PSG Group Limited

annual report 2003

wysiwyg

board of directors

JF (Jannie) MOUTON (56) *3
BCom (Hons), CA(SA), AEP
Executive chairman

L VAN A (Kleintjie) BELLINGAN (57) *1 *4
BCom (Hons), LLB, CA(SA)
Entrepreneur

PE (Patrick) BURTON (50) *4
BCom (Hons), PG Dip Tax
Financial director – Snoek Wholesalers

J DE V (Jaap) DU TOIT (48) *1 *2 *3 *5
BAcc, CA(SA), CFA
Chief executive officer – PSG Investment Services

MJ (Markus) JOOSTE (42) *2 *3 *4
BAcc, CA(SA)
Managing director – Steinhoff International

CA (Chris) OTTO (53) *2 *5
BCom, LLB
Chief executive officer – PSG Capital

J VAN ZYL (Jacobus) SMIT (Dr) (61) *1 *4
BCom, LLB, CA(SA), DCom
Director of companies

*1 Member of audit and risk committee
*2 Member of remuneration committee
*3 Member of nomination committee
*4 Independent non-executive
*5 Non-executive

contents

what you see is what you get!

PSG Group is an investment holding company in financial services with the aim to create wealth for our shareholders through a strategy of ultimate empowerment of our companies and management.

Responsibility and transparency continues to build the trust we have earned from our stakeholders.

We focus on growth in NAV per share over the long term rather than on short-term increases in earnings per share.

key financial information

for the year ended 28 February 2003

	2003	2002	2001
Headline earnings per share (cents)	**70,7**	141,1	150,3
Headline earnings (Rm)	**84,8**	175,2	200,2
Distribution per share (cents)			
– Normal	**20**	50	45
– Special	**200**		
Net asset value per share (cents)	**828**	1 015	899

clar-i-ty

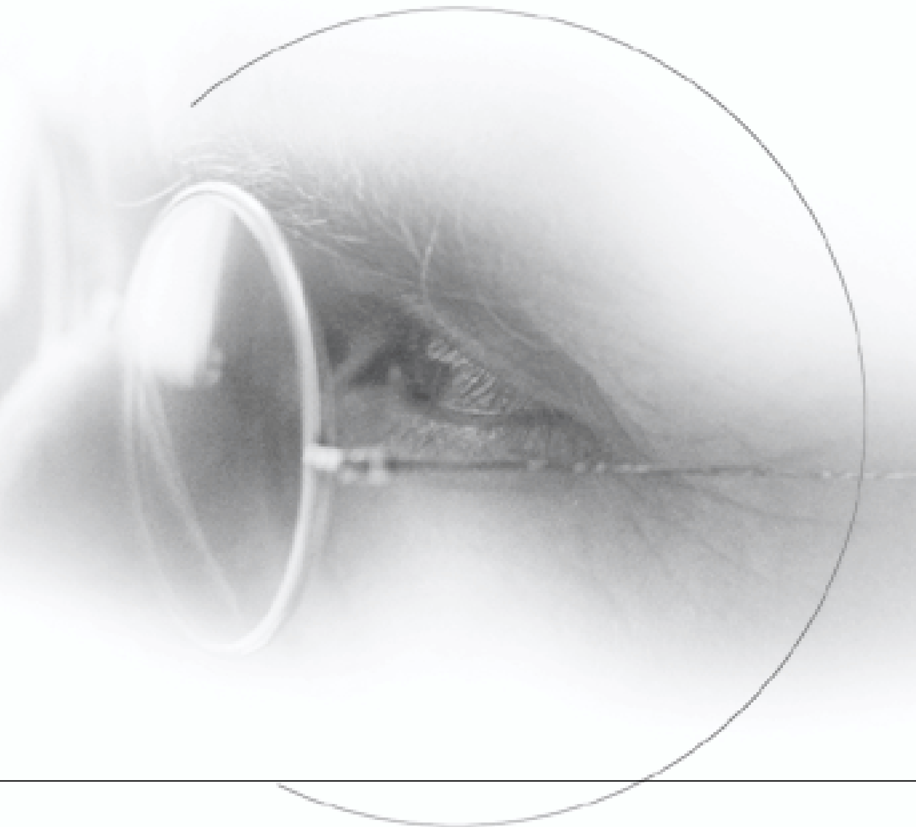
Clearness of thought or style; lucidity:

sees with clarity and perception

chairman's letter

PSG has come through 2002 a stronger company than it was a year before. We are not obsessed with status nor power – our goal is to deliver a return on the investment made by our shareholders.

Our ethos encompasses the strength to address realities and to communicate to our stakeholders in a manner that is objective, honest, balanced and clear.



PSG's performance

	NAV cps	% growth in NAV	% growth in ALSI [1]	Relative results [2]
1995	20	–	–	–
1996	34	70	6	64
1997	147	332	17	315
1998	617	320	2	318
1999	669	8	(9)	17
2000	778	16	15	1
2001	899	16	11	5
2002	1 015	13	14	(1)
2003	828	(18)	9	(27)
Compounded growth %	**59**		**8**	**51**

1 Percentage growth in average All Share Index value

2 Percentage growth in NAV less percentage growth in ALSI

The twelve months ended 28 February 2003 proved to be a difficult period for the financial services industry. During this period PSG Group focused on realigning its businesses, making it a stronger company than it was a year before.

- Net asset value ("NAV") per share dropped by 18% from 1 015c to 828c mainly as result of turning NAV to cash through the sale of PSG Investment Bank Holdings Limited ("PSGIB").
- Headline earnings per share decreased by 50% from 141c to 71c.
- Non-headline losses amounted to R270,7 million mainly comprising goodwill amortisation of R27,6 million, a R183,3 million loss on the sale of PSGIB and provisions against investments.
- Despite the decrease in headline earnings PSG succeeded in increasing the cash flow to its shareholders by paying a special distribution of 200c per share on 31 March 2003.
- As PSG Group maintains a dividend payout ratio of 30%, a normal dividend of 20c per share is declared for the year ended 28 February 2003.

As a result of the poor performance during the current year we have taken action to redirect the group and unlock value for shareholders, mainly by disposing of PSG's investment in PSGIB for R620 million.

PSGIB

PSGIB as an A2 bank did not escape the severe impact of the secondary banking crises during 2002. Although it weathered the liquidity crises, it experienced a substantial reduction in its deposit base, which necessitated a realisation of assets and the curtailment of banking businesses.

"We realise that we are too dependent on PSG Investment Bank and would like to reduce this dependence . . ."

– 2002 chairman's letter

PSGIB produced 81% of our headline earnings during the previous financial year and relied on large once-off transactions to produce income while it built its deposit book. A bank needs to gear its balance sheet through deposits to earn a stream of annuity income. In banking, *trust* is one of the most important elements, as deposit holders need to *trust* that a bank will *always* repay their money. The secondary banking crises damaged this *trust* for all the smaller banks causing a major setback to our business model.

As PSGIB was continuously trading at a substantial discount to net asset value, we decided it was best to unlock value for our shareholders and sold our 56,5% interest in PSGIB at approximately its tangible net asset value.

PSGIB disposed of its 47,1% stake in Vestacor

Vestacor is a private equity fund operating mainly in the retail sector. Managers of private equity funds value the fund's investments to determine the profits of the fund (and consequently their bonuses). The value of an investment depends on future uncertain cash flow and should be estimated on a conservative basis. We disposed of this investment, as we lost confidence in this model. Furthermore, we believed that the shareholders of PSGIB would prefer a cash distribution rather than unbundled Vestacor shares.

Acquisition of certain assets of PSGIB and formation of PSG Capital

PSG Capital was incorporated during the year as the new investment banking and corporate finance vehicle for PSG Group. PSG Capital acquired certain strategic assets from PSGIB, namely PSG Trade Finance, PSG Treasury Outsourcing and the TBB claims. These assets, together with the PSGIB corporate finance team and PSG Capital Quantitative, form the main businesses of PSG Capital.

To facilitate the disposal of PSGIB, PSG Capital also acquired certain banking assets from PSGIB. These banking assets are managed or in the process of being disposed of.

Acquisition of Appleton by PSG Investment Services

PSGIB held a 30% stake in the asset manager and stockbroker Appleton. Appleton was acquired in two steps – the 30% stake held by PSGIB was acquired by PSG Investment Services from PSGIB and a successful offer was made to acquire the remaining 70% held by minorities.

The Appleton acquisition can be seen as a synergistic acquisition. As Appleton was one of PSG Investment Services' largest competitors, the acquisition presents opportunity for cost savings and an increase in market share. To turn this synergy to *cash* profits will take hard work and long hours and we *trust* that PSG Investment Services will deliver on its promises.

Our 20% stake in m Cubed is now managed by PSG Investment Services, with J de V du Toit replacing JF Mouton on the board of m Cubed.

Project unlock value

PSG Group is currently trading at a discount to its NAV. We do not like this situation and as a result have embarked on a project to unlock this discount, mainly by turning NAV into cash. The major achievements of *project unlock value* during the current year has been to:

- Turn our investment in PSGIB into cash at approximately tangible NAV. The table below shows how the sale proceeds of R620 million has been employed.

	Rm
Cash received from disposal – 859,2 million shares at 72,13 cps	620
Acquisition of strategic and banking assets from PSGIB	(220)
Repayment of remaining debt at PSG Group	(108)
Payment of 200 cps special distribution	(240)
Expected remaining *free cash* *	**52**

* This *cash* belongs to shareholders (as always) and will also be returned to shareholders unless we find a *great* opportunity (our definition of *great* means that this opportunity will rarely be found).

- Pay our shareholders a special distribution of 200 cents per share on 31 March 2003. A number of other listed companies have recently spent free cash on share repurchases. The choice between a share repurchase and special distribution is irrelevant in determining value, as a shareholder who receives a special distribution can purchase additional shares in the company, mimicking the effect of a share repurchase. We decided against a share repurchase, as a special distribution gives the shareholder the *choice* to reinvest in further PSG shares (as I am planning to do). Furthermore, we want to avoid the embarrassing situation that is created when a company has repurchased its own shares and the shares then trade under the average repurchase price.

Company size vs profitability: The special distribution will reduce the market capitalisation of PSG. What is best: a large company with mediocre return on equity ("ROE") or a smaller company with a higher ROE? Size does not determine value. Certain types of managers like building large empires that enhance their personal status as opposed to building profitable businesses. At PSG we are not obsessed with status nor power – our goal is to deliver a return on the investment made by our shareholders.

Dividends determine value: The value of any asset is determined by the future cash flow that you will receive from that asset. The value of a share is, therefore, the present value of all expected future dividends (including a final liquidation dividend).

PSG Group has paid the following dividends (cents per share):

1999	25
2000	36
2001	45
2002	50
2003 – Special	200
2003 – Normal	20
	376

We will continue with our dividend policy of paying 30% of profits as dividends.

"PSG, Jannie Mouton's Stellenbosch-based financial services group, is top of the list (Rankings 2002) for the growth in dividends over a 10-year period, a rewarding increase in dividends of 48%."

Finance Week – 19 March 2003

If a company pays dividends, its shareholders earn a return on their investment irrespective of what the market values the share at. Furthermore, if management can consistently grow the dividend, the dividend yield on the original investment soon provides an exceptional return. For example, the management buyout of PSG Group was done at 36 cents per share in 1995 and a shareholder has subsequently received 376 cents per share *cash* back as dividends.

trans-par-ent

Free from guile; candid or open:

transparent sincerity

For a company to be able to grow dividends consistently its management must manage and generate *cash*, ie profits must be of a *cash* nature. Management must also protect *cash* which means, for instance, avoiding pointless acquisitions, unnecessary capital expenditure and corporate extravagance.

A culture of cost saving: A dividend-focused company is stingy when it comes to spending cash. We, at the head office in Stellenbosch, have taken the lead in cost cutting. The entire PSG Group is run by me as executive chairman, Attie Swanepoel as chief financial officer, assisted by Charles Siertsema and four women – a total staff of seven people.

PSG Group as an investment holding company

PSG Group is a holding company for investments in the financial services sector. Our four main investments comprise:

- Capitec Bank (55%) – retail banking for the lower income groups
- Channel Group (88%) – life insurance and employee benefits
- PSG Investment Services (95%), Appleton (30% at year-end, subsequently 100%) and m Cubed (20%) – financial advice, funds management and stockbroking
- PSG Capital (100%) – investment banking and corporate finance

Financial contribution of investments

	Interest	**2003**		2002	
	%	**Rm**	**%**	Rm	%
Capitec Bank	55	**16,2**	**19**	24,9	14
Channel Group	88	**17,6**	**21**	12,2	7
PSG Investment Services [1]	95	**6,6**	**8**	22,9	13
PSG Capital	100	**10,0**	**12**		
PSG Investment Bank		**31,1**	**36**	141,3	81
Corporate [2]		**3,3**	**4**	(26,1)	(15)
Total		**84,8**	**100**	175,2	100

1 Includes PSG's interest in Appleton and m Cubed

2 Includes financing costs of R15,0 million (2002: R23,3 million)

Investing is the handing over of *cash* to managers to receive more *cash* in the future. **Corporate governance** are those methods used to ensure that shareholders receive a return on their investment, ie more *cash* in the future. One of the most important elements of investing is that shareholders have to *trust* the management of the company to act in their best interests.

Investors have to *trust* that managers run the business as if it is their own

Why should you as shareholder trust me as manager? I currently own 16,3 million (13,6%) PSG shares up from 15,5 million (12,9%) the previous year and 13,3 million (10,5%) the year before that. These shares were bought, sometimes by using borrowed money – they were not received for free. A shareholding of 16,3 million shares means that I pay 13,6% of all expenses, even my own salary and bonus. We watch and control expenses at PSG and even do silly things like using old printouts a second time to save shareholders' *cash*.

I run the group to increase the wealth of shareholders; a 50 cents increase in the share price of PSG translates to an R8,2 million increase in my wealth. This far exceeds my current salary of R2,4 million, so you can see where my priority lies. Below is a table setting out what PSG has paid me.

	Salary R000	Bonus [1] R000
28/02/1996	Nil	Nil
28/02/1997	248	Nil
28/02/1998	428	Nil
28/02/1999	717	Nil
28/02/2000	1 131	Nil
28/02/2001	1 215	2 500
28/02/2002	1 800	2 000
28/02/2003	2 352	Nil

1 Bonuses relating to a specific year's performance were paid after year-end.

As you can see from the above table I will receive no bonus for the current year's performance – no performance, no bonus.

