Overview of Alexkor

Alexkor Limited is a juristic entity established in terms of the Alexkor Limited Act No. 116 of 1992 (as amended), which is wholly owned by the government. Alexkor has two divisions namely Alexander Bay Mining (ABM) and Alexander Bay Trading (ABT). The ABM operations involve the mining and marketing of diamonds sourced from both land and sea concessions. The ABT operations are centred on the production and marketing of agricultural produce both locally and countrywide.

The company plays a pivotal role in the Namaqualand region through the creation of employment opportunities and infrastructural support in the form of housing and community services. Approximately 2 500 people are employed at Alexkor either directly or indirectly from the Namaqualand region. In addition, the mine maintains and manages the town of Alexander Bay, and supplies portable water to the town and Port Nolloth. Health-care services are provided by the mine in the form of a fully-equipped hospital which services the Alexander Bay and surrounding Richtersveld Communities.

Organisational STRUCTURE

- Alexkor Ltd
  - Alexander Bay Mining (ABM)
    - Land Mining
    - Sea Mining
  - Non-core Activities
    - Alexander Bay Trading (ABT)
      - Ostrich Farm
      - Fruit
      - Dairy
      - Oyster Farm
      - Other Agricultural
    - Other Non-core
      - Hospital
      - Airport
      - Town

Board of DIRECTORS

Martin van Zyl
Board Member

Johan van Deventer
Board Member

Mzamani Mdaka
Board Member

Nchakha Moloi
Chairperson

Vuyo Mahlati
Board Member

Rian Coetzee
Board Member

Dr Tanya Abrahamse
Board Member

Audit COMMITTEE

Reggie Muzariri
Chairperson – External

Xoliswa Motswai
External

Johan van Deventer
Board Member

Current Management STRUCTURE

Mzamani Mdaka
Chief Executive Officer

David Beukes
Engineering Manager and Acting Mine Manager

Geoff Davies
Mineral Resources and Marine Manager

Wilna Gilbert-Cloete
Human Resources Manager

Mario van der Walt
Chief Financial Officer

Cheryl Singh
Company Secretary

Schalk Laing
Security Manager

As at 31 March 2006 Senior Management consisted of the following members:

M E Mdaka	Chief Executive Officer
R Cloete	Acting Chief Financial Officer
W Meyer	Mine Manager and ABT Manager
D Beukes	Engineering Manager
G M Davies	Mineral Resources and Marine Manager
W M Gilbert-Cloete	Human Resources Manager
S Laing	Security Manager

Messrs E Adams and **C Matthews** resigned from the positions of Chief Financial Officer and Company Secretary respectively at the end of February 2006.

Ms C Singh and **Mr M van der Walt** joined Alexkor on 10 July 2006 and 1 August 2006 respectively.

Chairman's STATEMENT

The year under review was critical for Alexkor's survival as the negotiations towards final settlement of the land claim by the Richtersveld Community continued in parallel with the court process. The State, under the leadership of the Minister of Public Enterprises, entered into a negotiations process and the signing of the Memorandum of Understanding by the parties, which defined a settlement framework and signalled significant progress in this regard. However, the company's ability to implement its programme of redefining its future in the midst of major changes in the international diamond industry was hampered by the land claims process. Almost all the alternatives that the company pursued to enhance the financial performance of its land mining assets were impacted in one way or another by the uncertainties regarding the outcome of the land claim.

The shallow marine operations are under-performing as a result of sustained unfavourable weather and sea conditions. The company is pursuing a new programme to improve the financial performance of its marine operations by introducing remote mining methods that would lessen dependence on weather and sea conditions.

Future survival of Alexkor means that the company must identify opportunities outside its current mining lease area and geographic constraints. To this end the shareholder supports Alexkor's efforts to acquire mining and exploration rights elsewhere in South Africa.

The programme to find alternatives to improve the financial performance of the company runs parallel with the restructuring of the company in preparation for the conclusion of the land claims process. The business realignment and restructuring will consolidate efforts by the Board of Directors to transform Alexkor into a world-class diamond mining company. This will lay the foundation for a clear programme to redress historical imbalances and build more opportunities for a sustainable post-mining economy for Namaqualand to take root.

The resolution of the land claims case would open the way for Alexkor to pursue its broad-based black economic empowerment strategy. The company is well positioned to facilitate the development of a world-class BEE diamond mining company.

The business realignment and restructuring that started in the previous financial years to split Alexkor into two corporatised business units has been given impetus by the government's appointment of a special programme manager to fast track this process. The government has allocated funding for the conversion of Alexkor into a proper town in preparation for final transfer to the Richtersveld Municipality. The thrust of this programme will see the transfer of all social infrastructure (town, hospital, schools, airport, etc) to the appropriate organs of State to relieve Alexkor of this unique financial burden. This is followed by the acceleration of the process started last year to reposition the company into two autonomous focused business entities, which will create a world-class mining company (Alexander Bay Mining) and enhance the creation of wealth for the Namaqualand region (Alexander Bay Trading) as well as increase long-term sustainable businesses for community empowerment.

In the coming year, the mine will focus on increased land mining and exploitation of its mid and deep marine resources to stabilize production in the midst of the unpredictable nature of the shallow water operations.

The legislative amendments, in particular the amendments to the Diamonds Act will necessitate a fundamental change to Alexkor's business strategy. The company has changed its diamond marketing strategy by abandoning the single-channel marketing through Diamdel in favour of selling its diamonds through an open tender system. The company has taken a strategic decision to be the base load supplier to the State Diamond Trader and thus decided to actively look for opportunities to expand its operations beyond the current Alexander Bay Mine to increase its productive capacity.

The transfer of the town and all the social infrastructure to the Richtersveld Municipality and the Northern Cape Provincial Government would ease financial pressure on Alexkor and set the stage for the development of sustainable communities with improved service delivery from the State.

The company keeps itself fully appraised with major international developments in the diamond market and uses these developments to inform strategies and business models to enhance shareholder returns and maximise shareholder value. A combination of the rapidly changing international diamond industry, the new legislative developments and the land claims case demand a responsive and visionary Board of Directors to grow the company.

The Board is of the opinion that the speedy and efficient realisation of the restructuring and re-aligment initiatives as well as the resolution of the land claims case will create optimal returns for both the company and the South African public at large.

Business Performance

Last year Alexkor, along with other State-owned enterprises, begun the process of implementing International Financial Reporting Standards. Alexkor's financial reporting framework was accordingly adapted both in terms of content and style, in order to comply with these standards.

The financial performance of the company is hampered primarily by the land claim and the impact of unfavourable weather and sea conditions on the shallow water marine mining operations.

The Board of Directors has summed up the results of the financial business activities of Alexkor for the year ended 31 March 2006. The company continues to make losses.

Below is a comparison of 2005 and 2006, the 2005 financial year being a nine-month period:

- Revenue increased to R159.4 million from R152.4 million.
- Net operating expenses increased to R197.6 million from R121.3 million.
- Loss from operations of R38.2 million from a profit of R1.5 million.
- Profit margin decreased to -0.23% from 0.61% in 2005.
- Return on capital employed decreased to -47%, from -0.01% in 2005.
- Operating cash flow decreased to R6.2 million from R0.6 million in the previous year.
- Total debt ratio decreased to 1.74:1 times from 3.99:1 times in 2005.
- Current ratio decreased to 4:1 from 4.14:1 in 2005.

Social Investment

Mining, particularly the diamond industry, is the backbone of the Namaqualand economy and makes the largest contribution to labour remuneration in the region.

Although not the biggest employer in Namaqualand, Alexkor provides employment to approximately 1 851 people in the region directly and indirectly. Personnel expenses amounting to R60.9 million were paid for the financial year under review.

The mine supports a hospital at Alexander Bay and included in the social welfare contributions which Alexkor provides to the region, is a clinic facility for the Richtersveld pensioners.

Schooling is provided in Alexkor's facilities to all children resident at Alexander Bay as well as for children living at nearby mining communities.

The communities also stand to benefit from Alexkor's ancillary business operation (ABT) after the takeover by the Richtersveld Community. Alexkor, in its endeavour to create jobs for local communities, created an alternative economic activity for the retrenched employees and local communities. The company outsourced its entire shallow water operations to small and medium-sized businesses, with significant economic participation by former (retrenched) Alexkor employees and members of the communities, in line with Alexkor's social plan.

Of the current annual turnover of approximately R159.4 million which is generated by Alexkor, approximately R71.2 million is injected into the regional economy to the greatest benefit of the engineering, general supply and construction business sectors. Around 38% of the annual turnover was paid to the marine contractors.

Chairman's STATEMENT (continued)

Corporate Governance

The Alexkor Board of Directors insists on adherence to ethical standards in a range of areas that include health, safety, environment and working conditions, and corporate governance.

The current Board was appointed towards the end of November 2004 and appointed and confirmed members to the various sub-committees. The committees are functioning and meet regularly, covering the following areas: the Sub-committee for both ABM and ABT, an Audit Committee covering ABM and ABT, the Rehabilitation Committee, Remuneration Committee, Pension Fund and Medical Aid Committees.

The Audit Committee had regular meetings during the year ensuring the application of sound accounting practices and internal control measures, underpinned by external audit and review.

Alexkor maintains a system where at each Board meeting, which takes place at least quarterly, members have to declare their interest, which could be associated with the creation of conflict of interest.

Environmental matters

Alexkor has been conducting mining activities for a considerable period of time and has accordingly accumulated an environmental liability as defined in the Minerals and Petroleum Resources Development Act 28 of 2002. In terms of the Environmental Management Programme Report (EMPR) that was compiled in 1994 by the CSIR and approved by the Department of Minerals and Energy (DME), the liability in terms of the environment was then estimated to be R17.58 million.

The company has since appointed an independent environmental consultancy and specialists to assess and audit the environmental liability as per the Minerals Act 50 of 1991 and the Minerals and Petroleum Resources Development Act 28 of 2002. The environment liability has been revised to a new estimate of R193 million.

Accordingly the EMP is being revised and the relevant authorities engaged. The company continues to contribute to its environmental Rehabilitation Trust Fund using a formula consistent with the requirements of SARS. This fund was established by Alexkor in terms of the Minerals Act to provide for the costs of rehabilitating the mining and prospecting areas in order to restore the disturbed areas as close as possible to their prior state in accordance with the approved EMP. The balance in the Trust Fund account amounted to R14,7 million at the end of March 2006.

Nabera Dispute

In terms of the contract entered into between the parties, Alexkor had to pay a monthly management fee, exclusive of VAT, to Nabera. Nabera has invoiced Alexkor for R3.1 million in terms of the agreement. This matter is currently in court as the Directors of Alexkor believe that no liability exists.

The Nabera Consortium had a contractual entitlement to one-third of any value it might have added to Alexkor between 17 May 1999 and 17 May 2001. The management contract did not provide for any penalties if Nabera was found to have destroyed value.

The government, Alexkor and Nabera are currently in court as the determination of whether as per the management contract Nabera has added any value and if so, how much, is contested. A consulting company was jointly appointed by Alexkor and Nabera to undertake the valuation in this regard, as at the commencement and termination dates. The results of the report are being contested.

Management

Alexkor has, for the first time in recent history, a stable, experienced and appropriately qualified management team. The CEO, Mzamani Mdaka, and his management team should be commended for keeping the company going in the midst of the constraints introduced by the land claims process. New and innovative management systems have been introduced and these will uplift the financial performance of the company following final settlement of the land claim.

The CEO, Mzamani Mdaka, continues from strength to strength and has done a sterling job in keeping Alexkor intact. Mzamani leads a senior management team in the persons of M van der Walt (Chief Financial Officer), C Singh (Company Secretary), Geoff Davies (Mineral Resources Manager), David Beukes (Engineering Manager and acting Mine Manager), Wilna Gilbert-Cloete (Human Resources Manager), Schalk Laing (Security Manager) and Clifford Oppel (acting Manager for ABT).

E Adams, the Chief Financial Officer and C Matthews, the Company Secretary left the company's employ during the year. Wilna Gilbert-Cloete was appointed the Human Resources Manager, M van der Walt the new CFO and C Singh the new Company Secretary.

Chief Executive's REPORT

Introduction

The period under review is considered to have been one of the most difficult times for the company. Management was faced with a challenge of sustaining current operations as going concern with limited resources whilst the company continued to operate at a loss. These current operations are comprised of the mining activities on land and sea mining areas, as well as the non-mining activities such as ABT, the town, the hospital and the airport. The mining activities form the core of Alexkor's business. Over the past 10 years, the company's carat production base from land and sea has declined from a high of 227 000 carat per annum in 1995 to 43 000 in 2006, which is the lowest production level recorded in the company's recent history.

