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SAGE GROUP



SAGE LIFE

## DIRECTORATE



Sage Group Limited



Sage Life Limited

HL Shill (Chairman) <sup>(1)(2)(3)</sup>

G Griffin (Group Chief Executive) <sup>(1)(2)(3)</sup>

MP Adonisi <sup>(2)</sup>

Dr DC Cronjé <sup>(1)(3)</sup>

JP Davies <sup>(3)</sup>

BJ du Plessis <sup>(1)</sup>

JE Henderson <sup>(3)</sup>

Dr BM Ilsley

L Kaplan <sup>(3)</sup>

RI Marsden

B Nackan

JH Postmus

CD Stein <sup>(1)</sup>

CL van Wyk <sup>(1)(2)(3)</sup>

Adv T van Wyk <sup>(1)(2)</sup>

Member of:

<sup>(1)</sup> Audit Committee

<sup>(2)</sup> Human Resources Committee

<sup>(3)</sup> Actuarial Review Committee

HL Shill (Chairman)

JP Davies (Chief Executive)

MP Adonisi

Dr DC Cronjé

KC Daly

K Vlok (Alternate)

BJ du Plessis

G Griffin

JE Henderson

Dr BM Ilsley

PM Karstel

L Kaplan

RI Marsden

B Nackan

JH Postmus

A Singleton \*

CD Stein

CR Tomsett

M Venter (Alternate)

CL van Wyk

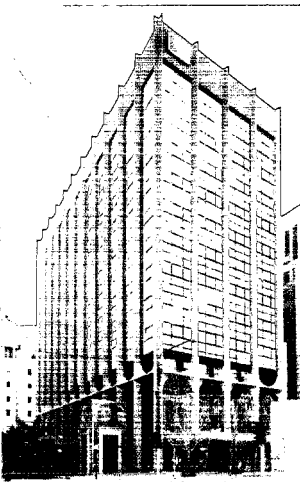
Adv T van Wyk

\* British

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# Profile



*Sage Group Limited* is a South African life assurance, investment and financial services organisation. Consolidated Group assets amount to R10,7 billion and unit trust assets managed total R5,1 billion.

The Group's roots extend back to 1965 with the launch of South Africa's first unit trust. Since 1969, Group activities have been listed on the JSE Securities Exchange, South Africa. Sage Group Limited is ranked in sixth position in terms of total assets among its listed peers in the Life Assurance sector.

*Sage Life Limited's* core activities encompass life assurance, investment and unit trust management, related property investments, and a significant investment in the banking sector. Operations embrace the full spectrum of individual life, endowment, retirement and employee benefit plans, and equity and fixed interest investments.

*Sage Unit Trusts Limited*, with thirteen funds currently under management, is a wholly owned subsidiary of Sage Life and its operations are closely co-ordinated with those of the life division.

The Group's international subsidiaries are held directly by Sage Group Limited.

## SALIENT FEATURES

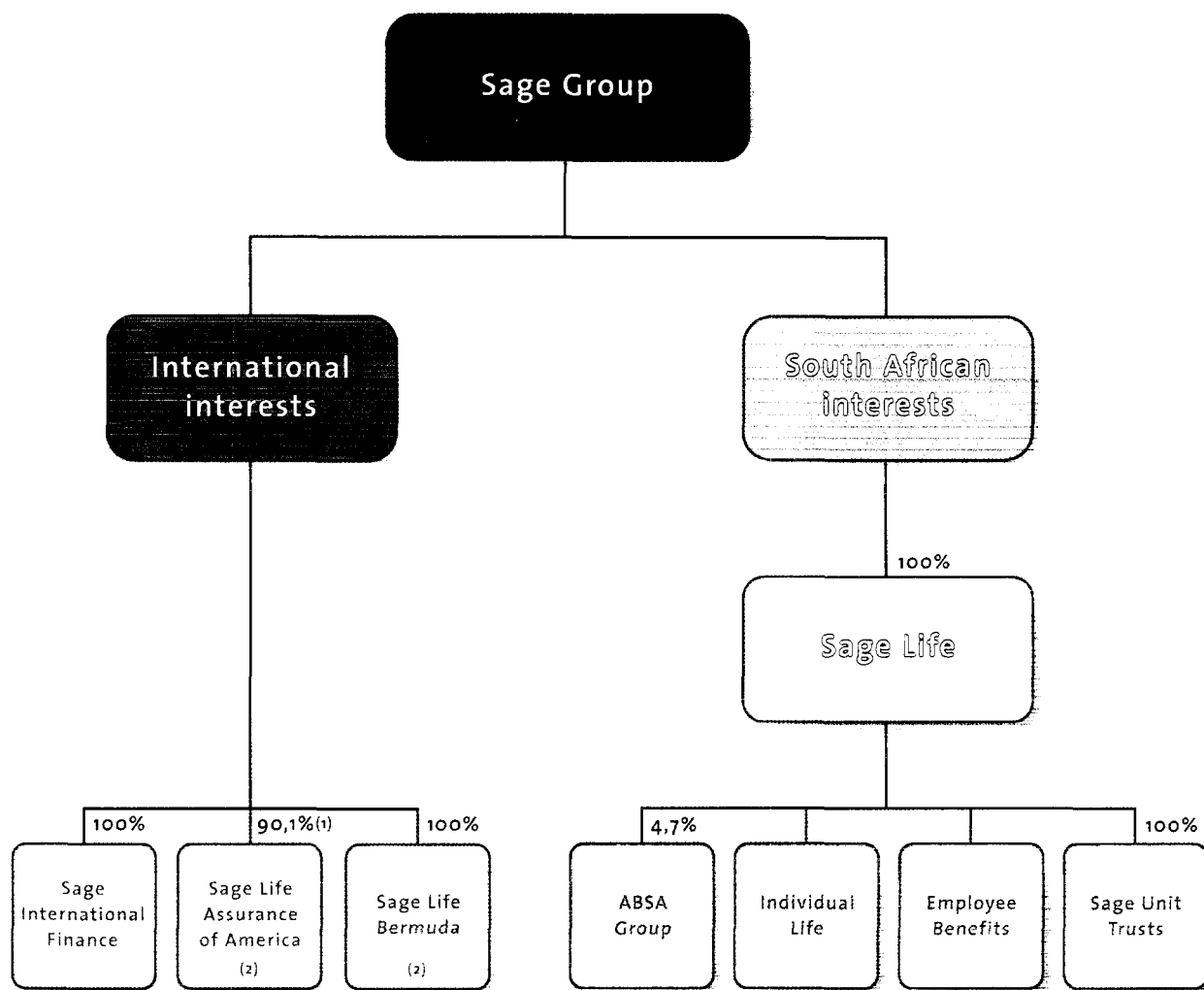
- *Group financial results impacted by discontinuation of international operations*
- *Satisfactory South African operating performance maintained despite difficult markets*
- *Core headline earnings of 65,3 cents per share*
- *Reduced headline loss of 31,9 cents per share*
- *Group capital raising and introduction of new shareholders*

## FINANCIAL HIGHLIGHTS

	9 months 31 December 2002	12 months 31 March 2002
Core headline earnings/(loss) (R000's)	98 148	(43 450)
Core headline earnings/(loss) per share (cents)	65,3	(29,6)
Headline loss (R000's)	(47 966)	(251 055)
Headline loss per share (cents)	(31,9)	(171,1)
Dividends per share (cents)	25,0	30,0
Domestic attributable earnings (R000's)	73 993	(9 239)
International attributable losses (R000's)	(313 502)	(245 044)

# Structure

## GROUP STRUCTURE AT 31 DECEMBER 2002



(1) Refer schedule of interest in material subsidiaries on page 86

(2) Discontinued

## FINANCIAL REVIEWS

### Sage Group Limited

Year Ended 31 March	Consolidated Assets Rm	Headline Earnings Rm	Headline Earnings Per Share (cents)*	Dividends Per Share (cents)	Shares In Issue (ooo)
1994	3 663,0	61,8	65,4	35,0	86 819
1995	4 040,4	80,1	82,7	45,0	103 723
1996	5 161,0	122,3	105,8	70,0	120 653
1997	6 024,6	164,1	132,7	87,0	123 543
1998	7 402,6	222,4	173,9	109,0	127 667
1999	7 729,6	281,8	211,0	126,0	136 318
2000	6 914,3	164,1	118,8	126,0	140 274
2001	7 753,8	55,3	39,0	126,0	144 758
2002	10 520,7	(251,1)	(171,1)	30,0	147 730
<b>9 Months Ended 31 Dec 2002</b>	<b>10 688,0</b>	<b>(48,0)</b>	<b>(31,9)</b>	<b>25,0</b>	<b>154 965</b>

\* The calculation of headline earnings per share is based on the average number of shares in issue during the period.

### Sage Life Limited

Year Ended 31 March	Total New Business Rm	Premiums Received Rm <sup>§</sup>	Policyholder Benefits Rm	Total Assets Rm	Shareholder's Surplus/(Deficit) Rm
1994	302,6	530,3	372,8	2 993,9	34,5
1995	328,9	564,0	458,6	3 458,6	74,5
1996	374,5	661,7	429,6	4 344,6	118,0
1997	376,0	729,3	649,9	5 260,8	150,0
1998	602,9	949,5	728,5	6 613,6	198,1
1999	901,5	1 299,2	870,8	6 814,0	210,0
2000	1 004,4	1 409,7	876,1	7 428,3	391,2
2001	1 335,2	1 417,5	1 027,4	7 889,0	265,8
2002	2 934,6	1 609,6	1 072,4	8 799,1	276,1
<b>9 Months Ended 31 Dec 2002</b>	<b>2 120,2</b>	<b>1 188,7</b>	<b>963,7</b>	<b>7 654,7</b>	<b>(1 057,3)</b>

§ Net of reinsurance

# Development

## DEVELOPMENT HIGHLIGHTS

### 1965 – 1969

- Launch of Sage Fund, unit trust industry and linked assurance pioneer
- Listing of Sage Holdings
- Establishment of property division and acquisition of Schachat homebuilders
- Partnership in Guarantee Life

### 1970 – 1979

- Launch of FPS, personal financial planning pioneer
- Investment into Leo Computer Bureau (renamed Sage Computing)
- Acquisitions of Netherlands Insurance Company of SA Limited and Equity Life, to form Ned-Equity Insurance Company
- Establishment of Sage Property Trust Managers
- Launch of Federated Property Trust
- Acquisition of Union & London
- Launch of international financial planning and property development activities

### 1980 – 1989

- Formation of Pioneer Property Fund
- Launch of CBD Property Fund
- Acquisition of holding in Rand Merchant Bank Group
- Sage Life (formerly Ned-Equity)/National Mutual merger
- Establishment of Independent Financial Marketing Group in the USA
- Allied/Sage grouping
- Sage Property Holdings listed
- Sage Resources Fund launched
- Listing of Sage Financial Services

### 1990 – 1999

- Amalgamation of Fedfund with CBD Property Fund
- Participation in establishment of ABSA Group Limited
- Rationalisation and restructuring, establishing Sage Group Limited
- Sage Life Holdings becomes 100% owned
- Sale of non-core investments
- Group completes R122.8 million rights issue
- \$30 million share placing in Europe
- Level One ADR Programme established in the USA
- Merger of IFMG with Liberty Financial, Boston, bank marketing company
- Focusing of operating activities under Sage Life Holdings
- Establishment of Sage Life of America
- \$45 million foreign preference share issue
- Information technology co-sourcing partnership
- Launch of eight new unit trusts including Sage Money Market, Sage SciTech and Sage Internet funds
- Introduction of a full multi-manager investment approach
- Sage Life launches new generation product range
- Strategic partnership in the USA with Swiss Re

### 2000 – 2003

- USA life sales commence
- Sage Bermuda launched
- Establishment of Sage "Collective Wisdom", MultiFocus, Income and International Equity funds
- Innovative series of offshore investment products launched in South Africa
- Group structure simplified
- Refinancing of foreign capital through \$65 million equity linked notes issue
- Rationalisation of property interests through amalgamation of property unit trusts
- Development of USA and international distribution
- Merger of Sage Internet Fund into Sage SciTech Fund
- Unbundling of ABSA shareholding structure
- International operations discontinued
- R350 million capital raising
- Introduction of new shareholders



# Directors' Review



*Louis Shill  
Chairman*

## DIRECTORS' REVIEW

### Introduction

It is with pleasure that we submit our review of Group activities and the financial statements for the nine months ended 31 December 2002, a particularly challenging period for the Group. This review should be read together with the statutory directors' report on pages 34 and 35 for a full appreciation of the Group's affairs.

### Overview

Since May 2002 when we presented our last annual review, the global economic picture, then already subject to an economic slowdown, and severely disrupted in the aftermath of September 11, has continued to deteriorate. Global stock markets have weakened significantly – the MSCI World Index declined by 21,1% in dollar terms in the review period – and long-term financial institutions with considerable investments in the deteriorating markets have been particularly severely impacted. This period has seen the worst market conditions in more than half a century and has resulted in unpredictable conditions, sluggish business growth and restricted access to financial facilities. Volatile foreign exchange markets and political developments leading to major conflicts and disruptions have served to further aggravate the negative economic scenario.

These conditions have severely disrupted the Group's strategic expansion plans, specifically in its international activities.

While the Group's traditional South African operations have shown considerable resilience, despite muted trading conditions in the local economy, their sound operating earnings have been significantly overshadowed by the necessity to withdraw from our international operations, effective 1 January 2003, due to a lack of access to working and development capital.

The withdrawal from international developments has taken place despite the Group having demonstrated its ability to establish a meaningful international presence and to generate significant volumes of new business. The decision was unavoidable, given the absence of development capital caused by the uncertainties and capital restrictions which have become prevalent in world financial markets. As a result, the Group has been obliged to write off the development costs of its international businesses which would normally have attached to their value as ongoing concerns.

Following the events within the international operations, the Group's international subsidiaries were transferred, effective 31 December 2002, from Sage Life Limited to Sage Group Limited, and are treated as discontinued for reporting purposes. Consequently, the international subsidiaries have been separated from the activities of Sage Life South Africa, which now concentrates exclusively on the development of its core domestic life assurance and unit trust businesses.

## Group results

	9 months 31 December 2002 R000	12 months 31 March 2002 R000
<b>Domestic operations</b>	<b>148 695</b>	<b>92 904</b>
– Operating surplus	228 139	121 695
– Provision against share scheme loans	(57 720)	(10 301)
– Finance costs	(21 724)	(18 490)
<b>International operations</b>	<b>(115 074)</b>	<b>(224 817)</b>
	<b>(80 243)</b>	<b>(178 617)</b>
– Operating deficit (non-recurring)	(182 466)	(122 642)
– Foreign exchange translation adjustments	102 223	(55 975)
– Finance costs	(34 831)	(46 200)
<b>Profit/(loss) before taxation and exceptional items</b>	<b>33 621</b>	<b>(131 913)</b>
Exceptional items	(191 543)	(3 228)
<b>Loss before taxation</b>	<b>(157 922)</b>	<b>(135 141)</b>
Taxation	(73 436)	(100 455)
<b>Loss after taxation</b>	<b>(231 358)</b>	<b>(235 596)</b>
International minorities and foreign preference dividends	(8 151)	(18 687)
<b>Loss attributable to ordinary shareholders</b>	<b>(239 509)</b>	<b>(254 283)</b>
Adjustment for exceptional items	191 543	3 228
<b>Headline loss</b>	<b>(47 966)</b>	<b>(251 055)</b>
<b>Reconciliation of headline loss to core earnings/(loss)</b>		
Headline loss	(47 966)	(251 055)
International operations discontinued	80 243	178 617
International minorities and foreign preference dividends	8 151	18 687
Provision for share scheme loans	57 720	10 301
<b>Core headline earnings/(loss)</b>	<b>98 148</b>	<b>(43 450)</b>
<b>Core headline earnings/(loss) per ordinary share (cents)</b>		
– Basic and fully diluted	65,3	(29,6)
<b>Headline loss per share (cents)</b>	<b>(31,9)</b>	<b>(171,1)</b>
<b>Attributable loss per share (cents)</b>	<b>(159,4)</b>	<b>(173,3)</b>
<b>Dividends per ordinary share (cents)</b>		
– Interim	25,0	30,0
– Final	–	–
	<b>25,0</b>	<b>30,0</b>



*Garth Griffin  
Group Chief  
Executive*

## DIRECTORS' REVIEW

CONTINUED

### Accounting policies and presentation

The Group's primary financial statements have historically been presented on the Financial Soundness basis, which equates with the statutory Financial Soundness Actuarial valuation basis utilised by all life companies as part of their published statements. It has also provided financial statements in full compliance with South African Generally Accepted Accounting Practice (GAAP).

Following a decision by the JSE Securities Exchange, South Africa (JSE) that it will only recognise results reported on the GAAP basis, the audited Group results are now presented on the GAAP basis only, while Sage Life continues to report on the Financial Soundness basis. The results include disclosure of core headline earnings which exclude the impact of non-recurring and exceptional items.

### Financial results

On the GAAP basis, the Group's core headline earnings for the review period, after adjusting for the discontinuance of international operations, minorities and share scheme provisions, totalled R98,1 million compared to a loss of R43,5 million in the twelve months to March 2002.

Core headline earnings per share for the review period amounted to 65,3 cents (29,6 cents loss) while the headline loss per share was 31,9c (171,1 cents).

The Group showed a headline loss of R48,0 million for the nine months compared with a loss of R251,1 million in the twelve months to March 2002. Domestic operations achieved pre-tax earnings of R148,7 million for the period (R92,9 million – twelve months to March 2002) while international operations showed a deficit of R115,1 million (March 2002 – R224,8 million deficit) before exceptional items.

Group assets at the year end amounted to R10,7 billion compared with R10,5 billion at 31 March 2002. Unit trust assets managed totalled R5,1 billion at the year end (R5,5 billion at 31 March 2002).

The Group's results have been significantly affected by a number of non-recurring, exceptional and other abnormal factors which have also impacted on the net asset values and the embedded values of Sage Life and the Group.

#### *Non-recurring and exceptional factors*

- In line with the requirement to present GAAP net asset values, and as a consequence of the international developments described below, the international activities have been impaired by R110,1 million and discontinuation costs totalling R80,1 million have been provided for.
- In Sage Life, which is presented on the Financial Soundness basis, the international activities have been written down by

*The Group's traditional South African operations have shown considerable resilience*

R1 028,9 million to a nominal R1, at which value they were transferred to Sage Group. This write-down reflects the cost of investment amounting to R385,5 million, the reversal of valuation increases, supported by independent opinions, totalling R459,8 million and net foreign exchange losses since inception of R183,6 million.

- An operating deficit of R182,5 million, before foreign exchange adjustments, has been absorbed for the nine months in respect of the international operations.
- The fair value of the unit trust business has been written down from R300 million to R150 million in Sage Life to reflect current market conditions and their present impact on the unit trust industry.
- Further provisions amounting to R57,7 million have been made against amounts owing under share purchase schemes, due to the depressed share price of the Group.

*Other factors*

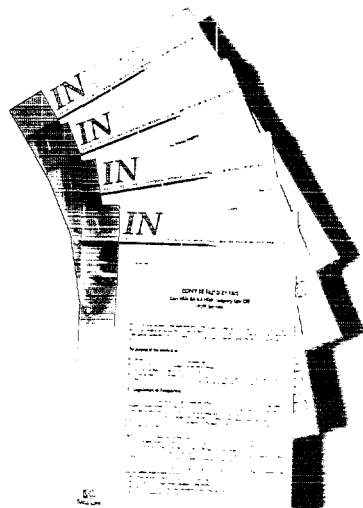
- Net foreign exchange translation gains total R102,2 million, reflecting a positive R181,5 million effect of the strengthening of the Rand on foreign debts (the Equity Linked Notes) and the negative effect of unrealised deficits of R79,3 million relating to foreign assets written down.
- Investment returns in Sage Life have been negatively affected as a result of the net decline in market values, both locally and internationally, during the review period.

- A change in the basis of accounting has been adopted whereby Sage Group Limited's investment in Sage Life is now reflected on a fair value basis as opposed to cost. The directors have applied the embedded value of Sage Life, amounting to R1,3 billion, as representative of its fair value. As a result of this change, Sage Group Limited reflects a positive shareholders' interest of R470,6 million whereas on consolidation, the Group reflects a negative shareholders' interest of R247,8 million.

**Dividends**

In view of the negative impact on the Group of the non-recurring and exceptional items described above, no ordinary dividend has been declared in respect of the six months ended 31 December 2002. Consequently the total distribution for the nine months under review amounts to 25 cents per share (30 cents per share for the twelve months to March 2002).





## DIRECTORS' REVIEW

CONTINUED

### Group embedded value

	9 months ended 31 December 2002 R000	12 months ended 31 March 2002 R000
Shareholders' interest (Financial Soundness basis)	(106 983)	1 099 598
Present value of future profits of Sage Life (net of cost of statutory capital)	660 031	743 989
<b>Embedded value</b>	<b>553 048</b>	<b>1 843 587</b>
<b>Group embedded value per share (cents)</b>	<b>352</b>	<b>1 228</b>

The embedded value of the Group at 31 December 2002 amounted to R553,0 million, equivalent to 352 cents per share. This measures the current value of the Group's net assets (at fair value) together with the present value of future profits from business already written by the life assurance operations (net of cost of capital). The 70% decline in embedded value since 31 March 2002 predominantly reflects the impact of non-recurring, exceptional and other abnormal factors, as described above.

### Capital raising

Together with JPMorgan, who have been appointed as financial advisers to the Group, the first steps are being taken to strengthen the Group's capital base, with the support of major shareholders and the participation of a consortium of substantial shareholders comprising AVASA Holdings Limited (AVASA) and investors on behalf of whom AVASA acts as agent. This will provide enhanced financial strength for the Group's core life assurance and unit trust activities in South Africa.

Agreements have been concluded in terms of which R350 million of new capital will be raised by way of a specific issue to the AVASA consortium and by way of a rights offer to shareholders, underwritten by existing major shareholders and members of the AVASA consortium. Shareholders are referred to the announcement regarding the specific issue and rights offer published in the press on 10 April 2003.

### Development and prospects

Over the past decade, the Group has clearly positioned its interests into its two core focus areas of life assurance and unit trusts, supported by the benefits of the significant interest in and strategic business relationship with ABSA Group Limited (ABSA), one of South Africa's

*The negative economic scenario has severely disrupted the Group's strategic expansion plans, specifically in its international activities*

leading banking and financial services groups. From its South African base, the Group added an international dimension through the development of its international activities from the United States and Bermuda bases.

In our last review we looked forward to positive results in the period ahead, subject to the caveat of reasonable performance in investment markets. In the event, the Group's South African operations have produced sound operating results. However, investment markets have performed poorly and the Group's results have been severely impacted by the withdrawal from international operations, as discussed elsewhere in this review.

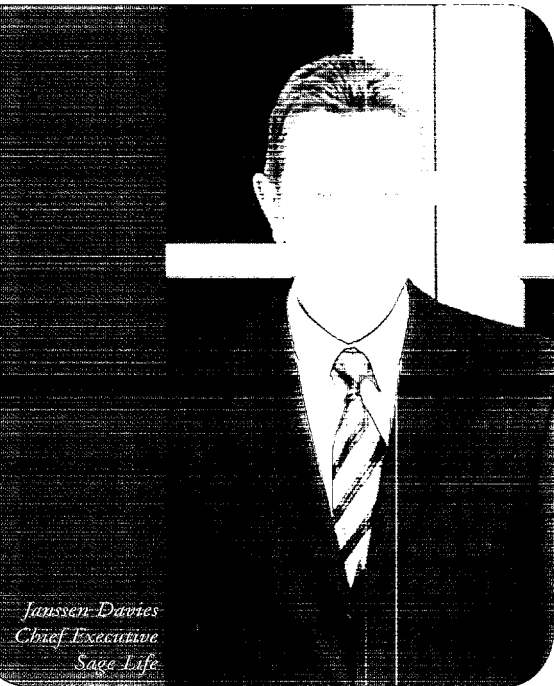
We indicated last year that despite a positive view on prospects, future dividend payments would be constrained as a result of both the servicing costs of the Equity Linked Notes, the debt instrument which funded the international division (see Note 10 to the Financial Statements) and the fact that returns from the Group's strategic investments were of a capital nature which could not sustain the traditional rate of cash payments. Consequently the Group took the decision to resume capitalisation share awards. This decision was implemented at the interim stage, but no dividend was declared at the year end as a result of the impact of non-recurring, exceptional and other factors on the financial results for the review period.

Actions contemplated in our last report included the re-distribution of certain assets, the raising of capital when appropriate via a

public issue, and the introduction of a new strategic partner or partners. As reflected earlier in this review, the international operations were repositioned under Sage Group and the first steps have now been taken to strengthen the Group's capital base. The process of further rationalising the Group's property investments has continued and the unbundling of the Universa structure in which the ABSA holding was held, as referred to on page 22, will facilitate investment strategy. In addition, the Sage consortium agreement through which major shareholders held their investments in the Group and which provided for pre-emptive rights, has been abandoned in the interests of a more traditional and liquid shareholding structure.

Against this background, the directors believe the Group is now positioned to warrant renewed optimism on future prospects. The problems faced within the international operations are now behind the Group and it is sharply focused on building its domestic life assurance and unit trust activities. The capital raising exercise, with the backing of existing major shareholders and the introduction of new shareholders, provides enhanced stability and will enable the Group to plan further developments and to reposition its operations.

The board, together with the new Group Chief Executive and senior executive management, is giving priority to revitalising the Sage brand, optimising balance sheet management, regaining expansion momentum in the distribution operations and establishing clear



*Janssen Davies  
Chief Executive  
Sage Life*

## DIRECTORS' REVIEW CONTINUED

strategies and operating targets for the medium term, designed to build shareholder value from the current base.

### Review of operations Sage Group

Sage Group Limited is an investment holding company, incorporating its operating subsidiary, Sage Life Limited, and the international interests which were transferred to the Group effective 31 December 2002. Sage Group also provides strategic direction and funding for Group companies.

#### International activities

The Group's international businesses, namely Sage Life Assurance of America Inc. and Sage Life (Bermuda) Limited have faced exceptional challenges during the review period, which have been the subject of numerous update reports to shareholders. In summary, while new business production reached \$160 million (R1,5 billion) for the nine months to December 2002 (18% up on the comparable period the preceding year), and assets under management grew to \$342,6 million (R2,9 billion) from \$223,7 million (R2,5 billion), the necessary capital to sustain expansion was not accessible, given prolonged weak global capital markets and the negative sentiment which severely impacted the financial sector.

