
Namibia was welcomed as the 2009 Chair of KP while Israel was elected to serve as the Deputy Chair and will assume Chairmanship in 2010.

HUMAN RESOURCES MANAGEMENT

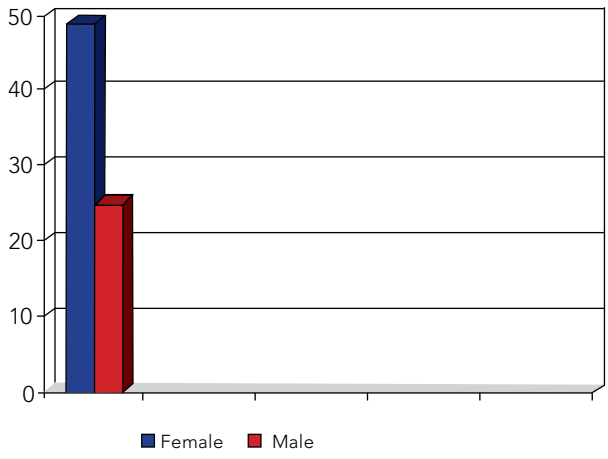
Employment Equity

- The SADPMR headcount currently stands at 73 employees which includes 6 Interns as at 31 March 2009.
- Below is a detailed progress report (charts) outlining the actual headcount versus employment equity targets agreed and submitted to the Department of Labour.
- The Charts below are represented as follows:
  1. Total staff race breakdown as at the end of March 2009.
  2. Total staff gender breakdown as at the end of March 2009.

Breakdown by race/demographics



Breakdown by gender



Recruitment

Occupational Levels	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	**TOTAL**
Legislators Snr Officials & Managers	2								2
Professionals	1			1		1			3
Technicians & Associate Prof	3				3		1		7
Clerks	1				4				5
Elementary Occupations	1								1
TOTAL PERMANENT									18
People with disabilities									

Promotion

Occupational Levels	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	**TOTAL**
Legislators Snr Officials & Managers									
Professionals	1				1				2
Technicians & Associate Prof						1			1
Clerks									
Elementary Occupations									
TOTAL PERMANENT									3
People with disabilities									

Employment terminations

Occupational Levels	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	**TOTAL**
Legislators Snr Officials & Managers									
Professionals	1								1
Technicians & Associate Prof	3				2	1			6
Clerks									
Elementary Occupations					1				1
TOTAL PERMANENT									8
People with disabilities									

Termination categories

Occupational Levels	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	**TOTAL**
Resignation	3				2	1			6
Non-renewal of contract									
Dismissal (Operational requirements)									
Dismissal (misconduct)	1								1
Dismissal (incapacity)									
Other: retirement					1				1
TOTAL									8

Vacancies

Area	Position	Number of vacancies
CEO	Internal Auditor	1
Corporate Services	GM Corporate Services	1
Legal Services	Legal Services Administrator	1
Finance	Procurement Officer	1
Finance	Accountant	1
Precious Metals	Manager	1
Precious Metals	Inspector	3
Human Resources	HR/Payroll Administrator	1

Learning and development

- The SADPMR prides itself in providing its employees with educational assistance to study or attend courses to acquire skills that are relevant to organisational and employee personal needs.

- Employees are registered and or have attended the following:

  1. MBL
  2. B.Sc Honours
  3. National Diploma in Public Administration
  4. National Diploma in Administrative Management
  5. VIP payroll administrator
  6. BA Honours

Planned projects

- Implementation of Employment Equity Act

- Filling of positions remaining in the staff establishment.

- Plan and implement a wellness programme focusing on HIV/AIDS in addition to the existing wellness programme for employees.

- Review conditions of employment and human resources policies and procedures in line with the latest new and amended acts, regulations, corporate governance and human resources best practices.

Completed projects

- Internship Programme was implemented and will be an ongoing process.

- All policies approved by the Board were implemented.

- Wellness for employees was implemented.

Policies

- The following policies were developed, discussed with managers and employees, then presented to the Board of Directors for approval.

1. Performance Management Policy
   The policy was well received by the employees and the organisation is at the implementation stage.

Performance apraisal

- Performance appraisal for the period of April 2008 to March 2009 has been completed and employees have been appraised accordingly.

Workshops

- HR attended a workshop on VIP Payroll with the anticipation of the upgrade from Classic to Premier.

- Managers attended a workshop on "Finance for non-finance managers" with emphasis on budgeting to prepare them to be able to develop and project their own Department budgets.

LEGAL SERVICES AND COMPLIANCE

Legal Service

During the period under review the Legal Service department continued to deliver services efficiently in terms of its mandate despite experiencing a shortage of capacity during the 3rd and 4th quarter.

Interaction and communication between the Regulator and industry stakeholders with regard to licence application requirements takes place on a continuous basis.

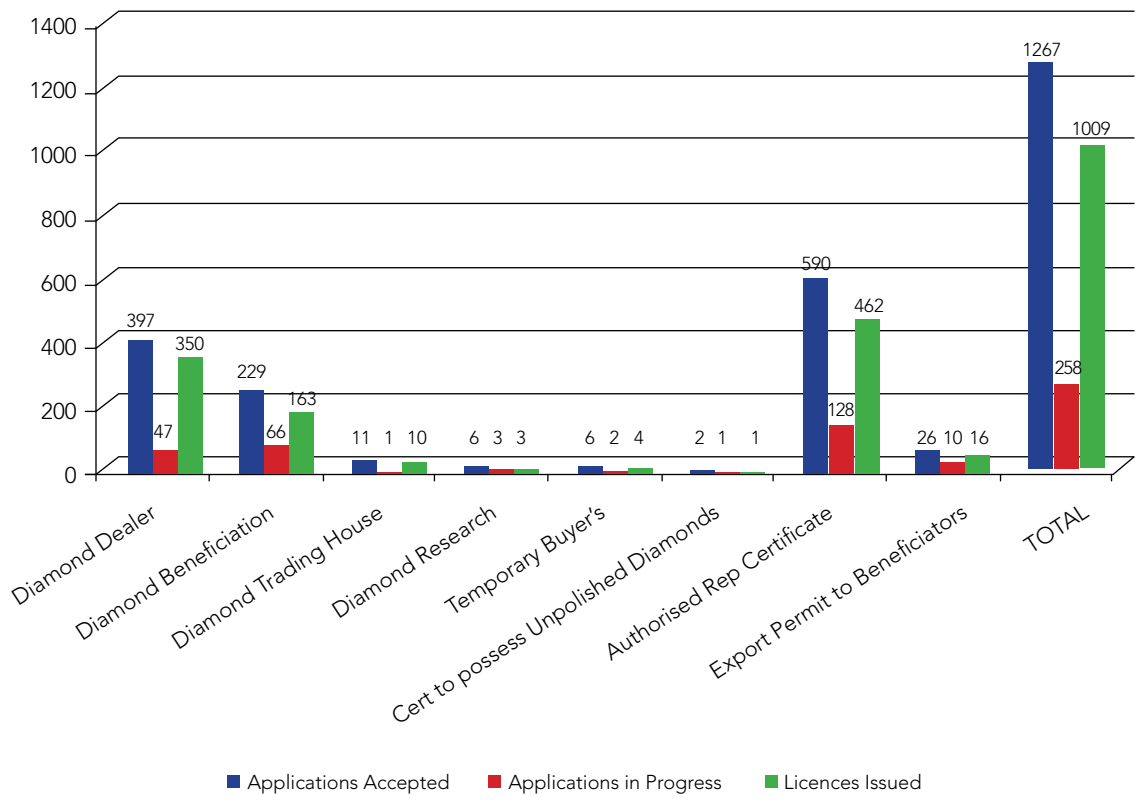
Service delivery of the legal and compliance division for 2008/09

In pursuance of its objectives to provide equitable access to all, the Regulator is pleased to report an increase in the number of Historically Disadvantaged South Africans (HDSA) now participating in both the diamond and precious metals industry by virtue of having been issued with licences either in their personal capacity or by means of partnerships and shareholding.

Diamond Industry Licencing

The transitional arrangements section 31(9) of the Diamonds Amendment Act (Act No 29 of 2005) which catered for all diamond licences issued prior to 1 July 2007 expired on 30 June 2008. Licensing statistics for the downstream diamond industry is reflected in chart 1 below.

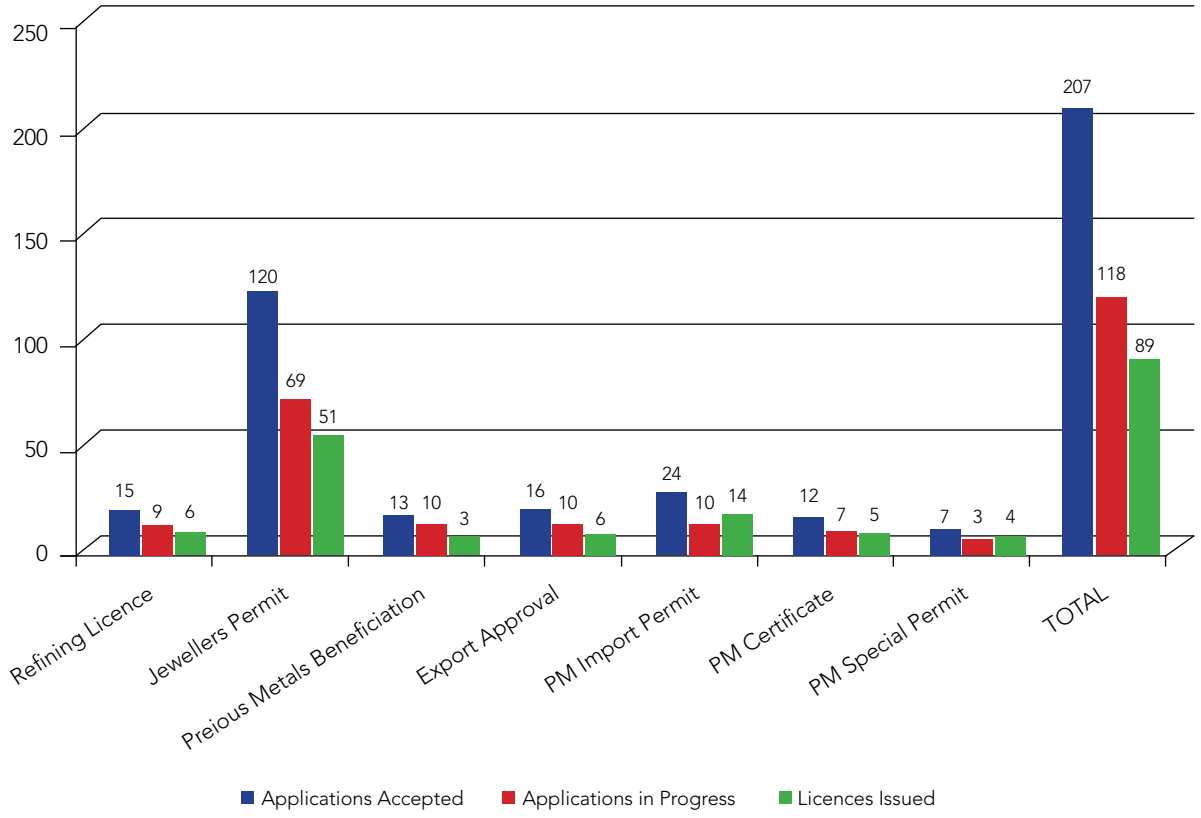
Chart /Graphs 1: Diamond Licensing 2008/2009