A number of constraints have resulted in Alexkor operating at a loss as is evident in the FY2006 performance. This situation has resulted in the depletion of the company's cash resources since no capital injection was made to address the identified constraints. Despite the extent of the deposits, the current mining operations are severely constrained by the lack of an identified reserve base; a poorly maintained and aging earth-moving fleet; a plant infrastructure requiring upgrading; an overdependence on unreliable, contracted, diver-directed mining methods; and a lack of capital or access to capital to rectify the situation.

Financial Performance

Alexkor's consolidated revenues and costs from current operations for the FY2006 were R159.5 milllion and R197.6 million respectively, resulting in an operating loss of R38.1 million. In addition to this, adjustments were made for the post-retirement medical liability and rehabilitation liability to the amounts of R11.4 million and R160.1 million respectively, in line with requirements of the IFRS implementation. The impact of these adjustments resulted in a reported total loss of R205.5 million for FY2006.

When excluding the effects of the adjustments (R171.3 million) and costs associated with the subsidisation of the non-core assets ABT (R4.1 million), the town (R4.1 million) and the hospital (R2.6 million), the mining activities would have made an operating loss of R23.4 million.

Challenges and Turnaround Plans

The main factors impacting negatively on turn-around plans for ABM include the continued maintenance and subsidising of non-core assets, uncertainties related to the settlement of the land claims case and the lack of defined ore reserves. The pending land claims case has hugely affected the development and implementation of plans necessary to turn the company into profitability since no capital investments or long-term mining plans could be implemented on land mining, which is the subject of the claim. The company's loss-making situation was exacerbated by the lack of defined ore reserves in the current mining areas; the fixed costs associated with personnel expenses; and maintenance of existing plant and equipment.

Alexander Bay Trading (ABT), currently the agricultural and trading division of Alexkor, is in the process of being corporatised into a separate legal entity. The future development of a post-mining economy suggests that creative partnerships ought to be found to ensure the effective investment in ABT without burdening the mining operations. This would include running each business unit as a separate entity. Other business units were identified as non-core and will be transferred to the relevant government authorities. These include the airport, hospital, pharmacy and Alexander Bay town.

In order to turn the mining operations into profitability, the objective is to maximise production from land and sea mining areas. The restructuring of land mining operations to a three-shift configuration commenced in August 2005 with the initiation of a two-shift configuration on the mining areas. Implementation of the three-shift configuration was completed in May 2006, and has so far shown improvements in tonnages processed at the plants. To achieve the short-term plan, an exploration plant that was constructed in the south of the mine to support mining in the Muisvlak area has been relocated to the northern part of the mine where current mining is taking place. Exploration will be conducted ahead of the mining activities confirming economically viable blocks for mining. These targeted blocks will be identified from historical sampling. Management is reviewing the allocation of mining-related costs to account for land and marine mining activities separately, which will make it easier to monitor the trends in unit costs and the profitability of each business unit.

In an attempt to reduce overreliance on diver-directed mining operations, remote mining methods are being implemented. The first remote mining unit has commenced production in July 2006. Until the remote mining techniques have proven their ability to effectively operate on the Alexkor concessions, the diver-directed operations will remain the major contributor to Alexkor's production and this is a concern when considering the continuous downward trend in the number of sea days.

In the longer term, the objective of the mining operations will be the establishment of a mineral reserve base from which reliable mining and business plans can be developed. Management, after consultation and approval by the Board, has developed a recapitalisation programme aimed at expanding operations through new and upgraded infrastructure and increased equipment levels. The recapitalisation programme's requirements have been submitted to the Department of Public Enterprises (DPE) and emphasis has been placed on the need to conduct exploration on both land and sea concessions in order to convert the inferred resource into probable and proven reserve. The integral part in the development of a reliable mine plan is the availability of probable or proven reserves which are deduced from the results of an exploration programme. Alexkor, in recent years, has not conducted any meaningful exploration that would have resulted in the conversion of the mineral resource into a probable or proven reserve.

Safety and Health

Alexkor obtained its first 1 000 fatality-free production shifts in March 2005. This achievement resulted from a dedicated team effort from management, workers and contractors as well as meticulous adherence to good safety practices. It is with regret that the company reports the loss of two lives in separate accidents that occurred in the 2006 financial year. One of the two fatalities resulted from a vehicle accident that occurred in October 2005, and the other involved a diving supervisor who lost his life after an underwater incident whilst conducting diving operations in January 2006. The reported Lost Time Injury (LTIFR) and Reportable Injury (RIFR) Frequency Rates for the 2006 financial year are 1.13 and 0.98 respectively. This is an improvement when compared to 2005 LTIFR and RIFR of 1.27 and 1.11 respectively. The safety and health of our employees remain a high priority and management is committed to improving the previous financial year's performance in 2007.

Review of Financial Performance

Revenue

Alexkor's consolidated income for the 2006 financial year was R159.4 million (2005: R152.4 million) against a budget of R289.7 million. The shortfall was largely as a result of lower diamond production from the mining operations. The company's revenue stream is broken down into income from ABM of R139.0 million, R13.9 million from ABT and R6.5 million from the non-strategic assets.

Net Operating Profit/Loss

Total costs for the period under review were R197.6 million compared to R151.8 million in 2005 with the latter being for a period of only nine months. The net operating loss for the period under review is R38.1 million (2005: R1.5 million profit). This is further broken down into a loss attributable to mining operations of R27.3 million and the balance of R10.8 million loss related to the non-strategic assets i.e. ABT, town maintenance and the running of the hospital. The company had budgeted for an operating profit of R24.4 million.

Alexkor did not account for any amount to be paid to SARS on normal income tax as the company expects to still make a loss in the current financial year.

Non-cash Adjustments

Two major adjustments were made on the 2006 Annual Financial Statements amounting to R171.3 million, namely:

- Restating of the rehabilitation liability in line with the IFRS requirements by an amount of R160.0 million (2005: R642 135) based on the estimate conducted by an independent environmental management consultant. The study conducted estimates the current liability to be R193.0 million. This adjustment has resulted in an increase in the rehabilitation provision from R22.3 million to R178.8 million.
- Provision for post-retirement medical benefits increased by R11.4 million (2005: R10 million) as per the actuarial valuation on 31 March 2006.

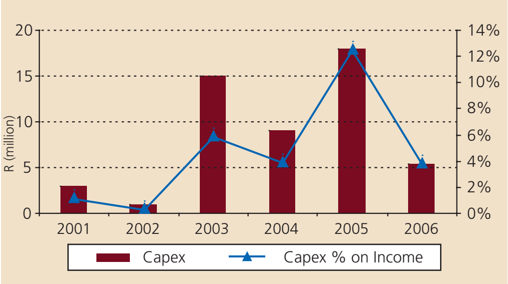
Balance Sheet

The impact of the non-cash adjustments amounting to R171.3 million on the balance sheet was offset by the inclusion of revaluation of the property, plant and equipment as required by IFRS. The revaluation of these assets has resulted in a R409.3 million increase in accumulated reserves during FY 2005 (as a comparative adjustment).

Capital Expenditure

The decline in the carat production over the years can be associated with the lack of meaningful capital investment required to expand production capacity and revenue growth profile. No major expansion plans were implemented in the past with the exception of the R25 million spent in 2003 to 2004 on the exploration programme and the purchase of two infield screening plants as well as two rigid haul trucks. Capital expenditure for the period under review was R5.8 million, a significant portion of which was spent on an infield screening plant, the Heyman Security Scanner, IT equipment and other operating equipment. The capital expenditure for ABM in the past five years is depicted in Figure 1.

Figure 1: Historical Capital Expenditure



Cash Flow

Cash outflow from operations of R6.5 million were derived from normal operating activities as per the income statement and adjustments for changes in working capital and non-cash flow items.

Cash flow from investing activities of R6.1 million were mainly as a result of capital purchases of R5.83 million.

During the year none of the operations were financed from external sources.

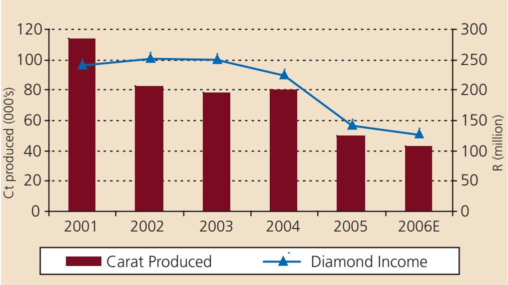
Core Operations

Alexander Bay Mining (ABM)

The goal of ABM's business plan is to "maximise shareholder value" through revenues gained from the mining and sale of rough diamonds sourced from both land and marine operations. The marine operations comprise 75 mining companies contracted to deliver diamondiferous gravel to Alexkor's processing plants where the gravel is processed for the recovery of diamonds. The land mining operations include Alexkor's own mining teams, in addition to three contracted mining companies, that extract and deliver diamondiferous gravel to the processing plants.

Income from the sale of diamonds was R129.1 million (2005: R143.3 million) against a budget of R217 million. The contribution to revenue from marine operations was R101.6 million (2005: R120.9 million), and the contribution from land operations was R27.5 million (2005: R22.4 million) – see charts below. ABM's income from diamond sales was 46% below budget of R217 million. This was as a result of lower carat production of 43 207 carats (2005: 49 577 carats) which was 51 046 carats or 54% below the budgeted carat production. The marine operations contributed 30 046 carats (2005: 38 454 carats) to the mine's production whilst the land operations contributed 13 161 carats (2005: 11 123 carats).

Figure 2: Diamond Revenue and Carat Production Contribution



The carat production from marine operations was 28 599 carats below target due to adverse sea conditions. Only 34 diving days (2005: 44 days) were available for mining operations as opposed to 55 in the preceding 12 months. The decline in the number of diving days is a continuation of a trend established over recent years that has impacted on the mine's ability to maintain historical marine carat production levels.

The carat production from the land operations of 13 161 carats was 22 447 carats below budget. The bulk of the carat shortfall, 19 084 carats, was due to the planned contractor operations at Witvoorkop and Muisvlak not becoming operational. The targeted diamond income from these operations was R29.3 million which accounts for the net shortfall on the land diamond revenue of R29.5 million. The revenue from Alexkor's own mining teams was R6.5 million below target and this was offset by R6.3 million generated by the three land mining contractors. Alexkor's revenue shortfall was attributable to lower productivity levels associated with mining an inferred resource.

Diamond Market

Continued strength in the diamond market resulted in improved prices received for the mine's rough diamonds in specific size ranges. The price received for the year's production was US$474 per carat which was 21% above target. The price received was lower than the previous year's price of US$522 per carat due to increased production from the south of the mine with an associated smaller stone size.

Alexkor changed its marketing strategy at the end of the year from selling to a single buyer to selling on the open market through a tender process. Improved prices were realised as a result of the change in strategy.

The establishment of a State Diamond Trader (SDT) in terms of the Diamonds Amendment Bill is awaited with interest. The Bill requires producers to sell a proportion of their diamond production to the SDT and the diamond parcel from each producer will be evaluated by the State Diamond Valuator. The full implications and effect of the provisions of the Bill on the local diamond industry will only become apparent once the Bill has been implemented. At this stage, it is unclear what the ramifications will be on fair diamond evaluation and selection of the diamond parcel to be purchased by the SDT.

Status of Mineral Resources

A major constraint to the successful operation of the mine is the lack of a diamond reserve or bankable diamond resource in accordance with

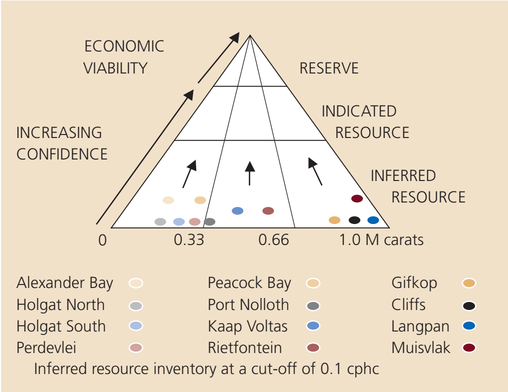
REVIEW
of Financial Performance and Operations
(continued)

the requirements of the South African Code for the Reporting of Mineral Resources and Mineral Reserves (The SAMREC Code). The current land operations are extracting a diamond resource defined at the inferred level only. The marine operations are based on a diamondiferous deposit in which diamond occurrences are too erratic to adequately define an inferred resource. In order to develop a sound operational plan, a defined ore reserve is required and Alexkor has not been able to identify any ore reserves from the current inferred resource. The current operational plan thus has a high level of uncertainty regarding the achievement of carat and revenue targets.