Against this background a decision was taken to close Sage Life of America to new business with effect from 1 January 2003, while retaining administration capabilities in the United States to service existing businesses.

In the case of the Group's Bermudan operations, the decision on the closure to new business was subject to the outcome of negotiations which were in progress. Consequently, these activities remained operational and open for new business.

The decision to discontinue international operations was made at a stage which enabled the Group to ensure a controlled run-off and the secure transition to new owners in the interests of policyholders who at all times had been protected and separated from any financial strains experienced by the relevant companies.

As of mid February 2003, the Group announced that it had received and was examining a number of proposals for the sale of both the USA and Bermudan businesses on bases which related to their respective net asset values and the respective values of in-force business. Negotiations for the disposal of the United States operations had not been concluded at the date of this review.

The Group has however concluded the sale of Sage Life (Bermuda) Limited to Old Mutual plc. Sage Life Bermuda could not be adequately capitalised in foreign currency and therefore the Group decided to sell the company to a suitable group able to deal with the international client base of the company and to ensure sound ongoing servicing of all policyholders, both in South Africa and abroad. Sage Life of South Africa will maintain its Bermuda branch and continue to provide the existing service which it currently offers in South Africa for those policyholders.

*Sage Life now concentrates exclusively  
on the development of its core  
domestic life assurance and unit  
trust businesses*

Old Mutual plc will retain the Sage Life Bermuda current sales and market management and maintain all current sales contracts in force. In addition, operations and sales of existing products will continue and the company intends to continue to support the existing distribution network.

In the circumstances, and as referred to earlier in this review, the Group has written down the discontinued international operations as detailed above to a nominal value of R1. The proceeds of any disposals would be accounted for in the current year. A further announcement will be made following the completion of negotiations.

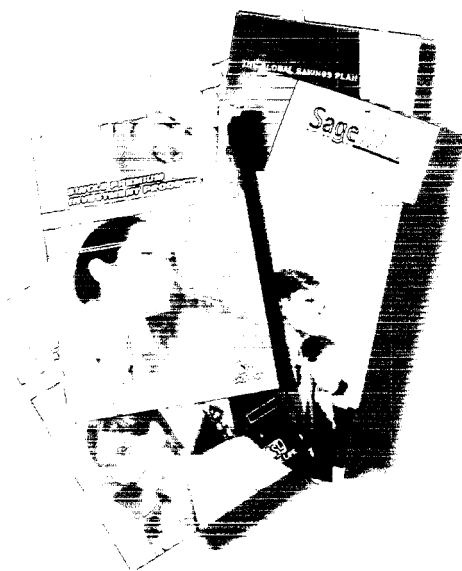
## Sage Life

### Overview

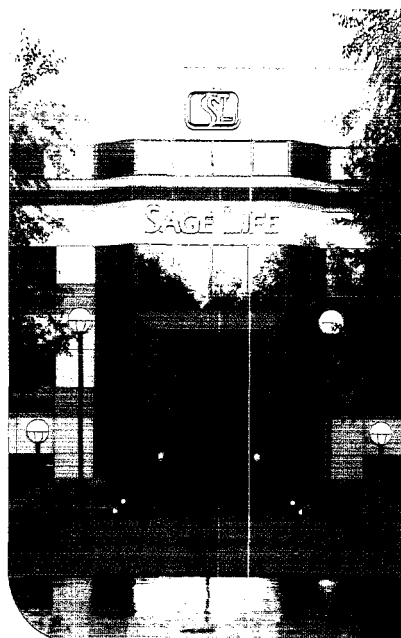
Sage Life is a prominent South African life assurance company, with activities embracing the full spectrum of individual life, endowment, retirement and employee benefit plans, including funeral benefit insurance. Sage Properties is fully integrated as a division of the life company and the operations of Sage Unit Trusts Limited, a wholly owned subsidiary, are closely co-ordinated with those of the life division. International activities in the United States and offshore via a Bermuda base were transferred to Sage Group with effect from 31 December 2002, as referred to earlier.

Conditions in the South African life assurance industry generally have remained challenging during the nine months under review, with weak investment markets impacting on

expansion in the sector. Sage Life in South Africa has continued to perform satisfactorily in its core activities despite the particularly difficult conditions and the negative perceptions created by the uncertainties surrounding the future of the Group's international operations. The company's distribution management capability, operating infrastructure and information technology strength continue to be actively developed. The product range remains competitive and expansion of the business alliance with ABSA remains a key management focus. At the same time, investment performance being achieved for clients continues to be most satisfactory. Against this background, and in the considerably strengthened environment that will flow from the capital raising and related developments referred to earlier, Sage Life is well placed to pursue its development and to resume its longer term record of market share growth.







## DIRECTORS' REVIEW

CONTINUED

### Financial soundness results

	9 months to 31 December 2002 R000	12 months to 31 March 2002 R000
Excess of assets over liabilities	671 743	1 784 028
Capital adequacy requirement	438 073	462 929
Capital adequacy multiple (times)	1,5	3,9
Shareholder's (deficit)/surplus	(1 057 250)	276 107
Operating surplus	128 294	38 033
Return on shareholders' funds	(1 185 544)	238 074
(Loss on disposal)/revaluation of investment in international assurance operations	(1 028 946)	307 399
– Net forex translation differences	(183 647)	183 647
– Cost of investment	(385 525)	–
– Market value fluctuation	(459 774)	123 752
Domestic assets	(156 598)	(69 325)

These results reflect, on the one hand, the significant effect of the non-recurring and exceptional items predominantly arising from the discontinuance of the international operations. On the other hand, the inherent stability of Sage Life is demonstrated in the significantly increased operating surplus of R128,3 million for the nine months under review (R38,0 million previous twelve months).

Sage Life's capital adequacy multiple has reduced from 3,9 at 31 March 2002 to 1,5 at 31 December 2002, and the company remains adequately capitalised in terms of current regulatory guidelines. The capital raising exercise now in progress will enable the Group to address possible future regulatory capital requirements for life companies.

### Embedded value

	31 December 2002 Rm	31 March 2002 Rm
Shareholder's interest	671 743	1 784 028
Present value of future profits (net of cost of capital)	660 031	743 989
Embedded value	1 331 774	2 528 017
	9 months to 31 December 2002 Rm	12 months to 31 March 2002 Rm
Embedded value of new business	40 324	65 857
Embedded value earnings	(1 141 208)	420 947

*The first steps are being taken to strengthen the Group's capital base*

Sage Life's embedded value at 31 December 2002, as set out in the report by the Statutory Actuary on pages 67 to 71, was R1 331,8 million. The 47,3% reduction since 31 March 2002 and the negative embedded value earnings of R1 141,2 million also reflect the effect of the non-recurring and exceptional items.

B&W Deloitte Southern Africa, international consulting actuaries, a part of Deloitte & Touche, again reviewed the overall Financial Soundness and embedded valuation approach and confirmed that the calculations, assumptions, methodology and disclosure were in accordance with applicable actuarial guidance notes and that they were applied consistently at each valuation.

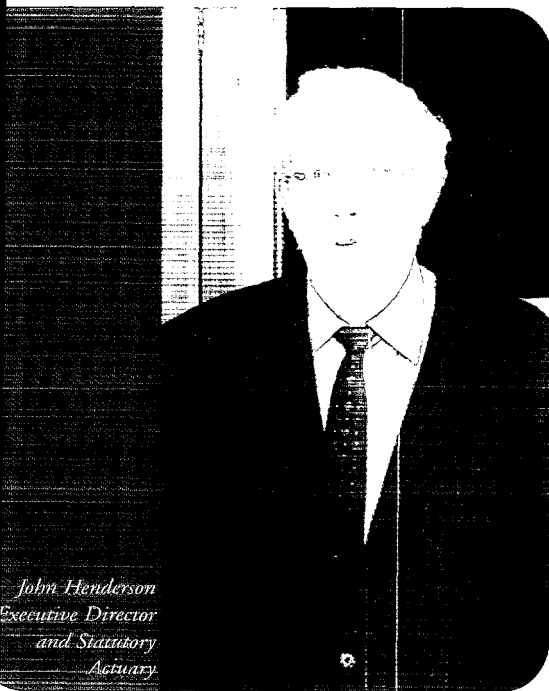
#### **New business**

	9 months to 31 December 2002 R000	12 months to 31 March 2002 R000
Life assurance premiums (gross)		
Individual	1 981 936	2 712 133
– annualised recurring – South African	234 435	320 704
– single	1 747 501	2 391 429
– South African onshore	288 070	423 674
– Sage International	1 459 431	1 967 755
– US and international	1 213 063	1 200 675
– SA Bermuda branch	246 368	767 080
Employee benefits – South Africa	138 272	222 435
– annualised recurring	65 686	66 079
– single	72 586	156 356
<b>Total life new business</b>	<b>2 120 208</b>	<b>2 934 568</b>

Despite negative investment markets and the disruptive environment in which the Group has operated in the review period, total new business results reflect only a modest decline, affected mainly by the reduction of offshore product sales in South Africa during the period of Rand strength and weak offshore investment markets.

Total life new business (domestic and international) for the nine months amounted to R2 120,2 million compared with R2 934,6 million in the twelve months to March 2002. Measured against the nine months to December 2001, new business reflects a reduction in aggregate of only 0,9%, with continued growth (38,9%) in international sales but a slowdown in new business results (-28,3%) in South Africa. While recurring new business premiums were only 2,8% below the comparable period in the previous year, single premium new business was 33,4% below the previous year's level.

Calculated on the industry benchmark of Annual Premium Equivalent (annualised recurring premiums and 10% of single premiums), total new business declined by 1,6% to R482,1 million.



*John Henderson  
Executive Director  
and Statutory  
Actuary*

## DIRECTORS' REVIEW

CONTINUED

### Operating review

Sage Life continues to perform satisfactorily in its core activities, despite difficult conditions.

Notwithstanding the exceptional provisions and write-downs, Sage Life itself remains very stable with no effect on policyholders or unitholders other than the hopefully temporary impact of weak markets on underlying investments. The continuing positive results of the South African operations are partially attributable to the company's relatively limited exposure to deteriorating asset values, with approximately 60% of actuarial liabilities represented by market related business.

Net premiums received in the review period amounted to R1 188,7 million, reflecting the solid performance in the core focus area of recurring premium business but a decline in single premiums as discussed under "New business" above. The total investment return reflects the impact of the write-down of the international activities and weak investment markets. Policyholder benefits for the review period totalled R963,7 million which, although above previous levels on a comparable basis, reflects general industry trends.

### Distribution channel development

#### *Divisional operations*

• *Individual* – Overall performance in this division which markets through brokers and agents was satisfactory, having regard to the muted industry environment, the significant reduction in offshore single premium investment production throughout the industry, and the negative sentiment resulting from the Group's international developments. Recurring premium business was sourced

54% from broker channels and 46% from the agency force. The sources of single premium business were 80% and 20% respectively. Total annualised recurring new premium in the division declined marginally to R234,4 million, a satisfactory performance relative to the industry trend. On the other hand, single premium new business in South Africa declined sharply to R534,4 million, a 33,4% decrease on the comparable period in the previous year which included buoyant offshore product sales. On the Annual Premium Equivalent basis, overall new business declined by 10,4% to R287,8 million.

*Broker division* – This division services a large number of intermediaries, ranging from independent brokers and broker networks to large corporates and major institutions. Annualised recurring new business premiums in the review period were 16,8% below the previous year at R126,8 million and single premium new business of R414,5 million was 38,2% below the record level achieved in the comparable period in the previous year. On the Annual Premium Equivalent basis, overall new business in the division declined by 23,3% to R168,2 million.

Management continues to focus on enhancing service standards and relationships throughout the broker division, particularly with the intermediary force of ABSA Financial Services which provides valuable support to Sage Life.

*Agency division* – The company's agency force has been progressively expanded in recent years to some 630 members at the year end, divided between an experienced team of direct agents and specialised franchise

*The Group is now positioned to warrant renewed optimism on future prospects*

entities. The division's comprehensive computerised financial needs analysis system, called "sageInsight", together with sophisticated risk profiling processes, proficiency testing and the enforcement of minimum production standards, continues to promote professional standards, sales productivity and the quality of business. These steps have also facilitated the expansion of compliance activities which now meet the requirements of new legislation regulating conduct in the insurance sector, including the Financial Advisory and Intermediary Services Act (FAIS) and the Financial Intelligence Centre Act (FIC).

In the agency division's traditional focus area of recurring premiums, new business for the review period totalled R107,6 million, a very gratifying 21,2% increase on the comparable period in the previous year. Single premium new business declined by 16,7% to R100,4 million. On the Annual Premium Equivalent basis, overall new business increased by 16,7% to R117,7 million.

- **Employee benefits** – Pursuing a focused development strategy, this division has made satisfactory progress in the review period. Employee benefits remains an intensely competitive market sector with premium flows displaying high sensitivity to market sentiment and short-term investment performance, despite the essentially long-term horizon of retirement planning. In the event, investment results have continued to show sustained improvement across the company's employee benefit portfolios which now feature prominently in independent peer rankings.

Employee benefits new business for the review period reflected contrasting trends. Compared to the nine months to December 2001, recurring premiums rose by 20% to R65,7 million while single premiums declined by 39% to R72,6 million. On the Annual Premium Equivalent basis, total new business declined by 10,6% to R73,0 million. Total premiums received in the review period amounted to R170,1 million, 17% ahead of the comparable period in the previous year.

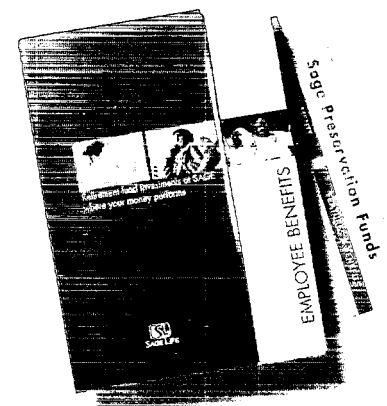
The employee benefits division is well placed to increase penetration through its traditional distribution channels on the strength of its highly competitive investment performance.

#### **Product development**

In recent years, Sage Life has demonstrated its ability to innovate in new product development and the company provides a comprehensive and competitive range of risk, savings and investment products with flexible benefit features, designed to meet client needs across the risk spectrum. Although the past nine months have been a period of consolidation in terms of product development, a number of life and endowment products have been packaged for specific distribution channels and the product range was extended with the launch of the Global Savings Plan, an affordable monthly premium supplement to the offshore product series. In the employee benefits division, a new monthly, fully vesting bonus product was introduced.

#### **Policyholder benefits**

During the review period, policyholders continued to benefit from competitive bonuses in line with market trends and other





## DIRECTORS' REVIEW

### CONTINUED

forms of profit participation appropriate to the comprehensive variety of policies made available by the company. For example, the deposit administration bonus declared at 31 December 2002 was 5% per annum, which compares favourably with peer companies. Policyholder benefits, reflecting claim, maturity, annuity, surrender and termination payments, totalled R963,7 million for the nine month review period compared with R1,1 billion in the preceding twelve months. The analysis of policyholder benefits in Note 14 to Sage Life's financial statements reflects in particular an increase in maturities in the individual division and a considerably higher level of gross terminations in the employee benefits division.

Business conservation initiatives to improve persistency levels continue to remain a high priority and are showing encouraging results, with a significant decline in Sage Life's lapse experience. Nonetheless, the level of lapses, surrenders and terminations remains an area for concerted action. This is a significant industry problem which requires attention in view of the increased level of switching. The company is committed to further improving the level of success in business conservation and inter alia has commissioned an advanced new call centre and other technologies during the review period to enhance communication with clients and to support the production of quality business. In addition, "Sage Predictor", a sophisticated software system installed during the review period, is facilitating the control of quality in business written and is supporting the business retention strategy.

### Assets

Sage Life's assets, based on the values of the underlying investments, amounted to R7,7 billion at the year end compared with R8,8 billion at 31 March 2002. The reduction during the review period predominantly reflects the R1 billion write-down of the international activities. Funds under management in the unit trust subsidiary totalled R5,1 billion.

### Expenses

Management's strategy continues to emphasise stringent control of expenses and the increase in operating expenses of management was contained within the budget parameters for the review period. Expense control continues to be facilitated as a result of the technology outsourcing partnership referred to below.

### Information technology

Sage Life's long-term outsourcing agreement with EDS, one of the largest international information technology services companies, continues to produce significant ongoing benefits in the critical areas of cost containment, revenue generation, service levels and distribution capabilities.

This innovative business partnership is committed to optimising efficiency by applying global best practices and processes to further enhance Sage Life's overall business performance. EDS shares directly in the risk and reward of the venture through a fee, based inter alia on Sage Life's revenue growth.

During the past year, important phases in the ongoing development of policy administration systems were completed or progressed and numerous other technology enhancement projects were initiated. These include the

*The capital raising exercise will enable the Group to plan further developments and to reposition its operations*

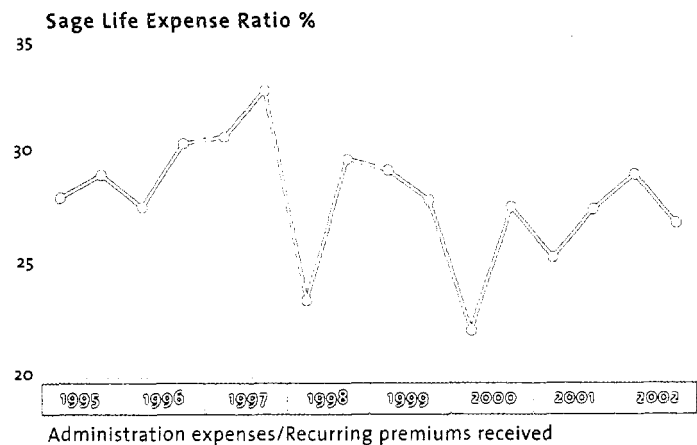
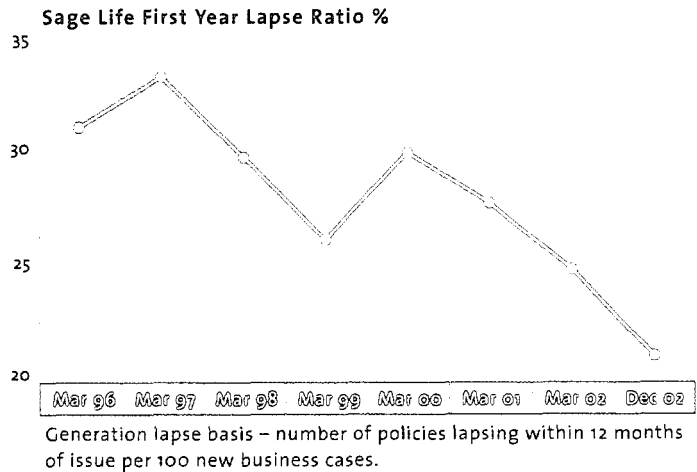
commissioning of a consolidated premium and investment collection and payments system, an accreditation model at the new business stage in terms of the Financial Advisory Intermediary Services Act and an enhanced data warehouse system providing expanded and consolidated management information. The initial phase of a new financial and cash management system was also substantially completed during the review period.

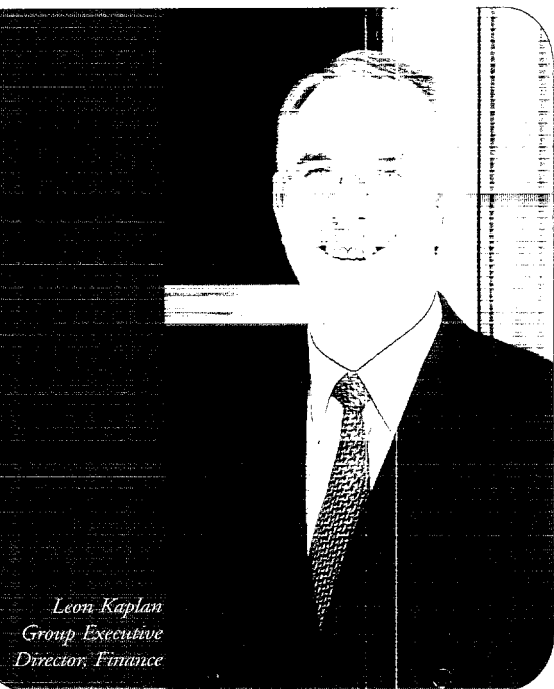
Developments in process include expansion of the commissions system to allow for deregulation and further automation of the new business process to enhance productivity through multiple electronic gateways focused, at the point of sale, on *sageInsight*, the financial needs analysis software system implemented in the agency force.

Sage Life also installed new call centre technology during the review period and successfully bedded down its participation in *Astute*, a life industry technology platform initiative which provides a communications bridge between assurers and intermediaries.

**Administration**

The number of new business cases processed during the nine months under review was in excess of 38 000 with a further increase in the average size of cases written. The specialised risk unit, which focuses on sums assured in excess of R2,5 million and on sub-standard underwriting risks, continues to facilitate operating efficiency. The administration division again successfully managed the volume of new business without increasing its staff complement. This achievement reflects the continuing systems





*Leon Kaplan  
Group Executive  
Director, Finance*

## DIRECTORS' REVIEW

### CONTINUED

progress made in numerous areas, and the effective utilisation of the integrated client management system.

#### **Underwriting**

The company's sound underwriting policy continues to produce favourable mortality and morbidity results. Although the level of HIV-positive test results is still increasing among applicants, AIDS-related claims remain minimal and well below the industry average.

#### **Investments**

##### *Economic and market overview*

After exceptionally weak second and third quarters, most major global equity markets staged minor recoveries over the fourth quarter from the extremely oversold levels that were prevalent at the end of September 2002. However, with the exception of a few Emerging Market indices, the fourth quarter rally was not sufficient to enable developed markets to avoid substantial declines for 2002 as a whole, with the US equity market recording a third consecutive annual decline – the first time this has occurred in more than half a century. With global economic data remaining mixed and geo-political tensions continuing, the mild fourth quarter rally reflected more of a technical rebound from oversold levels, rather than a fundamental shift in sentiment.

The JSE again performed relatively well over the fourth quarter, recording a modest 1,5% decline in rand terms, and a 21% rise measured in US dollars, as a result of the rand continuing to rally strongly. For the year as a whole, the JSE, although showing a negative total return of 8,3%, was one of the world's best

performing markets, rising 28% in US dollar terms – in stark contrast to the 20% decline in the MSCI World Index.

Sentiment towards global economic growth bottomed at the end of the third quarter, with economic data indicating a mixed picture for US economic growth and a slight deterioration in European economic growth.

The South African economy performed strongly in 2002, despite the rising interest rate environment and the disappointing global backdrop. Growth estimates confirmed the underlying economic strength that has been reflected for some time in domestic company earnings. South Africa's economic performance stands in stark contrast to the anaemic growth experienced by most industrialised economies.

In the domestic economy, we have now seen the peak in the interest rate cycle. Although a fifth rate increase had been expected as a result of inflation having turned out to be far worse than was thought possible at the beginning of the year, the decision by the Minister of Finance to indefinitely delay the planned 2004 tightening of the inflation target eased the pressure on the Monetary Policy Committee to raise rates yet again. The unexpected recovery in the rand made the November decision to keep rates on hold a foregone conclusion.

The pace of economic growth is unlikely to be sustained into the first half of 2003. Leading indicators suggest that activity has already peaked and is beginning to soften. This is to be expected as a lagged response to the rising trend in domestic interest rates and the adverse impact of global weakness on exports.

*Sage Life is well placed to resume  
its longer term record of market  
share growth*

Whether the economy will reaccelerate in the second half of this year will in large measure depend on the fortunes of the global economy.

#### Asset management

Sage has continued to enhance and refine its multi-manager asset management process and the company's asset management team, together with the underlying multi-managers, continues to produce satisfactory results in difficult markets. The diverse group of leading domestic and international managers selected to manage the Group's life and unit trust portfolios enables it to respond rapidly and effectively to changing circumstances and market conditions.

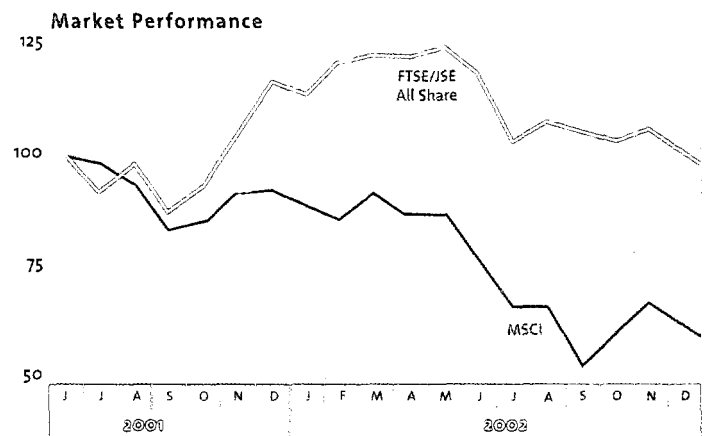
#### Investment results

	Nine months ended 31 December 2002 Rm	Year ended 31 March 2002 Rm
Investment income	228,1	341,1
Net realised and unrealised capital (losses)/gains	(1 083,3)	671,1
– International operations	(1 029,0)	307,4
– Domestic operations	(54,3)	363,7
Total investment return	(855,2)	1 012,2

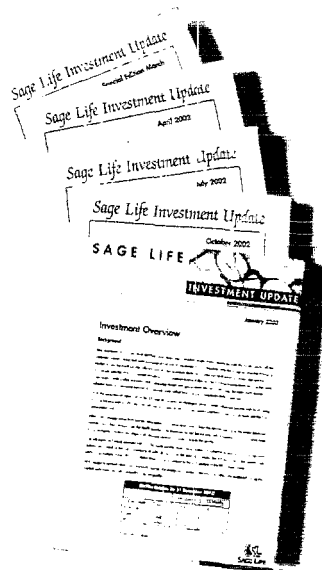
Sage Life's investment income for the review period was R228,1 million (R341,1 million in the previous twelve months) while a net realised and unrealised deficit of R1,1 billion was incurred (R671,1 million net surplus in the previous twelve months) reflecting the write-off of the international operations, the other non-recurring and exceptional factors detailed earlier, and other factors, inter alia the positive performance of the investment in ABSA. Consequently the total investment return for the review period was a R855,2 million deficit compared to a R1 billion surplus in the previous twelve months. Further details of the investment results are provided in Notes 12 and 13 to the Sage Life financial statements on page 82.