As PSG is an investment holding company I have to in turn rely on and *trust* the managers of our four main investments:

- Capitec Bank – management owns 21%, much of it purchased before listing at prices higher than the current market price. Management's shareholding aligns their interest with that of the group. We like these kinds of managers – Capitec is a jewel and its management has bet their own bucks on its true value.
- Channel group – management owns 12%.
- PSG Investment Services – management owns 5% and will invest more of their own money to maintain their stake at 5% when the Appleton acquisition and m Cubed transfer are finalised. We would like to challenge management to increase their stake to above 5%.
- PSG Capital – as PSG Group currently holds 100% of PSG Capital, management has a significant investment in PSG Group shares. Furthermore, management has stakes of 20% and 30% respectively in the operating subsidiaries PSG Capital Quantitative and PSG Trade Finance.

Options have generally been regarded as a tool to align the interests of managers and shareholders. Two major drawbacks of options are that managers only share in the upside of risk and that share price and management performance are not necessarily correlated (especially over the short term). At PSG Group we have a share purchase scheme whereby managers share in upside *and downside risk*. Yes, a participant in the PSG Group share purchase scheme can lose money!

Another reason why managers favour options is that they are not currently expensed in the income statement. Their effect is hidden in the way they dilute existing shareholders. When the cake is finally divided your slice is not as big as you thought it would have been. We owned 60% of PSGIB, but when the cake was divided we only got 56,5% as a result of options being exercised by management.

Accounting and financial statements

Another important element of *trust* is that the financial statements should fairly represent the financial position of the company:

- As discussed in the preceding paragraph current accounting treatment does not expense the cost of options. We welcome the work currently being done by SAICA in setting an accounting standard whereby options will be expensed.

- Another way to misrepresent financial statements is in manipulating the split between headline earnings and exceptional items. Beware of companies that have *recurring* exceptional losses.
- Valuation of derivatives and structured finance transactions – these transactions are extremely difficult to value as a result of their complexity and number of variables that impact their valuations. We are relieved that we have exited this area of business through the disposal of PSGIB. The remaining derivatives and structured finance transactions acquired from PSGIB are currently in the process of being disposed of.

At PSG we place great emphasis on trustworthy reporting and as an investment holding company we keep the above in mind when we make new investments.

Corporate governance

We support the furtherance of proper corporate governance as advocated by the two King reports.

Prospects

After the sale of PSGIB our sources of income have become more balanced, with our four main businesses delivering a well diversified income stream.

As PSG Group is currently trading at a discount to net asset value we are continuing our consideration of various options to unlock this discount.

A special word of thanks to Chris Otto who, for the past seven years, has served PSG Group with dedication and wisdom. He grasped the opportunity and moved to PSG Capital as CEO to build out that business.

Finally, I would like to thank Dr Jacobus van Zyl Smit, who is chairing all our audit committees, and Poen Hoffman, who is in charge of all our remuneration committees, for their dedication in fulfilling their respective roles. Thanks to the board of PSG Group for their vision and support during the past year. I would also like to thank all our managers, employees and other stakeholders for the part they played in making PSG Group more valuable.

Jannie Mouton

Stellenbosch
22 April 2003

per-spec-tive

A mental view of the relative importance of things:

keep the right perspective

CAPITEC BANK HOLDINGS LIMITED – 55%

Retail banking for the lower income groups in South Africa

Year-end 28 February	2003	2002	2001
Headline earnings (Rm)	**30,3**	48,0	45,4
Headline earnings (cps)	**46,0**	80,2	137,1
Dividend (cps)	**19,0**	28,5	34,1
Return on shareholders' funds (%)	**8,0**	15,3	18,7
Net loans and advances at year-end (Rm)	**115,8**	92,1	83,9
Number of branches	**266**	315	296
Number of employees	**1 180**	1 267	1 265

Highlights of the past year

At Capitec Bank we are pleased to have achieved our forecast profits of R30 million. Capitec Bank was listed on the JSE on 18 February 2002. Nine days before that, on a Saturday morning, Saambou went belly up. The impact on us was profound and everything had to be replanned to achieve the R29,42 million profit forecast in our pre-listing statement.

All our profits for the year are derived from loans: mostly small, short-term loans. During the year we granted 2,4 million loans of an average size of R618. The value of loans granted during the year increased by 45%, compared to last year, to R1,5 billion.

We earned a net margin of only 2,0% on our loans. All the same, price aggression remains a fundamental part of our short-term strategy. We reduce rates as we improve our efficiency and increase our throughput per branch.

The three most important aspects of managing bad debts are: administration, administration and administration. The more we improve our systems and staff quality, the less we write off as bad debts. We think what our people achieved was remarkable: while our book was growing rapidly, we reduced our bad debts from 3,5% a year ago to 2,6%.

We have continued our transformation programme to turn Capitec Bank into a mass-market retail bank. We moved 54 branches to new sites, merged 40 branches and opened six new branches. We sold our operations in Botswana and Namibia because we are not licensed as a bank in those countries. (Exceptional profits of R5,3 million were realised on these sales.) As a result, our total number of branches declined from 315 to 266.

The cost of running Capitec Bank skyrocketed during the past financial year. Current expenditure increased by 36% to R243 million. Little of this was unexpected, as it is expensive to implement what we're doing. Strategically, we support the cost of building a retail bank on the back of the small loans business.

We manage our money cautiously. As a new business with limited access to funds, we had to limit our capital expenditure. At the same time we had to improve our branch network and train our people. We continued investing in our bank platform and our first priority was obviously to fund the growth in our loan book. At the end of the year our net cash balance was R78 million and we had loans of R116 million due to us (after provisions).

Liquidity rules have changed permanently for all but the big banks. We know that even if we manage our affairs prudently,

look

1. To turn one's expectations: *looked to us for a solution*
2. Examine the possibilities etc *with a view to deciding on a course of action*

bad news at another bank or in another country can cause a crisis for us. We therefore plan our expenditure and liabilities carefully so that we are never left vulnerable. We have access to loan funds far greater than our current needs due to the support of our shareholders.

People

We are building a competent and loyal workforce. We are creating an action-oriented, customer-focused culture. We want to be more like a retailer than a bank. During the year we appointed 404 new employees and lost 435 people (apart from 56 people working in the companies we sold). The drop in numbers is due to the reduction in the number of branches as well as to vacancies. Numbers at the campus (a nicer word than "head office") increased by 24. Our people attended an average of 1,4 training courses per individual during the year. At least 50% of the work done at the campus relates to turning Capitec Bank into a bank. We regard our senior management team as a major resource, and at this level probably 70% of our time is spent on shaping the future.

We believe in a flat reporting structure (there are only three reporting levels between the managing director and a service consultant in a branch) and the ability to pay for performance at all levels. Our highest paid branch manager earns five times more than the lowest paid one (although the total difference isn't due to performance – branch size and whether the branch is urban or rural are also important).

The way forward

Key steps in establishing a banking platform during the new year will be:

- Training most of our branch staff to use our banking system
- Converting more than a 100 branches to offer full banking services
- Rebranding most of our Finaid branches to Capitec Bank
- Positioning Capitec Bank in our target market as a unique bank with unique products

We will reduce the cost of loans as we pass the benefits of improved efficiency and increased throughput on to our customers. We will offer a three-month loan in addition to our thirty-day product.

We remain on track to build something unique: a low-cost, full-service, mass-market bank.

The new financial year will again be tough. We budget for a further significant rise in costs. Due to a planned increase in volumes and the introduction of new products, we expect a substantial rise in the profits for the year to 29 February 2004.

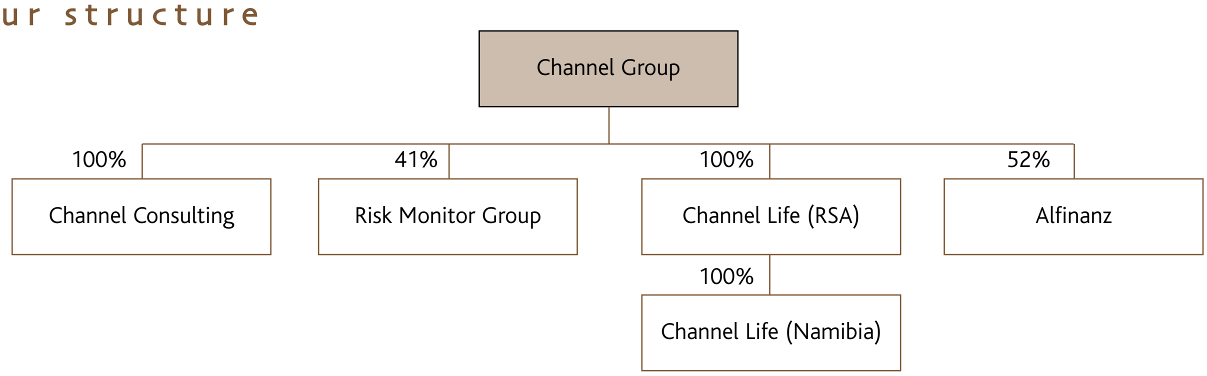
CHANNEL GROUP

CHANNEL GROUP LIMITED – 88%

Life assurance and employee benefits in southern Africa

Year-end 28 February	2003	2002	2001
Headline earnings (Rm)	**20,1**	14,1	2,1
Dividend (Rm)	**8,0**	5,6	0,8
Return on shareholders' funds (%)	**19,2**	14,1	3,3
Number of shares in issue (m)	**174**	180	180
Number of employees	**184**	204	237

Our structure



Our strategy

The Board of Channel adopted the following three-year strategic statement in 2002:

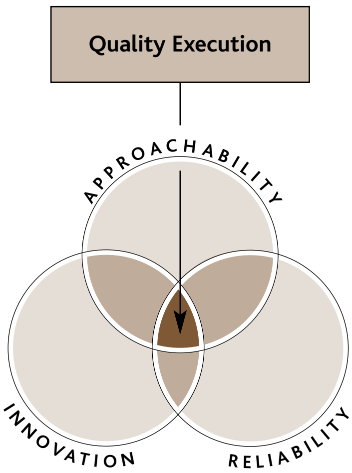
"To become the smartest little life office in southern Africa"

In the implementation of our strategy, we have focused on three particular objectives, namely:

- To perfect the South African model by positioning Channel Life (RSA) as a niche player in a competitive life assurance market, with a take-to-market strategy built on corporate relationships.
- To expand into countries north of our borders by duplicating the South African business model.
- To lead by example and become a truly South African business – an important element thereof would be to attract BEE credentials and become South Africa's first Black-owned life office.

The staff complement and the senior management team, in particular, have stabilised and we have every intention of continuing on this basis. Much of Channel's success lies in attracting and retaining some of the "smartest" people in the industry.

Culturally, we have embraced a unique AIRxQE statement:



A proper performance management process is in place, as well as Channel's own Vitality Matrix (refer Jack Welch).

Highlights of the past year

It has been another successful year for Channel, with the following highlights:

Growth

- Gross assets increased over the year from R552 million to R739 million.
- Gross premium income increased from R214 million to R424 million.
- Number of lives assured increased by 50 000 to 245 000.

Efficiency

- Aggregate lapse ratio reduced from 22% to 17%.
- Management expenses as a percentage of gross premium income reduced from 30% to 18%.

Profitability

- Headline earnings up from R14,1 million to R20,2 million
- Attributable earnings up from R9,4 million to R16,0 million
- Return on equity approaching the target 20%

The way forward

We have come a long way since the old Anchor Life was incorporated into Channel and re-named Channel Life. Much of the hard work has been done by way of physical and psychological transformation. We are looking forward to a year of aggressive growth in new business.

However, it has to be kept in mind that financial markets are in a depressed state, not only in South Africa but also worldwide. This may put a limit on our ability to achieve the new business budgets.

As a result, we are considering making acquisitions as an alternative method of growth.

sight

The foreseeable future; prospect:

a solution in sight

PSG INVESTMENT SERVICES

PSG INVESTMENT SERVICES (PTY) LIMITED – 95%

Financial advice, funds management and stockbroking

Year-end 28 February	2003	2002	2001
Headline earnings (Rm)	**2,1**	10,7	11,2
Dividend (Rm)	**–**	4,3	4,5
Return on shareholders' funds (%)	**5,2**	24,2	22,1
Assets under administration (Rbn)	**13,0**	7,2	6,0
Number of shares in issue (m)	**95**	95	95
Number of employees	**294**	186	200

Highlights of the past year

The last year was a tough one for the financial services industry. The rand strengthened against the US dollar, moving from R11,36 to R8,14; the prime interest rate increased from 14% to 17% and the JSE All Share and MSCI World indices dropped by 22,2% and 21,8% respectively. Markets have not been conducive to good business for a fourth year in a row, and this has taken its toll on the industry as a whole – in terms of performance of clients' investments, morale and continued industry consolidation in order to survive.

PSG Investment Services once again performed well on an operational level (R17,2 million vs R9,0 million) but was hit by Appleton's poor results, unrealised exchange losses and finance charges on acquisition of Appleton and m Cubed. During the year PSG Investment Services grew as a group – both organically and through acquisition.

- Acquisitions have included m Cubed (20%), Appleton, Insinger de Beaufort private clients, HSBC private clients in Namibia and the Sanlam stockbroking office in Nelspruit. The largest of these was Appleton, adding substantially to the size of the business. While integration of Appleton is proving to be challenging, we are confident that the synergies will be realised in the year ahead.

view-ing

Range of vision; extent of visibility:

came into view; in full view of the crowd

Financial advice

- In total, PSG Investment Services opened eight new offices during the year and now has 83 wealth management outlets offering independent financial advice around the country.
- Much preparation has also gone into addressing compliance, ensuring that we will meet the requirements of the five new laws which will change the way financial institutions and advisors do business. These laws include the Financial Advisory and Intermediaries Services Act, the Collective Investment Schemes Control Act, the Financial Intelligence Centre Act, the Promotion of Access to Information Act and the Electronic Communications and Transaction Act. Successes include the establishment of a product committee, implementation of a standardised financial planning system and the provision of a more comprehensive financial planning solution.

