

ABDUL CASSIM • ABDUL VALLY • ADRIAN DU PREEZ • ALETTA KGAME • ALISON JACKSON • ALLISON NGCONGO • ALTA PEDRO • AMANDA VAN WYK • AMIER ABRAHAMS • AMINA ACKERMAN • ANDREW REED • ANGELA NEEDHAM • ANNE DRYNAN • ANNIE MOLOI • ANTHONY COLES • ANTOINETTE REYNERS • ASHNEE EJAZ • AYANDA MAZWI • BASIL JACOBS • BECCY STONES • BELINDA THERON • BERNICE SPEELMAN • BERTIE RAUBENHEIMER • BETTY VALENTIM • BEULAH BARLOW • BRENDA PERRY • BRENDON COGHLAN • CARIEN AVENANT • CAROL JACOBS • CAROL BOTHA • CAROLINE HARVEY • CAROLYN FARRELL • CATHERINE KAU • CECILIA DAMONS • CHANTELE DAVIES • CHARMARINE KOEKEMOER • CHONIESE GREEFF • CHRIS PLAATJES • CLAIRE MARX • CLIFF SIMONS • CLIVE ROBERTSON • COLEEN MENTOOR • COLLINS MAGUGA • CONNIE SNYMAN • COOKIE GOVENDER • CORDELIA ROBINSON • COREEN BEUKES • CRAILENE SELEKA • CRYSTAL FRITZ • CYNTHIA BOTHA • CYZLEN HUNTLEY • DANIE VAN NIEKERK • DEBBIE NELL • DEE TOFFIE • DEIRDRE-ANN RAHN • DENISE BOWEN • DEREK COOK • DESERE NAGEL • DINA KORKIE • DINO NAIDOO • DOLF SWART • DONALD NTSELE • DONNA FURMIDGE • EBRAHIM HASSAN • EDRIES HOUSEN • EDUARD VENTER • ELEONORE FORTUIN • ELIZE MOULDER • ELSABE HABIG • EMILY BEZUIDENHOUT • ENGELA VENTER • ERIC LOUBSER • ESTELLE HEDLEY • ESTHER KENTSHITSWE • ETIENNE NIEUWENHOUDT • FANUS VAN COLLER • FELICIA SEHLOHO • FELICITAS MABIRIMISA • FELICITY WALDMAN • FRANS LEHONG • FRANS KOROLOSO • FRANS DU TOIT • FRIEDA DU TOIT • GABRIEL NDHLOVU • GEORGE BRACEY • GERNOT KRÜGER • GIDEON BOCHEDI • GILLIAN KEMP • GISELA PLINT • GLORIA MOKOENA • GLYNIS ALEXANDER • HARRISON MADLALA • HASSAN MAYET • HAZEL NGUBELANGA • HILTON ALLARD • HOOSAIN HASWARAY • IAN CLOETE • ILSE STRYDOM • INGRID REYNOLDS • IRIS MANAKA • ISHARA PALADH • ISMAIL DADABHAY • ISRAEL NGXOLA • JABULANI ZULU • JACKIE MILLER • JACKY MZOBE • JACOB MOTAUNG • JANE ROBERTSON • JANICE JOHNSON • JASON VAN DER MERWE • JENIFFER GIBELLO • JENNY MEUGENS • JERRY MONTSHOSI • JIMMY POTSE • JOHAN SCHNETLER • JOHANN BEZUIDENHOUT • JOHANNES MONARENG • JOHANNIE BAYMAN • JOHN THORNTON • JOHN MORABA • JOSEPH DAVHULA • JUDITH KUTADZAUSHE • JULIE BEUKES • KABELO KGATLA • KANTI BUDIA • KAREN DOWNER • KAREN WALLACE • KEVIN DYAMOND • KEVIN LACY • KHADIJA MANSOOR • KHAIROON SEEDAT • KHEHLA MAVUSO • KHUSELWA PUPUMA • KIM HAYGARTH • LANCE VOLLENHOVEN • LAUREN BLOM • LEOGANG MAMPHOKE • LEOGANG MASOKA • LEOHANG MOSETU • LELANIE VISSER • LESLEY-ANNE LINTOTT • LETITIA VAN NIEKERK • LIEZEL COMBRINCK • LILY MOODLEY • LINDA FREDERICKSON • LINDA LE GRANGE • LINDA SMITH • LIZ BOTHA • LLEWELLYN PAULSEN • LLOYD MATHABATHE • LORRAINE ABBOTT • LORRAINE GODFREY • LOUIS MAHLATJI • LUCAS MORAKE • LUKE DOIG • LYDIA PHANYANE • LYNDY HILL • JOWETT • MABEL KHESWA • MADELEINE LOUW • MALCOLM AUTON • MALCOLM KOURIE • MANDLA GULE • MANDY ANDERSON • MANUELA DA SILVA • MARGARET KUNENE • MARIANA KLEINGELDT • MARIANNE KOTTKAMP • MARIETTE OOSTHUIZEN • MARINA BOTES • MARINA MOSTERT • MARITA PROCTER • MARIUS BOSMAN • MARIUS BRESLER • MARK SWART • MARLENE ADAMS • MARLENE HAYWOOD • MARTHA MOORE • MARTIN LEVINE • MARY-ANN CAMPHER • MARY-ANN THRING • MATTHEW LAWSON • MAURICE MJYAKO • MAX MUSHI • MBUZELI GIWU • MELANIE DA LUZ • MELANIE REDDY • MELANY BIMRAY • MELCHIOR STRYDOM • MERVIN BARLOW • MERVYN EDWARDS • MICHAEL SMITH • MICHAEL TSHAVHUNGWA • MICHELE HORNER • MIKE TRUTER • MIKE GEE • MOIRA JOOSTE • MOOSA JOOMA • MOSES MOFULWANE • MOUGSEEN TOFFIE • MPHONG RAMOKONOPI • NADIA DAWOOD • NADINE ARNOLDUS • NADINE MANSOUR • NANCY ISMAIL • NAOMI NEL • NATASHA MURRAY • NAZEL VELDTMAN • NCEDISWA KHUMALO • NEELS UYS • NETTA SIMONS • NICI LARGE • NICKY BUDHIA • NICOLETTE STOLTZ • NIKKI KRUGER • NONO MOSESE • NTOMBI MASHIYANE • OLGA NTOMBELA • PASCALINE MELETSE • PASCOAL MATSINHE • PATRICIA DU PREEZ • PATSY SMYTH • PAUL MOKOENA • PENNY MARAIS • PETRUS MKHISE • PHINDA MIYA • PRAVASHNEE PILLAY • RABEYA SAVANT • RAKSHA RAMSURAN • RANI DEVAR • RAPHAEL MIYA • RAYMOND LELLYETT • REGINA SMITH • RENATE DEDEKIND • RENE ABRAHAMSE • RHYNA BRAND • RISKI HOLTZHAUSEN • ROBYN RATZER • ROGER MUNITCH • RUDOLPH SWART • RUWAYDA PETERSEN • SAAJ SCHROEDER • SAMSON HLONGWANE • SANDRO VITA • SANDY VAN AS • SARAH HLATSHWAYO • SARAS RATHAKRISHNAN • SHADI MONYEMAKWELE • SHAMALA DAWOOD • SHAUN DAVIDS • SIMI RAMDUTT • SIPHO MTHABELA • SOLLY MASEMOLA • SONIA BADENHORST • STAN SHAW • STANLEY MFABA • STEPHEN MOLEKE • STERNA GREYLING • STEVE SMITH • STEVEN BALOVI • SUMINTRA DAMBA • SUSAN JOHNSON • SUZETTE LABUSCHAGNE • SYLVIA KLAASTE • TANIA ERASMUS • TANYA PERUCATTI • TANYA REED • THAMI MSIMANGO • THANDI SIBANYONI • THEMBA MAZIBUKO • THEO MABUNGU • THEO REDDI • THERESA MNCUBE • THILA BRIJMOHAN • THOMAS MABASO • TIRSHA NAIDOO • TREVOR LURIE • TRYNA GRYFFENBERG • TSEPO PULE • VAUGHN HUTTON • VEE DAMBA • VEENA PADIACHY • VERONICA PRINCE • VICTOR MZIMELA • VIVIANE NAUDE • VUSI MWELASE • WALTER SIBAYA • WAYNE GROENEWALD • WENDY WILSON • WESLEY BARNARD • WILBUR DANIELS • WILHELM LATEGAN • WILLIE LOTTERING • WILMA GRIESEL • WILMA POORTVLIET • WILMA VERMAAK • YVONNE WHITTAKER



S I M P L E S O L U T I O N S I N A C O M P L E X W O R L D



A N N U A L R E P O R T 2 0 0 4

Simple solutions in a complex world



The paper clip, the fork, and the hammer featured in this annual report are all examples of simple solutions to complex problems. Solutions which have become an integral part of our daily lives. So simple, so effective, that we rarely pause to think about them.

Similarly, the solutions offered by Credit Guarantee have become an integral part of doing business in a complex world.

Our solutions-oriented approach is founded on extensive experience, intense customer focus and understanding of how to leverage our knowledge base. It is an approach that gives our clients complete peace of mind, adds value and helps them get ahead in an increasingly complex business environment.