#### ABSA investment

As announced during the review period, the consortium members, including the Group, who controlled approximately 46% of ABSA Group Limited, concluded agreements during the review period for the unbundling of Univera (Pty) Limited and the future of the ABSA shareholding relationships.







## DIRECTORS' REVIEW

CONTINUED

Sage Group elected to withdraw from the ABSA shareholders' agreement and does not participate in the new ABSA shareholding pool. Instead the Group opted for the absolute flexibility and liquidity which it considers desirable for the effective management of its direct shareholder and policyholder investments in ABSA shares. Sage Group has maintained the excellent business relationship it has built up with ABSA over the last decade independently of its ABSA shareholding. In its turn, ABSA continues to be a substantial shareholder in Sage Group, is represented on its board and has committed to supporting the capital raising exercise.

The Group's holding in ABSA, which is accounted for as an investment and is marked to market, has made a positive contribution to investment results in the review period.

ABSA is one of the dominant banking and financial services groups in South Africa, and there are important reciprocal business relationships between the Group and ABSA which continue to be developed. The initiatives with ABSA have again meaningfully contributed to Sage Life's new business results.

The Group's investment in ABSA was slightly reduced during the review period and further limited reductions have taken place subsequent to the year end. Any further disposals to meet portfolio balancing needs will be subject to an orderly marketing process.

### Sage Properties

Sage Properties, which is integrated within Sage Life, is focused on the needs of the life company and directly manages a focused

portfolio of commercial properties, industrial and residential land holdings and listed property investments for various Sage Life policyholder and shareholder portfolios.

The Sage Life investment property portfolio, which consists of modern, high quality properties located in prime nodes, continues to provide a satisfactory return on policyholder funds invested. Sales progress in Corporate Park, Midrand, where Sage Life holds the entire equity, has been disappointing reflecting a difficult industrial/commercial leasing market. Current activity shows signs of improvement in the marketing of the second phase of this prominent commercial development.

The property investments were valued, supported by independent valuations, at R533,1 million at the year end. The valuations are supported by the disposals referred to below, all of which have been made at levels in excess of their valuations. Rationalisation of these investments continues to progress through an ongoing process of realising the residual land and residential assets and a program of selective commercial property disposals. In the current year, we expect to make further significant progress in line with the stated objective of realignment of Sage Life's underlying portfolios.

### Sage Unit Trusts Limited

Sage Unit Trusts (SUT), a wholly owned subsidiary of Sage Life, is the management company of the Group's unit trusts.

#### Unit trust industry

The severe international bear market has impacted on the growth of the global unit trust industry, with equity fund assets eroded

*Sage Unit Trusts is solidly based  
for renewed growth as investment  
markets improve*

by the decline in share prices and by continuing net outflows. Bond and money market funds, on the other hand, have provided an element of stability through their role as safe haven savings vehicles.

The South African unit trust industry has shown resilience, continuing to attract net inflows of R19 billion in 2002, predominantly in the fixed interest sectors. Expansion of the industry as a whole has been maintained despite the negative performance of the JSE for the year, with total industry assets reaching R180 billion.

The Collective Investment Schemes Control Act, which replaces the Unit Trust Control Act, was promulgated effective 3 March 2003, introducing a modern enabling legislative framework for investors in collective investments which presents us with new opportunities.

*Review of SUT activities*

Given the difficult investment environment, SUT, the management company, has made satisfactory progress. Sage Fund, which pioneered the South African unit trust industry almost 38 years ago, provided the foundation for the Sage family of funds which has been progressively expanded to the current thirteen funds, spanning a variety of general and specialist equity and fixed interest investment areas.

During the review period, and following regulatory approval, the management company implemented the consolidation of the global equity content of Sage Fund into Sage Global Fund and Sage Fund now holds its international content via the Global Fund.

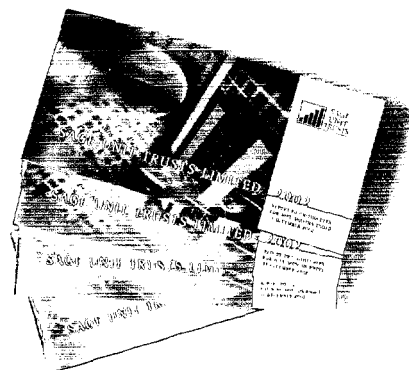
This move has streamlined administration and asset management.

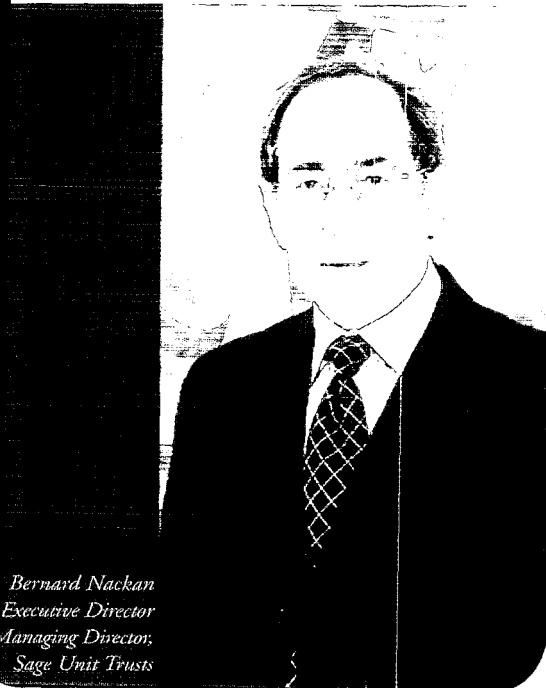
In the period under review, the management company conducted a ballot of unitholders in Sage Global Fund to give effect to the deregulation of unit trust fees and charges following the amendment of the Unit Trusts Control Act. The ballot was approved by a substantial majority of participating unitholders. Effective 1 July 2003 the service charge for this fund will be increased in line with industry trends, facilitating the management company's access to skilled professional managers and its ability to continue enhancing service levels, technology and administrative systems.

Sage Global Fund has been closed to new investment for some time, reflecting South African Reserve Bank Exchange Control Regulations which limited offshore investments by unit trust companies. In the current year exchange control regulations will restore offshore investment capacity and enable the reopening of the fund to new investment.

During the past year the management company also conducted ballots of unitholders in Sage SciTech Fund and Sage Internet Fund regarding a proposed merger of the Internet Fund into the SciTech Fund. The proposal was approved by unitholders and the merger was effected on 1 January 2003.

Performance of the Group's unit trusts has again reflected the volatile and contrasting sectoral market trends over the past year. Relative to their sectors, Sage Fund and the MultiFocus, SciTech, Income, Gilt and Money Market Funds showed above-average performance, with Sage Fund in particular continuing to feature in the top quartile of the major





*Bernard Nackan  
Executive Director  
Managing Director,  
Sage Unit Trusts*

## DIRECTORS' REVIEW

CONTINUED

General Fund category. The balance of the management company's funds performed below their sector averages during 2002, reflecting the volatile conditions in their specialist sectors, but we remain confident that the Sage investment process together with the selected managers, including Abvest, Brandes Investment Partners, Investec, Prescient, Prudential and Raam, will ensure above-average performance over the longer term.

The management company's sales for the nine months to December totalled R2,4 billion, a satisfactory achievement relative to the total sales of R2,9 billion in the previous twelve months. In line with the trend throughout the industry, repurchases remained at high levels (R2,5 billion for the nine months) resulting in a modest net outflow of R105,2 million for the nine months. Measured against the nine months to December 2001, sales increased by 27,8% while repurchases rose by 51,6%.

The management company's profit before taxation for the nine months to December 2002 amounted to R15,2 million (R19,7 million in the preceding twelve months) and profit after taxation totalled R10,6 million (R13,9 million in the preceding twelve months). Assets managed by the company totalled R5,1 billion at 31 December 2002 (2001: R5,5 billion) and SUT has consequently maintained a meaningful market share in the unit trust sector and is solidly based for renewed growth as investment markets improve.

## Directorate and CEO appointment

Information regarding the directors is given in the Directors' Report on page 34, in the Corporate Governance Statement on page 26, and on pages 52, 88, and 89.

Subsequent to the year end, the Group's founder, Mr Louis Shill, announced his retirement as Chairman of Sage Group with effect from the company's forthcoming annual general meeting in May 2003. Mr Shill will continue to serve as a non-executive director of the Group. A new chairman will be designated and announced at the time of the annual general meeting.

The directors have also announced the appointment of Mr Garth Griffin as Group Chief Executive with immediate effect. Mr Griffin has served as a non-executive director of the Group since 1999 and as Chairman of both the Audit and Investment Management Committees. Mr Griffin was formerly Managing Director of the Old Mutual Group and subsequently a director of various companies and an independent business consultant.

Mr Janssen Davies continues as Chief Executive of Sage Life Limited.

## A SPECIAL TRIBUTE

### Acknowledgements

The challenging environment we have faced during the review period has called for exceptional commitment and dedication from management and staff in South Africa, and for special effort in very difficult circumstances from the international management team. It is particularly gratifying that the people of Sage have demonstrated continuing loyalty and have responded energetically in meeting client needs and addressing corporate priorities. We thank all these people for their valued contributions and are confident that we have a talented and effective team to drive the Group's future development.

We would like to acknowledge the support and co-operation of the various regulatory authorities, professional advisers and of course our shareholders, and we would like to thank our customers and business associates for their continuing support of the Group.

8 April 2003

*The directors would like to pay special tribute to Mr Louis Shill who will be retiring as Chairman in May 2003. He will continue to serve as a non-executive director of the Group.*

*Mr Shill founded and built Sage and we would like to express appreciation for his wisdom, leadership and absolute integrity throughout the company's history. The directors look forward to his continuing and active participation as a non-executive director after May.*

*Mr Shill was a founder and the chief executive of the first unit trust in South Africa, Sage Fund, in 1965, having helped pioneer the unit trust concept in the country. He established the Sage Group in 1969 and has led its development into a prominent life assurance and unit trust institution. Under his leadership, Sage has established a record of consistent innovation and pioneering development in the financial services sector.*



# Corporate Governance

## CORPORATE GOVERNANCE STATEMENT

### Introduction

The Group is committed to effective corporate governance and welcomes the King Report on Corporate Governance for South Africa 2002 (King II) and endorses the Code of Corporate Practices and Conduct (the Code) contained therein.

Following the issue of King II, a working group as well as an ad hoc committee of the Board was appointed to evaluate the Group's level of compliance with the Code, and determine any action required to be taken in order to comply with the Code and The JSE Listings Requirements.

The working group and ad hoc committee's reports confirmed that the Group has in all material respects consistently been in conformance with the provisions and spirit of the Code during the review period. Compliance with the Code has been predicated on practical cost-effective considerations. The Sage Group Board of Directors (the Board) recognises, however, that certain practices and procedures need to be implemented or enhanced or require to be formally documented. In this regard, the Board has planned for substantial progress to be made in the course of the coming year.

### Corporate code of conduct

The Group has a formal code of ethics, applicable to its directors and all employees, which dictates the manner in which it conducts its affairs. The code of ethics is set out below.

#### Sage Group code of ethics

The Sage Group is committed to conducting its affairs in accordance with the law, the

highest standards of ethical behaviour and a sense of fair play.

The successful implementation of these principles is dependent on the conduct and good judgment of each employee. It is expected that employees at all levels will conduct themselves in terms of ethical values that will enhance the reputation of the Group.

The principles stated below are provided as broad guidance for a variety of situations.

Integrity is fundamental in all business dealings with our stakeholders, being our customers, shareholders, suppliers, intermediaries, investors and employees.

The Group undertakes to operate in an environment of openness in its dealings with its stakeholders.

The organisation is committed to fair value and quality for customers.

In relation to suppliers, intermediaries and investors, fair practices will be adopted with respect to all business activities.

The Group undertakes to adopt fair employment practices and to provide equal opportunity of employment and development within a working environment conducive to health and safety.

The Group and its employees will at all times comply with the constitution and applicable laws of the country in the performance of their duties.

An employee must not permit a situation to arise where there may be conflict of interest between the organisation and the employee.

Examples of such conflict of interest would be:

- disclosure of confidential or proprietary information

- significant financial interest in a competitor or supplier, intermediary or investor
- acceptance of money from a supplier, intermediary or investor
- offering of money by a supplier, intermediary or investor
- acceptance of entertainment or gifts, exceeding ordinary social amenities, from a supplier, intermediary or investor
- appropriation or use of the Sage Group resources for personal benefit, i.e. unauthorised use of company property.

### Board of directors

The Board comprises fifteen directors of whom nine are non-executive (of whom four are independent) and six are executive directors (including the chairman).

Operational activities are divided into two main areas – South Africa and International – each with its chief executive, appointed by the Board.

Due to the absence of a Group chief executive, the chairman's role evolved to fill this gap, particularly with regards to the overseas operations. Because of his detailed involvement in Group operations over the past year, the Board considers that his role had moved from that of a non-executive to an executive, even though this did not impact the accountability of the chief executives of South African and International operations. The Board has addressed this matter.

Non-executive directors support the skills and experience of executive directors and contribute independent views on matters considered by the Board. They enjoy significant influence in deliberations at meetings.

# ance

The Board comprises individuals of high calibre with diverse backgrounds and expertise, each of whom adds value and brings independent judgement to bear on the Board's deliberations and decision making processes. The balance of executive and non-executive directors is such that no one individual can dominate the Board's decision taking.

The Board, on an informal basis, regularly re-views its required mix of skills, experience and diversity in order to assess its effectiveness by means of self-evaluation. A more formal process of self-evaluation will be considered.

All directors have access to the advice and services of the company secretary and to professional advice at the Group's expense.

More information on the directors is contained elsewhere in this report as referred to on page 24 of the annual report.

The Board has a fiduciary duty to act in good faith with due diligence and care, in the best interests of the Group and all its stakeholders. It is responsible for guiding and reviewing corporate strategy, monitoring performance, and determining policies and procedures to ensure the integrity of the Group's risk management and internal controls. The Board is also responsible for ensuring timeous and open communication with shareholders and other stakeholders.

In order to carry out these responsibilities, the Board retains full and effective control over the Group through a structured approach to reporting and accountability via its various committees.

Details of attendance of each director at the

meetings of the boards and committees are set out on page 28. The Board met seven times during the period.

### Board committees

The following committees, which are subcommittees of the Board as well as the board of Sage Life Limited, operate according to approved terms of reference. Both boards are of the view that these committees have satisfied their responsibilities in compliance with their mandates for the review period.

#### Group Audit Committee

The committee, which consists of six non-executive directors and two ex officio members (comprising the Group chairman and the chairman of the Group Risk Management Committee) is chaired by an independent non-executive director. The external and internal auditors, executive management and the statutory actuary are in attendance. The committee met five times during the period.

The primary responsibilities of the committee are to evaluate matters concerning accounting policies, internal controls, auditing, financial reporting, risk management and compliance.

Both the external and internal auditors have unrestricted access to the chairman of the committee as well as to all records, assets and personnel of the Group.

#### Human Resources Committee

The Human Resources Committee consists of three non-executive directors and the Group chairman. The committee's main responsibilities include the evaluation of all aspects of human resources, including the

remuneration of executive directors and senior executives. The chairman is not present when his remuneration is discussed.

The committee also recommends the fees to be paid to directors and monitors and approves overall manpower and remuneration policies to ensure that they are appropriate and market related.

The committee met four times during the period.

Details of directors' remuneration and share options are set out in the notes to the financial statements on pages 52 and 61.

#### Actuarial Review Committee (Sage Life)

The Actuarial Review Committee, which is chaired by a non-executive director, comprises both executive and non-executive directors and meets at the interim and year end reporting stages. This committee met twice during the period.

The purpose of this committee is to review, on behalf of the Sage Life board, the trends and developments in the actuarial valuation results in the annual financial statements and in reports to the regulatory authorities. The valuation process is also reviewed by independent consulting actuaries.

The statutory actuary and the external auditors attend the meetings and have unrestricted access to the chairman of the committee. A representative of the independent consulting actuaries also attends the meetings.

#### Investment Management Committee (Sage Life)

The primary objectives of the committee are to determine and monitor the implementation of the investment strategy of the Group.

## CORPORATE GOVERNANCE STATEMENT

CONTINUED

This committee is chaired by an independent non-executive director of the Sage Life board. The committee comprises executive directors and members of senior investment management. It is supported by two key sub-committees that deal with asset allocation and monitoring of external investment managers respectively.

The committee met three times during the period, while the key sub-committees met monthly.

### Group Risk Management Committee

An independent non-executive director of the board chairs the committee. Other committee members are executive directors and members of senior management representing finance, actuarial, compliance and internal audit. The senior executive responsible for information technology attends the meetings. The committee meets quarterly and is represented at audit committee meetings. The committee met three times during the period.

The committee is accountable to the board for the process of risk management and the system of internal control. It also contributes towards the achievement of the Group's performance objectives and strategies through risk management. To this end, it regularly reviews risk management and internal controls to ensure that significant risks within the Group are effectively managed through appropriate risk and control policies.

A Group Compliance Committee has been constituted as a subcommittee of the Group Risk Management Committee. The objective of this committee is to monitor compliance risk within the Group, with a view to ensuring that appropriate procedures are in place to achieve overall compliance with legislation and requirements of regulatory authorities.

### Directors' meetings

Attendance at Board and Committee Meetings for the nine months ended 31 December 2002 was as follows:

	Sage Group Board		Group Audit Committee		Human Resources Committee		Actuarial Review Committee (Sage Life)		Investment Management Committee (Sage Life)		Group Risk Management Committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Number of meetings	7		5		4		2		3		3	
Director's name	A	B	A	B	A	B	A	B	A	B	A	B
HL Shill	7	7	5	5	4	4	2	2				
MP Adonisi	7	4			4	3						
DC Cronjé	7	6	5	5			2	2				
JP Davies	7	7					2	1	3	2		
DM Falck (Resigned 8 November 2002)	5	2										
G Griffin	7	7	4*	4*			2	2	3	3		
JE Henderson	7	7					2	2	3	3	3	1
BM Ilsley	7	7										
L Kaplan	7	7					2	2	3	2	3	3
RI Marsden (Based in the USA)	7	5										
DF Mostert (Resigned 31 October 2002)	4	4										
B Nackan	7	7							3	3		
BJ du Plessis	7	4	5	4								
JH Postmus	7	7										
CD Stein	7	7	5	4								
WD Winckler (Retired 31 December 2002)	7	6	5	4							3	3
CL van Wyk	7	5	5	4	4	3	2	2				
T van Wyk	7	7	3**	2**	4	4						

Column A – indicates the number of meetings in respect of which the director was a member of the Board or committee

Column B – indicates the number of meetings attended by the director

\* – joined May 2002    \*\* – joined August 2002

### Insider trading

The Group has a formal policy, established by the Board and implemented by the company secretary, prohibiting dealing in its shares by directors, officers and employees for a designated period preceding the announcement of its financial results. Purchases and sales of its shares by directors are disclosed as required by the JSE.

### Risk management and internal control

The directors, supported by the Audit and Risk Management committees, are accountable for ensuring that the Group maintains adequate risk management processes, including effective systems of internal control.

Management is responsible for designing, implementing and maintaining the process of risk management and integrating it into the day-to-day activities of the Group. The Group acknowledges that risk management is a dynamic process, it accordingly undertakes reviews of its existing risk processes with a view to improving the management, reporting and communication of risks cost effectively throughout the Group.

Details of the major risks to which the Group is exposed are described on page 57 of this annual report. The Group maintains systems of internal control designed to provide reasonable assurance as to the integrity of the financial statements, compliance with applicable legislation and regulations and to adequately safeguard, verify and maintain

accountability for the assets of the Group and its stakeholders. These controls are based on established policies and procedures and are implemented by trained personnel with an appropriate segregation of duties.

The effectiveness of these systems of control is monitored through, inter alia, the internal and external auditing functions, management and supervisory activities and adherence to performance standards.

The Group's internal audit services department plays an important role in corporate governance and works in close co-operation with the external auditors in providing an independent appraisal activity for the review of operations.

The function is fully mandated by and accountable to the Group Audit Committee which approves the internal audit work plan.

The department, which reports administratively to the executive director finance, has unrestricted access to the Group chairman, the chairman of the Group Audit Committee or any other relevant person or committee as dictated by circumstances.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls and systems has occurred during the period under review.

### Integrated sustainability

Sage's core values, which are the subject of annual "Core Value Champion" awards among staff, embody many aspects required for sustainability of the Group and its

aspirations. These core values are:

- Commitment to Customers
- Our People
- High Ethical Standards
- Innovation
- Commitment to South Africa

#### *Social responsibility:*

The Group has always maintained a strong sense of social involvement and the Sage Foundation has supported a diverse range of educational, charitable and other social causes over the years. The Foundation's capital base has been increased in recent years, enabling it to increase its contribution to community needs.

#### *People development:*

In line with its core values, Sage is committed to:

- Ensuring that our people have meaningful and productive careers and job satisfaction and that they continue to give us a competitive advantage.
- Empowering and developing all our people as active participants in a climate where quality and creativity are encouraged and recognised.
- Utilising individual potential to the full.

In line with this philosophy, the Group conducts training and development at all levels, ranging from numeracy, literacy, learning assessment and life skills programmes to leadership and management development, including participation in programmes at leading universities and business schools.



## CORPORATE GOVERNANCE STATEMENT

CONTINUED

Sage Life was the first life assurer in South Africa to institute proficiency testing and licensing for all agents to ensure their product knowledge on an ongoing basis across the range of the company's products. This process, which continues to be implemented together with significant financial planning technology, has fully prepared Sage Life for the progressive introduction of new legislation and regulatory supervision measures setting standards for and governing the conduct of intermediaries.

The Group recognises the impact that HIV/AIDS may have on its employees and has consequently established an AIDS Committee which is focused on implementing a comprehensive interaction strategy with staff to improve understanding of and to deal with AIDS-related issues.

The Group complies with employment equity legislation and has submitted an employment equity plan and subsequent requisite reports in terms of the Employment Equity Act No 55 of 1998. Affirmative action measures adopted form part of the requirements for employment equity compliance. Plans are reviewed annually and are in line with business objectives.

The Group is committed to an affirmative action intervention whereby people from the designated groups are preferentially developed within the organisation by upgrading their skills, and are afforded opportunities for suitable advancement and career growth by the organisation. This is implemented without

lowering standards and without threatening the career aspirations or expectations of current organisational members.

Our affirmative action measures are designed to improve the under-representation of and to eliminate the barriers to advancement of employees in the designated groups.

### *Ethical standards:*

The Group promotes the highest ethical standards, embodied in its formal code of ethics and communicated to staff. The Group adopts a zero-tolerance approach to non-adherence to the code, and any breach by employees results in disciplinary proceedings which can lead to dismissal or legal action. A dedicated forensic team investigates any alleged or suspected contraventions of laid-down policies and takes appropriate action.

The Board is of the opinion that:

- in general, the ethical standards are being met in every material respect and
- within the climate and industry environment in which the group operates, it will maintain these standards into the future.

### *Stakeholder communication:*

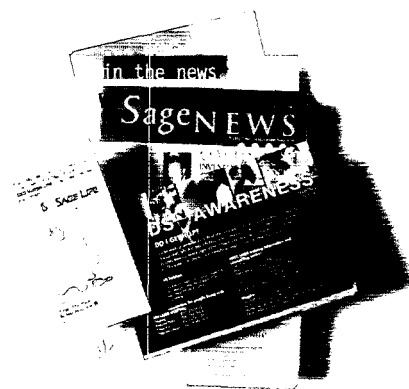
The Group is committed to a process of ongoing communication with its stakeholders to address material matters of interest to shareholders, the financial and investment community, staff and others.

Various media are used to communicate with staff and intermediaries, such as, bi-annual meetings, bi-monthly in-house magazine,

annual employee report and other regular publications covering products and new developments within the Group. An intranet site is in place, providing further opportunity to access information about the activities within the organisation.

Presentations of the financial results are made to investment analysts once board approval for the financial statements has been obtained.

The Group's internet site ([www.sage.co.za](http://www.sage.co.za)) has information on the Group, its investment approaches, annual reports, share price and products.

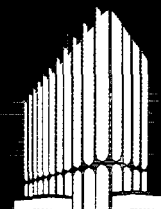


# GROUP

FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

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# Sage Group Limited

## CERTIFICATE FROM THE COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act in South Africa, as amended, I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies for the period ended 31 December 2002 all such returns as are required of a public company in terms of the Companies Act in South Africa, as amended, and that all such returns are true, correct and up to date.

*b. S. Cant*

**CS Cant**

Company Secretary

8 April 2003

## RESPONSIBILITY FOR AND APPROVAL OF THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation of the financial statements of the company and the Group set out on pages 34 to 64 which have been prepared in terms of South African Statements of Generally Accepted Accounting Practice.

The Group audit committee, which consists of six non-executive directors and two *ex-officio* members (comprising the Group chairman and the chairman of the Group risk management committee), meets at least four times a year with the external and internal auditors, executive management and the statutory actuary. The primary responsibilities of the Group audit committee are to evaluate matters concerning accounting policies, internal control, auditing and financial reporting, risk management and compliance. Both the external and internal auditors have unrestricted access to the chairman of the

Group audit committee as well as to all records, assets and personnel of the Group.

The directors, supported by the Group audit committee, are satisfied that management maintained adequate accounting records and an effective system of internal controls. The financial statements have been prepared from the accounting records on the basis of the consistent use of appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and fairly present the state of affairs of the company and the Group. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls and systems has occurred during the period under review.

The directors are of the opinion that the Group is financially sound and is a going concern for the year ahead. The financial statements have accordingly been prepared on this basis.

Against this background, the directors of the company accept responsibility for the financial statements prepared in accordance with South African Statements of Generally Accepted Accounting Practice, which financial statements were approved by the board of directors on 8 April 2003 and are signed on its behalf by

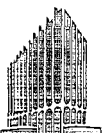
*H.L. Shill*

**HL Shill**  
Chairman

*G Griffin*

**G Griffin**  
Group Chief Executive

8 April 2003



# Sage Group Limited

## REPORT OF THE INDEPENDENT AUDITORS

We have audited the financial statements and Group financial statements of Sage Group Limited set out on pages 34 to 64 for the period ended 31 December 2002. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

### Scope

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

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- 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 set out on pages 34 to 64 fairly present in all material respects the financial position of the company and the Group as at 31 December 2002, and the results of their operations and cash flows 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, as amended.

