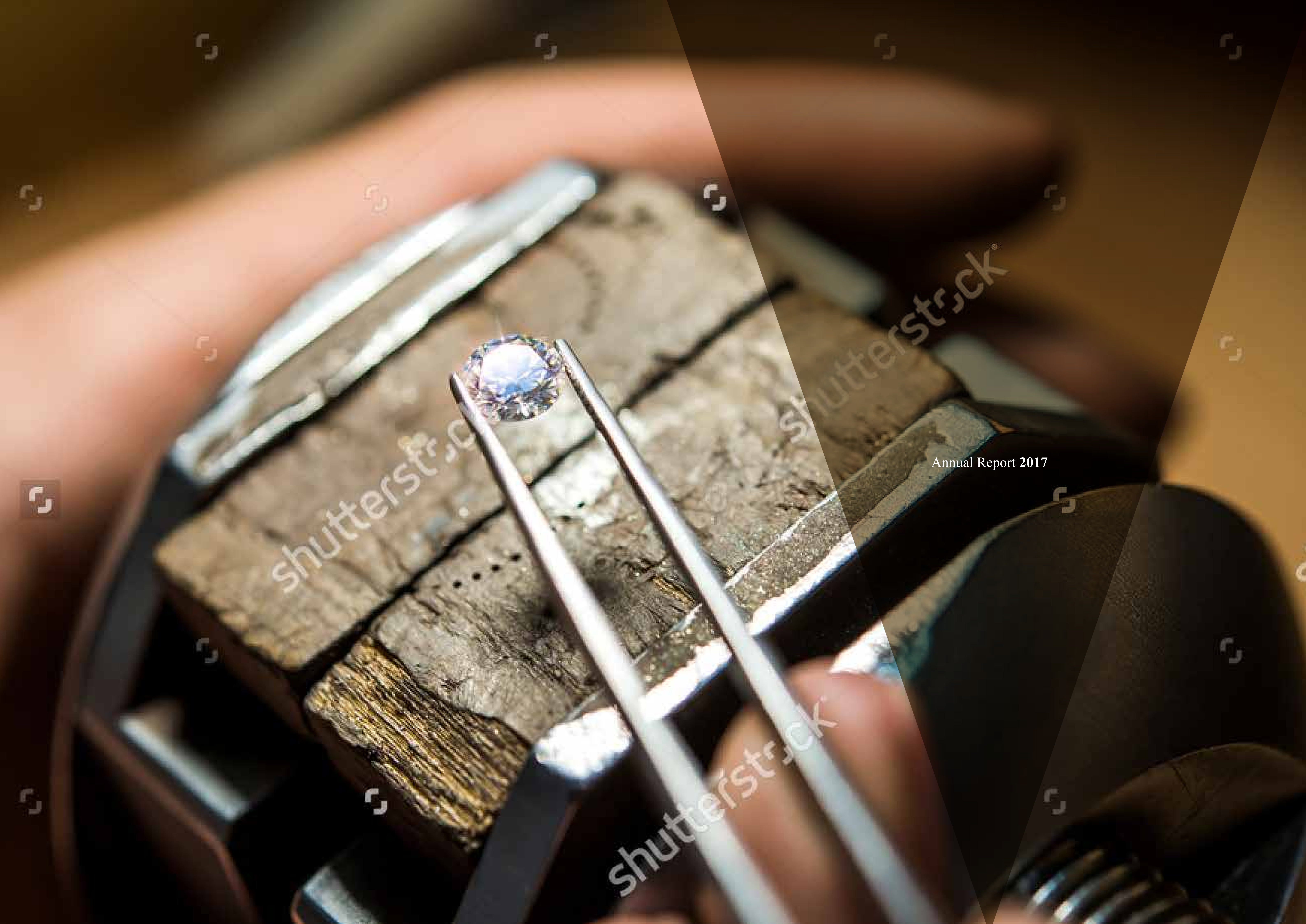
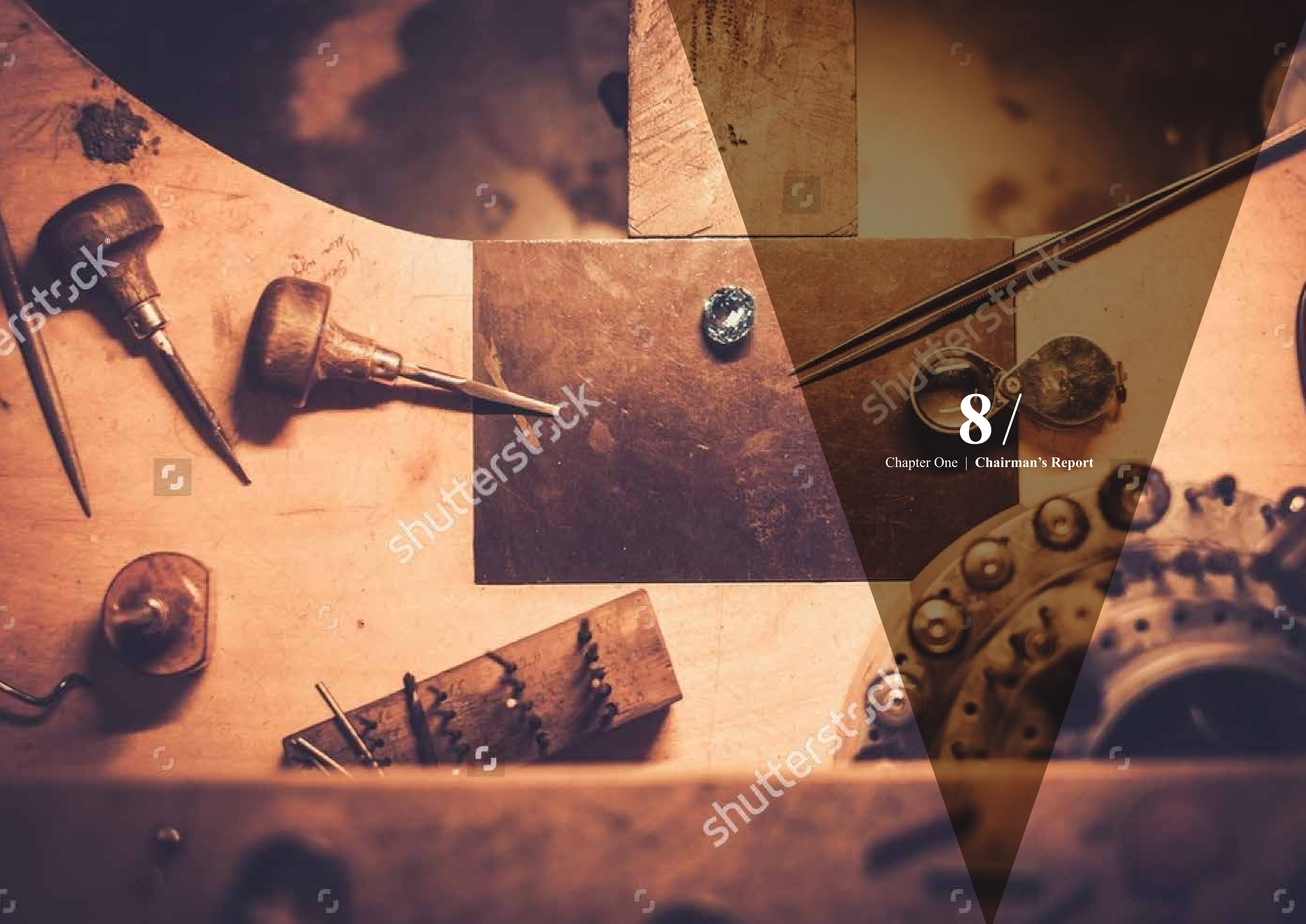
Annual Report **2017**

Annual Report **2017**



Annual Report **2017**



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Chapter One | **Chairman's Report**

9 / CHAIRMAN'S REPORT

It is my pleasure to present the first Namib Desert Diamonds (Pty) Ltd (NAMDIA) Annual Report 2016/17. This report offers a fair account of NAMDIA's performance since its establishment in 2016 and prospects going forward.

As a start-up business, NAMDIA had to be operationalised within a window period of 90 days after the signing of the Diamond Sorting, Valuing, Sales and Marketing Agreement between the Government of the Republic of Namibia and De Beers (the Agreement that enabled the establishment of NAMDIA and as mandated by the Cabinet of the Republic of Namibia).

A number of actions and decisions were taken before the Board was appointed by the Government Task Team (GTT), which was appointed by our line Ministry (The Ministry of Mines and Energy), to ensure that the company is established and to ensure that NAMDIA was ready to trade. The Board finally got appointed on the 2nd of August 2016. Thereafter the actions and decisions taken on behalf of NAMDIA by the GTT were then reviewed and ratified.

The first year of NAMDIA's operations was quite challenging. The company has been operating without its own office building and was leasing temporary offices. Diamond trading was conducted from the premises of the Namibia Diamond Trading Company (NDTC), who we sincerely thank for accommodating us in the interim. It has also taken time for the bulk of the management team to be recruited. The position of the Chief Executive is still occupied by our interim Chief Executive Officer, Mr. Kennedy Hamutenya. As soon as the management team is complete we will have our first and possibly most important substantive strategic planning process to firm up and consolidate the vision, mission and strategic direction of the company.

Despite the challenges highlighted above, NAMDIA had a positive year and has demonstrated that prices higher than the De Beers price book can be obtained for Namibian diamonds. Nevertheless, the road ahead is still challenging and we remain cautiously optimistic. We continue to strengthen our governance processes and procedures and continue to improve the way we do business. Once the renovations to our office are completed, we will introduce state of the art technology that will enable us to extract best possible product value from our diamonds and we shall expand our client base to ensure that we are able to deliver optimally on our mandate.

With regard to NAMDIA's financial performance, NAMDIA recorded a profit of N$62.7 million and is in good standing with the fiscus as a good corporate citizen. We achieved these results despite the challenging environment that we have operated in hitherto.

