PSG Group Limited

BUSINESS

S

STRATEGY

ANNUAL REPORT 2001

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PSG Group Limited

From 1995, our base year, when the strategy to become a fully fledged financial services group originated, PSG Group has continued to set ***audacious goals.***

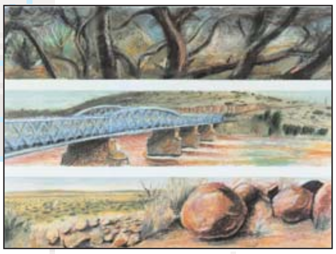
Clues to the way we influence our landscape for the benefit of our shareholders are on pages 5, 11, 17, 25 and 31.

Please ***interact with us*** *to guess the strategic words which define our intentions. Our business is alive and innovative but, above all our* ***business is strategy.***

Voyage D'une Année
MARLENE GRÄFIN VON DÜRCKHEIM

Untitled
HENK SERFONTEIN

African Scented Thorn Tree
GAIL CATLIN



Journey III
ALISTAIR FINDLAY

Untitled
BEN NSUSHA

FINANCIAL HIGHLIGHTS

PSG Group is one of South Africa's leading independent financial services groups, listed in the Financial Services sector on the JSE Securities Exchange South Africa.

	2001	**Increase %**	2000	Increase %	1999
Headline earnings per share (cents)	**150,3**	**25**	120,6	40	85,9
Headline earnings (Rm)	**200,2**	**22**	164,7	101	82,0
Distribution per share (cents)	**45**	**25**	36	44	25
Return on equity (%)	**18,0**		19,1		14,0

THIS IS OUR BUSINESS

1 March 2001

INVESTMENT BANKING — 68% IN PSG INVESTMENT BANK HOLDINGS

58% IN KEYNES RATIONAL BANK — RETAIL BANKING

PRIVATE WEALTH — 95% IN PSG INVESTMENT SERVICES

84% IN CHANNEL GROUP — LONG-TERM INSURANCE & EB

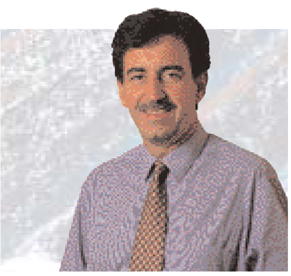
MULTI-MANAGEMENT OF FUNDS — 48% IN ESCHER GROUP

BOARD OF DIRECTORS

JANNIE MOUTON (54)*
BCom (Hons), CA(SA), AEP
Executive chairman

PATRIC BURTON (48)
BCom (Hons), PG Dip Tax
Director – Siphumelele Investments

LEON DE WIT (46)#
BCom, FIA
Chief executive officer – Channel Group



JAAP DU TOIT (46)*#
BAcc, CA(SA), CFA
Chief executive officer – PSG Investment Services

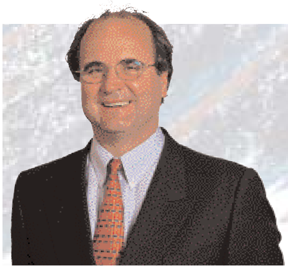
ANDRÉ LA GRANGE (50)#
BCom (Hons), MCom
Chief executive officer – PSG Investment Bank Holdings

MICHIEL LE ROUX (51)#
BCom, LLB
Chief executive officer – Keynes Rational

HUGH OOSTHUIZEN (40)
BCompt (Hons), CA(SA)
Chief executive officer – Aspen Risk Managers

CHRIS OTTO (51)*#
BCom, LLB
Executive director

LEONÉ ROUILLARD (50)
Managing director – Graphicor



CHARLES TURNER (49)
CA(SA), HDipTax, AEP
Deputy chairman – PSG Investment Bank Holdings

** Member of audit committee*

 # Member of remuneration committee

ACROSS

1. The freedom to do/to achieve (11)
2. A system of accepted beliefs which control moral behaviour (6)

DOWN

1. Money and other valuable possessions (6)

CHAIRMAN'S REVIEW

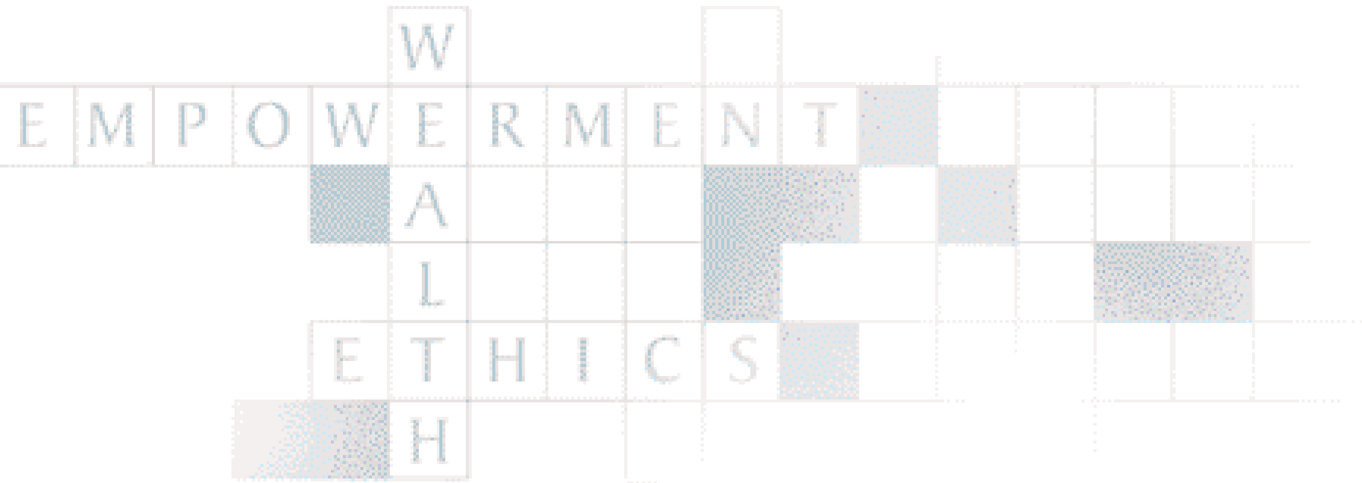
The results for this year have been achieved in an environment which was strewn with profit warnings and disappointing results within our peer group. The resilience of our company and its people was sorely tested. I am proud of the quality of PSG's assets and its people.

Our talent to anticipate trends, prepare for them and control of risk management has put us in a very favourable position to take advantage of the opportunities which the market now presents.

We will continue to chart our course forward thinking strategically.

Jannie Mouton
executive chairman

PSG Group Limited



In our 1997 annual report and dealing with "the quest for our own true north" I stated that our aim would be to maximise shareholders' wealth.

THE SCOREBOARD FOR WEALTH CREATION

	Distribution per share	On an earnings basis		On a value basis		
	Cent	Headline EPS	% Increase	NAV	% Increase	% Increase in FIN*
1995 – Base year	Nil	4,3	–	20		
1996	Nil	14,4	235	34	70	10
1997	Nil	25,5	77	147	332	118
1998	Nil	47,3	85	617	320	78
1999	25	85,9	82	669	8	23
2000	36	120,6	40	778	16	(21)
2001	45	150,3	25	899	16	4
Compound annual growth rate (%)	22		81		89	

** JSE Financial Services index*

"... we intend transforming the ... company into a fully fledged financial services group."

(ANNUAL REPORT FEBRUARY 1996)

PSG Group is now a financial services investment company owned by a wide spectrum of shareholders with management owning a significant stake in the company.

"... we will continue to provide financial services for high net worth individuals."

(ANNUAL REPORT FEBRUARY 1997)

PSG Investment Services (comprising the brands PSG Online Securities and PSG Konsult has managed to maintain its profits during the past year despite an extremely challenging environment. This division is now well established, concentrates on wealth management (private banking) for the high net worth individual and has set up a unique distribution network through its PSG Konsult concept.

"... we are investigating several business opportunities which will include banking activities ..."

(ANNUAL REPORT FEBRUARY 1997)

PSG Investment Bank had an exciting year during which it transformed itself from an also ran trading bank to a well-focused and managed investment bank which has its rightful place in the South African banking environment.

It has successfully acquired The Business Bank Limited ("TBB") as well as its holding company, now Axiam Holdings Limited and has also made various investments for the future including Vestacor and some excellent management teams. In this regard I should mention of the establishment of PSG Afro Pacific in Sydney, Australia staffed by an experienced management team, as well as PSG Trade Finance in Johannesburg specialising in the financing of commodities.

Since year-end we have also required Real Africa Duralink Bank and shall continue to participate in the consolidation of the A-Z banking sector.

PSG Investment Bank is well capitalised, has dynamic management headed by André la Grange and Charles Turner and has performed exceptionally well in difficult trading conditions the past year.

PSG Investment Bank has increased its distribution to shareholders from 6,5 cent by 155% to 16,6 cent. (8 cents per share cash and 8,6 cents by way of the unbundling of Velocity.)

"Charting new waters will remain the inspiration for group management."

(ANNUAL REPORT FEBRUARY 1997)

Our initial R2 million investment in PSG Escher Investment Solutions and its management team has borne fruit with the successful listing of Escher Group Limited on the JSE and this company having achieved a net profit after tax for this past year of R21,3 million. This specialised multi-manager of funds now has some R17,8 billion's worth of assets under management.

"We will focus on financial services, giving special attention to insurance, banking activities and asset management."

(ANNUAL REPORT FEBRUARY 1998)

With effect from 1 March 2001 we have now combined the employee benefit activities of Channel Group with the life assurance activities of PSG Anchor Life under the Channel Group banner, with the brands Channel Life, Anchor Life and Channel Group.

The management consortium has personally purchased an 16% interest in this enlarged Channel Group and I am confident that these life assurance and employee benefit activities (which include a dynamic health/AIDS management consultancy) will also provide superior growth in the foreseeable future.

"PSG . . . will accelerate the broader group ability to provide access to capital for unbanked South Africans."

(ANNUAL REPORT FEBRUARY 1999)

The acorn planted as PSG Specialised Lending has now grown into Keynes Rational Bank Holdings Limited (the old TBB) which operates through the brand names of Capitec Bank and Finaid and provides retail banking to many of the previously "unbanked" South Africans.

In the process we have disposed of Anchor Finance (persal based business) at a profit and now concentrate on providing simple and basic services including loans and savings. This business does its distribution through more than 300 branches with a staff in excess of 1 200.

". . . to continuously increase shareholders' wealth
- *Five-year compounded growth in EPS of 50% up to 2002*
- *ROE of 20% by 2002*
- *Dividend policy 30% pay-out."*

(ANNUAL REPORT FEBRUARY 1999)

". . . charting new waters will remain the inspiration for group management."

(ANNUAL REPORT FEBRUARY 1997)

PSG Group, its subsidiaries and divisions have a clear vision and business plan, are all well capitalised and have competent management in place. That's our inspiration for the future.

". . . the emphasis is on attracting and developing top calibre staff who will join the board of directors in its continuing quest for quality and service . . . "

(ANNUAL REPORT FEBRUARY 1997)

It is through the application, dedication and perseverance of our staff that PSG is where it is today and remains the basis on which we shall continue to prosper in our continuing quest for our own true north.

My sincere thanks to my fellow directors and colleagues throughout the group for their support and enthusiasm.

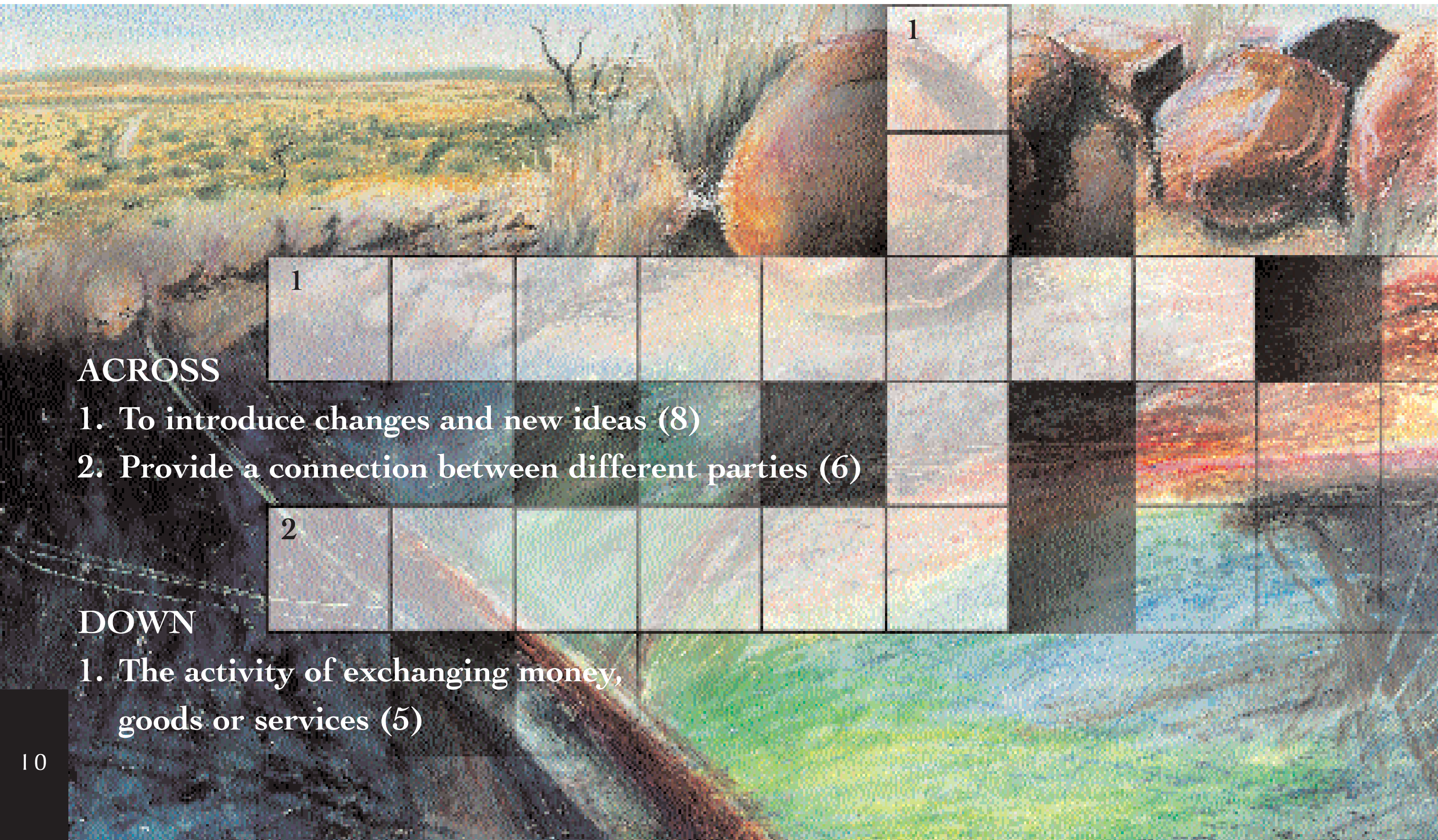
OUR BUSINESS PRINCIPLES THAT WOULD GUIDE US IN THE FUTURE:

- We are a living company and changes are going to happen.
- We are a going concern and want to be in business for the long term.
- We will be honest and transparent to our shareholders.
- We would like to establish a closer, warmer and more friendly relationship with our shareholders (the owners).
- Corporate governance, excellent administration and good management information systems are cornerstones.
- Management must have a clear vision and business plan.
- Cash is king.
- Focus more on value reporting and future earnings potential.
- We continue to investigate alternatives to enhance shareholder value. A matter that is often raised is the apparent confusion between PSG Group and PSG Investment Bank Holdings as listed entities. Alternatives will be investigated in the next period to address the aforementioned.