Precious Metals Licensing

Transitional arrangements legislated in terms of the precious metals downstream industry will expire in the first quarter of the next reporting period (30 June 2009). Chart 2 below reflects licensing statistics for the precious metals downstream industry for the period under review.

Charts/Graphs 2: Precious Metal: Licensing 2008/2009



Although an increase in application rate especially for jewelers' permits is expected before the expiry date of old order permits it is acknowledged that factors such as the deregulation of silver which no longer requires one to apply for a jewellers' permit may translate into fewer previously licenced individuals applying for a jewelers permit as some only work in silver mostly as hobbyists only. Affordability issues with regard to purchasing precious metals may also play a role in a slower rate of applications in the immediate future.

Conclusion

The global economic downturn which continues to negatively affect trading activities in both industry sectors may contribute to an actual decline in application for new order licences when measured against historical statistical data.

DIAMOND DIVISION

Overview

The year 2008 was characterised by two periods: one for the first nine months during which prices of diamonds were increasing - underpinned by market speculation followed by 3 months of sudden and dramatic slow-down as the credit crunch and the uncertainty in the international banking system began to hit the diamond industry. Consequently demand for luxury goods like diamond jewellery dropped drastically.

The ripple effect for which the diamond industry is infamous led mining companies to cut production severely and even closed mines in late 2008 and early 2009. In South Africa De Beers cut production by about 60%.

The rough diamond imports into and polished exports out of major trading centres like Antwerp and Israel fell by some 20 percent in the wake of the crisis. Cutting centres like India retrenched at least a quarter of their workforce as rough supply and manufacturing slowed to a trickle.

Experts believe that the downturn in the market is related predominantly to financial liquidity. Most believe that this will be temporary and that prices will recover as the fundamentals for the diamond industry in the medium to long term are still very favourable.

At the time of writing there were already signs of recovery: rough diamond prices have begun rising in certain categories. De Beers reopened the Jwaneng Mine in Botswana. Alrosa of Russia resumed rough diamond sales. The Diamond Trading Company's May sight (at $250 million) was better than expected and the fall in Belgian diamond imports/exports moderated.

The caveat is that polished prices although higher are not leading the recovery; in other words the improvement in the market is being driven by inventory rebuilding and this will slow unless there is pull-through at the retail end of the jewellery market. This is not expected until the second half of 2010 at the earliest.

Legislative mandate

The purpose the Diamond Act 1986 as amended is mainly to control possession, the purchase and sale of the processing and export of diamonds. This Act is administered in conjunction with the Diamond Export levy Act 2007(Act 14 of 2007) as well as the Customs and Excise Act 1964 (Act 91 of 1964).

The purpose of the Diamond Export Levy Act is to provide for the imposition of an export levy (5%) on unpolished diamonds (but not synthetic diamonds) and allow for offset with respect to that levy. The implementation date of this Act was the 1st of November 2008.

The purpose of the Customs and Excise Act 1964 is inter alia to provide for levying of customs and duties and a surcharge; export import manufacture or use of certain goods; and for matters incidental thereto.

Import and export of diamonds at the Diamond Exchange and Export Centre (DEEC)

The Regulator established the **Diamond Exchange and Export Centre (DEEC)** to facilitate the buying, selling, export and import of diamonds and matters connected therewith.

Conditions for export of unpolished diamonds; (Sect 48A)

All unpolished diamonds intended for export purposes must in the prescribed manner be offered at the diamond exchange and export centre

The Registering Officer is appointed to conduct the following tasks at the DEEC:

- Export of unpolished diamonds (Form Ni)
- Re-export of unpolished diamonds (Form Ni)
- Export of polished diamonds **(Form N ii)**
- Re-import of polished diamonds **(Form S ii)**
- Import of polished diamonds **(Form P)**
- Re-export of polished diamonds **(Form N ii)**
- Import of unpolished diamonds **(Form R i)**
- Re-import of unpolished diamonds **(Form S i)**
- Deferments (Unpolished diamonds exports –sect.64) **(Form Ni)**
- Return of Deferments (Unpolished diamonds Imports) **(Form S i)**

Diamond tender statistics for producers as at 31 march 2009

	Q1	Q2	Q3	Q4	TOTAL
Total number of parcels received	262	184	156	472	1 074
Total number of viewers	503	114	51	103	771
Total carats received	91 141	54 340	17 275	164 399	327 155
Number of parcels sold locally	156	120	225	233	734
Total US$ value of sold parcels	28 003 007	22 504 805	3 241 631	12 784 309	66 533 752
Total US$ value of parcels qualified for export	41 471 716	12 449 932	5 997 237	19 969 330	79 888 215
Total carats qualified for export	12 346	11 242	9 336	87 395	120 319
Total carats sold locally	36 797	42 911	4 871	77 004	161 583

Diamond tender statistics for individual licensees as at 31 March 2009

	Q1	Q2	Q3	Q4	TOTAL
Total number of parcels received	233	557	206	203	1 199
Total number of viewers	241	182	43	36	502
Total carats received	92 253	444 133	312 623	323 554	1 172 563
Number of parcels sold locally	7	6	0	0	13
Total US$ value of sold parcels	9 561 408	1 061 509	0	0	10 622 917
Total US$ value of parcels qualified for export	60 943 359	188 780 273	59 876 247	32 272 768	341 872 647
Total carats qualified for export	111 252	438 311	312 571	323 180	1 185 314
Total carats sold locally	3 718	3165	0	0	6 883

Activity report for Diamonds Inspectorate

Activity	2007/08	2008/09
Business Premises inspected	252	637
Deferments granted	64	26
Unpolished Exports processed	1400	923
Polished Exports processed	1184	1005
Unpolished Imports processed	654	389
Polished Imports processed	1175	1069
Selling and Export permits issued	240	62

Export and import certificates per country

Participants	Certificates issued (Exports)	Certificates received (Imports)
Australia	1	3
European Community	424	149
Botswana	12	5
Canada	0	7
Congo DR	0	5
Hong Kong	26	9
India	61	27
Indonesia	0	2
Israel	404	108
Korea	0	1
Lesotho	0	2
Mauritius	1	0
Namibia	3	2
Sierra Leone	0	1
Switzerland	49	5
Tanzania	0	5
Thailand	3	1
United Arab Emirates (Dubai)	41	9
United States of America	63	39
Zimbabwe	0	0
Total	**1088**	**380**

Rough diamond exports by HS code during 2008

7102.10 (UNSORTED)		7102.21 (INDUSTRIAL)		7102.31 (GEM)		TOTAL	
Carats	Value	Carats	Value	Carats	Value	Carats	Value
6.74	$168.50	845 739	$1 626 488	9 177 557	$1 414 670 837	10 023 302	$1 416 297 494

South Africa exported a total of 10 023 302 carats of unpolished diamonds valued at about $1.42 billion in the twelve months of 2008. The bulk of South Africa's exports were to the European Community (includes United Kingdom and Belgium).

The average $/carat price of exports at about $140/carat was marginally higher relative to 2007. It should be noted that exports include higher quality goods re-exported by diamond cutters and dealers and thus the average $/carat value of exports are not a reflection of the average $/carat value of South Africa's mine production.

Rough diamond import by HS code during 2008

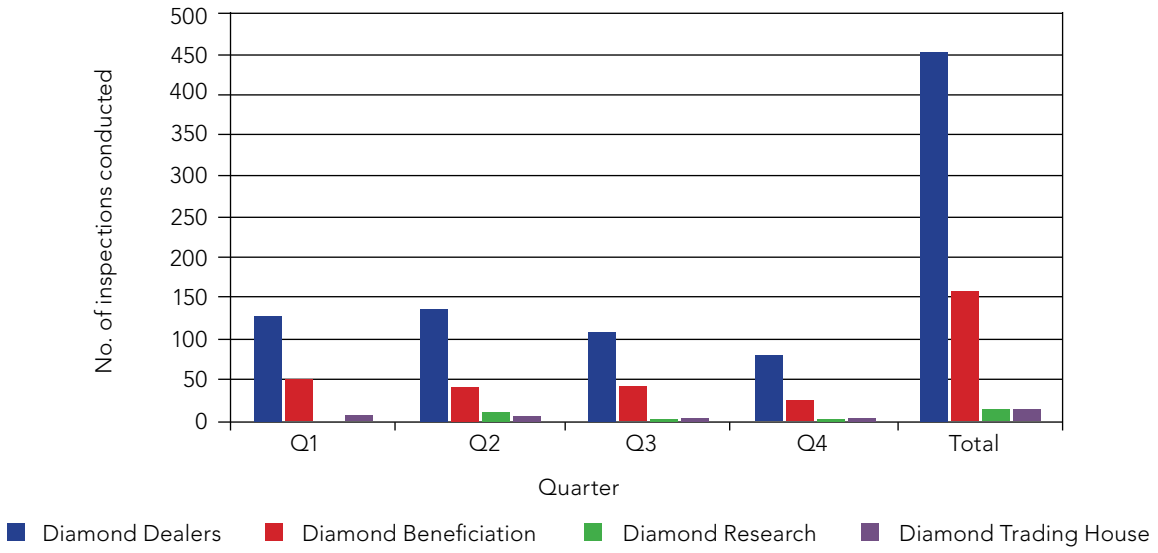
7102.10 (UNSORTED)		7102.21 (INDUSTRIAL)		7102.31 (GEM)		TOTAL	
Carats	Value	Carats	Value	Carats	Value	Carats	Value
18 684	$35 405	62 664	$363 397	493 505	$499 572 912	574 853	$499 971 714

South Africa's total imports of unpolished diamonds during calendar 2008 totalled 574 853 carats valued at about $500 million. The major exporters of diamonds to South Africa (in value terms) were the European Community, India, USA and Israel.