I wish to take this opportunity to extend my appreciation to my fellow Board members for their strategic focus and professionalism, which demonstrates their commitment to the business of NAMDIA. In the same vein, I must congratulate the management, especially Mr Kennedy Hamutenya and Ms Lelly Usiku for their hard work and dedication. I know that it has not been easy for them working under less than ideal conditions.

I must also take this opportunity to thank NAMDEB Holdings and the NDTC for their patience and support and most importantly for allowing NAMDIA to encroach on their limited working space. We value the partnership between NAMDIA and our strategic partners and I hope that this collaboration continues to grow from strength to strength.

Lastly, I would be remiss if I did not thank our line Ministry, The Ministry of Mines and Energy, for their support and confidence in NAMDIA as well as other stakeholder ministries, such as the Ministry of Finance and the Attorney General's Office who have worked side by side with us to ensure that NAMDIA creates a solid foundation and operates in a conducive environment that would enable it to succeed and maximize value for our shareholder as envisaged in NAMDIA's mandate.

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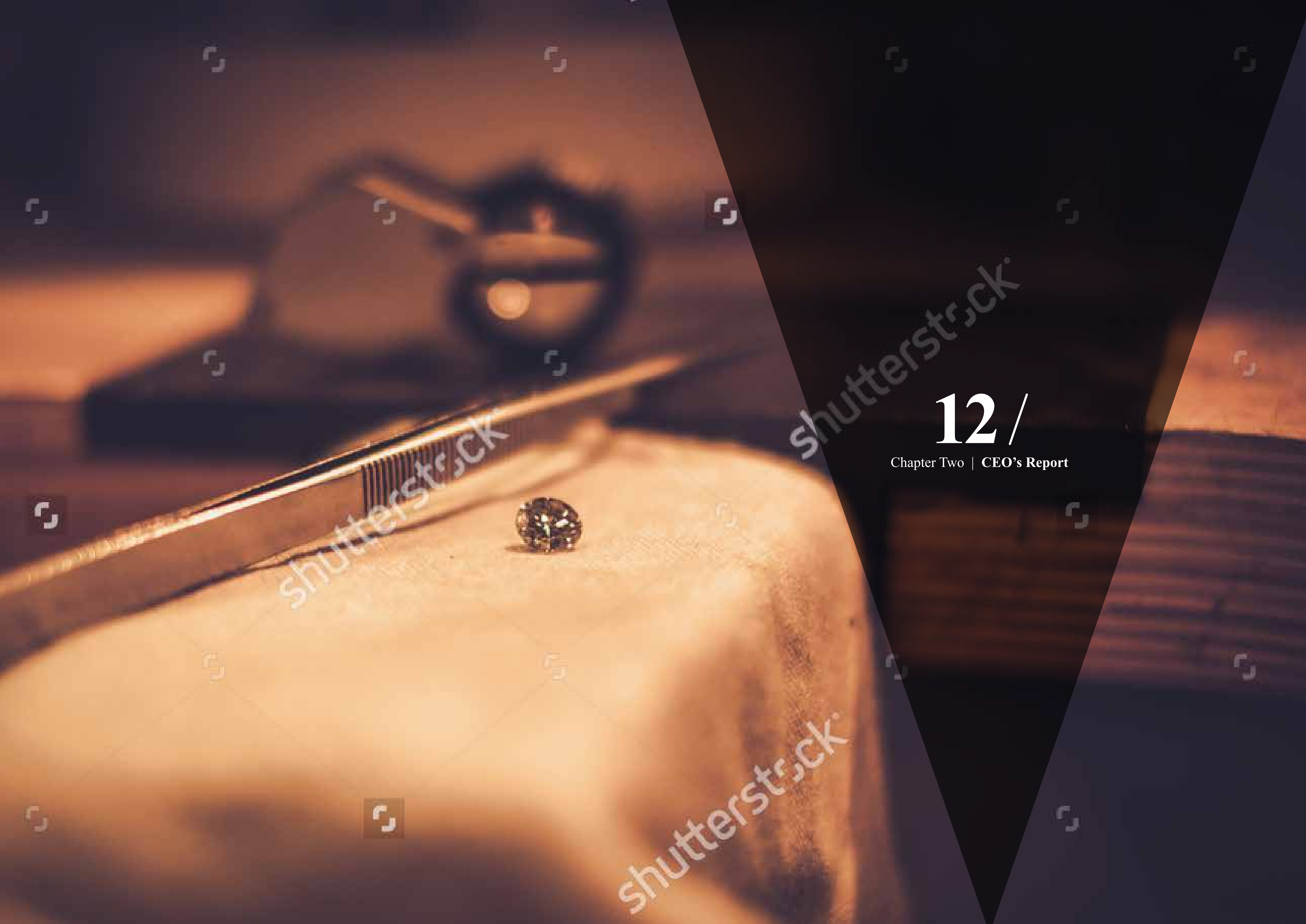
ADV. SHAKESPEARE MASIZA
CHAIRMAN

ADV. SHAKESPEARE MASIZA
CHAIRMAN



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Chapter Two | **CEO's Report**

13 CEO'S REPORT

This report highlights progress on the operational side since the establishment of Namib Desert Diamonds (Pty) Ltd (NAMDIA) in 2016. This is our inaugural Annual Report; therefore it is imperative and appropriate that I outline the mandate and rationale for the establishment of NAMDIA.

ESTABLISHMENT OF NAMDIA

In 2013 - upon expiry of the Diamond Sorting, Valuing, Sales and Marketing Agreement between the Government of the Republic of Namibia and De Beers Société Anonyme (De Beers) - Cabinet mandated the Government Negotiating Team (GNT) – also appointed by Cabinet – to negotiate a new Agreement. The negotiation process was protracted and culminated in the signing of a new Agreement on the 16th of May 2016 in the historic Constitution Room.

The Agreement made provision for the creation of a 'window' on the international market. This 'window' will serve to inform Government as to how much the international market is willing to pay for Namibia's high-quality diamonds, in the form of a new company called Namib Desert Diamonds (Pty) Ltd (NAMDIA.) According to the Agreement, NAMDIA is to receive a Purchase Entitlement from the NDTC of 15 percent representative cut-off of the NAMDEB Holdings' run-of mine production. This entitlement was deliberately earmarked for sale outside the traditional sales system whereby sight holders buy diamonds from the NDTC based on the De Beers Price Book.

Apart from price checking (window on the international market), NAMDIA's mandate is wide and profound. It is also the vehicle through which Namibia aims to develop a strong Namibian brand in the international diamond pipeline and leave a footprint of Namibia's rare and high gem quality stones. It is, furthermore, to be a trailblazer in the development of high quality jewellery for a high niche market using diamonds of Namibian provenance with a view to maximize revenue for the State; to underline the role of Namibia as a major player in the international diamond pipeline and to leverage the linkage between diamonds and tourism.

SALES PERFORMANCE

NAMDIA has sold and will continue to sell its diamond entitlement to reputable and well established international clients. This is done through a robust selection criteria which is aligned with industry best practices and international compliance requirements, which excludes money laundering, financing of terrorism and other financial offences and which covers both financial and ethical standards including compliance with the Kimberley Process.

NAMDIA has enjoyed excellent sales with good margins of profit above the De Beers selling price each month since its first trade in September 2016. NAMDIA is carrying no stock and has successfully bought and sold five shipments from NDTC in challenging conditions with neither a bank line of credit nor an office to work from. NAMDIA has demonstrated that prices higher than the De Beers price book can be achieved. The road ahead is, however, challenging and we remain cautiously optimistic.

OUTLOOK

The global rough diamond market is projected to grow at an annual rate of between 2 to 5 percent until 2030 and supply is projected to decline by 1 to 2 percent per annum. The short-term supply-demand balance will depend heavily on the behaviour of the major producers and market pipeline efficiency. China and the United States are expected to remain the leading diamond jewellery markets and will largely determine rough diamond demand and pricing. India will most likely become the third largest market ahead of Europe and Japan by around 2020. India has the potential to be the fastest growing diamond jewellery market in the coming years based on the strength of increasing urbanization, middle class expansion and the promotion of the engagement ring.

The key challenges facing the industry remain the same as previous years. The mid-stream sector needs to secure access to financing and improve its business model to sustain profitability. Branding and differentiation are becoming the norm rather than the exception. The industry is about to enter a cycle where high prices for rough diamonds will place enormous strain on the profitability of the business coupled with sizable quantities of polished reaching the market after four months' optimum levels of manufacturing in India. There are increasing reports of a substantial build up in polished inventory in all the centres as manufacturing levels have now exceeded demand in the retail sector. The second half of 2017 is likely to be much slower than the first.

One new challenge facing the industry is the question of long term demand for natural diamonds with the introduction of man-made synthetic diamonds. The new generation of consumers (the millennials) heads toward its prime spending years and the challenge for the industry is to capture long term demand from this crucial sector of the consumer base. Millennials in China and India currently rank jewellery as their number one gifting category whereas the United States place, jewellery as their number three choice.

In conclusion, NAMDIA's achievements during the year would not have been possible without the invaluable contributions of our staff and most importantly the support of all our stakeholders. My gratitude goes to the management team for their hard work and dedication who have worked tirelessly to fulfil NAMDIA's mandate. I would also like to extend my appreciation and to further acknowledge the significant role played by the Board in steering NAMDIA's strategic direction. Finally, my gratitude is extended for the unwavering support of most importantly our line Ministry and all our other stakeholders.