We realise that the future of PSG will also be affected by the future of our country. We are committed to both and are looking forward to the coming year.

Jannie Mouton

Jannie Mouton
Stellenbosch, April 2001



ACROSS

1. To introduce changes and new ideas (8)
2. Provide a connection between different parties (6)

DOWN

1. The activity of exchanging money, goods or services (5)

PSG INVESTMENT BANK

PSG Investment Bank provides a comprehensive range of integrated services, focused on initiating transactions, providing bridging finance and trading investments. It has a strong capital base and exceptional intellectual skills and expertise.

During the year, the bank's capital base expanded to R1,7 billion before its proposed distribution. This strong balance sheet will enable the bank to fulfil its mandate of initiating, bridging and trading in selected specialist areas.

The bank was granted a banking licence in 1998 and listed on the JSE in 1999. It is one of the top 100 companies and one of the top ten banks in South Africa by market capitalisation and share capital, respectively.

André la Grange
chief executive

INNOVATE TRADE BRIDGE

A CHALLENGING OPERATING ENVIRONMENT

The review period was marked by continued slow corporate activity, subdued and risky financial markets and a significant increase in competition from international investment banks. Market liquidity, particularly for A2-rated banks, remained tight.

During the year, following the impact of the run up to the millennial changeover which affected all A2 banks, PSGBH focused on opportunistic transactions and the preservation of capital and liquidity, while rationalising and refocusing the bank's operations and teams.

The results for the year clearly reflect the bank's correct reading and the prudence of its approach in the volatile and increasingly competitive markets in which it operates.

PERFORMANCE

Financial performance – salient features
Year ended 28 February 2001
Audited and in compliance with GAAP

		% growth Y on Y
Headline earnings (R000)	262 085	24
Headline earnings per share (cents)	21,5	33
NAV per share (cents)	138,0	18
Return on shareholders' funds (%)	16,4	9
Return on average total assets (%)	8,7	10
Expense-to-income ratio (%)	30,8	(5)

PSGBH recorded growth of 33% in headline earnings per share (21,5cps.) The directors note that the nature of investment banking dictates that earnings streams will always be volatile. It is not their policy to smooth these earnings streams but to rely on their various teams' abilities to source and implement innovative value-adding transactions.

Net asset value per share rose 18% to 138,0 cents. The expense-to-income ratio declined 5% to 30,8%.

Strategy and focus

PSGBH continued to develop its core business, refining its activities and product range. A sharper focus and the rationalisation of various non-core activities resulted in a stronger and clearly defined operation.

The businesses of equity derivative and curve trading, cell-captive insurance, funds management, treasury and asset-based finance were refocused and reorganised. These initiatives will decrease the group's fixed costs and risk profile in a sector where good years are inevitably followed by bad ones.

The business bank

PSGBH's acquisition of TBB during the year was an invaluable learning experience for the bank. It was persued for a bank licence for Keynes Rational, some additional businesses and an unexpected tax loss. The cash benefit of this asset will be realised in the next two to three years. In all respects, the acquisition contributes to achieving PSGBH's goals while improving its balance sheet – it was a true investment banking deal.

Deposits

The bank's deposit base increased by 19% over the period, reflecting its ability to attract deposits. Encouragingly, demand deposits as a percentage of total deposits declined from 97% to 66% at February 2001, underscoring the group's growing presence in this competitive market and its ability to gear and grow the term deposit book.

Revenue

The revenue mix again improved, with a substantial contribution from after-tax sources and annuity-based income. Annuity income comprised 43% of total income.

With the exceptions of equity derivative trading and funds management, all operations contributed to the growth in headline earnings to R262,1 million.

CHARLES TURNER

ENRICO GREYLING

PSG INVESTMENT BANK

BALANCE SHEET

The average ROE of 16,4% is still below the target of 20 – 25% and partially reflects the growth phase through which the bank is currently moving. However, it is important to note that the bank is still in the early stages of carefully deploying its capital. This, coupled to its low cost structure, focus and strategy, and ability to consistently write business at (and above) market rates, will ensure that, in time, the ROE ratio will move ahead of the market. The strategy is a five-year plan to become South Africa's top-rated niche investment bank.

Total assets increased to R3,0 billion from R2,8 billion in FY2000. Ordinary share capital and reserves totalled R1 679 million at the end of the year.

PSGBH received a zaA2 short-term rating and a BBB+ long-term rating from CA Ratings, with an A2 short-term and BBB long-term rating from Fitch.

HIGHLIGHTS OF THE REVIEW PERIOD

Investment in Keynes Rational

In March 2000, PSGBH subscribed for an R80 million convertible debenture in Keynes Rational Limited (KR) and acquired The Business Bank limited (TBBL0 for R10 million. TBB later recapitalised with R100 million. On 1 March 2001, TBB acquired the business of KR and PSGBH invested an additional R58 million in the merged TBB/KR, giving it an effective 70% equity stake in a newly-formed holding company, Keynes Rational Holdings Limited. TBB will be renamed Capitec Bank and the boards of both companies will be reconstituted. KR is a specialist financial services provider to the lower-income historically underbanked sector. It has 200 branches countrywide, 1 283 employees and recorded headline earnings (before tax and convertible debenture interest) of R78,2 million for the review period.

Entering the Afro-Pacific corridor

In January 2001, PSGBH launched a merchant banking subsidiary in Australia. PSG Afro Pacific is based in Sydney and staffed by an experienced investment banking team. The Afro-Pacific corridor includes the 14 Pacific Island States of the South Pacific Forum, as well as South Africa, Australia and New Zealand. The new company is ideally positioned to service these markets, which are increasing in economic and trade relevance. The transactional and advisory capabilities of PSG Afro Pacific include expertise in equity raising, mergers and acquisitions, divestments, regional trade, risk management, resource project financing and regional feasibility studies.

Vestacor stake increased

In May 2000, PSGBH and Vestacor management made an offer to minorities (at 60cps) and the joint control consortium now owns some 70% of Vestacor's share capital (PSGBH 43%). Vestacor is a private equity and corporate finance house, focusing on the retail, property and related sectors, with active involvement in its underlying investments. In August 2000, Vestacor acquired the business of Moresport Holdings Limited for R173m, including the retail chains of Logans, Sportmans Warehouse, Sportshoe World, Quartermaster and Pro-Shop. Vestacor's JSE listing was transferred from the private equity sector to retail. The group's most recent see-through market valuation is 171cps.

Real Africa Durolink Bank

Subsequent to the year-end, PSGBH purchased Real Africa Durolink in a transaction valued at R326 million. Details of this transaction are not final and will be reported on at the interim stage.

REVIEW OF OPERATIONS

PSGBH has divisions at various stages of development. The depth of intellectual capacity and expertise enables the respective teams to identify and capitalise on trends in the financial services market and provide exceptional solutions, product and service to its client base. Capital is deployed in operating divisions against stringent risk and investment requirements. PSGHB also has investments in PSG Afro Pacific, Keynes Rational and PSG Progressive. The divisions of the bank are shown below.

Structured and project finance

This division comprises a team of experienced executives that develops and generates debt and interest-financing financial products. In line with PSGBH's prudent policy, all debt instruments are tradable and self-liquidating and the division does not offer commercial credit facilities.

During the year, the division funded a number of limited recourse transactions and provided innovative funding solutions for property initiatives. These projects were either funded by PSGIB itself or syndicated with institutions.

Corporate finance and proprietary investments

This division provides a full spectrum of advisory, equity, capital raising, underwriting and merger and acquisition services. With its focus on the middle market through innovative solutions and superior service, it is steadily increasing market share.

During the year, the team completed 46 assignments with a market value of more than R2,5 billion.

Proprietary investments totalling R368 million were made in seven transactions. Given increased competition, the team focused on fewer, but more meaningful, investments where it can add real value. An investment was sold during the period, realising an internal rate of return of 45%.

FUTURE STRATEGIES

PSGBH has set clear targets for the next two financial years and is confident they are attainable. The ultimate objectives are to:

- Focus on investment and growth
- Participate in the further consolidation of the financial services
- Create value for all stakeholders

PSG INVESTMENT BANK

Treasury

A fully-fledged treasury covers foreign exchange trading; money market funding, trading and asset creation; interest rate derivatives and structuring; scrip lending; bond spot, option and repo trading; equity spot, futures and curve trading; and quantitative systems trading.

Treasury is responsible for funding the bank's activities. The funding book is run on a matched basis and is reviewed by ALCO. Trading activities are subject to value-at-risk limits which are monitored real time. Treasury also conducts client trading, structuring and hedging activities.

For the review period, the interest rate derivatives trading and structuring unit was the key performer. Income from client activities is expected to form a greater portion of treasury income in the new year. The unit co-operates closely with the structured products division producing solutions for institutional clients.

The initial part of the year was marked by significant changes in the management of treasury and a restructuring of the business. Trading performance improved markedly from the third quarter with all divisions exceeding budget.

This division contributed R5 million to attributable income.

Trade and commodity finance

During the year, PSGBH formed a trade and commodity finance company, PSG Trade Finance (Pty) Limited. The bank holds 70%, with the balance held by management. The company has been appropriately staffed by experienced people, with a wealth of local and international expertise. PSG Trade Finance's strategy is to target trading companies and export/import-driven medium cap companies, initially in South Africa. The company will add value through advice on trade finance and structuring transactions, primarily by offering innovative solutions and approaches in difficult market conditions.

Treasury outsourcing

This division manages foreign exchange risk, short-term and working capital interest rate risk, administration of foreign debtors and creditors, hedges and cash flow for clients.

In February 2001, a fully-staffed office was opened to oversee existing client companies in Gauteng, the biggest market in South Africa.

The division uses minimal capital and is now well positioned for exponential growth.

Risk managers international

Given difficult trading conditions and lack of volatility in certain markets, this division recorded a loss of R8 million.

Exposure to derivative trading risk has been reduced by the sale of the equities derivative book to a company owned by the equity derivative traders, Aspen Risk Managers, in exchange for a 30% holding in that company.

Structured products

The structured products division has a specialised team of professionals, which designs and implements tax-efficient equity or fixed-income products that minimise risk of loss of capital for clients in the wholesale and retail market. The range of tailor-made products and services includes capital guarantee products, securitisation, hedging strategies and corporate products.

During the year, guaranteed equity investment transactions of R2,5 billion and structured investment products of R200 million were implemented.

The division has built significant capacity to implement securitisation transactions. This is a major growth area and is closely linked to structured products.

This division contributed R6,5 million to attributable income.

Corporate services

Risk control, compliance, credit management, administration and technology are centralised in this division. It provides essential support to all operating divisions while overseeing risk and credit management of the group.

It houses the economics unit, which provides research and analysis on domestic and international variables and events that influence South African financial markets and the broader economy. Demand for its research services from leading institutions, large corporates and international banking groups has grown strongly in the past year.

Dividend and capital distribution

PSGBH's policy is to declare dividends and/or distribute amounts annually by way of a capitalisation award or cash. For the review period, it will distribute a cash dividend of 8,0 cents per share and unbundle 75,3% of its investment in Velocity Holdings in the ratio of 1,3 Velocity shares for every 100 PSGBH shares held.

Strategic direction

PSGBH has set clear targets for the next two financial years and is confident they are attainable. the ultimate objectives are to:

- Focus on investment and growth
- Participate in the further consolidation of the financial services
- Create value for all stakeholders

PRODUCTS AND SERVICES

- Structured and project finance
- Corporate finance and proprietary investment
- Treasury trading and funding
- Structured products
- Treasury outsourcing

ACROSS

1. Put a plan into operation (9)
2. To introduce new ideas (8)

DOWN

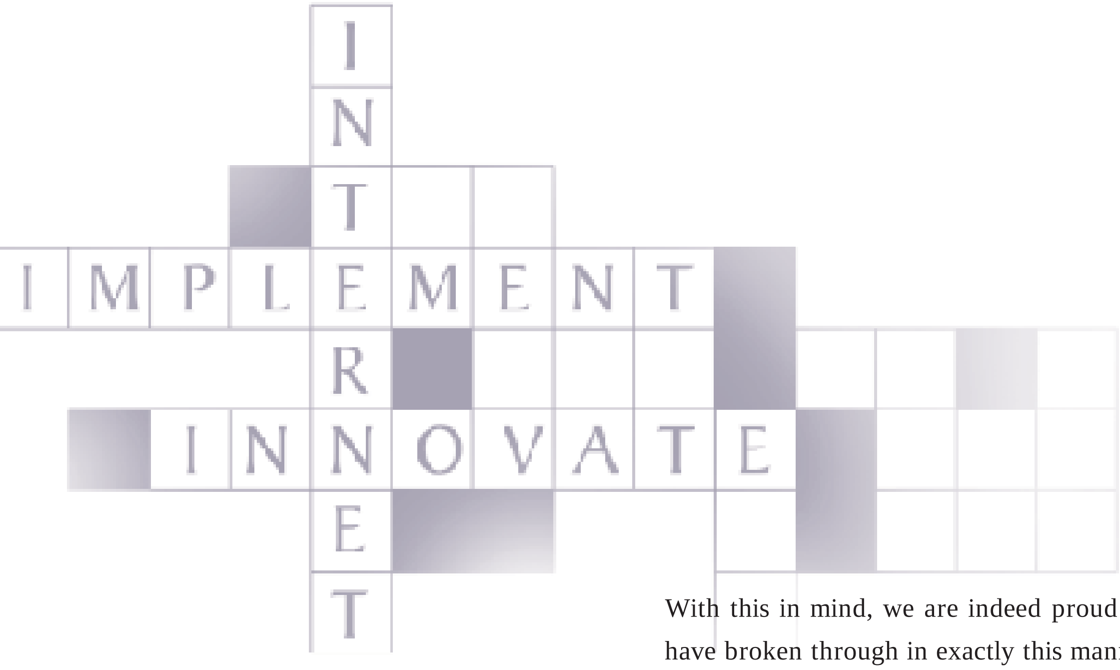
1. The worldwide computer connection (8)

PSG CHANNEL HOLDINGS

PSG Channel Holdings host the institutional asset management, employee benefits, and related activities of the PSG Group. It was formally launched early in 1998, and has therefore been in existence for three years. Both the asset management and employee benefits sectors are characterised by fierce competition. New entrants often find it difficult to penetrate these markets and obtain sufficient economies of scale in a short period of time.

A delicate balance between influential and effective leadership, technological innovation and a fair dose of capital, is asked for to become an effective competitor in these markets. A stealth-like approach, where the building of unique capabilities becomes critical, stands the best chance of success.

Leon de Wit
chief executive

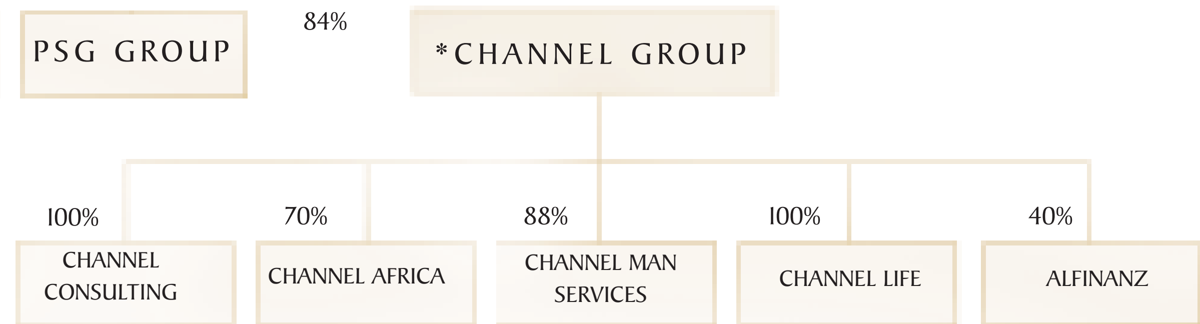


With this in mind, we are indeed proud to report that we have broken through in exactly this manner with regard to the asset management business. On the employee benefits side, we have yet to record the same degree of success. However, we feel positive about this line of business. In order to enhance our success rate, we have recently decided to alter our approach slightly.

