

OPERATIONAL REVIEW

FINANCIAL REVIEW

Overview

The past financial year has been a challenging one with the group reporting a decrease in headline earnings per share of 61% to 11,8 cents, and a decrease in earnings per share of 68% to 4,3 cents. A lack of revenue growth in certain areas of the business as a result of the decrease in investment income earnings following the reduction in interest rates over the prior year and the softer market environment, and increased costs in other components have driven the 34% decrease in continuing trading profit to R80,2 million for the current year. A decisive and conservative look at the carrying values of all assets has been undertaken and the resultant impairment and write-offs of R20,8 million have significantly decreased the current year's performance.

Income statement

The continuing revenues have increased by 5% over the prior year. This has been driven by the increase in income in Benefit Services of 32% over the prior year and the constant Risk Services revenue (before investment income). A dampener on the revenue growth in the current year has been as a result of the Reinsurance Consultants division, which reported a 21% decline in revenue for the year, and the decrease in investment income earnings for the group in the current year by R10 million (18%).

Although Risk Services expenses have been well controlled, the Benefit Services expenses spiralled for the year, reflecting a R47 million (55%) increase over the prior year as a result of the additional expenses required to rectify the short comings in the performance and management of the retirement fund administration business. Approximately R16 million of the Benefit Services expenses are one-off and are not expected to be repeated in 2006.

Additional once-off interest paid in the current period of R5 million mainly comprises interest incurred by Benefit Services on fund withdrawals and interest incurred by Glenrand M-I-B on the adjustments to tax assessments going back to 1999 that have only been finalised in the current year.

The significant headline adjusting items in the current year relate to the impairment of the goodwill relating to investments totalling R21 million and the write-off of unutilised software of R6,3 million, offset by the profit on disposal of an investment totalling R6,5 million.

The current year effective tax rate of 46,7% after adjustment for headline items, has increased as a result of the deferred tax asset on Benefit Services' current year losses not being raised.

Balance sheet and cash flow

The group's gearing has remained constant at 3% for the year. During the year the group purchased Ten-50-Six Life Limited. This company provides policy-linked investments for retirement funds through the use of a life licence. The licence is not risk taking, but is used for the pooling of funds to be invested. The company records both the assets invested with the asset managers, as well as the liabilities owing to the policyholders. The group balance sheet therefore reflects these significant assets and liabilities of R3,3 billion, in the current year. There is no impact on the income statement.

The group continues to generate cash from its operations. The outflow of cash from investing activities has been as a result of acquisition by Risk Services of the Insight system, the accounting and policy management software. Benefit Services has purchased the minority shareholders of Glenrand M-I-B Capital and acquired Omnipus, the new software platform for pension fund administration.

STRATEGIC DEVELOPMENTS

BEE

Final stages of negotiations are occurring in line with our stated ambitions of exceeding 25%. Internal transformation in terms of staff, procurement and social responsibility continue unabated.

Risk Advisory Services

Business efficiency has been substantially improved and will be further enhanced through a commitment to a single integrated administration platform. Particular attention is being given to skills retention. Focus on new business and acquisition opportunities has been upgraded and, in the case of new business, is achieving positive results.

Benefit Services

This business has dramatically impacted on group results, in the main due to considerable unexpected costs following the recognition of a number of issues that required attention. These have been addressed. Forward positive momentum is being gained in client service levels, new business and the migration of funds to our new administration platform. A new management team headed by Greg Morris, who was appointed on 1 June 2005, is now fully functional with the expectation to return to profit in the year to June 2006.

Underwriting

The group, as per previous strategic statements, has now established a separate unit with a focus on our underwriting management activity. In the year ahead it is the intention to enhance our position and engage appropriate partners for support and growth.

PROSPECTS

Barring unforeseen events, the group is expected to achieve significant growth in headline earnings per share for the year ending June 2006.

APPOINTMENT OF CHIEF EXECUTIVE OFFICER

As advised in our SENS announcement dated 14 April 2005, we confirm that Mr E S G von Roretz has been appointed CEO with effect from 7 September 2005. Mr D J Harpur will continue to be involved with the group as a non-executive Director with various other responsibilities until October 2006.

DECLARATION OF FINAL DIVIDEND

Notice is hereby given that a final dividend (No. 12) of 4 cents per share (2004: 14 cents) has been declared. The following are the salient dates:

Last day to trade in order to participate in the final dividend	Friday, 30 September 2005
Trading on or after this date will be ex the final dividend	Monday, 3 October 2005
Record date	Friday, 7 October 2005
Payment date	Monday, 10 October 2005

On payment date, if so mandated, dividends due to holders of certificated securities will either be transferred electronically to bank accounts or, alternatively, cheques will be posted to their registered addresses.