Fund management

- PSG Capitus – a fixed interest investment product – provided advisers and clients with a solution appropriate to the current market.
- PSG has successfully managed to turn around the performance of its unit trust funds. The Plexus survey, as at December 2002, placed PSG fifth of 27 management companies on a one-year review (from last position at December 2001). Over the two- and three-year period, PSG was placed 14th of 21 companies and 15th of 18 companies respectively.
- On the multi-managed side, 100% of PSG's funds performed better than their benchmarks over a one-year period.

Stockbroking division

- Successes include the integration of the Insinger and Appleton clients on the PSG platform, as well as successfully outsourcing our service to a number of smaller players and thus bringing transaction costs down.

People

Largely through the Appleton acquisition, the staff complement of the business has increased from 186 to 294. While there were retrenchments involved in rationalising the Appleton business to address profitability, we are pleased to report 98% staff retention among PSG Investment Services' employees.

The focus on providing the best independent financial advice has led to an increased focus on education and training. During the year, PSG Investment Services formed a learning academy for trainee financial advisors, with 13 trainee advisors being appointed to be trained in the first year. In addition, an education and training policy has been established to ensure the development of quality investment professionals for the future.

The business culture of the organisation is one that encourages an entrepreneurial spirit, with accountability and well incentivised producers at profit centre level. This will be balanced with strong central governance on issues such as compliance, marketing and information technology.

The way forward

We believe we are well placed across the business to meet the challenges of the year ahead.

Financial advice

- We intend building the PSG Wealth Management brand which will focus on quality independent financial advice. To offer best advice, training is critical. After the Appleton acquisition, there are 190 financial advisors in the business, operating from probably the widest geographical network in the industry. Opportunity exists within this division to leverage negotiation power with a wide network of suppliers as well as to develop more of our own products.

Fund management

- The strategy for the year will be to integrate the fund management businesses of Appleton and PSG into PSG Fund Management, with a focus on multi-management. Already R2,5 billion of the R4 billion of assets under management are multi-managed. Possible BEE ventures will also be further investigated on the active or institutional parts of the fund management business.

Stockbroking division

- PSG Online is a strong brand in online stockbroking, and we intend to maintain a superior electronic offering. Stockbroking is a volume business and we intend maintaining our lead regarding volumes in the private client business. This will be done both organically and by acquisition. In addition, some new innovative offerings are in the pipeline in the year ahead.

The result of these strategic priorities will be the creation of a well-integrated wealth management business.

PSG CAPITAL

PSG CAPITAL LIMITED – 100%

Investment banking and corporate finance

Seven months ended 28 February	2003
Headline earnings (Rm)	10,0
Shareholders' funds (Rm)	55,4
Number of employees	378

Our focus

- PSG Capital focuses on investment banking and corporate finance.
- We start/acquire and develop new businesses in financial services.

Our businesses

The four main operating activities of PSG Capital consist of:

- Corporate finance and investments
- Alternative asset management
- Treasury outsourcing and
- Trade finance

Cash flow

During the last seven months the predominant focus was cash flow management and enhancing the group's cash reserves. This focus will continue into the next year as some of the banking assets will be turned to cash.

Corporate finance and investments

Team

Mareo Bekker and Pierre Malan – Operational heads

Johan Holtzhausen, Christoff Hamman, Ben van der Westhuizen, Gerhard Swart, Barry Groenewald and Byron Jacobs

Services

- Corporate advice/JSE sponsorship
- Structured products
- Empowerment structuring and advice – 10% stake in Vuya Investments
- Proprietary investment – focus on small and midsize companies – currently 75% in Cullinan Industrial Porcelain

Achievements

The team has a successful track record and we expect them to retain this position. Cullinan reported profit after tax ("PAT") of R2 million for the full year and is expected to report a significant improvement in the coming year.

Alternative asset management

Team

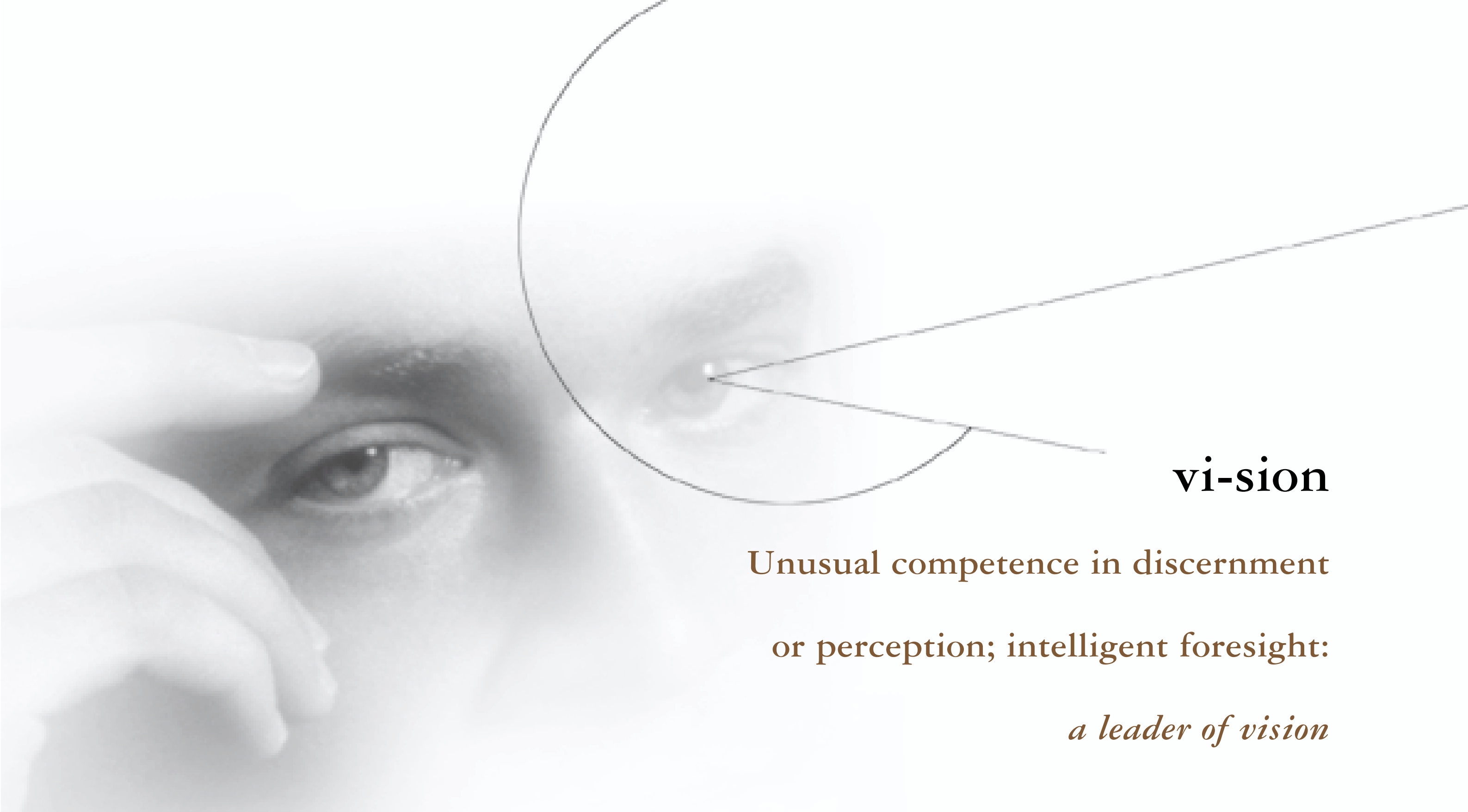
Derick Burger and Jean-Pierre Matthews – Operational heads

Phillip van Blerk, Ockert van Niekerk, Gerhard Jacobs, Heidi Snell, Jan Mouton and James Henry

The alternative approach

Currently consists of three single strategy proprietary funds:

- The first being quantitative directional models with minimal intervention from the manager
- The Diamond Fund is an offshore long/short fund based on fundamental research on stocks listed on the different stock exchanges in the United States of America
- The Contrarian Investment Fund using a model based on five years back testing and an international empirical study spanning 27 years



vi-sion

Unusual competence in discernment

or perception; intelligent foresight:

a leader of vision

Achievements

PSG Capital Quantitative ended its first seven months as a start-up venture with a small profit, but the team has a profit history dating back five years. The Contrarian Investment Fund performed well since inception and the Diamond Fund has a 20% dollar-based compounded growth rate.

PSG Treasury Outsourcing

Team

Trevor Hayter, Sean O'Sullivan, Ben Meyer, Rory McCance-Price, Willem Piek and team of traders and assistants

Business

PSG Treasury Outsourcing manages corporates' foreign exchange risk on a mandate basis through the application of uniquely developed systems. The company has more than 130 corporate clients that are predominantly importers or exporters or a combination of both.

Achievements

This company has achieved R4 million PAT for the full year and it is envisaged that it will be a source of deal flow for the Corporate Finance team.

PSG Trade Finance

Team

Enrico Greyling, Eric Finaughty, Kevin Lovell, Terri Uren, Janine Beecham, Clare Chaplin, Taryn Clark and Anita Meyer

Business

PSG Trade Finance focuses on acting as an intermediary to large and midsize corporates that require trade finance. An exclusive arrangement with the China Construction Bank allows Trade Finance to place significant amounts of debt facilities with them. This facility was in excess of US$47 million at the end of February 2003 with an approved limit of US$69,6 million.

Achievements

For the full year the company recorded R3,5 million after-tax profits on a small capital base. Trade Finance is forecasted to make a significant contribution towards future profits.

Claims ex TBBH

A number of claims have been instituted against defaulting debtors emanating from the assets of TBBH (now Axiam Holdings) acquired in terms of the PSGIB/Absa transaction. Similarly, various claims for damages have been instituted against the former directors and auditors of TBBH. These matters are proceeding at the pace dictated by the legal system.

stock exchange performance

for the year ended 28 February 2003

	2003	2002	2001	2000	1999	1998	1997	1996
Market price (cents)								
– High for the year	**650**	885	986	1 585	1 900	1 550	510	300
– Low for the year	**375**	440	527	800	495	445	210	20
– Closing price	**520**	476	660	1 000	1 170	1 530	470	225
– Average	**512**	675	685	1 114	1 172	966	401	78
Closing price/earnings	**7,4**	3,4	4,4	8,3	13,6	32,3	17,9	16,4
Volume of shares traded (000)	**42 636**	47 775	49 009	45 265	30 219	23 443	14 120	22 210
Value of shares traded (R000)	**218 168**	322 493	335 512	504 273	354 050	226 564	56 557	17 238
Volume/weighted average shares (%)	**35,5**	38,5	36,8	33,1	37,1	32,2	36,7	101,8
JSE Financial Services index	**149**	162	159	157	167	156	122	100
JSE All Share index	**172**	158	139	126	110	119	117	100
PSG share price index	**656**	865	878	1 428	1 503	1 238	514	100

our track record

	2003	2002	2001	2000	1999	1998	1997	1996
Headline earnings per share (cents)	**70,7**	141,0	150,3	120,6	85,9	47,3	25,5	14,4
Headline earnings (R000)	**84 824**	175 152	200 211	164 745	82 031	34 467	10 105	3 133
Distribution per share (cents)								
– Normal	**20**	50	45	36	25			
– Special	**200**							
Ordinary shareholders' funds (Rm)	**993**	1 218	1 141	1 085	638	535	78	7
Net worth per share (cents)	**828**	1 015	899	778	669	617	147	34
Total assets (Rm)	**2 594**	4 477	3 416	3 474	2 543	1 258	233	25
Market capitalisation (Rm)	**624**	571	838	1 395	1 117	1 172	249	49
Number of shares (000)								
– Issued	**120 000**	120 000	126 900	139 500	95 445	86 611	52 930	21 818
– Weighted average	**120 000**	124 204	133 200	136 613	95 445	72 869	39 588	21 818

employee statistics

	Number	%
GENDER		
Male	1 060	55
Female	854	45
RACE		
Black	1 229	64
White	685	36
EDUCATION		
Up to grade 11	434	23
Grade 12	735	38
Post-grade 12 (eg diploma/certificate)	451	24
University degree	218	11
Post-graduate degree or professional qualification	76	4
HIERARCHY		
Executive directors (including CEOs and MDs)	43	2
Executive management	61	3
Operational	1 503	79
Support	307	16
Total number of employees	1 914	

value added statement

for the year ended 28 February 2003

	2003		2002	
	R000	**%**	R000	%
VALUE ADDED				
Net interest income	**389 022**	**51**	364 053	47
Investment income	**20 796**	**3**	159 737	20
Other operating income	**348 144**	**46**	256 576	33
	757 962	**100**	780 366	100
Net operating expenses	**250 477**	**33**	257 698	33
	507 485	**67**	522 668	67
VALUE ALLOCATED				
To employees				
Salaries, wages and other benefits	**242 654**	**48**	240 045	46
To providers of capital	**231 298**	**46**	111 803	21
Interest on loans	**38 479**	**8**	20 136	4
Dividends – own shareholders	**39 600**	**8**	59 762	11
– outside shareholders	**153 219**	**30**	31 905	6
To government	**42 902**	**8**	51 133	10
Normal taxation	**26 781**	**5**	36 723	7
Value added tax	**10 441**	**2**	11 093	2
Financial services levies	**519**		112	
Regional services council levies	**2 410**		1 927	1
Stamp duties	**2 751**	**1**	1 278	
To expansion and growth	**(9 369)**	**(2)**	119 687	23
Depreciation	**47 261**	**9**	38 831	8
Retained income – own shareholders	**48 938**	**10**	11 742	2
– outside shareholders	**(105 568)**	**(21)**	69 114	13
	507 485	**100**	522 668	100

The PSG Group is committed to the principles of transparency, integrity and accountability as advocated in the King Report 2002 on corporate governance. Accordingly PSG Group's corporate governance policies have in all material respects 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 PSG's directors are provided on the inside front cover of this annual report.

The board meets not less than six times per annum and had a 100% attendance record for the past year. The board comprises one executive director, two non-executive directors and four independent non-executive directors.

Executive directors do not have service contracts and 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.