In order to generate a reserve base and to ensure that the mine operates according to generally accepted good practices, a strategic plan based upon the recapitalisation of the mine has been developed with an aim of embarking on a major exploration programme on Alexkor's land and at sea concessions.

The exploration programme will focus on driving the resource estimates of the different mining areas from that of an inferred status to that of an indicated resource status. This will be followed by a feasibility study conducted to establish the economic and mineability of the indicated resource and converting these to a defined ore reserve base, at the required level of confidence. The status of Alexkor's mineral resource and reserve base is as illustrated by the resource triangle shown below for the land-based resources.

Figure 3: Resource to Reserve



The land resource base of ABM is stated in addition to the SAMREC definitions of the classification of diamond reserves and resources and is as summarised in Table 1 below:

Table 1: Diamond Resource at an Inferred Level.

Mine Area	Resource Area m²	Grade cts/100 m²	Content cts	Stone size cts/stn
Alexander Bay	1 200 000	2.79	35 000	0.5
Kaap Voltas	6 500 000	11.75	763 000	0.5
Peacock Bay	2 300 000	11.62	267 000	0.5
Rietfontein	8 300 000	6.24	518 000	0.3
Gifkop	9 500 000	7.92	752 000	0.3
Holgat North	1 700 000	5.96	101 000	0.3
Holgat South	2 700 000	6.96	188 000	0.3
Perdevlei	3 900 000	6.43	250 000	0.3
Cliffs	8 200 000	6.04	494 000	0.3
Langpan	10 300 000	7.49	771 000	0.2
Muisvlak	7 600 000	9.21	699 000	0.3
Port Nolloth	4 400 000	4.15	182 000	0.3
Totals	**66 600 000**	**7.54**	**5 020 000**	**0.3**

Notes:
1. This Resource Statement is based on the Mineralisation Inventory as at 31 August 2004
2. The Resource Statement is quoted at a cut-off grade of 2.1 cphm³ (which equates to the in situ Breakeven Grade as calculated by Alexkor from direct mining costs as at 31 October 2005)
3. Since 31 August 2004 the resource has been depleted by an amount of 15 000 carats
4. Figures quoted are for a bottom cut-off screen size of 1.6 mm
5. Figures quoted are in situ
6. This statement was prepared by P Hollick, an independent consultant and competent person as registered with SACNAS.

The SAMREC code states that "an 'inferred diamond resource' is that part of a diamond resource for which tonnage, grade and average diamond value can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified by geological and/or grade continuity and a sufficiently large diamond parcel is not available to ensure a reasonable representation of the diamond assortment. It is based on information gathered through appropriate techniques from location such as outcrops, trenches, pits, working and drillholes that may be limited or of uncertain quality and reliability."

Insufficient confidence exists in the historical quality and quantity of sampling conducted on ABM's land-inferred resource base to identify a resource at a higher level of confidence such as an indicated diamond resource or measured diamond resource. In the classification of a diamond reserve, the SAMREC code states that "a 'diamond reserve' is the economically mineable material derived from a measured and/or indicated diamond resource". The company has not declared an indicated resource or measured resource, thereby precluding the statement of a reserve.

The planned recapitalisation of the mining operations will allow for the execution of Alexkor's exploration programme which will increase the level of confidence in the inferred resource to a level that will allow the identification of an indicated diamond resource from which a diamond reserve may be defined.

Safety, Health and Environment

Paragraph on safety stats for the year and statement on the two fatalities

The mining operations are conducted in an environmentally-responsible manner in accordance with the Environmental Management Programme (EMP) Report authorised in 1995 by the Department of Minerals and Energy (DME). To this end all efforts are made to minimise the impacts that any mining activities may have on the environment, and to manage any disturbances that do occur in such a way that the environmental liability of the mine is not increased. In excavating mining sites, a system of concurrent rehabilitation is practised whereby excavated overburden is immediately used to backfill historically mined out areas.

The historical rehabilitation responsibilities of the mine have been identified, updated and captured in a database. Rehabilitation methodologies for the identified sites have been compiled and a cost estimate for their rehabilitation determined. The rehabilitation methodologies and the updated rehabilitation liability will be submitted to the Department of Minerals and Energy in the coming year for approval as amendments to the mine's EMP. The liability has been estimated by environmental consultants, Site Plan Consulting, as R193 million.

Asset Protection

The vision of Alexkor's security department is to minimise the impact of illegal diamond buying and related activities at the mine and surrounding areas, as well as the protection of all valuable assets of Alexkor. Security services at Alexkor are contracted out to Protea Security Services (Pty) Ltd who commenced with operations in August 2005 after cancellation of the former Coin Security contract. The relevant security requirements were reviewed to ensure proper compliance to the security needs of the company.

Continuous training and development of security staff in line with the needs of the company are viewed as crucial in areas such as marine and land mining operations. To this end, training courses were presented to security staff in line with the security requirements for both land and marine operations.

Protection of the company's assets in line with strategic objectives shall remain a priority for Alexkor. In order to minimise any potential diamond theft, a Heymann full body X-ray machine was installed during the financial year under review. This machine performs continuous body scans on all individuals exiting the mining area. In addition to this initiative the security department also introduced security on shore units, as well as shallow- and mid-water vessels.

Alexkor's security department continues to nurture constructive relationships and co-operation with the relevant stakeholders in the policing and security environment in its endeavour to combat the flow of illegal diamonds in the broader Namaqualand region.

Non-core Operations

Alexander Bay Trading (ABT)

ABT consists of the dairy with a processing unit, ostrich farming, mariculture farming, citrus farming, the guesthouses and the airport. The main markets for ABT products are in Alexander Bay, Oranjemund, Port Nolloth, Springbok, Oudtshoorn, Johannesburg and Cape Town. In the financial year ending 31 March 2006, ABT incurred losses of R4.1 million compared to the loss of R5.5 million during the previous year. The loss can be attributed to the following:

- the limited market for the dairy products;
- an ineffective breeding programme which impacted the continuous supply of live birds; and
- the lack of management expertise with regards to consistent oyster production.

Dairy

The dairy made a loss of R0.58 million when compared to the previous year of R0.12 million. Initiatives are currently being implemented to streamline operations by extending the existing markets beyond the borders of current markets within Namaqualand. This includes looking at other service providers within the industry to increase the market for these products.

Ostriches

The ostrich market still remains volatile as a result of flu outbreaks in the Eastern Cape. The company however managed to secure a contract with Klein Karoo Corporation whereby marketing of all ostriches will be done through Klein Karoo. This includes slaughtering the birds at their facilities whereby higher revenue can be achieved. As a member of this Corporation, Alexkor is also entitled to products and services provided to its members. A study was also conducted by Klein Karoo which evaluated the existing operations. With proper management the ostrich farm is an attractive long-term business venture. The end of the 2005 breeding season saw 4 900 chicks hatched. The mortality rate had also decreased and was well within industry norms.

Mariculture

The current operations at the oyster farm were hampered by the lack of expertise experienced with the management of the project. As this is a specialised field, problems were experienced with securing a suitable person to run the facility. Alexkor finally managed to secure a suitably qualified person to run the project on a contractual basis and it is expected that this business unit will turn around in the current year.

Citrus

This operation continued to run at a loss. A feasibility study was also undertaken which highlighted that the current operation is too small to be run profitably due to distance from markets, as well as the current state of the plantations.

Municipal Services

During the current year under review, Alexkor contributed R4.1 million towards providing services to the town. The process of having Alexander Bay proclaimed as a town is well under way and the government has already set aside an amount of R66 million for the establishment of the town. Alexkor will continue to provide maintenance and municipal services to the town until this process is finalised.

Hospital

Discussions are under way between the Northern Cape Provincial Government and Alexkor for the transfer and management of the hospital to the Northern Cape Health Department. The transfer of the hospital is expected to be completed by the end of the 2006/07 financial year.

Strategic Outlook

Management's key focus for 2007 will be to develop and implement plans aimed at returning the mine to profitability. This strategy will require the generation of a reserve base for the mine, an increase in production volumes from land, and a reduction in ABM's dependence on unreliable diver-directed mining methods for marine mining.

The inferred land-based diamond resource of the mine of 5.9 million carats at an average stone size of 0.34 carats per stone represents an opportunity for the development of a significant diamond mining operation. To realise such an operation an exploration programme is planned with an objective of defining a reserve base for the mine from which a bankable business plan can be developed. The equipment levels and plant infrastructure required for the exploration programme will be funded through a re-capitalisation programme to be motivated in the coming year. The programme will include geophysical surveys at sea to identify targets for remote mining.

Production volumes on land are being increased by bringing to account unutilised mining and plant capacity. This was achieved through the implementation of a three-shift production day for the mining and plant operations. The increased volumes will increase carat production and reduce unit-mining costs, thereby increasing the potential for the profitable extraction of the resource.

In order to reduce the mine's exposure to erratic sea conditions, remote, non-diver-directed mining techniques are being introduced. The first such unit commenced production in July 2006.

Further initiatives to return the mine to profitability are:

- the creation of an environment which will allow for increased levels of productivity by shallow water contractors. Initiatives taken in this regard include encouraging the amalgamation of contracts into a smaller number of enlarged, stronger contracts;
- the opening of the south of the mine to shore-based units, thereby allowing boat-based units to operate in in-shore areas on those days when sea conditions prevent boats from operating; and
- exploring possibilities of co-operating with other mining companies to take advantage of synergies on land and sea mining operations.

The achievement of the company's strategic objectives, especially regarding increased carat production from the land resource base is largely dependent on the extent of capital allocation as stated in the company's recapitalisation requirements.

HUMAN RESOURCES and Social Development

Human Resources

Over the past few years the Human Resources department has reported on trends in developments related to good practices being implemented at Alexkor. The Human Resources department validated and expanded its strategic role in the business. Since 2003, Alexkor has committed itself to develop various structures and management frameworks to provide and support the business with human resources practices and competencies which add value, thereby improving the company's economic performance and contribution towards social needs.

Alexkor remains committed to show an improvement in key areas of management focus in the following domains:

- complying to laws impacting on labour and employment practices in the Republic of South Africa;
- improving employee skills through continuous development and training interventions;
- succession planning, attraction and retention of talent;
- continuing to advance employment equity by recruiting suitable candidates from previously disadvantaged groups; and
- creating HIV/AIDS awareness.

The Human Resources department is fully committed to upholding and implementing the company's vision, mission and values and the department expresses this commitment actively in its day-to-day management of human resources functions. Operational performance and benchmarking of human resources trends, continue to form an integral part of the Human Resources department's responsibilities.

Contribution to Employment

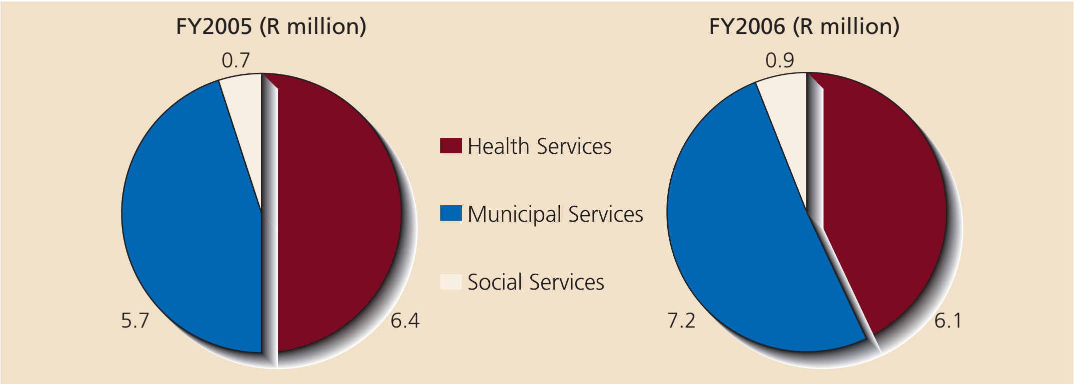
The various business activities at Alexkor and employment opportunities over the past three years for the main mining activities are depicted in the following table:

Table 2: Alexkor's Business Activities

Division	FY 04	FY 05	FY 06
Mining	253	264	246
Farming	109	106	110
Health services	27	27	25
Municipal services	33	33	31
Temporary (contract)	36	26	39
Marine contractors	996	1 117	1 164
Other contractors	287	277	236
Total	1 741	1 850	1 851

As depicted in the table above, the contractors account for high employment opportunities in the Greater Namaqualand District – approximately 76% (1 400) of the total FY2006 staff strength is attributed to contractor employees. The major contracting companies and suppliers of Alexkor include Barloworld, Engen, Protea Security Services, Quality Tyres, Royal Foods Services and Sunrise Motor Spares. The majority of these companies are black empowered. In addition, Alexkor as a responsible corporate citizen, channels social investments into education and training, infrastructural development, welfare, arts and culture.