All in all, PSG Channel Holdings had a satisfactory financial year in difficult trading conditions.

CORPORATE STRUCTURE

As agreement was reached for the transfer of PSG Anchor Life from Keynes Rational to the Channel Group with effect from 1 March 2001, we have deemed it appropriate to deal with the progress of PSG Anchor Life in this part of the report. We also comment on the revised structure for Channel as a result of these and other changes, which became effective on 1 March 2001.



** Structure effective 1 March 2001*

CHANNEL GROUP

With the unbundling of Escher Group out of Channel in June 2000, Channel chose to reposition itself as a 'world-of-work' organisation. Offerings to corporate South Africa include remuneration, healthcare and actuarial consulting, retirement fund administration and related services. The Channel of today is a much stronger organisation than the Channel of twelve months ago, although it is not yet apparent from the published profit figures.

Digital

We have repeatedly stated that we wish to deliver traditional services in a digital way, or to choose the modern words, to become a truly 'clicks and bricks' type organisation. We are glad to report that satisfactory progress has been made in this regard.

Remuneration surveys

On the remuneration side, we decided to convert our leading national salary surveys to electronic format. The result is South Africa's first e-commerce salary survey Internet site, known as *www.remchannel.co.za*, which went live late in 2000. Many of South Africa's top 100 companies have already subscribed to our online service and the feed back has been very positive. This is a typical example of the type of capability that has been created – at a price – but where we expect healthy returns in the years to come.

Back office administration

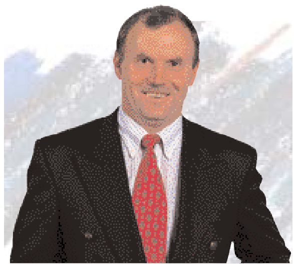
Another important development has been the establishment of a unique back office administration capability in partnership with TRAMS. This led to the creation of Alfinanz, an organisation that specialises in the management of proprietary back office applications. The back office of PSG Anchor Life was successfully transferred to Alfinanz in December 2000, and our retirement fund administrator is expected to have its back office migration to Alfinanz completed by the middle of 2001. We are indeed excited about these developments, as it provides us with the opportunity to focus on the important function of servicing our clients, instead of managing information technology most of the time.

Channel's foundation is stronger than ever before and we expect the company to excel in the years to come.

FUTURE STRATEGIES

- Focus on insurance and employee benefits
- Develop a truly South African operation
- Do business through JV's and partnerships
- Develop an African strategy
- Be technologically innovative

IZAK FOURIE



CORNIE FOORD

GIL MAHLATI

JAY KATUNARATNE

FOCUS AREAS

- Insurance and employee benefits
- Institutional asset management
- Healthcare
- Actuarial consulting
- Remuneration
- Remuneration surveys
- Back office administration

FINANCIAL HIGHLIGHTS

PSG Channel Holdings' results can be summarised as follows:

	2001 Rm	2000 Rm	1999 Rm
Revenue (excluding assurance income)			
Operating	**63,0**	80,2	20,5
Investment and interest	**4,0**	2,0	2,8
	67,0	82,2	23,3
Expenses			
Remuneration	**29,1**	31,3	13,9
Other	**32,6**	31,6	7,1
	61,7	62,9	21,0
Net profit before taxation	**11,8**	21,1	2,3
Taxation	**3,3**	7,1	0,6
Net profit after taxation	**8,5**	14,0	1,7
Minorities	**0,7**	5,3	0,3
Headline earnings	**7,8**	8,7	1,4

Key financial ratios include:

	2001	2000	1999
Headline earnings per share (cents)	**21,1**	23,5	3,8
Dividend per share (cents)	**8,4**	9,6	0,0
Dividend cover (times)	**2,5**	2,5	0,0
Return on shareholders' funds	**17,4**	26,5	6,6

The results for 2001 are not strictly comparable with the results of previous years, due to the mid-year unbundling of Escher Group.

Channel's results remained stable, despite sizeable re-investment into the creation of greenfield capabilities. We expect a significant improvement in the next financial year.

PSG ANCHOR LIFE (now CHANNEL LIFE)

PSG Anchor Life, a traditional life assurer focusing on the lower income groups, had a difficult trading year. High expense and lapse ratios put pressure on the company's profits, and investment returns lagged expectations. Following an independent review of Anchor's affairs, a series of important changes were implemented. In the process, Anchor Life changed its focus to become 'a life assurer doing business with established distribution lines on a partnership basis.

This triggered a number of strategic changes to the business of Anchor Life, the most notable being:

- Establishment of new distribution lines – Life Assurance Networks (LANs). Reliance on the agency force as a single distribution line lowered.
- Conversion of agency force to sole brokers, transferring ownership of agents to third parties whereby they continue to sell Anchor Life's products exclusively.
- Co-sourcing of our back office functions to Alfinanz, to enhance operational efficiencies and reduce costs.
- Outsourcing technology infrastructure to Dimension Data, reinforcing our drive to become a digital organisation.
- Adoption of a conservative investment policy in the wake of turbulent markets.
- Reduction of salaried staff from 270 to 67, thereby reducing expenses by a considerable margin.
- Launch of campaign to enhance the quality of business written.
- Changing the name to Channel Life Ltd.

The revised business model was received positively by third parties and a number of exclusive transactions have been secured, but the year 2001 will undoubtedly be an important year in the life of Channel Life.

Headline earnings reached R4,0 million, which is an improvement from the previous years. We expect Channel Life's financial results for financial 2002 to be higher than last year, but the level of improvement will depend largely on our ability to write new business.

THE FUTURE

Several changes were made to the corporate structure of PSG Channel Holdings with effect from 1 March 2001.

In the first instance, Escher Group recently announced that it intends merging with M Cubed Capital. We expect this merger to take place, in which event PSG's holding in the combined company will be held directly by PSG Group.

A management consortium consisting of Leon de Wit, Izak Fourie, Gil Mahlati, Jay Karunaratne and Cornie Foord acquired an interest in the new Channel Group and agreed with PSG to assume management control for a period of at least three years. PSG Anchor Life's name was changed to Channel Life, and a new structure was agreed upon.

The new Channel Group will be aligned with Channel Life to become an entrepreneurial and innovative provider of insurance, healthcare, retirement and related services. A strong foundation has been created, the opportunities are many and we have every intention of making it work.

ETIENNE PROWSE

INGE NEL

JACO LEMMER

LOURIKA SMITH

PIETER DE LA REY

ESCHER GROUP

Philip Croeser
chief executive

A year ago Escher was still a subsidiary of Channel Group, its assets had grown from nearly nothing to R11 billion, and the company's executive were confronted with the normal pains that go along with strong growth. Today, a mere twelve months later the company has yet again reached new heights.

Amongst all of these activities, Escher managed to build a unique corporate culture. This has enabled the company to achieve an eighth place in the recent Financial Mail/Deloitte & Touche 'Best Companies to Work For' survey, with household names filling the higher positions.

ESCHER GROUP

- Assets under management increased by 62% to R17,8 billion, thereby reducing the company's reliance and exposure to any one institutional client to more acceptable levels. The client base now extends to more than 230 institutions.
- Subsequent to year-end a merger with M-Cubed Capital was concluded. Combined funds under management now total some R30 billion.
- Headline earnings similarly increased by 79% from R12,0 million to R21,5 million.
- A first-class investment administration capability was built based on modern technology. All investment transactions are received, processed and monitored electronically on a straight through basis, with minimal human intervention.
- Escher was listed on the JSE on 22 June 2000, raising R41,9 million in the process. This exercise introduced a number of new business disciplines to Escher, which has proved to be invaluable as the business grew. It also provided the PSG Group with a sizeable interest of 48% in a listed entity in which a relatively small capital investment was made and which Company was suddenly worth some R300 million in the open market.
- A subsidiary was established in the United Kingdom, providing Escher with an opportunity to spread its earnings to non rand denominated currencies.
- Escher Life, which was established in 1999 as an on-balance sheet host for the assets of Escher Investments, grew in stature and importance. A range of own products was developed and Escher Life has since become an important contributor to Escher's earnings.
- A team of people with extensive experience in the disciplines of structured products, was acquired and they proved invaluable from the first day. Escher's product development capabilities was significantly enhanced, particularly in the area of providing underlying guarantees to the South African pension fund investor who have become disillusioned with the negative returns earned on the stock market.

FUTURE STRATEGIES

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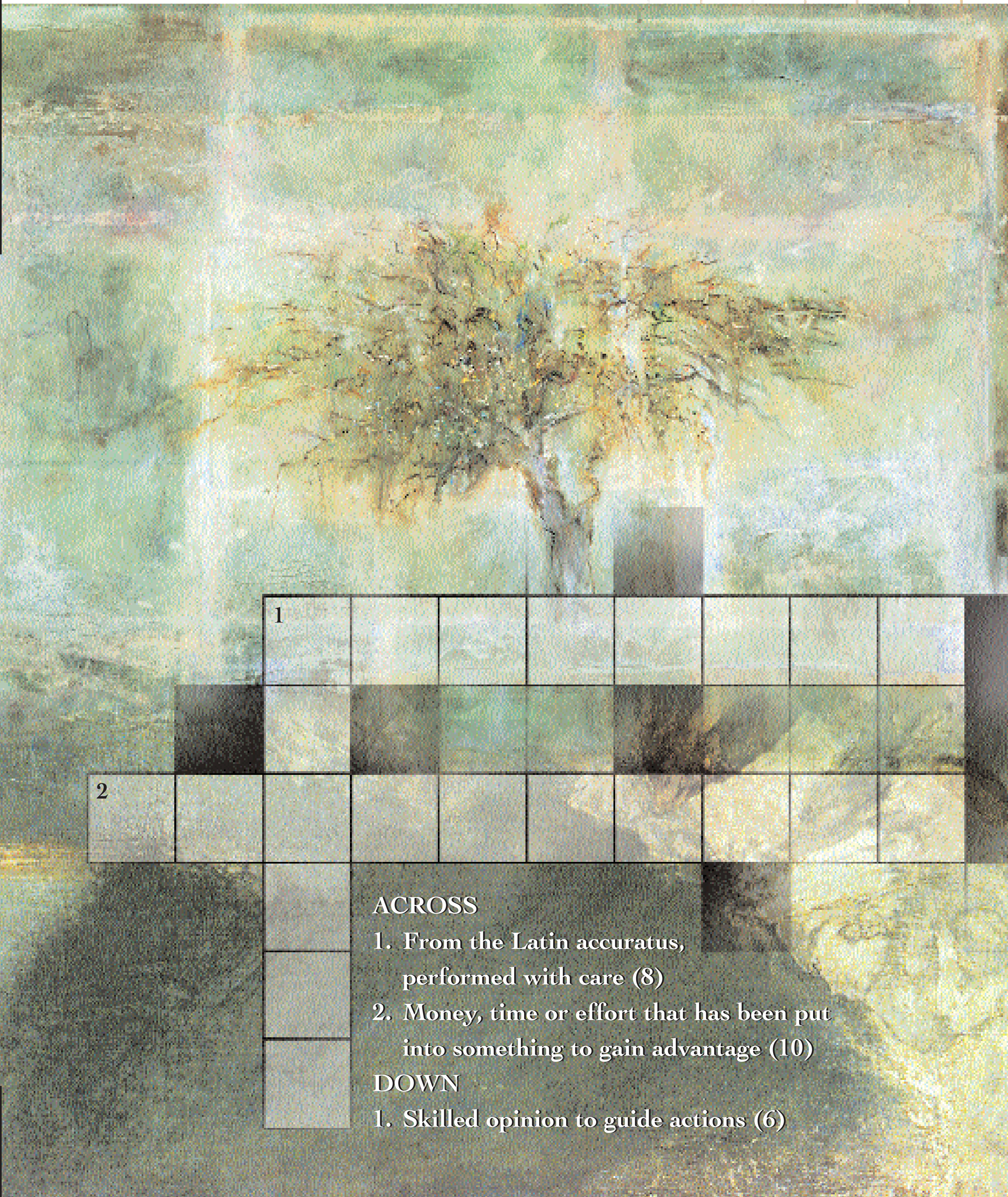
TRACY VAN DER HEIJDEN

GERRIT LE ROUX



ACROSS

1. From the Latin accuratus, performed with care (8)
2. Money, time or effort that has been put into something to gain advantage (10)

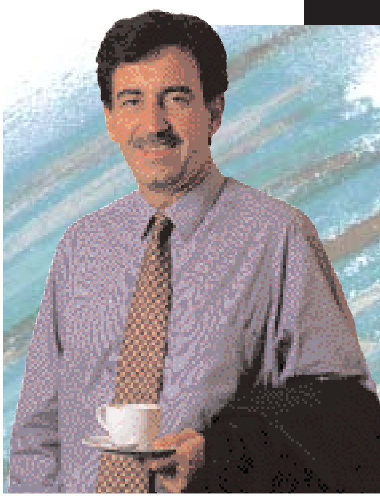
DOWN

1. Skilled opinion to guide actions (6)

PSG Investment Services

PSG INVESTMENT SERVICES

PSG Investment Services has entrenched its position as a leader in private client wealth management with one of the most far-reaching networks of financial advisers. The business now has access to more than 125 000 private clients through 105 advisers in 63 offices nationwide. Total assets under administration have increased by 20 percent to R5,914 billion as at year-end. Star performers in the stable are PSG's international and global unit trusts which are ranked among the top performers worldwide. More than 60 percent of stock broking clients now use the PSG Online system for research and trading support, and more products will be added to the site in the year ahead. In addition, development is well under way of a select range of independent and great performing local and global investment products to cross-sell to the entire client base.



Jaap du Toit
chief executive

PSG INVESTMENT SERVICES

FINANCIALS

The performance of PSG Investment Services is pleasing in context of a year in which investors steered away from the JSE and many other SA investment vehicles in favour of taking money offshore or placing it in lower-risk interest-related products. This led to shrinking margins and, when added to increased competition and the growth of the multi-manager approach, made the trading climate extremely tough.

PSG Investment Services outperformed many of its peers and income increased by 22,8 percent to R99,3 million. Although pleasing, this was below budget particularly in the area of brokerage income – a direct result of investors' lack of confidence in the SA market.

Increased expenses in expectation of greater growth had to be contained mid-year. The overall result was a profit after tax of R11,2 million, 18 percent higher than last year.

PSG Investment Services	1997	1998	1999	2000	**2001**
	R000	R000	R000	R000	**R000**
Headline earnings	1 832	5 535	8 715	9 483	**11 153**

Although the online stock broking business is now profitable, experience is showing that the SA market is simply not deep enough to justify online investment and expenses on the scale of previous years. As a result, the PSG Online strategy has been reviewed and the e-commerce arm of PSG Investment Services has been integrated into mainstream business. More products will be added to PSG Online – which is now viewed as the fast and effective delivery mechanism for a growing number of PSG Investment Services' products and services.

An area of particularly pleasing performance was the unit trust business – both in terms of track record and assets under management. Local assets under management increased by 41 percent to R708,1 million in the financial year, while the assets under management in the industry increased by 14,4 percent in 2000.

Offshore attributable earnings rose to 49,1 percent of the total, mainly due to the outstanding performance of PSG's two global funds, the development of a full range of global services offered through the PSG operation in Mauritius, and a large amount of business placed through independent suppliers by our financial advisers.

In a tough year, the distribution arm of the business increased income by a solid 52 percent and has established a strong recurring income base. In line with the trend toward diversification of traditional stock broking and asset management businesses, it is expected that this division – including PSG Private Clients, PSG Independent Consulting and PSG Konsult – will continue to grow and offer a growing range of independent financial services products.