The board's key roles and responsibilities are:

- Promoting the interests of shareholders
- Ultimate accountability and responsibility for the performance and affairs of the company
- Retaining full and effective control

The board has appointed the following committees to assist it in the performance of its duties:

- Remuneration committee
- Audit and risk committee
- Nominations committee

Remuneration committee

The remuneration committee comprises Mr J Hoffman BA LLB (chairman) and Messrs J de V du Toit, MJ Jooste, CA Otto and MS du P le Roux.

The committee met once during the past year and all the members were present.

The committee is chaired by an independent non-executive. 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 remuneration committees in the group. 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.

Audit and risk committee

The audit and risk committee comprises Dr J van Zyl Smit (chairman), and Messrs J de V du Toit, L van A Bellingan and JA Swanepoel.

The committee met twice during the past year and had a 100% attendance.

The committee is chaired by an independent non-executive director. Each major group subsidiary has its own audit and risk committee and all audit committees are chaired by the same independent non-executive director.

Nominations committee

The nominations committee comprises Mr JF Mouton (chairman) and Messrs J de V du Toit and MJ Jooste.

The committee met once during the past year and all the members were present.

The nominations committee makes recommendations to the board on the composition of the board and the balance between executive and non-executive directors. Skill and experience, demographics and diversity are taken into account in this process.

The committee is responsible for identifying and nominating candidates for the approval of the board as additional directors or to fill any vacancies when they arise. They also advise the board on succession planning.

The committee makes recommendations on the re-election or not of retiring directors who make themselves available for re-election.

Executive directors' remuneration

The remuneration of the executive directors of PSG Group is dealt with in the directors' report. Executive directors are members of the PSG Group long-term share incentive scheme which is not an option but a share purchase scheme in terms of which they are obliged to purchase the allocated shares regardless of whether these shares are in the money or not.

Risk management and internal control

The board acknowledges that it is accountable for the process of risk management and the system of internal control of the group.

Each group company has its own board of directors responsible for the management, including risk management and internal control, of that company and its business.

The Banks Act imposes additional responsibilities on the board of a registered bank. Capitec Bank Holdings Limited has sophisticated risk management controls and procedures, which are comprehensively dealt with in its annual report.

The group audit and risk committee assists the board in discharging responsibilities and monitors the advice given by the other operating companies' audit committees to the respective boards.

Internal audit

On the recommendation of the audit and risk committee the board has decided not to establish an internal audit function. The committee's recommendation is based on the fact that PSG Group is an investment holding company and internal audit functions have been established, where necessary, throughout the PSG Group. These functions are well formalised and any major issues are referred to PSG Group audit and risk committee.

Sustainability

Stakeholder relations

PSG Group subscribes to the principles of objective, honest, timeous, balanced, relevant and understandable communication of financial and non-financial information to stakeholders.

The group acknowledges the task and responsibility of regulators, and our relationships with them are maintained in a businesslike manner, frank, open and with mutual respect.

Safety, health and environment

PSG Group is committed to ensuring that employees work in a safe, healthy and clean environment. Our activities do not have an adverse effect on the environment.

Of growing importance is the impact of HIV/Aids on the workforce and the South African economy in general. The operating companies are in the process of implementing their strategies in this regard.

Social responsibility

PSG Group has established a chairman's fund, which is funded by PSG Group, 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.

Human resources

PSG Group regards its people as one of the most important elements of its business. It is therefore important to make the best use of the human capital we have available.

All employees are encouraged and motivated to better themselves through training and study. Training programmes initiated by companies in the group are regarded as an essential element of PSG Group's investment in human capital.

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 Group subscribes to the principles of equal opportunity and employment equity. Group companies have specific action plans whilst PSG Group has instituted a tertiary bursary programme for disadvantaged students.

Ethics

PSG Group'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.

Products and product development

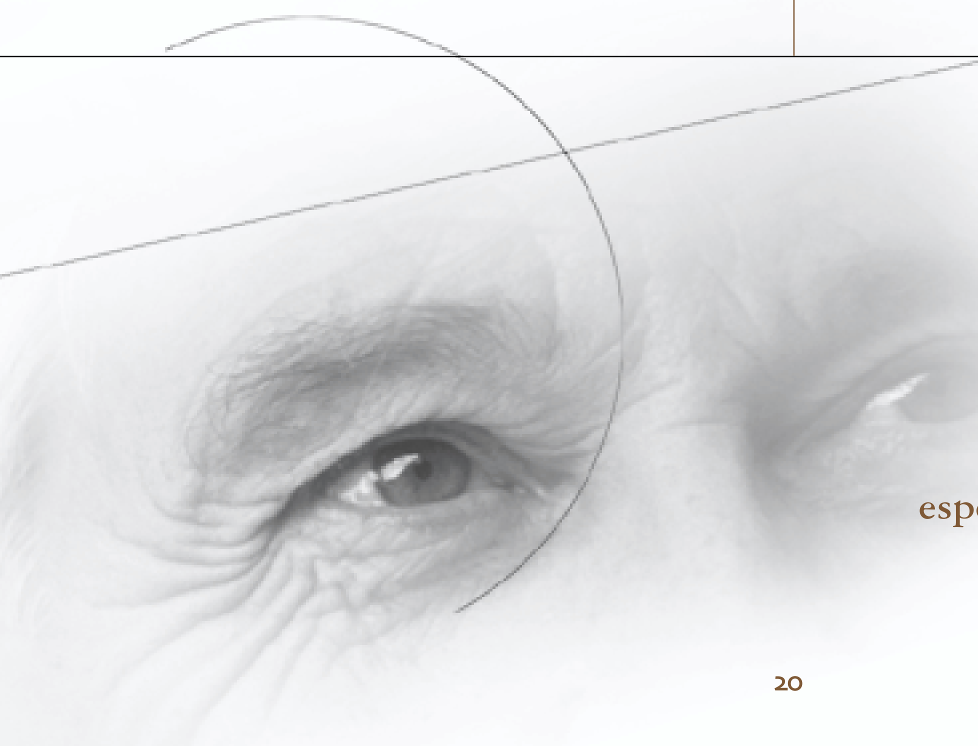
PSG Group acts as investor for own account, as financier and finance conduit for the group. Group companies develop their own specialist product range such as insurance, investment, broking, multi-management, financial training, asset management and investor support products.

The group also provides legal, financial and regulatory support and advice to listed and to non-listed clients.

Distribution

In the main, each company has its own distribution channel. These channels are based on one, one to many, internet, or professional intermediary network according to its products and client profile.

A meaningful volume of cross-selling into the various client bases is already taking place and continues to be a priority for growth.



ob-serve

To be or become aware of, especially through careful and directed attention; *notice*

contents

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 24 to 59 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

22 April 2003
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 24 to 59 for the period ended 28 February 2003. 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 about whether 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 2003 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)

22 April 2003
Cape Town

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 secretaries

22 April 2003
Stellenbosch

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 income statements, balance sheets and notes thereto. The group's headline earnings attributable to shareholders amounted to R84,8 million (2002: R175,2 million).

SHARE CAPITAL

Details of the authorised and issued share capital appear in note 14 to the financial statements.

DIVIDENDS AND CAPITAL DISTRIBUTION

Details of dividends and the capital distribution appear in note 34 to the financial statements.

SHARE INCENTIVE SCHEMES

PSG Group Limited

The Share Trust currently holds 5 660 990 PSG shares with a market value of R29,4 million, which have been allocated to participants at a total consideration of R29,0 million. Messrs JF Mouton and CA Otto are directors of PSG Group. Their participation in this scheme is 2 350 000 and 1 800 000 shares respectively.

Subsidiary company

Capitec Bank Holdings Limited

A total number of 8 079 205 options have been granted at prices between 142 and 145 cents per share. These options may be exercised over a period of five years.

DIRECTORATE

The directors of the company at the date of this report appear on the inside front cover.

Since the date of the previous report Dr J van Zyl Smit has been appointed as director of the company and Ms LM Rouillard resigned as director of the company.

In terms of the company's articles of association, Dr J van Zyl Smit, being a new appointment to the board, retires as director at the next annual general meeting but, being eligible, offers himself for re-election. Messrs PE Burton and J de V du Toit retire by rotation but, being eligible, offer themselves for re-election.

DIRECTORS' EMOLUMENTS

The following directors' emoluments have been paid by the company and its subsidiaries for the year ended 28 February 2003:

R'000	Services as directors	Cash package	Other benefits [1]	Performance related	**Total 2003**	Total 2002
Executive						
JF Mouton		2 352		2 000 [2]	**4 352**	4 300
Non-executive						
L van A Bellingan	80				**80**	13
PE Burton	40				**40**	35
J de V du Toit		806	128		**934**	872
MJ Jooste	80				**80**	13
CA Otto		1 740		1 500 [2]	**3 240**	3 500
LM Rouillard	40				**40**	31
Retiring directors						3 962
	240	4 898	128	3 500	**8 766**	12 726

1 No gains in terms of any share option or share incentive scheme
2 Relates to 2002 financial year, paid in current year

SHAREHOLDING OF DIRECTORS

The shareholding of directors in the issued share capital of the company as at 28 February 2003 was as follows:

	Beneficial		Non-beneficial		Total shareholding	
	Direct	Indirect	Direct	Indirect	Number	%
L van A Bellingan				220 000	**220 000**	**0,2**
PE Burton						
J de V du Toit				1 220 000	**1 220 000**	**1,0**
MJ Jooste				1 597 147	**1 597 147**	**1,3**
JF Mouton	100			16 249 900	**16 250 000**	**13,5**
CA Otto	100			1 780 762	**1 780 862**	**1,5**
LM Rouillard				311 582	**311 582**	**0,3**
	200	–	–	21 379 391	**21 379 591**	**17,8**

SECRETARY

The secretary of the company is PSG Corporate Services (Pty) Limited. The business and postal addresses are shown on the inside back cover.

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 consistent with those adopted in the previous year, except for investment properties, which are now depreciated (see note 1).

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 is not depreciated. Depreciation on buildings, motor vehicles, plant, 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:

– Buildings	25 years
– Motor vehicles	5 years
– Plant	15 years
– 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 or associated company at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life.

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, 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 – to the extent that it does not exceed the fair value of acquired non-monetary assets – is reported on the balance sheet net of other intangible assets and amortised over its estimated useful lives of the non-monetary assets. Other negative goodwill is taken directly to income.

Expenditure on acquired patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, generally 20 years. 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 operations and entities

Monetary assets and liabilities of subsidiaries, which are considered to be integrated foreign operations, are translated at rates of exchange ruling at the financial year-end. Income and expenditure of foreign operations are translated at the weighted average rate of exchange during the year. Exchange differences arising from the translation of integrated foreign operations are dealt with in the income statement in the year in which the difference occurs.

Assets and liabilities in subsidiaries, which are considered to be foreign entities, 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 but subsequently reported at fair value. The purpose of these instruments is to reduce risk.

Disclosure about 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.

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.

12. FINANCE LEASES

Assets subject to finance leases in which the risk and rewards of ownership are substantially transferred to the lessees are treated as advances. The investment is recorded at the present value of the future lease payments in the leased asset. Adequate provision is made for doubtful debts which are 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. Currently enacted taxation rates 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 expenses are 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 operating activities

Other operating 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 estimated reliably. 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 medical 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.

19. COMPARATIVE FIGURES

Where necessary, comparative figures have been reclassified to comply with current year treatment.

balance sheets

as at 28 February 2003

	Notes	Group 2003 R000	Group 2002 R000	Company 2003 R000	Company 2002 R000
Assets					
Fixed assets	1	**165 423**	292 954		
Net intangible assets	2	**65 636**	100 214		
Investment in subsidiaries	3			**1 188 238**	1 188 238
Investment in associated companies	4	**80 134**	276 116		
Investments of long-term insurance subsidiaries	5	**557 648**	371 606		
Linked-product investments	6	**271 904**			
Other investments and non-current assets	7	**56 607**	130 882		
Deferred tax asset	8	**104 997**	271 072		
Accounts receivable	9	**799 648**	248 432		
Loans and advances	10	**191 186**	1 073 214		
Investment and trading securities	11	**72 653**	557 237		
Short-term money market assets	12		656 364		
Cash and short-term funds	13	**228 406**	498 995	**195**	125
Total assets		**2 594 242**	4 477 086	**1 188 433**	1 188 363
Shareholders' funds					
Share capital	14	**1 200**	1 200	**1 200**	1 200
Share premium		**382 820**	382 820	**382 820**	382 820
Non-distributable reserves	15	**1 995**	23 576		
Retained earnings	16	**607 035**	810 386	**672 930**	672 930
Ordinary shareholders' funds		**993 050**	1 217 982	**1 056 950**	1 056 950
Outside shareholders' funds		**190 423**	910 327		
Total shareholders' funds		**1 183 473**	2 128 309	**1 056 950**	1 056 950
Liabilities					
Policyholders' funds	17	**556 902**	372 146		
Linked-product liabilities	6	**271 904**			
Long-term liabilities	18	**3 730**	99 973	**131 143**	131 072
Deferred tax liability	8	**359**	15 955		
Deposits and current accounts	19	**25 836**	1 339 313		
Accounts payable	20	**420 289**	400 076	**340**	341
Provisions	21	**32 404**	13 514		
Current tax liabilities		**3 227**	7 622		
Short-term borrowings	22	**96 118**	100 178		
Total liabilities		**1 410 769**	2 348 777	**131 483**	131 413
Total liabilities and shareholders' funds		**2 594 242**	4 477 086	**1 188 433**	1 188 363

income statements

for the year ended 28 February 2003

	Notes	Group 2003 R000	Group 2002 R000	Company 2003 R000	Company 2002 R000
Income					
Net interest income	23	**389 022**	364 053		
Investment income	24	**20 796**	159 737	**39 600**	59 762
Income from long-term insurance activities	25	**38 696**	19 831		
Commission and other operating income	26	**240 475**	162 787	**247**	537
Income from discontinued trading operations		**68 973**	73 958		
Sales		**495 422**	394 239		
Cost of sales		**426 449**	320 281		
Total income		**757 962**	780 366	**39 847**	60 299
Expenses					
Employee compensation and benefits		**242 654**	240 045		
Other operating expenses		**341 417**	336 658	**247**	537
Net income from normal operations	27	**173 891**	203 663	**39 600**	59 762
Financing costs	28	**(38 479)**	(20 136)		
Income from associated companies	29	**5 614**	37 994		
Exceptional items	30	**(236 790)**	25 828		
Net income before taxation		**(95 764)**	247 349	**39 600**	59 762
Taxation	31	**42 522**	(83 608)		
Net income of the group		**(138 286)**	330 957	**39 600**	59 762
Attributable to outside shareholders		**47 651**	158 041		
Earnings attributable to ordinary shareholders		**(185 937)**	172 916	**39 600**	59 762
Earnings per share (cents)	33				
Headline earnings		**70,7**	141,1		
Total earnings		**(154,9)**	139,3		
Distribution per share (cents)	34				
Normal dividend					
Interim			17,0		17,0
Final		**20,0**	33,0	**20,0**	33,0
		20,0	50,0	**20,0**	50,0
Special distribution					
Dividend		**100,0**		**100,0**	
Capital		**100,0**		**100,0**	
		200,0	–	**200,0**	–