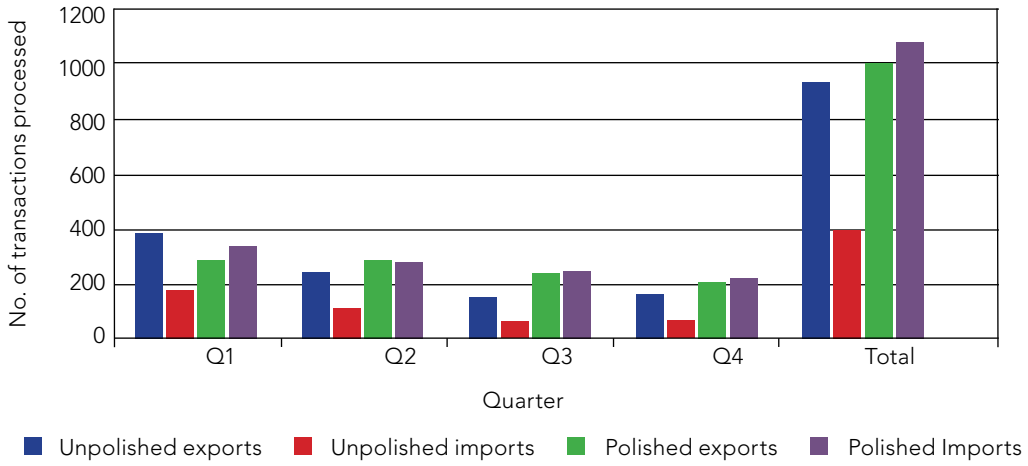
The average $/carat price of imports at $869/ct was moderately higher relative to 2007.

Inspection and transaction statistics

	Number of Inspections conducted				
Licence type	Q1	Q2	Q3	Q4	Total
Diamond Dealer	128	136	108	81	453
Diamond Beneficiation	51	41	42	24	158
Diamond Research	0	11	1	1	13
Diamond Trading House	6	4	2	1	13
Total Inspections	185	192	153	107	637



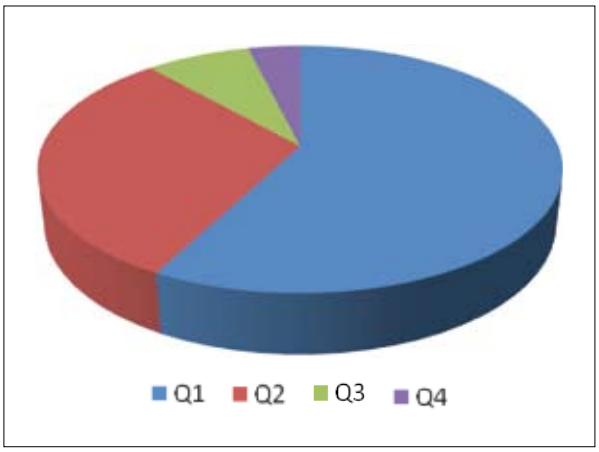
Transactions processed	Q1	Q2	Q3	Q4	TOTAL
Unpolished exports	383	236	147	157	923
Unpolished imports	177	110	48	54	389
Polished exports	283	282	237	203	1005
Unpolished imports	334	277	240	218	1069
Total transactions	1177	905	672	632	3386



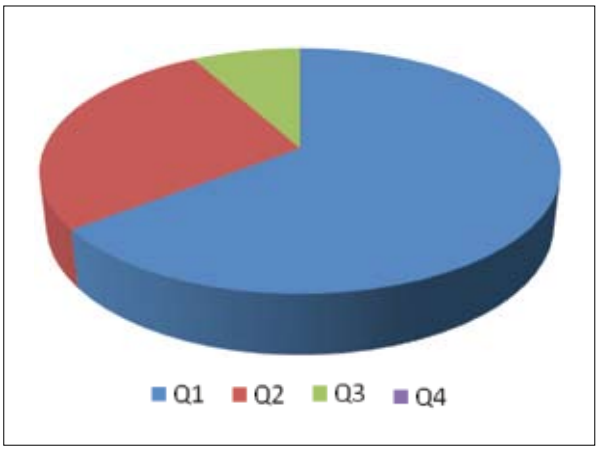
Deferments	Q1	Q2	Q3	Q4	TOTAL
Temporary rough exports	15	8	2	1	26

Section 26 (h) permits	Q1	Q2	Q3	Q4	TOTAL
Selling and exporting permits approved	40	17	5	0	62

Temporary rough exports



Selling and exporting permits approved



GOVERNMENT DIAMOND VALUATOR

1. APPOINTMENT

The Government Diamond Valuator (GDV) was appointed by the Regulator in July 2008 in terms of Section 5(1)(c) of the Diamonds Amendments Act 2005. According to this section the Regulator shall appoint a person who has expertise in market prices in respect of diamonds as a government diamond valuator. On the 1st July 2008 the Regulator appointed a Senior GDV, three GDVs and three junior GDVs. The team has been in operation for nine months under the leadership and mentorship of Mr. C Benn the Senior GDV. This service was previously rendered by the Diamond Marketing Company which was contracted by the erstwhile Diamond Board, the contract of which expired on the 30th September 2008.

2. FUNCTIONS AND RESPONSIBILITIES

2.1 Rough Exports

Value all unpolished diamonds at the DEEC (Diamond Exchange and Export Centre) declared for export. Ensure FMV (Fair Market Value) Section 65 (1) (b) Diamonds Amendment Act 2005. The team has been successful in ensuring that all exports are valued and priced fairly at the DEEC. The number of clients viewing goods at the DEEC has tremendously increased because people are now aware that diamonds placed at the DEEC are priced at fair market value.

2.2 Polished Exports

Examine and Value all polished diamonds for Export in terms of Section 72 (b) (i) Diamonds Amendment Act 2005. This is also done to ensure that all polished diamonds are exported at fair market value.

2.3 Temporary Exports (Deferments)

Examine and Value all unpolished diamonds that are temporarily exported for opinion or marking in terms of Section 64 of the Diamonds Act 56 of 1986 - to ensure that exactly the same diamonds are returned thereafter.

2.4 Rough Imports

Examine and Value all unpolished diamonds that are imported into the country. All rough importation of unpolished diamonds are meticulously sorted and valued by the GDV to ensure that the goods imported are priced at fair market value. As clients receive credits on their import it is important for the GDV to ensure an accurate valuation of imports.

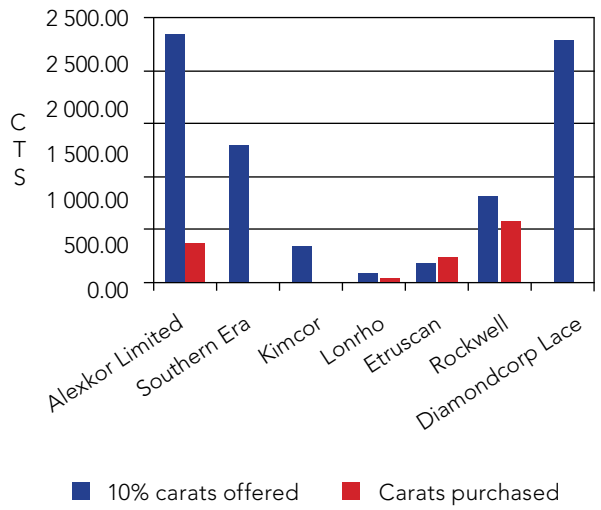
2.5 State Diamond Trader (SDT)

Examine and value the 10% presented to SDT by all producers in terms of Section 59B of the Diamonds Second Amendment Act of 2005. Collate as much data on the remnant 90% as possible to ensure a representative sample. Upon invitation by the State Diamond Trader the GDV will conduct a valuation on the 10% presented by the producer. The value arrived at by the GDV is communicated to both parties before any transaction can take place. Profiling is also done on the 90% presented so as to determine the size, model, color and clarity distributions.