CORPORATE MILESTONES

- PSG Investment Services has entrenched its position as a leader in private client wealth management with one of the most far-reaching networks of financial advisers. This is evident in the fact that the business now has access to more than 125 000 private clients through 105 advisers in 63 offices nationwide.
- While the total number of offices has increased by 13, there has also been successful rationalisation to improve profitability in Pretoria, Johannesburg and Tyger Valley.
- The performance of PSG's international and global funds has been especially outstanding. The PSG International Fund is ranked out of since inception, while the PSG Global Balanced Fund and PSG Global Equities

MARTUS CLAASSEN

THEO BIESENBACH

LOUIS VAN DER WALT

THEO VORSTER

PSG Investment Services

PRODUCTS AND SERVICES

- Independent financial advice
- Asset management
- Full service stockbroking
- Online financial services
- Offshore investments and offshore trust structures
- Unit trusts and wrap funds
- Long and short-term insurance
- Healthcare data searches

Fund are ranked 16th out of 131 and 127th out of 354 worldwide funds respectively.

- Unit trust funds under management have now reached R915 million, representing 31 percent growth, and wrap fund under management has grown by 121 percent to reach R243,7 million.
- PSG Investment Services acquired 25 percent of Intercontinental Trust in Port Louis, Mauritius – a company which provides offshore trust structures and investment products in the African and Far East markets. This highlights the commitment to becoming a global player, and offers PSG access to clients in destinations including Singapore, Hong Kong and India.
- More than 60 percent of our stock broking clients now use the PSG Online system for research and trading support. While not all of these clients actively trade on the site, we believe that the development of this system has ensured the ongoing success of our stock broking business – which has now been re-engineered for profitability.
- The PSG do-it-yourself investor tools performed exceptionally well in their first year of existence delivering an income 64 percent above budget.

FUTURE PROSPECTS

In the year ahead, the South African trading industry should improve following the lack of performance of major offshore markets and the dramatic cut in asset swap allocations announced in the budget speech in February. The aim of this decision was to encourage investors to focus on local investment instruments again.

However, PSG Investment Services still intends to add to its global offering and roll out new offshore investment tools including hedge funds, multi-managed open funds, offshore share trading and a variety of trust structures in various destinations.

Management has committed to the development of a select range of independent and great performing investment products to cross-sell to the entire client base. These products will include investment products, global offerings, long- and short-term insurance and healthcare.

In addition to access to medical aid that is now available online, further new products will be added to the PSG Online site.

It is intended that the distribution outlets – PSG Private, PSG Independent Consulting and PSG Securities – will be consolidated into one operation. Commitment has also been made to the development of a centralised database and CRM system to facilitate the cross-selling of products to the entire client base, and to ensure that the proper compliance procedures are followed for all clients.

PSG Investment Services is currently investigating a joint venture between an IT business and PSG Online Securities' electronic settlement system. The view is to make this system available to similar organisations, as a separate business venture.

Reaching critical mass remains a priority, and opportunities will be sought to achieve this.

FUTURE STRATEGIES

- Focus on investments
- Strengthening own brand
- Reaching critical mass
- Setting up strategic alliances to expand internationally
- Forming outlets to offer more diverse product range to existing 125 000 clients
- Reducing fixed cost structures

ACROSS

1. To provide the means to advance (7)
2. Needs great mental or physical effort to be done successfully (9)

DOWN

1. Financial benefit or advantage which is earned in trade (6)
2. The part played in life or an event (4)

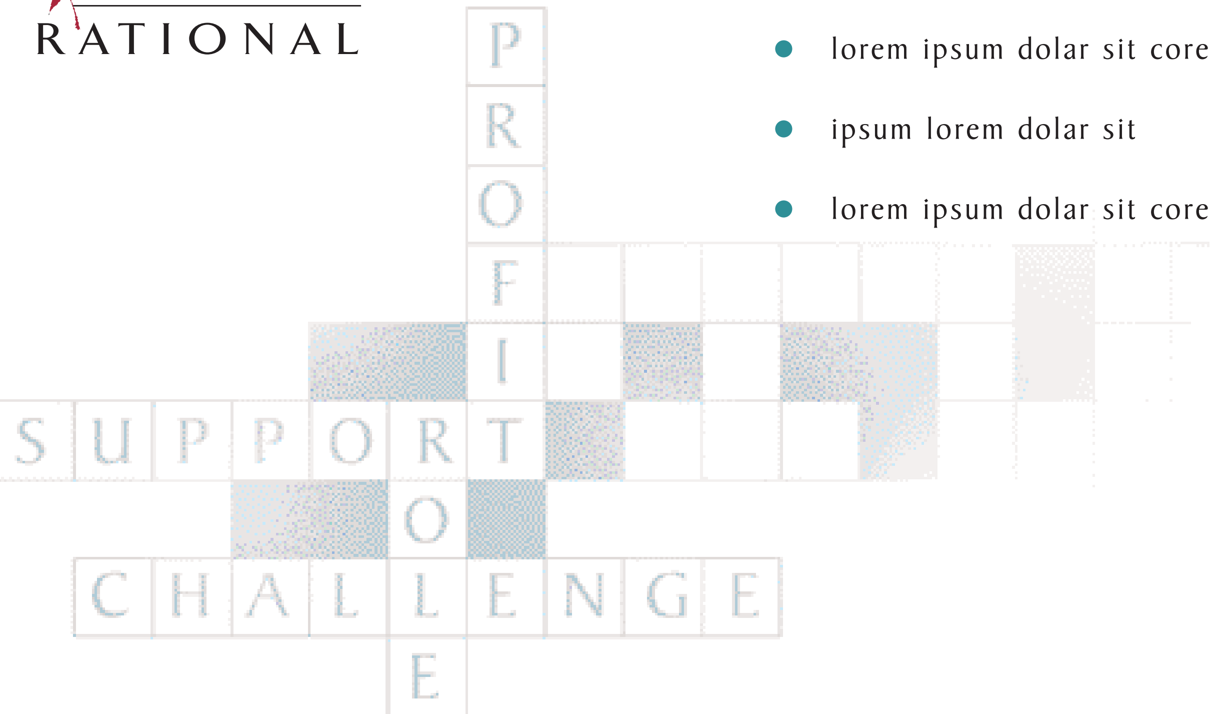
KEYNES RATIONAL

Keynes Rational's only business has been providing financial services to low-income employees. Now its focus is even narrower: providing face-to-face banking services. The company's main interest is Capitec Bank. The organisation became a bank (and Keynes Rational a bank holding company) on 1 March 2001, but will require some months before it can start operating as a bank.

The company will continue operating its 300 micro-lending offices. As soon as possible they will be converted to bank branches to be able to offer comprehensive but straightforward banking products to its clients.

Michiel le Roux
chief executive

KEYNES RATIONAL



FUTURE STRATEGIES

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Keynes Rational moved ahead rapidly during the last 12 months.

RAPID RESTRUCTURING

- A strong management team with Riaan Stassen as managing director was appointed.
- Keymatrix completed the challenge to establish a national branch network through acquisitions. The number of branches increased from 120 to 300 and the staff from 616 to 1 286.
- The organisation became a bank on 1 March 2001 when the business of Keynes Rational was sold to TBB, which was renamed Capitec Bank.
- PSG Anchor Finance was sold to Unifer for R26 million on 1 March 2000. PSG Anchor Finance was a payroll-based term lender. The sale took place a few months before the government's decision to restrict access to their Persal-payroll. The reason for the sale was a desire to focus narrowly.
- For the same reason Keynes Rational unbundled its interest in PSG Anchor Life with effect from September 2000. This company now forms part of Channel Group.


HENK LOURENS


GERRIE FOURIE


RIAAN STASSEN

OWNERSHIP AND CAPITAL STRUCTURE

At year-end Keynes Rational was a 73%-owned subsidiary of PSG Group. On 1 March 2001 the business of Keynes

Rational was sold to TBB, a wholly owned subsidiary of PSG Investment Bank. In the process Keynes Rational acquired a further R100 million capital. Keynes Rational shares are now held as follows:

PSG Investment Bank	65%
PSG Group	10%
Minorities	25%

PROFITABILITY

Keynes Rational has achieved impressive results. Few companies have the ability to create a new business whilst returning R45 million headline profit on a capital base of R146 million, a return on equity of 37%.

VALUES

Capitec Bank wants to be the financial friend of the people of South Africa.

- Its service will be fast and friendly.
- Its products simple and affordable.
- Its business model client orientated, but easy to operate.
- Its main obsession: to be the leaders through innovation.

	2001 R000	2000 R000	1999 R000
Headline earnings	**45 353**	15 695	809
Weighted number of shares in issue ('000)	**448 194**	288 957	276 100
Headline earnings per share (cents)	**10,1**	5,4	0,3
Total assets	**268 893**	310 858	75 276
Total liabilities	**125 392**	164 473	60 619
Total shareholders' funds	**143 501**	146 385	14 657
Net asset value per share (cents)	**31,9**	32,8	5,3
Return on equity (%)	**36,6**	19,5	n/a
Return on assets (%)	**18,3**	8,1	n/a

All the figures and ratios have been calculated excluding PSG Anchor Life's results.

ANDRÉ OLIVIER

CARL FISHER

ANDRÉ DU PLESSIS

CHRIS OOSTHUIZEN

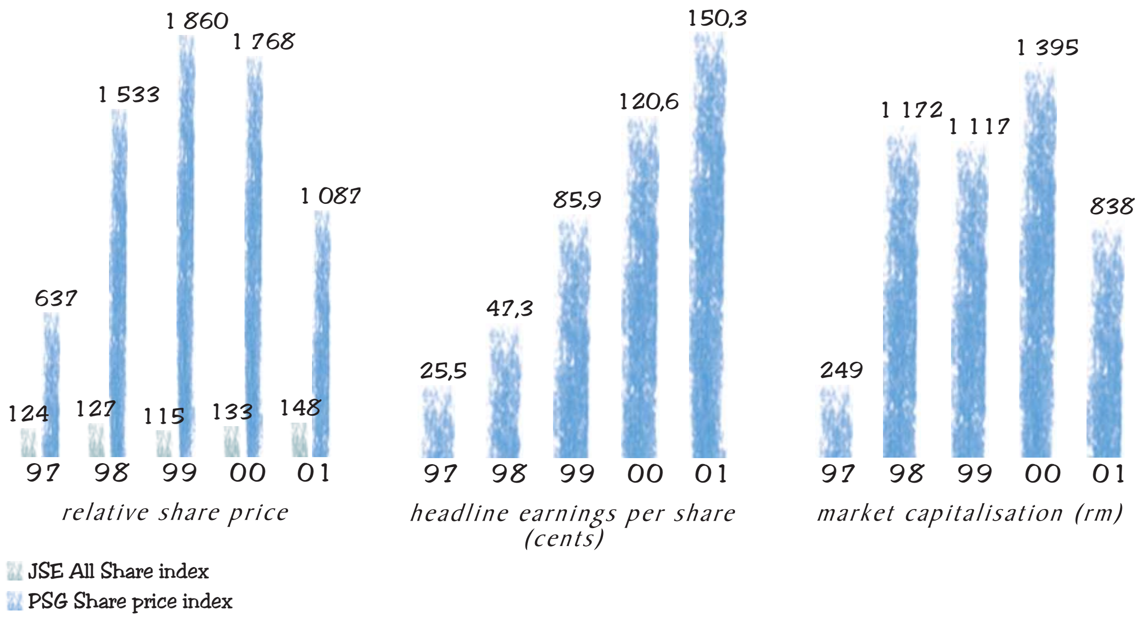
CHRISTIAN VAN SCHALKWYK

LEON VENTER

STOCK EXCHANGE PERFORMANCE

	2001	2000	1999	1998	1997	1996
Market price (cents)						
– High for the year	**986**	1 585	1 900	1 550	510	300
– Low for the year	**527**	800	495	445	210	20
– Closing price	**660**	1 000	1 170	1 530	470	225
– Average	**685**	1 114	1 172	966	401	78
Closing price/earnings	**4,4**	8,3	13,6	32,3	17,9	16,4
Volume of shares traded (000)	**49 009**	45 265	30 219	23 443	14 120	22 210
Value of shares traded (R000)	**335 512**	504 273	354 050	226 564	56 557	17 238
Volume/weighted average shares (%)	**36,8**	33,1	37,1	32,2	36,7	101,8
JSE Financial Services index*	**315**	419	527	427	240	110
JSE All Share index*	**148**	133	115	127	124	106
PSG share price index*	**1 087**	1 768	1 860	1 533	637	125

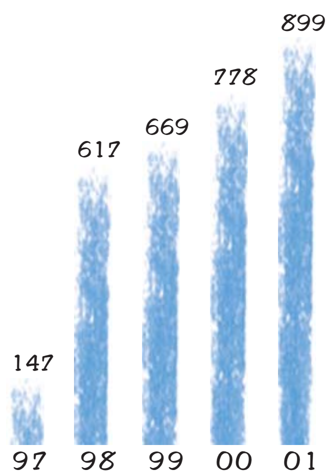
** Index March 1995 = 100*



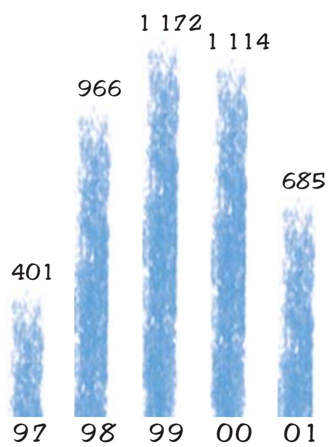
OUR TRACK RECORD

	2001	2000	1999	1998	1997	1996	Five-year compound growth %
Headline earnings per share (cents)	**150,3**	120,6	85,9	47,3	25,5	14,4	60
Headline earnings (R000)	**200 211**	164 745	82 031	34 467	10 105	3 133	130
Distribution per share (cents)	**45**	36	25				
Ordinary shareholders' funds (Rm)	**1 141**	1 085	638	535	78	7	177
Net worth per share (cents)	**899**	778	669	617	147	34	93
Return on average equity (%)*	**18,0**	19,1	14,0	11,3	23,8	53,6	
Total assets (Rm)	**3 430**	3 474	2 543	1 258	233	25	168
Return on average assets (%)*	**5,8**	5,5	4,3	4,6	7,8	16,5	
Market capitalisation (Rm)	**838**	1 395	1 117	1 172	249	49	76
Number of shares (000) – issued	**126 900**	139 500	95 445	86 611	52 930	21 818	
– weighted average	**133 200**	136 613	95 445	72 869	39 588	21 818	

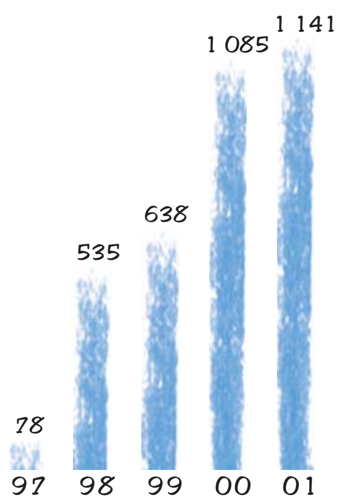
** Ratios calculated using headline earnings*



net worth per share (cents)



average share price (cents)



shareholders' funds (rm)

VALUE ADDED STATEMENT

	2001		2000	
	R000	**%**	**R000**	**%**
VALUE ADDED				
Net interest income	**344 168**	**48**	216 549	35
Investment income	**133 610**	**19**	136 210	22
Other operating income	**233 958**	**33**	267 208	43
	711 736	**100**	619 967	100
Net operating expenses	**160 538**	**23**	123 541	20
	551 198	**77**	496 426	80
VALUE ALLOCATED				
To employees				
Salaries, wages and other benefits	**204 610**	**37**	168 229	34
To providers of capital	**18 759**	**4**	56 961	11
Interest on loans	**14 722**	**3**	18 088	4
Dividends – own shareholders*			16 740	3
– outside shareholders	**4 037**	**1**	22 133	4
To government	**67 949**	**12**	59 269	12
Normal taxation	**44 402**	**8**	46 993	9
Value added tax	**14 742**	**3**	6 179	2
Financial services levy	**151**		247	
Regional services levy	**2 569**		1 558	
Stamp duties	**6 085**	**1**	4 292	1
To expansion and growth	**259 880**	**47**	211 967	43
Depreciation	**14 019**	**3**	11 474	2
Retained income – own shareholders	**156 973**	**28**	133 504	27
– outside shareholders	**88 888**	**16**	66 989	14
	551 198	**100**	496 426	100

**Final dividend of 31 cents per share not provided for in 2001 financial statements*

EMPLOYEE STATISTICS

	Number	%
28 FEBRUARY 2001		
Gender		
Male	837	45
Female	1 010	55
Race		
Black	994	54
White	853	46
Education		
Up to grade 11	733	40
Grade 12	562	31
Post grade 12 (eg diploma/certificate)	187	10
University degree	227	12
Postgraduate degree or professional qualification	138	7
Hierarchy		
Executive directors (including CEOs and MDs)	53	3
Executive management	62	3
Operational	1 487	81
Support	245	13
Total number of employees	1 847	

CORPORATE GOVERNANCE

PSG is committed to the principles of transparency, integrity and accountability as advocated in the King Report on Corporate Governance. Accordingly PSG's corporate governance policies have been appropriately applied during the period under review.