statements of changes in owners' equity

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
Ordinary shareholders' funds at beginning of year	**1 217 982**	1 140 819	**1 056 950**	1 101 511
Movements in share capital				
Repurchase of shares		(69)		(69)
	–	(69)	**–**	(69)
Movements in share premium				
Repurchase of shares		(44 492)		(44 492)
	–	(44 492)	**–**	(44 492)
Movements in non-distributable reserves				
Transferred (to)/from retained earnings	**(22 186)**	3 991		
Foreign exchange translation	**605**	8 570		
	(21 581)	12 561	**–**	–
Movements in retained earnings				
Net income for the year	**(185 937)**	172 916	**39 600**	59 762
Ordinary dividends	**(39 600)**	(59 762)	**(39 600)**	(59 762)
Transfer from/(to) non-distributable reserves	**22 186**	(3 991)		
	(203 351)	109 163	**–**	–
Ordinary shareholders' funds at end of year	**993 050**	1 217 982	**1 056 950**	1 056 950

cash flow statements

for the year ended 28 February 2003

	Notes	Group 2003 R000	Group 2002 R000	Company 2003 R000	Company 2002 R000
Cash retained from operating activities					
Cash generated by operating activities	42.1	**422 744**	401 945	**39 600**	59 762
Change in net current assets	42.2	**(179 602)**	(157 558)	**(1)**	117
Financing costs		**(38 479)**	(20 136)		
Taxation paid	42.3	**(45 059)**	(91 640)		
Cash available from operating activities		**159 604**	132 611	**39 599**	59 879
Dividends and capital distributions		**(39 600)**	(59 762)	**(39 600)**	(59 762)
Net cash retained		**120 004**	72 849	**(1)**	117
Cash utilised in investing activities					
Net investment in fixed assets		**(79 466)**	(112 617)		
Investments					
Subsidiaries acquired	42.4	**(22 619)**	(24 858)		
Additional shares in subsidiaries acquired		**(8 951)**	(94 550)		
Subsidiaries sold	42.5	**(28 898)**	3 810		
Investment in associates acquired			(66 561)		
Proceeds on disposal of associates		**13 497**			
Loans to subsidiaries and associates		**949**	1 871	**71**	44 525
Investments made by long-term insurance subsidiaries		**(186 042)**	(75 980)		
Linked-product investments – funds received		**271 904**			
Linked-product investments – funds invested		**(271 904)**			
Other investments and loans		**57 143**	(57 701)		
Foreign exchange translation		**(21 006)**	16 060		
		(275 393)	(410 526)	**71**	44 525
Cash flow attributable to investment in short-term income-earning assets					
Change in deposits and current accounts		**(514 260)**	(117 173)		
Change in loans and advances		**(100 507)**	225 080		
Change in investment and trading securities		**320 143**	223 795		
Change in short-term money market assets		**470 837**	103 673		
		176 213	435 375	**–**	–
Cash flow from financing activities					
Share buyback by PSG Group Limited			(44 561)		(44 561)
Share buyback by subsidiary companies		**(18 728)**			
Dividends paid to outside shareholders		**(153 219)**			
Cash distributions to outside shareholders		**(62 018)**			
Outside shareholder funding		**394**	(66 246)		
Change in long-term borrowings		**(17 636)**	(45 422)		
Change in short-term borrowings		**10 690**	(5 832)		
		(240 517)	(162 061)	**–**	(44 561)
Net (decrease)/increase in cash and equivalents		**(219 693)**	(64 363)	**70**	81
Cash and equivalents at beginning of year		**443 045**	507 408	**125**	44
Cash and equivalents at end of year	42.6	**223 352**	443 045	**195**	125

notes to the financial statements

for the year ended 28 February 2003

	Land and buildings R000	Vehicles and plant R000	Office equipment R000	Computer equipment and software R000	**Total R000**
1. FIXED ASSETS					
For the year ended 28 February 2003					
Balance at beginning of year	**12 202**	**126 777**	**48 278**	**105 697**	**292 954**
Additions	**1 800**	**31 400**	**19 061**	**29 632**	**81 893**
Disposals		**(40)**	**(2 266)**	**(121)**	**(2 427)**
Depreciation	**(491)**	**(9 726)**	**(14 800)**	**(22 244)**	**(47 261)**
Subsidiaries acquired		**890**	**768**	**2 654**	**4 312**
Subsidiaries sold	**(9 545)**	**(147 624)**	**(4 485)**	**(2 394)**	**(164 048)**
Balance at end of year	**3 966**	**1 677**	**46 556**	**113 224**	**165 423**
Cost	**4 457**	**12 883**	**72 190**	**156 053**	**245 583**
Accumulated depreciation	**491**	**11 206**	**25 634**	**42 829**	**80 160**
Balance at end of year	**3 966**	**1 677**	**46 556**	**113 224**	**165 423**
For the year ended 28 February 2002					
Balance at beginning of year	2 563	230	23 864	34 297	60 954
Additions	1 299	42 507	33 419	83 471	160 696
Disposals	(432)	(4 000)	(1 205)	(363)	(6 000)
Depreciation		(14 283)	(11 389)	(13 159)	(38 831)
Subsidiaries acquired	9 399	102 334	3 589	1 859	117 181
Subsidiaries sold	(627)	(11)		(408)	(1 046)
Balance at end of year	12 202	126 777	48 278	105 697	292 954
Cost	12 202	235 888	80 202	155 124	483 416
Accumulated depreciation		109 111	31 924	49 427	190 462
Balance at end of year	12 202	126 777	48 278	105 697	292 954

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 2003, as determined by the directors of the relevant property-owning group companies, amounted to R6 881 000 (2002: R5 081 000).

During the year the group has changed its accounting policies in respect of investment properties to be in line with the requirements of AC 135. In the past no depreciation was provided for investment properties. The effect of the change on previous years was not material and accordingly no prior year adjustment was made.

	Trademarks R000	Goodwill R000	Negative goodwill R000	**Total R000**
2. INTANGIBLE ASSETS				
For the year ended 28 February 2003				
Balance at beginning of year	**1 980**	**178 691**	**(29 810)**	**150 861**
Adjustments to prior year balances		**7 074**		**7 074**
Goodwill on acquisitions		**10 351**		**10 351**
Realised on disposal		**(872)**		**(872)**
Amortisation	**(1 685)**	**(27 558)**		**(29 243)**
Impairment charges		**(20 213)**		**(20 213)**
Subsidiaries acquired	**6 204**			**6 204**
Subsidiaries sold		**(7 068)**		**(7 068)**
Balance at end of year	**6 499**	**140 405**	**(29 810)**	**117 094**
Cost	**10 616**	**213 666**	**(29 810)**	**194 472**
Accumulated amortisation	**4 117**	**73 261**		**77 378**
Balance at end of year	**6 499**	**140 405**	**(29 810)**	**117 094**
Attributable to outside shareholders		**51 458**		**51 458**
Net carrying value	**6 499**	**88 947**	**(29 810)**	**65 636**
For the year ended 28 February 2002				
Balance at beginning of year	2 734	212 963	(136 810)	78 887
Additions	338	84 850		85 188
Realised on disposal	(651)	(41 060)		(41 711)
Amortisation	(441)	(25 719)		(26 160)
Impairment charges		(52 343)		(52 343)
Subsidiaries sold			107 000	107 000
Balance at end of year	1 980	178 691	(29 810)	150 861
Cost	2 440	265 775	(29 810)	238 405
Accumulated amortisation	460	87 084		87 544
Balance at end of year	1 980	178 691	(29 810)	150 861
Attributable to outside shareholders		50 647		50 647
Net carrying value	1 980	128 044	(29 810)	100 214

notes to the financial statements

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
3. INVESTMENT IN SUBSIDIARIES				
Unlisted shares at cost less goodwill written off			**1 188 238**	1 188 238
Refer Annexure A				
4. INVESTMENTS IN ASSOCIATED COMPANIES				
Listed				
Carrying value of shares	**44 187**	139 140		
Retained earnings	**34 358**	104 454		
	78 545	243 594		
Unlisted				
Carrying value of shares	**113**	40 988		
Retained earnings	**913**	(9 978)		
Unsecured loans	**563**	1 512		
	1 589	32 522		
	80 134	276 116		
Market value of listed investments	**53 493**	198 534		
Directors' valuation of unlisted investments	**2 716**	31 247		
Refer Annexure A				
5. INVESTMENTS OF LONG-TERM INSURANCE SUBSIDIARIES				
Unit trusts	**174 093**	32 656		
Government, public utility and municipal stock	**60 070**	67 315		
Preferential investment	**2 828**	2 828		
Equity portfolios	**5 545**	31 216		
Secured loans	**65 210**	63 431		
Property investments		2 026		
Structured products	**86 877**	74 074		
Cash	**163 025**	82 954		
Annuities		15 106		
Investments at market value	**557 648**	371 606		

6. LINKED-PRODUCT INVESTMENTS

The group introduced the new investment product, Capitus, through its subsidiary PSG Investment Services (Pty) Limited. Funds invested by clients, shown as a liability on the balance sheet, are directly linked with the funds invested. These investments are disclosed as linked-product investments and are represented by deposits with A1 banking institutions.

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
7. OTHER INVESTMENTS AND NON-CURRENT ASSETS				
Listed investments at cost less provisions	**11 679**	18 693		
Unlisted investments at cost	**13 914**	27 009		
Amounts advanced to share incentive trusts	**29 404**	67 117		
Other	**1 610**	18 063		
	56 607	130 882		
Market value of listed investments	**9 594**	21 786		
Directors' valuation of unlisted investments	**13 574**	26 947		
Refer Annexure A				
8. DEFERRED TAXATION				
Movements in deferred taxation				
Balance at beginning of year	**255 117**	150 458		
Charges to income statement	**(9 918)**	20 592		
Deferred tax asset created		106 538		
Adjustments to prior year tax losses	**(7 074)**			
Subsidiaries acquired	**161**	(22 471)		
Subsidiaries disposed of	**(133 648)**			
Balance at end of year	**104 638**	255 117		
Analysis of deferred taxation				
Prepaid expenses	**(595)**	(479)		
Provisions	**2 704**	20 967		
Capital allowances		(38 486)		
Assessed losses	**102 529**	270 566		
Other		2 549		
	104 638	255 117		
Composition of deferred taxation				
Deferred tax assets	**104 997**	271 072		
Deferred tax liabilities	**(359)**	(15 955)		
	104 638	255 117		
9. ACCOUNTS RECEIVABLE				
Trade debtors	**46 821**	146 972		
Prepayments and sundry debtors	**133 117**	101 460		
Receivable in respect of disposal of PSGIB	**619 710**			
	799 648	248 432		

notes to the financial statements

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
10. LOANS AND ADVANCES				
Category analysis				
Secured loans	**78 364**	444 702		
Unsecured loans	**1 508**	362 614		
Leases and instalment debtors		39 160		
Trade finance debtors		146 082		
Cash loans	**148 191**	118 943		
Other		25 970		
	228 063	1 137 471		
Specific and general provisions	**36 877**	64 257		
	191 186	1 073 214		
Maturity analysis				
On demand to one month	**142 725**	549 654		
One month to six months	**55 856**	85 701		
Six months to one year	**5 417**	16 142		
More than one year	**24 065**	485 974		
	228 063	1 137 471		
Analysis of provisions				
Specific provisions for bad and doubtful debts	**35 829**	46 900		
General provision	**1 048**	17 357		
	36 877	64 257		
Movement in provisions				
Balance at beginning of year	**64 257**	38 116		
Debts written off	**(42 450)**	(48 005)		
Subsidiaries acquired		10 964		
Subsidiaries disposed of	**(35 869)**			
Charge to income statement to increase provision	**50 939**	63 182		
Provision at year-end	**36 877**	64 257		

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
11. INVESTMENT AND TRADING SECURITIES				
Category analysis				
Government and government guaranteed	**24 818**	25 594		
Listed securities	**4 220**	104 693		
Unlisted securities	**43 615**	155 847		
Forward exchange contracts		271 103		
	72 653	557 237		
Analysis by portfolio				
Investment	**46 014**	132 244		
Trading	**26 639**	424 993		
	72 653	557 237		
Maturity analysis				
On demand to one month	**26 560**	66 473		
One month to six months	**4 119**	270 688		
Six months to one year	**6 439**	14 977		
More than one year	**35 535**	205 099		
	72 653	557 237		
12. SHORT-TERM MONEY MARKET ASSETS				
Bills		24 817		
Money market instruments		631 547		
	–	656 364		
13. CASH AND SHORT-TERM FUNDS				
Balances with central bank		24 485		
Balances with other banks	**95 672**	344 272		
Money on call and short notice	**56 681**	65 162		
Reserved deposits	**819**	1 390		
Bank and cash	**75 234**	63 686	**195**	125
	228 406	498 995	**195**	125

notes to the financial statements

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	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				
120 000 000 shares of 1 cent each (2002: 120 000 000)	**1 200**	1 200	**1 200**	1 200

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.

	Group		Company	
15. NON-DISTRIBUTABLE RESERVES				
Foreign exchange translation	**1 995**	19 458		
Other		4 118		
	1 995	23 576		
16. RETAINED EARNINGS				
Company	**47 542**	47 542	**672 930**	672 930
Consolidated subsidiaries	**559 493**	762 844		
	607 035	810 386	**672 930**	672 930
17. POLICYHOLDERS' FUNDS				
Opening balance at market value	**372 146**	87 119		
Amount transferred from the income statement in respect of increase in actuarial liabilities and additional reserves	**184 756**	35 531		
Property and subsidiary revaluation		(443)		
Subsidiaries acquired		249 939		
Closing balance at market value	**556 902**	372 146		

Financial soundness

In their report to the company the statutory actuaries reported that they have valued the policy liabilities and 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 are more than sufficient to cover its capital adequacy requirements.