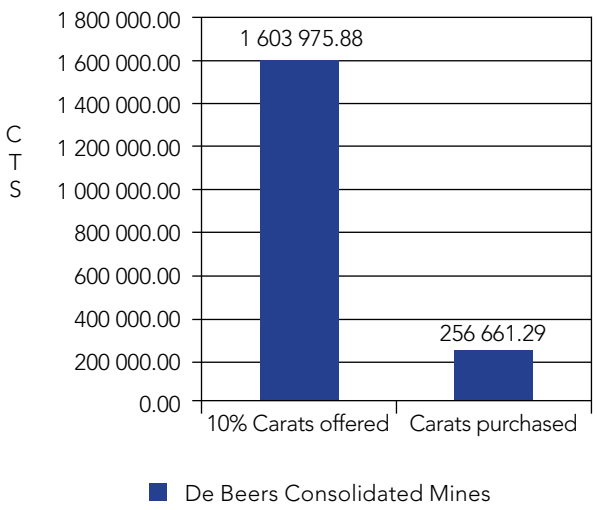
State Diamond Trader trade analysis

	Total production	10% offered	Purchases		
Name of producer	Carats	Carats	Carats	US$ value	US$ value per carat
De Beers Consolidated Mines	16 039 758.84	1 603 975.88	256 611.29	23 267 379.55	90.65
Trans Hex (PTY) LTD	64 573.12	6 457.31	0.00	0.00	0.00
Petra Diamonds	622 350.12	62 235.01	1 393.55	229 734.20	164.86
Alexkor Limited	23 374.71	2 337.47	359.35	434 123.75	1 208.08
Southern Era	13 043.18	1 304.32	0.00	0.00	0.00
Kimcor	3 299.67	329.97	0.00	0.00	0.00
Lonrho	734.39	73.44	26.49	9 536.30	360.00
Etruscan	1 727.60	172.76	235.12	107 215.30	456.00
Rockwell	8 033.66	803.37	573.78	220 901.45	384.99
Diamondcorp Lace	22 858.26	2 285.83	0.00	0.00	0.00
Total	16 799 753.55	1 679 975.36	259 199.58	24 268 890.55	93.63

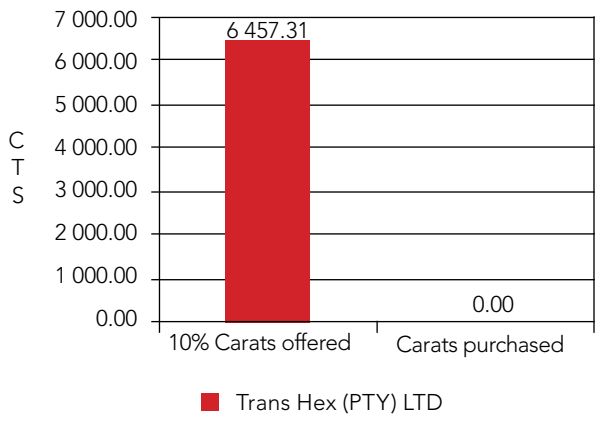
Producers

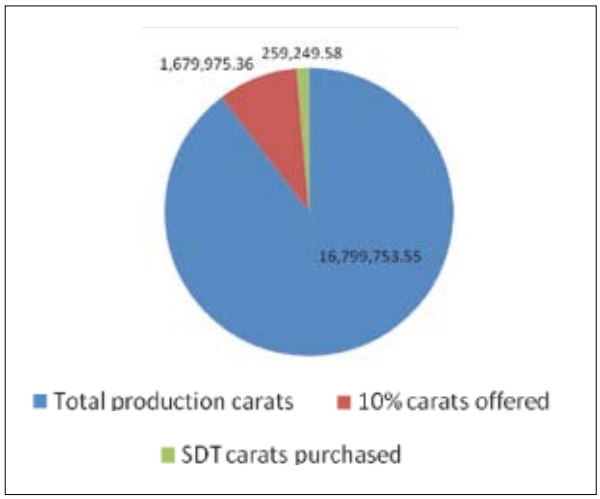


De Beers Consolidated Mines



TRANSHEX





2.6 Valuations of diamonds for the SAPS

The GDV provides diamond valuation services on confiscated goods and bear testimony in the Court of Law as and when required. The GDV team is actively involved in providing the police with a valuation service and appointments are made as and when required by the Police to evaluate all goods confiscated by them. Affidavits are produced with each case and this forms reference in the event that a subpoena is issued. After the valuation the GDV will then bear testimony in Court and provide evidence surrounding the valuation of the exhibit/s.

Exhibits	Police confiscated diamonds		
Month	Carats	Rand value	% Carats contribution
September	180.95	152 953.05	10.37%
October	3.41	193.00	0.20%
November	187.39	61 559.76	10.74%
December	65.25	13 535.99	3.74%
January	21.67	12 675.18	1.24%
February	1157.68	1 026 546.04	66.36%
March	120.60	86 110.50	6.91%
April	7.70	9 562.79	0.44%
Total	1 744.65	1 363 136.31	100.00%

PRECIOUS METALS DIVISION

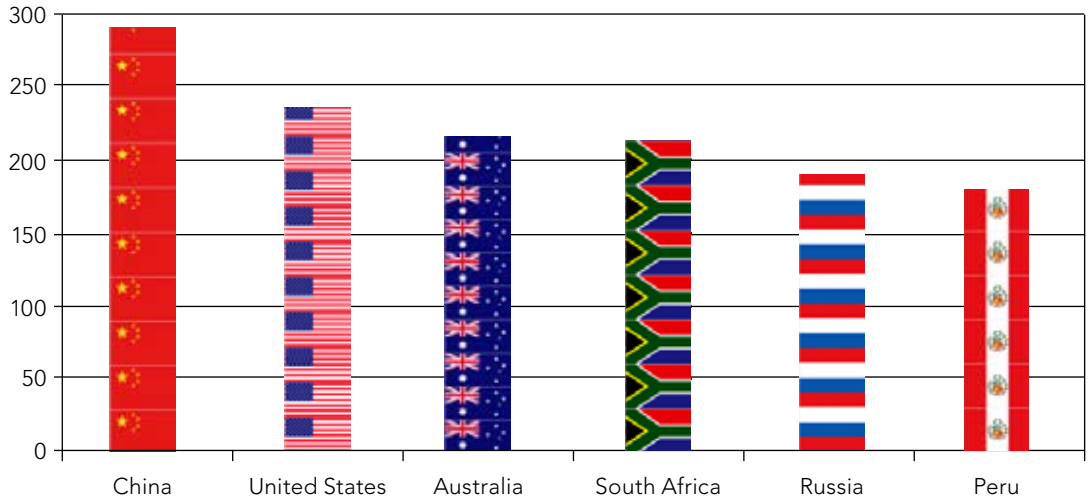
GOLD

Production

South Africa's gold production in 2008 totalled 213 tons – a 16% decline relative to 2007 (254 t). South African production has been declining steadily since 1994 chiefly due to falling grades but in 2008 the electricity crisis was also blamed for the reduction in output.

In 2008 South Africa was the fourth-ranked producing country after China, the United States and Australia. South Africa's production in 2008 was just under 9% of total world production which GFMS Ltd. estimate at 2 413 tons.

Top 6 gold producing countries 2008



Source: GFMS Ltd. 2009

Export sales of gold increased moderately to R44 billion and total sales to R46 billion due to higher prices during 2008.

Fabrication

GMFS estimated South Africa's total gold fabrication in 2008 at 14 tons which was marginally lower compared with the previous year. The Department of Minerals & Energy reported total local mine sales of 8.8 tons therefore presumably about 5.2 tons were derived from scrap and inventory.

Of the 14 tons fabricated GFMS estimate that about 6 tons went into jewellery and about 8 tons were consumed in the minting of coins.

Price

In 2008 the gold price averaged a record $872/oz a 25% increase relative to the average price in 2007 ($695/oz). GFMS attributed this improvement in price mainly to investment interest.

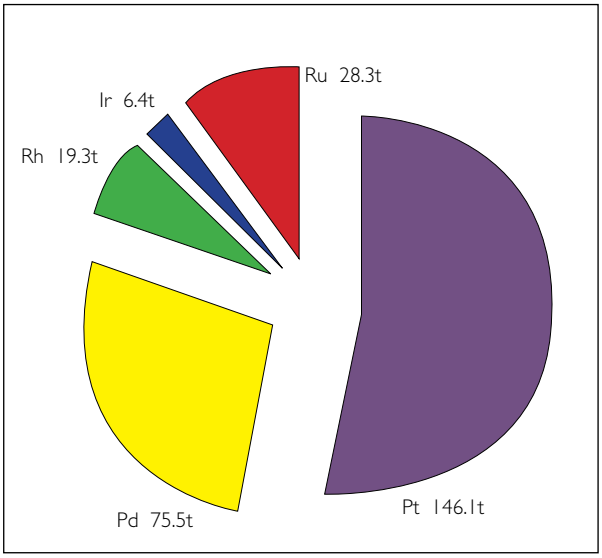
The gold price passed the $1 000/oz level for the first time ever in March 2008. However since then the price declined and was trading between $850/oz and the low $900s in the second half of 2008.

PLATINUM-GROUP METALS (PGMs)

Production

South Africa's platinum-group metals (which include platinum, palladium, rhodium, iridium, ruthenium and osmium) production decreased significantly from 311 t in 2007 to 276 t in 2008 due chiefly to reduction in output forced by the energy crisis in the country.

Figure 1: South Africa's PGMs production in 2008



Source: Department of Minerals & Energy (DME)
NB: Osmium production is regarded as "classified" and is not published by the DME.

Notwithstanding the production plunge export sales of PGMs grew from R63.1 billion to R77.9 billion due to higher prices during 2008.

Production of platinum decreased notably from 165.8 tons produced in 2007 to 146.1 tons in 2008 due to the reduced energy availability and a flood at the Amandelbult Mine. South Africa is the world's largest producer of platinum producing some 76% of world production. Palladium production at 75.5t was much lower than that in 2007 (86.5 t) while rhodium production edged lower to 19.3 t from 21 tons in 2007.

Price

The platinum price hit an all-time record of $2 276/oz in March 2008 at the height of the energy crisis in South Africa. The price hovered around the $2 000/oz mark until July 2008 after which the price declined sharply due to the "speculative sell off" (GFMS Ltd 2009) and the declining autocatalyst demand.

In the year the average platinum price increased by 21% and 37% in US dollar and South African Rand terms respectively from $1 303/oz (R294 875/kg) to a record $1 577/oz (R405 555/kg) compared with 2007. The rises in prices were attributed to South African production-related fears.

The average palladium price decreased by 0.7% in dollar terms (from $355/oz to $352/oz) but increased 12.6% in Rand terms (R80 401/kg to R90 510/kg) in 2008 relative to 2007.

The average price of Rhodium the world's most expensive primary metal increased by 6% from $6 190/oz in 2007 to $6 549/oz in 2008. This means that South Africa, the world's largest producer of the metal (over 80% of world production) would have received some R1.3 billion for each ton of rhodium sold during 2008.