The group's major subsidiaries are similarly committed having, inter alia, their own audit and remuneration committees.

BOARD OF DIRECTORS

Details of the executive and non-executive directors are provided on page [illegible] of the annual report.

The board, which meets not less than nine times per annum, comprises the company's executive directors, the chief executives of each of the major operating subsidiaries and independent outside directors. The group is owner-managed with each director owning or representing a shareholding in the company.

Executive directors do not have service contracts but may not be appointed for a period exceeding five years. Where appropriate, the chief executives and executive directors of subsidiary companies have entered into service contracts and/or restraints of trade with that subsidiary.

The board considers it in the company's and the group's best interest to have an executive chairman.

REMUNERATION COMMITTEE

The remuneration committee comprises Adv F-A du Plessis BCom, LLB, CA(SA), BCom (Hons) (Taxation) (chairman) and Messrs J de V du Toit, A B la Grange, M S du P le Roux, C A Otto and L de Wit.

AUDIT COMMITTEE

The audit committee comprises Dr J van Zyl Smit (58) BCom, LLB, CA(SA), DCom (chairman) and Messrs J de V du Toit, J F Mouton, C A Otto and J A Swanepoel.

EMPLOYEE PARTICIPATION

A significant percentage of employees are either shareholders in the company, participants in the share incentive scheme, shareholders in subsidiary companies or participants in share incentive schemes in those subsidiaries. Employees are co-owners of the business and are treated as such with transparent communication a priority.

EMPLOYMENT EQUITY

The group is committed to being a new South Africa company and is representative of all the people in South Africa. PSG subscribes to the principles of equal opportunity and employment equity. Group companies have specific action plans whilst PSG has instituted a tertiary bursary programme for disadvantaged students.

ETHICS

PSG's code of ethics commits the group to maintaining high ethical and moral codes of conduct in our professional and social dealings. This is ingrained in the culture of the group.

SOCIAL RESPONSIBILITY

PSG has established a chairman's fund/foundation to co-ordinate its social responsibility affairs. The areas of endeavour are socio-economic, the youth and education in a wide sense. The long-term aim is to make a contribution to the advancement of stability in South Africa.

The Foundation is funded by PSG Group with an annual endowment equal to 1% of dividends declared. Although this is a small beginning, some R550 000 will be set aside this year.

Recent activities include the following:

- Contribution to the University of Western Cape, chair of development studies
- Bursaries in the economic and accounting sciences to outstanding candidates and the previously disadvantaged
- Contributions to the arts, including the well-known productions of *Antjie Somers* and *Vere*, both having been performed at the Klein Karoo National Art Festival with multi-cultural casts
- Pilot project for the recycling of plastic bags, the aim being to create entrepreneurs with a cleaner environment as a by-product

STATEMENT OF AUDIT COMMITTEE

The annual financial statements are the responsibility of the directors of PSG Group Limited.

In meeting this responsibility they are guided by the management of the group, who prepares the financial statements and maintains the accounting systems supported by internal accounting controls, and are assisted by the external auditors and audit committee of the board.

The audit committee, chaired by an independent non-executive, meets regularly with the auditors and management to consider matters of governance and fair presentation of financial information in terms of Generally Accepted Accounting Practice.

These financial statements have also been reviewed by the audit committee and recommended for acceptance by the board of directors.

The auditors, management and staff of the group have unrestricted access to this committee.

Dr J van Zyl Smit
Chairman of audit committee
9 April 2001

STATEMENT OF REMUNERATION COMMITTEE

The PSG Group Remuneration Committee is chaired by an independent non-executive and further comprises one executive director as well as the chief executive officers of all group divisions. Furthermore each major group subsidiary has its own remuneration committee chaired by the same independent non-executive.

This committee operates according to a board-approved charter and is primarily responsible for overseeing the remuneration and incentives of the executive directors as well as providing strategic guidance to the other divisional remuneration committees. It takes cognisance of both local and international best remuneration practices in order to ensure that such total remuneration is fair and reasonable to both the employee and the company.

The committee has satisfied itself that the correct procedures have been followed throughout the group and that current remuneration practices within PSG is in line with best practice.

Adv F-A du Plessis
Chairman of remuneration committee
9 April 2001

RISK MANAGEMENT

Each group company has its own board of directors responsible for the management, including risk management, of that company and its business. In the instance of PSG Investment Bank Holdings (PSGBH) its sophisticated risk management controls and procedures are comprehensively dealt with in their annual report. PSGBH manages financial risk for reward using their experience and knowledge in the financial services arena. A summary of their risk management procedures is set out below.

MARKET RISK MANAGEMENT

Market risk is the risk of a loss from on- and off-balance sheet positions if there are unfavourable market movements. Market risk is managed by setting strict risk limits approved by the board. Responsibility for the day-to-day risk management activities has been delegated to an independent risk management committee, who makes extensive use of mathematical and statistical methodologies including Value at Risk techniques.

INTEREST RATE AND LIQUIDITY RISK MANAGEMENT

Interest rate risk is the impact the repricing of the bank's assets and liabilities may have on future cash flows and earnings. Liquidity risk is the ability to meet financial obligations as they fall due while managing the mismatch in the maturity of assets and liabilities. The asset and liability committee is responsible for the establishment and monitoring of lending and funding policies. It ensures that the balance sheet is flexible enough to adapt to changing economic conditions and that quality assets are taken on.

CREDIT RISK MANAGEMENT

Credit and counterparty risk is the possibility that clients may default on their future cash flow obligations to the bank. Policies and procedures to measure and manage credit risk exposure have been determined by the credit committee and approved by the board of directors. Responsibility for the day-to-day risk management activities is delegated to an independent credit risk management department that reports to the credit committee and the board of directors.

OPERATIONAL RISK

Operational risk refers to the risk of losses arising from events related to people, processes and technology risks and external dependencies. The financial and operational committee manages operational risk with day-to-day responsibilities being delegated to the operational director.

Legal, human resource, technology and process risks are mitigated by policies and practices that include amongst others a dedicated internal legal function, employee training and development, code of conduct policies, segregation of duties, comprehensive business recovery planning processes and an internal audit function.

CAPITAL ADEQUACY

PSGBH's capital adequacy risk is managed by the asset and liability committee which monitors the adequacy of its capital using Bank of International Settlement and SA Reserve Bank ratios. These ratios measure capital adequacy by comparing PSGBH's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk. The Banks Act specifies the minimum capital holding required in relation to risk-weighted assets. The current regulatory requirement is 8%, compared to PSGBH's 68%.

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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the maintenance of adequate accounting records and to prepare annual financial statements that fairly represent the state of affairs and the results of the group. The external auditors are responsible for independently auditing and reporting on the fair presentation of these annual financial statements. Management fulfils this responsibility primarily by establishing and maintaining accounting systems and practices adequately supported by internal accounting controls. Such controls provide assurance that the group's assets are safeguarded, that transactions are executed in accordance with management's authorisations and that the financial records are reliable. The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and incorporate full and reasonable disclosure. Appropriate and recognised accounting policies are consistently applied.

The audit committee of the group meets regularly with the external auditors, as well as senior management, to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The external auditors have unrestricted access to all records, assets and personnel as well as to the audit committee.

The financial statements are prepared on the going concern basis, since the directors have every reason to believe that the group has adequate resources to continue for the foreseeable future.

The financial statements set out on pages ◆◆ to ◆◆ were approved by the board of directors of PSG Group Limited and are signed on its behalf by:

J F Mouton
Chairman

C A Otto
Director

9 April 2001
Stellenbosch

REPORT OF THE INDEPENDENT AUDITORS

To the members of PSG Group Limited
We have audited the annual financial statements and group annual financial statements of PSG Group Limited set out on pages [illegible] to [illegible] for the period ended 28 February 2001. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope
We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

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

Audit opinion
In our opinion the financial statements fairly present, in all material respects, the financial position of the company and group as at 28 February 2001 and the results of its operations, and cash flow for the period then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

PricewaterhouseCoopers

PricewaterhouseCoopers Inc
Registered Accountants and Auditors
Chartered Accountants (SA)

9 April 2001

DECLARATION BY THE COMPANY SECRETARY

We declare that, to the best of our knowledge, the company has lodged with the Registrar all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

PSG Corporate Services (Pty) Limited
Per J A Swanepoel
Company secretary

9 April 2001
Stellenbosch

FINANCIALS

DIRECTORS' REPORT

NATURE OF BUSINESS

The company's subsidiaries and associated entities offer diversified financial services.

OPERATING RESULTS

The operating results and the state of affairs of the company and the group are fully set out in the attached financial statements. The group's headline earnings attributable to shareholders amounted to R200,2 million (2000: R164,7 million).

SHARE CAPITAL

Details of the authorised and issued share capital appear in note 14 to the financial statements. These amounts already reflect the specific repurchase of shares previously held by the PSG Group Share Incentive Trust referred to below.

DIVIDENDS AND CAPITAL DISTRIBUTION

Details of dividends and the capital distribution appear in note 31 to the financial statements.

SHARE INCENTIVE SCHEME

At a general meeting on 6 March 2001 the shareholders approved a specific repurchase of 12 600 000 shares in PSG Group Limited held by the PSG Group Share Incentive Trust at a cost price of R106 442 620 with effect from 1 September 2000. Since that date 2 749 700 shares were allocated at R6,00 per share. At 28 February 2001 3 403 200 shares had been allocated to participants at a total consideration of R19 717 900.

DIRECTORATE

The directors of the company at the date of this report appear on page [illegible].

Since the date of the previous report Mr P E Burton has been appointed as a director of the company and Messrs L A de Waal, PB Schabort, C C van der Meulen and R J Williams resigned as directors of the company.

In terms of the company's articles of association, Mr P E Burton, being a new appointment to the board, retires as a director at the next annual general meeting, but being eligible, offers himself for re-election.

Messrs J de V du Toit, C F Turner and Ms L M Rouillard retire by rotation, but being eligible, offer themselves for re-election.

The directors' total shareholding in the issued share capital of the company as at 28 February 2001 was as follows:

	2001		2000	
	Direct	**Indirect**	Direct	Indirect
Beneficial	**235 200**	**2 809 654**	245 300	7 339 654
Non-beneficial	**–**	**20 310 885**	–	15 167 997

SECRETARY

The secretary of the company is PSG Corporate Services (Pty) Limited. The business and postal addresses are shown on page [illegible].

ACCOUNTING POLICIES

1. BASIS OF PRESENTATION

The annual financial statements have been prepared on the historical cost basis in conformity with South African Statements of Generally Accepted Accounting Practice. These policies are in all material respects consistent with those adopted in the previous year, except for the treatment of goodwill, intangible assets and deferred tax assets. (See note 29)

2. GROUP FINANCIAL STATEMENTS

The group annual financial statements comprise those of the company, its subsidiaries and associated companies.

Subsidiaries

Subsidiary undertakings, which are those companies in which the group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which the effective control is transferred to the group and are no longer consolidated from the date of disposal. All intercompany transactions and balances between group companies have been eliminated. Investments by group companies in the policyholders' funds of long-term insurance subsidiaries are not eliminated.

Associated companies

Associated companies are those companies which are not subsidiaries and in which the group holds a long-term investment and exercises significant influence over their financial and operating policies. The results of associated companies are accounted for according to the equity method, based on their most recent audited financial statements or latest management information where the financial year-ends do not coincide.

Equity accounting involves recognising in the income statement the group's share of the associates' profit or loss for the year. Post-acquisition attributable income and movements in reserves since acquisition, less dividends, are added to the carrying value of these investments.

3. FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation.

Land and buildings are not depreciated. Depreciation on office equipment and computer equipment is calculated on the straight-line method at rates considered appropriate to reduce book values to estimated residual values over the useful lives of the assets, as follows:

– Office equipment	5 years
– Computer equipment	3 years

4. INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1 March 2000 is reported in the balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1 March 2000 was written off against share premium; such goodwill has not been retroactively capitalised and amortised. Any recoveries of amounts written off prior to 1 March 2000 were credited to the income statement.

Goodwill arising on major strategic acquisitions of the group to expand its product or geographical coverage is amortised over a maximum period of twenty years. For all other acquisitions (including those relating to microlending businesses acquired), goodwill is generally amortised over a shorter period not exceeding five years.

The carrying amount of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

Negative goodwill arises where the net assets of a subsidiary at the date of acquisition, fairly valued, exceed the cost of the acquisition. Negative goodwill arising on acquisitions on or after 1 March 2000 – to the extent that it does not exceed the fair value of acquired non-monetary assets – is reported in the balance sheet net of other intangible assets and amortised over the estimated useful lives of the non-monetary assets. Other negative goodwill is taken directly to income. Negative goodwill on acquisitions that occurred prior to 1 March 2000 was carried as a non-distributable reserve in the past; these amounts were restated in accordance with the transitional arrangements of AC131.

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives. Intangible assets are not revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment.

5. FOREIGN CURRENCY TRANSLATION

Foreign transactions

Transactions in foreign currencies are converted to South African rand at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated using rates of exchange ruling at the financial year-end. Foreign exchange trading positions, including spot and forward exchange contracts, are valued at current market rates taking maturity profiles into account. Resulting exchange differences are accounted for in net income.

Foreign entities

Assets and liabilities in the financial statements of foreign subsidiaries are translated into South African rand at middle closing rates of exchange ruling at the year-end. Income, expenditure and cash flow items are translated at the weighted average rates of exchange during the relevant financial year.

Exchange differences arising on translation are taken to a non-distributable reserve.

6. FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet include investments, receivables, loans and advances, investment and trading securities, cash and short-term funds, deposits and current accounts, trade creditors and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The company and group are also parties to financial instruments that reduce exposure to interest rates and fluctuations in foreign currency exchange rates. These instruments, which mainly comprise foreign currency forward contracts and interest rate swap agreements, are not recognised in the financial statements on inception. The purpose of these instruments is to reduce risk.

Disclosure of financial instruments to which the group is a party is provided in the notes to the financial statements.

7. INVESTMENTS

Investments of long-term insurance subsidiaries

Investments other than fixed properties are reflected at market value. The unrealised surpluses or deficits arising on the adjustment of listed investments to market value are taken to the income statement.