*Grant Thornton Kessel Feinstein*

**Grant Thornton Kessel Feinstein**  
Chartered Accountants (SA)  
Registered Accountants and Auditors

*KPMG Inc.*

**KPMG Inc.**  
Chartered Accountants (SA)  
Registered Accountants and Auditors

Johannesburg  
8 April 2003

# Sage Group Limited

## REPORT OF THE DIRECTORS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

### CHANGE IN YEAR END

Following the decision to change the Company's financial year end from 31 March to 31 December, this report covers the nine month period ended 31 December 2002.

### NATURE OF BUSINESS

Sage Group Limited is listed under life insurance on the JSE Securities Exchange South Africa and is the holding company of the Sage Group of companies. The Group's activities encompass life assurance, investment and unit trust management, and related property investments.

### SHARE CAPITAL

Full details of the Company's share capital are given in note 8 to the financial statements. The total number of ordinary shares in issue increased by 7 235 348 shares during the period as a result of the following:

	Date	Number of shares
- capitalisation issue in lieu of dividend	7 Oct 2002	3 854 951
- subscription issue ex dividend proceeds	7 Oct 2002	2 984 986
- conversion of debentures	7 Oct 2002	395 411
		7 235 348

### CAPITAL RAISING

Together with JPMorgan Chase Bank, Johannesburg Branch (JPMorgan), who has been appointed as financial advisers to the Group, steps have been taken to strengthen the Group's capital base, with the support of major shareholders and the participation of a new strategic shareholder. This will provide the necessary financial stability for the Group's life assurance and unit trust activities in South Africa.

Agreements have been concluded for the raising of approximately R350 million in new capital through the introduction of AVASA Holdings Limited as a strategic shareholder and by way of a rights issue to shareholders jointly underwritten by AVASA and existing major shareholders.

For this purpose a resolution will be proposed to members at the forthcoming annual general meeting to increase the authorised ordinary share capital of the company to 500 000 000 shares.

### SHAREHOLDERS

According to the register of members, no company or individual was a holding company or controlling shareholder of the company at the date of this report. Shareholdings of more than 5% of the issued ordinary capital are as follows;

	Number of shares	% of issued capital
- Mines Pension Funds	33 891 216	21,9
- Sagecor*	28 418 578	18,3
- ABSA Group	23 953 966	15,5
- Financial Securities Limited**	10 848 109	7,0

\* Owned 50% by Shill Family; 50% by Financial Securities Limited

\*\*Wholly owned subsidiary of Remgro Limited

### RESULTS FOR THE PERIOD

The Group's operations in South Africa continue as normal within Sage Life Limited. All international operations were disposed of by Sage Life Limited to Sage Group Limited at a nominal value of R1 with effect from 31 December 2002.

Following the Group's failure to raise foreign capital required for the expansion of its international insurance operations, a decision was taken by the Board on 17 December 2002 to close Sage Life Assurance of America Inc. to new business

with effect from 1 January 2003. In the case of the Group's Bermudan operations, the decision on the closure to new business is subject to the outcome of negotiations for its disposal. Due to the discontinuance of these operations, the auditors of the international operations have, in their audit opinion, drawn attention to the uncertainty of the going concern assumption. No adjustment is required in the Sage Group financial statements as the net assets of the international operations have been written down to R1. The international operations have been classified as a discontinued operation in these financial statements.

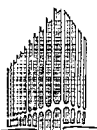
The losses associated with the discontinued international operations are in line with expectations but have had a material effect on the overall loss for the period of R239,5 million (year ended 31 March 2002 – loss R254,3 million).

Headline losses amounted to R48,0 million (year ended 31 March 2002 – R 251,1 million).

### FINANCIAL POSITION

The company has changed its accounting policy in respect of its investments in subsidiaries to one of valuing its subsidiaries at fair value as opposed to using cost. In the case of Sage Life Limited the directors have applied the embedded value as representative of fair value.

As a result of this change, the company reflects a positive shareholders' interest whereas the Group, which consolidates the underlying assets and liabilities of its subsidiaries at net asset values, reflects a negative shareholders' interest as it does not recognise fair value of the Sage Life Limited business as a whole.



## CAPITALISATION SHARE AWARD WITH CASH DIVIDEND ALTERNATIVE AND SHARE SUBSCRIPTION ELECTIONS

On 20 August 2002, it was resolved to issue ordinary capitalisation shares to ordinary shareholders recorded in the register of shareholders on 4 October 2002. Shareholders were given the opportunity to decline the issue of ordinary shares in respect of all or any part of their shareholding and to elect to receive a cash dividend of 25 cents per ordinary share in lieu thereof.

Shareholders electing the cash dividend were also given the opportunity to apply all or any part of the amount of the cash dividend to subscribe for new ordinary shares in the company.

The extent to which shareholders elected the cash dividend is set out in note 17 and details of the capitalisation issue in lieu of dividend are set out above.

No final dividend for the period has been proposed.

## TANGIBLE AND INTANGIBLE ASSETS

There has been no major change in the nature of the tangible and intangible assets of the company or its subsidiaries, nor has there been any change in accounting policies relating to tangible and intangible assets.

## SUBSIDIARY COMPANIES

The financial information in respect of interests in subsidiaries is set out in the annexure to the financial statements.

## DIRECTORATE AND SECRETARY

The names of the directors of the company are set out in note 14.4 below. CS Cant was the company secretary for the period under review.

At the annual general meeting of shareholders held on 21 August 2002, Messrs. BJ du Plessis, G Griffin, HL Shill, CD Stein, CL van Wyk and

T van Wyk, who had been proposed for re-election as directors of the company, were reappointed as directors.

During the period, Mr DM Falck and Dr DF Mostert resigned and Mr WD Winckler retired from the Board on reaching retirement age. The Board thanks these gentlemen for their contributions to the Group during their periods in office.

In terms of the articles of association of the company, one third of the directors retire by rotation each year. Messrs MP Adonisi, DC Cronjé, JP Davies, JE Henderson and BM IIsley retire as directors at the next annual general meeting of the company, but being eligible, offer themselves for re-election.

## DIRECTORS' SHAREHOLDINGS

	31 December 2002		31 March 2002		
	Beneficial	Non-beneficial	Beneficial	Non-beneficial	
Share scheme	Held directly				
MP Adonisi	–	3 106	–	2 888	–
JP Davies	552 659	43 170	–	556 975	–
BJ du Plessis	–	8 790	–	7 172	–
G Griffin	–	10 000	–	–	–
JE Henderson	72 568	200 000	–	247 237	–
BM IIsley	420 500	70 000	–	490 500	–
L Kaplan	367 696	–	–	341 847	–
RI Marsden	353 455	–	–	328 606	–
B Nackan	586 047	90 738	–	635 584	–
JH Postmus	–	110	–	110	–
HL Shill	638 001	1 999 756	15 087 632	2 356 835	14 305 670
CD Stein	–	40 394	–	40 394	–
CL van Wyk	–	1 307	–	1 215	–
	<b>2 990 926</b>	<b>2 467 371</b>	<b>15 087 632</b>	<b>5 009 363</b>	<b>14 305 670</b>

There have been no changes in these holdings between 31 December 2002 and the date of this report other than in respect of those referred to in note 22.3.

Details of the directors' remuneration for the period, service contracts and share options granted are set out in note 14.4 to the financial statements.

## SPECIAL RESOLUTIONS

At the annual general meeting of the shareholders of the company held on 21 August 2002, a special resolution was passed amending the articles of the company to allow for the electronic delivery and availability of notices, reports and other information to members of the company, thereby facilitating electronic communication with its members, including online proxy solicitation and voting.

## EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

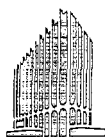
Other than the matters already referred to above, there are no material facts or circumstances that have occurred between the accounting date and the date of this report.

# Sage Group Limited

## BALANCE SHEETS

AT 31 DECEMBER 2002

	Note	GROUP		COMPANY	
		31 December 2002 R000	31 March 2002 R000	31 December 2002 R000	31 March 2002 R000
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>10 024 476</b>	<b>9 687 665</b>	<b>504 004</b>	<b>1 766 002</b>
Tangible assets	2	22 545	45 487	-	-
Intangible assets	3	69 897	89 517	-	-
Investments in subsidiaries	4	-	-	501 098	1 753 663
Financial assets	5	28 023	53 200	2 906	12 339
Investments of the life assurance subsidiaries	6	9 904 011	9 499 461	-	-
<b>Current assets</b>		<b>663 498</b>	<b>833 031</b>	<b>11 218</b>	<b>14 930</b>
Inventories	7	6 090	16 339	-	-
Trade and other receivables		346 440	434 754	11 000	14 145
Cash and cash equivalents		310 968	381 938	218	785
<b>Total assets</b>		<b>10 687 974</b>	<b>10 520 696</b>	<b>515 222</b>	<b>1 780 932</b>
<b>EQUITY AND LIABILITIES</b>					
Ordinary shareholders' (deficit)/interest	8	(247 773)	5 282	470 643	1 769 634
Outside shareholder's interest	9	92 387	92 387	-	-
<b>Total shareholders' (deficit)/interest</b>		<b>(155 386)</b>	<b>97 669</b>	<b>470 643</b>	<b>1 769 634</b>
Equity linked notes	10	558 350	739 863	-	-
Long-term assurance funds	11	9 506 928	9 061 009	-	-
<b>Current liabilities</b>		<b>778 082</b>	<b>622 155</b>	<b>44 579</b>	<b>11 298</b>
Trade and other payables		420 225	358 089	22 715	10 933
Redeemable preference shares issued by subsidiaries	12	91 000	108 500	-	-
Interest bearing borrowings		107 899	79 097	-	-
Taxation		36 911	12 606	-	365
Provisions	13	122 047	63 863	21 864	-
<b>Total equity and liabilities</b>		<b>10 687 974</b>	<b>10 520 696</b>	<b>515 222</b>	<b>1 780 932</b>



# Sage Group Limited

## INCOME STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

	Note	GROUP		COMPANY	
		9 months 31 December 2002 R000	12 months 31 March 2002 R000	9 months 31 December 2002 R000	12 months 31 March 2002 R000
Revenue	24	1 813 710	2 851 920	129 095	163 416
<b>Domestic operations</b>		<b>147 429</b>	<b>91 216</b>	<b>(1 199 961)</b>	<b>419 954</b>
Operating surplus/(deficit)		<b>228 139</b>	121 695	<b>(9 183)</b>	-
Income from subsidiaries		-	-	<b>129 096</b>	115 825
Provision against share scheme loans		<b>(57 720)</b>	(10 301)	<b>(13 424)</b>	(2 242)
Revaluation of subsidiaries		-	-	<b>(1 302 733)</b>	309 910
Finance costs	14.2	<b>(21 724)</b>	(18 490)	<b>(3 717)</b>	(3 539)
Exceptional items	14.3	<b>(1 266)</b>	(1 688)	-	-
<b>International operations</b>		<b>(305 351)</b>	<b>(226 357)</b>	<b>(82 759)</b>	<b>(46 200)</b>
Loss from international operations		<b>(80 243)</b>	(178 617)	<b>(31 928)</b>	-
- operating deficit (non-recurring)		<b>(182 466)</b>	(122 642)	-	-
- foreign exchange adjustments		<b>102 223</b>	(55 975)	<b>(31 928)</b>	-
Finance costs	14.2	<b>(34 831)</b>	(46 200)	<b>(34 831)</b>	(46 200)
Exceptional items	14.3	<b>(190 277)</b>	(1 540)	<b>(16 000)</b>	-
<b>(Loss)/profit before taxation</b>	14	<b>(157 922)</b>	(135 141)	<b>(1 282 720)</b>	373 754
Taxation	15	<b>73 436</b>	100 455	<b>2 726</b>	16 623
<b>(Loss)/profit after taxation</b>		<b>(231 358)</b>	<b>(235 596)</b>	<b>(1 285 446)</b>	357 131
		<b>8 151</b>	18 687	-	8 142
International minority interest		<b>8 151</b>	10 545	-	-
Foreign preference dividends		-	8 142	-	8 142
<b>Net (loss)/profit attributable to ordinary shareholders</b>		<b>(239 509)</b>	<b>(254 283)</b>	<b>(1 285 446)</b>	348 989
Adjustment for exceptional items		<b>191 543</b>	3 228		
<b>Headline loss</b>		<b>(47 966)</b>	<b>(251 055)</b>		
<b>Reconciliation of headline loss to core headline earnings/(loss)</b>					
Headline loss		<b>(47 966)</b>	<b>(251 055)</b>		
International operations - discontinued		<b>80 243</b>	178 617		
International minorities and foreign preference dividends		<b>8 151</b>	18 687		
Provision for share scheme loans		<b>57 720</b>	10 301		
<b>Core headline earnings/(loss)</b>		<b>98 148</b>	<b>(43 450)</b>		
<b>Core headline earnings/(loss) per ordinary share (cents)</b>	16	<b>65,3</b>	<b>(29,6)</b>		
<b>Headline loss per ordinary share (cents)</b>	16	<b>(31,9)</b>	<b>(171,1)</b>		
<b>Attributable loss per ordinary share (cents)</b>	16	<b>(159,4)</b>	<b>(173,3)</b>		



# Sage Group Limited

## GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

	Ordinary shares R000	Share premium R000	Convertible debentures R000	Capital redemption reserve R000	Non- distributable reserves R000	(Accumulated deficit)/ retained earnings R000	Total R000
Note							
<b>Balance at 31 March 2001</b>	1 448	1 302	45 167	98	301 460	48 542	398 017
Issued during year	29			(29)			-
Share issue expenses		(268)					(268)
Revaluation of investments					97	(97)	-
Net loss attributable to ordinary shareholders						(254 283)	(254 283)
- domestic operations						(9 239)	(9 239)
- international operations						(245 044)	(245 044)
Ordinary dividends	17					(135 629)	(135 629)
Appropriation to reserve for redemption of preference shares - 2001						(2 211)	(2 211)
Transfer of non-distributable reserves to retained earnings					(301 000)	301 000	-
Other					(344)		(344)
<b>Balance at 31 March 2002</b>	1 477	1 034	45 167	69	213	(42 678)	5 282
Issued during year	73	17 499	(6 626)	(38)			10 908
Share issue expenses		(166)					(166)
Net loss attributable to ordinary shareholders						(239 509)	(239 509)
- domestic operations						73 993	73 993
- international operations						(313 502)	(313 502)
Ordinary dividends	17					(24 287)	(24 287)
Transfer of retained earnings to non-distributable reserves					998	(998)	-
Other					(1)		(1)
<b>Balance at 31 December 2002</b>	1 550	18 367	38 541	31	1 210	(307 472)	(247 773)



# Sage Group Limited

## COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

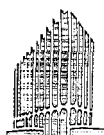
	Ordinary shares R000	Share premium R000	Convertible debentures R000	Capital redemption reserve R000	Non- distributable reserves R000	Retained earnings R000	Total R000
<b>Balance at 31 March 2001</b>	<b>1 448</b>	<b>1 302</b>	<b>45 167</b>	<b>98</b>	<b>111 324</b>	<b>1 399 414</b>	<b>1 558 753</b>
- as previously reported	1 448	1 302	45 167	98	111 324	65 831	225 170
- change in accounting policy	1.20	-	-	-	-	1 333 583	1 333 583
Issued during year	29			(29)			-
Share issue expenses		(268)					(268)
Net profit attributable to ordinary shareholders						348 989	348 989
- domestic operations						93 421	93 421
- revaluation of subsidiaries						309 910	309 910
- international operations						(54 342)	(54 342)
Ordinary dividends	17					(135 629)	(135 629)
Transfer of non-distributable reserves to retained earnings					(111 324)	111 324	-
Appropriation to reserve for possible redemption of preference shares - 2001						(2 211)	(2 211)
<b>Balance at 31 March 2002</b>	<b>1 477</b>	<b>1 034</b>	<b>45 167</b>	<b>69</b>	<b>-</b>	<b>1 721 887</b>	<b>1 769 634</b>
issued during year	73	17 499	(6 626)	(38)			10 908
Share issue expenses		(166)					(166)
Net loss attributable to ordinary shareholders						(1 285 446)	(1 285 446)
- domestic operations						100 046	100 046
- revaluation of subsidiaries						(1 302 733)	(1 302 733)
- international operations						(82 759)	(82 759)
Ordinary dividends	17					(24 287)	(24 287)
<b>Balance at 31 December 2002</b>	<b>1 550</b>	<b>18 367</b>	<b>38 541</b>	<b>31</b>	<b>-</b>	<b>412 154</b>	<b>470 643</b>

# Sage Group Limited

## CASH FLOW STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

	Note	GROUP		COMPANY	
		9 months 31 December 2002 R000	12 months 31 March 2002 R000	9 months 31 December 2002 R000	12 months 31 March 2002 R000
<b>Cash flows from operating activities</b>		<b>(124 030)</b>	<b>(432 567)</b>	<b>(29 426)</b>	<b>(13 422)</b>
Cash generated/(utilised) by operations	18.1	14 094	(74 528)	95 352	196 992
Finance costs		(56 555)	(64 690)	(38 548)	(49 739)
Taxation paid	18.2	(49 131)	(139 033)	(3 091)	(16 904)
Cash (utilised by)/available from operating activities		<b>(91 592)</b>	<b>(278 251)</b>	<b>53 713</b>	<b>130 349</b>
Dividends paid	18.3	(32 438)	(154 316)	(24 287)	(143 771)
<b>Cash flows of life assurance subsidiaries' investment activities</b>		<b>41 368</b>	<b>168 609</b>	<b>-</b>	<b>-</b>
<b>Cash flows from investing activities</b>		<b>(10 352)</b>	<b>(44 620)</b>	<b>(40 735)</b>	<b>455 889</b>
Investment to maintain operations		(5 236)	(23 313)	-	-
Replacement of tangible assets		(7 787)	(26 319)	-	-
Proceeds on disposal of tangible assets		2 551	3 006	-	-
Net acquisition and development of intangible assets		(30 293)	(26 465)	-	-
Decrease/(increase) in financial assets	18.4	25 177	5 158	9 433	(6 775)
Decrease in investment in subsidiaries	18.5	-	-	(50 168)	462 664
		<b>(93 014)</b>	<b>(308 578)</b>	<b>(11 309)</b>	<b>442 467</b>
<b>Cash flows from financing activities</b>		<b>22 044</b>	<b>357 607</b>	<b>10 742</b>	<b>(442 645)</b>
Redemption of foreign preference shares		-	(442 377)	-	(442 377)
Movement in outside shareholder's interest		-	2 536	-	-
Proceeds from issue of 8% Equity Linked Notes		-	739 863	-	-
Proceeds from issue of shares and compulsorily convertible debentures		10 908	-	10 908	-
Costs related to share issues		(166)	(268)	(166)	(268)
Redemption of preference shares issued by subsidiaries		(17 500)	(10 000)	-	-
Increase in interest bearing borrowings		28 802	67 853	-	-
Net (decrease)/increase in cash and cash equivalents		<b>(70 970)</b>	<b>49 029</b>	<b>(567)</b>	<b>(178)</b>
Cash and cash equivalents at beginning of period		<b>381 938</b>	<b>332 909</b>	<b>785</b>	<b>963</b>
Cash and cash equivalents at end of period		<b>310 968</b>	<b>381 938</b>	<b>218</b>	<b>785</b>



# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

### 1 ACCOUNTING POLICIES

The Group financial statements are prepared on the historical cost basis, except for investments which are valued as set out in notes 1.6 and 1.7.

The Company's financial statements are presented on the fair value basis. The principal accounting policies of the Group and the Company are set out below and are consistent in all material respects with those of the previous year except, in the case of the Company, as set out in 1.20 below. These policies comply with all relevant South African Statements of Generally Accepted Accounting Practice.

#### 1.1 Basis of consolidation

The Group financial statements incorporate those of the company and all its subsidiaries. Subsidiaries are those companies in which the Group has an interest of more than half of the voting rights or the power to exercise control. The results of any subsidiaries acquired or disposed of during the year are included from the effective dates of acquisition and up to the effective dates of disposal.

All intercompany transactions and resulting profits and losses between Group companies are eliminated on consolidation.

#### 1.2 Life assurance subsidiaries

The surplus attributable to shareholders has been determined after making provision for actuarial liabilities and any movement in reserves.

#### 1.3 Tangible assets

Equipment and vehicles are reflected at cost less accumulated depreciation and any impairment losses. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets.

The estimated maximum useful lives of equipment and vehicles are five years for vehicles and three to ten years for equipment.

#### 1.4 Intangible assets

**1.4.1 Software in use and under development**  
Software is reflected at cost less accumulated amortisation and any impairment losses.

Software development costs are recognised only when the costs can be reliably measured and the attributable future economic benefits are assured.

The software licence on the life administration system is being amortised on a straight-line basis over its estimated economic life of fifteen years. Other software is amortised over a maximum of five years. Assets are further impaired to the extent that any unamortised balance will, in all probability, no longer be recovered through future expected economic benefits.

#### 1.4.2 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of that entity at the date of acquisition.

Goodwill is carried at cost less accumulated amortisation and any impairment losses and is amortised over the estimated economic lives with a maximum of twenty years. It is further written down to the extent that any amortised balance will, in all probability, no longer be recovered through future expected economic benefits.

#### 1.5 Investments in subsidiaries

Investments in subsidiaries are stated at fair value, which in the case of the South African life assurance subsidiary is based on embedded value of the subsidiary. Any movements in fair value are recognised through the income statement.

#### 1.6 Financial assets (excluding investments of the life assurances subsidiaries)

Investments are stated at fair value. Any movements in fair value are taken through the income statement. Fair values are determined as follows:

- Listed investments and unit trusts are stated at market value and repurchase price respectively.
- Unlisted investments are stated at directors' valuation.

#### 1.7 Investments of the life assurance subsidiaries

**1.7.1** Listed investments, unit trusts and unlisted shares, including subsidiaries, are reflected at market value, repurchase price and fair value respectively.

**1.7.2** Government, public utility, municipal stock and other interest-bearing investments are reflected at market value.

**1.7.3** Debentures, mortgages and loans are reflected at cost.

**1.7.4** Property investments, including property subsidiaries, are shown at fair value of the respective properties and property portfolios. Property trust units are included with listed investments at market value.

**1.7.5** Any amounts paid or received in respect of options, if such options are exercised, are added to the cost of acquisition, or to the proceeds of the sale, of the related investments. Amounts relating to options which lapse are included with realised surpluses or deficits on investments. Options still in force are valued at market value under the appropriate investment category.

**1.7.6** Fair value adjustments are reflected in the income statement.

#### 1.8 Inventories

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

#### 1.9 Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. For intangible assets that are not yet available for use, or goodwill, the recoverable amount is estimated at each balance date.

In assessing value in use, the expected future cash flows from the asset are discounted to their present

# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

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

A previously recognised impairment loss is reversed if the recoverable amount of the asset increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in previous years. For goodwill a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase relates clearly to the reversal of the effect of that specific event.

### 1.10 Translation of foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any foreign exchange differences are dealt with in the income statement in the year in which the difference occurs.

Non-monetary assets and liabilities of subsidiaries which are considered to be integrated foreign operations, are translated at historic rates of exchange, with monetary assets and liabilities

being translated at rates of exchange ruling at the financial year end. Income and expenditure of these subsidiaries is 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 of subsidiaries which are considered to be foreign entities, are translated at rates of exchange ruling at the financial year end. Income and expenditure of foreign entities are translated at the weighted average rate of exchange during the year. Exchange differences arising from the translation of foreign entities are taken directly to non-distributable reserves. On disposal, such differences are recognised in the income statement as part of the gain or loss on disposal.

### 1.11 Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

### 1.12 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

### 1.13 Income of the life assurance subsidiaries

Income and outgo is recognised in the income statement on the following bases:

- Individual premiums – when due from policyholders.
- Employee Benefit premiums – when due if reasonably sure of collection, otherwise on a cash received basis.

- Benefit payments – when claims are intimated.
- New business costs – when incurred.
- Commissions – when incurred.
- Investment returns – dividends from investments are brought to account when the last day to trade for dividend purposes falls within the financial year. Interest income is accrued on a time proportion basis.

All investment returns comprising investment income, realised and unrealised surpluses or deficits on disposal or valuation of investments, including subsidiaries, are taken to the long-term assurance fund through the income statement.

### 1.14 Revenue

Group revenue includes all subsidiaries, comprising investment income, sales including insurance premiums, unit trust sales, commissions and fees and excludes value-added tax.

### 1.15 Dividend income

Dividends from investments are brought to account when the last day to register for dividend purposes falls within the financial year.

### 1.16 Dividends paid/capitalisation issues

Where the company awards capitalisation shares and the shareholders are entitled to decline the capitalisation award in respect of the whole or any part of their shareholding and elect a cash dividend instead, the cash amount paid is reflected in the statement of changes in equity as dividends paid. The nominal value of the capitalisation shares to be issued is charged against capital redemption reserve.

### 1.17 Taxation

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.



Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement, except to the extent that it relates to a transaction that is recognised directly in equity or in the long-term assurance fund. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity or the long-term assurance fund.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Capital gains tax balances are reflected at current value and have not been discounted. Deferred capital gains tax relating to the assets underlying the policyholders' funds is included in the long-term assurance fund.

## 1.18 Employee benefits

### 1.18.1 Short and long-term benefits

The cost of all short-term employee benefits, such as salaries, annual and sick leave, medical and other contributions, is recognised during the period in which the employee renders the related service.

Long-term benefits, such as long service leave, are recognised and provided for at balance sheet date based on current salary rates.

### 1.18.2 Retirement benefits

The Group provides defined benefit and defined contribution plans for the benefit of employees, the assets of which are held in separate funds. These plans are funded by contributions from the Group and employees. Contributions to a defined contribution plan in respect of service in a particular period are recognised as an expense in that period. Current service costs in respect of a defined benefit plan are recognised as an expense in the current period. The defined benefit liability, current service costs and post service costs are determined by using the Projected Unit Credit Method. Past service costs, experience adjustments, the effects of changes in actuarial assumptions and the effects of plan amendments in respect of existing employees in a defined benefit plan are recognised as an expense or as income systematically over the expected remaining working lives of those employees (except in the case of certain plan amendments where the use of a shorter time period is necessary to reflect the receipt of economic benefits by the enterprise).

### 1.18.3 Post-retirement medical

No contributions are made to the medical aid of retired employees.

### 1.18.4 Equity compensation benefits

The Group from time to time allocates convertible debentures or grants share options to employees in terms of its share incentive schemes. Costs incurred in administering the schemes are expensed as incurred.

## 1.19 Segmental reporting

The primary business segments are South African and international life assurance, unit trusts and other financial services. During the period the board of directors resolved to dispose of all international operations and accordingly the

international life assurance segment has been classified as a discontinued operation.