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
18. LONG-TERM LIABILITIES				
Redeemable preference shares (25 000 shares in PSG Financial Services Ltd of R0,01 each issued at a premium of R999,99)		25 000		
Redeemable preference shares (75 000 shares in Business Venture Investments No. 366 (Pty) Ltd of R0,01 each issued at a premium of R999,99)	**75 000**	75 000		
Hire purchase agreements		40 818		
Loans from subsidiary companies			**131 143**	131 072
Other	**8 359**	3 175		
	83 359	143 993	**131 143**	131 072
Less: Transferred to short-term borrowings	**(79 629)**	(44 020)		
	3 730	99 973	**131 143**	131 072

Dividends on the preference shares are paid half yearly at a rate of 74% of the prime overdraft rate and shares are redeemable in full at par on 31 March 2003 and were duly redeemed.

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 final dividend due. In addition the liability of R75 000 000 is secured by a session of 370 000 000 shares in PSG Investment Bank Holdings Limited.

	Group 2003 R000	Group 2002 R000
19. DEPOSITS AND CURRENT ACCOUNTS		
Category analysis		
Call deposits		183 012
Negotiable securities of deposit		102 204
Term deposits	**25 836**	262 438
Repurchase agreements		544 574
Structured products		37 548
Deposits from banks		209 537
	25 836	1 339 313
Maturity analysis		
On demand to one month	**1 138**	827 381
One month to six months	**5 000**	337 639
Six months to one year	**11 938**	23 256
More than one year	**7 760**	151 037
	25 836	1 339 313

notes to the financial statements

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
20. ACCOUNTS PAYABLE				
Accounts payable and accruals	**200 710**	400 076	**340**	341
Payable in respect of assets acquired as part of disposal of PSGIB	**219 579**			
	420 289	400 076	**340**	341

21. PROVISIONS	Liquidity provision	Suretyship (refer note 37)	Onerous leases	**Total 2003**	Total 2002
Balance at beginning of year	**13 514**			**13 514**	12 654
Additional provisions	**6 587**	**15 000**	**19 686**	**41 273**	860
Utilised during the year	**(2 637)**		**(6 232)**	**(8 869)**	
Subsidiaries sold	**(13 514)**			**(13 514)**	
	3 950	**15 000**	**13 454**	**32 404**	13 514

Movements in the provisions have been charged to income.

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
22. SHORT-TERM BORROWINGS				
Bank overdrafts	**5 054**	55 950		
Unsecured loans		208		
Short-term portion of linked-product liabilities	**11 435**			
Short-term portion of long-term liabilities	**79 629**	44 020		
	96 118	100 178		
23. NET INTEREST INCOME				
Interest income				
Loans and advances	**435 570**	443 147		
Investment and trading securities	**13 308**	26 804		
Short-term money market assets	**12 139**	36 538		
Cash and short-term funds	**22 246**	21 766		
Other	**90**	9 333		
	483 353	537 588		
Interest expense				
Deposits and current accounts	**82 541**	167 150		
Other interest-bearing liabilities	**11 790**	6 385		
	94 331	173 535		
	389 022	364 053		

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
24. INVESTMENT INCOME				
Income from listed investments				
Interest		3 398		
Dividends	**740**	12 261		
Profit on realisation of investments	**5 476**	6 299		
Loss on realisation of investments	**(2 564)**	(8 102)		
Foreign exchange gains		25 098		
Income from unlisted investments				
Interest	**28 638**	312		
Dividends	**5 131**	42 520	**39 600**	59 762
Profit on realisation of investments	**1 054**	74 593		
Loss on realisation of investments	**(434)**	(24 651)		
Foreign exchange gains	**(17 245)**	28 009		
	20 796	159 737	**39 600**	59 762
25. INCOME FROM LONG-TERM INSURANCE ACTIVITIES				
Premium income				
Recurring premiums	**224 784**	143 664		
Single premiums	**199 353**	75 688		
Gross premium income	**424 137**	219 352		
Less: Premiums paid	**(82 472)**	(53 130)		
Net premium income	**341 665**	166 222		
Investment income				
Dividends	**8 152**	5 115		
Interest	**25 968**	22 382		
Net property income	**25**	239		
Realised (deficit)/surplus on investments	**(10 766)**	16 330		
Unrealised surplus/(deficit) on investments	**17 356**	(10 601)		
Net investment income	**40 735**	33 465		
Re-insurance commission	**13 480**	4 325		
Total income	**395 880**	204 012		
Expenses				
Operating expenses	**91 514**	109 443		
Claims and other policyholder benefits	**80 914**	39 206		
	172 428	148 649		
Transfer to policyholders' funds	**(184 756)**	(35 532)		
	38 696	19 831		

notes to the financial statements

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
26. COMMISSION AND OTHER OPERATING INCOME				
Commission and fees	**162 366**	130 242		
Dealing and structuring transactions	**22 725**	16 192		
Treasury operations	**27 989**	5 205		
Other operating income	**27 395**	11 148		
Management fees – subsidiary companies			**247**	537
	240 475	162 787	**247**	537
27. NET INCOME FROM NORMAL OPERATIONS				
The following items have been charged in arriving at net income from normal operations:				
Depreciation				
Land and buildings	**491**			
Motor vehicles and plant	**9 726**	14 283		
Office equipment	**14 800**	11 389		
Computer equipment and software	**22 244**	13 159		
	47 261	38 831		
Amortisation of trademarks	**1 685**	441		
Amortisation of goodwill	**27 558**	25 719		
Attributable to outside shareholders	**149**	208		
	27 409	25 511		
Rental and operating lease charges				
Properties	**53 212**	61 354		
Other	**5 314**	5 162		
	58 526	66 516		
Foreign exchange differences – borrowings				
Foreign exchange gains	**1 181**	3 792		
Foreign exchange losses	**(3 037)**	(291)		
	(1 856)	3 501		
Auditors' remuneration				
Audit fees	**5 099**	5 829		
Taxation services	**63**	1 549		
Other consulting services	**679**	1 508		
	5 841	8 886		

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000

27. NET INCOME FROM NORMAL OPERATIONS (continued)

	Group 2003 R000	Group 2002 R000
Remuneration other than to employees		
Administration and managerial	**23 969**	35 681
Secretarial	**259**	1 054
Technical	**763**	6 236
	24 991	42 971
Staff costs		
Salaries, wages and allowances	**221 860**	222 386
Contributions to retirement funds	**9 432**	10 332
Social security costs	**1 682**	1 445
Termination benefits	**7 813**	2 671
Training costs	**1 867**	3 211
	242 654	240 045
Directors' emoluments		
Refer directors' report		

28. FINANCING COSTS

	Group 2003 R000	Group 2002 R000
Long-term liabilities	**14 167**	13 342
Other interest-bearing liabilities	**24 312**	6 794
	38 479	20 136

29. INCOME FROM ASSOCIATED COMPANIES

	Group 2003 R000	Group 2002 R000
Headline attributable income for the year	**11 935**	37 994
Share of goodwill amortisation	**(4 853)**	
Share of exceptional items	**(1 468)**	
Share of net income before taxation	**5 614**	37 994
Share of taxation (included in taxation line)	**5 823**	8 229

30. EXCEPTIONAL ITEMS

	Profit before taxation R000	Taxation R000	Outside shareholders R000	Group Net **2003** **R000**	Group Net 2002 R000
Loss on sale of PSGIB	183 344			**183 344**	
Goodwill impairment	21 230			**21 230**	41 658
Other impairment charges	16 609			**16 609**	18 706
Restructuring costs	20 615	(1 623)	(712)	**18 280**	
Investment activities	(5 008)	226	2 350	**(2 432)**	(1 307)
Negative goodwill					(82 332)
Net total	236 790	(1 397)	1 638	**237 031**	(23 275)
Taxation				**1 397**	
Outside shareholders				**(1 638)**	(2 553)
				236 790	(25 828)

notes to the financial statements

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
31. TAXATION				
South African normal taxation				
Current taxation – current year	**9 934**	29 689		
Current taxation – previous year	**(244)**	(285)		
Deferred taxation – current year	**10 854**	(22 022)		
Deferred taxation – previous year	**180**	1 430		
	20 724	8 812		
Foreign taxation				
Current taxation	**2 007**	5 880		
Deferred taxation	**(1 116)**			
Secondary tax on companies	**15 084**	9		
Taxation related to income from associates	**5 823**	8 229		
Taxation on normal operations	**42 522**	22 930		
Deferred tax asset created		(106 538)		
	42 522	(83 608)		
Reconciliation of rate of taxation	**%**	%		
South African normal tax rate	**(30,0)**	30,0		
Adjusted for:				
Non-taxable income	**(36,9)**	(35,4)		
Non-deductible charges	**89,7**	11,2		
Foreign tax rate differential	**2,2**	(1,1)		
Income from associated companies	**4,3**	(0,7)		
Secondary tax on companies ("STC")	**15,8**			
Prior year overprovision	**(0,7)**	(0,2)		
Deferred tax asset not provided for		5,5		
Effective rate of tax	**44,4**	9,3		
Gross calculated tax losses at end of year available for utilisation against future taxable income	**402 452**	887 690		
Deferred tax asset provided	**341 763**	882 800		
Available for future utilisation*	**60 689**	4 890		
STC credits available within the group	**47 960**	191 584	**3 013**	3 013

** This is dependent on there being sufficient taxable income in the future.*

32. DISCONTINUED OPERATIONS

On 6 August 2003, the group publicly announced its intention to sell its investment in PSG Investment Bank Holdings Limited. A circular detailing all aspects of the transaction was sent to shareholders on 14 February 2003.

Although the last of the suspensive conditions were only met after year-end, the effective date of the transaction was 1 November 2002, the date when control passed, and these financial statements accordingly reflect the sale as if the transaction had been fully concluded as of the balance sheet date.

Apart from certain assets taken over by other subsidiaries within the PSG Group, the investment in PSGIB comprised all of the group's activities in the *investment banking* segment and are reported on in these financial statements as a discontinued operation.

The revenue, results, cash flows and net assets of the discontinued operations were as follows:

	8 months to 31 Oct 2002 R000	12 months to 28 Feb 2002 R000
Income statement		
Total income	143 332	246 569
Operating expenses	(80 757)	(178 610)
Net income from operations	62 575	67 959
Financing costs	524	6 959
Income from associated companies	8 390	21 921
Exceptional items	4 929	(40 126)
Profit before taxation	76 418	56 713
Taxation	(16 558)	106 741
Profit after taxation	59 860	163 454
Cash flows		
Operating cash flows	953	(75 558)
Investing cash flows	135 940	86 503
Financing cash flows	(246 399)	(108 599)
Total cash flows	(109 506)	(97 654)

Based on unaudited financial results for the period to 31 August 2002 and adjustments forward to the effective date of the transaction. Both these were however reviewed for consistency by the auditors of PSGIB.

notes to the financial statements

for the year ended 28 February 2003

32. DISCONTINUED OPERATIONS (continued)

	At 31 Aug 2002 R000	At 28 Feb 2002 R000
Assets and liabilities		
As previously reported:		
Total assets	2 375 589	3 341 513
Total liabilities	(1 029 230)	(1 679 330)
Minority shareholders within PSGIB	(62 127)	(72 294)
Net assets retained within PSG Group	(172 094)	(172 094)
Net assets	1 112 138	1 417 795
The loss on disposal was determined as follows:		
Net assets as above	1 112 138	
Minority shareholders of PSGIB	(513 693)	
Increase in net assets until effective date	4 518	
Group's investment in PSGIB	602 963	
Intergroup eliminations	(9 577)	
Proceeds from sale (net of assets taken over)	429 196	
Loss on disposal	(183 344)	

The purchase consideration, which is included in accounts receivable, was settled on 31 March 2003. Prior to the disposal PSG Group acquired certain assets from PSGIB. The purchase price for these assets was also settled on 31 March 2003.

	Group		Company	
	2003 R000	2002 R000	**2003 R000**	2002 R000
33. EARNINGS PER SHARE				
The calculations of earnings per share is based on the following:				
Total earnings attributable to ordinary shareholders	**(185 937)**	172 916		
Adjustments (net of tax and outside shareholders):				
Goodwill amortisation	**27 409**	25 511		
Exceptional items	**237 031**	(23 275)		
Non-headline items of associated companies	**6 321**			
Headline earnings	**84 824**	175 152		
Weighted average number of shares (000)	**120 000**	124 200		

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
34. DISTRIBUTIONS TO SHAREHOLDERS				
Normal dividend				
Interim				
0 cents per share (2002: 17,0 cents)		21 012		21 012
Final				
20 cents per share (2002: 33,0 cents)	**24 000**	39 600	**24 000**	39 600
Special distribution				
Dividend				
100 cents per share (2002: 0,0 cents)	**120 000**		**120 000**	
Capital				
100 cents per share (2002: 0,0 cents)	**120 000**		**120 000**	
	264 000	60 612	**264 000**	60 612

Dividends payable are not accounted for until they have been ratified at the annual general meeting. Accordingly, 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 29 February 2004.

	Group 2003 R000	Group 2002 R000
35. CAPITAL EXPENDITURE APPROVED		
Expenditure contracted for	**13 865**	3 030
Expenditure authorised but not contracted for	**39 632**	15 730
	53 497	18 760

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

	Group 2003 R000	Group 2002 R000
36. OPERATING LEASE COMMITMENTS		
Future commitments in terms of:		
Rental agreements		
Due within one year	**6 647**	3 492
One to five years	**5 682**	8 016
Operating leases – premises		
Due within one year	**46 127**	45 111
One to five years	**67 002**	74 825
37. CONTINGENT LIABILITIES		
Guarantees		
Suretyships in favour of banks and other institutions for underwriting commitments and facilities granted	**22 486**	24 434
Foreign exchange		
US dollar commitments	**1 335**	

37. CONTINGENT LIABILITIES (continued)

Share purchase arrangement

PSG Group Limited provided a suretyship to the PSG Share Incentive Trust in respect of a contingent liability it has as a result of a put option against it to acquire shares in PSG Group Limited. The contingency relates to a share purchase arrangement for senior staff of the group set up within an independent financial trust and financed by personal means and a third-party institution.