Fixed properties are reflected at directors' valuation and unrealised surpluses or deficits arising on the revaluation are transferred directly to the policyholders' fund.

The difference between the consideration paid to date and the fair value of the net tangible assets of the subsidiaries at the dates of acquisition is transferred directly to the policyholders' fund.

PSG Life, which was consolidated in the past, now forms part of Escher Group Limited, an associated company of the group. Comparatives for Investments of long-term insurance subsidiaries and Policyholders' funds were both reduced by an amount of R10,7 billion representing the value of linked investment policies.

Other investments

Investments in which the group has a long-term interest but which do not meet the criteria for subsidiaries or associated companies are classified as other investments.

These investments are stated at cost to the group unless, in the opinion of the directors, a permanent impairment in the value of an investment has occurred. In these circumstances the investment is stated at its written down value and the relevant diminution is written off against income.

8. ACCOUNTS RECEIVABLE

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

9. LOANS AND ADVANCES

Advances are stated net of amounts for specific and general provisions. Specific provisions are made against identified doubtful advances. General provisions are maintained to cover potential losses, which although not specifically identified, may be present in any financial institution's portfolio of advances. The provisions created net of any recovery, are included in net income.

Accrual of interest on advances is suspended when the recoverability of the advance becomes uncertain. Advances are written off once the probability of recovering any significant amounts becomes remote.

10. INVESTMENT AND TRADING SECURITIES

Investments in financial instruments are held in investment and trading portfolios.

Trading portfolios

Financial instruments held in trading portfolios are stated at fair value, which is determined by reference to quoted market prices. Gains and losses are taken directly to the income statement.

Investment portfolios

Financial instruments with no fixed redemption date are recognised initially at cost. Profits or losses are recognised on realisation.

Investments with a fixed redemption date are stated at original cost plus accrued interest. Premiums or discounts on purchases are amortised over the period to maturity.

Any permanent impairment in the value of an investment is accounted for against income.

Transaction costs are taken directly to the income statement.

11. REPURCHASE AGREEMENTS

Where the group sells securities from its portfolios and agrees to repurchase these at a future date and risk of ownership remains with the group, the consideration received and accrued interest are included in deposits and current accounts. The cost attached to such an advance is included under interest expense. The securities continue to be recorded on the balance sheet.

Conversely, where securities are purchased under such a repurchase agreement with a commitment to resell them at a future date and the risks of ownership have not passed to the group, the consideration paid is included under loans and advances with the resulting income shown as interest income. The securities are not recorded on the balance sheet.

ACCOUNTING POLICIES

12. FINANCE LEASES

Assets subject to finance lease agreements in which the risk and rewards of ownership are substantially transferred to the lessees are treated as advances. The investment is recorded as the present value of the future lease payments in the leased asset. Adequate provision is made for doubtful debts which is deducted from the amount invested.

Finance charges on leased assets are credited to income over the lifetime of the leases and reflect a constant rate of return on the net investment outstanding. Unearned finance income is calculated as the difference between the gross receivable and the net investment in the leased asset.

13. OFFSETTING

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

14. DEFERRED TAXATION

Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current rates of taxation are used to determine deferred income tax.

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

15. 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.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

16. REVENUE RECOGNITION

Income of long-term insurance subsidiaries

Premium income

Premium income is raised when due by policyholders.

Investment income

Investment income is stated net of all property operating expenses and also includes realised investment surpluses and deficits and unrealised listed investment surpluses and deficits based on the difference between the market value at the beginning of the year and the proceeds of sale at the date of disposal.

Commission

Commission paid in advance is deferred and expensed as they become earned.

Commission received from reinsurers, as far as they relate to expense recoveries, are recognised as income when they become due and payable by reinsurers. The deemed commission recoveries are deferred and recognised in accordance with the premiums received on the underlying insurance policies.

Income of banking related activities

Interest income and expenses

Interest income and expense is recognised on a time proportion basis, taking account of the principal amount outstanding and the effective rate over the period to maturity.

Investment income

Investment income includes realised investment surpluses and deficits. Cash dividends and the full cash equivalent of capitalisation share awards received are recognised when the right to receive payment or transfer is established.

Other trading activities

Other trading income comprises fees earned from brokerage activities and related services, advisory services, and portfolio management. Fee income is recognised when the company is unconditionally entitled thereto. No profit is recognised if the outcome of a transaction cannot be reliably estimated. Where income has been recognised and uncertainties arise regarding the outcome of the transaction, a provision is raised against the income.

17. RETIREMENT BENEFITS

Current contributions to retirement funds are charged against income as incurred. The group has no liabilities with regard to post-retirement benefits.

18. TRUST AND FIDUCIARY ACTIVITIES

The group acts as a trustee or in other fiduciary capacities that result in the holding, placing or managing of assets for the account of, and the risk of clients. As these are not the assets of the group, they are not reflected on the balance sheet.

BALANCE SHEETS

AS AT 28 FEBRUARY 2001

	Notes	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
ASSETS					
Fixed assets	1	**60 954**	48 419		
Net intangible assets	2	**78 887**			
Investment in subsidiaries	3			**1 188 238**	1 261 045
Investment in associated companies	4	**157 199**	12 510		
Investments of long-term insurance subsidiaries	5	**97 821**	199 895		
Other investments	6	**37 260**	100 705		
Other assets	7	**59 551**	258 111		
Deferred tax asset	8	**154 504**			
Accounts receivable	9	**170 245**	274 901		
Loans and advances	10	**953 906**	658 827		
Investment and trading securities	11	**455 483**	891 159		
Short-term money market assets	12	**668 775**	651 581		
Cash and short-term funds	13	**536 200**	378 275	**44**	25
Total assets		**3 430 785**	3 474 383	**1 188 282**	1 261 070
SHAREHOLDERS' FUNDS					
Share capital	14	**1 269**	1 395	**1 269**	1 395
Share premium		**427 312**	553 159	**427 312**	553 159
Non-distributable reserves	15	**11 015**	3 970		
Retained earnings	16	**701 223**	526 770	**672 930**	672 930
Ordinary shareholders' funds		**1 140 819**	1 085 294	**1 101 511**	1 227 484
Outside shareholders' funds		**628 655**	770 672		
Total shareholders' funds		**1 769 474**	1 855 966	**1 101 511**	1 227 484
LIABILITIES					
Deposits and current accounts	17	**1 139 204**	849 772		
Policyholders' funds	18	**87 119**	199 102		
Long-term liabilities	19	**108 457**	25 583	**86 547**	
Deferred tax liability	8	**4 046**	1 704		
Accounts payable		**213 318**	377 028	**224**	106
Provisions	20	**14 254**	14 851		
Current tax liabilities		**60 081**	22 535		
Distribution to shareholders			33 480		33 480
Short-term borrowings	21	**34 832**	94 362		
Total liabilities		**1 661 311**	1 618 417	**86 771**	33 586
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**3 430 785**	3 474 383	**1 188 282**	1 261 070

INCOME STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Notes	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
INCOME					
Net interest income	22	**344 168**	216 549		
Investment income	23	**133 610**	136 210		16 740
Other operating income	24	**233 958**	267 208	**328**	
Total income		**711 736**	619 967	**328**	16 740
EXPENSES					
Employee compensation and benefits		**204 610**	168 229		
Other operating expenses		**198 104**	147 291	**328**	
Net income from normal operations	25	**309 022**	304 447	**–**	16 740
Financing costs	26	**(14 722)**	(18 088)		
Income from associated companies		**50 383**	18 737		
Exceptional items	27	**(14 224)**	133 572		
Net income before taxation		**330 459**	438 668	**–**	16 740
Taxation	28	**48 721**	51 229		
Net income of the group		**281 738**	387 439	**–**	16 740
Attributable to outside shareholders		**92 925**	89 122		
Earnings attributable to ordinary shareholders		**188 813**	298 317	**–**	16 740
EARNINGS PER SHARE (CENTS)	30				
Headline		**150,3**	120,6		
Total		**141,7**	218,4		
DISTRIBUTION PER SHARE (CENTS)	31				
Dividend		**31,0**	12,0		
Capital		**14,0**	24,0		
		45,0	36,0		

FINANCIALS

STATEMENTS OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Group		Company	
	2001 R000	2000 R000	**2001 R000**	2000 R000
Ordinary shareholders' funds at beginning of year	**1 085 294**	638 359	**1 227 484**	914 056
Movements in share capital				
Specific repurchase of shares[1]	**(126)**		**(126)**	
Shares issued		441		441
	(126)	441	**(126)**	441
Movements in share premium				
Shares issued		524 780		524 780
Specific repurchase of shares[1]	**(106 317)**		**(106 317)**	
Issue cost		(1 356)		(1 356)
Goodwill on acquisition		(177 445)		(177 445)
Capital distribution	**(19 530)**	(32 992)	**(19 530)**	(32 992)
	(125 847)	312 987	**(125 847)**	312 987
Movements in non-distributable reserves				
Transferred from retained earnings	**15**			
Foreign exchange translation	**7 441**	2 263		
Revaluation reserve	**(411)**	418		
	7 045	2 681	**–**	–
Movements in retained earnings				
Net income for the year	**188 813**	298 317		16 740
Ordinary dividends		(16 740)		(16 740)
Adjustment to prior year goodwill[2]	**(14 345)**			
Change in shareholding of subsidiary		(150 751)		
Transfer to non-distributable reserves	**(15)**			
	174 453	130 826	**–**	–
ORDINARY SHAREHOLDERS' FUNDS AT END OF YEAR	**1 140 819**	1 085 294	**1 101 511**	1 227 484

(1) Specific repurchase of shares held by the PSG Group Share Incentive Trust with effect from 1 September 2000, which was approved by shareholders on 6 March 2001.

(2) Additional goodwill in respect of a prior year transaction which was set off against reserves to conform to prior year treatment.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

		Group		Company	
		2001	2000	**2001**	2000
	Notes	**R000**	R000	**R000**	R000
CASH RETAINED FROM OPERATING ACTIVITIES					
Cash generated by operating activities	40.1	**238 402**	(160 222)		16 740
Change in net current assets	40.2	**(59 054)**	80 390	**118**	(35 578)
Financing costs		**(14 722)**	(18 088)		
Taxation paid	40.3	**(25 777)**	(56 249)		(11 455)
Cash available from operating activities		**138 849**	(154 169)	**118**	(30 293)
Policyholders' fund – terminal bonuses paid			(460)		
Dividends and capital distributions	40.4	**(53 010)**	(40 113)	**(53 010)**	(40 113)
Net cash retained		**85 839**	(194 742)	**(52 892)**	(70 406)
CASH FLOW FROM INVESTING ACTIVITIES					
Net investment in fixed assets		**(33 737)**	(36 489)		
Restraint and intellectual property payments			(49 490)		
Investments					
Acquisition of subsidiaries	40.5	**(6 135)**	834 503		13 609
Additional shares in subsidiaries acquired		**(58 596)**	(108 912)		
Net cash flow on sale of subsidiaries	40.6	**133 379**			
Investment in associates acquired		**(115 442)**	(16 076)		
Proceeds on disposal of associates		**16 000**	175 187		
Loans to subsidiaries and associates		**(1 428)**	(567)	**72 807**	
Investments of long-term insurance subsidiary		**111 751**	425 808		
Other investments and loans		**67 169**	(195 929)		
Restructuring costs			(18 841)		
Foreign exchange translation		**10 325**			
		123 286	1 009 194	**72 807**	13 609
CASH FLOW ATTRIBUTABLE TO INVESTMENT IN SHORT-TERM INCOME EARNING ASSETS					
Change in deposits and current accounts		**107 631**	(103 669)		
Change in loans and advances		**(458 906)**	(454 446)		
Change in investment and trading securities		**381 498**	(444 726)		
Change in short-term money market assets		**(55 373)**	36 662		
		(25 150)	(966 179)	**–**	–
CASH FLOW FROM FINANCING ACTIVITIES					
Net increase in shareholder funding	40.7		56 822		56 822
Specific repurchase of shares		**(9 949)**		**(106 443)**	
Outside shareholder funding		**(39 488)**	74 532		
Change in long-term borrowings		**82 874**	16 328	**86 547**	
Change in short-term borrowings		**400**	5 683		
		33 837	153 365	**(19 896)**	56 822
NET INCREASE IN CASH AND EQUIVALENTS		**217 812**	1 638	**19**	25
CASH AND EQUIVALENTS AT BEGINNING OF YEAR		**289 596**	287 958	**25**	
CASH AND EQUIVALENTS AT END OF YEAR	40.8	**507 408**	289 596	**44**	25

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Land and buildings R000	Office equipment R000	Computer equipment R000	**Group Total 2001 R000**	Group Total 2000 R000
1. FIXED ASSETS					
Historic costs					
Balance at the beginning of the year	1 303	24 819	38 559	**64 681**	30 040
Additions	560	11 567	24 053	**36 180**	43 654
Disposals		(2 144)	(2 776)	**(4 920)**	(9 121)
Subsidiaries acquired	700	192	873	**1 765**	108
Subsidiaries sold		(2 442)	(7 656)	**(10 098)**	
Balance at the end of the year	2 563	31 992	53 053	**87 608**	64 681
Accumulated depreciation					
Balance at the beginning of the year		4 160	12 102	**16 262**	6 096
Depreciation charge		4 566	9 453	**14 019**	11 474
Disposals		(688)	(1 286)	**(1 974)**	(1 375)
Subsidiaries acquired		159	438	**597**	67
Subsidiaries sold		(299)	(1 951)	**(2 250)**	
Balance at the end of the year	–	7 898	18 756	**26 654**	16 262
Net carrying value	2 563	24 094	34 297	**60 954**	48 419

Details of land and buildings are available at the registered offices of the relevant group companies.

The market value of land and buildings at 28 February 2001, as determined by the directors of the relevant property owning group companies, amounted to R2 949 000 (2000: R1 800 000).

	Trademarks	Goodwill	Negative goodwill	**Group Total 2001**	Group Total 2000
2. NET INTANGIBLE ASSET					
Historic costs					
Balance at the beginning of the year				**–**	
Additions	8 121	238 384	(136 810)	**109 695**	
Impairment losses recognised	(5 069)	–		**(5 069)**	
Adjustment to prior year goodwill		(15 108)		**(15 108)**	
Subsidiaries acquired		831		**831**	
Balance at the end of the year	3 052	224 107	(136 810)	**90 349**	–
Accumulated amortisation					
Balance at the beginning of the year				**–**	
Amortisation charge	318	11 020	–	**11 338**	
Subsidiaries acquired		124		**124**	
Balance at the end of the year	318	11 144	–	**11 462**	–
Net carrying value	2 734	212 963	(136 810)	**78 887**	–

	2001	2000
3. INVESTMENT IN SUBSIDIARIES		
Unlisted shares at cost less goodwill written off	**1 188 238**	1 188 238
Amounts due by subsidiaries		72 807
	1 188 238	1 261 045

Refer Annexure A

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000
4. INVESTMENT IN ASSOCIATED COMPANIES				
Listed				
Shares at cost	**82 194**	14 977		
Goodwill		(9 562)		
Retained earnings	**59 609**			
	141 803	5 415		
Unlisted				
Shares at cost	**25 677**	5 471		
Goodwill	**(14 016)**	(2 787)		
Retained earnings	**352**	2 450		
Unsecured loans	**3 383**	1 961		
	15 396	7 095		
	157 199	12 510		
Market value of listed investments	**137 999**	14 977		
Directors' valuation of unlisted investments	**13 285**	16 710		
Refer Annexure A				
5. INVESTMENTS OF LONG-TERM INSURANCE SUBSIDIARIES				
Unit trusts	**33 535**	4 527		
Government, public utility and municipal stock	**40 280**	14 248		
Preferential investment	**2 828**	2 828		
Equity portfolios, including cash	**8 157**	94 768		
Ordinary debentures, mortgages and loans		50 118		
Property investments		12 991		
Secured loans	**13 021**	20 415		
Investments at market value	**97 821**	199 895		

Policyholders' assets are included in the balance sheet under both cash and short-term funds and investments of long-term insurance subsidiaries. A certain proportion of these are also attributable to shareholders' funds.