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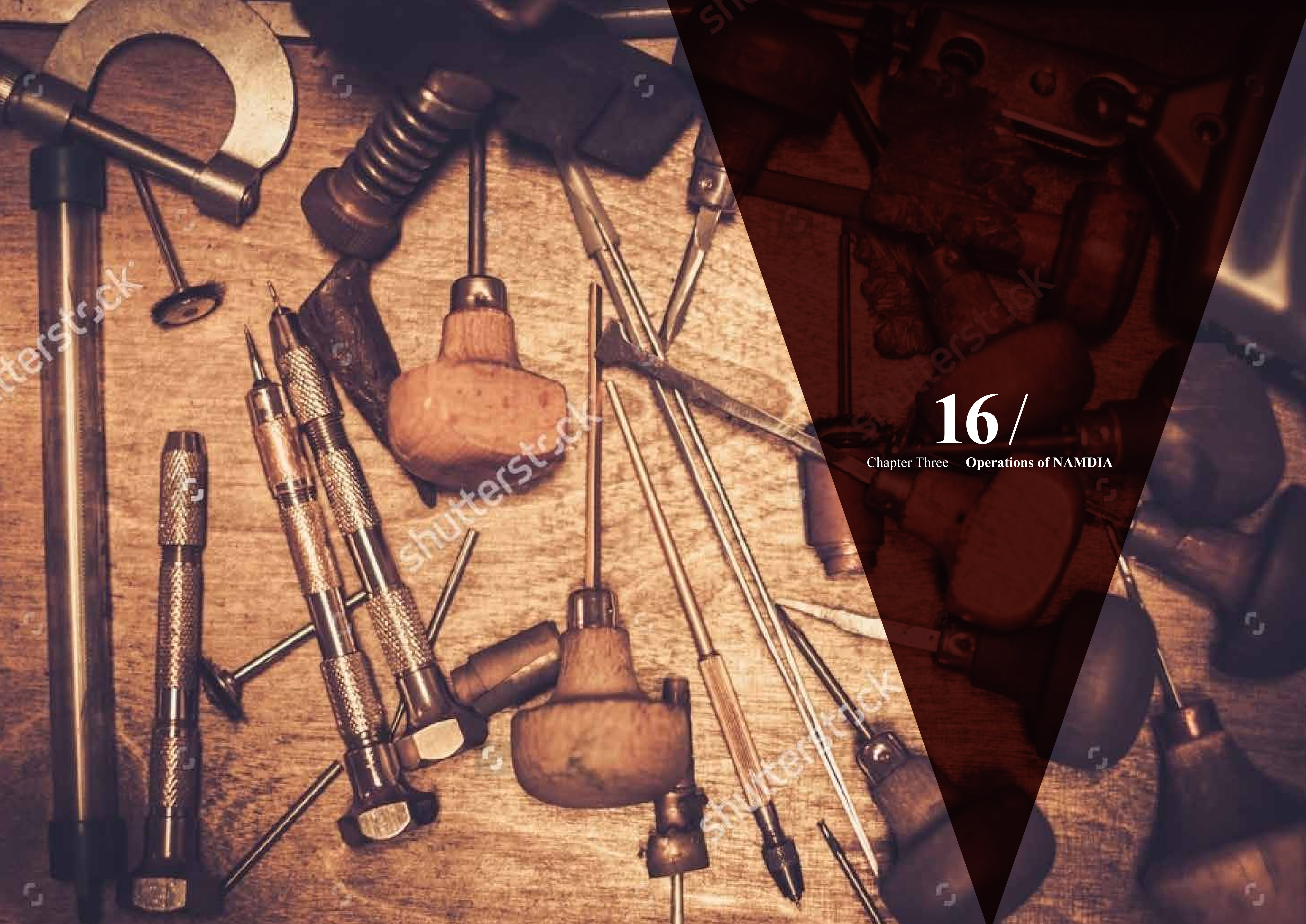
KENNEDY HAMUTENYA
INTERIM CHIEF EXECUTIVE OFFICER

KENNEDY HAMUTENYA
INTERIM CHIEF EXECUTIVE OFFICER



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Chapter Three | **Operations of NAMDIA**

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OPERATIONS OF NAMIB DESERT DIAMONDS (PTY) LTD

3.1 Organisational Structure of Namib Desert Diamonds (PTY) LTD

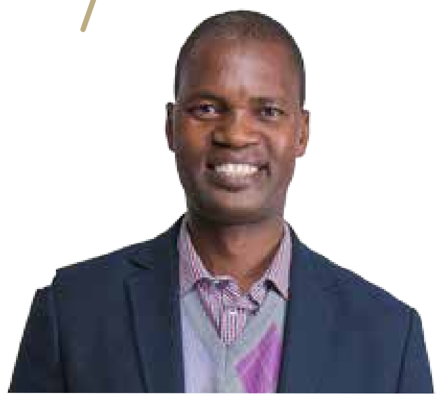
3.1.1 Board of Directors

Adv. Shakespeare Masiza
Chairperson

Ms Tania Hangula
Deputy Chairperson

Mrs Florentia Amuenje
Director

Mrs Lorentha Harases
Director



Mr Bonifatius Konjore
Director

Mr Venondjo Maharero
Director

Mr Chris Nghaamwa
Director

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3.1.2 Management Structure

Kennedy Hamutenya
Interim CEO

Sven Von Blottnitz
GM: Finance

Irwin D Haihambo
GM: Human Resources and Administration

Marvel Tjombonde
Company Secretary

Lelly Usiku
GM: Sales and Marketing

Clarky McKay
GM: Security and Safety

19 OPERATIONS OF NAMIB DESERT DIAMONDS (PTY) LTD (CONTINUED)

3.1.3 Corporate Charter

Our Vision
To be the leading supplier of ethically sourced high quality "exclusive" Namibian diamonds to the premium and niche luxury market.

Our Mission
To harness the natural endowment of Namibian diamonds and maximise the local economy's share of value. To supply our customers with the highest quality, unique diamonds that serve to celebrate momentous life occasions.

Our Values
To faithfully serve our customers with the highest values of honesty, integrity and customer care.

3.2 Corporate Governance

The NAMDIA Board is committed to maintaining high levels of corporate governance and ensuring that the correct structures and systems of control are firmly in place to enable NAMDIA to operate successfully and sustainably. The Board expects all its directors and employees to act with honesty, integrity and fairness. NAMDIA strives to act in accordance with the laws and regulations of the Republic of Namibia; adopt transparent and proper standards of business practice and procedure; and operate with integrity.

3.2.1 Board Composition

The Board of Directors are appointed by the Minister of Mines and Energy. The Board is comprised of seven independent non-executive directors, including the Chairperson of the Board. The Minister of Mines and Energy appointed the inaugural Board of Directors for NAMDIA for the period 02 August 2016 – 01 August 2019. The members of the Board are:

Adv. Shakespeare Masiza (Chairperson)
Ms Tania Hangula (Deputy Chairperson)
Mrs Florentia Amuenje (Director)
Mrs Lorentha Harases (Director)
Mr Bonifatius Konjore (Director)
Mr Venondjo Maharero (Director)
Mr Chris Nghaamwa (Director)

The Board has been tasked by the line Minister to promote the growth and profitability of NAMDIA; to adhere to the principles of good governance and effective management, amongst others.

3.2.2 Board Meetings

During the period under review, an inaugural Board Meeting was held from the 12th – 13th August 2016 and a further five Board meetings were held as per the scheduled meeting calendar (Table 1 below).

Table 1: Attendance of Board Meetings

	15/09/2016	20/10/2016	16/11/2016	07/12/2016	02/02/2017
Adv. S. Masiza	Present	Present	Present	Present	Present
Ms. T. Hangula	Present	Present	Present	Present	Present
Mrs F. Amuenje	Present	Present	Present	Present	Present
Mrs L. Harases	Present	Present	Present	Present	Present
Mr B. Konjore	Present	Present	Present	Present	Present
Mr V. Maharero	Present	Present	Present	Present	Present
Mr C. Nghaamwa	Present	Present	Present	Present	Present

NAMIB DESERT DIAMONDS (PROPRIETARY) LIMITED

(Registration Number 2016/0338)
Annual Report 2017

Chapter Three: *Operations of NAMDIA*

Deliberations were of a high standard, which reflects the sound preparations that had been made in advance of the meetings taking place. Members of the Board have skills that are put to effective use in providing leadership and guidance in the development and implementation of strategy. This is a clear indication that the Board is functioning at a strategic level, and in line with the mandate issued to it by the line Ministry.

3.2.3 Disclosure Of Interests

NAMDIA considers it important that the Board must make all its decisions independently and transparently, without any conflict of interest, which could affect judgment or decisions. Disclosure of interest is a standard agenda item at every Board meeting. If there is a conflict of interest, the director must recuse himself/herself from the deliberations and decisions after providing all the relevant information at his/her disposal.

3.3 NAMDIA Profile

3.3.1 Establishment of Namib Desert Diamonds (NAMDIA)

Namib Desert Diamonds (Pty) Ltd ("NAMDIA") was established by the Government of the Republic of Namibia ("GRN") as a wholly owned company with limited liability in accordance with the laws of Namibia. The name Namib Desert Diamonds was inspired by the fact that Namibian diamonds are predominantly mined from the mouth of the Orange River up to the coast and into the Namib Desert. Namib is of Nama origin and means "vast place".

NAMDIA has been established as an outcome of the Diamond Sales and Marketing Agreement between the GRN and De Beers. NAMDIA is currently positioned to be the Namibian Government's rough diamond sales and marketing channel, with the objective of selling 15 percent of all run-of-mine NAMDEB production. On the 16th of May 2016, GRN and the De Beers Group of Companies signed a new 10-year, Diamond Sorting, Valuing, Sales and Marketing Agreement ('Diamond Sales and Marketing Agreement') relating to NAMDEB Holdings' diamonds. The sales agreement is the longest ever signed between the two partners. NAMDEB Holdings is a 50/50 joint venture company between GRN and De Beers Société Anonyme (DBsa). NAMDEB Holdings holds a number of mining licences entitling it to mine diamonds in Namibia.