On a secondary segment basis, significant geographic marketing regions have been identified.

The basis of segmental reporting is representative of the internal structure used for management reporting.

## 1.20 Prior year adjustments

The company has changed its accounting policy in respect of investments for subsidiaries to one of valuing its subsidiaries at fair value as opposed to using cost. This basis is considered to be a more appropriate treatment especially with regard to the company's investment in Sage Life Limited which is reflected at embedded value as representative of fair value. Changes in fair value are taken directly to the income statement.

Comparative amounts in the company have been appropriately adjusted. The effect on the opening retained earnings at 31 March 2002 of the company is set out below. There is no effect on the retained earnings of the Group.

	Company R000
Restatement of opening retained earnings at 31 March 2001	1 333 583
Restatement of 31 March 2002 profit before taxation	309 910

# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	GROUP	
	31 December 2002 R000	31 March 2002 R000
<b>2 TANGIBLE ASSETS</b>		
<b>Cost</b>	80 746	94 320
Equipment	59 262	73 016
Vehicles	21 484	21 304
<b>Depreciation and impairment losses</b>	58 201	48 833
Equipment	47 745	38 349
Vehicles	10 456	10 484
<b>Net book value</b>	22 545	45 487
<b>2.1 Analysis of movements in net book value</b>		
Opening balance	45 487	42 196
Additions	7 787	26 319
– equipment	3 460	21 014
– vehicles	4 327	5 305
Impairment of assets of international operations	(14 505)	–
Disposals	(2 192)	(2 381)
– equipment	(1 022)	(879)
– vehicles	(1 170)	(1 502)
Depreciation	(14 032)	(20 647)
– equipment	(11 169)	(16 953)
– vehicles	(2 863)	(3 694)
Closing balance	22 545	45 487
<b>3 INTANGIBLE ASSETS</b>		
<b>Cost</b>	124 072	131 959
Software	90 305	67 390
Goodwill	33 767	64 569
<b>Amortisation and impairment losses</b>	(54 175)	(42 442)
Software	(36 025)	(18 628)
Goodwill	(18 150)	(23 814)
<b>Net book value</b>	69 897	89 517
<b>Analysis of movements in net book value</b>		
Opening balance	69 517	76 755
Additions – software	30 438	24 777
Disposals – software	(145)	–
Impairment of assets of international operations	(31 237)	–
– software	(7 365)	–
– goodwill	(23 872)	–
Amortisation	(18 676)	(12 015)
– software	(17 410)	(8 786)
– goodwill	(1 266)	(3 229)
Closing balance	69 897	89 517



	COMPANY	
	31 December 2002 R000	31 March 2002 R000
<b>4 INVESTMENTS IN SUBSIDIARIES</b>		
Shares, at fair value less amounts written off	2 144 125	3 413 469
Net amounts owing to subsidiaries	(1 197 796)	(1 214 575)
	<b>946 329</b>	<b>2 198 894</b>
Less: Total redemption obligation on preference shares issued and held by wholly owned subsidiary		
– Sage Holdings Limited (note 8.2)	445 231	445 231
	<b>501 098</b>	<b>1 753 663</b>

During the period the company changed its accounting policy to one of valuing its subsidiaries at fair value as opposed to cost. The decrease in the value of investments in subsidiaries in the current year is principally due to the decrease in the embedded value of Sage Life Limited at 31 December 2002, which resulted from the write off of the value of the international operations in the shareholders' funds of Sage Life Limited.

#### 5 FINANCIAL ASSETS at fair value

	GROUP		COMPANY	
	31 December 2002 R000	31 March 2002 R000	31 December 2002 R000	31 March 2002 R000
Unit trust units	23 456	22 236	–	–
Unlisted investments				
– amounts advanced to share incentive trusts	4 013	30 731	2 906	12 339
– other	554	233	–	–
	<b>28 023</b>	<b>53 200</b>	<b>2 906</b>	<b>12 339</b>



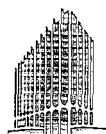
# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	GROUP	
	31 December 2002 R000	31 March 2002 R000
<b>6 INVESTMENTS OF THE LIFE ASSURANCE SUBSIDIARIES</b>		
<b>6.1 Sage Life Limited</b>		
Listed investments	2 183 608	2 363 664
– shares	1 251 978	1 171 348
– property trust units	46 678	38 854
– foreign securities	884 952	1 153 462
Unit trust units	2 788 348	2 815 895
Foreign cash and cash equivalents	113 899	52 666
Government, public utility and municipal stock	1 297 405	1 064 674
Debentures, mortgages and loans	11 440	37 674
Property investments	481 041	532 502
Loans secured against company's life policies	85 281	86 326
	<b>6 961 022</b>	<b>6 953 401</b>
<b>6.2 Sage Life Assurance of America Inc.</b>		
Mutual fund units	2 646 376	1 498 722
Fixed interest securities	296 613	1 047 338
	<b>2 942 989</b>	<b>2 546 060</b>
<b>6.3 Total investments</b>	<b>9 904 011</b>	<b>9 499 461</b>
<b>6.4 Sectoral analysis of listed shares – Sage Life Limited</b>	<b>1 251 978</b>	<b>1 171 348</b>
	%	%
Mining resources	2,9	4,1
Non-mining resources	2,7	4,3
Financial	84,0	76,0
Insurance	1,8	2,7
Industrial	8,6	12,6
Real estate	–	0,3
	<b>100,0</b>	<b>100,0</b>
<b>7 INVENTORIES</b>		
Property		
– work in progress	2 981	8 673
– completed developments	2 817	3 539
Unit trust units	292	4 127
	<b>6 090</b>	<b>16 339</b>



	GROUP		COMPANY	
	31 December 2002 R000	31 March 2002 R000	31 December 2002 R000	31 March 2002 R000
<b>8 ORDINARY SHAREHOLDERS' (DEFICIT)/INTEREST</b>				
Ordinary share capital (note 8.1)	1 550	1 477	1 550	1 477
Share premium (note 8.3)	18 367	1 034	18 367	1 034
Capital redemption reserve	31	69	31	69
Non-distributable reserves (note 8.4)	1 210	213	-	-
(Accumulated loss)/retained earnings	(307 472)	(42 678)	412 154	1 721 887
Compulsorily convertible debentures (note 8.5)	38 541	45 167	38 541	45 167
	(247 773)*	5 282	470 643	1 769 634
<p>* This deficit will be eliminated by the injection of new capital. Refer to the directors' report for the comments under the headings "capital raising" and "financial position" insofar as the deficit in the Group and the surplus in the Company are concerned.</p>				
<b>8.1 Ordinary share capital</b>				
<b>Authorised</b>				
164 043 915 shares of 1 cent each (31 March 2002 - 164 043 915)	1 640	1 640	1 640	1 640
<b>Issued</b>				
154 964 862 shares of 1 cent each (31 March 2002 - 147 729 514)	1 550	1 477	1 550	1 477
<p>In terms of a shareholders' resolution dated 21 August 2002 the unissued shares are under the control of the directors. The authority remains in force until the forthcoming annual general meeting. Details of the share incentive scheme are provided in note 22.3</p>				
<b>8.2 Preference share capital</b>				
<b>Variable rate redeemable "A" preference shares</b>				
<b>Authorised and issued</b>				
80 951 085 shares of 1 cent each	810	810	810	810
Share premium redemption obligation (note 8.3)	444 421	444 421	444 421	444 421
	445 231	445 231	445 231	445 231
Less: Set off against investments in subsidiaries (note 4)	445 231	445 231	445 231	445 231
	-	-	-	-
<p>The variable rate redeemable "A" preference shares were ordinary shares held by Sage Holdings Limited and converted to preference shares in terms of a Scheme of Arrangement entered into in 1992. This cross holding is eliminated on consolidation, and for this reason these preference shares have been set off against the investments in subsidiaries.</p> <p>These preference shares are redeemable at the option of the company.</p>				
<b>8.3 Share premium</b>				
Total premium	462 788	445 455	462 788	445 455
Less: redemption obligation on variable rate redeemable "A" preference shares (note 8.2)	444 421	444 421	444 421	444 421
Net premium	18 367	1 034	18 367	1 034
<b>8.4 Non-distributable reserves</b>				
Analysis of reserves				
Foreign exchange translation gains	71	71	-	-
Contingency reserve held in subsidiary	1 139	142	-	-
	1 210	213	-	-

# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	GROUP		COMPANY	
	31 December 2002 R000	31 March 2002 R000	31 December 2002 R000	31 March 2002 R000
<b>8 ORDINARY SHAREHOLDERS' (DEFICIT)/INTEREST</b> (continued)				
<b>8.5 Compulsorily convertible debentures</b>				
1 975 354 debentures in issue (31 March 2002 – 2 370 765)	38 541	45 167	38 541	45 167
<p>The debentures are issued in terms of the Company's share incentive scheme for employees. The debentures are unsecured and compulsorily convertible into ordinary shares on a one-for-one basis over a period of seven years starting from the respective issue dates (at the discretion of the trustees). They bear interest at a variable rate which was 13,5% at 31 December 2002.</p>				
<b>9 OUTSIDE SHAREHOLDER'S INTEREST</b>				
<b>Preference share capital</b>				
Non-redeemable preference shares issued by USA subsidiary carrying a dividend coupon rate of 9,048% per annum.	92 387	92 387	-	-
<p>The ordinary and preferred shareholders of the international subsidiary, Sage Life Holdings of America Inc. (SLHA), entered into a Preferred Stock Purchase Agreement with Swiss Re whereby SLHA is required to maintain Sage Life's statutory-basis capital and surplus at an amount not less than \$20 million. At 31 December 2002, SLHA was in breach of the minimum capital covenant since Sage Life's statutory capital and surplus at that date had fallen to \$8,6 million due to charges relating to severance and further anticipated run-off expense over the next twenty years. SLHA does not have the right to cure this breach in accordance with the 30 September 2002 agreement modifications. Consequently, subject to requisite regulatory approvals, Swiss Re has the right to exercise its option under the terms of the Preferred Stock Purchase Agreement to assume voting control of SLHA. Swiss Re has not yet exercised, and has yet to indicate whether it would exercise, such an option.</p>				
<b>10 EQUITY LINKED NOTES</b>				
10.1 13 000 8% unsecured equity linked notes due 2005, nominal value of US\$ 65 million at the rate of exchange ruling at the date of the balance sheet.	558 350	739 863	-	-
<p>10.2 The notes were issued on 22 June 2001 at a price of US\$5 000 per note by Sage International Finance Limited and are fully guaranteed by Sage Group Limited. Unless previously purchased or redeemed, the notes will be redeemed at their issue price on 31 July 2005.</p> <p>10.3 Noteholders have the right to redeem their notes at any time from 31 July 2003 until 24 July 2005 at a price per note equal to the market value of an ABSA Group Limited share, in US\$, multiplied by 947,982.</p> <p>10.4 The issuer may redeem all notes at any time from 31 July 2004, at their issue price, if:</p> <ul style="list-style-type: none"> <li>- the market value per ABSA Group Limited share for purposes of 10.3 above, exceeds US\$6,59; or</li> <li>- purchases and/or redemptions have been effected in respect of more than 90% of the notes.</li> </ul> <p>10.5 Interest is payable semi-annually in arrear on 31 January and 31 July in each year.</p>				



	GROUP		COMPANY	
	31 December 2002 R000	31 March 2002 R000	31 December 2002 R000	31 March 2002 R000

### 11 LONG-TERM ASSURANCE FUNDS

	9 506 928	9 061 009	-	-
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The funds comprise actuarial liabilities (allowing for all forms of profit participation by the various classes of policies).

This includes the separate account liabilities of Sage Life Assurance of America Inc. amounting to R 2 823 million (31 March 2002 – R2 372 million).

The report of the statutory actuary on the financial position of Sage Life Limited, together with the statement of actuarial value of assets and liabilities, is set out on pages 67 to 71 of this report.

### 12 REDEEMABLE PREFERENCE SHARES ISSUED BY SUBSIDIARIES

	91 000	108 500	-	-
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Preference capital, with variable rates of dividend linked to a weighted average rate of 67,97% of the prime bank overdraft rate, is repayable within one year. Subsequent to the year end, R44 million of this preference capital has been converted to short-term interest-bearing borrowings.

### 13 PROVISIONS

#### 13.1 Employee related provisions

	33 749	17 605	-	-
--	--------	--------	---	---

Opening balance	17 605	14 924	-	-
Charge to income statement	110 230	5 564	-	-
Utilised during period	(94 086)	(2 883)	-	-

#### 13.2 Other provisions

	88 298	46 258	21 864	-
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Opening balance	46 258	45 027	-	-
Charge to income statement	116 396	6 328	21 864	-
Utilised during period	(74 356)	(5 097)	-	-
	122 047	63 863	21 864	-

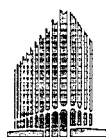
# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	GROUP		COMPANY	
	9 months	12 months	9 months	12 months
	31 December	31 March	31 December	31 March
	2002	2002	2002	2002
	R000	R000	R000	R000
<b>14 (LOSS)/PROFIT BEFORE TAXATION</b>				
<b>14.1 (Loss)/profit before taxation includes the following:</b>				
<b>Income</b>				
Subsidiaries				
– dividends			129 095	115 825
Life assurance subsidiaries				
– investment income	199 460	367 223		
– realised and unrealised surpluses on investments	85 170	664 281		
Investments	5 479	14 453		
– listed dividends	3 866	6 252		
– unlisted dividends	430	855		
– unlisted – interest	1 183	7 346		
<b>Charges</b>				
Depreciation and amortisation	32 708	32 662	–	–
– tangible assets	14 032	20 647		
– intangible assets	18 676	12 015		
Impairment of assets of international operations	110 125	–	–	–
– goodwill	23 872	–		
– software	7 365	–		
– tangible assets	14 505	–		
– other assets	64 383	–		
Operating lease charges				
– fixed property and equipment	6 561	21 130	–	–
– fixed property – discontinued operations	9 886	–	–	–
Staff costs	250 522	251 393	–	–
Staff costs – discontinued operations retrenchment	54 585	–	–	–
Remuneration to non-employees	55 917	99 347	–	–
– investment management services	16 127	43 853		
– consulting and outsourced technical services	35 212	49 161		
– actuarial services	1 203	2 505		
– secretarial services	3 375	3 828		
Auditors' remuneration	6 747	17 854	–	–
– audit fees	4 801	9 131		
– internal audit services outsourced	1 093	1 243		
– other services	853	7 480		
Profit on disposal of equipment and vehicles	359	625	–	–



	GROUP		COMPANY	
	9 months	12 months	9 months	12 months
	31 December	31 March	31 December	31 March
	2002	2002	2002	2002
	R000	R000	R000	R000
<b>14 (LOSS)/PROFIT BEFORE TAXATION (continued)</b>				
<b>14.2 Finance costs</b>				
Domestic operations	21 724	18 490	3 717	3 539
Net interest paid on convertible debentures held by share incentive trust	3 717	-	3 717	3 539
Redeemable preference dividends (note 12)	8 435	9 325	-	-
Interest on bank and other short-term borrowings	9 572	9 165	-	-
International operations	34 831	46 200	34 831	46 200
Interest on 8% Equity Linked Notes	34 831	46 200	-	-
Interest paid to subsidiary	-	-	34 831	46 200
	56 555	64 690	38 548	49 739
<b>14.3 Exceptional items</b>				
Domestic operations				
Amortisation of goodwill	1 266	1 688	-	-
International operations	190 277	1 540	16 000	-
Impairment of assets				
- goodwill	23 872	1 540	-	-
- software	7 365	-	-	-
- tangible assets	14 505	-	-	-
- other assets	64 383	-	-	-
Other discontinuance costs	80 152	-	16 000	-
	191 543	3 228	16 000	-

# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	Services as directors R000	Cash portion of salary R000	Retirement and medical contributions R000	Other R000	Total R000
<b>14 (LOSS)/PROFIT BEFORE TAXATION</b>					
(continued)					
<b>14.4 Directors' emoluments</b>					
From subsidiary companies					
9 months to 31 December 2002					
<b>Executives</b>					
HL Shill	60	1 162	89	119	1 430
JP Davies	53	1 036	118	218	1 425
JE Henderson	53	1 132	88	23	1 296
L Kaplan	53	849	128	45	1 075
RI Marsden (1)	-	5 275	503	14	5 792
B Nackan	53	798	148	63	1 062
	272	10 252	1 074	482	12 080
<b>9 months to 31 December 2002</b>					
<b>Non-executives</b>					
MP Adonisi	62	-	-	102	164
DC Cronjé	74	-	-	-	74
BJ du Plessis	67	-	-	-	67
DM Falck (2)	41	-	-	-	41
G Griffin	159	-	-	-	159
BM Hisley	53	-	-	-	53
DF Mostert (3)	41	-	-	-	41
JH Postmus	53	-	-	-	53
CD Stein	67	-	-	-	67
CL van Wyk	92	-	-	-	92
T van Wyk	74	-	-	-	74
WD Winckler (4)	62	-	-	-	62
	845	-	-	102	947
	1 117	10 252	1 074	584	13 027
<b>Year ended 31 March 2002</b>					
<b>Executives</b>					
HL Shill	87	2 068	82	291	2 528
JP Davies (5)	58	1 135	76	123	1 392
JE Henderson (5)	58	868	66	56	1 048
L Kaplan (5)	58	772	118	247	1 195
RI Marsden (1)(5)	-	5 169	503	-	5 672
B Nackan	70	1 078	180	105	1 433
	331	11 090	1 025	822	13 268



	Services as directors R000	Cash portion of salary R000	Retirement and medical contributions R000	Other R000	Total R000
<b>14 (LOSS)/PROFIT BEFORE TAXATION</b>					
(continued)					
<b>14.4 Directors' emoluments (continued)</b>					
<b>From subsidiary companies</b>					
<b>Year ended 31 March 2002</b>					
<b>Non-executives</b>					
MP Adonisi	85	-	-	118	203
DC Cronjé	95	-	-	-	95
BJ du Plessis	90	-	-	-	90
DM Falck	70	-	-	-	70
G Griffin	268	-	-	-	268
BM Ilsley	70	-	-	-	70
DF Mostert	70	-	-	-	70
JH Postmus	70	-	-	-	70
CD Stein	90	-	-	-	90
CL van Wyk	122	-	-	-	122
T van Wyk	83	-	-	-	83
WD Winckler	85	-	-	-	85
	1 198	-	-	118	1 316
	1 529	11 090	1 025	940	14 584

**Notes**

- (1) Payment made in US Dollars. Conversion to Rand done at average exchange rates
- (2) Resigned on 8 November 2002
- (3) Resigned on 31 October 2002
- (4) Retired on 31 December 2002
- (5) Appointed 30 May 2001

**Directors' service contracts**

RI Marsden and Sage Life Assurance of America Inc. are parties to an employment contract which provides, inter alia, that in the event of termination of his employment without cause, he will continue to be paid his base salary and employee welfare benefits for a period of 24 months. JP Davies, JE Henderson, L Kaplan and B Nackan are parties to employment contracts which provide, inter alia, that in the event of retrenchment they will be entitled to receive a lump sum compensation of between one and two times annual remuneration, depending upon length of service.

**Share Options**

The following options were held by directors at 31 December 2002

	Number of options	Issue date	Issue price (cents)	Expiry date
JP Davies	400 000	12 March 2002	525	12 March 2012
JE Henderson	188 900	12 March 2002	525	12 March 2012
B M Ilsley	99 500	12 March 2002	525	12 March 2012
L Kaplan	262 100	12 March 2002	525	12 March 2012
RI Marsden	141 200	12 March 2002	525	12 March 2012
B Nackan	170 200	12 March 2002	525	12 March 2012
	1 261 900			

No options were allocated or exercised during the review period (note 22.3).



# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	GROUP		COMPANY	
	9 months 31 December 2002 R000	12 months 31 March 2002 R000	9 months 31 December 2002 R000	12 months 31 March 2002 R000
<b>15 Taxation</b>				
<b>15.1 Charge for the year</b>				
Taxation on income				
South African normal taxation				
- current - current year	39 762	41 865	-	-
- prior year	-	(19)	-	-
- deferred - current year	-	(680)	-	-
Capital gains tax	(1 766)	1 766		
Secondary tax on companies	2 832	16 738	2 726	16 623
Total taxation on income	40 828	59 670	2 726	16 623
Transaction and other taxes	32 608	40 785		
Total taxation	73 436	100 455	2 726	16 623

Transaction and other taxes relate to levies, stamp duties and non-recoverable value-added tax.

### 15.2 Reconciliation of taxation rate

Taxation as a percentage of (loss)/profit before taxation	(47)	(74)	-	4
Taxation effect of:				
- dividend and exempt income	-	-	30	16
- losses of international operating activities	(51)	(132)	-	-
- special tax situation of South African life assurance subsidiary	26	180	-	-
- non-deductible expenditure	59	42	-	14
- exceptional items	36	1	-	-
- secondary tax on companies	1	4	-	(4)
- capital gains tax	-	-	-	-
- transaction and other taxes	6	9	-	-
Standard tax rate	30	30	30	30

### 15.3 Future tax relief

Estimated losses available to the Group for set-off against future South African taxable income amount to R63 million (31 March 2002 - R76 million). In addition, there are losses available within the life assurance subsidiary for set-off against policyholders' income, amounting to R428 million (31 March 2002 - R324 million).

### 15.4 Tax losses arising on policyholder funds

Deferred tax assets have not been recognised in respect of the above on the basis that the losses might not be utilised in the foreseeable future.



	GROUP		COMPANY	
	9 months	12 months	9 months	12 months
	31 December	31 March	31 December	31 March
	2002	2002	2002	2002
	R000	R000	R000	R000
<b>16 EARNINGS PER SHARE</b>				
<b>16.1 Attributable loss</b>	(239 509)	(254 283)		
Exceptional items	191 543	3 228		
Headline loss	(47 966)	(251 055)		
Non-recurring items	146 114	207 605		
Core headline earnings	98 148	(43 450)		
Weighted average number of ordinary shares in issue (000)	150 273	146 739		
Core headline earnings/(loss) per share (cents)	65,3	(29,6)		
Headline loss per share (cents)	(31,9)	(171,1)		
Attributable loss per share (cents)	(159,4)	(173,3)		

**16.2 Earnings per share**

Earnings/(loss) per share is calculated by dividing the respective earnings/(loss) by the weighted average number of ordinary shares in issue during the year

**16.3 Fully diluted earnings per share**

The conversion of the compulsorily convertible debentures and the exercise of share options have an anti-dilutory effect. Fully diluted headline earnings and fully diluted attributable earnings per share are therefore equivalent to headline and attributable earnings per share, respectively.

**17 ORDINARY DIVIDENDS PAID**

	GROUP		COMPANY	
	31 December	31 March	31 December	31 March
	2002	2001	2002	2001
	R000	R000	R000	R000
Dividends paid				
- 7 October 2002 - 25 cents per share	24 287	-	24 287	-
- 21 January 2002 - 30 cents per share	-	44 319	-	44 319
- 27 July 2001 - 81 cents per share	-	91 310	-	91 310
	24 287	135 629	24 287	135 629

# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	GROUP		COMPANY	
	9 months 31 December 2002 R000	12 months 31 March 2002 R000	9 months 31 December 2002 R000	12 months 31 March 2002 R000
<b>18 NOTES TO THE CASH FLOW STATEMENTS</b>				
<b>18.1 Cash generated/(utilised) by operations</b>				
(Loss)/profit before interest and taxation	(101 367)	(68 763)	(1 244 172)	423 493
Adjustments for				
- unrealised foreign exchange (gains)/losses	(181 513)			
- revaluation of investments in subsidiaries	-	-	1 302 733	(309 910)
- exceptional items	-	-	-	-
- depreciation and amortisation	32 708	32 662	-	-
- impairment of assets	110 125	-	-	-
- profit on disposal of tangible assets	(359)	(625)	-	-
	(140 406)	(36 726)	58 561	113 583
<b>Changes in working capital</b>	<b>154 500</b>	<b>(37 802)</b>	<b>36 791</b>	<b>83 409</b>
Decrease in inventories	10 249	4 344	-	-
Decrease/(increase) in trade and other receivables	23 931	(147 016)	3 145	72 855
Increase in trade and other payables	62 136	100 958	11 782	10 554
Increase in provisions	58 184	3 912	21 864	-
Cash generated/(absorbed) by operations	14 094	(74 528)	95 352	196 992
<b>18.2 Taxation paid</b>				
Amounts unpaid at beginning of year	(12 606)	(51 184)	(365)	(646)
Amounts charged to income statement	(73 436)	(100 455)	(2 726)	(16 623)
Amounts unpaid at end of year	36 911	12 606	-	365
	(49 131)	(139 033)	(3 091)	(16 904)
<b>18.3 Dividends paid</b>				
Ordinary dividends paid	(24 287)	(135 629)	(24 287)	(135 629)
Preference dividends paid	(8 151)	(18 687)	-	(8 142)
	(32 438)	(154 316)	(24 287)	(143 771)
<b>18.4 Decrease/(increase) in financial assets</b>				
Valuation at beginning of year	53 200	58 702	12 339	5 564
Adjustment for non-cash movements	-	(344)	-	-
Valuation at end of year	(28 023)	(53 200)	(2 906)	(12 339)
	25 177	5 158	9 433	(6 775)
<b>18.5 Decrease in investments in subsidiaries</b>				
Decrease/(increase) in investments in subsidiaries			(50 168)	462 664
Non-cash movement			-	-
			(50 168)	462 664



## 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In common with all other businesses, the Group is exposed to financial risks. These risks are managed as part of the normal operations of the Group and the effectiveness of risk management is overseen by the Board of Directors and various board committees including the Group Audit Committee, Investment Management Committee, Valuation Committee and Risk Management Committee.

The more important financial risks to which the Group is exposed are described below.

### Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

All Group investments, including policyholder investments, are valued at market value or directors' valuations, as appropriate, and are therefore susceptible to market fluctuations. Investments are managed with the aim of maximising returns for both shareholders and policyholders while limiting risks to acceptable levels.

The most significant portion of the Group's insurance business comprises market related business where policyholder benefits are linked to the performance of underlying assets. Monitoring takes place on a regular basis having regard to mandate instructions, if any, to ensure that appropriate assets are held where the liabilities are dependent upon the performance of such assets and that a suitable match of assets exists for all other liabilities.

The risk of not adequately diversifying investments could result in the value of investments being inordinately affected by changes in market prices.

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates.