Figure 4: Socio-economic Contribution



Socio-economic Contributions

Alexkor also maintains and runs the town of Alexander Bay, including the supply of water to Alexander Bay and Port Nolloth. It also continues to provide housing, water and electricity to its employees, contractors and other stakeholders at subsidised rates.

Employment Equity (EE)

Alexkor regards employment equity as a strategic priority and monitors progress closely in this regard. Barriers within policies, procedures and processes which impede on the enhancement of EE and other goals have been eliminated.

Table 3: Current Employment Equity statistics of Alexkor

Occupational Level	Number of Incumbents	Male			Female			% of Designated Group
		AM	CM	WM	IF	CF	WF	
Top Management	1	1						100
Senior Management	5		1	2	1	1		60
Professionally Qualified	12	3	2	4		1	2	67
Skilled	71		23	37		3	8	48
Semi-skilled	215	7	141	20		33	14	91
Unskilled	97	10	57			30		100
Total	401	21	224	63	1	68	24	84

AM = African Male CM = Coloured Male WM = White Male IF = Indian Female CF = Coloured Female WF = White Female

Black Economic Empowerment

Alexkor set a target that procurement from historically disadvantaged South Africans (HDSA) must be in excess of 25% over a three-year period starting 1 March 2004. For the year ended 31 March 2006, Alexkor procured goods and services from BEE companies which include mining contractors, companies providing services such as security, catering and maintenance. The spend on black-empowered companies accounted to R91.4 million representing 55% of total spending.

Alexkor continues to strive to serve the community by awarding new contracts to black-empowered companies. This ensures that contracts reflect community participation and involvement.

As a responsible corporate citizen, Alexkor continued to focus on female empowerment and committed itself to the objectives of capacity building to ensure meaningful female participation in the local and mainstream economy, and the alleviation of poverty amongst marginalised females.

In an endeavour to achieve these objectives capacity building amongst females was streamlined by initiatives such as the allocation of bursaries in mining-related disciplines, the placement of females on mentorship programmes, the employment of females on learnerships in engineering trades and training of females as earth-moving operators.

Further initiatives to ensure female participation in the local economy include awarding shallow water and land mining concessions to contractors subject to a female equity ownership. Female shareholding in shallow water and land mining concessions amounts to approximately 17.5%. Alexkor also allocated 50% of Witvoorkop, one of the mining areas within Alexkor's land concessions, to a women's empowerment group comprising women from the Richtersveld area.

HIV/AIDS

HIV/AIDS has a direct impact on Alexkor, both in terms of its workforce as well as the communities within which it operates. A prevalence survey was conducted in April 2003 which indicated an infection rate of 2.8%. Activities and formal management around HIV/AIDS awareness were identified, implemented and compounded during the review period.

HUMAN RESOURCES and Social Development (continued)

The introduction and maintenance of a management and health-care plan in addition to an existing HIV/AIDS policy was introduced and voluntary testing is available and done on a regular basis. Alexkor views the contribution of "Peer Educators" as significant in combating and preventing the spread of HIV/AIDS. To this end, the continuous training of "Peer Educators" is prioritised and more focus is being placed on the psychological development of "Peer Educators". The introduction of anti-retroviral drugs was launched as part of the strategy to assist in combating this pandemic. Alexkor's HIV/AIDS programmes shall continue to centre around initiatives launched by internal and external stakeholders.

During the review period, various social investment initiatives were undertaken in fulfilling our commitment to engage all Alexkor stakeholders and outreach projects to the communities in the immediate and Richtersveld areas. Community support programmes include the appointment of a social worker to render social services, counselling and advice to individuals, families and groups on various social matters.

Provision of Health Care

Alexkor currently fulfils a pivotal role in providing health-care services in the Alexander Bay and surrounding Richtersveld communities at an annual net operating cost of R4.1 million per annum. Alexander Bay Hospital is owned and operated by Alexkor. Health services rendered by the hospital extend to communities far beyond Alexander Bay, with patients attending from the surrounding towns of Kuboes, Sanddrift, Oranjemund and Port Nolloth. Furthermore, the hospital also serves the needs of other mining companies, by admitting and/or treating patients from TransHex. The medical services rendered to both Alexander Bay and the broader community is of paramount importance because of the remoteness of the region from other facilities.

The Alexander Bay hospital is a state-of-the-art, 24-hour medical facility. Health services rendered at the hospital to the community include primary health-care clinics for private, state and company patients, a private general medical practice, a fully-equipped occupational health clinic, and a modern fully-functional operating theatre. Alexkor also operates its own pharmacy on site.

Training and Development

A strategic shortcoming identified within the company was the need to establish which gaps exist in management expertise and to develop plans to ensure continuity in management structures. Recruiting senior executives from the designated groups remains a challenge as a result of the geographical location of the company. The matter is further exacerbated by a skills shortage in mining-related disciplines. To this end, more intensive emphasis was placed on the recruitment and retention of management expertise. Consequently, a workforce skills audit was conducted on the existing workforce employed at the company to ascertain the current skills level and competencies of all staff, including senior management. The results indicated a shortage in critical managerial expertise in areas such as metallurgy, and mining-related disciplines. As a result, strategic plans were developed to ensure continuity in management structures and emphasis was placed on recruitment, retention and succession planning strategies. During the year under review, succession planning policies and strategies were revised which enabled the company to effectively monitor personal development plans for protégés.

Development of talented people is considered critical for the success of Alexkor and we continue to present in-house and external programmes to ensure a pool of competent and motivated employees at all levels. Alexkor is currently participating in the Joint Initiative on Priority Skills Acquisition project (JIPSA) and to this end, training and development programmes in the technical fields were prioritised in line with the aforementioned project. The main focus is on training and development of artisan-assistants into qualified artisans to ensure continuity in these critical skills disciplines.

Alexkor continued with its bursary programme during the review period. Of the six bursaries allocated, five were granted to historically disadvantaged candidates from the Richtersveld and the broader Namaqualand region. In so doing, Alexkor will ensure employing academically-qualified candidates from the local communities in mining-related disciplines in future. ABET learners are in various stages of progress ranging from levels 2 to 4 in English, Mathematics and Numeracy.

A turnaround strategy on the retraining and redeployment of non-production staff to production teams was launched and implemented during the review period. This strategic initiative is in line with the strategic objectives of Alexkor to ensure optimisation of production on the land mining areas. After completion of the retraining and redeployment of selected staff, the split in terms of production vs non-production staff changed from 40% production to 60% production staff. This initiative commenced in January 2006 and was completed at the end of March 2006.

In an endeavour to optimise production, a three-shift continuous configuration was implemented on land mining and processing departments. The multi-skilling of earth-moving operators in line with the three-shift configuration was implemented to ensure continuity as well as flexibility. This initiative commenced in February 2006 and is ongoing, until all earth-moving operators are multi-skilled. Intensive training of plant processing staff was also initiated in support of optimised plant utilisation, in line with the continuous three-shift configuration operation.

In an endeavour to improve staff morale and productivity, as well as to ensure proper remuneration of our human capital, the company addressed the historical salary disparities within job levels and specific positions. The underlying criteria applied to ascertain anomalies within post levels was based on the number of years of experience in the employ of the company, years of experience in existing positions, post level and the level of responsibility to a particular job in relation to the same or similar job in another area.

Industrial Relations

Alexkor continues to have a constructive relationship with the National Union of Mineworkers (NUM) and United Association of South Africa (UASA). Owing to the good rapport with the unions, there were no lost-time hours as a result of industrial action for the review period. The company continues to engage with organised labour on various forums where salaries, conditions of employment, training and development, HIV/AIDS, and safety and productivity are discussed candidly. At these forums common outcomes to the benefit of all are sought. Participative structures are in place to ensure the ongoing involvement of employees and organised labour in formulating Alexkor's policies and procedures.

Rigorous industrial relations policies, procedures and methodologies have been adopted and implemented, enabling effective management of industrial relations.

Substantive negotiations for the FY2006 with NUM and UASA were concluded within the mandated percentage increase and addressed the salary disparities as well as normal salary adjustments.

The major components of the company's human resources strategies are in place and we are positioned to deliver on the challenges facing Alexkor for the FY2007. Through appropriate human resources interventions, we contributed to the development of innovative solutions and improved efficiencies in the company's operations.

Corporate GOVERNANCE

Introduction

Alexkor is committed to developing and improving its corporate governance processes and frameworks in line with the Companies Act, the Public Finance Management Act (PFMA), the King II Code on Corporate Governance and international best practices. The company is focusing on a number of initiatives to ensure strict adherence and compliance with the dynamic and ongoing process of corporate governance to achieve fair and ethical trading in a competitive business environment.

Shareholding

The National Government under the auspices of the Department of Public Enterprises remains Alexkor's sole shareholder.

Composition of the Alexkor Board

The Board comprises seven directors, six of which are non-executive, the Chief Executive Officer being the only executive director.

Mzamani Elias Mdaka was appointed as Chief Executive Officer on 1 July 2005 after the resignation of Dalikhaya Rain Zihlangu on 31 March 2005. The shareholder appointed the new Chief Executive Officer after consultation with and approval from the Alexkor Board. The Chief Executive Officer is responsible for the efficient and effective day-to-day management and operations of Alexkor, in accordance with strategic decisions of the Board and the shareholder. The Chief Executive Officer remains accountable to the Board.

Functions and Responsibilities of the Board

The Board is tasked with ensuring that the company and the Chief Executive Officer is provided with clear strategic direction and in this light the Board has approved Alexkor's 2007 strategic plan.

The Board accepts ultimate responsibility for due compliance with all statutory requirements and it exercises a role in evaluating the performance of the Chief Executive Officer and the company. It also exercises overriding control over the business of Alexkor.

The Board has unlimited access to all information, documents, reports and records it may require in the performance of its duties. The Board has access to independent external professional advice, if required, at the company's expense. Procedures are in place to record direct and indirect interests of directors and all conflicts or potential conflicts of interest are documented. The Alexkor Board remains fully accountable to the shareholder for the control, performance and operations of the company.

Board meetings are held at least once a quarter and thereafter when the Board deems necessary.

Schedule of Attendance at Board Meetings

Director	11-May-05	11-Jul-05	26-Sep-05	24-Feb-06	16-Mar-06
Mr N Moloi (Chairman)	✓	✓	✓	✓	✓
Mr M Mdaka (CEO)	*	✓	✓	✓	✓
Mr M van Zyl	✓	✓	✓	✓	✓
Mr J van Deventer	✓	✓	✓	✓	A
Mr ZR Coetzee	✓	✓	✓	✓	✓
Ms V Mahlati	A	✓	✓	A	✓
Dr T Abrahamse	A	✓	A	A	A

✓ = Present   A = Apologies   * = Not yet appointed

Directors' Remuneration

The Remuneration Committee considers the remuneration of the non-executive directors and makes recommendations to the shareholder. The shareholder then decides on the level of remuneration for the non-executive directors. The Remuneration Committee evaluates the remuneration of the Chief Executive Officer and senior management and makes its proposals to the Board. The shareholder and the Board jointly determine the remuneration of the Chief Executive Officer, whilst the Board in consultation with the Chief Executive Officer determines the remuneration of senior management. Details of remuneration structure appear on page 52.

Board Commitees

The Board has delegated some of its responsibilities and functions to the following sub-committees:

- Audit Committee;
- Remuneration Committee,
- Rehabilitation Committee;
- ABM and ABT Sub-committees; and
- Management Committee.

The Board is in the process of approving the terms of reference of each of these committees. In the interim, the Board committees operate on clearly-agreed mandates and reporting procedures. There is transparent and full disclosure from the Board committees to the Alexkor Board. The Board regularly evaluates the performance of the committees against their mandated objectives.