Dividends in respect of dematerialised shareholdings will be credited to shareholders' accounts with their Central Securities Depository Participant ("CSDP") or broker. Shareholders may not dematerialise or rematerialise their holdings of ordinary shares between Monday, 3 October 2005 and Friday, 7 October 2005, both dates inclusive.

On behalf of the board of directors

A W Mansfield (Chairman – Non-executive)	E S G von Roretz (Chief Executive Officer)	7 September 2005
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FURTHER CAUTIONARY ANNOUNCEMENT

Further to the cautionary announcement dated 26 July 2005, shareholders are advised that Glenrand M-I-B is still engaged in negotiations which, if successfully concluded, may have an effect on the price of the company's shares. Accordingly, shareholders are advised to continue to exercise caution when dealing in the company's shares until a further announcement is made.

Investment bank and sponsor



INCOME STATEMENT

for the year ended 30 June 2005

Note	Audited Year ended 30 June 2005 R'000	% change	Audited Year ended 30 June 2004 R'000
Operating revenue	617 476		671 150
– continuing	617 476	5	585 847
– discontinued	—		85 303
Operating expenses	(537 254)		(547 397)
– continuing	(537 254)	16	(464 503)
– discontinued	—		(82 894)
Trading profit	80 222		123 753
– continuing	80 222	(34)	121 344
– discontinued	—		2 409
Interest paid	(8 865)		(8 832)
Operating profit	71 357		114 921
Income from associates	8 372		6 770
Profit before non-trading items	79 729		121 691
Non-operating income	2 772		5 361
Headline adjusting items	(20 771)		(41 037)
Profit before taxation	61 730		86 015
– continuing	61 730	(27)	84 955
– discontinued	—		1 060
Taxation	(38 546)		(43 033)
Profit after taxation	23 184		42 982
Minority interest	(12 832)		(10 739)
– continuing	(12 832)		(9 756)
– discontinued	—		(983)
Profit attributable to shareholders	10 352		32 243
Headline earnings per share, fully diluted (cents)	11,8	(61)	30,3
Earnings per share, fully diluted (cents)	4,3	(68)	13,4
Number of shares			
– issued (000's)	243 270		242 046
– weighted average, fully diluted (000's)	242 656		240 237

BALANCE SHEET

as at 30 June 2005

Note	Audited Year ended 30 June 2005 R'000	Audited Year ended 30 June 2004 R'000
Assets		
Fixed assets	60 351	46 143
Goodwill and intangible assets	38 597	33 813
Deferred taxation asset	43 407	30 669
Investments	22 879	51 184
Linked investments backing policyholder funds	3 325 219	—
Current assets	605 613	570 574
Total assets	4 096 066	732 383
Equity and liabilities		
Ordinary shareholders' interest	163 920	190 806
Cost of shares held by subsidiary company	(2 084)	(2 084)
Minority interest	21 564	21 817
Deferred taxation liability	222	260
Long-term liabilities	36 753	34 792
Policyholder funds	3 318 668	—
Current liabilities	557 023	486 792
Total equity and liabilities	4 096 066	732 383

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2005

R'000	Share capital	Share premium	Non-distributable reserves	Retained earnings	Total
Balance as at 30 June 2003	4 771	35 554	51 284	134 961	226 570
Adjustment in terms of AC105: Operating leases	—	—	(155)	(10 253)	(10 408)
Balance as at 1 July 2003	4 771	35 554	51 129	124 708	216 162
Ordinary shares issued	70	6 157	—	—	6 227
Consolidation of share option trust	(16)	(1 513)	—	296	(1 233)
Cash flow hedge	—	—	—	(640)	(640)
Translation of foreign subsidiaries	—	—	(4 665)	—	(4 665)
Shared earnings of associates	—	—	(6 172)	6 172	—
Profit attributable to shareholders	—	—	—	32 243	32 243
Dividends paid	—	—	—	(57 288)	(57 288)
Balance as at 30 June 2004	4 825	40 198	40 292	105 491	190 806
Adoption of AC140	—	—	—	5 706	5 706
Balance as at 1 July 2004	4 825	40 198	40 292	111 197	196 512
Ordinary shares issued	24	2 169	—	—	2 193
Consolidation of share option trust	11	1 015	—	—	1 026
Cash flow hedge	—	—	—	640	640
Deferred taxation asset impairment reversed	—	—	8 000	—	8 000
Translation of foreign subsidiaries	—	—	5 367	—	5 367
Shared earnings of associates	—	—	2 304	(2 304)	—
Profit attributable to shareholders	—	—	—	10 352	10 352
Dividends paid	—	—	—	(60 170)	(60 170)
Balance as at 30 June 2005	4 860	43 382	55 963	59 715	163 920