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TEN - YEAR REVIEW

| | 18 months to Dec 2004 R'000 | 12 months to Jun 2003 R'000 | 12 months to Jun 2002 R'000 | 12 months to Jun 2001 R'000 | 12 months to Jun 2000 R'000 | 12 months to Jun 1999 R'000 | 12 months to Jun 1998 R'000 | 12 months to Jun 1997 R'000 | 12 months to Jun 1996 R'000 | 12 months to Jun 1995 R'000 |
|--------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Insured turnover | 140 208 679 | 89 082 300 | 75 815 131 | 68 563 902 | 71 364 918 | 63 168 374 | 52 427 745 | 48 291 258 | 39 246 066 | 31 956 032 |
| Gross premiums written | 678 556 | 519 342 | 556 435 | 514 288 | 546 627 | 432 444 | 338 988 | 300 655 | 254 647 | 212 893 |
| Gross claims paid | 404 590 | 398 942 | 418 592 | 409 722 | 535 836 | 292 641 | 221 001 | 150 167 | 138 735 | 130 148 |
| Gross salvages received | 94 467 | 113 003 | 80 839 | 65 123 | 102 375 | 47 275 | 34 488 | 40 447 | 31 125 | 31 843 |
| Management expenses (1) (5) | 114 165 | 78 101 | 92 114 | 88 362 | 75 082 | 62 824 | 57 091 | 51 086 | 45 534 | 39 302 |
| As a % of gross premiums written | 16,8 | 15,0 | 16,6 | 17,2 | 13,7 | 14,5 | 16,8 | 17,0 | 17,9 | 18,5 |
| Underwriting profit/(loss) | 137 314 | 38 972 | 7 116 | 13 632 | (15 278) | (17 647) | 7 388 | 15 484 | 16 595 | 6 232 |
| Investment income (net) | 32 303 | 26 338 | 31 823 | 30 298 | 23 010 | 21 909 | 19 550 | 19 676 | 16 495 | 11 282 |
| Income/(loss) after taxation (2) (6) | 223 665 | (44 273) | 71 325 | 93 834 | 3 592 | 15 899 | 24 437 | 25 024 | 26 503 | 13 260 |
| Dividend per share (cents) | 3 246 | 407 | 372 | 3 984 | 253 | 230 | 216 | 188 | 150 | 100 |
| Shareholders' funds | 418 287 | 282 559 | 350 911 | 265 000 | 278 955 | 222 199 | 197 381 | 220 785 | 179 109 | 119 746 |
| Net insurance provisions | 281 159 | 293 563 | 271 154 | 231 581 | 225 006 | 213 958 | 181 193 | 154 950 | 140 044 | 122 695 |
| Statutory surplus asset ratio (%) | 150,7 | 100,3 | 134,2 | 110,3 | 123,7 | 98,3 | 81,7 | 104,6 | 97,2 | 76,5 |
| Solvency margin (%) | 205,3 | 108,6 | 141,2 | 120,1 | 134,1 | 117,4 | 110,2 | 137,1 | 128,9 | 103,6 |
| Number of employees | 296 | 329 | 384 | 416 | 426 | 392 | 394 | 379 | 380 | 357 |

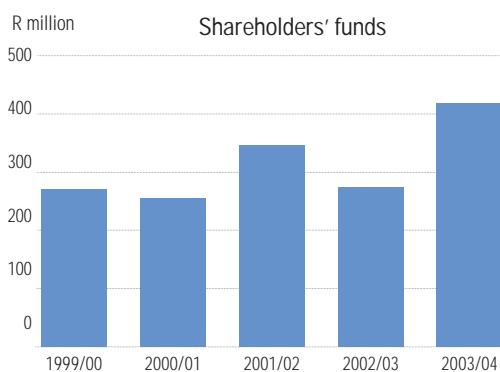
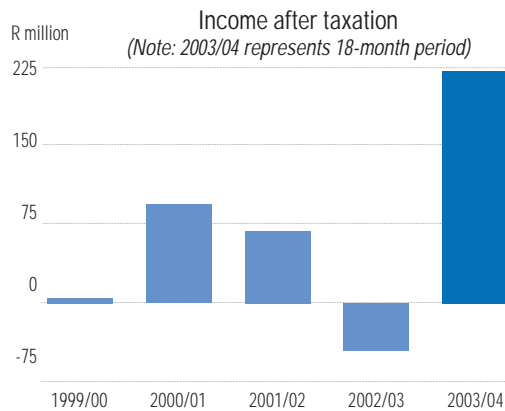
1. Excludes brokerage paid.
2. Excludes the consequences of abnormal items.
3. In 1997 the following reclassification change took place:
 - Foreign exchange differences were reclassified from investment to insurance expenditure.
 - All prior year statistics have been adjusted.
4. In 1998 the profit/loss on Credit Support Services was reclassified from other income to insurance expenditure. All prior year statistics have been adjusted.

5. In July 2000 a new staff incentive scheme, driven by underwriting performance, was introduced for management and senior technical staff who do not receive a 13th cheque.
6. In order to comply with South African Statements of Generally Accepted Accounting Practices, the accounting policy was changed during the 2002 year from recognising "unrealised investment gains and losses" through the balance sheet, to recording these items in the income statement. All prior year figures have been adjusted accordingly.

SALIENT FEATURES

| | | 31 Dec 2004 (18 months) R'000 | % change | 30 June 2003 (12 months) R'000 |
|--|---------|-------------------------------------|-------------|--------------------------------------|
| Insured turnover | | 140 208 679 | 57 | 89 082 300 |
| Premiums written | – Gross | 678 556 | 31 | 519 342 |
| | – Net | 309 855 | 19 | 260 246 |
| Claims paid | – Gross | 404 590 | 1 | 398 942 |
| | – Net | 156 551 | 4 | 150 801 |
| Management expenses | | 114 165 | 46 | 78 101 |
| Underwriting profit | | 137 314 | 252 | 38 972 |
| Investment and other income | | 172 767 | 280 | (96 052) |
| Income/(loss) after taxation | | 223 665 | 605 | (44 273) |
| Headline earnings/(loss) per share (cents/share) | | 8 367 | 567 | (1 791) |
| Dividend per share – Ordinary (cents/share) | | 3 246 | 698 | 407 |
| Total assets | | 972 813 | 19 | 817 424 |
| Shareholders' funds | | 418 287 | 48 | 282 559 |
| Statutory surplus asset ratio (%)* | | 150,7 | 51 | 100,3 |
| Solvency margin (%) | | 205,3 | 89 | 108,6 |

*The minimum percentage prescribed by the Insurance Act is 15%.
The ratios are explained in note 26 to the financial statements.



BOARD OF DIRECTORS



Mike Truter (56)
 Managing director and
 chief executive officer, Credit Guarantee
 Joined the board: 5 November 1997



Ken Sagers* (68)
 Chairman, Credit Guarantee
 and director of companies
 Joined the board: 1 March 1986



Wilhelm Lategan (48)
 Executive director and chief financial
 officer, Credit Guarantee
 Joined the board: 7 December 1998



Pieter Bezuidenhout (43)**
 Executive GM: Services,
 Mutual & Federal
 Joined the board: 6 October 2004



Mahomed Akoob* (50)
 Group chief financial officer,
 Hannover Reinsurance Africa Ltd
 Joined the board: 5 November 1997



Chris Leisewitz (67)
 Director of companies
 Joined the board: 5 November 1986



Alwyn Martin• (66)
 Director of companies
 Joined the board: 24 May 2000



Junior Ngulube (47)
 Member of executive
 management - Munich Re
 Joined the board: 6 October 2004



Machiel Reyneke• (47)
 Executive director,
 Santam Ltd
 Joined the board: 5 November 2003



Merrick Oeschger (39)
 Executive GM:
 Commercial and Agriculture,
 Mutual & Federal
 Joined the board: 6 October 2004

• Member of the Risk, Audit and Compliance Committee

* Member of the Remuneration Committee

GENERAL MANAGEMENT



Standing left to right: Sandro Vita, Clive Robertson, Roger Munitich, Gernot Krüger
Seated left to right: Cliff Simons, Gloria Mokoena, Mike Truter, Wilhelm Lategan

Managing director and
chief executive officer
Mike Truter (56)
BCom (Hons) (Econ), AMP (Oxford)

General manager:
Export Operations
Gernot Krüger (51)
BCom, LLB, SEP (Harvard),
MAP Dipl (Wits Business School)

General manager:
Human Resources
Gloria Mokoena (34)
BCom (Hons) MBL, ND W&S

Executive director and
chief financial officer
Wilhelm Lategan (48)
BCompt (Hons), CA (SA), MBL

General manager:
Support Services
Clive Robertson (58)
MAP Dipl (Wits Business School)

General manager:
Domestic Operations
Cliff Simons (59)

General manager:
Information Systems
Sandro Vita (51)
BCom (IS)

General manager:
Marketing and Research &
Development
Roger Munitich (46)

SHAREHOLDERS

Mutual & Federal Insurance Company Ltd (51%) Santam Ltd (32.6%) Munich Reinsurance Company of Africa Ltd (6.9%)
Industrial Development Corporation of SA Ltd (6.6%) Hannover Rückversicherungs Aktiengesellschaft (2.9%)

MANAGEMENT

Domestic

| | |
|------------------|---|
| Kevin Lacy | Senior manager: Sales & Services |
| Raymond Lellyett | Senior manager: Steel – D1 |
| Vaughn Hutton | Senior manager: Building & Electrical – D2 |
| Wendy Wilson | Senior manager: Clothing, Textiles & Footwear – D3 |
| Liz Botha | Senior manager: Freight, Advertising, Finance, Automotive, Food – D4 |
| Malcolm Auton | Senior manager: Computers, Pharmaceuticals & Chemicals – D5 |
| Kevin Dyamond | Senior manager: Electronics, Timbers, Furniture, Paper, Packaging & Miscellaneous – D6 |
| Adriaan du Preez | Senior manager: Business Builder & E-business |
| Jane Robertson | Account manager: Business Builder |

Export

| | |
|-----------------|---------------------------------|
| Ismail Dadabhay | Senior manager: Export |
| Steve Smith | Senior manager: Special Exports |
| Theo Reddi | Account manager: Export |
| Madeleine Louw | Manager: Special Exports |

Support Services

| | |
|---------------------|---|
| Johann Bezuidenhout | Senior manager: Information |
| Michael Gee | Senior manager: Risk Evaluation & Salvages |
| George Bracey | Manager: In-house Bureau |
| Mel Strydom | Manager: Admin & Foreign Information Services |

Finance

| | |
|-----------------|---|
| Anthony Coles | Senior manager: Diversification |
| Luke Doig | Senior manager: Investments & Economic Services |
| Johan Schnetler | Senior manager: Financial Services |

Human Resources

| | |
|-----------------|--|
| Eric Loubser | Senior manager: Human Resources |
| Johannie Bayman | Manager: Skills Planning & Development |

Information Systems

| | |
|------------------|-------------------------------------|
| Vivienne Naudé | Senior manager: Systems Development |
| Willie Lottering | Manager: System Operations |

Research & Development

| | |
|---------------|--|
| John Thornton | Senior manager: Research & Development |
|---------------|--|



VISION & MISSION

CORPORATE PROFILE

Credit Guarantee Insurance Corporation of Africa Limited is a South African underwriting company operating in the field of domestic and export credit insurance. Registered in 1956, it commenced operations in 1958. Today, it is the leading credit insurer on the African continent with a South African market share of some 80%. It carries an AA rating for its claims paying ability and is ISO 9001:2000 accredited. Its largest shareholder is Mutual & Federal Insurance Company Ltd, the second biggest short-term insurer in South Africa, itself a subsidiary of the Old Mutual Group. The balance of the shares are held by Santam Ltd, Munich Re, the IDC and Hannover Re.