At year-end the potential exposure of the group amounted to R19 800 000 (2002: R12 875 000) of which R15 000 000 (2002: Rnil) has been provided for.

Axiam Holdings Limited ("Axiam") claims

Following the acquisition of Axiam by PSGIB in November 2001 and subsequent elimination of the minorities, PSGIB has an obligation to the former minority shareholders of Axiam (who together held 2% of Axiam's shares as of that date) to the effect that any recoveries resulting from actions against parties responsible for the erosion of shareholder value of Axiam before then, would be distributed to such minority shareholders pro rata to their respective shareholding as at 21 December 2001. Upon sale of PSGIB, this obligation was taken over by PSG Group Limited.

Ringfenced assets

Upon the acquisition of the business of Keynes Rational by Capitec Bank Holdings Limited, PSGIB warranted to and in favour of the minority shareholders of the former Keynes Rational Holdings Limited and to Capitec Bank Holdings Limited that the tangible net asset value of the acquired business as at 28 February 2001, would not be less than R100 million. During 2002, this liability was assumed by PSG Group following the sale of PSGIB.

In addition to the above, certain ringfenced assets and liabilities in existence at or emanating from activities prior to 1 March 2001, would be held and administered for the exclusive benefit, risk, profit and loss of PSGIB. Upon the sale of PSGIB this benefit was transferred to Axiam, a 100% subsidiary of PSG Group Limited.

Deferred tax liabilities

Deferred tax liabilities have not been established for any South African 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.

38. BORROWING POWERS

In terms of the company's articles of association, borrowing powers are unlimited. Details of actual borrowings are disclosed in note 18 to the financial statements.

39. RETIREMENT FUND

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

40. RELATED-PARTY TRANSACTIONS

PSG Group Limited and its subsidiaries enter into various financial services transactions with other members of the PSG Group. These transactions include a range of investments, administrative, advisory and corporate services in the normal course of business. These transactions are executed on terms no less favourable than those arranged with third parties. All intergroup transactions have been eliminated on consolidation.

Apart from the group's retirement fund being managed by m Cubed, no significant transactions with associated companies occurred.

The shareholding of directors and the directors' remuneration are set out in the directors' report.

41. FINANCIAL INSTRUMENTS

Fair values

At year-end the carrying values of financial instruments reported in the financial statements approximate their fair value.

Credit risk

Potential concentrations of credit risk principally exist in the area of linked-product investments, investment and trading securities, loans and advances, accounts receivable and cash and short-term funds.

Loans and advances, and accounts receivable, are disclosed net of provisions for doubtful debts. The group's exposure to concentrated credit risk is low due to the nature and distribution of the loan book. With regard to the microfinancing book, the exposure to systemic credit risk is regarded as being higher than other banking activities due to the demographic characteristics of the client base. Sufficient measures are taken by the group to limit credit risk to acceptable levels.

Investment and trading securities include credit swaps, to the value of R43 million, originated from South African government issued loans.

The assets underlying the linked-product investments are deposits with A1 banking institutions. The group only deposits surplus cash with major banks of high credit standing.

Interest rate risk

The group's exposure to interest rate risk is limited due to low levels of debt on the balance sheet, loans and advances being repayable within a very short period, and the low level of deposits currently taken.

Foreign currency risk

Apart from certain unit trusts being administered in Mauritius, limited business is conducted outside South Africa. Foreign currency risk relating to the import of goods and services is managed by the use of forward exchange contracts.

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
42. NOTES TO THE CASH FLOW STATEMENT				
42.1 Cash generated by operating activities				
Net income from normal operations	**173 891**	203 663	**39 600**	59 762
Transfer to policyholders' fund	**184 756**	35 532		
Adjustment for other non-cash items	**64 097**	162 750		
	422 744	401 945	**39 600**	59 762
42.2 Change in net current assets				
Change in accounts receivable	**(160 894)**	(126 922)		
Change in other liabilities and provisions	**(18 708)**	(30 636)	**(1)**	117
	(179 602)	(157 558)	**(1)**	117

notes to the financial statements

for the year ended 28 February 2003

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
42. NOTES TO THE CASH FLOW STATEMENT (continued)				
42.3 Taxation paid				
Balance at beginning of year	**(7 622)**	(60 081)		
Charge in income statement	**(42 522)**	83 608		
Deferred tax adjustment	**9 918**	(127 130)		
Share of associates' tax	**5 823**	8 229		
Charge in lieu of tax payable	**(9 546)**			
Subsidiaries acquired/sold	**(4 337)**	(3 888)		
Balance at end of year	**3 227**	7 622		
	(45 059)	(91 640)		
42.4 Subsidiaries acquired				
Net assets of subsidiaries acquired				
Fixed assets	**(4 312)**	(117 181)		
Trademarks	**(6 204)**			
Investments in associated companies	**(29 822)**	(8 032)		
Investments of life assurance subsidiaries		(198 249)		
Other investments and non-current assets	**(8 592)**	(9 341)		
Deferred taxation	**(161)**	22 471		
Accounts receivable	**(10 477)**	(136 956)		
Loans and advances	**(109 480)**	(420 885)		
Investment and trading securities	**(56 906)**	(274 326)		
Short-term money market assets		(91 262)		
Cash and short-term funds	**(23 078)**	(90 485)		
Deposits and current accounts		306 556		
Long-term liabilities	**995**	61 938		
Short-term liabilities	**537**	36 180		
Policyholders' funds		249 939		
Accounts payable	**13 738**	273 470		
Income tax liabilities	**5 566**	3 888		
Outside shareholders	**4 737**	43 245		
Goodwill on acquisition	**(4 509)**	97 116		
Total purchase price	**(227 968)**	(251 914)		
Less: Paid for by non-cash means	**182 271**	169 039		
Cash consideration paid	**(45 697)**	(82 875)		
Deposits and cash of subsidiaries	**23 078**	58 017		
Net cash flow	**(22 619)**	(24 858)		

	Group		Company	
	2003	2002	**2003**	2002
	R000	R000	**R000**	R000
42. NOTES TO THE CASH FLOW STATEMENT (continued)				
42.5 Subsidiaries sold				
Net assets of subsidiaries sold				
Fixed assets	**164 048**	1 046		
Goodwill within subsidiaries	**7 068**			
Investments in associated companies	**192 186**			
Other investments and non-current assets	**42 936**	2 684		
Deferred taxation	**133 648**			
Accounts receivable	**233 584**	2 229		
Loans and advances	**1 092 015**	2 500		
Investment and trading securities	**221 347**			
Short-term money market assets	**185 527**			
Cash and short-term funds	**364 228**			
Deposits and current accounts	**(799 217)**	(8 093)		
Long-term liabilities	**(43 993)**			
Accounts payable	**(98 210)**			
Provision for liabilities	**(13 514)**			
Income tax liabilities	**(1 229)**			
Outside shareholders	**(62 127)**			
Net assets of subsidiaries	**1 618 297**	366		
Outside shareholders	**(513 692)**	(1 495)		
Goodwill realised on disposal	**872**			
Profit on sale of subsidiaries	**(177 330)**	4 939		
Proceeds on sale	**928 147**	3 810		
Unsettled at year-end	**(592 817)**			
Deposits and cash of subsidiaries	**(364 228)**			
Net cash flow	**(28 898)**	3 810		
42.6 Cash and equivalents at end of year				
Cash and short-term funds	**228 406**	498 995	**195**	125
Bank overdrafts	**(5 054)**	(55 950)		
	223 352	443 045	**195**	125

43. COMPARATIVE FIGURES

Comparative figures had been restated to reflect the consolidation of the investment in Fraser Alexander Holdings Limited on a line-by-line basis. In the past these figures were reported on single lines in the income statement and balance sheet.

annexure A – investments

as at 28 February 2003

INTEREST IN SUBSIDIARIES

Company	Proportion held directly or indirectly by holding company **2003** **%**	2002 %	Issued share capital **2003** **R000**	2002 R000
PSG Financial Services Limited	**100**	100	**45 872**	45 872
PSG Investment Services (Pty) Limited	**95**	95	**950**	950
PSG Corporate Services (Pty) Limited	**100**	100	**4**	4
PSG Capital Limited	**100**	–	**40 000**	–
Channel Group Limited	**88**	87	**1 743**	1 800
Capitec Bank Holdings Limited (listed)	**55**	52	**631**	667
PSG Investment Bank Holdings Limited	**–**	60	**–**	7 160

The company's interest in attributable income and losses of subsidiaries amounts to R10 147 000 (2002: R201 790 000) and R12 740 000 (2002: R29 074 000) respectively, excluding the loss on sale of PSGIB of R183 343 000.

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

annexure A – investments

as at 28 February 2003

Company	Nature of business	Proportion held directly or indirectly by holding company 2003 %	2002 %	Group Carrying value 2003 R000	2002 R000
INVESTMENT IN ASSOCIATED COMPANIES					
Listed					
m Cubed Holdings Limited	Financial services	**20**	20	**62 739**	78 346
Appleton Limited	Asset management	**31**	28	**15 806**	26 884
Vestacor Limited	Private equity		45		138 364
				78 545	243 594
Unlisted					
Risk Monitor Group (Pty) Limited	Health consulting	**41**	35	**1 228**	1 762
Other				**361**	30 760
				1 589	32 522

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 of the assets and liabilities of associates are not provided as both are listed companies of which the financial statements are readily available to the public.

	2003 R000	2002 R000
OTHER INVESTMENTS		
Listed		
Cape Empowerment Trust Limited	**4 341**	226
PSG Investment Bank Holdings Limited *		11 691
m Cubed Holdings Limited *		5 304
Other	**7 338**	1 472
	11 679	18 693
Unlisted		
Sundry investments and loans	**13 914**	27 009

* *These investments represent interests in subsidiary and associate companies which are regarded as trading stock.*

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 2003

Primary reporting segment

The group is organised in four main business segments:

– Investment banking
– Retail banking
– Life insurance and employee benefits
– Financial advice and funds management

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.

For the year ended 28 February 2003	Total income R000	Segment result R000	Segment assets R000	Segment liabilities R000
Investment banking	**207 483**	**95 859**	**314 950**	**256 450**
Retail banking	**323 506**	**47 142**	**434 429**	**48 496**
Life insurance and employee benefits	**62 133**	**22 653**	**732 385**	**622 849**
Financial advice and funds management	**138 791**	**24 186**	**435 705**	**396 578**
Other	**26 049**	**(15 949)**	**676 773**	**86 396**
	757 962	**173 891**	**2 594 242**	**1 410 769**

	Capital expenditure R000	Depreciation R000	Amortisation R000	Impairment charges R000
Investment banking	**8 018**	**17 591**	**4 448**	
Retail banking	**31 329**	**21 402**		**4 901**
Life insurance and employee benefits	**4 636**	**4 713**	**2 209**	**2 176**
Financial advice and funds management	**1 851**	**3 088**	**3 300**	**608**
Other	**1 950**	**467**		**12 528**
	47 784	**47 261**	**9 957**	**20 213**

	Total income R000	Segment result R000	Segment assets R000	Segment liabilities R000
For the year ended 28 February 2002				
Investment banking	385 112	195 231	3 341 513	1 679 329
Retail banking	284 652	66 224	408 877	17 628
Life insurance and employee benefits	43 238	18 952	546 799	445 811
Financial advice and funds management	87 921	8 986	116 163	71 517
Other	(20 557)	(85 730)	63 734	134 492
	780 366	203 663	4 477 086	2 348 777

	Capital expenditure R000	Depreciation R000	Amortisation R000	Impairment charges R000
Investment banking	1 871	4 158	773	70 270
Retail banking	108 274	10 845		
Life insurance and employee benefits	4 839	3 760	758	
Financial advice and funds management	2 033	3 416	1 097	
Other	611	1 625	23 532	5 014
	117 628	23 804	26 160	75 284

	2003 R000	2002 R000
Reconciliation of segment result		
Segment result (operating profit)	**173 891**	203 663
Finance charges	**(38 479)**	(20 136)
Income from associated companies	**5 614**	37 994
Exceptional items	**(236 790)**	25 828
Net income before taxation	**(95 764)**	247 349

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

as at 28 February 2003

	Shareholders		Shares held	
	Number	%	Number	%
Range of shareholding				
1 – 1 000	2 031	54,1	738 005	0,6
1 001 – 10 000	1 304	34,8	4 752 607	4,0
10 001 – 100 000	312	8,3	9 796 827	8,2
100 001 – 1 000 000	78	2,1	19 864 271	16,5
Over 1 000 000	27	0,7	84 848 290	70,7
	3 752	100,0	120 000 000	100,0
Type of shareholder				
Individuals	3 294	87,8	14 699 731	12,3
Investment companies and trusts	329	8,8	77 766 123	64,8
Banks and nominee companies	87	2,3	22 935 933	19,1
Pension and provident funds	42	1,1	4 598 213	3,8
	3 752	100,0	120 000 000	100,0
Public and non-public shareholding				
Non-public				
Directors	6	0,2	21 549 230	18,0
Employee share scheme	1		5 660 990	4,7
	7	0,2	27 210 220	22,7
Public	3 745	99,8	92 789 780	77,3
	3 752	100,0	120 000 000	100,0
Individual shareholders holding more than 5% as at 28 February 2003				
Old Mutual Asset Management			16 840 130	14,0
JF Mouton Family Trust			16 250 000	13,5
Sanlam Asset Management			12 488 244	10,4
RMB Asset Management			10 005 627	8,3
Prudential Asset Management			6 224 946	5,2
			61 808 947	51,4

shareholders' diary

	2003
Financial year-end	28 February
Profit announcement	23 April
Annual report	22 May
Annual general meeting	13 June
Interim report	7 October

notice of annual general meeting

Notice is hereby given of the annual general meeting of the shareholders of PSG Group Limited ("the company") to be held at Blaauwklippen Agricultural Estates, Strand Road (R44), Stellenbosch, on Friday, 13 June 2003, at 09:00.

AGENDA

1. To receive and consider the annual financial statements of the company and the reports of the directors and the auditors for the year ended 28 February 2003.
2. To confirm the dividends to shareholders set out in the financial statements in 1 above.