In terms of the Diamond Sales and Marketing Agreement, NAMDIA is to purchase, on behalf of Government, a Purchase Entitlement from the NDTC, 15 percent per annum of NAMDEB's total run-of-mine production. The 15 percent Purchase Entitlement was deliberately earmarked for sale outside the traditional sales system whereby sight holders buy diamonds from NDTC. All diamonds produced by NAMDEB Holdings (NAMDEB Diamond Corporation (Pty) Ltd and Debmarine Namibia (Pty) Ltd) are sorted, valued and sold by the NDTC. The key mandate of the NDTC is to sort and value Namdeb Holdings' run-off-mine production and to drive the growth of the domestic diamond industry in the country and promote beneficiation.

After the signing of the Agreement, the Parties to the Agreement resolved that the Agreement would commence 90 days after the signature date. This was to allow all the parties to put all necessary measures in place for the implementation of the Agreement. A Government Task Team (GTT) was established and headed by the Permanent Secretary of Ministry of Mines and Energy, who was tasked to facilitate the preparedness of Government in implementing the commencement of the Agreement.

21 OPERATIONS OF NAMIB DESERT DIAMONDS (PTY) LTD (CONTINUED)

The GTT was tasked to coordinate all the logistical arrangements of establishing and operationalising the Company. In addition, the GTT undertook a Road Show to gauge the appetite of potential buyers for NAMDIA's diamonds. The GTT, led by the Permanent Secretaries of the Ministries of Mines and Energy and Finance travelled to Antwerp, Belgium and Dubai, UAE; where they met with some 20 potential diamond buyers, some of whom flew in from other diamond centres such as Tel Aviv, Hong Kong, Mumbai and Surat. This exercise was quite important as NAMDIA had to hit the ground running by ensuring that the entire entitlement is sold without stockpiling (which has a cost) and therefore needed to establish a database of some of the most well established and reputable diamantaires.

The mandate of the GTT ceased after the Board of Directors of NAMDIA was appointed by the line Minister – Honourable Obeth Mbuipaha Kandjoze – of the Ministry of Mines and Energy on the 2nd of August 2016. The GTT together with the Minister of Mines and Energy conducted a handover workshop with the Board of Directors during the period of 12 to 13 August 2016, and thereafter officially handed over the operations of NAMDIA to the Board of Directors. The mandate of the GTT ceased at the point of handover to the Board.

3.3.2 Objectives

The objective of NAMDIA is to serve as a price discovery mechanism for the Namibian government. This will be achieved by participating directly in the diamond value chain through trading and distributing its allocation of Namibian rough diamonds, and create a Namibian footprint on the downstream market. The price discovery mechanism will ensure that the nation receives its full, fair share of revenue from the development of its upstream deposits and that GRN decision-making on upstream and mid-stream tax, investment, promotion and other diamond policies is fully informed.

NAMDIA will further advise GRN in general, and the Ministry of Mines and Energy (MME) in particular; at a high level on overall policy concerning the diamond industry. The industry remains a key contributor to national economic accounts, which is increasingly driven by developments and trends in the downstream market.

NAMDIA has thus been established and licensed by the line Ministry as a rough diamond trader with business operations focused on the purchase of rough diamonds and sale of these diamonds to the international diamond industry. NAMDIA is positioned to create a sustainable route to market 15 percent of NAMDEB Holdings' total production of rough diamonds, thus further ensuring Namibia's place as a major player in the entire global diamond value chain. NAMDIA also has the discretion to cut and polish some of its rough diamonds with the view to discover the market value of the polished outcome of its diamonds. It can further consign some of those polished diamonds for jewellery-making.

NAMDIA leverages on the high quality and corresponding premium pricing of its Namibian diamonds to generate economic benefits to GRN, thereby supporting national development goals and policy in the diamond sector. NAMDIA intends creating a brand that positions Namibian diamonds as a niche product in the luxury brand segment as well as to make it a highly sought-after commodity by the world's elite diamantaires and consumers. To that end, NAMDIA's business plan has been crafted to explore future upside opportunities further down the value chain in the international diamond pipeline.

3.4 Sales Report

3.4.1 Developments in the Diamond Market

The diamond industry rebounded in 2016 after inventory stocking during 2015. According to De Beers, this was the result of higher revenues from stronger rough diamond demand, which led to reduced inventory levels, reflecting improved trading conditions compared with those experienced in the second half of 2015. Main diamond producers destocked during 2016, as sentiment in the midstream improved and rough and polished inventories normalised, supported by a series of initiatives put in place by De Beers. Sustained diamond jewellery demand growth in the US and marginal growth in China, contrasted with weakening demand in the other main diamond markets. In India, the government's surprise demonetisation programme which started in November, had a considerable negative impact on diamond demand.

Rough diamond sales declined in 2015 as midstream manufacturers reacted negatively to sluggish polished orders from retailers coupled with high prices for rough diamonds. In this regard, rough diamond sales declined by 24 percent. The combined market share of De Beers and Alrosa fell from about 70 percent in 2014 to approximately 60 percent in 2015 due to efforts to decrease supply. Rough prices declined by approximately 15 percent in the final quarter of 2015.

The situation was further worsened when India's Prime Minister announced the total withdrawal of the high denomination rupee currency notes in November 2016. The demonetization was aimed at countering endemic corruption, money laundering, terrorism and tax evasion, but also had the unfortunate adverse effect on diamond trading for a few months. India is a very large market for polished and most of these purchases are transacted using cash. This change created a major liquidity crunch for the smaller players in the market who do not have access to bank lines of credit.

The millennials, a new generation of consumers, represents an exciting opportunity as well as a challenge for the diamond industry. Retail sales of diamonds are slowing globally as a younger generation of consumers appears to be less attached to traditional diamond jewellery than their parents and grandparents. Millennial consumers have unique preferences, which in many ways deviate from previous generations. The industry players need to invest in both category marketing and brand-building efforts and redefine the customer experience in the retail environment to fully capture millennials' demand over the longer term.

Millennials in China and the United States, have recently however, been considering synthetics as an alternative to natural diamonds and the key driver is price. Global production of gem quality lab grown synthetic diamonds has now reached 4.2 million carats a year while only two years ago the production was just 350,000 carats. Synthetics are already posing a real problem to the more expensive natural diamonds and observed prices of smaller sized natural diamonds dramatically softened in the last year due to the large price gap. There are several factors which could disrupt the diamond supply-demand balance. Any slowing down of economic growth in China and India, the possibility of a cyclical recession in the United States and uncertainties about the future of the EU following the Brexit referendum.

The key risks facing the diamond industry remain the same as in previous years. Financing challenges are expected to persist, driven by tighter lending standards and less availability, placing additional pressures predominantly on midstream players that must continue improving their business model to sustain profitability amid potential price volatility. Synthetic diamonds as an emerging competing category to diamonds remain a risk but diamond industry participants are however, unwavering in their commitment to reduce the threat from synthetics by marketing the emotional attributes of natural stones.

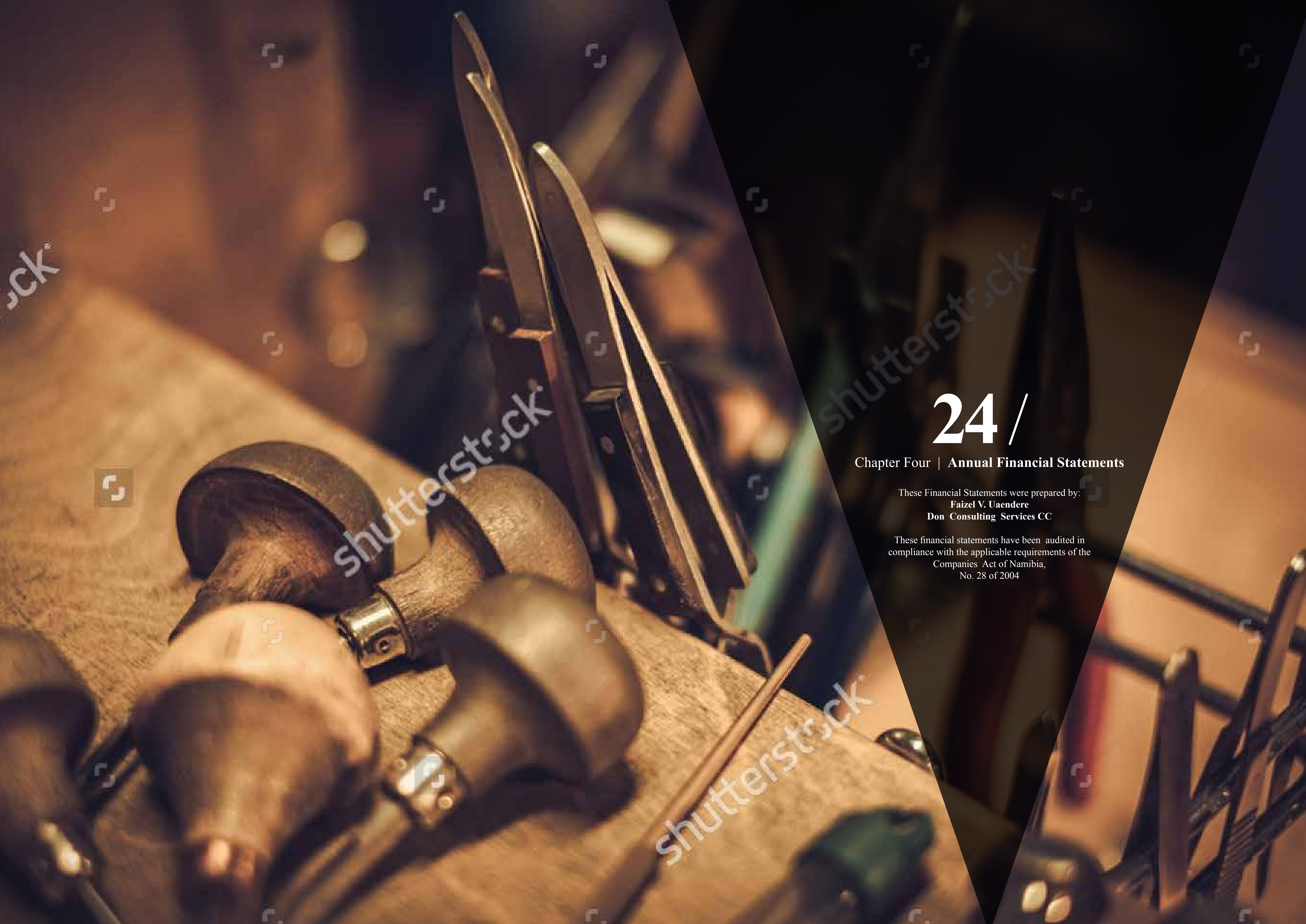
The diamond industry is subjected to the overall macro-economic environment. The outlook for the industry and consumer demand is inherently linked to the strength of the global economy. Projected growth for advanced economies, has been revised upward in the United States, reflecting the assumed fiscal policy easing and a boost in confidence, especially after the November elections. Positive consumer demand growth is likely to continue to come from Asian consumers, particularly Chinese and Indian.