VISION

We will provide the market with the best credit insurance solutions obtainable.

MISSION

To our clients:

Unrivalled, expert credit insurance solutions.

To our employees:

A performance culture with job satisfaction based on equitable remuneration through learning, development, enthusiasm and respect of the individual.

To our shareholders:

Sustainable return on investment and growth.

Professional standards of underwriting.

An excellent reputation.

To society:

The highest moral and ethical standards.

Commitment to and the practice of good corporate governance.

Commitment to the provisions of the Financial Sector Charter.



Solutions that endure



Simple though it appears to be, the modern paper clip is the result of various designs and patents from 1900 onwards.

The clip that was advertised in 1908 as “the only satisfactory device for temporary attachment of papers” is still being used throughout the world today, proving that simple solutions are the most enduring.

The simplicity of the paper clip belies the depth of innovative thinking that preceded it, as with the simplicity of our business solutions. And just as the paper clip has become a universally used computer icon and is indispensable in offices the world over, so too, is Credit Guarantee’s range of services essential to businesses throughout South Africa.

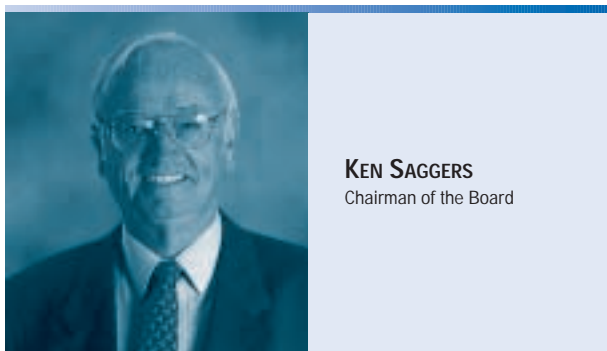
A T A G L A N C E

Mutual & Federal Insurance Company Ltd acquired a majority shareholding in Credit Guarantee in the last 18 months. Consequently, the company’s year-end was changed to coincide with the reporting period of the holding company.

The company reported a pleasing after-tax profit, as well as a substantial underwriting surplus and surplus asset ratio. An amount of R88,6 million was paid in dividends to shareholders.

Conditions in the year ahead are expected to be more difficult than those in the 18 months under review. Risks facing us in the forthcoming year hinge primarily on slow growth in the USA, and subsequent slow growth in the rest of the world; ongoing geopolitical uncertainties; a strong rand and an increasingly high level of personal debt in the South African economy.

MESSAGE FROM THE CHAIRMAN



DURING the past 18 months, Mutual & Federal Insurance Company Ltd acquired a majority shareholding in Credit Guarantee and the board of directors took the decision to change the company's year-end from June to December in order to correspond with the reporting period of its holding company. This set of financial statements, therefore, covers the results of the company for the 18 month period 1 July 2003 to 31 December 2004, with comparative figures being for the 12-month period ended 30 June 2003.

I am pleased to report that the company produced an after-tax profit of R223,7 million for the period under review compared to a loss of R44,3 million for the 12 months ended June 2003. The loss in 2003 was brought about because of the change in Generally Accepted Accounting Practices from 2002 which required insurers to recognise unrealised investment gains and losses through the income statement instead of the balance sheet.

The company's statutory surplus asset ratio remains very strong, standing at 150,7% as at December 2004.

The underwriting surplus for the past 18 months was R137,3 million compared to R38,9 million for the year ended June 2003. Investment income totalled R32,3 million compared to R26,3 million. Net investment gains and other income during the reporting period were R140,5 million compared to net investment losses of R122,3 million in the 2003 financial year.

The company's statutory surplus asset ratio remains very strong, standing at 150,7% as at December 2004 (100,3% in June 2003).

Final and interim dividends of 446 cents per share were paid, distributing R12,2 million to shareholders. In addition, two special dividends of 1 000 and 1 800 cents per share were paid in February and August 2004, distributing a further R76,4 million to shareholders.

DIRECTORS

During the reporting period both Mutual & Federal and Santam increased their shareholding in the company through the acquisition of the shares which Absa Bank Ltd, Firstrand Ltd, Investec Bank Ltd, and Standard Bank of SA Ltd held in Credit Guarantee.

As a result of the restructured shareholding, the following directors resigned and were re-appointed to the board of directors on 6 October 2004:

K T M Sagers
M Akoob
W H Lategan
C T L Leisewitz
A R Martin
M J Reyneke
M C Truter

The following new directors were appointed to the board on the same date:

P Bezuidenhout
J J Ngulube
M W Oeschger

The following directors resigned during the reporting period:

H Wilken (5 November 2003)
P Gent (25 November 2003)
U Khumalo (24 February 2004)
J Coetzee (27 July 2004)

PROSPECTS

While the global economic recovery looks set to progress further in 2005, there is a risk that growth in the USA will slacken again in the course of the year – with potential negative consequences for other

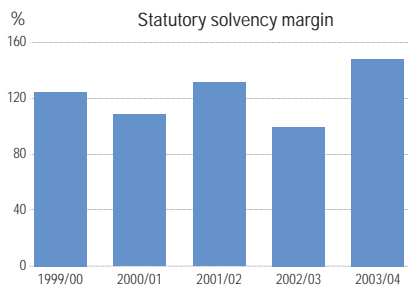
parts of the world. We expect the underwriting climate for export credit and political risks to continue to be heavily influenced by geopolitical uncertainties. In addition, if the strength of the rand prevails, it is likely to have a prolonged negative impact on exports and on premium income derived from export policies.

The South African economy has performed well over the period under review, with government continuing to pursue prudent fiscal and monetary policies. However, the increasingly high level of personal debt in the economy is of specific concern. Together with the ongoing volatility of the rand referred to earlier, it could lead to increased business failures and higher domestic claims in coming months.

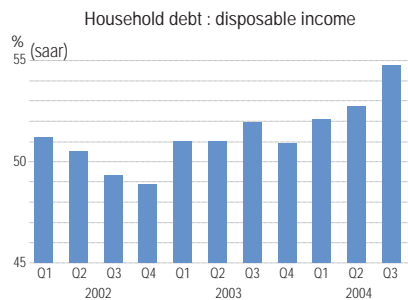
All things considered, therefore, we are anticipating somewhat more difficult underwriting conditions in the coming year.

ACKNOWLEDGEMENTS

I would like to extend my thanks to the members of the board, both past and present, for their contribution during the past 18 months.



Source: SA Reserve Bank. 2004 export figure = Credit Guarantee's estimate



Source: SA Reserve Bank.

The increasingly high level of personal debt in the economy is of specific concern. Together with the ongoing volatility of the rand, it could lead to increased business failures and higher domestic claims.

Their counsel and advice has been of enormous value.

We are grateful to our clients and the specialist credit insurance broking fraternity for their support. Our aim is to continually enhance our service standards in order to provide you with the best credit insurance facilities available.

My thanks go to our reinsurers for the underwriting capacity and professional service we have received from them over the years. This strong backing is an essential ingredient of the quality cover we offer to the marketplace.

Finally, I would like to express my appreciation to Mike Truter, his management team and the staff of Credit Guarantee for the good results of the past 18 months.

Chairman

Solutions that enhance your competitive edge



In the 11th century, forks were first used for eating fruit that would otherwise stain the fingers. But it took three hundred years before forks began to replace the knife for lifting food from the plate.

Most early forks were two-pronged until the 19th century. The four-pronged fork as we know it today was produced from 1880 onwards. At this time, there was a strict 'knife line' between those who ate only with knives and those who used both a knife and fork.

Today, there is a strong divide between those businesses which use Credit Guarantee's services and those which don't – because our clients have the advantage of our high levels of ongoing innovation. And in today's competitive business world, it is ongoing innovation that maintains businesses – our own and those of our clients.

A T A G L A N C E

The health of the local economy was evident in the reduction of business failures and defaults in the year under review. This, together with close monitoring of risks, led to good growth in premium income. However, the strong rand is beginning to impact negatively on certain industries, particularly in the export field. This depressed overall export growth meant that growth in export premium income was below expectation.

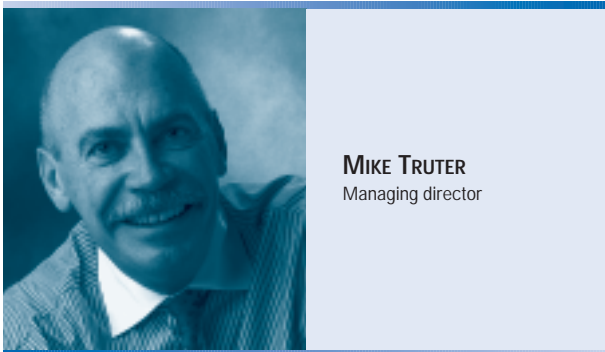
Our reinsurance-inwards activities continued to wind down, in accordance with the decision taken to this effect in 2002. We continued our administration of the medium-term export credit insurance portfolio, which will continue until its extinction.