INFORMATION COMMUNICATION TECHNOLOGY

During the year the change-over from SADB-Admin system to SADPMR-Admin System was completed.

The SADPMR-Admin System project had the following Modules : Diamond exchange and export tender process, licencing, inspection, registration, finance and management reporting which have been completed and where necessary 'add-ons' were made to better integrate sub-module/s with other applications and to fine-tune to divisional needs.

For the Finance Division the change-over from MS Great Plains to Pastel Evolution was completed. Data conversion/integration with the Admin System are in progress while the expansion of the existing switchboard was also completed.

With effect from November 2008 the SARS' systems and the new SADPMR-Admin System allowed for the implementation of the Export Levy Act 2007 which is administered chiefly by SARS with support from the SADPMR.

AUDIT COMMITTEE REPORT

Audit Committee Membership and Attendance

The Audit Committee was reconstituted from 1 November 2007 and consists of a maximum of five independent non-executive members appointed by the Board of the Regulator. The Chief Executive Officer, Chief Financial Officer, representatives of the outsourced Internal Auditors and the Auditor General attended meetings of the Audit Committee. The Audit Committee met five times during the year and has therefore complied with the minimum number of meetings as set out in its approved Audit Committee Charter (at least two times). Listed hereunder are members and the number of meetings attended by each:

Name of Member	Number of meetings attended
Mr. P. Bersiks (Chairman)	5
Mr. K. Rana	5
Mr. E. Blom	1
Mr. M. Ntumba	4
Mr. B. Mngoma	3
Mr. L. Selekane	4
Mr. J. Mthethwa	5

Audit Committee Responsibility

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

The effectiveness of Internal Control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and the King II Report on Corpo-rate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. Areas of weakness identified for improvements that have been highlighted in the various reports of the outsourced internal auditors and the Auditor-General have been or are in the process of being resolved. The Audit Committee will monitor management's progress towards these matters on a regular basis as required in terms of the Audit Committee Charter.

Having considered the above, the Audit Committee has no reason to believe that any material breakdown in the functioning of internal controls, procedures and systems has occurred during the period under review.

Evaluation of Annual Financial Statements

The Audit Committee has:

- Reviewed and discussed the annual financial statements to be included in the annual report with the Auditor-General of South Africa (AGSA) and the chairperson of the accounting authority;
- Reviewed the Auditor-General's management report and management's response thereto;

- Reviewed the appropriateness of accounting policies and practices adopted, and

- Reviewed significant adjustments resulting from the audit.

The Audit Committee having considered the financial position of the Regulator, the report of the directors and the audit report of the Auditor-General, concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

The Audit Committee concurs and accepts the Auditor-General's conclusion on the annual financial statements and is of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General and has therefore recommended the adoption and approval of the financial statements by the Board of the Regulator.

MR PETER BERSIKS
Chairperson

C O N T E N T S

APPROVAL OF FINANCIAL STATEMENT

The Financial Statements which appear in this Annual Report were approved by the Board on 27 May 2009. The Statements were signed on behalf of the Board of the Regulator by:

MR S. PHIRI
CHAIRMAN

MR S. SIKHOSANA
ACTING CHIEF
EXECUTIVE OFFICER

MR J. MTHETHWA
CHIEF FINANCIAL OFFICER

MS M. MOBENG
COMPANY SECETARY

Report of the Auditor-General to Parliament on the financial statements and performance information of the South African Diamond and Precious Metals Regulator for the year ended 31 March 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the South African Diamond and Precious Metals Regulator which comprise the statement of financial position as at 31 March 2009, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 67.

The accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Public Fi nance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

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) (PAA), 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 on 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

7. In my opinion the financial statements present fairly, in all material respects, the financial

position of the South African Diamond and Precious Metals Regulator as at 31 March 2009 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury as set out in accounting policy note 1 and in the manner required by the PFMA.

Emphasis of matters

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

Basis of accounting

8. The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Irregular expenditure

9. As disclosed in note 21 to the financial statements, irregular expenditure to the amount of R890 902 was incurred, as a proper tender process was not followed.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

10. The provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 Presentation of Financial Statements. The supplementary budget information set out on page 68 does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation
Public Finance Management Act

11. Section 76(4) of the PFMA requires the Regulator to comply with any regulations or instructions issued by the National Treasury.

- The entity administered a bank account on behalf of the Department of Mineral and Energy to receive cash donations and disburse these amounts on behalf of the department. Donations of R1 192 571 were received into this account and as at year-end a balance of R412 242 was remaining. The donations were not paid into the relevant revenue fund as required by Treasury Regulation 21.2.2. Furthermore, contrary to Treasury Regulation 31.2.1 the entity did not obtain National Treasury approval for the opening of this bank account.

- The entity's audit committee did not have a quorum for three of the five audit committee meetings in accordance with its audit committee charter.

- A consulting firm for which one of the members of the audit committee was a director, was contracted during the year to render consulting services to the Regulator. As a result, the member was not independent contrary to the entity's audit committee charter.

Governance framework

12. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

13. 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 I have assessed as follows:

No.	Matter	Yes	No
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resultingfrom the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 55 of the PFMA).	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	The public entity had an audit committee in operation throughout the financial year.		✓
	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 27.1.8.		✓
7.	Internal audit		
	The public entity had an internal audit function in operation throughout the financial year.	✓	

No.	Matter	Yes	No
	The internal audit function operates in terms of an approved internal audit plan.	✓	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.		✓
12.	Powers and duties assigned are in place, as set out in section 56 of the PFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		✓
14.	SCOPA resolutions have been substantially implemented.	n/a	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the South African Diamonds and Precious Metals Regulator against its mandate, predetermined objectives, outputs, indicators and targets (Treasury Regulations 29.1/30.1).	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		✓

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

14. I was engaged to review the performance information.

The accounting authority's responsibility for the performance information

15. 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 predetermined objectives of the public entity.

The Auditor-General's responsibilities

16. 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 .

17. 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.

18. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below:

Findings on performance information

Non-compliance with regulatory requirements

19. The entity did not report performance against predetermined objectives as required by section 55(2)(a) of the PFMA.

No or inadequate quarterly reporting on performance information

20. The quarterly reports of the South African Diamonds and Precious Metals Regulator did not track progress against outputs, indicators and targets as per the approved strategic plan and therefore did not facilitate effective performance monitoring and evaluation, as required by Treasury Regulation 30.2.1.

APPRECIATION

21. The assistance rendered by the staff of the South African Diamond and Precious Metals Regulator during the audit is sincerely appreciated.

JOHANNESBURG

31 July 2009

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of financial position at 31 March 2009

	Notes	2008/09 (12 Months) R	2007/08 (9 Months) R
Assets			
Non-current assets			
Property, plant and equipment	2	7 349 690	7 448 771
Intangible assets	3	1 312 192	737 427
		8 661 882	**8 186 198**
Current assets			
Trade and other receivables	4	748 403	494 083
Inventories	5	79 891	-
DME Partnership bank account	6	412 242	-
Cash and cash equivalents	7	63 801 093	49 770 582
		65 041 629	**50 264 665**
Total assets		**73 703 511**	**58 450 863**
Accumulated surplus		**68 610 269**	**54 727 618**
Liabilities			
Non-current liabilities			
Finance lease obligations	8	542 386	520 796
Current liabilities			
Trade and other payables	9	2 076 754	1 572 393
Accruals	10	2 001 696	1 575 469
DME Partnership Programme	6	412 242	-
Finance lease obligations	8	60 164	54 587
		4 550 856	**3 202 449**
Total Liabilities		**5 093 242**	**3 723 244**
Total net assets and liabilities		**73 703 511**	**58 450 863**

Statement of financial performance for the year ended 31 March 2009

	Notes	2008/09 (12 Months) R	2007/08 (9 Months) R
Revenue		**65 331 877**	**43 294 869**
Levy income, licence and service fees	22	18 811 574	19 989 930
Government Grant		40 000 000	20 000 000
Interest income		6 494 011	3 304 939
Profit on disposal of property plant and equipment		26 292	-
Expenses		**51 449 226**	**23 696 026**
Staff costs	15	21 101 606	11 029 106
Finance costs		139 792	151 667
Depreciation and amortisation		2 912 621	994 315
Loss on disposal of property, plant and equipment		-	447 075
Impairment of intangible asset	3	10 242 900	-
Other operating costs		17 052 307	11 073 863
Surplus for the year/period		**13 882 651**	**19 598 843**

Statement of changes in net assets for the year ended 31 March 2009

	Accumulated surplus R	Total net assets R
Balance at 31 July 2007	-	-
Transfer from South African Diamond Board	35 128 775	35 128 775
Changes in equity		
Surplus for the period	19 598 843	19 598 843
Balance at 31 March 2008	**54 727 618**	**54 727 618**
Changes in equity		
Surplus for the year	13 882 651	13 882 651
Balance at 31 March 2009	**68 610 269**	**68 610 269**

Cash flow statement for the year ended 31 March 2009

	Notes	2008/09 (12 Months)	2007/08 (9 Months)
Cash flows from operating activities		**R**	R
Cash receipts from customers, government and other		58 557 254	40 060 577
Cash paid to suppliers and employees		(37 303 216)	(20 728 369)
Cash generated from operations	13	21 254 038	19 332 208
Interest income		6 494 011	3 304 939
Finance costs paid		(139 792)	(151 667)
Net cash flow from operating activities		**27 608 257**	**22 485 480**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(2 374 373)	(6 481 969)
Purchase of intangible assets	3	(11 311 354)	(832 087)
Proceeds on disposal of property, plant and equipment		80 814	280 248
Net cash flow from investing activities		**(13 604 913)**	**(7 033 808)**
Cash flows from financing activities			
Increase/(Decrease) in finance lease liabilities		27 167	(88 369)
Net cash flow from financing activities		**27 167**	**(88 369)**
Net increase in cash and cash equivalents		**14 030 511**	**15 363 303**
Cash and cash equivalents at the beginning of the period		49 770 582	34 407 279
Total cash and cash equivalents at the end of the year/period	**7**	**63 801 093**	**49 770 582**

Accounting policies for the year ended 31 March 2009

BASIS OF PREPARATION

1 The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (SAGAAP) including any interpretations of such statements issued by the Accounting Practices Board with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent of GAAP statements as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC 101: Presentation of financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements.
The implementation of GRAP 1 2 & 3 has resulted in the following significant changes in the presentation of the financial statements:

(A) Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting date	Balance sheet date

(B) The cash flow statement has been prepared using the direct method.