CASH FLOW STATEMENT

for the year ended 30 June 2005

	Audited Year ended 30 June 2005 R'000	Audited Year ended 30 June 2004 R'000
Cash generated by operations	96 457	146 791
– continuing	96 457	143 400
– discontinued	—	3 391
Movement in working capital	103 207	(13 865)
Taxation paid	(71 603)	(36 773)
Dividends paid	(69 786)	(57 288)
Cash available from operating activities	58 275	38 865
Cash (utilised) generated by investing activities	(23 449)	25 225
Cash generated from financing activities	587	15 726
Net increase in cash and cash equivalents	35 413	79 816
Cash and cash equivalents at beginning of year	378 714	298 898
Cash and cash equivalents at end of year	414 127	378 714

SEGMENTAL ANALYSIS

for the year ended 30 June 2005

	Audited Year ended 30 June 2005 R'000	Audited Year ended 30 June 2004 R'000
Segmental revenues		
Risk advisory services	517 075	520 445
Benefit services, healthcare and medical services	100 401	150 705
– continuing	100 401	76 302
– discontinued	—	74 403
Total segmental revenues	617 476	671 150
Segmental profits		
Risk advisory services	111 757	131 501
Benefit services, healthcare and medical services	(31 535)	(7 748)
– continuing	(31 535)	(8 648)
– discontinued	—	900
Total segmental profits	80 222	123 753

NOTES

1. Basis of accounting

The group results as at 30 June 2005 have been prepared in terms of South African Statements of Generally Accepted Accounting Practice. With effect from 1 July 2005, the group will adopt International Financial Reporting Standards, and the impact of this change is currently being quantified. The effect of this transition will be disclosed in the interim results for the six months to 31 December 2005, and the next annual report.

Compliance with AC140: Business Combinations

During the year the group changed its accounting policy to comply with AC140: Business Combinations. In respect of acquisitions prior to 31 March 2004, the group has ceased amortisation of goodwill from 1 July 2004. Goodwill at this date is now included on the basis of its deemed cost, which represents the cost of goodwill less accumulated amortisation at 30 June 2004.

In respect of acquisitions after 31 March 2004, goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on acquisition is recognised directly in profit or loss. Previously recognised negative goodwill has been derecognised resulting in an increase of R5,7 million in retained earnings as at 1 July 2004.

Straight-lining of operating lease payments

The change in the manner of recognising lease payments arises as a result of a change in interpretation of AC105: Operating leases by South African entities in order to align the South African practice with that applied internationally. The effect of the revised interpretation is that operating lease payments will be recognised on a straight-line basis over the lease term, and not as cash paid.

The required adjustments have been made and have resulted in a decrease of R10,3 million in retained earnings as at 1 July 2003, and a decrease in prior year earnings of R4 million.

Recognition of debtors and creditors

The treatment for claims and premiums in debtors and creditors has been adjusted in the current year.

The group now recognises a debtor only to the extent of the commission/fees receivable. Previously a debtor was also recognised for the premium receivable. The group now raises a creditor for the premium payable to the insurer, only on receipt of the premium from the client, whereas previously this was raised when the client was invoiced.

The group's reinsurance business also previously recognised a creditor and debtor in respect of amounts owing by the reinsurer to the client in respect of claims. With effect from the current year these are no longer recognised in the group accounts.

Comparative figures have been restated to reflect the above changes. This has resulted in a decrease of R135,6 million in accounts receivable and accounts payable in the prior year. There is no impact on the retained earnings at 1 July 2004.

2. Audit report

The consolidated results for the year have been audited by KPMG Inc. and their unqualified audit report is available for inspection at the company's registered office.

3. Operating revenue

	Audited Year ended 30 June 2005 R'000	Audited Year ended 30 June 2004 R'000
Includes: Investment income	45 044	55 100

4. Calculation of headline earnings

	Audited Year ended 30 June 2005 R'000	Audited Year ended 30 June 2004 R'000
Profit attributable to shareholders	10 352	32 243
Add: (Profit)/loss on disposal of investments	(6 506)	9 478
Add: Goodwill amortisation	—	10 884
Add: Provision for impairment of assets	27 277	20 675
Add: Taxation effect	—	145
Less: Minority shareholders' effect	(2 388)	(689)
	28 735	72 736

5. Taxation

	Audited Year ended 30 June 2005 R'000	Audited Year ended 30 June 2004 R'000
The group's tax charge comprises the following:		
SA normal taxation	31 659	43 468
SA deferred taxation	(4 776)	(11 898)
STC	7 499	6 552
Foreign taxation	1 001	1 362
Discontinued	—	93
Associates' taxation	3 163	3 456
	38 546	43 033

6. Long-term liabilities

	Audited Year ended 30 June 2005 R'000	Audited Year ended 30 June 2004 R'000
Interest bearing	4 804	5 896
Non-interest bearing	31 949	28 896
	36 753	34 792