The company's stock market investments again performed satisfactorily. Our various support services helped us to deliver superior levels of service.

We continued to support SMMEs in line with government objectives and to entrench the requirements of the Financial Sector Charter within the company.

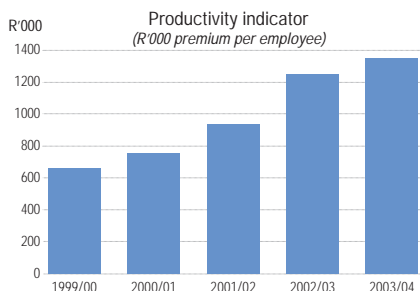


MANAGING DIRECTOR'S REVIEW OF OPERATIONS



AFTER A PROLONGED PERIOD of unacceptable underwriting results in the credit insurance industry worldwide, leading insurers internationally adopted more disciplined underwriting standards and higher rates, which led to moderate global insurance results in the past year. The local economy is in good health and the incidences of business defaults and insolvencies in South Africa were at their lowest levels for many years. Against this backdrop, I am pleased to report that the company produced excellent results during the reporting period covered by these financial statements.

At Credit Guarantee, our most significant competitive edge continues to be our team of highly committed staff who are dedicated to providing our clients with an outstanding service. I am deeply grateful to each and every one of them for their loyalty and enthusiasm.



REVIEW OF RESULTS

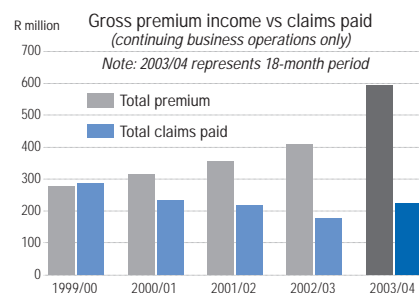
The results contained in this report are for the 18 months ended December 2004 with comparative figures being for the 12 months

ended June 2003.

Premium income in our ongoing operations grew satisfactorily and stood at R598,7 million for the 18 months ended December 2004 compared to R410,3 million for the 12 months ended June 2003. Total premium income (R678,6 million compared to R519,3 million for the 2003 financial year) was affected by the loss of income due to the run-off of our medium-term political risks contract with government and the termination of our international reinsurance-inwards portfolio.

Favourable underwriting conditions both locally and internationally and the absence of significant political events leading to catastrophic political claims resulted in fewer business defaults and insolvencies and lower claims in both our domestic and export portfolios. Total claims for the period under review reached R398,9 million compared to R404,6 million for the 12-month period ended 30 June 2003.

The underwriting surplus for the 18 months under review was R137,3 million, compared to R39,0 million for the 12 months ended 30 June 2003.



Continued operations:

Domestic credit insurance:

During the period under review we paid claims totalling R181 million in our domestic portfolio compared to R152,7 million for the year ended June 2003.

The South African economy is in a healthy state, driven by strong

domestic demand and low interest rates. The effect of this was lower levels of business failures and defaults than in recent years. Good growth in premium income, together with the abovementioned factors, resulted in a healthy surplus in our domestic underwriting account. Attentive monitoring of risks played an important role in this result.

I am grateful to Cliff Simons and his motivated team for their commitment.

The ongoing strength of the rand is, however, beginning to have a negative impact on a number of industries. The first signs of a severe deterioration in credit risks in certain sectors of the economy is now evident – notably those exposed to cheap imports and those which have invested heavily in export infrastructure. In our view this is likely to lead to escalating claims in the coming year.

Export credit insurance:

In stark contrast to domestic demand, South Africa's overall export growth was depressed over the past 18 months. Consequently, growth in our export premium income was below expectation.

Export claims totalling R44,8 million for the 18 months were well within budget (R39,5 million for the 12 months ended June 2003). This meant that our short-term and medium-term export portfolios produced a satisfactory underwriting result during the period under review.

Prospects for the coming year will, however, be heavily influenced by factors such as the value of the rand and the ability of South African exporters to recapture markets they have lost in recent years. We will continue to assist such exporters wherever we can.

I would like to extend my personal thanks to Gernot Krüger and his team for the hard work they have put into producing this pleasing result under very difficult circumstances.

Discontinued operations:

Reinsurance inwards:

As previously reported, a decision was taken during 2002 to discontinue our reinsurance-inwards activities because of consistently unsatisfactory results from this portfolio. Definitive notices of cancellation were sent to all foreign cedents with effect from 1 January 2003 and this business is in run-off.

During the past 18 months R30,7 million in claims was paid (R53,4 million in 2003) – all of which was reserved for at the end of the previous financial year. We believe we are fully reserved for the remaining run-off of claims in this portfolio.

Medium-term export credit insurance

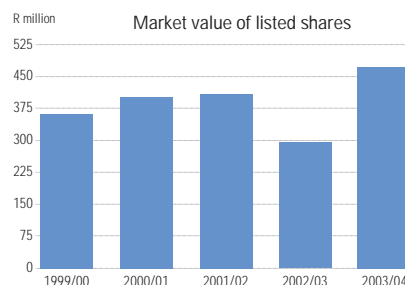
Premium income arising from the run-off of our medium-term political risks reinsurance contract with the South African government which was terminated in 2001, amounted to R71,1 million during the past 18 months (R64,6 million in the 2003 financial year). We will continue to administer this portfolio until its extinction.

Investments

Investment income for the 18 months ended December 2004 totalled R32,3 million compared to R26,3 million in the 12 months ended June 2003.

A significant appreciation in the stock market over the period under review, together with selective purchases, resulted in our share portfolio increasing in value by R113,0 million (reduction of R106,2 million during the 2002/03 financial year). These profits/losses have been reported through the company's income statement as is now required in terms of GAAP. The company's investment portfolio remains of an exceptionally high quality as can be seen from the schedule on page 39 of this report.

My thanks go to Wilhelm Lategan and Luke Doig for their professional management of this important portfolio.



Support services

The support divisions of the company are expected to provide the highest levels of service to the front-line divisions to enable them to deliver the standard of service our clients expect of us. Special mention needs to be made of the following:

Credit-risk assessment and information gathering: No credit insurer can produce sustainable positive underwriting results and a speedy turnaround time to requests for credit decisions without superior credit information gathering capabilities.

I am pleased to say that our strategy of building on the capabilities of this department over past years has paid dividends in that we can predict many business failures, both locally and internationally, long before they occur. This has had a significant impact on claims ratios

during the past reporting period.

My thanks go to Clive Robertson and his team for their diligent monitoring of these risks.

Information Systems: Constant development in the area of technology has proven to be a key element in the provision of superior service to our clients.

During the reporting period, we further enhanced a number of new programmes. Most noteworthy of these was a new claims system which took many months to develop. This innovation has enabled us to significantly improve our efficiency in processing claims, thereby improving our service delivery. More than 60% of client transactions are now conducted with us electronically.

I am grateful to Sandro Vita and his team for their hard work and dedication.

Marketing and R&D: Our aim is to consult with our clients and brokers in order to determine their needs continually. This process is focussed on developing appropriate products and services to provide the market with the best credit insurance solutions available. During the period under review, a number of new products and revisions of our procedures resulted from these independently commissioned surveys.

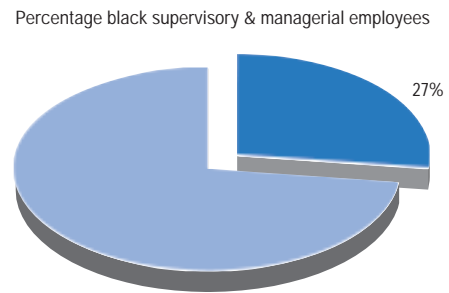
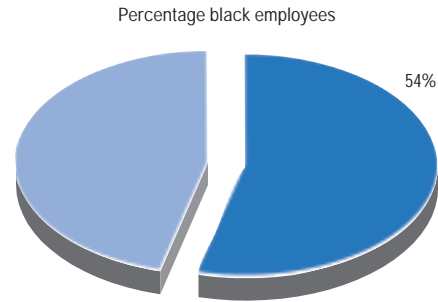
In addition to its marketing and research responsibilities, this division is tasked with managing our relationship with our specialist brokers. I am pleased to say that this functions extremely well.

My thanks go to Roger Munitich and his team for the good work they are doing in this area.

Human Resources: Human capital is our single most important asset. With this in mind, our aim is to provide our employees with a work environment that offers opportunities to all, irrespective of race, creed or gender. This is managed by our human resources division which ensures that we are appraised of the latest developments and requirements in the human resources and training arena.

As at 31 December 2004, black employees comprised 54% of the company's headcount, occupying 27% of supervisory or managerial positions. Women made up 61% of the company's employees and filled 53% of our supervisory or managerial positions.

We comply in all material respects with the Skills Development Act, the Employment Equity Act, and support the aims of the Broad-Based Economic Empowerment Act as well as the human resource development provisions of the Financial Sector Charter. The company's status regarding the targets set by industry under the charter are reported on page 13 in these financial statements.



Gloria Mokoena and her human resources team are doing outstanding work in managing this extremely important area of our business.

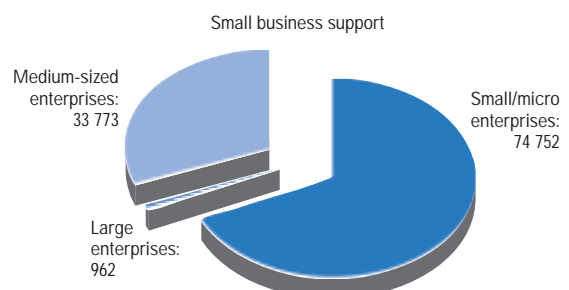
Accounting and internal services: Our accounting and internal services division is tasked with a myriad of important support functions. These range from debtors control to printing and messenger services as well as maintenance of our infrastructure and buildings – all of which must function flawlessly if we are to provide a superior service to our clients.