3.4.2 NAMDIA Sales Performance

NAMDIA successfully had its first sale in September 2016 and completed five sales in total during the period under review. NAMDIA met its sales target as set out in its business plan by achieving good margins NAMDIA will continually strive to meet its objectives and maintain the highest industry standards to contribute towards poverty eradication and the Harambee Prosperity Plan.

NAMDIA was launched at a time when the diamond industry was beginning to rebound in 2016. The year 2015 was a challenging one for the diamond industry. Weaker than expected consumer demand affected polished diamond sales and retailers reduced prices throughout 2015. This slowdown extended to midstream manufacturing companies as their inventories of polished diamonds steadily increased and in turn reduced purchases of rough diamonds. Any positive trends in the United States were offset by reduced demand in China for luxury goods.

NAMDIA sells its diamond entitlement to reputable and well established international clients. The NAMDIA Selection Criteria has been aligned with industry best practice and international compliance requirements. The Selection Criteria covers both financial and ethical standards including compliance with the Kimberly Process.



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Chapter Four | **Annual Financial Statements**

These Financial Statements were prepared by:
Faizel V. Uaendere
Don Consulting Services CC

These financial statements have been audited in compliance with the applicable requirements of the Companies Act of Namibia, No. 28 of 2004

25 INDEX

The reports and statements set out below comprise the financial statements presented to the shareholder:

The supplementary information presented does not form part of the financial statements and is unaudited:

NAMIB DESERT DIAMONDS (PROPRIETARY) LIMITED

(Registration Number 2016/0338)
Financial Statements for the period ended 28 February 2017

Chapter Four: *Annual Financial Statements*

26 GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	Namibia
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	To market and sell diamonds on behalf of the Government of the Republic of Namibia
DIRECTORS	S.V Masiza (Chairperson) T. Hangula (Deputy Chairperson) V.K Maharero C.W.H Nghaamwa F. Amuenje L. Harases B. Konjore
REGISTERED OFFICE	Erf 366 corner of Dr Sam Nujoma Drive & Dr Kwame Nkrumah Avenue Klein Windhoek Windhoek Namibia
Postal Address	Private Bag 91600 Klein Windhoek Windhoek Namibia
BANKERS	First National Bank of Namibia Limited
Auditors	Hamilton Chartered Accountants Chartered Accountants (Namibia) Registered Accountants & Auditors
COMPANY SECRETARY	M.N.K Tjombonde
Tax Reference Number	7253608-01-1

27 REPORT OF THE COMPILER

To the shareholder of Namib Desert Diamonds (Proprietary) Limited

We have compiled the accompanying financial statements of Namib Desert Diamonds (Proprietary) Limited based on the information you have provided. These financial statements comprise the Statement of Financial Position of Namib Desert Diamonds (Proprietary) Limited as at 28 February 2017, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the period then ended, a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), Compilation Engagements.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia, Act No. 28 of 2004. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia.

Don Consulting Services CC

11 May 2017

…………………………………………..

Per: Faizel V. Uaendere
Independent Accountant

P.O Box 26546
Windhoek
Namibia

28 DIRECTORS’ RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act 28 of 2004 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial period and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards (IFRS). The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The directors have reviewed the company’s cash flow forecast for the year ended 28 February 2018 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in the operational existence for the foreseeable future. The external auditors are responsible for independently auditing the company’s financial statements. The financial statements have been examined by the company’s external auditors and their report is presented on page 29.

The financial statements were compiled independently by Don Consulting Services CC for the period ended 28 February 2017.

The financial statements as set out on pages 33 to 50, which have been prepared on the going concern basis, were approved by the board on 11 May 2017 and were signed on their behalf by:

Approval of financial statements

……………………………………..

S.V Masiza
Chairperson

……………………………………………..

T. Hangula
Deputy Chairperson

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF NAMIB DESERT DIAMONDS (PTY) LTD

We have audited the financial statements of Namib Desert Diamonds (Pty) Ltd, as set out on pages 33 to 50, which comprise the statement of financial position as at 28 February 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and requirements of the Companies Act 28 of 2004, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors 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 company'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 company'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.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Namib Desert Diamonds (Pty) Ltd as at 28 February 2017, and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act 28 of 2004.

Supplementary Information

Without qualifying our opinion, we draw attention to the fact that supplementary information set out on pages 51 to 53 does not form part of the financial statements and is presented as additional information. We have not audited this information and accordingly do not express an opinion thereon.

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Other reports required by the Companies Act

As part of our audit of the financial statements for the period ended 28 February 2017, we have read the Directors' Report and the Report of the Compiler for the purpose if identifying whether there are material inconsistencies between these reports and the audited financial statements. The Directors' Report and the Report of the Compiler are the responsibility of the directors. Based on reading these reports we have not identified material inconsistencies between them and the audited financial statements. However, we have not audited the Directors' Report and the Report of the Compiler and accordingly do not express an opinion thereon.

Windhoek
PO Box 20198
136 Jan Jonker Road, Windhoek, Namibia
Tel: +264 (0) 61 224 893 / 234 611
Fax: + 264 (0) 61 220 514

Walvis Bay
PO Box 2786
NR7, &th Road
Walvis Bay
Namibia
Tel/Fax: +264 (0) 64 209 166
Cell: +264 (00 81 127 1472

Residents. JC Hamilton, CA (Nambia)
JL van der Merwe, CA (Namibia)
Practice Nr:9801

……………………………………………..

Hamilton Chartered Accountants
Registered Accountants and Auditors
Chartered Accountants (Namibia)
JC Hamilton
Partner

15 May 2017
Windhoek

136 Jan Jonker
Windhoek
Namibia

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DIRECTORS' REPORT

The directors present their report for the period ended 28 February 2017.

1. General information
Namib Desert Diamonds (Proprietary) Limited is a private company incorporated in Namibia on 18 April 2016.

2. Review of activities

Main business and operations

The principal activity of the company is to market and sell diamonds on behalf of the Government of the Republic of Namibia. The company operates principally in Namibia.

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 28 of 2004.

The operating results and statement of financial position of the company are fully set out in the attached financial statements and do not in our opinion require any further comment.

3. Going concern
The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

4. Events after reporting date
The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report that could have a material effect on the financial position of the company.

5. Directors' interest in contracts
To our knowledge none of the directors had any interest in contracts entered into during the year under review.

6. Authorised and issued share capital
Authorised share capital consists of 4,000 ordinary shares of N$1.00 par value each. Issued share capital comprises of 1,000 shares of N$1.00 par value and a share premium of N$49,999,000.

7. Borrowing limitations
In terms of the Memorandum of Association of the company, the directors may exercise all the powers of the company to borrow money, as they consider appropriate.

8. Dividends
No dividends were declared or paid to the shareholder during the year.

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9. Directors
The directors of the company during the year and to the date of this report are as follows:

S.V Masiza (Appointed 2 August 2016)
V.K Maharero (Appointed 2 August 2016)
C.W.H Nghaamwa (Appointed 2 August 2016)
F. Amuenje (Appointed 2 August 2016)
L. Harases (Appointed 2 August 2016)
B. Konjore (Appointed 2 August 2016)
T. Hangula (Appointed 2 August 2016)
K. Hamutenya (Resigned 13 August 2016)

10. Secretary
The company's designated secretary is M.N.K Tjombonde.

Postal Address
Private Bag 91600
Klein-Windhoek
Windhoek
Namibia

Business Address
Erf 366 Cnr of Dr Sam Nujoma Drive &
Dr Kwame Nkrumah Avenue
Klein Windhoek
Windhoek
Namibia

11. Shareholder
The shareholder as per initial allotment is noted as follows:

	%
Government of the Republic of Namibia	100

12. Compiler
Don Consulting Services CC, represented by F.V Uaendere [BAP(SA) 1291] was the compiler for the period under review.

Postal Address
P.O Box 26546
Windhoek
Namibia

Business Address
City View Unit 1, Schweitzer Street
Windhoek-West,
Windhoek
Namibia

13. Auditors
Hamilton Chartered Accountants were appointed as auditors in accordance with Section 278(2) of the Namibian Companies Act, No. 28 of 2004.