6. OTHER INVESTMENTS				
Listed investments at cost less provisions	**24 717**	24 865		
Unlisted investments at cost	**12 543**	75 840		
	37 260	100 705		
Market value of listed investments	**37 221**	24 596		
Directors' valuation of unlisted investments	**13 529**	71 725		
Refer Annexure A				
7. OTHER ASSETS				
Amounts advanced to share incentive trusts	**38 871**	227 256		
Other	**20 680**	30 855		
	59 551	258 111		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Group		Company	
	2001 R000	2000 R000	**2001 R000**	2000 R000
8. DEFERRED TAXATION				
Movements in deferred taxation				
Balance at the beginning of the year	**(1 704)**			
Temporary difference charges to income statement	**18 921**	(1 704)		
Subsidiaries acquired	**133 876**			
Subsidiaries sold	**(635)**			
Balance at the end of the year	**150 458**	(1 704)		
Analysis of deferred taxation				
Prepaid expenses	**(63)**	(95)		
Provisions	**7 875**	1 103		
Capital allowances	**8 502**			
Assessed losses	**140 227**			
Investment revaluations	**(5 707)**	(2 539)		
Other	**(376)**	(173)		
	150 458	(1 704)		
Composition of deferred taxation				
Deferred tax assets	**154 504**			
Deferred tax liabilities	**(4 046)**	(1 704)		
	150 458	(1 704)		
9. ACCOUNTS RECEIVABLE				
Trade debtors	**81 699**	110 247		
Prepayments and sundry debtors	**88 546**	164 654		
	170 245	274 901		
10. LOANS AND ADVANCES				
Category analysis				
Secured loans	**432 519**	255 019		
Unsecured loans	**317 091**	116 253		
Leases and instalment debtors	**84 954**	167 990		
Microloans	**105 278**	123 422		
Other	**52 180**	10 239		
	992 022	672 923		
Specific and general provisions	**38 116**	14 096		
	953 906	658 827		
Maturity analysis				
On demand to one month	**373 567**	190 655		
One month to six months	**134 462**	86 359		
Six months to one year	**12 835**	44 050		
Longer than one year	**471 158**	351 859		
	992 022	672 923		
Analysis of provisions				
Specific provisions for bad and doubtful debts	**25 425**	7 663		
General provision	**12 691**	6 433		
	38 116	14 096		

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000
10. LOANS AND ADVANCES (continued)				
Movement in provisions				
Balance at beginning of year	**14 096**	2 293		
Debts written off	**(2 552)**	(5 548)		
Subsidiaries disposed of	**(11 840)**	–		
Charge to income statement to increase provision	**38 412**	17 351		
Provision at year-end	**38 116**	14 096		
Loans and advances include finance lease receivables, analysed as follows:				
Gross investment in finance leases	**102 393**	214 790		
Unearned finance income	**17 439**	46 800		
Net investment in finance leases	**84 954**	167 990		
11. INVESTMENT AND TRADING SECURITIES				
Category analysis				
Government and government guaranteed	**10 336**	50 578		
Listed securities	**39 382**	274 196		
Unlisted securities	**405 765**	566 385		
	455 483	891 159		
Analysis by portfolio				
Liquid assets	**10 336**	50 578		
Investment	**368 707**	783 385		
Trading	**76 440**	57 196		
	455 483	891 159		
Maturity analysis				
On demand to one month	**16 597**	152 005		
One month to six months	**312 379**	129 228		
Six months to one year	**24 596**	30 733		
Longer than one year	**101 911**	579 193		
	455 483	891 159		
12. SHORT-TERM MONEY MARKET ASSETS				
Bills	**76 526**	411 588		
Money market instruments	**592 249**	239 993		
	668 775	651 581		
13. CASH AND SHORT-TERM FUNDS				
Balances with central bank	**11 625**	16 338		
Balances with other banks	**410 449**	265 913		
Money on call and short notice	**27 909**	55 660		
Reserved deposits	**32 282**	21 562		
Bank and cash	**53 935**	18 802	**44**	25
	536 200	378 275	**44**	25

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000
14. SHARE CAPITAL				
Authorised				
200 000 000 shares of 1 cent each	**2 000**	2 000	**2 000**	2 000
Issued				
126 900 000 shares of 1 cent each (2000: 139 500 000)	**1 269**	1 395	**1 269**	1 395

The unissued shares in the company are placed under the control of the directors until the next annual general meeting. The directors are authorised to buy back shares subject to certain limitations and JSE requirements.

	2001	2000	**2001**	2000
15. NON-DISTRIBUTABLE RESERVES				
Foreign exchange translation	**10 888**	3 447		
Other	**127**	523		
	11 015	3 970		
16. RETAINED EARNINGS				
Company	**47 542**	47 542	**672 930**	672 930
Consolidated subsidiaries	**653 681**	479 228		
	701 223	526 770	**672 930**	672 930
17. DEPOSITS AND CURRENT ACCOUNTS				
Category analysis				
Call deposits	**271 284**	239 139		
Negotiable certificates of deposit	**84 484**	6 593		
Term deposits	**283 257**	20 895		
Repurchase agreements	**432 285**	372 920		
Structured products		171 700		
Deposits from banks	**67 894**	38 525		
	1 139 204	849 772		
Maturity analysis				
On demand to one month	**756 857**	813 240		
One month to six months	**315 192**	36 532		
Six months to one year	**43 575**			
Longer than one year	**23 580**			
	1 139 204	849 772		
18. POLICYHOLDERS' FUNDS				
Opening balance at market value	**199 102**	478 151		
Amount transferred to the income statement in respect of decrease in actuarial liabilities and additional reserves	**(111 983)**	(272 280)		
Property and subsidiary revaluation		(6 309)		
Cash and terminal bonuses paid		(460)		
Closing balance at market value	**87 119**	199 102		

Financial soundness

In their report to the company, the statutory actuaries reported that they have valued the policy liabilities consistent with the fair value of the corresponding assets in accordance with the applicable guidelines of the Actuarial Society of South Africa. They are satisfied that the operations of the company are financially sound and that the excess of its assets over its liabilities is more than sufficient to cover its capital adequacy requirements.

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
19. LONG-TERM LIABILITIES				
Redeemable preference shares (25 000 shares in PSG Financial Services Limited of R0,01 each issued at a premium of R999,99)	**25 000**	25 000		
Redeemable preference shares (75 000 shares in Business Venture Investments No. 366 (Pty) Limited of R0,01 each issued at a premium of R999,99)	**75 000**			
Loans from subsidiary companies			**86 547**	
Other	**8 457**	583		
	108 457	25 583	**86 547**	–

Dividends are paid half yearly at a rate of 74% – 75 % of the prime overdraft rate and shares are redeemable in full at par on 5 November 2002 and 30 September 2003 respectively.
Group companies have issued an undertaking to repurchase the shares should the respective subsidiary fail to redeem the shares in full at the redemption date or fail to pay the dividend due. In addition, the liability of R75 000 000 is secured by a cession of 195 000 000 shares in PSG Investment Bank Holdings Limited.

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
20. PROVISIONS				
Liquidity provision	**10 114**	14 851		
Regulatory provision	**4 140**			
	14 254	14 851		

Movements in the provisions have been charged to the income statement.

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
21. SHORT-TERM BORROWINGS				
Bank overdrafts	**28 792**	88 679		
Unsecured loans	**6 040**	5 683		
	34 832	94 362		
22. NET INTEREST INCOME				
Interest income				
Loans and advances	**321 185**	163 722		
Investment and trading securities	**6 264**	10 766		
Short-term money market assets	**75 330**	98 712		
Cash and short-term funds	**82 806**	110 468		
Other	**16 839**	11 246		
	502 424	394 914		
Interest expense				
Deposits and current accounts	**157 434**	170 872		
Other interest-bearing liabilities	**822**	7 493		
	158 256	178 365		
Net interest income	**344 168**	216 549		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Group		Company	
	2001 R000	2000 R000	**2001 R000**	2000 R000
23. INVESTMENT INCOME				
Profit on realisation of associates	**13 242**			
Profit on realisation of investments	**42 979**	67 461		
Loss on realisation of investments	**(2 150)**	(11 515)		
Income from listed investments				
Interest		11 884		
Dividends	**9 984**	5 948		
Income from unlisted investments				
Interest	**1 840**			
Dividends	**67 715**	62 432		
Income from subsidiaries				
Dividends				16 740
Investment income	**133 610**	136 210	**–**	16 740
24. OTHER OPERATING INCOME				
Income of long-term insurance subsidiaries				
Premium income				
Recurring premiums	**85 022**	79 901		
Single premiums	**858 398**	1 820 877		
Gross premium income	**943 420**	1 900 778		
Less: Premiums paid	**(34 884)**	(40 450)		
Net premium income	**908 536**	1 860 328		
Investment income				
Dividends	**25 238**	600		
Interest	**190 736**	16 802		
Net property income	**(624)**	(683)		
Realised surplus/(deficit) on investments	**(292 384)**	15 560		
Unrealised surplus on investments	**2 426**	169 247		
Net investment income	**(74 608)**	201 526		
Re-insurance commission	**16 967**	20 453		
Total income	**850 895**	2 082 307		
Expenses				
Operating expenses	**90 430**	91 336		
Claims and other policyholder benefits	**867 078**	2 261 204		
	957 508	2 352 540		
Transfer from policyholders' funds	**(111 983)**	(272 280)		
Net income of PSG Life	**–**	4 662		
Net income from long-term insurance activities	**5 370**	6 709		
Other operating income				
Commission and fees	**193 821**	156 305		
Dealing and structuring transactions	**17 163**	65 363		
Treasury operations	**17 604**	38 831		
Management fees – subsidiary companies			**328**	
	228 588	260 499	**328**	–
	233 958	267 208	**328**	–

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000
25. NET INCOME FROM NORMAL OPERATIONS				
The following items have been charged in arriving at net income from normal operations:				
Depreciation				
Office equipment	**4 566**	2 900		
Computer equipment	**9 453**	8 574		
	14 019	11 474		
Loss on sale of fixed assets	**503**	–		
Rental and operating lease charges				
Properties	**30 608**	15 058		
Other	**4 308**	5 523		
	34 916	20 581		
Auditors' remuneration				
Audit fees	**4 550**	3 151		
Other consulting services	**1 481**	901		
	6 031	4 052		
Remuneration other than to employees				
Administration and managerial	**20 514**	14 739		
Secretarial	**422**	1 656		
Technical	**8 087**	8 474		
	29 023	24 869		
Retirement benefits	**8 174**	5 959		
Termination benefits	**1 038**	124		
Foreign exchange differences				
Foreign exchange gains	**10 023**	1 329		
Foreign exchange losses	**2 056**	556		
	7 967	773		
Directors' emoluments				
Executive directors				
Basic salaries			**7 330**	9 038
Benefits			**853**	532
Performance related bonuses			**5 000**	
			13 183	9 570
Non-executive directors				
Fees			**16**	22
			13 199	9 592
Less: Paid by subsidiaries			**(13 199)**	(9 592)
			–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Group		Company	
	2001 R000	2000 R000	**2001 R000**	2000 R000
26. FINANCING COSTS				
Long-term liabilities	**6 565**	1 803		
Short-term liabilities	**8 157**	16 285		
	14 722	18 088		

	Profit before taxation R000	share- Taxation R000	Outside **Net** holders R000	Group Net **2001 R000**	2000 R000
27. EXCEPTIONAL ITEMS					
Profit on sale of investments	23 537	553	(5 304)	**18 786**	
Negative goodwill	7 897			**7 897**	133 572
Goodwill amortisation	(11 020)		2 887	**(8 133)**	
Impairment charges					
– share incentive trust	(18 620)		1 207	**(17 413)**	
– trademarks	(5 069)		253	**(4 816)**	
Other	(10 949)		3 230	**(7 719)**	
	(14 224)	553	2 273	**(11 398)**	133 572

	Group 2001 R000	Group 2000 R000	Company 2001 R000	Company 2000 R000
28. TAXATION				
South African normal tax				
Current tax – current year	**60 794**	43 861		
Current tax – previous year	**(1 523)**	(329)		
Deferred tax – current year	**(18 467)**	1 759		
Deferred tax – previous year	**(454)**	(55)		
	40 350	45 236		
Secondary tax on companies	**2 508**	755		
Tax related to income from associates	**4 319**	4 236		
Foreign taxation	**1 544**	1 002		
Tax for the year	**48 721**	51 229		
Reconciliation of rate of taxation	%	%		
South African normal tax rate	**30,0**	30,0		
Adjusted for:				
Exempt income	**(19,6)**	(15,8)		
Non-deductible charges	**9,6**	1,7		
Foreign tax rate differential	**(1,3)**	(3,1)		
Income from associated companies	**(3,2)**			
Secondary tax on companies	**0,7**	0,3		
Prior year over provision	**(0,5)**			
Prior year unrecognised tax asset utilised	**(5,0)**	(1,5)		
Deferred tax asset not provided for	**3,9**	5,2		
Effective rate of tax	**14,6**	16,8		
Gross calculated tax losses at the end of the year available for utilisation against future taxable income	**444 945**	42 736		
Deferred tax asset provided	**432 038**			
Available for future utilisation	**12 907**	42 736	**–**	–
STC credits available within the group	**49 178**	33 004	**3 013**	3 013

29. CHANGE IN ACCOUNTING POLICIES

Deferred taxation

In terms of the previous accounting policy the group did not raise deferred tax assets. This was changed to conform with AC 102: Income taxes, which requires that deferred tax assets be recognised to the extent that it is probable that taxable profit will be available in future years against which unused tax losses can be utilised. The comparative figures have not been restated as the effect is not considered material.

Goodwill and other intangible assets

In terms of the previous accounting policy the group wrote off goodwill and other intangible assets against share premium. The policy was changed to conform with AC 131: Business combinations and AC 129: Intangible assets, which requires that goodwill and intangible assets be capitalised and amortised to the income statement over their useful lives. Any recoveries of amounts written off prior to 1 March 2000 are credited to the income statement. In the current year these recoveries amount to R43 million. There was no restatement of opening retained earnings for amounts set off against share premium, as the relevant accounting statement does not require restatement of prior year figures in this situation. However, negative goodwill in the amount of R171 556 000 carried as an non-distributable reserve in the balance sheet at 29 February 2000, was restated to earnings in accordance with the transitional arrangements in AC 131, as follows:

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000
Adjustment to 2000 earnings		133 572		
Adjustment to opening retained earnings		37 984		
	–	171 556		
Adjustment to 2000 earnings				
Net profit as reported previously		164 745		
Negative goodwill		133 572		
Net profit as restated	–	298 317		
Adjustment to opening retained earnings				
Retained earnings as previously reported		355 214		
Restatement of opening retained earnings in respect of prior year adjustment		37 984		
Retained earnings as restated	–	393 198		
30. EARNINGS PER SHARE				
The calculations of earnings per share is based on the following:				
Total earnings attributable to ordinary shareholders	**188 813**	298 317		
Exceptional items (net of outside shareholders)	**11 398**	(133 572)		
Headline earnings	**200 211**	164 745		
Weighted average number of shares (000)	**133 200**	136 613		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000
31. DISTRIBUTION TO SHAREHOLDERS				
Interim				
Capital distribution				
14,0 cents per share (2000: 12,0 cents)	**19 530**	16 252	**19 530**	16 252
Final				
Capital distribution				
0,0 cents per share (2000: 12,0 cents)		16 740		16 740
Dividend				
31,0 cents per share (2000: 12,0 cents)	**39 339**	16 740	**39 339**	16 740
	58 869	49 732	**58 869**	49 732

As a result of the early adoption of AC 107: Post balance sheet events, dividends payable are not accounted for until they have been ratified at the annual general meeting. These financial statements do not reflect the final dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 28 February 2002. Comparative figures were not restated.