(C) Specific information has been presented separately on the statement of financial position such as:
- (i) Receivables from non-exchange transactions including taxes and transfers,
- (ii) Taxes and transfers payable, and
- (iii) Trade and other payables from non-exchange transactions.

Standards, interpretations and amendments to published standards which are not yet effective:

The following are new standards, interpretations and amendments to existing standards that at the date of authorisation were in issue but not yet effective. These standards, interpretations and amendments have not been adopted early by the entity.

- **GRAP 4**
  The effect of changes in exchange rates

This standard is in line with the current equivalent standard of GAAP and is not expected to have an impact as the entity does not have any foreign currency denominated transactions.

- **GRAP 5**
  Borrowing costs (effective 1 January 2009)

This standard now requires an entity to capitalise borrowing costs attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use) as part of the cost of that asset. The option for immediately expensing those borrowing costs has been removed. This is not expected to have any impact as the entity does not have qualifying assets in its operations.

- **GRAP 6**
  Consolidated and separate financial statements

This standard is in line with the equivalent standard of GAAP and is not expected to have an impact on entity as it does not have subsidiaries. In accordance with GRAP 6, acquisition of a non-controlling interest in subsidiaries have to be accounted for as equity transactions. Disposal of equity interest whilst retaining control are also accounted for as equity transactions. When control of an investee is lost, the gain or loss resulting from the transaction will be recognised in profit or loss.

- **GRAP 7**
  Investment in associates (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and is not expected to have an impact on the entity as it does not have associates.

- **GRAP 8**
  Investment in joint ventures (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and is not expected to have an impact on the entity as it does not have joint venture arrangements.

- **GRAP 9**
  Revenue from Exchange Transactions (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

- **GRAP 10**
  Financial reporting in Hyperinflationary Economies (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements as the entity does not operate in the hyperinflationary environment.

- **GRAP 11**
  Construction contracts
  (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements as the entity does not enter into construction contracts.

- **GRAP 12**
  Inventories

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

- **GRAP 13**
  Leases

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

- **GRAP 14**
  Events after reporting date
  (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

- **GRAP 16**
  Investment property
  (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements as it does not have any investment properties.

- **GRAP 17**
  Property, plant and equipment
  (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

- **GRAP 18**
  Segment Reporting

This standard specifies how an entity should report information about its operating segments in the annual financial statements. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. This will not have any impact on the entity as it does not have different segments of operations.

- **GRAP 19**
  Provisions, Contingent Liabilities and Contingent Assets (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

- **GRAP 100**
  Non-current assets held for sale and discontinued operations
  (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

- **GRAP 101**
  Agriculture (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements as the entity does not have any agricultural activities.

- **GRAP 102**
  Intangible assets (effective 1 April 2009)

This standard is in line with the current equivalent standard of GAAP and therefore will have no impact on the financial statements.

1.1 Significant judgements

In preparing the financial statements management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements.

Significant judgements include:

Loans and Receivables
The entity assesses its loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the Statement of Financial Performance, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the future cash flows from a financial asset.

Provisions
Provisions were raised and management determined an estimate based on the information available.

Additional disclosure of these estimates of provisions are included in note 10 - Accruals.

Asset useful lives and residual values
Property, plant and equipment and intangible assets are depreciated to their residual values over their expected useful lives. Residual values and asset lives are assessed annually based on management's judgement of relevant factors and conditions.

1.2 Property, Plant and Equipment

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

- It is probable that future economic benefits associated with the item will flow to the entity, and

- the cost of the assets can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and cost incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. Property, plant and equipment has been recognised at the initial cash purchase price or cash equivalent.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Item	Average useful life
Furniture and fittings	15 years
Motor vehicle	6 years
Office machine and laboratory equipment	5 years
Computer hardware	4 years
Building alterations (leasehold improvements)	5 years
Security systems	7 years
Switchboard	8 years

The residual value and the useful life of each asset are reviewed at each financial period-end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge of each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. The cost of the item of property, plant and equipment, less its residual value, has been used to depreciate the asset over its useful life using the straight line method of depreciation.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably. Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. The amortisation is provided to write down the intangible assets, on a straight line basis to the residual values as follows:

An intangible asset with an indefinite useful life is not amortised, however it gets tested every year for impairment.

Item	Useful life
Computer software - Application software	3 years
Research and development	5 years

1.4 Financial Instruments

Initial recognition

The entity classifies financial instruments, or their component parts, on initial recognition as

a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the entity's statement of financial position when the entity becomes party to the contractual provision of the instrument.

Trade and other receivables

Trade and other receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method where the effects of discounting were material. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method where the effect of discounting is material.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The finance lease payments are allocated using the effective interest rate method between the lease finance cost which is included in finance costs and the capital repayment, which reduces the liability of the lessor.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, the term of the relevant lease.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term where the effect of straight-lining is material. The difference between the amounts recognised as an expense and the contractual pay-

ment are recognised as an operating lease asset. This liability is not discounted. Any contingent rentals are expensed in the period they are incurred.

1.6 Impairment of assets

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exits, the entity estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. The recoverable amount of an asset is the higher of its fair value less cost to sell at it value in use. If the recoverable amount of an asset is less than its carrying value amount, the carrying amount of the asset is reduced to its recoverable amount. The reduction is an impairment loss.

An impairment loss of an asset carried at cost less any accumulated depreciation or amortisation is recognised immediately in the surplus or deficit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for that asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.7 Employee benefits

Short term employee benefits

The cost of short term employee benefits are recognised in the period in which the service is rendered and are not discounted.

The expected costs of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulated absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan.

1.8 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of the past event,

- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and

- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be incurred to settle the obligation.

Provisions are not recognised for future operating losses.

1.9 Revenue

Revenue comprises state grant, license fees, levy income, service fees, and interest income.

When the outcome of a transaction involving the rendering of service can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the entity;

- the stage of completion of the transaction at the reporting date can be measured reliably; and

- the cost incurred for the transaction and the cost to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business.

Revenue from licence fees is recognised on a straight-line basis over the licence period, when all the requirements are met.

Interest income is recognised as it accrues in surplus or deficit, using the effective interest rate method.

1.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

1.11 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.12 Irregular, fruitless and wasteful expenditure

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

- The PFMA
- Treasury Regulations

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

1.13 Government Grant

Government Grant is recognised when there is reasonable assurance that:

- the entity will comply with the condition attaching to them
- the grant will be received

Government Grant is intended to compensate expenses and give immediate financial support to the entity with no future related costs and is recognised as income in the period in which it is received.

1.14 General Information

South African Diamond and Precious Metals Regulator (SADPMR), a public entity in terms of Schedule 3A of the Public Finance and Management Act, is incorporated and domiciled in the Republic of South Africa. It was established to administer the Diamonds Act, 1986 (as amended) and the Precious Metals Act, 2005 (Act 37 of 2005). Its functions include regulating control over possession, the purchase, and sale of diamonds, the processing and the export of diamonds and implementing, administering and controlling all matters relating to acquisition, possession, smelting, refining, fabrication, use and disposal of precious metals.

Notes to the financial statements for the year ended 31 March 2009

2. Property, plant and equipment

	2008/09 (12 Months)			2007/08 (9 Months)		
	Cost / Valuation R	Accumulated depreciation R	Carrying value R	Cost / Valuation R	Accumulated depreciation R	Carrying value R
Building alterations	4 158 217	1 649 760	**2 508 457**	3 449 093	762 360	**2 686 733**
Leased switchboard	138 469	122 172	**16 297**	138 470	112 753	**25 717**
Furniture and fittings	2 082 091	391 861	**1 690 230**	2 036 469	175 126	**1 861 343**
Motor vehicles	936 341	171 549	**764 792**	312 830	43 891	**268 939**
Office equipment	1 604 134	730 911	**873 223**	1 154 799	347 039	**807 760**
Computer hardware	1 530 509	821 204	**709 305**	1 319 135	348 709	**970 426**
Leased office equipment	836 030	302 805	**533 225**	639 159	126 735	**512 424**
Switchboard	274 547	70 701	**203 846**	241 538	22 987	**218 551**
Security systems	121 132	70 817	**50 315**	121 131	24 253	**96 878**
TOTAL	**11 681 470**	**4 331 780**	**7 349 690**	**9 412 624**	**1 963 853**	**7 448 771**

Reconciliation of property, plant and euipment - 2009 (12 Months)

	Opening balance R	Additions R	Disposals R	Depreciation R	TOTAL R
Building alterations	2 686 733	709 125	-	887 401	**2 508 457**
Leased switchboard	25 717	-	-	9 420	**16 297**
Furniture and fittings	1 861 343	45 623	-	216 736	**1 690 230**
Motor vehicles	268 939	623 512	-	127 659	**764 792**
Office equipment	807 760	449 335	-	383 872	**873 223**
Computer equipment	970 426	211 374	-	472 495	**709 305**
Leased office equipment	512 424	302 396	54 522	227 073	**533 225**
Switchboard	218 551	33 008	-	47 713	**203 846**
Security systems	96 878	-	-	46 563	**50 315**
TOTAL	**7 448 771**	**2 374 373**	**54 522**	**2 418 932**	**7 349 690**

Reconciliation of property, plant and equipment - 2008 (9 Months)

	Opening balance R	Additions R	Disposals R	Depreciation R	TOTAL R
Building alterations	444 471	2 512 444	1 025	269 157	**2 686 733**
Leased switchboard	46 487	-	-	20 770	**25 716**
Furniture and fittings	387 247	1 631 818	84 916	72 806	**1 861 343**
Motor vehicles	490 567	153 801	366 005	9 425	**268 938**
Office equipment	394 851	559 006	59 797	86 300	**807 761**
Computer equipment	456 743	984 110	189 979	280 448	**970 426**
Leased office equipment	249 858	327 512	11 699	53 247	**512 424**
Switchboard	21 585	234 789	13 901	23 922	**218 551**
Security systems	26 944	78 489	-	8 555	**96 878**
TOTAL	**2 518 753**	**6 481 969**	**727 322**	**824 629**	**7 448 771**

Property, plant and equipment (continued)

Pledged as security

Obligations under finance leases are secured by the lessors' title to the leased assets.