The Group is exposed to interest rate risks in three areas:

- where changes in market interest rates

cause fluctuations in the value of financial instruments. This in essence forms part of the market risk detailed above.

- where the Group has borrowed funds at floating interest rates at 31 December 2002. This applies to redeemable preference shares issued by subsidiaries of R 91 million (note 12), and short term borrowings totalling R107,9 million.
- where the Group has investments in portfolios that are not perfectly matched to the corresponding portfolio liabilities.

### Currency risk

Currency risk is the risk that the Rand value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group's exposure to currency risk arises primarily from foreign investments made for the benefit of shareholders and non-linked policyholders and the issue of equity linked notes, denominated in US\$. It is the Group's policy to hedge currency risk where appropriate.

The policyholder liabilities of the Group's international subsidiaries are matched by assets in the same currency, thereby limiting exposure to currency risks.

### Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

In order to minimise its exposure to this risk, the Group deals only with well established financial institutions of high credit standing and transactions are monitored in accordance with parameters established by the Board and Investment Management Committee.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its obligations to a counterparty or to the restructuring of repayment terms where appropriate.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained. In terms of the company's Articles of Association, the borrowing powers of the Company are unlimited.

According to the terms and conditions of the Equity Linked Notes issue, however, neither the Company nor Sage Life Limited may create any form of encumbrance to secure any indebtedness represented by instruments that are listed or capable of being listed, as long as the Notes remain outstanding.

### Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk.

These risks are monitored by the Board and relevant committees.

### Underwriting risk

Underwriting risk is the risk that actual exposure to mortality, disability and medical risks in respect of policyholder benefits will exceed prudent exposure.

Procedures to control and manage this risk are in operation and include:

- reports by the statutory actuary on the actuarial soundness of premium rates in use and the profitability of the business.
- rate tables are approved and authorised by the statutory actuary prior to issue.
- mortality and morbidity experience is constantly monitored.
- applications for risk cover in excess of specified limits are subject to laid down procedures for review and testing where applicable.
- catastrophe insurance is in place for single-event disasters.
- all risk related liabilities above a certain retention limit are reinsured.

### Capital adequacy risk

Capital adequacy risk relates to the risk that there are insufficient reserves to provide for adverse variations in actual future experience compared with assumptions made in the financial soundness valuation.

Statutory adequacy requirements amounting to R438,1 million (31 March 2002 - R462,9 million) were covered 1,5 times at 31 December 2002 (31 March 2002 - 3,9 times).

# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

### 20 RELATED PARTY INFORMATION

During the year, the Group conducted normal business transactions with related parties. These transactions are governed by terms no less favourable than those arranged with unrelated parties.

#### Subsidiary companies

Material subsidiaries are detailed on page 64 and income from and investments in subsidiaries are disclosed in notes 14 and 4 respectively.

#### Assets under management

Sage Unit Trusts Limited manages the Group's unit trusts' assets on an arm's length basis. At 31 December 2002 these assets under management totalled R5,1 billion (31 March 2002 – R5,5 billion).

The Group's life assurance operations manage assets on behalf of its policyholders on an arm's length basis. At 31 December 2002

policyholder funds totalled R9,5 billion (31 March 2002 – R9,1 billion).

#### Directors

Details relating to directors' emoluments and shareholdings in the Company are disclosed in note 14, the statement on corporate governance and the directors' report.

There were no material transactions with directors or their families during the year.

#### Shareholders

The principal shareholders of the Company are detailed in the Directors' report.

Transactions occurring between Sage companies and ABSA Group Limited were normal financial services transactions ("ABSA") carried out on an arm's length basis.

The consortium members including the Group, who controlled approximately 46% of ABSA, concluded agreements for the unbundling of Univera (Pty) Limited and the future of the

ABSA shareholding relationships during the review period.

Sage elected to withdraw from the ABSA shareholders' agreement and does not participate in the new ABSA shareholding pool. Instead, the Group opted for the absolute flexibility and liquidity which it considers desirable for the effective management of its direct shareholder and policyholder investments in ABSA shares. Sage has maintained the excellent business relationship it has built up with ABSA over the last decade independently of its ABSA shareholding. In its turn, ABSA continues to be a substantial shareholder in Sage, is represented on its board and has committed to support the planned capital raising exercise.

In respect of the interim dividend paid on 7 October 2002, holders of 51% of the issued ordinary shares in Sage Group Limited, including the major shareholders, elected in terms of an agreement to receive capitalisation shares or to subscribe for new ordinary shares.

### 21 CONTINGENCIES AND COMMITMENTS

	GROUP		COMPANY	
	31 December 2002 R000	31 March 2002 R000	31 December 2002 R000	31 March 2002 R000
21.1 Guarantees furnished in respect of performance guarantees, mortgages, and municipal services relating to property activities from which it is anticipated that no material liabilities will arise.	6 566	5 155	-	-
21.2 Guarantee relating to equity linked notes on behalf of subsidiary (note 10)	-	-	558 350	739 863
21.3 Future operating lease charges for premises				
- payable within one year	3 592	19 681		
- payable in two to five years	8 694	64 857		
	12 286	84 538		
21.4 Guarantee in respect of overdraft facilities of subsidiary companies			97 551	105 000
21.5 Pending legal matters				
- claim for \$1 million by a former employee of the international operations.				
- an action opposing the merger of the Sage Group pension funds.				
- claim by the South African Revenue Services relating to the PAYE deductions on commission payments.				
- disputed policyholder claims totalling R4 million.				
The directors and their legal advisors are of the opinion that no material liabilities will arise from the above actions.				



	GROUP	
	31 December 2002 R000	31 March 2002 R000
<b>22 EMPLOYEE BENEFITS</b>		
<b>22.1 Number of employees</b>		
The number of employees of the Group at 31 December 2002 totalled 1616 excluding 70 employees from the discontinued international operations (31 March 2002 – 1690)		
<b>22.2 Retirement benefit information</b>		
The Group provides for the retirement benefits of its employees (other than those required by legislation to be members of specific industry funds) by means of a defined benefit fund and a defined contribution fund. These funds are governed by the Pension Funds Act, 1956.		
<b>Defined benefit fund</b>		
The scheme covers the majority of administrative employees and is actuarially valued at intervals of not more than 3 years. The most recent valuation, at 1 January 2001, reflected the scheme to be in a sound financial position. If deficits were to arise they would be funded by the Group.		
Change in defined benefit funded obligation		
Present value of funded obligation at beginning of period	235,8	204,8
Service cost benefits earned during the period	13,7	16,3
Interest cost on projected benefit obligation	23,9	24,1
Benefits paid	(8,2)	(9,4)
Actuarial gains or losses	-	-
Present value of funded obligation at end of period	265,2	235,8
Change in plan assets		
Fair value of plan assets at beginning of period	295,9	242,8
Expected return on plan assets	31,1	29,7
Contributions received <sup>(1)</sup>	10,1	9,4
Benefits paid	(8,2)	(9,4)
Actuarial gains	(31,3)	23,4
Fair value of plan assets at end of period	297,6	295,9
<b>Fund excess (not recognised) <sup>(2)</sup></b>	<b>32,4</b>	<b>60,1</b>
<sup>(1)</sup> Actual contributions received were R12,7 million and expenses and risk premiums paid were R2,6 million.		
<sup>(2)</sup> No asset has been recognised in respect of the surplus as its apportionment has still to be determined in terms of the Pension Funds Second Amendment Act, 39 of 2001.		
Expected return on plan assets	31,1	29,7
Actuarial gain on plan assets	(31,3)	23,4
Actual return on plan assets	(0,2)	53,1
Investments in employer		
Sage Group Limited – ordinary shares	0,6	2,4

# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	GROUP	
	31 December 2002 R000	31 March 2002 R000
<b>22 EMPLOYEE BENEFITS (continued)</b>		
<b>22.2 Retirement benefit information (continued)</b>		
Expenses recognised in the income statement		
Service cost	13,7	16,3
Interest cost	23,9	24,1
Less expected returns	(31,1)	(29,7)
Total included in staff costs	6,5	10,7
Principal actuarial assumptions		
	%	%
Discount rate	10,75	13,5
Expected rate of return	11,30	14,0
Expected rate of salary increases	8,75	11,5
Expected rate of pension increases	5,75	8,5

### Defined contribution fund

The defined contribution fund covers the majority of sales employees of the Group. The scheme is funded both by member and Group contributions, which are charged to the income statement as incurred. The Group contributed R2,7 million to the fund during the period (2002 – R3,3 million).

### Post retirement benefits other than pensions

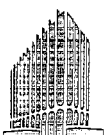
Other than its commitments in respect of its pension funds as detailed above, the Group has no further obligations for post retirement benefits, including medical aid, in respect of the past service of present employees and pensioners.

### 22.3 Share incentive scheme

The Group operates and maintains an executive share incentive scheme in terms of which convertible debentures in Sage Group Limited, one cent paid, are available for allocation to management and other employees. The debentures are compulsorily convertible into ordinary shares on a one-for-one basis over a maximum period of seven years from date of allocation. The scheme is fully funded by the company and its relevant subsidiaries.

A share incentive scheme, established in the 1999 financial year to facilitate broader equity participation by management and staff, provides for the purchase of existing ordinary shares in Sage Group Limited (jointly funded by participants and the company), and for share options conferring the right on the holder to subscribe for or purchase ordinary shares in the company at the option price.

In terms of the rules of the schemes, the total number of shares, debentures and share options which may be utilised for the purposes of the schemes shall not, without the prior authority of the company in a general meeting, exceed 11 000 000 from time to time. At 31 December 2002 a total of 9 547 786 debentures, ordinary shares and options were held by participants in the schemes, allocated at prices ranging from 270 cents to 2 435 cents per debenture, share or option, leaving 1 452 214 available for future utilisation.



	Debentures	Shares	Options	Total
<b>22 EMPLOYEE BENEFITS (continued)</b>				
<b>22.3 Share incentive scheme (continued)</b>				
Details are as follows:				
Held by participants at beginning of period	1 191 766	4 487 963	3 576 400	9 256 129
Issued/allocated	81 142	296 957	200 000	578 099
Repurchased/cancelled		(26 242)	(260 200)	(286 442)
Held by participants at end of period	1 272 908	4 758 678	3 516 200	9 547 786
Maximum available for scheme				11 000 000
Available for future allocation				1 452 214
Exercise price of allocated options (cents)				525
Expiry date of options				12 March 2012
				<b>31 December 2002 R000</b>
Loans by group companies to share schemes				81 158
Market value of securities held				13 137
Provisions raised by group companies				68 021

Of this provision R57,7 million was raised in the current period.

Subsequent to the year end the directors have resolved in terms of the current share scheme rules that:

- effective 1 January 2003 the Sage share incentive trusts will repurchase 50% of the participants' holdings at prices at which they were originally acquired by the participants; and
- the trusts may in their discretion and with the approval of directors, subsequently purchase the remaining 50% of the participants' scheme shares by agreement with the participants.

## 23 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to provide a more meaningful comparison.

## 24 SEGMENTAL REPORTING

Group segmental reporting – 31 December 2002	Life assurance SA R000	Unit trusts SA R000	Other SA R000	Discontinued international R000	Total R000
<b>Assets</b>					
Tangible assets	20 935	990	620	–	22 545
Intangible assets	50 180	4 100	15 617	–	69 897
Financial assets	–	18 509	9 514	–	28 023
Investments of life assurance subsidiaries	6 961 022	–	–	2 942 989	9 904 011
Current assets	451 924	7 285	36 424	167 865	663 498
Inventories	–	292	5 798	–	6 090
Trade and other receivables	243 686	5 866	20 251	76 637	346 440
Cash and cash equivalents	208 238	1 127	10 375	91 228	310 968
	7 484 061	30 884	62 175	3 110 854	10 687 974



# Sage Group Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

Group segmental reporting – 31 December 2002	Life assurance SA R000	Unit trusts SA R000	Other SA R000	Discontinued international R000	Total R000
<b>24 SEGMENTAL REPORTING (continued)</b>					
<b>Liabilities</b>					
Equity linked notes	-	-	558 350	-	558 350
Long-term assurance funds	6 683 536	-	-	2 823 392	9 506 928
Current liabilities	299 371	12 304	271 332	195 075	778 082
Provisions and payables	273 029	9 170	67 908	192 165	542 272
Interest-bearing borrowings	-	-	107 899	-	107 899
Redeemable preference shares issued by subsidiaries	-	-	91 000	-	91 000
Taxation	26 342	3 134	4 525	2 910	36 911
	6 982 907	12 304	829 682	3 018 467	10 843 360
<b>Revenue</b>					
Premium income	1 188 731	-	11 082	152 061	1 351 874
Investment income	197 377	666	4 700	2 083	204 826
Rentals	17 223	-	6 454	-	23 677
Fees	529	30 025	2 031	2 437	35 022
Realised and unrealised capital gains	89 694	-	8 720	(4 524)	93 890
Unit trust sales	-	18 797	-	-	18 797
Commissions	-	-	2 458	83 166	85 624
Total income	1 493 554	49 488	35 445	235 223	1 813 710
<b>Outgo</b>	(1 319 391)	(34 333)	(54 343)	(417 689)	(1 825 756)
Outgo – benefits paid	(963 705)	-	(6 464)	(129 353)	(1 099 522)
Outgo – sales remuneration	(188 624)	(2 267)	(1 065)	(61 945)	(253 901)
Transfers from/(to) long-term insurance funds	5 167	-	-	-	5 167
Operating expenses	(172 229)	(32 066)	(46 814)	(226 391)	(477 500)
	174 163	15 155	(18 898)	(182 466)	(12 046)
International minority interest	-	-	-	(8 151)	(8 151)
Forex adjustment	-	-	-	102 223	102 223
Finance costs	-	-	(21 724)	(34 831)	(56 555)
Taxation	(62 842)	(4 602)	(5 993)	-	(73 437)
Exceptional items	-	-	(1 266)	(190 277)	(191 543)
<b>Attributable earnings</b>	111 321	10 553	(47 881)	(313 502)	(239 509)
<b>Capital expenditure</b>					
Tangible assets	6 828	494	139	326	7 787
Intangible assets	29 242	27	-	1 169	30 438
Depreciation	6 238	250	135	7 409	14 032
Amortisation	10 742	809	1 266	5 859	18 676
<b>Cash flows (discontinued only)</b>					
Operating activities				(154 747)	
Financing activities				-	
Investment activities				(1 495)	
Investment activities – life assurance				54 158	
<b>31 March 2002</b>					
<b>Assets</b>					
Tangible assets	22 517	763	619	21 588	45 487
Intangible assets	31 825	4 882	40 755	12 055	89 517
Financial assets	-	17 561	35 639	-	53 200
Investments of life assurance subsidiaries	6 953 401	-	-	2 546 060	9 499 461



Group segmental reporting – 31 March 2002	Life assurance SA R000	Unit trusts SA R000	Other SA R000	Discontinued international R000	Total R000
<b>2.4 SEGMENTAL REPORTING (continued)</b>					
<b>Assets (continued)</b>					
Current assets	419 787	13 464	67 368	332 412	833 031
Inventories	–	4 127	12 212	–	16 339
Trade and other receivables	264 225	6 182	25 247	139 100	434 754
Cash and cash equivalents	155 562	3 155	29 909	193 312	381 938
	7 427 530	36 670	144 381	2 912 115	10 520 696
<b>Liabilities</b>					
Equity linked notes	–	–	739 863	–	739 863
Long-term assurance funds	6 688 704	–	–	2 372 305	9 061 009
Current liabilities	326 703	21 670	226 642	47 140	622 155
Provisions and payables	315 096	20 857	37 709	48 290	421 952
Interest-bearing borrowings	–	–	79 097	–	79 097
Redeemable preference shares issued by subsidiaries	–	–	108 500	–	108 500
Taxation	11 607	813	1 336	(1 150)	12 606
	7 015 407	21 670	966 505	2 419 445	10 423 027
<b>Revenue</b>					
Premium income	1 609 582	–	2 337	118 620	1 730 539
Investment income	311 966	497	19 739	3 898	336 100
Rentals	20 348	–	7 678	–	28 026
Fees	582	34 433	1 094	31 829	67 938
Realised and unrealised cap gains	444 943	–	(9 423)	106 408	541 928
Unit trust sales	–	38 900	–	–	38 900
Commissions	–	–	3 941	104 548	108 489
Total income	2 387 421	73 830	25 366	365 303	2 851 920
<b>Outgo</b>	(2 286 605)	(54 141)	(42 703)	(487 945)	(2 871 394)
Outgo – benefits paid	(1 072 439)	–	(613)	(125 560)	(1 198 612)
Outgo – sales remuneration	(254 683)	(3 501)	(1 984)	–	(260 168)
Transfers from/(to) long-term insurance funds	(738 118)	–	–	–	(738 118)
Operating expenses	(221 365)	(50 640)	(40 106)	(362 385)	(674 496)
	100 816	19 689	(17 337)	(122 642)	(19 474)
Foreign reference dividend and international minority interest	–	–	–	(18 687)	(18 687)
Forex adjustment	–	–	8 226	(55 975)	(47 749)
Finance costs	–	–	(18 490)	(46 200)	(64 690)
Taxation	(78 077)	(5 803)	(16 575)	–	(100 455)
Exceptional items	–	–	(1 688)	(1 540)	(3 228)
<b>Attributable earnings</b>	22 739	13 886	(45 864)	(245 044)	(254 283)
<b>Capital expenditure</b>					
Tangible assets	10 046	133	129	16 011	26 319
Intangible assets	10 029	430	–	14 318	24 777
Depreciation	7 648	228	187	12 584	20 647
Amortisation	1 081	1 200	3 229	6 505	12 015
<b>Cash flows (discontinued only)</b>					
Operating activities				(262 934)	
Financing activities				297 486	
Investment activities				(30 329)	
Investment activities – life assurance				28 614	

# Sage Group Limited

## INTEREST IN MATERIAL SUBSIDIARIES

AT 31 DECEMBER 2002

	Issued share capital		Proportion held directly or indirectly by holding company		Fair value of shares		Amounts owing to/(by) company (net of provisions)	
	31 Dec 2002	31 Mar 2002	31 Dec 2002	31 Mar 2002	31 Dec 2002	31 Mar 2002	31 Dec 2002	31 Mar 2002
	R	R	%	%	R000	R000	R000	R000
<b>INSURANCE AND FINANCIAL SERVICES</b>								
Sage Life Ltd	9 800 000	9 800 000	100,0	100,0	1 331 774	2 528 015	(142)	910
FPS Ltd	78 200	78 200	100,0	100,0	-	-	-	-
Sage Management Services (Pty) Ltd	10	10	100,0	100,0	-	-	-	-
Sage Unit Trusts Ltd	783 000	783 000	100,0	100,0	-	-	-	-
Sage Specialised Insurances (Pty) Ltd	200	200	100,0	100,0	-	-	-	-
Sage Investment Trust Ltd	2 625 000	2 625 000	100,0	100,0	-	-	-	2 145
Other	-	-	-	-	15	15	(41)	(41)
<b>FOREIGN REGISTERED COMPANIES</b>								
Sage Holdings USA Inc (USA)	USD37 500	USD37 500	100,0	100,0	-	-	-	-
Sage Insurance Group Inc, (USA)	USD4 643 525	USD4 643 525	100,0	100,0	-	-	-	-
Sage Life Holdings of America Inc, Sage Life Assurance of America Inc (USA)	USD1 000	USD1 000	90,1*	90,1	-	-	-	-
Sage Life (Bermuda) Ltd (Bermuda)	USD 4 770 000	USD 4 770 000	100,0	100,0	-	-	-	-
Sage International Finance Ltd (BVI)	USD 1 000	USD 1 000	100,0	100,0	-	-	(558 350)	(526 422)
<b>PROPERTY</b>								
SMH Land Development (Pty) Ltd	12	12	100,0	100,0	-	-	-	-
Townhomes (Pty) Ltd	1 000	1 000	100,0	100,0	-	-	-	-
<b>COMPANIES TO BE DEREGISTERED</b>								
Sage Life Holdings Ltd	82 503	82 503	100,0	100,0	705 754	753 249	(705 754)	(753 249)
Sage Holdings Ltd	30 353 781	30 353 781	100,0	100,0	106 582	132 190	66 491	62 082
Sage Property Holdings Ltd	5 715 530	5 715 530	100,0	100,0	-	-	-	-
					2 144 125	3 413 469	(1 197 796)	(1 214 575)

All subsidiaries are registered in the Republic of South Africa unless otherwise noted.

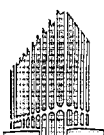
\* While Sage holds 90,1% of the voting rights it is entitled to 100% of the profits or losses.

A complete list of all subsidiary companies is available for inspection at the registered office of the company. The attributable interest of the company in the profits and losses after taxation of its subsidiaries for the period ended 31 December 2002 is as follows :

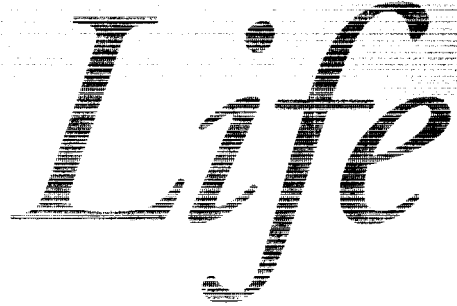
Profits - R128 692 000 (31 March 2002 - R31 248 000)

Losses - R26 870 000 (31 March 2002 - R17 337 000)

Discontinued losses - R230 744 000 (31 March 2002 - R178 617 000)

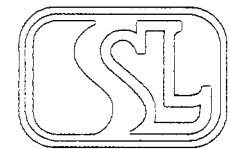


FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED 31 DECEMBER 2002



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# Sage Life Limited

## CERTIFICATE FROM THE COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act in South Africa, as amended, I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies for the period ended 31 December 2002 all such returns as are required of a public company in terms of the Companies Act in South Africa, as amended, and that all such returns are true, correct and up to date.

*b. S. Cant*

CS Cant

Company Secretary

18 March 2003

## RESPONSIBILITY FOR AND APPROVAL OF THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation of the financial statements of the company set out on pages 72 to 86 which have been prepared in terms of South African Statements of Generally Accepted Accounting Practice.

The Group audit committee, which consists of six non-executive directors and two ex-officio members (comprising of the Group chairman and the chairman of the Group risk management committee), meets at least four times a year with the external and internal auditors, executive management and the statutory actuary. The primary responsibilities of the Group audit committee are to evaluate matters concerning accounting policies, internal control, auditing and financial reporting, risk management and compliance. Both the external and internal auditors have unrestricted access to the chairman of the

Group audit committee as well as to all records, assets and personnel of the Group.

The directors, supported by the Group audit committee, are satisfied that management maintained adequate accounting records and an effective system of internal controls. The financial statements have been prepared from the accounting records on the basis of the consistent use of appropriate accounting policies supported by reasonable and prudent judgements and estimates and fairly present the state of affairs of the company. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls and systems has occurred during the period under review.

The directors are of the opinion that the company is financially sound and operates as a going concern. The financial statements have accordingly been prepared on this basis.

Against this background, the directors of the company accept responsibility for the financial statements prepared in accordance with South African Statements of Generally Accepted Accounting Practice, which were approved by the board of directors on 18 March 2003 and are signed on its behalf by

*HL Shill*

HL Shill  
Chairman

*G Griffin*

G Griffin  
Director

18 March 2003



# Sage Life Limited

## REPORT OF THE INDEPENDENT AUDITORS

### To the member of Sage Life Limited

We have audited the financial statements set out on pages 72 to 86 for the period ended 31 December 2002. These financial statements are the responsibility of the company's directors. 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. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures 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 these financial statements fairly present, in all material respects, the financial position of the company at 31 December 2002 and the results of its operations and cash flows for the period then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the South African Companies Act.



**Grant Thornton Kessel Feinstein**  
Chartered Accountants (SA)  
Registered Accountants and Auditors



**KPMG Inc.**  
Chartered Accountants (SA)  
Registered Accountants and Auditors

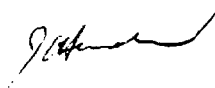
Johannesburg  
18 March 2003

## REPORT BY THE STATUTORY ACTUARY

I have conducted an actuarial valuation of the policy liabilities of Sage Life Limited, as at 31 December 2002, on bases consistent with the value of the corresponding assets. The valuation was conducted in accordance with the applicable guidelines of the Actuarial Society of South Africa for financial soundness valuations.

Based on this valuation, in my opinion, Sage Life Limited was financially sound and is likely to remain financially sound for the foreseeable

future. The report, read together with the financial statements, fairly presents the financial position of the company as at 31 December 2002.



**JE Henderson**  
BSc (Hons) FIA, FASSA, ASA  
Statutory Actuary  
18 March 2003

# Sage Life Limited

## STATEMENT OF ACTUARIAL VALUE OF ASSETS AND LIABILITIES

Financial soundness	31 December 2002 R000	31 March 2002 R000
<b>Assets</b>		
Total value of assets per balance sheet	7 654 743	8 799 069
Less: Liabilities	6 983 000	7 015 041
Actuarial value of policy liabilities	6 683 536	6 688 704
Current liabilities per the balance sheet	299 464	326 337
<b>Excess of assets over liabilities</b>	<b>671 743</b>	<b>1 784 028</b>
<b>Represented by</b>		
Share capital	9 800	9 800
Share premium	319 143	704 704
Distributable reserves	342 800	1 069 524
Shareholder's funds	671 743	1 784 028
Capital adequacy requirement	438 073	462 929
Ratio of excess assets to capital adequacy requirement	1,5	3,9
<b>The (decrease)/increase in excess assets has arisen as follows:</b>		
Net operating profit	128 294	38 033
Operating profit before taxation	105 567	67 120
Changes in valuation basis	22 727	(29 087)
Shareholder's funds	(1 240 579)	180 100
Domestic operations excess assets – income	29 083	51 823
– realised gains	2 676	4 086
– unrealised losses	(155 305)	(93 267)
International operations	(1 028 946)	–
– realised losses	–	307 399
– unrealised gains	–	–
Change in capital	(35)	67 026
Expenses	(2 818)	(14 180)
Taxation	(30 234)	(17 787)
Dividends	(55 000)	(125 000)
<b>Total (decrease)/increase in excess assets</b>	<b>(1 112 285)</b>	<b>218 133</b>



# Sage Life Limited

## NOTES TO THE STATEMENT OF ACTUARIAL VALUE OF ASSETS AND LIABILITIES

### 1 NOTES TO THE STATEMENT OF ACTUARIAL VALUE OF ASSETS AND LIABILITIES

#### 1.1 Valuation of assets

The value of the assets was as stated in the balance sheet.