Audit Committee

The Audit Committee comprises the following members:

- Mr R Muzariri (Chair of Committee)
- Mr J van Deventer (Non-executive Director)
- Ms X Motswai (External Member)

In compliance with the King II Code, none of the committee members are executive directors. The Audit Committee is responsible for monitoring the accuracy of the financial reporting system to the Board and the shareholder and provides a communicative link between the Board, the external and internal auditors.

The Audit Committee has adopted draft terms of reference, which will be placed before the Board for approval in this financial year. The Audit Committee has no management responsibilities.

Other responsibilities of the Audit Committee include:

- ensuring the proper review and maintenance of an effective internal control system;
- ensuring risk is properly identified, managed and monitored;
- ensuring proper function of the internal audit system;
- considering and reviewing the audit plan from the external and internal auditors; and
- ensuring that the internal and external audit functions remain separate.

Risk Management

The Audit Committee is also responsible for the active monitoring and reviewing of Alexkor's risk management process and other significant risk in the company.

The committee is in the process of developing a risk management programme.

Remuneration Committee

The Remuneration Committee comprises the following members:

- Mr M van Zyl (Chair of Committee)
- Mr ZR Coetzee (Non-executive Director)
- Ms V Mahlati (Non-executive Director)

The functions of the Remuneration Committee are to:

- determine and advise the Board on Alexkor's executive and senior management remuneration;
- determine fees to be paid to the Board's non-executive directors; and
- develop and consider criteria necessary to measure the performance of the Chief Executive Officer and senior management.

Rehabilitation Committee

The Rehabilitation Committee comprises the following members:

- Dr T Abrahamse (Chair of Committee)
- Mr ZR Coetzee (Non-executive Director)
- Mr ME Mdaka (CEO)

The functions of this committee are to review and implement Alekor's Environmental Rehabilitation Policy and to administer its Rehabilitation Trust Fund.

ABM and ABT Sub-committees

These committees currently comprise the following members:

ABT Sub-committee:

- Mr N Moloi (Chair of Committee)
- Mr ME Mdaka (CEO)
- Mr ZR Coetzee (Non-executive Director)
- Dr T Abrahamse (Non-executive Director)
- Mr M van Zyl (External Member)

ABM Sub-committee:

- Mr N Moloi (Chair of Committee)
- Mr ME Mdaka (CEO)
- Mr J van Deventer (Non-executive Director)
- Ms V Mahlati (Non-executive Director)

These committees co-ordinate and monitor the effective use of resources to achieve the company's aims.

The Company Secretarial Function

The Company Secretary, Ms C Singh, was appointed on 10 July 2006 after the resignation of the former Secretary, Mr CL Matthews on 28 February 2006.

The Company Secretary is fully empowered by the Board and has the necessary access to all the required resources to fulfil this function. She is also the central source of information and guidance and is responsible for advising the Board on matters of business ethics and good governance.

Code of Ethics

Alexkor subscribes to the highest levels of professionalism and integrity in conducting all its business dealings with its stakeholders. Alexkor continually strives to reinforce a culture in its people of openness, honesty and responsibility in order that the conduct of its directors, management and employees are beyond reproach.

The Board and the company are committed to a code of ethical and moral behaviour encompassing:

- Fairness and honesty
- Transparency to all stakeholders
- No tolerance of theft, dishonesty or any form of corrupt activity
- No conflict of interest in any decision or action affecting the company

Alexkor is in the process of adopting an official policy on ethics for active implementation across all levels of the company. The code will be presented to the Board for approval during this financial year.

Corporate Communication

Alexkor regularly informs its shareholder, through monthly reports and ad-hoc dialogue with DPE officials, and through the Annual General Meeting on the business of the company, in line with its statutory and regulatory obligations.

Annual Financial STATEMENTS

for the year ended 31 March 2006

ALEXKOR LIMITED
(REGISTRATION NUMBER 1992/006368/06)

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

APPROVAL and STATEMENT of Responsibility

The Board is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The external auditors are responsible for independently auditing and reporting on the fair presentation of the financial statements in conformity with International Standards of Auditing.

The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies' Act (No. 61 of 1973) and the Public Finance Management Act (No. 1 of 1999).

The financial statements that appear on pages 27 to 52 were approved by the Board of Directors and signed on its behalf by:

N D Moloi
Chairperson

M E Mdaka
Chief Executive Officer

5 October 2006

Company Secretary's CERTIFICATE

I hereby certify that, to the best of my knowledge and belief, Alexkor has lodged with the Registrar of Companies all such returns as are required of it in terms of section 268 G(d) of the Companies Act, 1973, as amended, and that all such returns are true, correct and up to date.

C Singh
Company Secretary

Independent Auditors' Report to the Minister of Public Enterprises

We have audited the annual financial statements of Alexkor Limited set out on pages 27 to 52 for the year ended 31 March 2006. These financial statements are the responsibility of Alexkor Limited's accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

The audit was conducted in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of section 28 of the Public Audit Act, 25 of 2004, have been complied with.

We believe that our audit provides a reasonable basis for our opinion.

Audit Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Alexkor Limited at 31 March 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act, 1 of 1999, as amended and by the Companies Act, 61 of 1973 in South Africa.

1. Significant uncertainties regarding litigation

    1.1 Without qualifying our opinion, we draw attention to note 16.1 to the financial statements. The government and the company were unsuccessful in defending a claim by the Richtersveld Community for the restitution of the land on which the company's mining operations are located. The government, the company and the Richtersveld Community are currently in the process of negotiating the amount and nature of the settlement. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

    1.2 We further draw attention to note 16.2 to the financial statements. The company is the defendant in a claim regarding the compensation, if any, to be paid to another company that was previously contracted to run the operations of Alexkor Limited. The amount of the compensation claimed by the said other company is disputed by Alexkor Limited. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

2. Environmental rehabilitation liability
    Without qualifying our opinion, we draw attention to note 9.1 to the financial statements. An independent review of the amount of the environmental rehabilitation liability was conducted during the year, resulting in a significant adjustment to the provision for environmental rehabilitation liability. The company is also in the process of updating its Environmental Management Programme Report for submission to the Department of Minerals and Energy. The necessary financial guarantees will only be provided to the Department of Minerals and Energy on completion of this process, as required by the Minerals Act and the regulations thereto.

3. Going concern
    Without qualifying our opinion, we draw attention to note 22 to the financial statements. A funding programme was developed in support of the company's initiatives to improve production levels and

was submitted to the shareholder as part of the Medium-Term Expenditure Framework process in the form of recapitalisation. However, due to uncertainties relating to the Richtersveld Community land claims case, recapitalisation has not yet been effected.

The Board of directors is also actively engaging all relevant stakeholders to ensure that sufficient funding is made available for bridging finance purposes. The Board has a positive outlook on either successfully obtaining sufficient shareholder capital or another form of government support.

These conditions and the fact that the company incurred a loss of R205.5 million indicate the existence of a material uncertainty that casts significant doubt on the company's ability to continue as a going concern.

4. Internal control matters

The company's fixed assets management policies are not adequate to ensure proper recording, accounting and safeguarding of fixed assets. Several instances were identified where the company's fixed assets were either not accounted for in the accounting records, or not correctly recorded or not available for physical inspection.

Gobodo Incorporated
Registered Auditors

Per **MP Mainganya**
Director

Gobodo Inc.
1st Floor, Block B
Empire Park
55 Empire Road
Johannesburg
2001

12 October 2006

Directors' REPORT

The Board of Directors have pleasure in presenting their report, which forms part of the audited financial statements of the company, for the financial year ended 31 March 2006. This report and the audited financial statements comply with the requirements of the Public Finance Management Act No. 1 of 1999. In promoting the concepts of corporate governance, the Directors have included additional information about the company's strategic objectives.

Background

Alexkor came into being in 1928 as "Staats Alluviale Delwerye". This name remained the same until 1 May 1989 when the mine became commercialised and thus the name changed to the Alexander Bay Development Corporation (ALEXKOR). The structure remained in place until November 1992 when the corporation became a company. This structure has since remained the same. The Government of the Republic of South Africa, through the Department of Public Enterprises, holds all shares in the company.

Nature of Business

The main business of the company is the economic exploitation of diamonds and associated support elements. Its ancillary business includes diversified agricultural operations and commercial services to the local and surrounding communities.

Board of Directors

The Board meets at least quarterly and retains full and effective control over the company's business and monitors executive management through a structured approach to reporting and accountability.

All Directors receive regular information about the company in order to equip them to actively participate in Board meetings. Members of the Board also have access to management and the Company Secretary for any further information they require. None of the current Directors have any interest in the share capital of the company, or any contracts entered into by the company, as disclosed by the statutory records of the company and representations made to the company.

Additional details of the Board's sub-committees, Directors' membership to the sub-committees and schedule of attendance at Board meetings is contained in the Corporate Governance section of the Annual Report. Disclosure of remuneration in terms of section 55 of the PFMA and Treasury Regulation 28.1.1 is provided in Annexure A on page 52.

Share Capital

There has been no change in the authorised and issued shares for the period under review. Details of the authorised and issued share capital are disclosed in note 8 of the financial statements.

Shareholder

The Government of the Republic of South Africa, through the Department of Public Enterprises, is the sole shareholder.

Financial Results

The annual financial statements on pages 30 to 52 reflect the financial performance, position and cash flow results of the company's operations for the 12 months ended 31 March 2006. The comparative financial performance and cash flow results represents a nine-month period.

Total costs for the period under review were R197.6 million compared to R151.8 million in 2005 with the latter being for a period of only nine months. The net operating loss for the period under review is R38.2 million against a budgeted operating profit of R24.4 million (2005: R1.5 million profit). A further breakdown of the business units is provided in note 23 of the annual financial statements.

Two major non-cash adjustments are included in net loss of R205.5 million (2005: R5.96 million) and related to:

- Restating of the rehabilitation liability in line with the IFRS requirements by an amount of R159.9 million (2005: R22.3 million) based on the estimates conducted by an independent environmental management consultant. The study conducted estimate the current liability to be R193.0 million. This adjustment has resulted in an increase in the rehabilitation provision from R22.3 million to R178.8 million.
- Provision for post-retirement medical benefits increased by R11.4 million (2005: R10 million) as per the actuarial valuation completed by independent actuary on 31 March 2006.

Dividends

No dividends have been paid, proposed or declared during the period under review.

Accounting Framework Changes

The Board of Directors elected to adopt International Financial Reporting Standards ("IFRS") with effect from 1 April 2005. The financial statements have been prepared in accordance with IFRS (with the date of transition for the company being 1 July 2004).

In terms of IFRS 1 – First-time Adoption of International Financial Reporting Standards, the company has restated its opening reserves at 1 July 2004, the balance sheets as at 1 July 2004 and 31 March 2005 as well as income statement for the year ended 31 March 2005. There have been no adjustments to the cash flows previously reported as a result of the adoption of IFRS.

The impact of the conversion to IFRS as well as details on the key assumptions used are contained in notes 19 and 20 of the financial statements.

Internal Control

The Board is responsible for the company's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatements and losses.

The internal audit function is outsourced and provides an independent appraisal function designed to examine and evaluate the company's activities. In particular, internal audit is charged with examining and evaluating the effectiveness of the company's operational activities in light of the attendant business risks and the system of internal operation and financial controls. Any major weaknesses detected are brought to the attention of the Audit Committee, the external auditors and management for their consideration and remedial action.

It has come to the attention of the Board that the internal control environment to ensure proper recording, accounting and safeguarding of fixed assets is not adequate. This internal control deficiency mainly relates to an inadequate fixed asset register and information management technology which is outdated and not meeting user specifications. Management is currently addressing the weaknesses identified.

Shareholder's Compact

No shareholder's compact has been signed between the Board and the Executive Authority for the period under review. The performance information and other criteria as required by section 55(2) of the PFMA have therefore not been reported.

However, at the time of compiling this report the Board and the Executive Authority were negotiating a shareholder's compact for the 2006/07 financial year, which will include key performance areas and targets.

Litigation Statement

Nabera

The company is defending a claim by Nabera Mining, a company previously engaged by the shareholder to run the operations of the company. The amount of the value added by Nabera Mining in terms of the management agreement is disputed by the company. In consultation with the company's legal representatives, no provision has been made in the financial statements for the above potential liability.