Carrying value of assets pledged as security is R 549 522 (2007/08: R 538 140).

Assets subject to finance lease (Net carrying amount)

	2008/09 (12 Months) R	2007/08 (9 Months) R
Leased switchboard	16 297	25 716
Leased office equipment	553 225	512 424
	549 522	**538 140**

3. Intangible assets

	2008/09 (12 Months)			2007/08 (9 Months)		
	Cost / Valuation R	Accumulated amortisation/ impairment R	Carrying value R	Cost / Valuation R	Accumulated amortisation/ impairment R	Carrying value R
Research and Development	10 242 900	10 242 900	-	-	-	-
Computer software	2 265 314	953 122	1 312 192	1 196 861	459 434	**737 427**
	12 508 214	**11 196 022**	**1 312 192**	**1 196 861**	**459 434**	**737 427**

Reconciliation of intangible assets - 2009 (12 months)

	Opening balance R	Additions R	Disposals R	Amortisation/ impairment R	Total R
Research and Development	-	10 242 900	-	10 242 900	-
Computer software	737 427	1 068 454	-	493 689	**1 312 192**
	737 427	**11 311 354**	**-**	**10 736 589**	**1 312 192**

The amount for research and development relates to an investment in the diamond fingerprinting project undertaken by Mintek.

Reconciliation of intangible assets - 2008 (9 months)

	Opening balance R	Additions R	Disposals R	Amortisation/ impairment R	Total R
Research and Development	-	-	-	-	**-**
Computer software	75 026	832 087	-	169 686	**737 427**
	75 026	**832 087**	**-**	**169 686**	**737 427**

4. Trade and other receivables

	2008/09 (12 Months) R	2007/08 (9 Months) R
Trade receivables	2 260 847	901 625
Provision for bad debts	(2 009 198)	(736 289)
Staff debtors - Study fees	123 436	42 465
Deposit for office rental - Kimberley	15 618	-
Interest Receivable	217 801	175 931
Prepayments	63 221	33 673
Value Added Tax (VAT)	76 678	76 678
	748 403	**494 083**

5. Inventories

Stationery	79 891	-
	79 891	**-**

The cost of inventories recognised as an expense is included under other operating costs.

6. DME Partnership Programme and bank account

Opening balance	-	-
Donation received	1 069 371	-
Expenditure	(657 129)	-
Excess of donations over expenditure	**412 242**	**-**
Cash at end of the year	**412 242**	**-**

These accounts relate to donations on behalf of Department of Minerals and Energy (DME) from its partners, expenditure related to the partnership programmes and cash in the bank.

7. Cash and cash equivalents

	2008/09 (12 Months)	2007/08 (9 Months)
The cash position at year end was made up of the following:		
	R	R
Cash on call	62 814 730	48 234 755
Cash on current account	344 213	1 617 424
Cash on salary account	612 166	(91 047)
Cash on hand	29 984	9 450
	63 801 093	**49 770 582**

8. Finance lease obligations

Minimum lease payments due		
- within one year	306 447	294 229
- in second to fifth year inclusive	481 909	523 737
	788 356	**817 966**
Less future finance charges	(185 806)	(242 583)
Present value of minimum lease payments	**602 550**	**575 383**
Present value of minimum lease payments due		
- within one year	60 164	54 587
- in second to fifth year inclusive	542 386	520 796
	602 550	**575 383**

It is the practice of the South African Diamond and Precious Metals Regulator to lease certain office and switchboard equipment under finance leases.

The average lease term is 3 - 5 years and the average effective borrowing rate is 18%.

Interest rates are linked to prime at the contract date. All assets have fixed repayments with no annual escalation rate but varies with the change in the prime interest rate. No arrangements have been entered into for contingent rent .

9. Trade and other payables

	2008/09 (12 Months) R	2007/08 (9 Months) R
Trade payables	1 411 255	1 356 258
Payments received in advance	665 499	216 135
	2 076 754	**1 572 393**

10. Accruals

Accrued bonus	326 696	594 156
Accrued expenses	500 448	271 723
Leave pay	1 174 552	709 590
	2 001 696	**1 575 469**

11. Surplus for the period

Surplus for the year is stated after accounting for the following:

Operating lease charges		
Premises - Contractual amount	800 269	414 510
Valuation fees	3 214 530	3 840 737
Auditors remuneration		
Current year - External audit	751 864	721 938
Prior year underprovision - External audit	368 345	-
Current year - Internal audit	311 902	-
Other services	186 758	-
	1 619 369	721 938
Board members fees	550 102	301 195
Consulting fees	1 298 166	673 686
Amount expensed in respect of retirement benefit plans	1 605 284	768 027
Promotions	225 981	89 354
Legal fees	190 382	317 451
Loss on disposal of assets	-	447 075
Assets written off	-	55 341
Kimberley process	421 647	307 750
Airfares	821 444	391 439

12. Finance costs

	2008/09 (12 Months)	2007/08 (9 Months)
	R	R
Finance leases	137 968	151 667
Operating leases	1 824	-
	139 792	**151 667**

13. Cash generated from operations

Surplus before taxation	13 882 651	19 598 844
Adjustment for:		
Depreciation and amortisation	2 912 621	994 315
Impairment of intangible asset	10 242 900	-
Interest received	(6 494 011)	(3 304 939)
Finance costs	139 792	151 667
(Gain)/Loss on disposal of property plant and equipment	(26 292)	447 075
Operating surplus before changes in working capital	**20 657 661**	**17 886 962**
Changes in working capital	**596 377**	**1 445 246**
Decrease/(Increase) in debtors	(254 320)	70 644
Decrease/(Increase) in inventories	(79 891)	-
Increase/(Decrease) in creditors	504 631	542 639
Increase/(Decrease) in accruals	426 227	831 963
Cash generated by operations	**21 254 038**	**19 332 208**

14. Commitments

	2008/09 (12 Months) R	2007/08 (9 Months) R
Operating leases - as lessee		
Minimum lease payments due		
- within one year	751 084	682 408
- second to fifth year	85 899	723 352
	836 983	**1 405 760**

The landlord Apexhi Properties Limited leases office space to the South African Diamond and Precious Metals Regulator, Johannesburg. The lease was renegotiated on 9 March 2007 for a period of 36 months commencing on 01 April 2007. The new monthly lease payment is R65 376.79, with an escalation clause of 6% and is renewable at the end of the lease term. There is an additional charge for parking and security.

The landlord Eskom leases the office space to the South African Diamond and Precious Metals (Kimberley office) for a period of 24 months effective from 01 September 2008 at an escalation rate of 10%. The lease payment is currently R15 618.00 per month and is renewable at the end of the lease term.

Other commitments include the following:

- New vehicle for Kimberley office	306 511	-
- Snow Globe project	400 000	-
	706 512	**-**

15. Staff costs

	Basic salary R	Bonus R	Allowances R	Pension R	Medical Aid R	Leave expenses R	Staff uniform R	2008/09 (12 Months) R TOTAL	2007/08 (9 Months) R TOTAL
Chief Executive Officer	1 036 194	108 165	177 000	107 106	36 194	54 565	4 720	**1 523 945**	**747 884**
Chief Financial Officer	596 053	87 540	94 000	62 727	36 108	20 114	4 720	**901 261**	**579 646**
GM Legal Service	537 387	88 480	177 900	59 802	-	43 380	4 720	**911 670**	**534 002**
GM Precious Metals	445 937	57 563	125 279	48 720	24 031	20 908	4 720	**727 157**	**-**
HR Manager	491 400	29 765	120 000	49 072	8 765	15 141	4 720	**718 864**	**203 435**
Beneficiation Strategist	584 872	30 290	9 800	49 455	13 961	27 246	4 720	**720 343**	**328 845**
Company Secetary	439 540	20 383	137 942	46 620	14 296	(128)	-	**658 653**	**358 735**
Inspection Manager	444 430	49 731	94 524	47 017	20 043	11 206	-	**666 952**	**359 891**
Licensing Manager	436 213	65 367	75 500	52 346	23 944	38 413	-	**691 782**	**452 773**
Gov Diamond Valuer	253 941	41 015	90 000	29 160	13 635	33 286	4 720	**465 758**	**-**
Other employees	10 451 613	461 920	236 237	1 053 259	571 187	254 823	86 183	**13 115 221**	**7 463 895**
	15 717 581	**1 040 217**	**1 338 182**	**1 605 284**	**762 163**	**518 954**	**119 224**	**21 101 606**	**11 029 106**

16. Risk Management

Interest rate risk

The valuation of interest rate exposure and investment strategies is done by management on a regular basis. Interest-bearing investments are held with reputable banks to minimise exposure.

At year end, financial instruments exposed to interest rate risk were as follows:

Balances with banks, current account and call accounts.

Credit risk

Credit risk consists mainly of call deposits cash equivalents, trade and sundry debtors. The South African Diamond and Precious Metals Regulator only deposits cash with major banks with high quality credit standing and limits exposure to any one counter party.

	2008/09 (12 Months) R	2007/08 (9 Months) R
The maximum exposure to credit risk of trade receivables by type of customer is:		
Diamonds and precious metals dealers and producers	837 016	671 675
	837 016	**671 675**

The ageing of the entity's receivables is as follows :

	2009		2008	
	Gross R	Impairmanent R	Gross R	Impairmanent R
0 - 30 days	222 123	-	213 019	
Past due 31 - 60 days	2 000	400	42 338	8 468
Past due 61 - 120 days	224	224	58 782	58 782
Past due > 120 days	2 377 738	1 931 896	882 559	699 040
Total	**2 602 085**	**1 932 520**	**1 196 699**	**766 289**

Liquidity risk

The entity manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows. Adequate reserves and liquid resources are also maintained.