33 STATEMENT OF FINANCIAL POSITION

Figures in N$	Notes	2017
Assets		
Non-Current Assets		
Property, plant and equipment	5	9,368,375
Deferred taxation	9	94,388
		9,462,763
Current Assets		
Trade and other receivables	6	67,339,601
Cash and cash equivalents	7	71,320,723
		138,660,324
Total Assets		148,123,087
Equity and Liabilities		
Equity		
Issued capital	8	50,000,000
Retained earnings		62,667,602
		112,667,602
Non-Current Liabilities	9	
Deferred taxation		499,638
		499,638
Current Liabilities		
Provisions	10	294,963
Trade and other payables	11	5,547,883
Current taxation	12	29,112,969
Bank overdraft	7	32
		34,955,847
Total Equity and Liabilities		148,123,087

34 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Figures in N$	Notes	11 months ended 28 February 2017
Revenue	13	860,655,554
Cost of sales	14	(752,123,760)
Gross profit		**108,531,794**
Other income	15	6,733,638
Operating costs		(23,115,350)
Operating profit	16	**92,150,082**
Finance income	17	35,739
Profit before taxation		**92,185,821**
Taxation expense	18	(29,518,219)
Profit for the period		**62,667,602**
Profit for the period		62,667,602
Retained income at 28 February 2017		**62,667,602**
Profit for the year attributable to:		
Owners of the parent		62,667,602
		62,667,602
Total comprehensive income attributable to:		
Owners of the parent		62,667,602
		62,667,602

35 STATEMENT OF CHANGES IN EQUITY

Figures in N$	Share capital	Share premium	Retained earnings	Total
Balance at 1 March 2016	-	-	-	-
Total comprehensive income for the period				
Profit for the period			62,667,602	62,667,602
Total comprehensive income for the period	-	-	**62,667,602**	**62,667,602**
Issue of share capital	1,000	49,999,000		50,000,000
Balance at 28 February 2017	**1,000**	**49,999,000**	**62,667,602**	**112,667,602**
Note	8			

36 STATEMENT OF CASH FLOWS

Figures in N$	Note	11 months ended 28 February 2017
Cash flows from operating activities		
Profit for the period		62,667,602
Adjustments for:		
Income tax		29,518,219
Depreciation of property, plant and equipment		8,093
Investment income		(35,739)
		92,158,175
Operating cash flow before working capital changes		
Working capital changes		
Increase in trade and other receivables		(67,339,601)
Increase in trade and other payables		5,547,883
Increase in provisions		294,963
Cash generated by operating activities		**30,661,420**
Investment income		35,739
Net cash from operating activities		**30,697,160**
Cash flows from investing activities		
Property, plant and equipment acquired	5	(9,376,468)
Net cash utilised in investing activities		**(9,376,468)**
Cash flows from financing activities		
Capital issued		50,000,000
Net cash utilised in financing activities		50,000,000
Increase cash and cash equivalents		71,320,691
Cash and cash equivalents at end of the period	7	**71,320,691**

37 ACCOUNTING POLICIES

1. Basis of preparation
The financial statements of the company have been prepared in accordance with, and in compliance with International Financial Reporting Standards (IFRS) and the Companies Act 28 of 2004.

The financial statements have been prepared on the historical cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principle accounting policies set out below. They are presented in Namibian Dollars, which is the company's functional currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2. Summary of significant accounting policies
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Property, Plant and Equipment
Land and buildings comprise owner occupied property. Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as other reserves in the Statement of Changes in Equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against other reserves directly in equity; all other decreases are charged to the Statement of Profit or Loss and Other Comprehensive Income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Profit or Loss and Other Comprehensive Income, and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the Statement of Profit or Loss and Other Comprehensive Income. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation is provided on the straight-line basis which, it is estimated, will reduce the carrying amount of the property, plant and equipment to their residual values at the end of their useful lives. Items of property, plant and equipment are depreciated from the date that they are installed and available for use. Land is not depreciated as it is deemed to have an indefinite life. Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

The major categories of property, plant and equipment are depreciated at the following rates:

Building	5% per annum

38 ACCOUNTING POLICIES (CONTINUED)

Building components	10% to 33,3% per annum
Office equipment	33,3% to 50% per annum
IT equipment	20% to 33,3% per annum
Plant and equipment	10% per annum

The company reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, the directors determined that the useful lives of certain items of equipment should be extended due to the current assets still being in use.

The carrying amounts of the company's tangible assets are reviewed at each year end to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the greater of its fair value less cost to sell and its value in use.
In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent from those of other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the statement of operating income whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

2.2 Financial assets
2.2.1 Classification
The company classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.2.2 Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

2.2.3 Trade and other receivables
Trade and other receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, if any, except for the following receivables:
- Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less impairment losses for bad and doubtful debt, if any; and
- Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount less impairment losses for bad and doubtful debt, if any.

At each reporting date, the company assesses whether there is any objective evidence that a receivable or company of receivables is impaired. Impairment losses on trade and other receivables are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition.
The impairment loss is reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised.

2.2.4 Cash and cash equivalents
Cash comprises cash on hand and at bank and demand deposits with bank.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of statement of cash flows, bank overdrafts which are repayable on demand form an integral part of the company's cash management are included as a component of cash and cash equivalents.

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ACCOUNTING POLICIES (CONTINUED)

2.3 Financial liabilities

2.3.1 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.3.2 Share capital

a. Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

2.4 Post-employment benefits and short-term employee benefits

2.4.1 Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service on an undiscounted basis.

Accruals for employee entitlement to leave represents the present obligation, which the company has to pay as a result of employees' services, provided to the reporting date. The accruals have been calculated at undiscounted amounts based on current salary rates.

2.5 Income taxation

Income taxation for the year includes current taxation and deferred taxation. Current taxation and deferred taxation are recognised in profit or loss, except to the extent that the taxation arises from a transaction or event which is recognised directly in equity. In the case of the taxation relates to items that are recognised directly to equity, current taxation and deferred taxation are also recognised directly to equity.

Current taxation liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the taxation rates and taxation laws that have been enacted or substantively enacted by the statement of financial position date. Current taxation is the amount of income taxes payable or recoverable in respect of the taxable profit or loss for a period.

Deferred taxation assets and liabilities arise from deductible and taxable temporary differences respectively. Temporary differences are the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation bases. Deferred taxation assets also arise from unused taxation losses and unused taxation credits.

A deferred taxation liability is recognised for all taxable temporary differences, except to the extent that the deferred taxation liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (taxation loss).

A deferred taxation asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred taxation asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (taxation loss).

At each statement of financial position date, the company reviews and assesses the recognised and unrecognised deferred taxation assets and the future taxable profit to determine whether any recognised deferred taxation assets should be derecognised and any unrecognised deferred taxation assets should be recognised.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when the asset is realised or the liability is settled, based on taxation rates and taxation laws that have been enacted or substantively enacted by the statement of financial position date. Deferred taxation assets and liabilities are not discounted.

2.6 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable or received for services provided and goods delivered, net of discounts and Value Added Taxation (VAT) and where there is reasonable expectation that the income will be received and all attaching conditions will be complied with.

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ACCOUNTING POLICIES (CONTINUED)

2.6.1 Sales of goods

Revenue from the sales of goods is recognised when all the following conditions have been satisfied:

The company has delivered the goods to the customer and the customer has accepted the goods together with the risks and rewards of ownership of the goods;

- The amount of revenue can be measured reliably;
- Receipt of the future economic benefits is probable;
- Costs relating to the transaction can be measured reliably.

Revenue comprises net invoiced sales to customers excluding VAT and other non-operating income.

2.7 Dividends

Dividend income is recognised when the shareholder's right to receive payment is established.

2.8 Interest income

Interest income is recognised using the effective interest rate method.

2.9 Foreign currency translation

2.9.1 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the
Statement of Profit or Loss and Other Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Profit or Loss and Other Comprehensive Income within 'Other (losses)/gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2.10 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.11 Related parties

For the purposes of these financial statements, a party is considered to be related to the company if:

a. directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the company, has an interest in the company that gives it significant influence over the company, or has joint control over the company;
b. the party is an associate of the company;
c. the party is a joint venture in which the company is a venture;
d. the party is a member of the key management personnel of the company or its parent;
e .the party is a close member of the family of any individual referred to in (i) or (iv);
f. the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
g. the party is a post-employment benefit plan for the benefit of employees of the company, or of any entity that is a related party of the company.

41 ACCOUNTING POLICIES (CONTINUED)

3. Critical accounting judgements and key sources of estimation uncertainty

The company's management makes assumptions, estimates and judgements in the process of applying the company's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with IFRS's. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

The estimates and the underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision policy affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. New Standards and Interpretations

4.1 Standards and Interpretations not yet effective

The company has chosen not to early adopt the following standard and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 March 2017 or later periods:

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requires of IFRS 9:

.• All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of the subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

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• With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.

• In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

• The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The company expects to adopt the standard for the first time in the 2019 financial statements.

It is unlikely that the standard will have a material impact on the company's financial statements.

42 NOTES TO THE FINANCIAL STATEMENTS

	Cost	Accumulated depreciation	2017 Carrying value
5. Property, plant and equipment			
Owned assets			
Land and buildings	2,250,989	-	2,250,989
Plant and equipment	6,473,393	-	6,473,393
Office equipment	43,549	(2,296)	41,253
IT equipment	608,537	(5,797)	602,740
	9,376,468	(8,093)	9,368,375

The carrying amounts of property, plant and equipment can be reconciled as follows:

	Carrying value at beginning of year	Additions	Disposals	Depreciation	2017 Carrying value at end of year
Owned assets					
Land and buildings	-	2,250,989	-	-	2,250,989
Plant and equipment	-	6,473,393	-	-	6,473,393
Office equipment	-	43,549	-	(2,296)	41,253
IT equipment	-	608,537	-	(5,797)	602,740
		9,376,468	-	(8,093)	9,368,375

Additional note: Land and buildings

The company is in the process of acquiring a building situated at Erf 336 corner of Dr Kwame Nkrumah Avenue & Dr Sam Nujoma Drive, Klein Windhoek, Windhoek, Namibia. The building is currently rented for a period of 12 months from 1 October 2016 till 30 September 2017 whilst the buying process is being finalised. The agreed purchase price is N$30 million plus related transfer and bond fees. The costs capitalised above are all the fees incurred to date to upgrade the building to suit the needs of the company. These fees include architectural fees, engineering consulting fees, contractor fees and any other permanent fixtures that will be added to the building (i.e. vaults, electrical and telecommunication wiring etc.)