3.1 To re-elect as director Dr J van Zyl Smit, being a new appointment to the board, who retires in terms of the articles of association of the company and, being eligible, offers himself for re-election.

Summary curriculum vitae of Jacobus van Zyl Smit

Dr van Zyl Smit, aged 61, obtained his academic qualifications, including an LLB (1963) and DCom (1971), from the University of Stellenbosch. He qualified as a chartered accountant (SA) in 1965.

He has extensive experience as chartered accountant, including seven years as a partner of Coopers & Lybrand Chartered Accountants and 15 years as professor of accounting at the University of Stellenbosch. He has been a member of legal and other committees of the accountancy board and is currently a member of the examination committee of this board. He also acts as financial and research consultant. His experience as director includes executive and non-executive positions with banking, financial and publishing companies such as Capitec Bank Holdings Limited, Alnet (Pty) Limited and British American Tobacco Holdings SA (Pty) Limited ("BAT"). He also acts as chairman of the audit committees of PSG Group Limited and the companies within this group, including the company, as well as BAT and Alnet (Pty) Limited. He is a member of the board remuneration committee of BAT.

3.2 To re-elect as director Mr PE Burton who retires by rotation in terms of the articles of association of company and, being eligible, offers himself for re-election.

Summary curriculum vitae of Patrick Ernest Burton

Patrick Burton, aged 50, obtained his academic qualifications, including a BCom (Hons) Financial Management (1992) and a post-graduate Diploma in Tax Law (1993), from the University of Cape Town.

He was one of the founding members of Siphumelele Investments Limited, a black economic empowerment company established in 1995 with a shareholder base representing in excess of 150 000 previously disadvantaged individuals.

His experience as a director includes executive and non-executive positions in fishing, telecommunications, media and entertainment, technology and financial services. He is a member of the audit committees of Johnnic Holdings Limited and Siphumelele Investments Limited.

3.3 To re-elect as director Mr J de V du Toit who retires by rotation in terms of the articles of association of company and, being eligible, offers himself for re-election.

Summary curriculum vitae of Jacob de Vos du Toit

Mr Du Toit, aged 48, obtained a BAcc degree from the University of Stellenbosch. He qualified as a chartered accountant (SA) in 1981 and also qualified as a CFA.

He has extensive experience in the financial and investment environment and is currently a member of the Fund Managers Association of South Africa, the SA Institute of Stock Brokers, the Institute of Chartered Financial Analysts, the Association for Investment Management and Research and also the Institute of Chartered Accountants. He has been chairman of various national committees, councils and boards, is also the founder member, and has been CEO of PSG Investment Services since 1996.

4. To reappoint PricewaterhouseCoopers Inc. as auditors for the ensuing year.
5. To authorise the directors to determine and pay the auditors' remuneration for the year ended 28 February 2003.
6. To confirm the directors' remuneration, as disclosed in the annual financial statements, for the year ended 28 February 2003.
7. To consider and, if deemed fit, pass, with or without modification, the following ordinary and special resolutions:

7.1 As an ordinary resolution

"Resolved that the unissued shares in the company be and are hereby placed under the control of the directors until the next annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit subject to the Companies Act 1973 (Act 61 of 1973), the articles of association of the company, and the rules and regulations of the JSE Securities Exchange South Africa."

7.2 As an ordinary resolution

"Resolved that, subject to not less than 75% of those shareholders of the company present in person or represented by proxy and entitled to vote at the annual general meeting at which this resolution is proposed, voting in favour of this resolution, the directors of the company be and are hereby authorised and empowered, by way of a general authority, to allot and issue for cash without restriction, all or any of the unissued shares in the share capital of the company placed under their control as they in their discretion may deem fit, subject to the provisions of the Listings Requirements of the JSE Securities Exchange South Africa ("JSE"):

– the authority shall be valid until the date of the next annual general meeting of the company, provided it shall not extend beyond fifteen months from the date of this resolution;
– a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published after any issue representing, on a cumulative basis within any one financial year, 5% or more of the number of shares in issue prior to such issue;
– the general issues of shares for cash in the aggregate in any one financial year may not exceed 15% of the applicant's issued share capital (number of securities) of that class. The securities of a particular class will be aggregated with the securities that are compulsorily convertible into securities of that class; and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible. The number of securities of a class which may be issued shall be based on the number of securities of that class in issue at the date of such application less any securities of the class issued during the current financial year, provided that any securities of that class to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to the date of application) may be included as though they were securities in issue at the date of application;
– in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over the 30 trading days prior to the date that the price of the issue is determined or agreed by the directors. The committee of the JSE should be consulted for a ruling if the applicant's securities have not traded in such 30 business day period;
– any such issue will only be made to public shareholders as defined in paragraph 4.22 of the Listings Requirements of the JSE and not to related parties; and
– any such issue will only be securities of a class already in issue."

7.3 As special resolution number 1

"Resolved as a special resolution that the company be and is hereby authorised, as a general approval, to repurchase any of the shares issued by the company, upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the provisions of section 85 to section 88 of the Companies Act 1973 (Act 61 of 1973) and the Listing Requirements of the JSE Securities Exchange South Africa ("JSE") and the requirements of any stock exchange upon which the shares of the company may be quoted or listed namely that:

– the general repurchase of the shares may only be implemented on the open market of the JSE;
– this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond fifteen months from the date of this resolution;
– an announcement must be published as soon as the company has acquired shares consisting, on a cumulative basis, of 3% of the number of shares in issue, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof;
– the general authority to purchase is limited to a maximum of 20% of the company's issued share capital at the time the authority is granted;
– repurchases must not be made at a price more than 10% above the weighted average of the market value of the shares for five business days immediately preceding the date of repurchase."

7.4 As special resolution number 2

"Resolved as a special resolution that the company, insofar as it may be necessary to do so, hereby approves of, as a general approval, and authorises the acquisition by any subsidiary of the company of shares issued by such subsidiary and/or by the company, upon such terms and conditions and in such amounts as the directors of such subsidiary/ies may from time to time decide, but subject to the provisions of section 85 to section 88 of the Companies Act 1973 (Act 61 of 1973), and (if listed) the Listings Requirements of the JSE Securities Exchange South Africa ("JSE") and the requirements of any stock exchange upon which the shares of the acquiree company may be quoted or listed, namely that:

– the general purchase of shares may only be implemented on the open market of the JSE;
– this general authority shall only be valid until the next annual general meeting of the company, provided that it shall not extend beyond fifteen months from the date of this resolution;
– an announcement must be published as soon as the subsidiary has acquired shares consisting, on a cumulative basis, of 3% of the number of shares of the acquiree company in issue, prior to the acquisition, pursuant to which the aforesaid 3% threshold is reached, containing full details thereof;
– this general authority to purchase is limited to a maximum of 20% in the aggregate of the acquiree company's issued share capital at the time the authority is granted, subject to a maximum of 10% in the event that it is the company's share capital that is repurchased by a subsidiary; and
– purchases must not be made at a price more than 10% above the weighted average of the market value of the shares for the five business days immediately preceding the date of purchase."

Reasons for and effects of the special resolutions

1. The reason for and effect of special resolution number 1 is to grant the directors a general authority in terms of the Act for the acquisition by the company of shares issued by it on the basis reflected in the special resolution.
   In terms of the Listings Requirements of the JSE any general repurchase by the company must, *inter alia*, be limited to a maximum of 20% of the company's issued share capital in any one financial year of that class at the time the authority is granted.
2. The reason for and effect of special resolution number 2 is to approve that the board of directors of any subsidiary of the company could acquire shares issued by such subsidiary and/or by the company on the basis reflected in the special resolution.
   In terms of the Listings Requirements of the JSE any general purchase by a subsidiary of listed shares must, inter alia, be limited to a maximum of 20% of the issued share capital of the acquiree company in any one financial year of that class at the time the authority is granted, subject to a maximum of 10% in the event that it is the company's share capital that is repurchased by a subsidiary.
3. The directors of the company or its subsidiaries will only utilise the general authority to purchase shares of the company and/or the subsidiary as set out in special resolutions number 1 and 2 to the extent that the directors, after considering the maximum shares to be purchased, are of the opinion that the company and its subsidiaries' ("PSG group") position would not be compromised as to the following:
   – the PSG group's ability in the ordinary course of business to pay its debts for a period of 12 months after the date of the notice of the annual general meeting;
   – the consolidated assets of the PSG group will be in excess of the consolidated liabilities of the PSG group. The assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the PSG group;
   – the ordinary capital and reserves of the PSG group after the purchase will remain adequate for the purpose of the business of the PSG group for a period of 12 months after the date of the notice of the annual general meeting; and
   – the working capital available to the PSG group after the purchase will be sufficient for the PSG group's requirements for a period of 12 months after the date of the notice of the annual general meeting.
4. Special resolutions 1 and 2 are renewals of resolutions taken at the previous annual general meeting on 31 May 2002.

notice of annual general meeting

VOTING

Shareholders entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which are set out the relevant instructions for its completion, is enclosed for the use of a certificated shareholder or "own name" registered dematerialised shareholder who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting (in preference to that shareholder's proxy) at the annual general meeting.

The instrument appointing a proxy and the authority (if any) under which it is signed must reach the transfer secretaries of the company at the address given below by not later than 09:00 on Thursday, 12 June 2003.

Dematerialised shareholders, other than "own name" registered dematerialised shareholders, who wish to attend the annual general meeting in person will need to request their Central Securities Depository Participant ("CSDP") or broker to provide them with the necessary authority in terms of the custody agreement entered into between such shareholders and the CSDP or broker.

On a poll, ordinary shareholders will have one vote in respect of each share held.

By order of the board

PSG CORPORATE SERVICES (PROPRIETARY) LIMITED
Company secretaries
Stellenbosch
22 May 2003

Registered office
Ou Kollege
35 Kerk Street
Stellenbosch, 7600
(PO Box 7403, Stellenbosch, 7599)

Transfer secretaries
Ultra Registrars (Pty) Limited
11 Diagonal Street
Johannesburg, 2001
(PO Box 4844, Johannesburg, 2000)

PSG Group Limited

(Incorporated in the Republic of South Africa)
(Registration number 1970/008484/06)
JSE share code: PSG ISIN code: ZAE000013017
("PSG" or "the company")

For use at the annual general meeting of ordinary shareholders of the company to be held at Blaauwklippen Agricultural Estates, Strand Road (R44), Stellenbosch, on Friday, 13 June 2003, at 09:00.

I/We ____

Being the registered holder of [ ] shares hereby appoint:

1. ______________________ of ______________________ or failing him/her,

2. ______________________ of ______________________ or failing him/her,

3. the chairman of the meeting,

as my proxy to vote for me/us at the annual general meeting for purposes of considering and, if deemed fit, passing, with or without modification, the special resolutions and ordinary resolutions to be proposed thereat and at each adjournment thereof and to vote for and/or against the resolutions and/or abstain from voting in respect of the shares registered in my/our name/s in accordance with the following instructions (see notes):

	Number of shares		
	In favour of	Against	Abstain
1. To adopt the annual financial statements and reports			
2. To confirm the dividend to shareholders set out in the annual financial statements			
3.1 To re-elect J van Zyl Smit as director			
3.2 To re-elect PE Burton as director			
3.3 To re-elect J de V du Toit as director			
4. To reappoint the auditors, PricewaterhouseCoopers Inc			
5. To authorise the directors to determine and pay the auditors' remuneration			
6. To confirm the directors' remuneration			
7.1 Ordinary resolution re unissued shares			
7.2 Ordinary resolution re authority to issue shares for cash			
7.3 Special resolution number 1 re share buyback by PSG			
7.4 Special resolution number 2 re share buyback by subsidiaries			

Please indicate your voting instruction by way of inserting the number of shares or by a cross in the space provided.

Only for use by certificated shareholders and "own name" registered dematerialised shareholders.

Signed at ______________________ on this ________ day of ______________ 2003

Signature(s) ____

Assisted by (where applicable) (state capacity and full name)

____

Each PSG shareholder is entitled to appoint one or more proxy(ies) (who need not be a shareholder(s) of the company) to attend, speak and vote in his stead at the annual general meeting.

notes

1. A PSG shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting "the chairman of the meeting". The person whose name appears first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A PSG shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of shares to be voted on behalf of that member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the chairman of the meeting, if he/she is the authorised proxy, to vote in favour of the resolutions at the meeting, or any other proxy to vote or to abstain from voting at the meeting as he/she deems fit, in respect of all the shares concerned. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or his/her proxy, but the total of the votes cast and in respect whereof abstentions recorded may not exceed the total of the votes exercisable by the shareholder or his/her proxy.

3. When there are joint registered holders of any shares, any one of such persons may vote at the meeting in respect of such shares as if he/she were solely entitled thereto, but, if more than one of such joint holders be present or represented at any meeting, that one of the said persons whose name stands first in the register in respect of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member, in whose name any shares stand, shall be deemed joint holders thereof.

4. **Dematerialised shareholders, other than "own name" registered dematerialised shareholders, who wish to attend the annual general meeting or to vote by way of proxy must contact their CSDP or broker who will furnish them with the necessary authority to attend the meeting or to be represented thereat by proxy. This must be done in terms of the agreement between the member and his/her CSDP or broker.**

5. Forms of proxy must be completed and returned to be received by the transfer secretaries of the company, Ultra Registrars (Pty) Limited, 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000), by not later than 09:00 on Thursday, 12 June 2003.

6. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the annual general meeting.

8. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

administration

SECRETARIES AND REGISTERED OFFICE
PSG Corporate Services (Pty) Limited
Ou Kollege
35 Kerk Street
Stellenbosch, 7600
PO Box 7403
Stellenbosch, 7599
Telephone 021 887 9602
Telefax 021 887 9619

TRANSFER SECRETARIES
Ultra Registrars (Pty) Limited
11 Diagonal Street
Johannesburg, 2001
PO Box 4844
Johannesburg, 2000
Telephone 011 834 2265
Telefax 011 834 4398

COMPANY REGISTRATION NUMBER
1970/008484/06

SPONSOR
PSG Capital Limited

BROKERS
PSG Online Securities Limited

AUDITORS
PricewaterhouseCoopers Inc

BANKERS
Absa Bank Limited

ATTORNEYS
Jan S de Villiers

WEBSITE ADDRESS
www.psg.co.za

GRAPHICOR 28870

www.psg.co.za