#### 1.2 Valuation of policy liabilities

The valuation of the policy liabilities was performed using the Financial Soundness Valuation method and was conducted in accordance with PGN104. The valuation of the policy liabilities was conducted on a basis consistent with the valuation of the assets.

The assumptions regarding future experience were based on best estimates of future experience suitably adjusted to provide margins and not to recognise profits prematurely.

*The best estimates of future experience were determined as follows:*

- The gross valuation rate of discount was determined based on market interest rates at the valuation date and the asset mix of the fund. Unless indicated, the gross valuation rate of discount was 12,00% (March 2002: 14,25%).
- Expense assumptions were set at a level consistent with those incurred during the last financial year. Renewal expenses were assumed to inflate at 6,75% pa (March 2002: 8,5%). This is calculated as 4% lower than the rate for fixed interest securities. Reducing the inflation gap from 5% to 4% increased the liabilities by R34,6 million.
- Mortality assumptions reflect the experience covering the period March 2001 to March 2002 and trends from prior years' investigations, and allow for deteriorating AIDS mortality in line with the model produced by the Actuarial Society of South Africa. The change in the base mortality and the AIDS mortality lead to a decrease in liabilities of R6,3 million and R51,0 million respectively.
- Withdrawal rate assumptions were unchanged from those used in March 2002. These were lower than those indicated in the March 2002 to December 2002 investigation, but were consistent with the expectation of an improvement in

persistence. The improvement in persistence is expected to arise due to the implementation of a call centre and through various sales force initiatives. Recent lapse rates were higher than normal because of the cessation of Persal stop order business, which are not expected in the future.

- The gross valuation rate of discount was assumed to be taxed in accordance with Section 29A of the Income Tax Act and the Tax on Retirement Annuity Funds Act. Allowance was made for Capital Gains Tax in accordance with the Eighth Schedule of the Income Tax Act. Sage Life currently has an assessed tax loss in both individual and company policyholder tax funds. This tax loss was not fully allowed for in calculating liabilities.

*Policy liabilities were calculated as:*

- Individual business where benefits are dependent on the performance of underlying investment portfolios (including SmoothBonus business) – the policyholders' fund accounts at the valuation date (allowing for vesting and non-vesting bonuses, at the rates declared following the valuation, for SmoothBonus business), reduced by the discounted present value of the expected future risk and expense charges, and increased by the discounted present value of the expected future risk benefits and expenses. Allowance was made for future performance at the level supported by the rate of discount, after the deduction of management charges and taxation.
- Conventional business – the discounted present value of the expected future benefit payments and expense outgo less the expected future gross premiums. Allowance was made for bonuses, where applicable, at the rates declared following the valuation. The gross valuation rate of discount for conventional business was 11,50% (March 2002: 13,50%).
- Guaranteed Option business – the discounted present value of the expected future benefit payments and expense outgo. The gross valuation rate of discount was 11,62% (March 2002: 13,15%).
- Immediate Annuity business – the discounted present value of the expected future annuity instalments and expense outgo. The gross valuation rate

of discount was 10,75% (March 2002: 13,50%).

- Employee Benefits business (market-related and Deposit Administration) – the investment accounts, including vesting and non-vesting bonuses at the rates declared following the valuation. For Deposit Administration business, this was reduced by the discounted present value of the difference between management fees and expected future expenses, but subject to a minimum of 95% of the investment accounts.
- For certain minor classes of business, liabilities were determined by using approximate valuation methods.

The liabilities allow for planned margins as prescribed in PGN104 and the assumptions above exclude all margins. In addition, the gross valuation rate used to discount the liabilities was reduced by 0,25% and for the Harmony and Bermuda recurring premium classes of business negative reserves were eliminated.

No allowance was made for management action in calculating the Financial Soundness liabilities. For example, Sage Life has the option to increase mortality charges, in the event of deterioration in mortality experience, and expense charges on certain classes of market-related business.

#### 1.3 Capital adequacy requirements

The capital adequacy requirements were calculated in accordance with PGN104.

*The following main assumptions were used to calculate the investment resilience capital adequacy requirement:*

- A decline of 30% in equity asset values, 15% in property values and 16% in fixed interest asset values (as a result of a 3% increase in fixed interest yields) would occur.
- That 50% of the above fall will be passed onto policyholders by the reduction of bonuses. This reduces the capital adequacy requirement by R101 million.
- For the AIDS fluctuation capital adequacy requirement, it was assumed that future mortality charges would be increased, in line with policy conditions, to cover the increased AIDS deaths. This reduces the capital adequacy requirement by R2,3 million.



# Sage Life Limited

## NOTES TO THE STATEMENT OF ACTUARIAL VALUE OF ASSETS AND LIABILITIES

CONTINUED

I certify that the off-setting management actions assumed above have been approved by specific resolution by the board of directors and that I am satisfied that these actions will be taken if the corresponding risks materialise.

For the purposes of grossing up the intermediate ordinary capital adequacy requirement, to determine the ordinary capital adequacy requirement, it was assumed that the assets backing the requirement were fully invested in equities.

The ordinary capital adequacy requirement exceeded the termination capital adequacy requirement, and thus the capital adequacy requirement has been based on the ordinary capital adequacy requirement.

## 2 EMBEDDED VALUE

### 2.1 Introduction

The embedded value is determined by adding to the excess of the assets over the Financial Soundness liabilities, the present value of the expected future after-tax profits likely to arise from business already written, net of the cost of capital held in relation to the business.

The cost of capital held in relation to the business is the present value of the difference between the risk discount rate and the expected investment return, which will be earned on the capital adequacy requirement over the life of the in-force business.

### 2.2 Embedded value of in-force business

	31 December 2002 R000	31 March 2002 R000
Shareholder's net assets	671 743	1 784 028
Value of future profits	660 031	743 989
Value of the life business in force	684 235	780 989
Cost of capital	(24 204)	(37 000)
Embedded value	1 331 774	2 528 017
Risk discount rate	12,75%	15,50%

### 2.3 Value of new business

The value of new business is the value at the point of sale of business sold during the period.

	9 months 31 December 2002 R000	12 months 31 March 2002 R000
Value of future profits	42 432	72 037
Cost of capital	(2 108)	(6 180)
Value of new business	40 324	65 857

New business premiums	Recurring R000	Single R000	Recurring R000	Single R000
Individual business	234 435	288 070	320 704	423 674
– automatic increases	(52 076)	–	(64 675)	–
Employee benefits business	65 686	72 586	66 079	156 356
– automatic increases	(26 755)	–	(32 249)	–
New premiums included	221 290	360 656	289 859	580 030
Excluded new premiums				
Individual Bermuda branch	–	246 368	–	767 080
Automatic increases	78 831	–	96 924	–
Total new premiums	300 121	607 024	386 783	1 347 110
Premiums included as recurring plus 10% of single premium		257 356		347 862
Margin		15,7%		18,9%

### 2.4 Analysis of embedded value movement

	9 months 31 December 2002 R000	12 months 31 March 2002 R000
Embedded value at end of period	1 331 774	2 528 017
Change in capital	35	(67 026)
Dividend declared	55 000	125 000
Embedded value at start of period	(2 528 017)	(2 165 044)
Embedded value earnings	(1 141 208)	420 947



## 2.4 Analysis of embedded value movement (continued)

	9 months 31 December 2002 R000	12 months 31 March 2002 R000
<b>Components of embedded value</b>		
New business	40 324	65 857
Expected return	91 089	89 311
Operating experience variations	94 900	18 101
Operating assumption changes	(135 516)	(31 250)
	<b>90 797</b>	<b>142 019</b>
Investment return on shareholder's funds		
Domestic operations – income	29 083	51 077
– capital gains	(152 629)	(88 435)
International operations	(1 028 946)	307 399
Taxation and expenses	(33 052)	(31 967)
Economic assumption changes	(46 461)	40 854
	<b>(1 232 005)</b>	<b>278 928</b>
<b>Embedded value earnings</b>	<b>(1 141 208)</b>	<b>420 947</b>

The operating experience variations of R94,9 million arose mainly from better mortality and premium increase take-up rates than those assumed.

The operating assumption changes of R135,5 million are in respect of the change in base mortality and AIDS assumptions, and the reduction in the inflation gap.

## 2.5 Sensitivity to risk discount rate and other assumptions

	Value of in-force business R000	Change R000	Value of new business R000	Change R000
<b>Base value</b>	<b>660 031</b>		<b>40 324</b>	
Risk discount rate increases by 1% to 13,75% <sup>(1)</sup>	604 304	(55 727)	33 421	(6 903)
Withdrawal rates reduce by 10%	694 006	33 975	46 190	5 866
Renewal expenses reduce by 10%	695 457	35 426	45 019	4 695
Expense inflation reduces from 6,75% to 5,75%	681 327	21 296	43 523	3 199
Mortality experience improves by 5%	715 531	55 500	48 182	7 858
Future investment returns reduce by 1% <sup>(2)</sup>	576 390	(83 641)	33 986	(6 338)

Shareholder's net assets are insensitive to variations in the assumptions in respect of future values.

The change in cost of capital, included above, where applicable was:

(1) R17,8 million increase in respect of in-force business and R1,5 million increase for new business

(2) R1,7 million decrease in respect of in-force business and R0,1 million decrease for new business

## 2.6 Assumptions

Assumptions regarding mortality, morbidity, withdrawals, expenses, expense inflation and increases in the premiums, under policies with automatic premium updates, were based on the company's recent experience and on best estimates of future expected experience, without prescribed margins. It was assumed that no Secondary Tax on Companies will be payable in terms of Section 64B of the Income Tax Act, as Sage Life is a wholly owned subsidiary of Sage Group.

The assumed pre-tax investment returns by major asset classes, and assumed expense inflation were:

	31 Dec 2002 %pa	31 Mar 2002 %pa
Equities	12,75	15,50
Property	11,75	14,50
Fixed interest securities	10,75	13,50
Cash	8,75	11,50
Expense inflation	6,75	8,50

## 3 INDEPENDENT REVIEW

B&W Deloitte Southern Africa international consulting actuaries, a part of Deloitte & Touche, reviewed the overall Financial Soundness and embedded valuation approach. They confirmed that the calculations, assumptions, methodology used and disclosure were in accordance with applicable guidance notes (viz PGN103, PGN104, PGN105 (latest draft) and PGN107) and that they were applied consistently at each valuation. This review did not extend to the value of the assets.

# Sage Life Limited

## BALANCE SHEET

AT 31 DECEMBER 2002

	Note	December 2002 R000	March 2002 R000
<b>ASSETS</b>			
Financial assets	2	7 114 183	8 304 849
Tangible assets	4	20 935	22 516
Intangible assets	5	50 180	31 826
<b>Current assets</b>		<b>469 445</b>	<b>439 878</b>
Trade and other receivables		243 642	261 574
Net amounts due by holding, subsidiary and fellow subsidiary companies		17 566	22 742
Cash and cash equivalents		208 237	155 562
<b>Total assets</b>		<b>7 654 743</b>	<b>8 799 069</b>
<b>EQUITY AND LIABILITIES</b>			
Shareholder's funds	6	671 743	1 784 028
Long-term assurance fund	7	6 683 536	6 688 704
<b>Current liabilities</b>		<b>299 464</b>	<b>326 337</b>
Trade and other payables		273 029	313 821
Taxation		26 343	11 607
Net amounts due to holding, subsidiary and fellow subsidiary companies		92	909
<b>Total equity and liabilities</b>		<b>7 654 743</b>	<b>8 799 069</b>



# Sage Life Limited

## INCOME STATEMENT

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

	Note	9 months December 2002 R000	12 months March 2002 R000
<b>Income</b>			
Premium income	11	1 188 731	1 609 582
Investment income	12	228 130	341 074
Realised and unrealised net (deficit)/surpluses on financial assets	13	(1 083 290)	671 121
		333 571	2 621 777
<b>Outgo</b>			
Policyholder benefits	14	963 705	1 072 439
Sales remuneration	15	188 624	254 684
Marketing, sales and administration expenses		180 818	202 352
Taxation	16	62 842	78 077
		1 395 989	1 607 552
(Shortfall)/excess of income over outgo		(1 062 418)	1 014 225
Net transfer from/(to) long-term assurance fund	7	5 168	(738 118)
<b>Shareholder's (deficit)/surplus</b>	17	<b>(1 057 250)</b>	<b>276 107</b>
<b>Analysis of shareholder's (deficit)/surplus</b>			
Operating surplus		128 294	38 033
Return on shareholder's funds		(1 185 544)	238 074
(Loss on disposal)/revaluation of investment in international assurance operations		(1 028 946)	307 399
- net forex translation differences		(183 647)	183 647
- cost of investment		(385 525)	-
- market value fluctuation		(459 774)	123 752
Domestic assets		(156 598)	(69 325)
<b>(Deficit)/surplus arising during the period</b>		<b>(1 057 250)</b>	<b>276 107</b>

# Sage Life Limited

## STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

	Ordinary share capital R000	Ordinary share premium R000	Revaluation and other reserves R000	Retained earnings R000	Reserve for final dividend R000	Total R000
Balance at 31 March 2001	9 800	637 678	227 351	691 066	87 000	1 652 895
Issue of 1 ordinary share		67 158				67 158
Share issue expenses		(132)				(132)
Transfer of non-distributable reserves to retained earnings			(227 351)	227 351		-
Retained surplus for the year				151 107		64 107
Shareholder's surplus				276 107		276 107
Dividends declared				(125 000)		(212 000)
Dividends paid				(212 000)		(212 000)
Transfer from reserve for: final dividend				87 000	(87 000)	-
<b>Balance at 31 March 2002</b>	<b>9 800</b>	<b>704 704</b>	<b>-</b>	<b>1 069 524</b>	<b>-</b>	<b>1 784 028</b>
Share issue expenses		(35)				(35)
Transfer of share premium to retained earnings		(385 526)		385 526		-
Retained losses for the year				(1 112 250)		(1 112 250)
Shareholder's deficit				(1 057 250)		(1 057 250)
Dividend paid				(55 000)		(55 000)
<b>Balance at 31 December 2002</b>	<b>9 800</b>	<b>319 143</b>	<b>-</b>	<b>342 800</b>	<b>-</b>	<b>671 743</b>



# Sage Life Limited

## CASH FLOW STATEMENT

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

	Note	9 months December 2002 R000	12 months March 2002 R000
<b>Cash flow from operating activities</b>		<b>(29 852)</b>	<b>124 455</b>
Cash (utilised by)/generated from operations	20.1	(154 876)	113 211
Investment income		228 130	341 074
Dividends paid	20.2	(55 000)	(212 000)
Taxation paid	20.3	(48 106)	(117 830)
<b>Cash flow from investing activities</b>		<b>82 562</b>	<b>(204 098)</b>
Net disposal/(acquisition) of financial assets		107 376	(221 376)
Net acquisition of tangible assets		(4 298)	(7 113)
Net (acquisition)/disposal of intangible assets		(20 516)	24 391
<b>Cash flow from financing activities</b>			
Net (expense)/proceeds from issue of ordinary share		(35)	67 026
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>52 675</b>	<b>(12 617)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>155 562</b>	<b>168 179</b>
<b>Cash and cash equivalents at end of period</b>		<b>208 237</b>	<b>155 562</b>

# Sage Life Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

### 1 ACCOUNTING POLICIES

The principal accounting policies of the company are set out below and are consistent in all material respects with those of the previous year. These policies comply with all relevant South African Statements of Generally Accepted Accounting Practice.

#### 1.1 Subsidiary companies

Investments in subsidiary companies are stated at fair value. Any write-up or write-down to fair value is included with investment returns as detailed under 1.4.

#### 1.2 Determination of shareholder's (deficit)/surplus

The shareholder's (deficit)/surplus has been determined after making provision for actuarial liabilities and any movement in reserves.

#### 1.3 Financial assets

Investments are reflected at fair value which has been determined on the following bases:

**1.3.1** Listed investments, unit trusts and unlisted shares are reflected at market value, repurchase price and directors' valuation respectively.

**1.3.2** Government, public utility, municipal and other interest-bearing investments are reflected at market value.

**1.3.3** Debentures, mortgages and loans are reflected at cost.

**1.3.4** Property investments, including property subsidiaries, are shown at amounts based on annual directors' valuations of the respective properties and property portfolios. Property trust units are included with listed investments at market value.

**1.3.5** Any amounts paid or received in respect of options, if such options are exercised, are added to the cost of acquisition, or to the proceeds of the sale, of the related investments.

Amounts relating to options which lapse are

included with realised surpluses or deficits on investments. Options still in force are valued at market value under the appropriate investment category.

#### 1.4 Investment returns

Dividends from investments are brought to account when the last day to register for dividend purposes falls within the financial year.

Interest income is accrued on a time proportion basis.

All investment returns comprising investment income, realised and unrealised surpluses or (deficit)/deficits on disposal or valuation of investments, including subsidiaries, are taken to the long-term assurance fund through the income statement.

#### 1.5 Translation of foreign currencies

Foreign currency transactions are recorded, on initial recognition in Rand, by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the transactions.

At each balance sheet date:

– foreign currency monetary items are reported using the closing rate, and

– non-monetary items which are carried at fair value denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognised in the results of the period in which they arise.

#### 1.6 Tangible assets

Tangible assets comprising equipment and vehicles are reflected at cost less accumulated

depreciation and any impairment losses.

Depreciation is charged on the straight-line basis over the estimated useful lives of the assets.

The estimated maximum useful lives of items of equipment and vehicles are five years for vehicles and three to ten years for equipment.

#### 1.7 Intangible assets

Intangible assets comprising computer software are reflected at cost less accumulated amortisation and any impairment losses.

Computer software acquisition and development costs are recognised only when the costs are reliably measurable and the attributable future economic benefits are assured.

Computer software is amortised on a straight-line basis over the estimated economic lives of the assets and is further written down to the extent that the unamortised balance will in all probability no longer be recovered from expected future economic benefits.

The estimated economic lives of items of computer software in use are three years.

To the extent that computer software is under development, the estimated economic life is yet to be determined.

#### 1.8 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that



reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

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

## 1.9 Taxation

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity or in the long-term assurance fund. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity or the long-term assurance fund.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused

tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Capital gains tax balances are reflected at current value and have not been discounted. Deferred capital gains tax relating to the assets underlying the policyholders' funds is included in the long-term assurance fund.

## 1.10 Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

## 1.11 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

## 1.12 Income and outgo is recognised in the income statement on the following bases:

- 1.12.1 Individual premiums – when due from policyholders.
- 1.12.2 Employee Benefit premiums – when due if reasonably sure of collection, otherwise on a cash received basis.
- 1.12.3 Benefit payments – when claims are intimated.
- 1.12.4 Premiums and benefit payments – net of reinsurance.
- 1.12.5 New business costs – when incurred.
- 1.12.6 Sales remuneration – when incurred.
- 1.12.7 Retirement benefits – contributions to pension and provident funds operated for employees are charged against income as incurred.

## 1.13 Employee benefits

- 1.13.1 Short and long-term benefits

The cost of all short-term employee benefits, such as salaries, annual and sick leave, medical and other contributions, is recognised during the period in which the employee renders the related service. Long-term benefits, such as long service leave are recognised and provided for at balance sheet date based on current salary rates.

### 1.13.2 Retirement benefits

The company provides defined benefit and defined contribution plans for the benefit of employees, the assets of which are held in separate funds. These plans are funded by contributions from the company and employees. Contributions to a defined contribution plan in respect of service in a particular period are recognised as an expense in that period. Current service costs in respect of a defined benefit plan are recognised as an expense in the current period. The defined benefit liability, current service costs and post service costs are determined by using the Projected Unit Credit Method. Past service costs, experience adjustments, the effects of changes in actuarial assumptions and the effects of plan amendments in respect of existing employees in a defined benefit plan are recognised as an expense or as income systematically over the expected remaining working lives of those employees, (except in the case of certain plan amendments where the use of a shorter time period is necessary to reflect the receipt of economics by the enterprise).

### 1.13.3 Medical

No contributions are made to the medical aid of retired employees.

### 1.13.4 Equity compensation benefits

The company from time to time allocates convertible debentures or grants share options to employees in the terms of its share incentive schemes. Other than costs incurred in administering the schemes which are expensed as incurred, the schemes do not result in any expense to the company.



# Sage Life Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	December 2002 R000	March 2002 R000
<b>2 FINANCIAL ASSETS</b>		
<b>Listed investments</b>	<b>2 149 828</b>	<b>2 363 664</b>
Ordinary shares	1 251 978	1 171 348
Property trust units	12 898	38 854
Foreign securities	884 952	1 153 462
<b>Unlisted investments</b>	<b>161 215</b>	<b>1 314 353</b>
Ordinary shares	161 215	312 452
International assurance operations	-	1 001 901
Unit trusts	2 788 348	2 815 895
Foreign cash and cash equivalents	113 899	52 666
Government, public utility and municipal stock	1 297 405	1 064 674
Debentures, mortgages and loans	10 125	37 674
Property investments	508 082	569 596
Loans secured against company's life policies	85 281	86 327
	<b>7 114 183</b>	<b>8 304 849</b>
<b>Sectoral analysis of listed and unlisted shares</b>	<b>1 413 193</b>	<b>1 483 800</b>
Mining resources	2,6%	3,2%
Non-mining resources	2,3%	3,4%
Financial	85,5%	80,8%
Insurance	2,0%	2,5%
Industrial	7,6%	9,9%
Real estate	0,0%	0,2%
	<b>100,0%</b>	<b>100,0%</b>

A schedule of all companies in which the company has investments is available for inspection in terms of the Companies Act.

### 3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For details see note 19 of Sage Group Limited's financial statements.



	December 2002 R000	March 2002 R000
<b>4 TANGIBLE ASSETS</b>		
Cost	56 111	55 910
Equipment	35 474	35 260
Vehicles	20 637	20 650
Accumulated depreciation	35 176	33 394
Equipment	25 220	23 272
Vehicles	9 956	10 122
Net book value	20 935	22 516
<b>Analysis of movements</b>		
Opening balance	22 516	22 447
Additions	6 828	10 046
Equipment	2 797	4 856
Vehicles	4 031	5 190
Disposals	(2 171)	(2 328)
Equipment	(1 019)	(835)
Vehicles	(1 152)	(1 493)
Depreciation	(6 238)	(7 649)
Equipment	(3 512)	(4 056)
Vehicles	(2 726)	(3 593)
Closing balance	20 935	22 516
<b>5 INTANGIBLE ASSETS</b>		
Cost	60 593	40 090
Software in use	21 634	13 883
Software under development	38 959	26 207
Accumulated amortisation		
Software in use	10 413	8 264
Net book value	50 180	31 826
<b>Analysis of movements</b>		
Opening balance	31 826	57 310
Additions	20 662	10 072
Purchased and internally developed software	7 911	4 786
Software under development	12 751	5 286
Disposals	(146)	(34 463)
Software in use	(146)	(19)
Software under development	-	(34 444)
Amortisation		
Software in use	(2 162)	(1 093)
Closing balance	50 180	31 826

# Sage Life Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	December 2002 R000	March 2002 R000
<b>6 SHAREHOLDER'S FUNDS</b>		
Share capital		
Authorised		
50 000 000 ordinary shares of 20 cents each	10 000	10 000
Issued		
49 000 001 ordinary shares of 20 cents each	9 800	9 800
Share premium	319 143	704 704
Balance at beginning of period	704 704	637 678
Transfer of share premium to retained earnings	(385 526)	-
Share premium raised on new issue of ordinary share during the year	-	67 158
Related share issue expenses written off	(35)	(132)
Share capital and premium	328 943	714 504
Retained earnings	342 800	1 069 524
Total shareholder's funds	671 743	1 784 028
The unissued shares are under the control of the directors until the forthcoming annual general meeting.		
<b>7 LONG-TERM ASSURANCE FUND</b>		
Balance at beginning of period	6 688 704	5 950 586
Transfers (to)/from income statement:		
- (decrease)/increase in policyholder liabilities	(5 168)	738 118
Balance at end of period	6 683 536	6 688 704
Actuarial liabilities under unmaturing policies comprise the following:		
- market related business	3 849 780	4 079 428
- smooth bonus business	631 050	639 275
- reversionary bonus business	302 263	293 997
- non-profit business	1 900 443	1 676 004
Actuarial liabilities	6 683 536	6 688 704
<b>8 COMMITMENTS</b>		
Future operating lease charges for premises		
- payable within one year	3 592	7 661
- two to five years	8 654	8 445
	12 286	16 106



	December 2002 R000	March 2002 R000
<b>9 CONTINGENT LIABILITIES</b>		
Disputed policyholder claims	4 057	2 057

## 10 RETIREMENT BENEFIT INFORMATION

The company provides for the retirement benefits of its employees (other than those required by legislation to be members of specific industry funds) by means of a defined benefit fund and a defined contribution fund. These funds are governed by the Pension Funds Act, 1956.

### 10.1 Defined benefit fund

The scheme covers the majority of administrative employees and is actuarially valued at intervals of not more than 3 years. The most recent valuation, at 1 January 2001, reflected the scheme to be in a sound financial position. If deficits were to arise they would be funded by the company.

For details of the funded status of the scheme at valuation date, see note 22 of Sage Group Limited's financial statements.

### 10.2 Defined contribution fund

The scheme covers the majority of sales employees of the company. The scheme is funded both by member and company contributions, which are charged to the income statement as incurred. The company contributed R2,7 million to the fund during the period (2002: R3,3 million).

### 10.3 Post-retirement benefits other than pensions

Other than its commitments in respect of its pension funds as detailed above, the company has no further obligations for post-retirement benefits, including medical aid, in respect of the past service of present employees and pensioners.