43 NOTES TO THE FINANCIAL STATEMENTS

Figures in N$	11 months ended 28 February 2017
6. Trade and other receivables	
Trade debtors	649
Prepaid expenses	1,519,980
Value Added Tax	65,744,512
Rental deposit	74,460
	67,339,601
	-
Impairment loss	**67,339,601**
Items included in trade and other receivables not classified as financial instruments	
Prepaid expenses	1,519,980
Value Added Tax	65,744,512
Rental deposit	74,460
	67,338,952
Trade and other receivables net of non-financial instruments (refer note 22)	**649**

The carrying amount of trade and other receivables approximates their fair value.

The following are the major debtors included in the trade receivables:

SBMH Group DMCC (US$50.00 as at 28 February 2017)	649
	649

There are no other customers who represent more than 5% of trade receivables.

Ageing of debtor past due but not impaired

Current	-
31 - 60 days	325
61 - 90 days	-
91 - 120 days	-
+120 days	324
Total	**649**

Trade and other receivables which are less than 3 months pastdue are not considered to be impaired. At 28 February 2017, N$649 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	-
2 months past due	325
3 months past due	324
	649

NAMIB DESERT DIAMONDS (PROPRIETARY) LIMITED

(Registration Number 2016/0338)
Financial Statements for the period ended 28 February 2017

Chapter Four: *Annual Financial Statements*

44 NOTES TO THE FINANCIAL STATEMENTS

Figures in N$	11 months ended 28 February 2017
7. Cash and cash equivalents	
Favourable cash balances	
Cash on hand	5,000
FNB Corporate Account	23,824,623
FNB CFC Account	2,491,100
FNB Call Account	45,000,000
	71,320,723
Overdraft	
FNB Credit Cards	32
	32
Current assets	71,320,723
Current liabilities	(32)
	71,320,691

The FNB CFC Account had US$191,923.22 as at 28 February 2017

8. Share capital

Authorised	
4,000 Ordinary shares of N$1.00 each	4,000
	4,000
Issued	
1,000 Ordinary shares of N$1.00 each	1,000
Share premium	49,999,000
	50,000,000

9. Deferred taxation

Movements consisting of:	
Originating and reversing temporary differences	(405,250)
Balance at end of year	**(405,250)**

The deferred taxation liability arises from the following temporary differences:

Property, plant and equipment	41,388
Provisions	(294,963)
Prepaid expenses	1,519,980
	1,266,405
Deferred tax liability	(499,638)
Deferred tax asset	94,388
	(405,250)

45 NOTES TO THE FINANCIAL STATEMENTS

Figures in N$	11 months ended 28 February 2017

10. Provisions

Provision for leave pay	
Increase in provision	294,963
Carrying amount at end of the year	**294,963**

Employees' entitlement to annual leave is recognised when it accrues to employees. An accrual is made for the estimated liability for annual leave due as a result of services rendered by employees up to Statement of Financial Position date, with a maximum of 24 days per employee.

11. Trade and other payables

Trade creditors	4,872,464
Withholding Tax control account	247,956
SSC control account	2,584
Directors fees payable	390,000
VET levy control account	34,880
	5,547,884

Creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken is less than 60 days. The carrying amounts approximate fair value.

The following are the major suppliers included in the trade payables:

Don Consulting Services CC	21,476
Regus Business Centre Windhoek Maerua Mall	58,550
Cybertech Computer Systems CC	231,929
Gunnebo South Africa (Pty) Ltd	362,823
C Sixty Investments (Pty) Ltd	3,669,889
Neil Haddock	(155,756)
NelDan Communications Namibia (Pty) Ltd	689,718
Valinsight (Pty) Ltd	(6,400)
	4,872,229

Ageing of creditors

Current	
31 - 60 days	1,702,915
61 - 90 days	2,292,396
91 - 120 days	(41,721)
+ 120 days	100
Total	918,773
	4,872,463

46 NOTES TO THE FINANCIAL STATEMENTS

Figures in N$	11 months ended 28 February 2017

12. Current taxation

Current taxation in the Statement of Financial Position represents:	
Provision for taxation for the period	29,112,969
Provisional taxation paid	-
	29,112,969
Provision for taxation relating to previous years	-
	29,112,969

13. Revenue

An analysis of revenue is as follows:	
Sales - rough diamonds	860,655,554
	860,655,554

14. Cost of sales

Freight	4,364
Purchases - rough diamonds	752,119,396
	752,123,760

15. Other income

Profit on foreign exchange	6,733,638
	6,733,638
Forex losses on marked to market	
(translation of CFC account at year end)	(1,997,790)
Forex gains realised	
(foreign currency transactions settled within the period)	8,733,459
Forex losses unrealised	
(foreign currency transactions unsettled at year end)	(2,031)
	6,733,638

47 NOTES TO THE FINANCIAL STATEMENTS

Figures in N$	11 months ended 28 February 2017
16. Operating profit	
Operating profit is arrived at after taking into account the following items:	
Income	
Profits on foreign exchange	6,733,638
	6,733,638
Depreciation and impairments	
Owned assets	
Office equipment	2,296
IT equipment	5,797
	8,093
Directors' emoluments	
Non-executive	
- Services as directors'	3,830,653
- Expense allowance	77,752
	3,908,405
	3,908,405
Operating lease charges	1,382,891
Premises	1,382,891
17. Finance income	
Interest income	
Bank	35,739
	35,739

48 NOTES TO THE FINANCIAL STATEMENTS

Figures in N$	11 months ended 28 February 2017
18. Taxation expense	
Current taxation	29,112,969
Deferred taxation	
Originating and reversing temporary differences	405,250
Taxation for the period	29,518,219
Reconciliation of rate of taxation	%
Namibian normal taxation rate	32.00
Adjusted for:	
Permanent differences	0.02
Net increase	0.02
Effective rate of taxation	32.02

19. Directors' emoluments

Name	Fees paid to directors for services	Salary	Expense allowances	Total
S.V Masiza	595,000	-	21,597	616,597
V.K Maharero	560,000	-	17,279	577,279
C.W.H Nghaamwa	560,000	-	-	560,000
F. Amuenje	560,000	-	-	560,000
L. Harases	560,000	-	-	560,000
B. Konjore	560,000	-	-	560,000
T. Hangula	560,000	-	-	560,000
	3,955,000	-	38,876	3,993,876

49 NOTES TO THE FINANCIAL STATEMENTS

Figures in N$

20. Related party transactions

Name	Relationship	Transactions	Transactions 2017	Amounts owed to / (by) the related party at year-end 2017
S.V Masiza	Director	Emoluments	616,597	-
V.K Maharero	Director	Emoluments	577,279	-
C.W.H Nghaamwa	Director	Emoluments	560,000	390,000
F. Amuenje	Director	Emoluments	560,000	-
L. Harases	Director	Emoluments	560,000	-
B. Konjore	Director	Emoluments	560,000	-
T. Hangula	Director	Emoluments	560,000	-
			3,993,876	390,000

21. Foreign Currency Translation

The financial statements are presented in Namibian Dollars (NAD/N$). Thus all foreign currency denominated bank accounts, supplier accounts and/or customer accounts are translated into the presentation currency.

22. Financial instruments

The company has classified its financial assets in the following categories:

	Fair value through profit loss (held for trading)	Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Total
2017					
Current financial assets					
Trade and other receivables (refer note 6)	-	-	649	-	649
Cash and cash equivalents (refer note 7)	-	-	71,320,723	-	71,320,723

The company has classified its financial liabilities in the following categories

	Fair value through profit loss	Amortised cost	Total
2017			
Current financial liabilities			
Trade and other payables (refer note 11)		-	5,547,884
			5,547,884
Bank overdraft (refer note 7)	-	32	32

50 NOTES TO THE FINANCIAL STATEMENTS

23. Risk Management

Capital risk management

The company's objectives when managing capital is to safeguard the company's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the company consists of cash and cash equivalents disclosed in note 7, and equity as disclosed in the Statement of Financial Position.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt.

There are no externally imposed capital requirements.

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, company treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an on-going review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivable comprise a limited customer base. Management evaluates credit risk relating to customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position and other factors.

Foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.

The company does not hedge foreign exchange fluctuations.

Foreign currency exposure at the end of the reporting period

Current assets	
Trade debtors, USD 50	649
CFC account, USD 191,923	2,491,100
Current liabilities	
Trade creditors, USD (12,000)	(155,756)

Exchange rates used for conversion of foreign items were:

USD	12.97967

24. Parent and ultimate holding company

The directors consider the company's immediate and ultimate holding company to be the Government of the Republic of Namibia.

51 DETAILED INCOME STATEMENT

Figures in N$	Note	2017
Gross Revenue		
Sales		860,655,554
		860,655,554
Cost of Sales		
Freight		4,364
Purchases		752,119,396
		752,123,760
Gross Profit		108,531,794
Other Income		
Investment income		35,739
Profit on foreign exchange		6,733,638
		6,769,377
		115,301,171
Expenditure		
Accounting fees		62,250
Advertising		71,884
Bank charges		16,295
Branding and promotions		304,060
Computer expenses		4,955
Consulting fees		11,248,878
Depreciation and impairments		8,093
Emoluments - Directors	19	3,993,876
Entertainment		37,685
Fines and penalties		58,612
General expenses		7,636
Lease rental on operating lease		1,382,891
Printing and stationery		15,926
Salaries		3,800,181
Security		10,399
Stamp Duty		27,100
Subscriptions		1,146
Telephone and fax		1,643
Travel - local		22,553
Travel - overseas		2,039,287
		23,115,350
Profit before taxation		**92,185,821**
Profit before taxation (continued)		92,185,821
Taxation		(29,518,219)
Profit for the period from continued operations		**62,667,602**
Profit for the period from discontinued operations		-
Profit for the period		**62,667,602**

The supplementary information presented does not form part of the annual financial statements and is unaudited
The supplementary information presented does not form part of the financial statements and is unaudited