I am pleased to say that all of these perform excellently – for which I must thank Wilhelm Lategan and Johan Schnetler and their team.

OTHER ISSUES

Support for small, medium & micro enterprises

During the reporting period, we insured transactions to a total value of more than R55,6 billion on 109 487 debtors. More than 74 752 of these businesses fall within the official definition of small, medium and micro enterprises (SMMEs). This figure represents over 68% of the number of debtors we underwrite.



Many of these businesses would not have obtained trade credit were it not for the insurance cover we provide to their suppliers for the payment risks in question.

Claims paying ability rating

International rating agency Global Credit Rating (GCR) has reaffirmed Credit Guarantee's claims paying ability rating of AA (double A). The rating signifies "a very high claims paying ability with strong protection factors. Risk is modest, but may vary slightly over time due to economic and/or underwriting conditions".

Financial Sector Charter

In terms of the Financial Sector Charter, Credit Guarantee, together with every other financial institution in the country, has made a commitment to:

- Invest in human resource development, with special emphasis on accelerating the participation of black people at senior and managerial levels within the organisation;
- Increase the number of black directors at board level;
- Implement a learnership programme for black matriculants;
- Implement a targeted procurement strategy to enhance the percentage of purchases from BEE suppliers;
- Mobilise resources for empowerment financing;
- Direct a percentage of funds to corporate social investment and consumer education programmes; and
- Have a minimum percentage of black ownership, measured both at holding company and direct level.

A number of programmes to address these issues are under way at Credit Guarantee and we will be submitting our first annual report to the Charter Council within the prescribed timeframe. Some recent statistics reflecting the company's progress in the field of employment equity and social responsibility are:

| | |
|---|-------|
| Percentage of black representation at board level | 30,0% |
| Percentage of black representation at executive level | 12,5% |
| Percentage of black representation at senior management | 8,3% |
| Percentage of black representation at middle management | 23,1% |
| Percentage of black representation at junior management | 37,1% |
| Percentage of payroll spent on black skills development | 1,1% |
| Learnerships as percentage of total employees | 4,5% |
| Corporate social investment as % of after-tax profits | 0,5% |

While some of the above figures are already at the minimum prescribed by the Financial Sector Charter, others still have some way to go before we achieve the targets set for the year 2008.

Management has set interim goals for the intervening years.

CORPORATE GOVERNANCE

The board of directors, executive management and staff of Credit Guarantee fully support the recommendations made by the King Committee on Corporate Governance and believe that the company complies in all material respects with the Code.

Board of directors

The board of directors consists of two executive directors and eight non-executive directors, five of whom represent the shareholders of the company and three of whom are independent. All directors have been selected for their experience and business acumen.

The roles of the chairman of the board and the managing director do not vest in the same person. The chairman is non-executive and this position is available for election at least every three years.

In terms of the Articles of Association, one-third of the non-executive directors retire by rotation and are subject to re-election each year at the company's annual general meeting. The executive directors have service contracts with the company containing normal notice periods.

The board meets formally a minimum of four times a year to discuss quarterly results, and annually to approve the strategic plan, key policies and budgets for the coming year. Additional meetings are held if and when the need arises.

A number of sub-committees have been appointed by the board to assist in discharging its duties, details of which are provided below.

Board members have direct access to the company secretary and are entitled to obtain independent professional advice at the company's expense.

An executive committee, chaired by the managing director and comprising of the heads of the various strategic units, meets weekly to deal with the day-to-day running of the company.

Risk, Audit & Compliance Committee

A Risk, Audit & Compliance Committee functions within written terms of reference approved by the board of directors. The objective of the committee is to support the board in ensuring that appropriate internal and external controls are in place to identify and manage the risks to which the company is exposed.

The committee comprises three members, all of whom (including the chairman) are non-executive directors.

The committee meets at least four times a year. The internal and

external auditors of the company attend these meetings and have unrestricted access to the chairman of the committee. The managing director and financial director attend meetings as representatives of management.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee consists of three non-executive directors and is presided over by the chairman of the board of directors.

This committee considers nominations for appointment to the board of directors and makes recommendations to the board on remuneration and benefits to be paid to directors and the company's employees. The committee sets the remuneration of the managing director and those of the general managers of the company. The managing director and financial director attend meetings as representatives of management.

Internal audit

The purpose of the internal audit function, which reports to the managing director and the chairman of the Risk, Audit & Compliance Committee, is to assist management and the board in the examination and evaluation of business risks facing the company. This function operates within written terms of reference and adheres to the standards and code of conduct outlined by the Institute of Internal Auditors of South Africa. Any material control weaknesses which it identifies are brought to the attention of the chairman of the Risk, Audit & Compliance Committee and, if necessary, the board of directors for consideration and appropriate action.

During the reporting period this function was performed by the Management Assurance Services division of KPMG Inc.

Investment Committee

The Investment Committee reports to the board of directors and operates within a written mandate setting out its terms of reference.

This committee is comprised of the managing director, the financial director and the senior manager (investments), and meets monthly with the company's professional investment advisors to review the company's share portfolio.

The committee submits quarterly reports to the board on the performance of the investment portfolio.

Internal control

The board acknowledges its accountability for the company's internal control systems. Responsibility for the implementation of these systems is delegated to management who have installed

systems which incorporate clear levels of responsibility and accountability through the company's mandate system.

The board performs a monitoring function over these activities.

We have implemented ISO 9001:2000 as an additional system to complement our internal controls. In November 2004, the South African Bureau of Standards reaffirmed our ISO 9001:2000 status.

The company also subscribes to Tip-Offs Anonymous, a Deloitte & Touche initiative that enables employees, clients and the marketplace to alert this independent entity, in confidence, about wrong-doings that need to be exposed.

Finally, with the implementation of the FAIS (Financial Advisory and Intermediary Services) Act, the company is compelled to comply with a number of factors aimed at protecting public interests.

Risk management

The Risk Management Committee is under the chairmanship of the financial director and comprises the divisional heads of key departments. It meets regularly to assess risks and to satisfy itself that adequate controls are in place to manage these risks.

HUMAN CAPITAL

The company believes in creating a stimulating working environment in which every person who works for Credit Guarantee enjoys equal rights. To this end, we have adopted an employment equity policy which enables all employees to enjoy equal opportunities regardless of race, creed, physical ability or gender. This policy contains agreed targets and numeric goals which are regularly monitored by management. The board of directors has approved the company's Employment Equity Plan. Annual reports are sent to the Department of Labour as required by the Employment Equity Act. All requirements prescribed by the Skills Development Act have been met.

The process is driven by a dynamic and dedicated Employment Equity Committee, working hand-in-hand with executive management.

ETHICS

The company has adopted a formalised code of ethics which commits management and employees to a high standard of principles. This code is encapsulated in the staff manual and forms part of our induction and training programmes.

The company also subscribes to the Industry Code of Conduct and Ethics as published by The South African Insurance Association.

CORPORATE SOCIAL INVOLVEMENT

The company subscribes to the principle of responsible corporate citizenship and has adopted a number of social programmes in the area of education and training. We also contribute to disadvantaged groups through a number of social responsibility programmes, including:

- A bursary scheme to assist deserving pre- and post-matric learners who are unable to finance their own studies. During the past 18 months, more than 65% of these funds were devoted to people from disadvantaged backgrounds;
- Contributing to the SA Conservation Education Trust which provides support for environmental issues and relevant training of rural people;
- Support for the Ebenezer Care Centre, a home for abandoned children and elderly people, and
- A formalised donations budget, under the control of the financial director, which supports a number of charities and other deserving causes.

FINANCIAL STATEMENTS

Management is responsible for the preparation of annual financial statements and related information in a manner that is accurate and fairly represents the company's financial position.

These financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice based on appropriate accounting policies, and any changes to these policies are fully disclosed. The statements are supported by reasonable and prudent judgements and estimates and also give an indication of company expectations for the coming year.

The directors have no reason to believe that the company's operations will not continue as a going concern in the year ahead.

MANAGEMENT REPORTING

Management reporting disciplines are diligently observed. Budgets are submitted for board approval and results are reviewed quarterly against budgets.

Management maintains internal controls and systems to ensure the integrity of financial statements. These controls are based on established policies and procedures and are under the supervision of qualified personnel.

ACKNOWLEDGEMENTS

Our people: I owe a special word of thanks to our people – the

employees of Credit Guarantee – for their commitment over the past 18 months. Your dedication and hard work were major factors in the strong results the company has managed to produce.

Our board: I would like to thank our board of directors for their support and advice over the past 18 months. We, as management, are extremely fortunate to have a board with such depth of business acumen and experience.

Our specialist brokers: My thanks are due to the undermentioned specialist brokers for their support and the professional manner in which they conducted their business with us over the past 18 months. It is one of our highest priorities to provide you, and our mutual clients, with the best credit insurance solutions available:

- Alexander Forbes – Risk Services
- Aon South Africa – Trade Credit Division
- Credit Insurance & Legal Consultants
- Glenrand MIB
- GSK Credit Insurance Brokers
- Marsh South Africa
- Nateng Brokers
- Niché International Brokers
- Prestige Credit Insurance Consultants
- Top Cover
- Thompson Credit Insurance Consultants
(a GIB Group company)
- Willis SA

Our reinsurers: My thanks go to our reinsurers for their support and the professional relationship we have enjoyed with them over the past 18 months. We are fortunate to have the backing of the strongest and most respected institutions in the world.

Our clients: Finally, and most importantly, I would like to extend a word of personal thanks to our clients for their support over the years. You remain our highest priority!