Richtersveld Community

As previously reported, the Richtersveld Community has successfully instituted a land claim against Alexkor and the Government of the Republic of South Africa in respect of the subject land which is currently owned by Alexkor. On 14 October 2003, the Constitutional Court held that the Community is entitled to restitution of the land. The matter was then referred back to the Land Claims Court to determine what form restitution should take. Restitution can take the form of restoration (i.e. the return) of the land, or equitable redress or a combination of both.

In order to determine restitution, the Land Claims Court has heard evidence over April/May 2005 as well as October/November 2005, whereafter the parties decided to enter into settlement negotiations. At the time of writing this report, the parties had signed a Memorandum of Understanding, but due to the complexity of the matter and the wide ambit of the various matters agreed to in principle, various issues still require negotiation and agreement. If the parties cannot come to an agreement on these issues, the matter may be referred back to the Land Claims Court for final determination.

Environmental Matters

As stated in the Corporate Governance section of the Annual Report, environmental matters are overseen by an environmental sub-committee of the Board. The Environmental Committee continuously reviews the environmental operations and policies of the company and recommends mitigating strategies and activities to limit the impact of mining operations on the environment as well as to actively address historical damage.

A recent study conducted by an independent environmental management consultant estimates the current liability to be R193.0 million (2005: R22.3 million). The rehabilitation liability was therefore restated during the period under review in line with IFRS by an amount of R170.7 million (including inflationary adjustment for previous provisions). The carrying amount of the provision as per note 9 of the financial statements amounts to R178.8 million and includes the funds held in the Environmental Rehabilitation Trust Fund.

The company is in the process of updating its Environmental Management Programme for future submission to the Department of Minerals and Energy for approval. Contributions to the Environmental Rehabilitation Trust Fund will be adjusted accordingly and necessary guarantees provided.

Events after Balance Sheet Date

Three-shift Land-mining Configuration

In order to optimally utilise the mine's plant capacity and improve carat production a three-shift mining configuration was implemented during May 2006. In essence, land-mining activities now operate 24 hours a day (except over weekends) comprising of three shifts of eight hours each. Available human resource capacity was utilised to configure the three shifts through appropriate retraining initiatives.

As the land-mining equipment is utilised three times more than the previous period before May 2006, faster depreciation rates will be applied during the 2006/07 financial year to account for the reduction in life expectancy.

As this aspect is treated as a non-adjusting event after the balance sheet date in terms of IAS 10 – Events after the Balance Sheet Date, no adjustments have been made to the financial statements.

Marine Operations

As mentioned in the operational reports, diver-directed marine operations and resultant carat production for the 2005/06 financial year was hampered due to a reduction in available sea days. At the date of compiling this report, available sea days reduced even more after balance sheet date due to unfavourable weather and sea conditions.

As this aspect is treated as a non-adjusting event after the balance sheet date in terms of IAS 10 – Events after the Balance Sheet Date, no adjustments have been made to the financial statements.

Going Concern

The Board's 2006/07 Corporate Plan highlighted a number of initiatives to improve production levels on land as well as marine-mining activities. These initiatives included, inter alia:

- a three-shift land-mining configuration as mentioned above;
- replacement of old and ailing land-mining equipment;
- an immediate exploration programme to identify economical mining reserves in order to develop an appropriate mining plan;
- introducing remote-mining techniques for shallow- to mid-water marine operations through contract assignments; and
- Initiating a dredger project in support of mid- to deep-water marine operations.

In addition, a funding programme was developed in support of the initiatives and submitted to the shareholder as part of the Medium-term Expenditure Framework process in the form of recapitalisation. However, due to the uncertainties relating to the Richtersveld Community land claims case, recapitalisation has not yet been effected.

Although land-mining carat production showed major improvements from previous periods due to the implementation of the three-shift mining configuration, these improvements were not sufficient to offset the impact of the reduction in sea days on marine carat production. The 2006/07 carat-production targets are therefore not being met, to such an extent that the year-to-date operating losses diminished the cash reserves to very low levels.

The Board is also actively engaging all relevant stakeholders to ensure that sufficient funding be made available for bridging purposes and has a positive outlook on either successfully obtaining sufficient shareholder capital or another form of government-supported finance.

The financial statements have therefore been prepared on the going concern basis, since the Board has every reason to believe that the company will have adequate resources in place to continue with operations for the foreseeable future.

Public Finance Management Act

Except for the matters noted above, no other material non-compliance to the Public Finance Management Act has been identified and/or reported.

N D Moloi
Chairperson

M E Mdaka
Chief Executive Officer

Balance SHEET
as at 31 March 2006

	Notes	31 March 2006 R	31 March 2005 R
Assets			
Non-current assets		**464 455 451**	470 762 166
Property plant and equipment	2	**459 702 021**	465 955 140
Intangible assets	3	**436 630**	181 726
Non-current assets held for sale	4	**2 500 000**	2 500 000
Biological assets	5	**1 816 800**	2 125 300
Current assets		**62 597 816**	103 179 240
Inventories	6	**23 393 244**	38 644 255
Trade and other receivables	7	**3 624 823**	12 985 090
Cash and cash equivalents	15.2	**35 579 749**	51 549 895
Total assets		**527 053 267**	573 941 406
Equity and liabilities			
Capital and reserves		**224 623 537**	430 158 409
Share capital	8	**50 000 000**	50 000 000
Distributable reserves		**174 623 537**	380 158 409
Non-current liabilities			
Long-term provisions	9	**286 801 280**	118 861 002
Current liabilities		**15 628 450**	24 921 995
Trade payables and accruals	10	**10 694 856**	19 680 309
Provisions	9	**4 933 594**	5 241 686
Total equity and liabilities		**527 053 267**	573 941 406

Income STATEMENT

for the year ended 31 March 2006

	Notes	12 months ended 31 March 2006 R	9 months ended 31 March 2005 R
Gross revenue		**159 445 785**	152 412 821
Other income		**–**	898 500
Operating costs		**(197 623 781)**	(151 781 046)
Operating (loss)/profit	11	**(38 177 996)**	1 530 275
Investment income	12	**3 971 683**	3 175 243
Post-retirement medical liability provision	9.2	**(11 438 298)**	(10 018 000)
Environmental liability provision	9.1	**(159 877 284)**	(642 135)
Finance costs	13	**(12 977)**	(5 037)
Loss before taxation		**(205 534 872)**	(5 959 654)
Taxation	14	**–**	–
Loss after taxation		**(205 534 872)**	(5 959 654)

STATEMENT of Changes in Equity

for the year ended 31 March 2006

	Share capital R	Accumulated reserves R	Total R
Balance at 1 July 2004	50 000 000	(23 204 958)	26 795 042
Net loss for the period ended 31 March 2005	–	(5 959 654)	(5 959 654)
Fair value adjustments	–	409 323 021	409 323 021
Balance at 1 April 2005	50 000 000	380 158 409	430 158 409
Net loss for the period ended 31 March 2006	–	(205 534 872)	(205 534 872)
Balance at 31 March 2006	**50 000 000**	**174 623 537**	**224 623 537**

Cash Flow STATEMENT
for the year ended 31 March 2006

	Notes	12 months ended 31 March 2006 R	9 months ended 31 March 2005 R
Cash flows from operating activities		**(6 492 925)**	(624 701)
Cash receipts from customers		**159 172 195**	154 563 537
Cash paid to suppliers and employees		**(169 623 827)**	(158 358 444)
Cash generated by operating activities	15	**(10 451 632)**	(3 794 907)
Interest received		**3 971 683**	3 175 243
Interest paid		**(12 976)**	(5 037)
Cash flows from investing activities		**(6 101 917)**	(16 712 376)
Expenditure to expand operating capacity			
Assets acquired		**(5 828 323)**	(17 610 876)
Proceeds of disposals of property, plant and equipment		**164 500**	1 000 000
Expense to dispose the assets		**(438 094)**	(101 500)
Cash flows from financing activities			
Contribution to the Rehabilitation Trust Fund		**(3 375 304)**	(2 531 997)
Decrease in cash and cash equivalents		**(15 970 146)**	(19 869 074)
Cash and cash equivalents at beginning of the period	15.1	**51 549 895**	71 418 969
Cash and cash equivalent at end of the period	15.2	**35 579 749**	51 549 895

NOTES
to the
Annual Financial
Statements
for the year ended
31 March 2006

1. Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), the South African Companies' Act and the Public Finance Management Act. The disclosure required by IFRS 1 First-time Adoption of International Financial Reporting concerning transition from SA GAAP to IFRS is given in notes 19 and 20.

Accordingly the company complies with IFRS issued by the International Accounting Standards Board. The financial statements are prepared under the historical cost convention as modified by revaluation of property and biological assets.

A summary of the company's accounting policies are set out below, together with an explanation of where changes have been made to previous GAAP policies on the adoption of new accounting standards during the year.

1.1 Revenue recognition

Revenue is derived from the sale of diamonds, farming produce and mariculture products and is measured at the fair value of consideration received or receivable, after deducting discounts (if any) and Value Added Tax. Revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer. This is when the title has passed to the customer, and the goods have been delivered to a contractually agreed location.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable.

1.2 Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less accumulated depreciation and impairment.

Depreciation commences when the assets are ready for their intended use. Land is not depreciated as it is deemed to have an indefinite life.

Buildings, plant and equipment, furniture and computer equipment are depreciated down to their residual values, on the straight-line basis over their estimated useful lives or the life of the mine, whichever is shorter.

Residential property is not depreciated in line with the company's policy.

1.3 Licences and intangible assets

Licences and other intangibles are initially measured at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

1.4 Impairment of tangible and intangible assets

At each balance sheet date, the company reviews the carrying amount of its tangible and intangible assets to determine whether there are any indications that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that that asset may be impaired. Recoverable amount is higher of fair value less cost to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any impairment is recognised immediately as an expense.

Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment is recognised as income immediately.

1.5 Biological assets

Agricultural assets are measured at fair value less estimated costs to sell during the period of biological transformation. Fair values are determined based on current market prices for the assets in their present location and condition. Where market prices are not determinable, then assets are measured at cost less accumulated depreciation and impairment (if any) until fair value can be determined.

Changes in fair value are recognised in the income statement as either gains or losses.

1.6 Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered primarily through a sale transaction rather than through continued use. This condition is regarded as being met only when it is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale.

Non-current assets are classified as held for sale from the date these conditions are met and are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment is reported through the income statement. On classification as held for sale the assets are no longer depreciated.

1.7 Inventories

Inventories are valued as follows:

1.7.1 Diamonds are valued at net realisable value.

1.7.2 Parts and consumable items are valued at the lower of weighted average cost and net realisable value.

1.7.3 Diamond-bearing ore stock piles are not given value, which is in line with expected diamond mining practice.

1.7.4 Ostriches and agricultural produce is valued at fair value.

1.7.5 Oysters are valued at the lower of cost and net realisable value.

In all cases, obsolete, redundant and slow-moving stock are identified and written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business.

1.8 Borrowing costs

Borrowing costs are recognised as an expense when incurred.

1.9 Taxation

The income tax expense represents the sum of the current tax charge and the movement in deferred tax. Tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are not taxable or deductible.

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except for differences relating to goodwill which is not deductible for taxation purposes and the

1.9 Taxation (continued)

initial recognition of assets or liabilities which affect neither accounting nor taxable profit or loss.

Deferred taxation is calculated using taxation rates that have been enacted at the balance sheet date. The effect on deferred taxation of any changes in taxation rates is recognised in the income statement in the year in which the change occurs, except to the extent that it relates to items previously charged or credited directly to equity.

1.10 Provisions

Provisions 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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.11 Employee benefits

Defined contribution plans

Contributions to a defined contribution plan in respect of service in a particular period are recognised as an expense in that period.

Defined benefit pension funds

All employees employed before 1 July 2003 are members of the defined benefit fund. The retirement benefit fund is governed by the South African Pension Funds Act of 1956 as amended. This situation, however, has changed as all employees appointed after the aforementioned date are compelled to join the defined contribution fund. The actuarial valuation of the pension fund is performed using the projected unit credit method every third year and updates are performed for each financial year-end. Pension fund assets are measured using period-end market values.

Other post-retirement obligations

Alexkor provides post-retirement medical care benefits to its retirees. The entitlement to post-retirement health-care benefits is based on the employees remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Valuations of these obligations are carried out by independent qualified actuaries annually.

1.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held with the bank, and other short-term highly liquid investments.