	9 months December 2002 R000	12 months March 2002 R000
<b>11 PREMIUM INCOME (NET OF REASSURANCE)</b>		
Recurring premiums	815 791	992 322
Individual	645 697	793 972
Gross	702 212	846 479
Reassurance	(56 515)	(52 507)
Employee Benefits	170 094	198 350
Gross	207 381	246 203
Reassurance	(37 287)	(47 853)
Single premiums	372 940	617 260
Individual	300 354	460 904
Bermuda	246 369	767 080
Reassured with wholly owned subsidiary company	(234 085)	(729 850)
Other	288 070	423 674
Employee Benefits	72 586	156 356
	<b>1 188 731</b>	<b>1 609 582</b>

# Sage Life Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	9 months December 2002 R000	12 months March 2002 R000
<b>12 INVESTMENT INCOME</b>		
Listed investments	82 507	162 783
Interest	25 660	84 622
Dividends	56 847	78 161
Unlisted investments	132 402	151 218
Interest	92 742	111 553
Dividends	21 908	33 662
Other income	17 752	6 003
Subsidiaries	13 221	27 073
Interest	821	1 872
Dividends	12 400	25 201
	<b>228 130</b>	<b>341 074</b>
Shareholder	29 083	36 897
Policyholders	199 047	304 177
	<b>228 130</b>	<b>341 074</b>

### 13 REALISED AND UNREALISED NET (DEFICIT)/SURPLUSES ON FINANCIAL ASSETS

Unrealised	(247 610)	244 225
Shareholder	(155 306)	218 964
Policyholders	(92 304)	25 261
Realised	(835 680)	426 896
Shareholder	(1 026 270)	-
- international operations	(1 028 946)	-
- domestic operations	2 676	-
Policyholders	190 590	426 896
	<b>(1 083 290)</b>	<b>671 121</b>



	9 months December 2002 R000	12 months March 2002 R000
<b>14 POLICYHOLDER BENEFITS (NET OF REASSURANCE)</b>		
<b>Individual</b>	<b>700 633</b>	<b>819 171</b>
Death and disability	82 962	126 011
Gross	143 494	154 901
Reassurance	(60 532)	(28 890)
Maturities	260 554	252 148
Gross	261 675	252 148
Reassurance	(1 121)	-
Annuities	142 627	189 477
Gross	142 627	189 477
Surrenders	214 490	251 535
Gross	256 434	252 199
Reassurance	(41 944)	(664)
<b>Employee Benefits</b>	<b>263 072</b>	<b>253 268</b>
Death and disability	71 085	78 388
Gross	110 999	122 133
Reassurance	(39 914)	(43 745)
Gross maturities	9 410	8 018
Gross annuities	5 448	6 405
Gross withdrawals	54 847	93 815
Gross terminations	122 282	66 642
	<b>963 705</b>	<b>1 072 439</b>
<b>15 SALES REMUNERATION</b>		
<b>Individual</b>	<b>181 271</b>	<b>250 321</b>
Gross	189 811	258 120
Reassurance	(8 540)	(7 799)
<b>Employee Benefits</b>	<b>7 353</b>	<b>4 363</b>
Gross	12 873	12 016
Reassurance	(5 520)	(7 653)
	<b>188 624</b>	<b>254 684</b>

# Sage Life Limited

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2002

CONTINUED

	9 months December 2002 R000	12 months March 2002 R000
<b>16 TAXATION</b>		
South African normal taxation – current year	32 000	35 526
Capital gains tax	(1 766)	1 766
Other related taxes	32 608	40 785
	<b>62 842</b>	<b>78 077</b>
<b>16.1 Tax losses arising in policyholder funds</b>	<b>428 453</b>	<b>324 309</b>
Deferred tax assets have not been recognised in respect of the above because it is not probable that future taxable profit will be available against which the company can utilise the tax losses.		
Other related taxes include Retirement Fund tax, Financial Services Board levy, Regional Services Council levies, Skills Development levy, non-recoverable value-added tax and stamp duty.		
<b>17 SHAREHOLDER'S (DEFICIT)/SURPLUS</b>		
The (deficit)/surplus for the period is after taxation and is arrived at after crediting or charging the following:		
<b>Income</b>		
Profit on disposal of tangible assets	359	605
Fees received from subsidiaries	165	200
<b>Charges</b>		
Operating lease charges on premises	6 266	9 521
Staff costs	103 843	117 987
Remuneration to non-employees	24 374	33 344
– investment management services	2 192	3 406
– consulting services	2 964	3 046
– outsourced technical services	18 315	24 931
– actuarial services	903	1 962
Auditors' remuneration	3 079	2 379
– audit fees	1 873	1 148
– outsourced internal audit services	1 024	1 188
– other consulting services	182	43
Depreciation of tangible assets	6 238	7 649
Amortisation of intangible assets	2 162	1 093
Loss on disposal of investment in international assurance operations	1 028 946	–
Directors' emoluments		
From the company for services as:	7 431	7 689
– non-executive directors	481	758
– executive directors	6 950	6 931
From subsidiary companies for services as:	5 940	5 870
– non-executive directors	95	137
– executive directors	5 845	5 733
Total directors' emoluments	13 371	13 559

	9 months December 2002 R000	12 months March 2002 R000
--	-----------------------------------	---------------------------------

## 18 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to provide a more meaningful comparison.

## 19 REPORT OF THE DIRECTORS AND GROUP

### FINANCIAL STATEMENTS

A separate directors' report and consolidated financial statements have not been prepared, as the company is a wholly owned subsidiary of another company incorporated in South Africa.

## 20 NOTES TO THE CASH FLOW STATEMENT

### 20.1 Cash (utilised by)/generated from operations

Shareholder's (deficit)/surplus	(1 057 250)	276 107
Net transfer (from)/to long-term assurance fund	(5 168)	738 118
(Deficit)/surplus attributable to policyholders and shareholder	(1 062 418)	1 014 225
<b>Adjustments for non-cash items</b>		
Net deficit/(surpluses) on financial assets	1 083 290	(671 121)
Depreciation of tangible assets	6 238	7 649
Amortisation of intangible assets	2 162	1 093
Profit on disposal of tangible assets	(359)	(605)
<b>Adjustments for</b>		
Dividends received	(91 155)	(137 024)
Interest received	(119 223)	(198 047)
Other income from unlisted investments	(17 752)	(6 003)
Taxation per income statement	62 842	78 077
	(136 375)	88 244
<b>Changes in working capital</b>		
Decrease/(increase) in trade and other receivables	17 932	(90 810)
Net repayments by holding, subsidiary and fellow subsidiary companies	4 359	34 776
(Decrease)/increase in trade and other payables	(40 792)	81 001
	(154 876)	113 211
<b>20.2 Dividends paid</b>		
Reserve for final dividend at beginning of period	-	(87 000)
Amounts declared	(55 000)	(125 000)
	(55 000)	(212 000)
<b>20.3 Taxation paid</b>		
Amount outstanding at beginning of period	(11 607)	(51 360)
Income statement charge	(62 842)	(78 077)
Amount unpaid at end of period	26 343	11 607
	(48 106)	(117 830)



# Sage Life Limited

## SCHEDULE OF INTEREST IN MATERIAL SUBSIDIARIES

AT 31 DECEMBER 2002

Company	Activity	Issued capital		Proportion held directly or indirectly by the company		Cost of shares		Amounts receivable/(payable)	
		Dec 2002 R	Mar 2002 R	Dec 2002 %	Mar 2002 %	Dec 2002 R000	Mar 2002 R000	Dec 2002 R000	Mar 2002 R000
Sage Management Services (Pty) Ltd	Investment holding and trading	100	100	100	100	8 913	8 913	-	-
Sage Unit Trusts Ltd	Unit Trust management	783 000	783 000	100	100	-	-	15 178	8 793
Sage Guaranteed Options (Pty) Ltd	Investment holding	100	100	100	100	-	-	-	-
Sage Property Holdings Ltd	Property holding and development	5 715 530	5 715 530	100	100	107 232	107 232	(121 358)	(102 847)
SMH Land Development (Pty) Ltd	Property owning	12	12	100	100	-	-	50 840	84 825
Townhomes (Pty) Ltd	Property owning	1 000	1 000	100	100	1	1	89 930	89 930
Kemparkto (Pty) Ltd	Property holding	200	200	100	100	43 112	43 112	-	-
Sage Specialised Insurances (Pty) Ltd	Short-term insurance	200	200	100	100	5 010	5 010	189	1 341
Financial Planning Services (Pty) Ltd	Long-term insurance broker	78 200	78 200	100	100	2 077	2 077	5 236	5 364
<b>Foreign registered companies*</b>									
Sage Holdings (USA) Inc. (USA)	Investment holding	-	USD37 500	-	100	-	113 260	-	26 770
Sage International Assets Ltd (BVI)	Investment holding	-	USD55 000 000	-	100	-	275 017	-	-
Sage Insurance Group Inc. (USA)	Life assurance	-	USD4 643 525	-	100	-	-	-	-
Sage Life Assurance of America Inc. (USA)	Life assurance	-	USD2 500 000	-	100	-	-	-	-
Sage International Finance Ltd (BVI)	Finance	-	USD1000	-	100	-	-	-	-
Sage Life (Bermuda) Ltd (Bermuda)	Life assurance	-	USD4 770 000	-	100	-	-	-	-
Other property owning and dormant subsidiaries						7 357	7 357	5 794	5 624
						<b>173 702</b>	<b>561 979</b>	<b>45 809</b>	<b>119 800</b>
<b>Directors' valuation of shares</b>						<b>279 527</b>	<b>1 494 831</b>		

All subsidiaries are registered in the Republic of South Africa unless otherwise noted.

\* Disposal with effect from 31 December 2002 to Sage Group Limited.



# Sage Life Limited

## MANAGEMENT

### Executive directors

#### Janssen Davies

Chief Executive Sage Life

#### Kevin Daly

Executive director, agency sales, event management and compliance

#### John Henderson

Executive director, actuarial, legal services and statutory actuary

#### Leon Kaplan

Group executive director, finance

#### Peter Karstel

Executive director, group finance

#### Robert Marsden

Chief Executive, Sage Life of America

#### Bernie Nackan

Executive director, corporate communications. Managing director, Sage Unit Trusts

#### Tony Singleton

Executive director, individual operations and company services

#### Colin Tomsett

Executive director, employee benefits

#### Marli Venter

Alternate director and general manager, employee benefits

#### Kobus Vlok

Alternate director and general manager, broker division

### General management

#### John Kransdorff

General manager, investment administration

#### Iain Schouten

General manager, Sage Unit Trusts

#### Dirk Stofberg

General manager, investment administration

#### Angus Barker

Deputy general manager, actuarial

#### Stewart Cant

Group legal adviser and company secretary

#### Al Dallas

Deputy general manager, investment administration

#### Malcolm Fletcher

Deputy general manager, group audit services

#### Mike Groves

Deputy general manager, special projects

#### Warwick Hamilton

Deputy general manager, employee benefits national sales

#### Des Kew

Deputy general manager, investment administration

#### Rick Maynard

Deputy general manager, corporate services

#### Ken Metcalf

Deputy general manager, investment administration

#### Mauro Predieri

Deputy general manager, sales accounts

#### Garry Schoonbee

Deputy general manager, actuarial, product development

#### Linda Sepp-Davies

Deputy general manager, sales development

#### Dawn Silcock

Deputy general manager, actuarial, valuations

#### Sandra Sterling

Head human resources

#### Howard Williams

Deputy general manager, individual operations

#### Derek Zietsman

Deputy general manager, market intelligence

#### Lynton Baasch

Assistant general manager, employee benefits technical

#### Laurence Beder

Assistant general manager, group marketing services

#### Joe Bizjak

Assistant general manager, finance

#### Darryl Green

Assistant general manager, group legal and secretarial

#### Richard Hall

Assistant general manager, employee benefits, claims and risk administration

#### Erik Harkema

Risk manager, employee benefits

#### Clive Harper

Assistant general manager, individual operations

#### Kallie Jansen van Vuuren

Assistant general manager, investment marketing

#### Adrian Solomon

Assistant general manager, individual operations

#### Simon van der Merwe

Assistant general manager, group audit services

#### Shaan Watkins

Head, information technology and programme management

#### Henri Staub

Sage Properties

### Agency division

#### Johan Lubbe

General manager, Pretoria

#### Vincent Samuel

Regional general manager, Natal strategic business unit

#### Max Gugger

Assistant general manager, Franchise

#### John Mitchell

Assistant general manager, Franchise

#### Donald Wood

Assistant general manager, Cape strategic business unit

#### John Garzouzie

Regional sales manager, Franchise division, Northern strategic business unit

#### Teddy Goldberg

Regional sales manager, Hyde Park branch

#### Seelan Moodliar

Regional sales manager, Natal strategic business unit

### Broker division

#### Rick Bothma

Assistant general manager, head Northern strategic business unit

#### Danie de Lange

Assistant general manager, head ABSA broker services division

#### Greg Moore

Assistant general manager, head Southern strategic business unit

#### Mike Redfern

Assistant general manager, head management services strategic business unit

#### Tony van Niekerk

Assistant general manager, head Central strategic business unit

#### Darren Braga

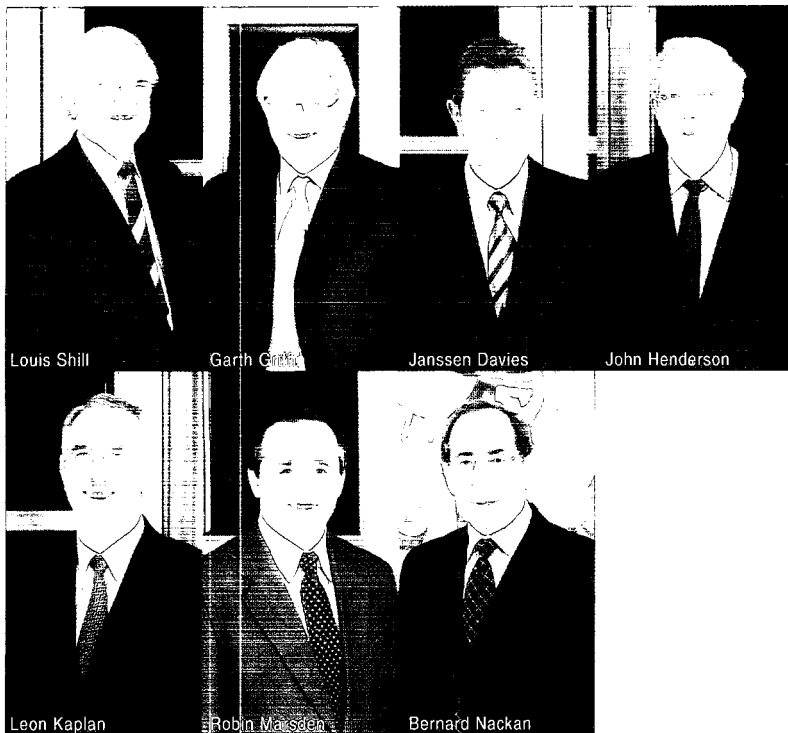
Provincial manager, head Western Cape strategic business unit

### Unit Trusts

#### Nico van Diemen

National sales and marketing manager

# Executive Directors



Louis Shill

Garth Griffin

Janssen Davies

John Henderson

Leon Kaplan

Robin Marsden

Bernard Nackan

## Sage Group Limited and Sage Life Limited

**Louis Shill (Chairman)** (72) BCom CA(SA), SEP Stanford, Founder and Group Chairman, 37 years' service

**Garth Griffin (Group Chief Executive)** (53) BSc FIA, Business Consultant, former Managing Director Old Mutual Group, 3 years' service

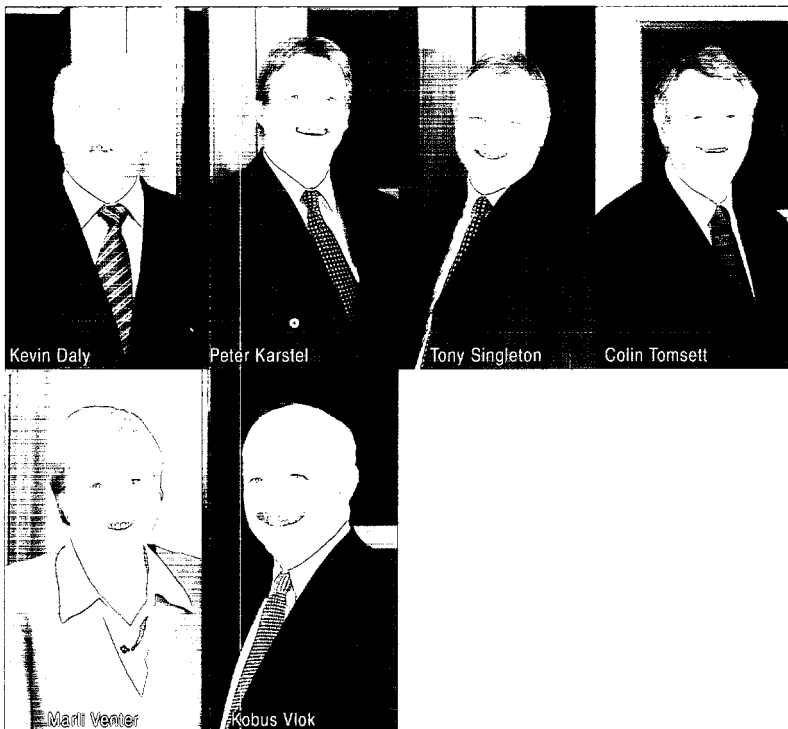
**Janssen Davies** (53) SEP Stanford, Chief Executive Officer Sage Life, 32 years' service

**John Henderson** (55) BSc (Hons) FIA FASSA ASA, Actuarial Legal Services and Company Valuator, 24 years' service

**Leon Kaplan** (52) BCom CA(SA), Group Finance, 7 years' service

**Robin Marsden** (37) BCom (Hons) MCom CA(SA), Chief Executive Sage Life of America, 7 years' service

**Bernard Nackan** (58) BA (Econ) SEP Stanford, Corporate Communications, Managing Director Sage Unit Trusts, 28 years' service



Kevin Daly

Peter Karstel

Tony Singleton

Colin Tomsett

Marli Venter

Kobus Vlok

## Sage Life Limited

**Kevin Daly** (59) Agency Sales, Event Management and Compliance, 35 years' service

**Peter Karstel** (49) BCom CA(SA), Finance, 15 years' service

**Tony Singleton** (47) AIBS ACIBM, Individual Operations and Company Services, 18 years' service

**Colin Tomsett** (60) Employee Benefits, 27 years' service

### Alternate Directors

**Marli Venter** (36) BSc Hons FFA CFP, Employee Benefits, 7 years' service

**Kobus Vlok** (43) BCom MBL, Broker Division, 15 years' service

# Non-Executive Directors

## Sage Group Limited and Sage Life Limited

**Mandla Adonisi** (51) (Dip:Theol) BA (Hons)  
MA M (Management), appointed 1994, Director  
Adonisi and Associates

**Dr Danie Cronjé** (56) BCom (Hons) MCom  
DCom, appointed 1991, Chairman, ABSA  
Group Limited

**Barend du Plessis** (62) BSc, appointed  
1993, Business Consultant, former Minister  
of Finance

**Dr Bruce Ilsley** (65) BSc (Chem Eng) PhD  
CFP, appointed 1985, former Sage Group  
Chief Executive

**John Postmus** (66) BCom, appointed 1996,  
formerly General Manager, SA Reserve Bank

**Carl Stein** (48) BCom LLB H (Dip:Tax),  
appointed 1993, Chairman, Werksmans Inc

**Louw van Wyk** (61) FFA, appointed 1993,  
Chairman, ABSA Offshore and Stonehague

**Theo van Wyk** (54) BCom LLB LLM, appointed  
1991, Executive Director, Remgro Limited

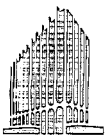


# Sage Group Limited

## SHARE ANALYSIS

	31 December 2002	31 March 2002
<b>SHARE ACTIVITY ON THE JSE SECURITIES EXCHANGE SA</b>		
Number of ordinary shares in issue	154 964 862	147 729 514
Volume of shares traded	25 023 501	22 328 819
Value of shares traded (R000)	95 039	187 620
Market capitalisation (R000)	302 181	1 034 107
Market prices (cents per share)		
- closing	195	700
- high	800	1 075
- low	160	490
- weighted average	457	815
Closing price/earnings	1,60	3,70

	Number of shareholders	% of shareholders	Number of shares held	% of shares held
<b>ANALYSIS OF SHAREHOLDINGS</b>				
1 - 500	1 617	36,2	285 512	0,2
501 - 1 000	695	15,5	523 411	0,3
1 001 - 5 000	1 307	29,2	3 246 422	2,1
5 001 - 10 000	388	8,7	3 020 953	1,9
10 001 - 50 000	365	8,2	7 598 134	4,9
50 001 - 100 000	41	0,9	3 044 395	2,0
100 001 and over	57	1,3	137 246 035	88,6
	4 470	100,0	154 964 862	100,0



# Sage Group Limited

## NOTICE OF ANNUAL GENERAL MEETING MAY 2003



Notice is hereby given that the thirty first annual general meeting of Sage Group Limited will be held in the Boardroom on the 11th Floor, Sage Centre, 10 Fraser Street, Johannesburg on Monday, 19 May at 10:00 for the following purposes:

1 To receive and consider the financial statements and the report of the auditors for the nine months ended 31 December 2002.

2 To re-elect as directors of the company Messrs DC Cronjé, MP Adonisi, JP Davies, JE Henderson, and Dr B M lislely.

3 To determine the remuneration of the directors for the nine months ended 31 December 2002.

4 To authorise the directors to determine the remuneration of the auditors for the nine months ended 31 December 2002.

5 Share Capital: waiver of rights – pre-emptive issues.

To approve the following ordinary resolutions:

5.1 That the issued shares of the company be and are hereby placed under the control of the directors of the company to allot or issue such shares, subject to the provisions of the Companies Act, 1973, as amended ("Companies Act"), and the requirements of the JSE Securities Exchange, South Africa ("the JSE"), as they shall deem fit.

5.2 That the directors of the company be and are hereby authorised to issue ordinary shares of one cent each for cash as and when the suitable situations arise and to such persons and at such prices as the directors may deem fit, subject to the restrictions in terms of the requirements of the JSE, such authority to terminate at the next annual general meeting of the company.

As less than 35% of the company's issued securities are in the hands of the public, as defined in the Listings Requirements of the JSE, the approval of a 75% majority of votes cast by the shareholders present or represented by proxy is required to approve this ordinary resolution number 5.2.

6 To transact such other business as may be transacted at an annual general meeting.

Any member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and speak and vote in his stead.

All beneficial owners of ordinary shares who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker, other than those shareholders who have elected to dematerialise their shares in "own name" registrations and all beneficial owners of ordinary shares who hold certificated shares through a nominee, must provide their CSDP, broker or nominee with their voting instructions. Voting instructions must reach the CSDP, broker or nominee in sufficient time to allow the CSDP, broker or nominee to advise the company or transfer secretaries of this instruction not less than 24 hours before the time fixed for the holding of the meeting.

Should you as the beneficial owner, however, wish to attend the meeting in person, you may do so by requesting your CSDP, broker or nominee to issue you with a letter of representation in terms of the custody agreement entered into with your CSDP, broker or nominee. Letters of representation must be lodged with the company's transfer secretaries or at the registered office of the company not less than 24 hours before the time fixed for the holding of the meeting.

Shareholders who hold certificated shares in their own name and shareholders who have dematerialised their share in "own name" registrations must lodge their completed proxy forms with the company's transfer secretaries or at the registered office of the company not less than 24 hours before the time fixed for the holding of the meeting.

**By order of the Board**

**C S Cant**  
Secretary

24 April 2003

**Registered Office**

11th Floor Sage Centre  
10 Fraser Street Johannesburg 2001  
P O Box 7755 Johannesburg 2000

# Sage Group Limited

## FORM OF PROXY



**ANNUAL GENERAL MEETING TO BE HELD AT 10:00 ON MONDAY, 19 MAY 2003**

To: The Secretary  
Sage Group Limited  
11th Floor Sage Centre  
10 Fraser Street  
Johannesburg 2001

or by post to: The Secretary  
Sage Group Limited  
P O Box 7755  
Johannesburg 2000

I/We \_\_\_\_\_  
(Name/s in block letters)

of \_\_\_\_\_

being the holder/s of \_\_\_\_\_ ordinary shares in the company do hereby appoint (see note 1):

1 \_\_\_\_\_ or failing him/her,

2 \_\_\_\_\_ or failing him/her,

3 the chairperson of the meeting,  
as my/our proxy to act for me/us at the annual general meeting which will be held at 11th floor, Sage Centre, 10 Fraser Street, Johannesburg and at any adjournment thereof, as follows:

	Number of votes * (one vote per share)		
	In favour of resolution	Against resolution	Abstain from voting
1 Approval of financial statements			
2 Election of directors			
3 Approval of directors' remuneration			
4 To authorise the directors to determine the auditors' remuneration			
5.1 Approval that the unissued share capital of the company be placed under the control of the directors			
5.2 Waiver of pre-emptive rights in equity issues			
6 To decide on any other matters which may be dealt with			

\* Insert X in the appropriate block if you wish to vote all your shares in the same manner. If not, insert the number of votes in the appropriate block. If no indication is given, the proxy will vote as he/she thinks fit.

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2003

Signature/s \_\_\_\_\_

Assisted by me (where applicable) \_\_\_\_\_

**Notes**

- 1 Unless a poll is demanded, a resolution may be passed on a show of hands. Should a poll be demanded, a member shall be entitled to one vote for each ordinary share held.
- 2 This proxy form must be signed, dated and returned so as to reach the registered office of the company at least 24 hours before the meeting. A member entitled to attend and vote at a meeting may appoint one or more proxies to attend, speak and vote in his stead. A proxy need not be a member of the company.
- 3 If this form, duly signed, is lodged without specific directions as to which way the proxy is to vote, the proxy will be deemed to have been authorised to vote as he thinks fit.

## ADMINISTRATION

### Secretary and Registered Offices

CS Cant, 11th Floor, Sage Centre  
10 Fraser Street  
Johannesburg 2001

### Sage Group Limited

Reg no 1970/010541/06  
PO Box 7755, Johannesburg 2000  
Telephone 011 377 5555  
Fax 011 834 2107  
E-mail [sagegrp@icon.co.za](mailto:sagegrp@icon.co.za)

### Sage Life Limited

Reg no 1964/004354/06  
PO Box 290, Johannesburg 2000  
Telephone 011 377 5000  
Fax 011 838 5246

### Website

[www.sage.co.za](http://www.sage.co.za)

### Transfer Secretaries

Computershare Investor Services Limited  
70 Marshall Street, Johannesburg 2001  
PO Box 61051, Marshalltown 2107

### Bankers

ABSA Bank – Corporate Division  
Nedbank (a division of Nedcor Bank Limited)

### Joint Auditors

Grant Thornton Kessel Feinstein  
KPMG Inc

### Sponsor

Grant Thornton Kessel Feinstein Corporate  
Sponsors (Pty) Limited

### US Depository

Deutsche Bank

## SHAREHOLDERS' DIARY

Announcement of December 2002 results	9 April 2003
Annual report posted	April 2003
Annual general meeting	19 May 2003
Interim report and declaration of interim dividend	August 2003
Payment of interim dividend	October 2003
Financial year-end	31 December