Managing Director

Solutions based on in-depth knowledge



The hammer, which was the first tool used by man, underwent several design changes over the centuries. Hafted hammers, with the stone head bound to the handle by thongs, appeared during the Middle Stone Age period, around 8 000 BC. The standard carpenter's hammer, known as a claw hammer because of the V-shaped claw used for extracting nails, came into use in Roman times.

The effectiveness of the hammer was the result of really understanding the operating environment and the problem. It is this same in-depth understanding of clients' needs and challenges, driven by knowledge of the business environment, that allows Credit Guarantee to deliver lasting solutions.

A T A G L A N C E

A risk management committee, headed by the financial director, addresses and manages the major risks to which the company is exposed.

Credit Guarantee has long followed a conservative money market strategy, investing in accordance with predetermined limits and approved procedures. Our objective is to limit possible losses and ensure the timely availability of funds in order to meet commitments. No forward exchange contracts were entered into in the year under review.

The company invests in blue-chip and potential blue-chip shares on the JSE Securities Exchange. Investment strategy is focused on maximising long-term capital growth and minimising risk exposure while maintaining liquidity levels.

A comprehensive operational risk policy guards against loss resulting from errors in the processing of transactions, breakdown in controls and errors or failures in system support.

Reinsurance requirements are purchased on an annual basis according to the company's core business exposures.



RISK MANAGEMENT AND ANNUAL FINANCIAL STATEMENTS



WILHELM LATEGAN
Financial director

RISK MANAGEMENT

Risk management in its widest sense forms an integral part of Credit Guarantee's day-to-day operations. Increasing governance standards require that risk be considered in a reasonable, consistent and explicit manner across the organisation.

The objective of risk management is to identify, assess, manage and monitor the risks to which the business is exposed. Specific responsibility for the management of these risks has been assigned to executive management.

A risk management committee addresses and manages the major risks to which the company is exposed. The committee is headed by the financial director with representation from the major divisions in the company. A comprehensive risk management profile has been developed for the company, and risk profiles are reviewed on an annual basis.

MONEY MARKET AND FOREIGN CURRENCY RISKS

The primary objective of Credit Guarantee's money market operations is to invest surplus cash holdings in such a way as to limit possible investment losses and to ensure the timely availability of funds to meet our commitments.

A conservative investment strategy is followed by investing only with approved financial and public sector institutions according to

predetermined limits, approved annually by the board of directors. Dealing in money market derivative instruments is not part of the company's investment policy unless prior approval is obtained from the board.

All money market transactions are authorised in accordance with approved procedures.

No forward exchange cover contracts were entered into because the liabilities of future foreign claim payments emanating from our reinsurance inwards business were not known. However, deposits in foreign currency were made to foreign cedents to match the then outstanding claims reserves when we discontinued our reinsurance inwards treaties. This arrangement provides for a certain degree of matching liabilities with foreign currency risks.

Foreign information expenses are paid for as and when information is bought.

INVESTMENT RISK

The objective of Credit Guarantee's investment guidelines is to invest in blue-chip and potential blue-chip shares on the JSE Securities Exchange of South Africa to maximise capital growth in the long term and to minimise exposure to losses from share dealings. Investments in equities must not put unnecessary liquidity risk on the company. The term "liquidity risk" describes the risk of not having sufficient cash resources to meet financial commitments. An investment committee meets monthly with the company's professional investment advisors to discuss strategy and quarterly with the board to decide policy and review cashflow forecasts.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from errors (fraudulent and administrative) in the processing of transactions, breakdown in controls and errors or failures in system support. Credit Guarantee guards against these risks by:

- Regularly updating systems and procedures;

- Daily updating buyers' information;
- Ensuring audit compliance before paying major claims;
- Training programmes for staff in underwriting and claims assessing;
- Testing and appraising based on output-measuring job models;
- Regular internal and external audits;
- Appropriate insurance policies to cover buildings, fixed assets, professional indemnity, fidelity guarantees and other identified insurable risks;
- A code of conduct which encourages honesty and integrity; and
- Complying with ISO 9001:2000.

The primary objective of the management of operational risks is to identify possible weak links in systems and controls in order to strengthen these procedures.

A computer system disaster recovery plan is in place to ensure the continuity of computerised business systems.

REINSURANCE RISK

The company purchases its reinsurance requirements on an annual basis according to its core business exposures.

As a risk management process, our net risk per exposure is limited to an internationally acceptable percentage of our net worth. This exposure is carefully monitored to ensure adequate coverage at all times. Reinsurance requirements are placed with the world's leading reinsurers who offer the best security, as they are highly rated by international rating agencies.

A handwritten signature in blue ink, appearing to read 'W. Hategan', with a large, stylized loop at the end of the name.

Executive director: Finance

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF CREDIT GUARANTEE INSURANCE CORPORATION OF AFRICA LIMITED:

Introduction

We have audited the financial statements of Credit Guarantee Insurance Corporation of Africa Limited for the 18 months ended 31 December 2004 as set out on pages 17,18, 21 to 38. These annual 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 misstatements.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall financial statement presentation.

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

Opinion

In our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 31 December 2004 and the results of its operations and cash flow information for the 18 months then ended, in conformity with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

DELOITTE & TOUCHE

Deloitte & Touche
Chartered accountants (SA)
Registered accountants
& auditors

Johannesburg

3 February 2005

Nkonki Inc.

Nkonki Inc
Chartered accountants (SA)
Registered accountants
& auditors

Johannesburg

STATEMENT OF CASH VALUE ADDED

for the 18 months ended 31 December 2004

| | 2004 (18 months) | 2003 (12 months) | |
|---|---------------------|---------------------|----------------------|
| % | R'000 | R'000 | % |
| Cash value added: | | | |
| From normal operations | 87,7 | 267 121 | 128 880 94,7 |
| From sale of assets and investments | 12,3 | 37 514 | 7 157 5,3 |
| | 100,0 | <u>304 635</u> | <u>136 037</u> 100,0 |
| Cash value applied: | | | |
| Employees | 37,4 | 113 849 | 69 650 51,2 |
| Local and central government | 6,0 | 18 426 | 18 352 13,5 |
| Providers of capital | 30,9 | 94 183 | 13 659 10,0 |
| - Dividends | | 88 594 | 11 108 |
| - Leased assets | | 5 589 | 2 551 |
| Retained in the business | 25,7 | 78 177 | 34 376 25,3 |
| - Purchases of fixed assets and investments | | 74 811 | 20 586 |
| - Increase in cash reserves | | 3 366 | 13 790 |
| | 100,0 | <u>304 635</u> | <u>136 037</u> 100,0 |

STATUTORY REPORT OF THE DIRECTORS

Your directors submit their report and the audited annual financial statements of the company for the 18 months ended 31 December 2004.

NATURE OF BUSINESS

The main business of the company is that of credit insurance and reinsurance (which is within the meaning of insurance for the purposes of the Short-term Insurance Act, Act 53 of 1998).

REVIEW OF OPERATIONS

The operating results of the company are dealt with in the accompanying annual financial statements.

DIVIDEND

An interim dividend amounting to R4 339 639 was paid to shareholders. Your directors recommend the payment of a final dividend amounting to R9 252 439, giving a total ordinary dividend for the year of R13 592 078 (2003 – R11 326 732). Two special dividend payments were made during the period – R27 293 330 and R49 127 994 respectively.

SHARE CAPITAL

The authorised and issued share capital remained unaltered during the financial period.

DIRECTORS

The names of the directors of the company, as at the date of this report appear on page 2. Since the last report the following changes have taken place:

| | <i>Date appointed</i> | <i>Date resigned</i> |
|----------------|-----------------------|----------------------|
| J Coetzee | | 27 July 2004 |
| P R Gent | | 25 November 2003 |
| U Khumalo | | 24 February 2004 |
| J W Wilken | | 5 November 2003 |
| P Bezuidenhout | 6 October 2004 | |
| J J Ngulube | 6 October 2004 | |
| M W Oeschger | 6 October 2004 | |
| M J Reyneke | 5 November 2003 | |

Messrs Saggars, Akoob, Leisewitz, Martin and Reyneke retired on 6 October 2004 in terms of the articles of association and were re-elected.

SECRETARY

Mr W H Lategan is the company secretary. His business and postal addresses appear on page 40.

GOING CONCERN

The directors have satisfied themselves that the company is in a sound financial position and has adequate resources to continue its operations for the foreseeable future.

Accordingly, they are satisfied that it is appropriate to adopt a going-concern basis in preparing the financial statements.

The risk, audit & compliance committee has reviewed this going-concern statement and has endorsed the directors' decision that it be disclosed in the report.

POST BALANCE SHEET EVENTS

No material matters which adversely affect the financial position of the company have arisen subsequent to the year end.

STATUTORY REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

Credit Guarantee is fully committed to the principles advocated in the King Committee's Code of Corporate Practices and Conduct. The directors recognise the need to conduct the affairs of the company with integrity and in accordance with generally accepted corporate practices and thereby to retain the confidence of shareholders, employees and other stakeholders.

DIRECTORS' RESPONSIBILITIES IN RELATION TO THE FINANCIAL STATEMENTS

The Companies Act in South Africa requires the directors to prepare financial statements that fairly present the state of affairs of the company as at the end of the financial period and of the profit or loss for that period, in conformity with South African Statements of Generally Accepted Accounting Practice. It is the responsibility of the external auditors to express an opinion on these annual financial statements.

To enable the directors to meet their responsibilities, management maintains a system of internal controls and procedures including an internal audit function. These controls, enhanced by clear definitions of authority and responsibility and the careful selection and training of staff, aim to ensure that adequate and reliable accounting records are maintained and to provide reasonable assurance that the company's assets are safeguarded and accounted for and that no unauthorised liabilities are incurred.

Based on the information received from management and comments from the internal and external auditors, the directors are of the opinion that there has been no breakdown in the functioning of these controls and procedures during the period under review.