	Group		Company	
32. CAPITAL EXPENDITURE APPROVED				
Expenditure contracted for	**7 506**	1 790		
Expenditure authorised but not contracted for	**57 371**			
	64 877	1 790		

Capital expenditure will be financed from working capital generated within the group.

	Group		Company	
33. OPERATING LEASE COMMITMENTS				
Future commitments in terms of:				
Rental agreements				
Due within one year	**3 042**	1 555		
One to five years	**3 562**	3 472		
Operating leases – premises				
Due within one year	**24 008**	20 958		
One to five years	**87 997**	47 832		
Longer than five years	**27 542**			

	Group		Company	
34. CONTINGENT LIABILITIES				
Guarantees				
Suretyships in favour of banks and other institutions for underwriting commitments and facilities granted	**13 390**	15 228	**50 000**	84 122
Undertakings to repurchase preference shares issued by subsidiaries	**100 000**	25 000	**200 000**	125 000

Deferred tax liabilities

Deferred tax liabilities have not been established for any SA Normal Income Tax that would be payable on the unremitted earnings of certain offshore subsidiaries, as it is the intention that such amounts will be permanently reinvested.

35. NON-COMPLIANCE WITH LAWS AND REGULATIONS

Keymatrix (Pty) Limited, a subsidiary that advances short-term loans to individuals, is registered with the Micro Finance Regulatory Council (MFRC) that regulates the micro-lending industry.

Keymatrix (Pty) Limited does not fully comply with the rules and regulations of the Usury Act Exemption Notice in respect of the pin codes and bank cards. Keymatrix (Pty) Limited has informed the MFRC of this situation and a solution should be successfully implemented before the end of the 2002 financial year.

36. BORROWING POWERS

In terms of the company's articles of association, borrowing powers are unlimited. Details of actual borrowings are disclosed in note 19 to the financial statements.

37. RETIREMENT FUND

The group provides a retirement fund to all employees. It is a defined contribution fund and is regulated by the Pension Funds Act.

38. RELATED-PARTY TRANSACTIONS

Escher Life is an associated company of the group. During the year a group company invested funds of R40 million with Escher Life in a transaction carried out on an arm's length basis. The return of these funds amounted to R2,7 million.

A management fee of R7,8 million (2000: R7,8 million) was paid to Whistler Limited, a company of which a director of PSG Group Limited is a director.

39. FINANCIAL INSTRUMENTS

Derivative instruments

The table below provides a detailed breakdown of the fair values of the derivative instruments as at year-end. Exchange traded futures and options are marked to market and cash settled daily and the market values are therefor not included in this table.

Transactions in derivative financial instruments have been entered into during the normal course of business. These instruments allow the bank and its clients to transfer, modify or reduce their risks. Unless otherwise indicated below, the amount subject to credit risk is limited to the fair value of instruments that are favourable to the group (i.e. assets) as well as potential future exposure. This credit risk exposure is managed as part of the overall borrowing limits granted to clients as discussed in more detail in the risk management review section of the annual financial statements.

	2001 Fair values		2000 Fair values	
	Assets	**Liabilities**	Assets	Liabilities
Interest rate derivatives				
OTC options bought and sold	**4**	**9 827**	2 987	280
Interest rate swaps and forward rate agreements	**74 144**	**92 157**	34 766	37 547
Foreign exchange derivatives				
Spots and forward foreign exchange	**51 688**	**35 134**	16 459	20 569
Currency swaps				2 226

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

39. FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities

The table below sets out the fair values of financial assets and liabilities carried on the balance sheet.

	Group		Company	
	2001 R000	2000 R000	**2001 R000**	2000 R000
Assets				
Other investments	**37 260**	**50 750**	100 705	96 321
Other assets	**59 551**	**59 551**	258 111	246 289
Accounts receivable	**170 245**	**170 245**	274 901	274 901
Loans and advances	**953 906**	**953 906**	658 827	658 827
Investments and trading securities	**455 483**	**455 612**	891 159	910 498
Short-term money market assets	**668 775**	**668 637**	651 581	653 222
Cash and short-term funds	**536 200**	**536 200**	378 275	378 275
	2 881 420	**2 894 901**	3 213 559	3 218 333
Liabilities				
Long-term liabilities	**108 457**	**108 457**	25 583	25 583
Deposits and current accounts	**1 139 204**	**1 139 204**	849 772	849 772
Accounts payable	**273 399**	**273 399**	391 879	391 879
Short-term borrowings	**34 832**	**34 832**	94 362	94 362
	1 555 892	**1 555 892**	1 361 596	1 361 596

40. NOTES TO THE CASH FLOW STATEMENTS

40.1 Cash generated by operating activities

	Group 2001	Group 2000	Company 2001	Company 2000
Income before taxation	**330 459**	304 447		16 740
Transfer to policyholders' fund	**(111 983)**	(272 280)		
Adjustment for other non-cash items	**19 926**	(192 389)		
	238 402	(160 222)	**–**	16 740

40.2 Change in net current assets

	Group 2001	Group 2000	Company 2001	Company 2000
Change in accounts receivable	**104 656**	(162 368)		(35 684)
Change in other liabilities and provisions	**(163 710)**	242 758	**118**	106
	(59 054)	80 390	**118**	(35 578)

40.3 Taxation paid

	Group 2001	Group 2000	Company 2001	Company 2000
Balance at beginning of the year	**(22 535)**	(33 495)		(11 455)
Charge in income statement	**(48 721)**	(51 229)		
Deferred tax adjustment	**(18 921)**	4 236		
Attributable to businesses sold	**4 319**	1 704		
Balance at end of the year	**60 081**	22 535		
	(25 777)	(56 249)	**–**	(11 455)

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000

40. NOTES TO THE CASH FLOW STATEMENTS (continued)

40.4 Dividends and capital distributions

Provision for payments to shareholders at beginning of year	**(33 480)**	(23 861)	**(33 480)**	(23 861)
Dividends and capital distribution for the year	**(19 530)**	(49 732)	**(19 530)**	(49 732)
Provision for payments to shareholders at end of year		33 480		33 480
	(53 010)	(40 113)	**(53 010)**	(40 113)

40.5 Subsidiaries acquired

Net assets of subsidiaries acquired		
Fixed assets	**(1 168)**	(41)
Investments in associates		(103 130)
Other assets	**(8 481)**	(443)
Loans and advances	**(18 334)**	(56 174)
Investment and trading securities	**(66 739)**	(41 663)
Short-term money market assets	**(79 742)**	(24 986)
Cash and short-term funds	**(60 918)**	(963 589)
Loans and deposits	**179 550**	58 644
Long-term liabilities		9 180
Deferred tax asset	**(133 876)**	
Outside shareholders	**4 417**	34 702
Intangibles on acquisition	**40 238**	(218 290)
Total purchase price	**(145 053)**	(1 305 790)
Less: Paid for by non-cash means	**78 000**	1 176 704
Cash consideration paid	**(67 053)**	(129 086)
Deposits and cash of subsidiaries	**60 918**	963 589
Cash flow on acquisition	**(6 135)**	834 503

40.6 Subsidiaries sold

Net assets of subsidiaries sold		
Fixed assets	**7 848**	
Other assets	**2 165**	
Loans and advances	**81 342**	
Working capital	**76 137**	
Deposits and current accounts	**(38 748)**	
Net assets of subsidiaries	**128 744**	–
Outside shareholders	**(31 138)**	
Profit on sale of subsidiaries	**37 064**	
Proceeds on sale	**134 670**	–
Settled by way of reduction in liability	**(16 800)**	
Plus: Bank overdrafts of subsidiaries	**15 509**	
	133 379	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Group		Company	
	2001	2000	**2001**	2000
	R000	R000	**R000**	R000
40. NOTES TO THE CASH FLOW STATEMENTS (continued)				
40.7 Net increase in shareholder funding				
Shares issued		525 221		525 221
Non-cash consideration received		(467 043)		(467 043)
Expenses incurred		(1 356)		(1 356)
	–	56 822	**–**	56 822
40.8 Cash and equivalents at end of year				
Cash and short-term funds	**536 200**	378 275	**44**	25
Bank overdrafts	**(28 792)**	(88 679)		
	507 408	289 596	**44**	25

ANNEXURE A
INVESTMENTS

AT 28 FEBRUARY 2001

COMPANY	Issued share capital 2001 R000	2000 R000	Proportion held directly or indirectly by holding company 2001 %	2000 %	Amount owing to PSG Group Limited 2001 R000	2000 R000
INTEREST IN SUBSIDIARIES						
PSG Financial Services Limited	**45 872**	45 872	**100,0**	100,0		43 800
Keynes Rational Limited	**449**	446	**72,7**	73,0		
PSG Investment Services (Pty) Limited	**950**	550	**95,0**	95,0		
PSG Corporate Services (Pty) Limited	**4**	4	**100,0**	100,0		29 007
PSG Investment Bank Holdings Limited	**6 082**	6 523	**68,0**	59,2		
PSG Channel Holdings Limited	**370**	370	**100,0**	100,0		
					–	72 807

The company's interest in attributable income and losses of subsidiaries amounts to R246 352 000 (2000: R177 760 000) and R57 539 000 (2000: R13 015 000) respectively.

Information is only disclosed in respect of subsidiaries of which the financial position or results are material. Further details of investments are available at the registered offices of the relevant group companies.

ANNEXURE A
INVESTMENTS

AT 28 FEBRUARY 2001

COMPANY	Nature of business	Proportion held directly or indirectly by holding companies 2001 %	2000 %	Group carrying value 2001 R000	2000 R000
INVESTMENT IN ASSOCIATED COMPANIES					
Listed					
Indequity Group Limited	Financial services		26,3		5 415
Escher Group Limited	Financial services	**40,0**		**34 820**	
Vestacor Limited	Private equity	**43,0**		**106 983**	
				141 803	5 415
Unlisted					
Whistler Risk Managers (Pty) Limited	Financial services	**30,0**		**8 741**	
PSG Konsult Limited	Financial consulting	**50,0**	50,0	**3 280**	3 810
Graphicor (Pty) Limited	Financial communications		50,0		3 285
Other				**3 375**	
				15 396	7 095

Information is only disclosed in respect of associates of which the financial position or results are material. Further details of investments are available at the registered offices of the relevant group companies. Details pertaining to the assets and liabilities of associates are not provided since the material associates are both listed companies of which the financial statements are readily available to the public.

COMPANY	Nature of business	2001 %	2000 %	2001 R000	2000 R000
OTHER INVESTMENTS					
Listed					
PSG Investment Bank Holdings Limited*		**1,1**	1,3	**11 912**	24 865
Escher Group Limited*		**4,7**		**3 553**	
AST Group Limited		**0,7**		**10 669**	
Unlisted					
Keynes Rational Limited*			5,8		25 993
Other investments and loans				**11 126**	49 847
				37 260	100 705

**These investments represent interests in subsidiary and associate companies which are not consolidated since they are held with a view to be disposed of in the near future.*

Information is only disclosed in respect of investments of which the financial position or results are material. Further details of investments are available at the registered offices of the relevant group companies.

ANNEXURE B
SEGMENT REPORT

FOR THE YEAR ENDED 28 FEBRUARY 2001

PRIMARY REPORTING SEGMENT

The group is organised into two primary reporting segments:

– Investment banking
– Retail banking

The other operations of the group mainly comprise stockbroking, funds management and employee benefit consulting, none of which constitute a separate reportable segment.

Elimination of transactions between business segments have been included in the "Other" category. Segment assets and liabilities include all assets and liabilities categories as listed in the balance sheet of the group. Capital expenditure comprises additions to fixed assets and trademarks.

	Revenues R000	Segment result R000	Segment assets R000	Segment liabilities R000
Investment banking	379 123	252 043	2 968 955	1 273 982
Retail banking	300 417	109 274	268 893	125 392
Other	65 357	(79 579)	278 853	261 713
	744 897	281 738	3 516 701	1 661 087

	Capital expenditure R000	Depreciation R000	Amortisation R000	Impairment charge R000
Investment banking	4 114	3 955	354	
Retail banking	27 863	3 476	9 910	
Other	12 324	6 588	1 074	5 069
	44 301	14 019	11 338	5 069

	2001 R000
Reconciliation of segment result	
Segment result (net income of the group after taxation)	**281 738**
Attributable to outside shareholders	**(92 925)**
Earnings attributable to ordinary shareholders	**188 813**

The segment result of the investment banking segment includes associate company profits of R41 831.

SECONDARY REPORTING SEGMENT

No secondary reporting segment has been included as the group derives substantially all of its revenue from inside the Republic of South Africa.

SHARE ANALYSIS

FOR THE YEAR ENDED 28 FEBRUARY 2001

	Shareholders Number	Shareholders %	Shares held Number	Shares held %
Range of shareholdings				
1 – 1 000	1 450	74,5	402 850	0,3
1 001 – 10 000	404	20,8	1 174 759	0,9
10 001 – 100 000	61	3,1	2 261 527	1,8
100 001 – 1 000 000	17	0,9	5 271 747	4,2
Over 1 000 000	14	0,7	117 789 117	92,8
	1 946	100,0	126 900 000	100,0
Type of shareholder				
Individuals	1 806	92,8	3 167 169	2,5
Investment and trust companies	20	1,0	527 095	0,4
Banks and nominee companies	74	3,8	122 454 965	96,5
Other corporate bodies	46	2,4	750 771	0,6
	1 946	100,0	126 900 000	100,0
Public and non-public shareholding				
Non-public				
Directors	5	0,3	3 044 854	2,4
Employee share scheme	1		2 955 741	2,3
	6	0,3	6 000 595	4,7
Public	1 940	99,7	120 899 405	95,3
	1 946	100,0	126 900 000	100,0
Six largest shareholders				
PSG Nominees (Pty) Limited			42 027 225	33,1
Standard Bank Nominees (Tvl) (Pty) Limited			29 724 961	23,4
Old Mutual Nominees (Pty) Limited			11 800 698	9,3
Marser Nominees (Pty) Limited			10 054 100	7,9
CMB Nominees Limited			6 784 992	5,3
First National Nominees (Pty) Limited			3 990 107	3,1
			104 382 083	82,1
Individual shareholders holding more than 5% as at 28 February 2001				
JF Mouton Family Trust			11 430 000	9,0
Siphumelele Investments			10 000 000	7,9
Old Mutual Life			7 362 163	5,8
			28 792 163	22,7

SHAREHOLDERS' DIARY

Financial year-end	28 February
Profit announcement	April
Annual report	May
Annual general meeting	May
Interim report	October

ADMINISTRATION

SECRETARIES AND REGISTERED OFFICE
PSG Corporate Services (Pty) Limited
Ou Kollege
35 Kerk Street
Stellenbosch, 7600
PO Box 7403
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Telephone (021) 887-9602
Telefax (021) 887-9619

TRANSFER SECRETARIES
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Edura
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Marshalltown, 2107
Telephone (011) 370-7700
Telefax (011) 836-0792

COMPANY REGISTRATION NUMBER
1970/008484/06

INVESTMENT BANK AND SPONSOR
PSG Investment Bank Limited

BROKERS
PSG Online Securities Limited
UBS Warburg

AUDITORS
PricewaterhouseCoopers Inc

BANKERS
ABSA Bank Limited

ATTORNEYS
Hofmeyr Herbstein Gihwala Inc
Jan S de Villiers

WEBSITE ADDRESS
www.psg.co.za

GRAPHICOR
22792

PSG GROUP LIMITED