52 TAXATION

Figures in N$	Add Back	Deduct	2017
Profit before taxation			92,185,821
Wear and tear	-	49,481	
Depreciation per income statement	8,093	-	
Fines and penalties	58,612	-	
Leave pay provision	294,963	-	
Prepaid expenses	-	1,519,980	
	361,668	**1,569,461**	**(1,207,793)**
Computed income/(loss) for the period			**90,978,028**
Normal tax on	90,978,028 @ 32c in the N$		29,112,969
Deferred taxation			405,250
Total per income statement			**(29,518,219)**
Deferred taxation			405,250
Total per balance sheet - Asset/(Liability)			**(29,112,969)**

Wear and Tear Schedule	Costs	Wear and tear
IT Equipment	608,537	34,965
Plant and Equipment	6,473,393	-
Office Equipment	43,549	14,516
Land and Buildings	2,250,989	-
	9,376,468	**49,481**

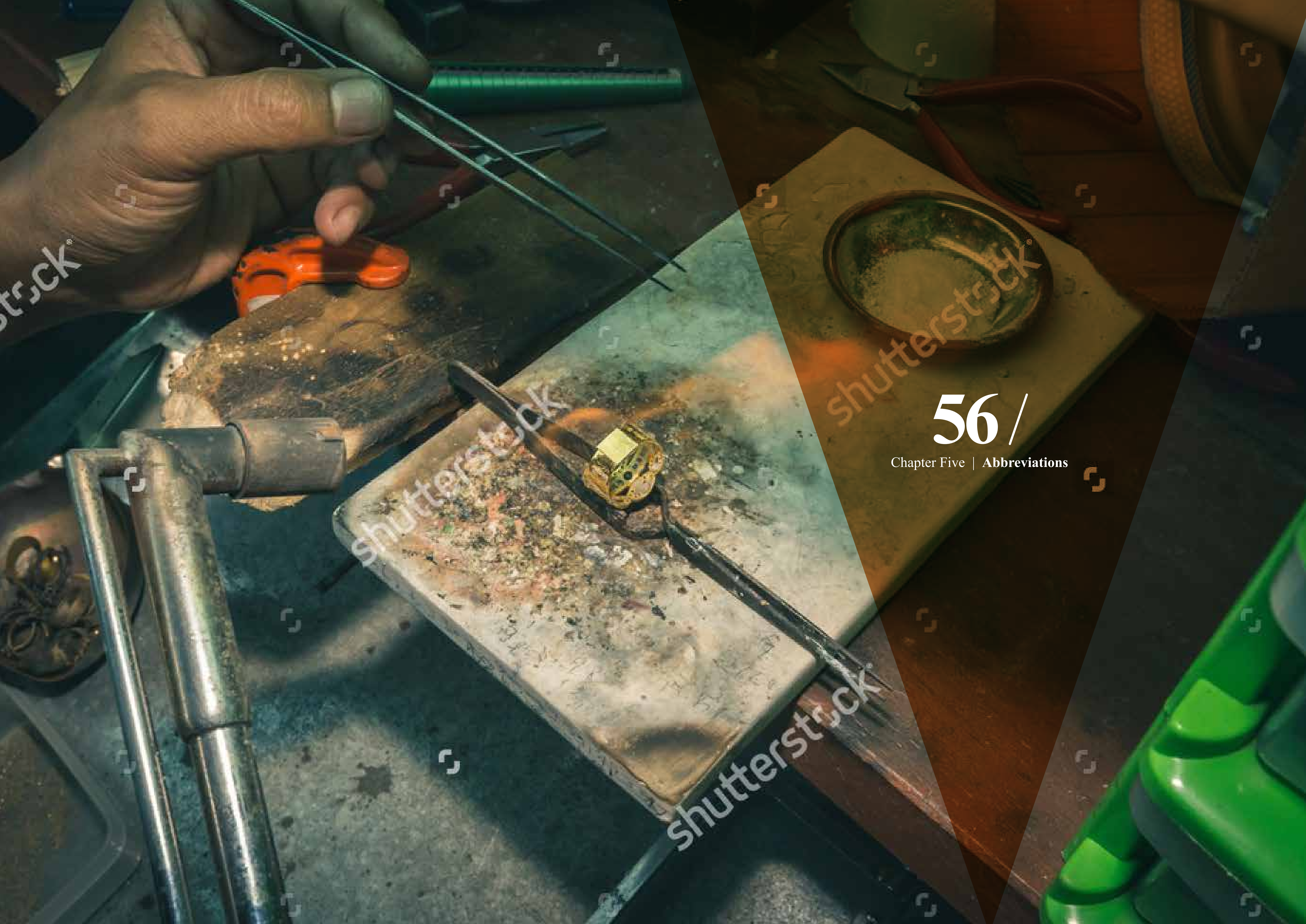
Deferred Tax Calculation

	Accounting Value	Tax Value	Difference	Deferred Tax
Property, Plant and Equipment	9,368,375	9,326,987	41,388	(13,244)
Prepaid Expense	1,519,980	-	1,519,980	(486,394)
Leave Pay Provision	(294,963)	-	(294,963)	94,388
	10,593,392	**9,326,987**	**1,266,405**	**(405,250)**

The supplementary information presented does not form part of the annual financial statements and is unaudited

53 RATIO ANALYSIS

Figures in N$	2017
Liquidity Ratios	
Current Ratio	396.67%
Acid Test Ratio	396.67%
Asset Management Ratios	
The asset management analysis consists of the calculation of five ratios:	
Receivables Turnover – Collection period	22 917.51
Day's sales in receivables	0.02
Inventory turnover	0.00
Day's cost of sales in inventory	0.00
Day's purchases in creditors	2.69
Profitability Ratios	
Gross profit margin	12.61%
Return on operating assets	84.62%
Profit for the period	62,667,602



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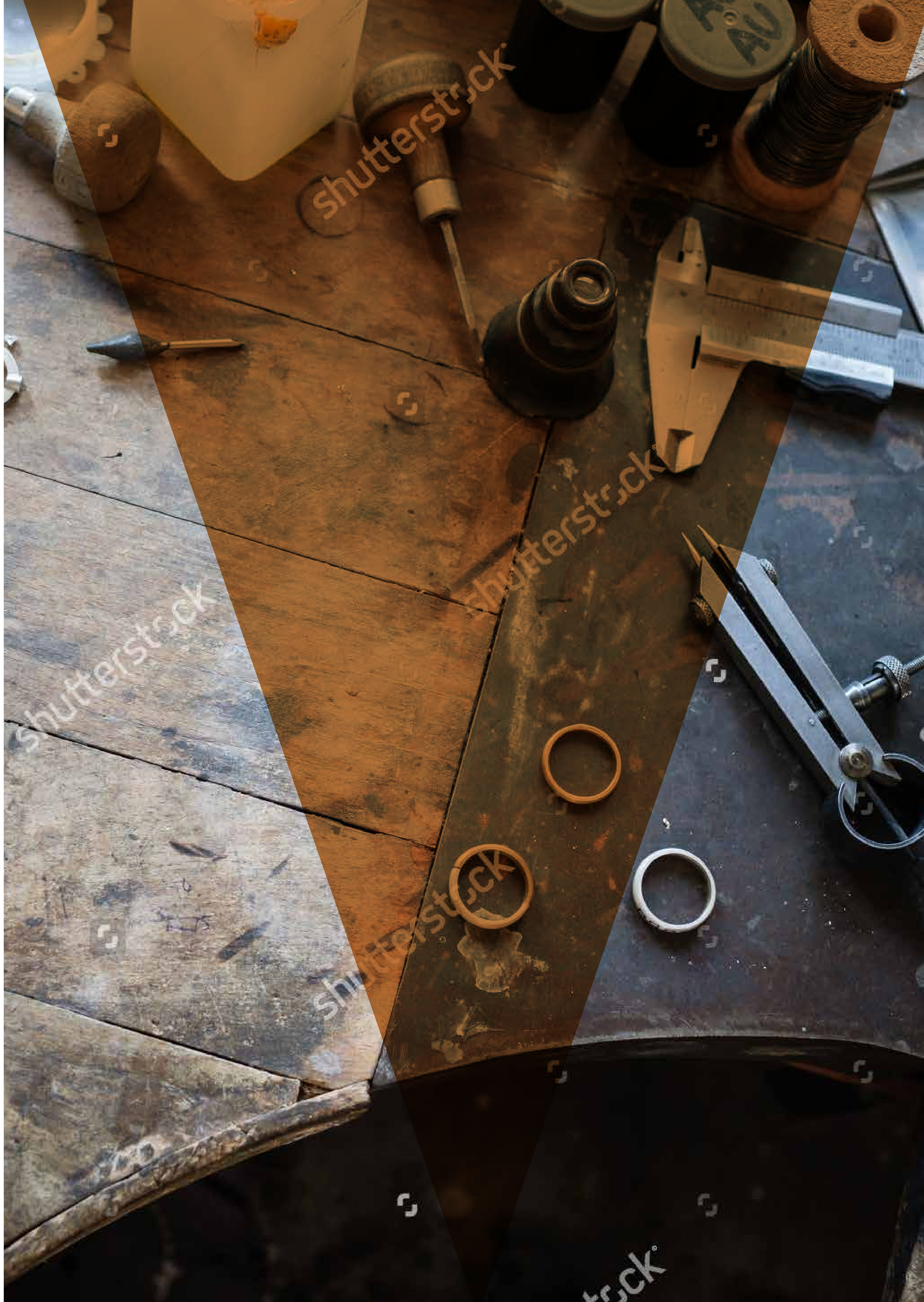
Chapter Five | **Abbreviations**

57 ABBREVIATIONS

CEO	Chief Executive Officer
EU	European Union
GNT	Government Negotiating Team
GRN	Government Republic of Namibia
GTT	Government Task Team
MME	Ministry of Mines and Energy
NAMDIA	Namib Desert Diamonds
NDTC	Namibia Diamond Trading Company
UAE	United Arab Emirates
US	United States



4.86 G VVS2 3EX NONE

5.03 FVY VS2 EX VG NONE

3.40 D VS1 3EX NONE

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NAMDIA

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