In preparing the financial statements, the company has used appropriate accounting policies on a consistent basis, supported by reasonable and prudent judgements and estimates, and has complied with all applicable accounting standards. The directors are of the opinion that the financial statements fairly present the financial position of the company at 31 December 2004 and the results of its operations and cash flow information for the 18 month period then ended. The directors are confident that the company has adequate resources to continue in operational existence for the foreseeable future.

ANNUAL FINANCIAL STATEMENTS

This report and the annual financial statements set out on pages 23 to 38 were approved by the board of directors on 2 February 2005 and are hereby signed on behalf of the board by:


K T M SAGGERS
Chairman


M C TRUTER
Managing director

CERTIFICATION BY COMPANY SECRETARY IN RESPECT OF SECTION 268G(d) OF THE ACT

I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all returns required of a public company in terms of the Companies Act, in respect of the period ended 31 December 2004 and that all such returns are true, correct and up to date.


W H LATEGAN
Company secretary

INCOME STATEMENT

for the 18 months ended 31 December 2004

| | Notes | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|---|-------|------------------------------|------------------------------|
| Revenue | 2 | <u>732 826</u> | <u>549 892</u> |
| Gross premiums written | 3 | 678 556 | 519 342 |
| Less: reinsurance | | <u>368 701</u> | <u>259 096</u> |
| Net premiums written | | 309 855 | 260 246 |
| Provision for unearned premiums | | (6 668) | (26 755) |
| – Change in gross provision | | (8 274) | (29 843) |
| – Reinsurers' share | | 1 606 | 3 088 |
| Net premiums earned | | 303 187 | 233 491 |
| Less: insurance expenditure | | 165 873 | 194 519 |
| Claims incurred net of reinsurance | 4 | 113 512 | 120 069 |
| Net commission earned | | (81 087) | (25 279) |
| – Commission received | | (120 856) | (67 307) |
| – Brokerage paid | | 37 435 | 23 396 |
| – Commission paid | | 2 334 | 18 632 |
| Management expenses | 5.1 | 114 165 | 78 101 |
| Loss on foreign currencies | 5.2 | 19 283 | 21 628 |
| Underwriting profit | | 137 314 | 38 972 |
| Net investment and other income/(loss) | 7 | <u>172 767</u> | <u>(96 052)</u> |
| Income/(loss) before taxation | | 310 081 | (57 080) |
| Taxation | 8 | <u>(86 416)</u> | <u>12 807</u> |
| Income/(loss) after taxation | | 223 665 | (44 273) |
| Income/(loss) from associate | | 4 719 | (4 421) |
| Net income/(loss) for the period | | <u>228 384</u> | <u>(48 694)</u> |
| Earnings per share | 9 | | |
| – Headline (cents per share) | | 8 367 | (1 791) |
| – Basic (cents per share) | | 8 368 | (1 784) |

BALANCE SHEET

| | Notes | 31 December 2004 R'000 | 30 June 2003 R'000 |
|---|-------|------------------------------|--------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property and equipment | 12 | 14 815 | 17 044 |
| Investments | 13 | 494 196 | 318 483 |
| Investment in associate company | 14 | 37 952 | 37 300 |
| Deferred taxation | 15 | 15 532 | 17 586 |
| Technical assets | | | |
| Reinsurers' share in technical provisions | | 99 317 | 103 884 |
| Unearned premiums | | 9 814 | 8 208 |
| Outstanding claims | | 89 503 | 95 676 |
| Current assets | | | |
| Reinsurance accounts receivable | | 64 217 | 85 234 |
| Other accounts receivable | 16 | 73 989 | 68 464 |
| Cash resources | | 172 795 | 169 429 |
| Total assets | | 972 813 | 817 424 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital and premium | 10 | 2 969 | 2 969 |
| Non-distributable reserves | | 21 478 | 61 190 |
| Contingency reserve | | 20 379 | 26 025 |
| Translation reserve | | 1 099 | 5 165 |
| Investment reserve | | - | 30 000 |
| Distributable reserves | | 393 840 | 218 400 |
| General reserve | | 1 817 | 1 817 |
| Retained income | | 392 023 | 216 583 |
| Non-current liabilities | | | |
| Long-term liabilities | 11 | 8 074 | 13 663 |
| Deferred taxation | 15 | 35 868 | 4 372 |
| Post-retirement medical aid | 25 | 16 700 | 8 900 |
| Technical provisions | | | |
| Gross unearned premiums | | 66 240 | 57 966 |
| Deferred income | | 10 567 | 18 732 |
| Gross outstanding claims | | 303 669 | 320 749 |
| Current liabilities | | | |
| Reinsurance accounts payable | | 50 909 | 58 323 |
| Other accounts payable | 17 | 25 236 | 49 337 |
| Taxation | | 37 263 | 2 823 |
| Total equity and liabilities | | 972 813 | 817 424 |

STATEMENT OF CHANGES IN EQUITY

for the 18 months ended 31 December 2004

| | Share capital | Share premium | Contingency reserve | Revaluation reserve | Investment reserve | General reserve | Retained income | Total |
|--|---------------|---------------|---------------------|---------------------|--------------------|-----------------|-----------------|----------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Balance at 30 June 2002 | 2 729 | 240 | 24 857 | 13 715 | 30 000 | 1 817 | 277 557 | 350 915 |
| Transfer to contingency reserve | - | - | 1 168 | - | - | - | (1 168) | - |
| Translation of foreign associate company | - | - | - | (8 550) | - | - | - | (8 550) |
| Net income for the year | - | - | - | - | - | - | (48 694) | (48 694) |
| Dividends paid | - | - | - | - | - | - | (11 108) | (11 108) |
| Balance at 30 June 2003 | 2 729 | 240 | 26 025 | 5 165 | 30 000 | 1 817 | 216 587 | 282 563 |
| Transfer from contingency reserve | - | - | (5 646) | - | - | - | 5 646 | - |
| Translation of foreign associate company | - | - | - | (4 066) | - | - | - | (4 066) |
| Net income for the year | - | - | - | - | - | - | 228 384 | 228 384 |
| Transfer from reserves | - | - | - | - | (30 000) | - | 30 000 | - |
| Dividends paid | - | - | - | - | - | - | (88 594) | (88 594) |
| Balance at 31 December 2004 | 2 729 | 240 | 20 379 | 1 099 | - | 1 817 | 392 023 | 418 287 |

CASH FLOW STATEMENT

for the 18 months ended 31 December 2004

| | Notes | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|---|-------|------------------------------|------------------------------|
| Cash received from clients | | 710 839 | 491 223 |
| Cash paid to clients, staff, suppliers and reinsurers | | (589 782) | (458 023) |
| Cash generated by operations | 18 | 121 057 | 33 200 |
| Net additions of property and equipment | | (2 028) | (2 728) |
| - Acquisitions | | (2 060) | (2 997) |
| - Proceeds on disposals | | 32 | 269 |
| Taxation paid | 19 | (18 426) | (18 352) |
| Dividends paid | 20 | (88 594) | (11 108) |
| Net cash generated from operating activities | | 12 009 | 1 012 |
| Cash employed in investment activities: | | | |
| Stock purchases | | (3 558) | - |
| Listed share purchases | 21 | (68 208) | (1 055) |
| Unlisted share purchases | | - | (7 223) |
| Asset swap purchases | | (984) | (300) |
| Endowment policy purchases | | - | (10) |
| Proceeds on sale of shares | | 37 264 | 1 888 |
| Proceeds on sale of endowments | | 218 | 5 000 |
| Interest received | | 21 168 | 19 378 |
| Interest paid | | (7 718) | (7 169) |
| Dividends received | | 18 764 | 13 820 |
| Net cash (applied to) / generated from investment activities | | (3 054) | 15 329 |
| Cash result from financing activities | | (5 589) | (2 551) |
| Capital repayments of long-term liabilities | | (5 589) | (2 551) |
| Net increase in cash | | 3 366 | 13 790 |
| Cash resources at the beginning of the period | | 169 429 | 155 639 |
| Cash resources at the end of the period | | 172 795 | 169 429 |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

1. ACCOUNTING POLICIES

1.1 Statement of compliance

The financial statements comply with the South African Statements of Generally Accepted Accounting Practice and with the requirements of the South African Companies Act, 1973.

1.2 Basis of preparation

The financial statements are prepared on the historical-cost basis, modified by the revaluation of investments and certain financial instruments to fair value and the application of the equity method of accounting for investments in associate companies.

1.3 Underwriting results

Underwriting results are determined in terms of the accounting basis in accordance with South African Statements of Generally Accepted Accounting Practice for short-term insurance companies.

1.3.1 Unearned premiums

The provision for unearned premiums represents the estimated portion of net premiums written relating to unexpired risks at the end of the financial period, generally calculated on a time proportion basis (365th basis).

1.3.2 Outstanding claims

Provision is made for the estimated value of future claims and related costs arising from premiums earned, using the best information available at the time. The provision includes reported claims not yet paid as well as estimated claims incurred but not yet reported, net of reinsurance and anticipated salvage recoveries.

1.3.3 Deferred income

Represents a portion of commission income received relating to medium and long-term risks, which is deferred to provide for future costs of administering such policies. This deferred commission income is transferred to underwriting results in equal annual instalments over the period of the insured risks.

1.4 Investment income

Interest income is accounted for on the accrual basis. Dividends are recognised on the last day for registration in respect of listed shares and as received in respect of unlisted shares.

1.5 Property and equipment

1.5.1 Financial lease assets

Where assets are acquired under finance lease agreements that transfer to the company substantially all the risks and rewards of ownership, their cash cost equivalent is capitalised. The capital element of the leasing commitment is disclosed under long-term liabilities. Lease rentals are apportioned between capital and interest elements, using the effective interest rate method. These assets are depreciated over the economic useful life of these assets other than property which is not depreciated.