The following are the contractual maturities of financial liabilities for the entity, including interest payments:

			2009 (12 Months)			
	Effective interest rate %	**Armotised cost**	**Less than 1 year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
	R	**R**	**R**	**R**	**R**	**R**
Trade and other payables	0%	-	4 078 450	-	-	-
Finance lease obligations	18%	-	60 164	-	542 386	-
Total	**-**	**-**	**4 138 614**	**-**	**542 386**	**-**

			2008 (9 Months)			
	Effective interest rate %	**Armotised cost**	**Less than 1 year**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
	R	**R**	**R**	**R**	**R**	**R**
Trade and other payables	0%	-	3 147 862	-	-	-
Finance lease obligations	29%	-	54 587	-	520 796	-
Total	**-**	**-**	**3 202 449**	**-**	**520 796**	**-**

17. Taxation matters

The South African Diamond and Precious Metals Regulator has applied for the Income Tax Exemption certificate in terms of section 10(1)(cA) of the Income Tax Act No.58 of 1962 as amended.

The current tax exemption number 9615/289/15/5 is still in the name of the South African Diamond Board, the functions and mandate of which have been taken over by the Regulator.

18. Long term contract

The South African Diamond and Precious Metals Regulator had a contract with the Government Diamond Valuator whose main function was to confirm the caratage, value and description of unpolished diamonds to be cleared for exports. The contract was terminated on 30 September 2008.

19. Related parties

The South African Diamond and Precious Metals Regulator is a public entity under Section 3A of the Public Finance Management Act (Act No. 1 of 1999) with the Department of Minerals and Energy as its accounting authority. The Regulator enjoys the related party status with the following national governmental institutions:

Related party	Nature of relationship	Net amount paid by/(to) related party	Balance due (to)/from
Eskom Holdings Limited	Public entity	(185 952)	(2 891)
Department of Minerals and Energy	National Department	40 000 000	-
South African Post Office Limited	Public entity	(343 392)	4 956
State Diamond Trader	Public entity	(13 752)	23 849
South African Police Services	Public entity	(598 242)	-
South African Reserve Bank	Public entity	(77 046)	
Government Employees Pension Fund	Public entity	(1 605 284)	3 173
South African Revenue Services	Public entity	-	76 678
Mintek	Public entity	(10 232 275)	-
Council for Geoscience	Public entity	-	-
Government Printing Works	Public entity	(39 541)	-
Denel Dynamics (Pty) Ltd	Public entity	100	-
Rheinmetall Denel Munitions (Pty) Ltd	Public entity	1 019	-

Other related parties consist of remuneration to board members and key managemnt personnel, disclosed in note 20 and 15 respectively. All related party transactions are at arm's length and on normal commercial terms, except where employees of national departments or entities participate in the Regulator's processes and do not receive any remuneration.

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the Regulator.

20. Fees paid to Board members of the Regulator

The gross fees paid to Board members for the year under review are as follows:

			2008/09 (12 months)			2007/2008 (9 months)
		No. of meetings attended	**Paid to member**	**Paid to employer**	**Total paid**	**Total paid**
			R	**R**	**R**	**R**
Mr	S Phiri		42 154	-	42 154	37 044
	- as chairperson	7	42 154	-	-	31 752
	- attendance at other meetings		-	-	-	5 292
Mr	RA Manoko	13	74 325	-	74 325	27 510
Mr	A Luhlabo	8	37 000	-	37 000	19 650
Mr	E Majadibodu	5	22 400	-	22 400	15 720
Mr	L Grobler	7	31 360	-	31 360	15 720
Mr	M Lotter	1	4 480	-	4 480	28 481
Mr	E Blom	10	44 800	-	44 800	11 790
Dr	FW Peterson	7	31 360	-	31 360	15 720
Mr	RA Baxter	8	35 840	-	35 840	27 510
Mr	P Bersiks	15	67 200	-	67 200	23 580
Mr	K Rana	12	53 760	-	53 760	31 440
Dr	ARH Colburn	7	-	31 360	31 360	-
Mr	L Delport	6	-	33 743	33 743	46 380
Mr	B Mngoma #	3	13 440	-	13 440	-
Mr	MC Ntumba #	6	-	26 880	26 880	-
Mr	G Zacharias	-	-	-	-	650
			458 119	**91 983**	**550 102**	**301 195**
Mr	L Selekane - Chief Executive Officer (CEO)		**1 523 945**	**-**	**1 523 945**	**747 884**

All fees paid were approved by the Minister of Minerals and Energy and were implemented with effect from 01 April 2008. All Board members with the exception of the CEO, are non-executive.

Mr B. Mngoma and Mr MC. Ntumba both serve on the Audit Committee of the Regulator.

21. Irregular expenditure

	2008/09	2007/08
	(12 Months)	(9 Months)
21.1 Reconciliation of irregular expenditure	**R**	**R**
Opening balance	-	-
Irregular expenditure - current year	890 902	-
Total irregular expenditure	**890 902**	**-**

21.2 Analysis of irregular expenditure

Internal audit fees	The advertisement not put out on tender	311 902	-
Consulting fees	The advertisement not put out on tender	579 000	-
		890 902	**-**

These expenses were not recovered during the year and will be tabled to the Board for ratification.

22. Comparison of the actual results with the approved budget for the 12 months ended 31 March 2009

	2008/09			2007/08
Revenue	**Actual R**	**Budgeted R**	**Variance R**	**Actual R**
Government grant	40 000 000	44 802 817	(4 802 817)	20 000 000
Levy income, licence and service fees	18 811 574	-	18 811 574	19 989 930
Other income	26 292	-	26 292	-
	58 837 866	**44 802 817**	**14 035 049**	**39 989 930**
Interest income	6 494 011	-	6 494 011	3 304 939
Expenses (as listed below)	(51 309 434)	(44 802 817)	(6 506 617)	(23 544 359)
Operating surplus	**14 022 443**	**-**	**14 022 443**	**19 750 510**
Finance costs	(139 792)	-	(139 792)	(151 667)
Surplus for the period	**13 882 651**	**-**	**13 882 651**	**19 598 843**

Operating expenses	**Actual R**	**Budgeted R**	**Variance R**	**Actual R**
Auditors remuneration	1 619 369	487 500	(1 131 869)	721 938
Consulting and professional fees	1 298 166	518 830	(779 336)	673 686
Depreciation and amortisation	2 912 621	2 580 000	(332 621)	994 315
Employee costs	21 101 606	22 547 904	1 446 298	11 029 106
Local meetings	550 102	644 095	67 113	762 708
International meetings	563 280	439 615	(123 665)	484 446
Training	797 217	206 480	(590 737)	295 600
Communications and marketing	658 953	357 574	(301 379)	334 952
Administration	2 353 866	11 098 167	8 744 302	3 783 411
Other expenditure	19 454 253	5 922 652	(13 531 601)	4 464 197
Total expenses	**51 309 434**	**44 802 817**	**(6 506 617)**	**23 544 359**

Tribute to the late CEO

"The footprints you left will always have a mark that can never be erased. Meeting you was a privilege that many who did not have unfortunately missed out on. Knowing you has been an honour and working with you was an immeasurable world of experience. Your passing has devastated all of us and the void you left can never be filled.

Robala ka kgotso Mokone mokokona pola ka pedi enngwe bametsa enngwe ba yo fa bana gae. Ke Mokone wa ntshi dikgolo Mokone o befa mmele hlaka la nko la wologa."

Louis Selekane was born in Pilgrim's Rest on 3 June 1958. He started his schooling at Pilgrim's Rest Primary in 1966. In 1968 he moved to Sabie where together with his elder brother Thula stayed with their aunt and attended Makgahlishe Primary School. He completed his primary school education at Mahubahuba Primary school in Zoeknog in 1976 and proceeded to Lekete where he completed his secondary education in 1978.

Louis Selekane acquired his diploma in geology from Mmadikoti College in 1981 where after he obtained his BSC degree in geology from the University of the North. Selekane joined the SA Development Trust as a geologist servicing Shongwe Badplaas and Giyani and in 1989 enrolled with the University of Zululand to study for his Honours degree in geology. He worked as an underground geologist for Anglo American from 1990-1995. In 1995 he started his own company (Refentse/ Sinqobile Geo-Services) where he worked as a director until 1997. He then joined the Department of Minerals and Energy as director in 1997 and subsequently as chief director of Minerals Promotion and Administration. Selekane served as CEO of the South African Diamond Board from March 2003 to June 2007 and was appointed CEO of the SADPMR in July 2007.

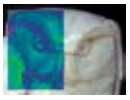
Louis Selekane is survived by his wife Catherine, their two daughters, two sons and a grandson.

Notes

Notes

Notes

RP 132/2009
ISBN: 978-0-621-38679-0



Isikhova
publishing & communications

Published by Isikhova Publishing and Communications
P.O.Box 651793 Benmore 2010 South Africa
Tel: +27 (0)11 883-4627 Fax: +27 (0)11 783-2677
www.isikhova.co.za

Images courtesy www.photos.com and Isikhova Publishing

Head office - Johannesburg

Suite 501 SA Diamond Centre

225 Main Street Johannesburg 2001

PO Box 16001 Doornfontein 2028

Tel: +27 11 334 8980/6

Fax: +27 11 334 8898

Website: www.sadpmr.co.za

Kimberley Regional Office

Trust Centre 3rd Floor

66 Jones Street Kimberley 8301

PO Box 2990 Kimberley 8301

Tel: +27 53 831 3121

Fax: +27 53 831 3184

Website: www.sadpmr.co.za

Corporate Services : Matshepo Mobeng : matshepom@sadpmr.co.za

Financial Services : Johnson Mthethwa : johnsonm@sadpmr.co.za

Diamond and Precious Metals : Simon Sikhosana : simons@sadpmr.co.za

Legal Services : Martin Mononela : martinm@sadpmr.co.za