1.13 Trade receivables

Trade receivables are recognised at fair value less provision for irrecoverable receivables. A provision is raised where there is reasonable evidence that the company will not recover the amounts due in terms of the original transaction.

1.14 Financial instruments

1.14.1 *Financial assets*

The company's principal financial assets are trade receivables, cash and cash equivalents. Trade receivables are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts.

1.14.2 *Financial liabilities*

Financial liabilities are classified according to the substance of the contractual agreements entered into. Significant financial liabilities include trade and other payables.

Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Trade and other payables are stated at nominal value.

1.14.3 *Offsetting*

Financial assets and financial liabilities are offset if, and only if:

– there is a legal right to offset; and

– there is an intention to realise the asset and settle the liability simultaneously.

1.15 Environmental liabilities

Provision is made for environmental liabilities based on the future costs of rehabilitating the environment.

Annual increases in the provision due to inflationary adjustments and further costs as a result of mining activities are expensed directly to the income statement. Annual contributions are made to the Alexkor Rehabilitation Trust, a trust created to provide for the estimated cost of rehabilitation during and at the end of the life of the mine. Income earned on monies paid to the trust is accounted for as interest income. The funds in the trust are netted off against the provision for rehabilitation costs.

1.16 Segment reporting

The company conducts business in diamond mining, farming and mariculture, which are the primary segments. On the secondary segment basis, which is the reporting format by geographic analysis, the Directors consider that there is only one material geographic segment, namely the Republic of South Africa, and it is therefore not considered necessary to disclose secondary segments.

NOTES to the Annual Financial Statements (continued)
for the year ended 31 March 2006

2. Property, plant and equipment

	2006 Cost/ valuation R	2006 Accumulated depreciation R	2006 Carrying value R	2005 Cost/ valuation R	2005 Accumulated depreciation R	2005 Carrying value R
Owned assets						
Land and buildings	**431 631 693**	**15 852 581**	**415 779 112**	428 273 155	10 158 945	418 114 210
Plant and equipment	**71 973 460**	**35 489 162**	**36 484 298**	70 800 573	34 751 875	36 048 698
Motor vehicles	**14 680 026**	**8 679 655**	**6 000 371**	15 200 245	8 313 605	6 886 640
Furniture and fittings	**1 082 840**	**877 745**	**205 096**	1 050 060	770 253	279 807
Exploration costs	**–**	**–**	**–**	3 045 895	–	3 045 895
Computer equipment	**2 937 869**	**1 704 725**	**1 233 144**	2 717 644	1 137 754	1 579 890
	522 305 888	**62 603 868**	**459 702 021**	521 087 572	55 132 432	465 955 140

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

2006	Carrying value at beginning of the year R	Additions R	Write(offs)/ backs R	Disposals R	Depreciation R	Carrying value at the end of the year R
Owned assets						
Land and buildings	**418 114 210**	**312 643**	**3 045 895**	**–**	**(5 693 596)**	**415 779 112**
Plant and equipment	**36 048 698**	**4 658 357**	**–**	**(438 094)**	**(3 784 663)**	**36 484 298**
Motor vehicles	**6 886 642**	**193 666**	**–**	**–**	**(1 079 937)**	**6 000 371**
Furniture and fittings	**279 807**	**32 780**	**–**	**–**	**(107 492)**	**205 095**
Computer equipment	**1 579 890**	**220 226**	**–**	**–**	**(566 971)**	**1 233 145**
Exploration costs	**3 045 895**	**–**	**(3 045 895)**	**–**	**–**	**–**
	465 955 140	**5 417 672**	**–**	**(438 094)**	**(11 232 658)**	**459 702 021**

2005	Carrying value at beginning of the year R	Additions R	Write(offs)/ backs R	Disposals R	Depreciation R	Carrying value at the end of the year R
Owned assets						
Land and buildings	418 118 766	4 367 735	–	–	(4 372 291)	418 114 210
Plant and equipment	30 209 059	8 679 676	–	–	(2 840 038)	36 048 698
Motor vehicles	7 644 229	29 589	–	–	(787 177)	6 886 640
Furniture and fittings	317 306	40 884	–	–	(78 383)	279 807
Computer equipment	1 868 207	107 767	–	–	(396 083)	1 579 890
Exploration costs	13 530 584	4 179 366	(14 664 055)	–	–	3 045 895
	471 688 151	17 405 017	(14 664 055)	–	(8 473 972)	465 955 140

3. Intangible assets

	2006	2006	2006	2005	2005	2005
	Cost	Accumulated amortisation	Carrying value	Cost valuation	Accumulated amortisation/ impairment	Carrying value
	R	R	R	R	R	R
Sea concessions	–	–	–	3 499 333	(3 499 333)	–
Computer software	**880 606**	**(443 976)**	**436 630**	489 486	(307 761)	181 726
	880 606	**(443 976)**	**436 630**	3 988 829	(3 807 094)	181 726

4. Non-current assets held for sale

	2006	2006	2006	2005	2005	2005
	Fair value at the beginning of the year	Impairment	Fair value at the end of the year	Fair value at the beginning of the year	Impairment	Fair value at the end of the year
	R	R	R	R	R	R
Diamond boats	**2 500 000**	**–**	**2 500 000**	2 500 000	–	2 500 000

The diamond boats were declared as held for sale at the end of the 2005 financial year. These boats were to be sold through the tender process during the 2006 financial year. This process has not been finalised yet.

5. Biological assets

	Fair value at beginning of the year	IFRS adjustment	Movements during the year	Fair value adjustments	Fair value at end of the year
	R	R	R	R	R
2006					
Orchards	**537 600**	**–**	**–**	**–**	**537 600**
Dairy herd	**1 587 700**	**–**	**(308 500)**		**1 279 200**
	2 125 300	**–**	**(308 500)**	**–**	**1 816 800**
2005					
Orchards	–	463 368	–	74 232	537 600
Dairy herd	1 682 300	–	(94 600)	–	1 587 700
	1 682 300	463 368	(94 600)	74 232	2 125 300

NOTES to the Annual Financial Statements (continued)

for the year ended 31 March 2006

	2006 R	2005 R
6. Inventories		
The amounts attributable to the different categories of inventory are as follows:		
Diamonds	**10 734 197**	23 909 786
Parts and consumable stores	**4 899 774**	5 266 509
Livestock and agricultural produce	**7 759 273**	9 468 260
	23 393 244	38 644 255
7. Trade and other receivables		
Net trade receivables prepayments and other receivables	**3 624 823**	12 985 090
The fair value of trade and other receivables is not materially different from carrying values presented.		
8. Share capital		
Authorised		
50 000 000 ordinary shares of R1 each	**50 000 000**	50 000 000
Issued		
50 000 000 ordinary shares of R1 each	**50 000 000**	50 000 000

9. Provisions

	Carrying value at the beginning of the period R	Additional provisions R	Payments during the period R	Carrying value at the end of the year R
Environmental rehabilitation	22 292 300	159 877 284	(3 375 304)	178 794 280
Leave pay provision	5 241 686	(308 092)	–	4 933 594
Post-retirement medical aid liability	96 568 702	11 438 298	–	108 007 000
	124 102 688	171 007 490	(3 375 304)	291 734 874

The carrying value can be reconciled as follows:

	2006 R	2005 R
Non-current provisions	**286 801 280**	118 861 002
Current provisions	**4 933 594**	5 241 686
	291 734 874	124 102 688

9. Provisions (continued)

9.1 Environmental liability

The company has an obligation to incur restoration, rehabilitation and environmental costs as a result of environmental disturbance caused by mining activities. A provision is recognised for the present value of such costs. The increase in the current year provision is based on the adjustment of previous estimates, as a result of the revision of the company's Environmental Rehabilitation Programme. The increase has been accounted for as a change in estimates in accordance with IAS 8.

9.2 Leave provision

The leave provision represents the present value of leave days outstanding at year-end for all current employees. The amount is calculated using the total cost to the company.

9.3 Post-retirement medical aid benefits

A reconciliation of Alexkor's accrued liability for the year ending 31 March 2006 is set out below.

	2006 R	2005 R
Total service liability at 31 March 2005	**96 568 702**	86 550 702
Interest cost (at 10% p.a.)	**9 460 000**	7 046 000
Employer benefit payments	**(3 929 000)**	–
Projected total service liability at 31 March 2006	**102 099 702**	93 596 702
Actuarial (gain)/loss	**18 314 298**	2 972 000
Total service liability at 31 March 2006	**120 414 000**	96 568 702
Change in accounting policy[1]	**(12 407 000)**	–
Accrued liability at 31 March 2006	**108 007 000**	96 568 702

[1] IAS 19 only requires recognition of the liability in respect of past service accrued liability for in-service members.

Alexkor has a post-retirement medical liability in respect of in-service members and pensioners who have commenced employment with the company on or before 1 May 1998 and who have not elected to receive a voluntary severance package from the company. The company will subsidise 100% of the total contribution of the medical scheme option to which the member belongs. In-service members belong to different benefit options of the Topmed Medical Scheme while all pensioners belong to the Topmed Incentive Comprehensive Option.

Actuarial valuation method

Valuation method

The actuarial valuation method used to value the liabilities is the projected unit credit method prescribed by IAS 19. Future benefits valued are projected using specific actuarial assumptions and the liability for in-service members is accrued over their expected working lifetime.

In order to undertake the valuation, it is necessary to make a number of assumptions. The most significant assumptions used for the current valuation are outlined overleaf:

9. Provisions (continued)

9.3 Post-retirement medical aid benefits (continued)

Valuation date	31 March 2006	31 March 2005
Discount rate	**7.5% p.a.**	10%
Health-care cost inflation	**6.5% p.a.**	8% p.a
Expected retirement age	**60**	60
Membership discontinued at retirement	**0%**	0%

Female spouses' ages

We assumed that 90% of current in-service members would be married at retirement. We assumed that husbands would be four years older than their wives.

Mortality rate

The assumed rates of mortality are as follows:

During employment: SA85-90 (Light) ultimate table

Post-employment: PA(90) ultimate table rated down two years plus 1% improvement p.a. from 2006.

To the extent that actual future rates of mortality exceed those assumed, the liability set out in this report may be overstated, and vice versa.

Number of members

In-service members 81 (2005: 93)

Retirees 185 (2005: 181)

10. Trade payables and accruals

	2006 R	2005 R
Trade payables	**8 831 386**	15 404 496
Accruals	**1 863 470**	4 275 813
	10 694 856	19 680 309

	12 months ended 2006 R	9 months ended 2005 R

11. Operating loss

	12 months ended 2006 R	9 months ended 2005 R
Operating loss/(profit) is stated after:		
Income		
(Loss)/profit on disposal of property, plant and equipment	(273 594)	898 500
Expenditure		
Depreciation	11 232 658	8 473 972
Amortisation	136 215	73 423
External audit fees	434 353	280 000
Other audit services	96 030	20 000
Staff costs	60 982 143	48 788 087
Directors' emoluments		
Executive directors	830 610	862 557
D R Zihlangu (Resigned 31/03/2005)	–	862 557
M E Mdaka (Acting CEO)	830 610	–
Non-executive directors	726 965	372 000
N D Moloi	387 965	283 000
T Abrahamse	51 000	12 000
Z R Coetzee	81 000	14 000
V Mahlati	69 000	12 000
J van Deventer	75 000	10 000
A Hearne	–	31 000
M van Zyl	63 000	10 000
	1 557 575	1 234 557

12. Investment income

	2006 R	2005 R
Interest income	3 971 683	3 175 243

13. Finance costs

	2006 R	2005 R
Sundry interest expense	12 977	5 037

NOTES to the Annual Financial Statements (continued) for the year ended 31 March 2006

	2006 R	2005 R
14. Taxation		
South African normal tax		
– Prior year underprovision	–	–

No taxation has been provided in the current year as the company has a tax loss of approximately R97 000 000 (2005: R68 659 745). No deferred tax asset has been raised on the assessed loss and other deductible timing differences as the company is in a loss-making position and there appears to be no reasonable expectation that the deductible tax differences will be utilised in the foreseeable future.

14.1 Tax rate reconciliation

	12 months ended 31 March 2006 R	9 months ended 31 March 2005 R
Net loss before tax	(205 534 872)	(5 959 654)
Taxation thereon of 29%	–	–
Prior year tax losses utilised	–	–
Prior year tax asset utilised	–	–
Tax expense per income statement	–	–
Tax losses and allowances carried forward	97 000 000	68 659 745
Unrecognised deferred tax asset on:		
Tax losses	28 130 000	19 032 626
Timing differences	84 949 646	37 107 666
Total	113 079 646	56 140 292
Major classes of timing differences:		
Provision for bad debts	(2 006 943)	(3 030 000)
Prepaid expense	812 000	10 457 000
Provision for leave pay	(4 933 549)	(5 241 686)
Provision for rehabilitation costs	(178 794 280)	(33 574 081)
Provision for medical aid costs	(108 007 000)	(96 568 702)
	(292 929 772)	(127 957 469)

Unredeemed capital allowances have been treated as part of losses available for future setoff against taxable income.

	2006 R	2005 R

15. Notes to the cash flow statement

15.1 Cash generated by operating activities

	2006 R	2005 R
Net loss before taxation	(205 534 872)	(5 959 654)
Adjustments for:		
Depreciation	11 232 658	8 473 972
Amortisation	136 215	73 423
Investment income	(3 971 683)	(3 175 243)
Finance costs	12 977	5 037
Movement in post-retirement medical benefits	11 438 298	10 018 000
Movement in other provisions	160 335 356	937 259
Profit on disposals of property, plant and equipment	273 594	(898 500)
Movement in working capital		
Decrease in inventories	15 251 012	(11 894 909)
Decrease in accounts receivable	9 360 267	2 150 716
(Decrease) in accounts payable	(8 985 453)	(3 525 008)
	(10 451 632)	3 794 907

15.2 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with bank. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2006 R	2005 R
Cash and cash equivalents	35 579 749	51 549 895

16. Contingent liabilities

16.1 During the previous year, the Richtersveld Community successfully claimed that the land on which the company operates be restituted back to it. The claim was against the company and the Government of South Africa. The government, the company and the Richtersveld Community now have to finalise the restitution process with the Land Claims Court, which will determine the amount and form of compensation to the Richtersveld Community.

16.2 The company is defending a claim by Nabera Mining, a company previously engaged by the shareholder to run the operations of the company. The amount of the value added by Nabera Mining in terms of the management agreement is disputed by the company. No provision has been made in the financial statements for the above potential liability.

NOTES to the Annual Financial Statements (continued)
for the year ended 31 March 2006

	2006 R	2005 R
17. Guarantees		
The company's banker has issued guarantees on behalf of the company to the following:		
Eskom	54 900	54 900
Department of Minerals and Energy	110 000	110 000
	164 900	164 900
18. Future obligations for lease payments		
Operating lease cost		
– Office and computer equipment	330 425	253 005
Future lease obligations in respect of operating leases		
– payable within a year	257 741	330 425
– payable within two years	188 614	257 741
Total	446 355	588 166

19. Reconciliation of SA GAAP to IFRS

The significant areas of accounting changes are:

IAS 12 – Recognition of deferred tax on fair value adjustments

Deferred tax is recognised at acquisition as part of the assessment of the fair value of assets and liabilities acquired, and is provided on balances previously excluded from the provision under SA GAAP such as revaluations of tangible fixed assets. The largest temporary difference requiring additional deferred tax on transition arose between the carrying values of tangible assets and their respective tax base.

IAS 16 – Property, plant and equipment

Land and buildings were previously held at actual cost incurred less accumulated depreciation in the balance sheet before adoption. These properties were valued before adoption of IFRS on 1 April 2005. The company took the exemption provided by IFRS 1 and adjusted the book value to reflect fair value in line with the valuations performed before 1 April 2005. The net effect of this adjustment increased the fair value of land and buildings by R412.2 million.

The exploration costs incurred were previously capitalised as capital work in progress. The total capitalised before 1 April 2005 amounted to R17.7 million. Included in the capitalised amount was R3 million relating to tangible assets. This amount was subsequently reallocated to land and buildings in line with IAS 16 requirements. The remaining portion was written off on adoption of IFRS since it did not meet all the requirements of an asset in line with IAS 16. The net effect of this adjustment decreased the book value of tangible assets by R14.6 million. Diamond boats held for sale have been reclassified as such and the resulting decrease in tangible asset value amounted to R2.5 million.

IAS 19 – Defined benefit pension plan

IAS 19 requires companies to recognise the full deficit or surplus (subject to restrictions) of post-retirement benefits under the defined benefit scheme on the balance sheet. The company's actuaries have still not finalised their calculations in respect of the apportionment of the surplus from the plan. The plan assets, liability and actuarial gains as per the valuations have not been recognised in either the balance sheet or the income statement respectively.

IAS 21 and IAS 36 – Intangible assets and impairment thereof

Computer software was previously not recognised separately but as part of computer equipment. The assets were recorded at cost less accumulated depreciation. These assets were subsequently reallocated to intangible assets.

Sea concessions have not been depreciated since 2001 and as a result a book value of R3.5 million was carried over to the 2005 financial year. An impairment test was conducted on adoption of IFRS and the resulting impairment loss was adjusted to retained earnings.

IAS 41 – Recognition and fair value of biological assets

Orchards were previously classified as installations and included as part of tangible assets. The assets were held at historical cost. These assets are now held at fair value in accordance with IAS 41, with fair value adjustments reported through the income statement. The dairy herd was previously classified as inventory and held at fair value.

The accounting change has resulted in the reclassification of both the orchards and the dairy herd to biological assets from both tangible assets and inventory respectively. The resultant fair value of the orchards increased net assets by R74 232 for the year ended 31 March 2005.

20. Adoption of IAS 16, IAS 21, IAS 36 and IAS 41

The consolidated balance sheet as at 31 March 2005 has been adjusted to apply IAS 16 and IAS 41 prospectively from 1 April 2005 as set out below:

	31 March 2005 GAAP value R	IFRS adjustments R	1 April 2005 IFRS value R
ASSETS			
Non-current assets	59 756 845	411 005 321	470 762 166
Property, plant and equipment	56 256 846	412 198 295	468 455 141
Intangible assets	3 499 999	(3 318 274)	181 725
Biological assets	–	2 125 300	2 125 300
Current assets	104 861 540	(1 682 300)	103 179 240
Inventories	40 326 556	(1 682 300)	38 644 256
Trade and other receivables	12 985 090	–	12 985 090
Cash and cash equivalents	51 549 894	–	51 549 894
TOTAL ASSETS	164 618 385	409 323 021	573 941 406
EQUITY AND LIABILITIES			
Capital and reserves	20 835 388	409 323 021	430 158 409
Share capital	50 000 000	–	50 000 000
Accumulated earnings/(loss)	(29 164 612)	409 323 021	380 158 409
Non-current liabilities	118 861 002	–	118 861 002
Provisions	118 861 002	–	118 861 002
Current liabilities	24 921 995	–	24 921 995
Trade and other payables	19 680 309	–	19 680 309
Provisions	5 241 686	–	5 241 686
TOTAL EQUITY AND LIABILITIES	164 618 385	409 323 021	573 941 406

20. Adoption of IAS 16, IAS 21, IAS 36 and IAS 41 (continued)

The accounting policies are detailed in note 1.

The key changes in accounting policy on adoption of IAS 16, IAS 21, IAS 36 and IAS 41 are:

- fair value of property, plant and equipment;
- recognition and fair value of biological assets; and
- impairment and recognition of intangible assets.

The following notes explain the material adjustments made at 1 April 2005 to the company's balance sheet at 31 March 2005 to reflect the adoption of IAS 16, IAS 21, IAS 36 and IAS 41:

(1) The increase in property, plant and equipment is largely due to a R383.4 million adjustment as a result of the revaluation of land and buildings. A further increase of R26.1 million is as a result of restatement of accumulated depreciation triggered by a change in estimate based on a review of useful economic lives of tangible assets.

A reallocation of diamond boats to non-current assets held for sale and the resulting fair value increased the tangible assets by R2.5 million.

Exploration costs capitalised were impaired as at 31 March 2006 in line with IAS 36. The impact on tangible assets was a decrease of R14.6 million.

(2) Sea concessions were impaired as at 31 March 2005 resulting in a decrease of R3.5 million in intangible assets.

(3) Biological assets were recognised resulting in an increase in fair value amounting to R74 232.

21. Related parties

The company is a state-owned entity and transactions with the following state entities occurred during the year:

SAA
Department of Minerals and Energy
Eskom

The nature of transactions with these entities has not changed significantly from previous years and all transactions are on an arm's length basis.

Payments to directors for services rendered have been disclosed in note 11.

22. Subsequent events

A funding programme was developed in support of the 2006/07 Corporate Plan and submitted to the shareholder as part of the Medium-term Expenditure Framework process in the form of recapitalisation. However, due to the uncertainties relating to the Richtersveld Community land claims case, recapitalisation has not yet been effected.

The Board is also actively engaging all relevant stakeholders to ensure that sufficient funding be made available for bridging purposes and has a positive outlook on either successfully obtaining sufficient shareholder capital or another form of government-supported finance.

As the criteria of paragraphs 7 and 8 of IFRS 5 – Non-current Assets Held for Sale and Discontinuing Operations have not been met before balance sheet date no adjustments or other disclosures in relation to the above matter have been made to the financial statements.

NOTES
to the
Annual Financial
Statements
(continued)
for the year ended
31 March 2006

23. Segment report

The information below is based on requirements of IAS 14 (Segment reporting)

	12 months ended 2006 R	9 months ended 2005 R
Revenue		
Alexander Bay Mining	139 033 000	138 352 000
Land mining	27 530 000	20 760 000
Marine mining	101 623 000	104 513 000
Other	9 880 000	13 079 000
Alexander Bay Trading	13 869 000	8 271 000
Ostriches	3 046 000	2 041 000
Dairy and meat	3 019 000	2 071 000
Fruits	80 000	94 000
Oysters	675 000	720 000
Other agricultural activities	7 049 000	3 345 000
Non-core activities	6 543 000	5 790 000
Hospital	3 374 000	3 035 000
Airport	110 000	91 000
Town services	3 059 000	2 664 000
Total revenue	159 445 000	152 413 000
Profit/(loss) from operations		
Mining	27 786 000	48 212 000
Land mining	(6 764 000)	(1 740 000)
Marine mining	38 807 000	52 224 000
Exploration	(4 257 000)	(2 272 000)
Farming	(4 073 000)	(5 583 000)
Ostrich	(1 800 000)	(1 798 000)
Dairy	(339 000)	(743 000)
Oysters	(1 894 000)	103 000
Fruits	(509 000)	(950 000)
Other agricultural	469 000	(2 195 000)

23. Segment report (continued)

	12 months ended 2006 R	9 months ended 2005 R
Non-core activities	(6 931 000)	(6 372 000)
Hospital	(2 641 000)	(3 325 000)
Airport	(177 000)	30 000
Town services	(4 113 000)	(3 077 000)
Other activities	4 731 000	13 280 000
Profit from operations before overheads	21 513 000	49 537 000
Overheads		
Alexander Bay Mining	(230 925 578)	(58 665 860)
Alexander Bay Trading	(81 000)	(1 000)
Loss from operations	(209 493 578)	(9 129 860)
Interest income	3 971 683	3 175 243
Interest cost	(12 977)	(5 037)
Loss for the year	(205 534 872)	(5 959 654)

Annexure A

Disclosure of remuneration in terms of section 55 of the PFMA and Treasury Regulation 28.1.1

Name	Capacity	Fees for services as members	Basic salary	Bonus	Allowances	Contributions	Other@	Total 2005/06	Total 2004/05
Board of Directors									
N D Moloi	Non-executive Chairperson	372 645	–	–	–	–	15 320	387 965	283 000
M E Mdaka	Chief Executive Officer	–	739 391	44 344	45 000	–	1 875	830 610	–
T Abrahamse	Non-executive Director	51 000	–	–	–	–	–	51 000	12 000
Z R Coetzee	Non-executive Director	81 000	–	–	–	–	–	81 000	14 000
V Mahlati	Non-executive Director	69 000	–	–	–	–	–	69 000	12 000
J van Deventer	Non-executive Director	75 000	–	–	–	–	–	75 000	10 000
M van Zyl	Non-executive Director	63 000	–	–	–	–	–	63 000	10 000
A Hearne#	Non-executive Director	–	–	–	–	–	–	–	31 000
D R Zihlangu*	Chief Executive Officer	–	–	24 757	–	–	95 229	119 985	862 557

– Resigned on 31 October 2004

* – Resigned on 31 March 2006

@ – Includes leave capitalisation