1.5.2 Other assets

Other assets are stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated economic lives of these assets.

Depreciation rates:

| | |
|--------------------|--------|
| Computer equipment | 33,3% |
| Computer software | 50% |
| Motor vehicles | 25% |
| Other | 10–20% |

1.6 Foreign currency translation

Foreign currency transactions are accounted for at rates of exchange ruling at transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any foreign exchange differences are recognised in the income statement in the year to which the difference relates.

1.7 Contingency reserve

The statutory contingency reserve is regarded as a non-distributable reserve. The reserve is maintained at 10% of net premium income in terms of the provisions of the Short-term Insurance Act, 1998. Transfers to and from this reserve are treated as appropriations of income.

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

1.8 Financial instruments

Financial instruments are initially measured at cost. Subsequent to initial recognition, these instruments are measured as set out below:

Investments: Listed investments classified as available-for-sale financial assets are carried at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date.

Unlisted investments are shown at fair value, unless their fair value cannot be reliably determined, in which case they are shown at cost less accumulated impairment losses.

Investments that meet the criteria for classification as held-to-maturity financial assets are carried at amortised cost.

Trade and other receivables: Trade and other receivables are stated at cost net of write-downs for any amounts expected to be irrecoverable.

Cash and cash equivalents: Cash and cash equivalents comprise cash balances, cash deposits and cash on call. These are recorded at cost and generally equate to fair value.

Trade and other payables: Trade and other payables are stated at amortised cost, comprising original debt less principle payments and amortisations.

Gains and losses on subsequent measurement: Gains and losses arising from a change in fair value of financial instruments are included in net profit or loss in the period in which the change arises.

Offset: Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.9 Associate companies

Associate companies are those companies in which the company holds between 20% and 50% of the equity capital and over which we have the ability to exercise significant influence. Associate companies are accounted for on the equity method from the date they become investees. Equity-accounted income, which is included in the respective carrying values of the investments, represents the company's proportional share of the associate companies' retained income, after accounting for dividends payable by the associates.

The post-acquisition share of retained income of associates is included in the income statement. Retained income and movements on reserves are generally determined from the most recent audited annual financial statements. The carrying amount of such investments is reduced to recognise any decline, other than temporary decline, in the value of individual investments.

1.10 Income tax

Income tax on the profit or loss for the period comprises current, deferred and other tax. Income tax is recognised in the income statement. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date and any adjustment to the tax payable in respect of previous periods.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Secondary tax on companies (STC) is charged to the income statement when the related dividend is declared.

1.11 Retirement benefits

Post employment benefits: It is the policy of the company to provide retirement benefits for all eligible employees. There are two funds: A defined contribution fund and a defined benefit fund, subject to the Pension Funds Act, 1956. Current contributions to these funds are charged against income as incurred. Contributions are adjusted periodically to take account of salary increases and any related circumstances. The defined benefit fund is actuarially valued at intervals of three years and the cost of providing for any deficits should be recognised in full for the portion relating to retired employees, but proportionally for existing employees over their remaining working lives.

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

Post-retirement medical aid benefits: The company has an obligation to provide post-retirement medical aid benefits to eligible employees and pensioners. Employees who joined the company before 1 September 1998 are entitled to these benefits. The company recognises the estimated liability in accordance with the advice of qualified actuaries who value the liability every two years.

Termination benefits: The company recognised termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

Short term employee benefits: Remuneration to the employees in respect of services rendered during a reporting period is recognised as an expense in that period. Provision is made for accumulated leave and bonuses.

1.12 Provisions

A provision is created when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will occur and a reliable estimate can be made of the amount of the obligation.

Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1.13 Revenue

Premium and other income is brought to account at the earlier of the date of notification of the amount. Provision is made for unearned premium in accordance with note 1.3.1.

1.14 Impairment

The carrying amounts of all 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. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount 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 prior years.

1.15 Discontinued operations

The board of directors announced that the company had discontinued the reinsurance inwards operation with effect from 1 January 2003. The operation will effectively be in run-off as from the said date and where possible, future liabilities under these contracts will be commuted. The results of the discontinued operations have been disclosed separately in note 6.

1.16 Restatement of prior year numbers

The South African Government terminated its reinsurance agreement with Credit Guarantee with effect from 1 July 2001. Credit Guarantee still administers all policies issued before that date. The underwriting result relating to these policies is regarded as discontinued business. The following disclosure has been restated to conform with the presentation in the period under review. The restatements affect classifications only.

| Discontinued operations: | As previously reported | As restated |
|--------------------------|------------------------|-------------|
| | R million | R million |
| Assets | 89 550 | 89 551 |
| Liabilities | 110 383 | 129 310 |
| Net profit/(loss) | 17 064 | (3 242) |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

1.17 Contingent liabilities

The company discloses a contingent liability where:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- It is not probable that an outflow of resources will be required to settle an obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

| | 2004 (18 months) | 2003 (12 months) |
|--|------------------|------------------|
| | R'000 | R'000 |

2. REVENUE

Comprises gross premiums written, credit limit and rapid response fees, information sales and excludes value-added tax

| | |
|---------|---------|
| 732 826 | 549 892 |
|---------|---------|

3. GROSS PREMIUMS WRITTEN

| | 2004 | | | 2003 | | |
|--------------------------------------|---------|---------|---------|---------|---------|---------|
| | RSA | Foreign | Total | RSA | Foreign | Total |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Gross premiums written | 669 797 | 8 759 | 678 556 | 474 859 | 44 483 | 519 342 |
| - Credit risk business | 651 164 | 8 759 | 659 923 | 447 187 | 44 483 | 491 670 |
| - Alternative risk transfer business | 18 633 | - | 18 633 | 27 672 | - | 27 672 |

4. CLAIMS INCURRED NET OF REINSURANCE

| | | |
|--|-----------|-----------|
| Claims net of reinsurance | 113 512 | 120 069 |
| Net claims paid | 124 419 | 123 103 |
| - Gross claims paid less salvages received | 310 123 | 285 939 |
| - Reinsurers' share | (185 704) | (162 836) |
| Change in provision for outstanding claims | (10 907) | (3 034) |
| - Gross amount | (17 080) | 21 048 |
| - Reinsurers' share | 6 173 | (24 082) |

5. EXPENSES

5.1 Management expenses include:

| | | |
|--|----------------|---------------|
| Audit fees: | 874 | 679 |
| - Fees | 874 | 679 |
| - Other services rendered | - | 276 |
| Total fees paid to auditors | 874 | 955 |
| Staff cost | 103 846 | 62 722 |
| Consulting fees | 159 | 516 |
| Depreciation of property and equipment | 4 277 | 4 403 |
| Current pension fund contribution | 8 338 | 5 620 |
| Post-retirement medical aid | 7 800 | - |
| Bad debt provision | (2 506) | (2 947) |
| Information recoveries | (54 270) | (30 550) |
| Other expenses | 45 647 | 37 382 |
| | <u>114 165</u> | <u>78 101</u> |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

Directors' emoluments (paid by the company):

| | Salary | Directors' fees | Performance bonus | Other benefits | Total 2004 (18 months) | Total 2003 (12 months) |
|---------------------------------|--------------|-----------------|-------------------|----------------|---------------------------|---------------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| <i>Executive directors:</i> | | | | | | |
| M C Truter | 1 635 | - | 817 | 192 | 2 644 | 1 591 |
| W H Lategan | 1 201 | - | 601 | 141 | 1 943 | 1 170 |
| <i>Non-executive directors:</i> | | | | | | |
| J A Wilken* | | - | | | - | 46 |
| K T M Saggars | | 173 | | | 173 | 80 |
| M Akoob | | 90 | | | 90 | 42 |
| J Coetzee* | | 96 | | | 96 | 56 |
| P R Gent* | | 20 | | | 20 | 35 |
| U Khumalo* | | 33 | | | 33 | 23 |
| C T L Leisewitz | | 75 | | | 75 | 31 |
| A R Martin | | 143 | | | 143 | 56 |
| M J Reyneke* | | 105 | | | 105 | - |
| P Bezuidenhout* | | 24 | | | 24 | - |
| M W Oeschger* | | 12 | | | 12 | - |
| J J Ngulube* | | 12 | | | 12 | - |
| Total | 2 836 | 783 | 1 418 | 333 | 5 370 | 3 130 |

Notes: *These fees were paid to the employers of the directors.

Executive directors are eligible to be paid an annual performance bonus dependent on underwriting results.

5.2 Foreign exchange

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|--------------------------------|---------------------------|---------------------------|
| Foreign exchange loss/(profit) | 19 283 | 21 628 |
| – Realised | 6 567 | 871 |
| – Unrealised | 12 716 | 20 757 |

6. DISCONTINUED OPERATIONS

The board of directors decided to discontinue the reinsurance inwards operation with effect from 1 January 2003. The decision was made because of excessive losses experienced due to ongoing high claims and the volatility of the Rand exchange rate against major currencies. It was felt that the company could not afford to be exposed to this volatility and that no treaties be renewed with foreign cedants. The effect would be that the business would be placed into run-off.

The South African Government terminated its reinsurance agreement with Credit Guarantee with effect from 1 July 2001. Credit Guarantee still administers all policies issued before that date. The underwriting result relating to policies, the risks of which were reinsured by the SA Government before 1 July 2001, is regarded as discontinued business. The previous year's figures have been adjusted accordingly.

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|--|---------------------------|---------------------------|
| The results for both divisions for the 18 months ended on 31 December 2004 are as follows: | | |
| Gross premiums written | 79 881 | 109 075 |
| Less: Reinsurance | 71 122 | 64 467 |
| Net premiums written | 8 759 | 44 608 |
| Provision for unearned premiums | 1 626 | 1 229 |
| Net premiums earned | 10 385 | 45 837 |
| Less insurance expenditure | 4 216 | 38 793 |
| - Net claims paid | 1 094 | 12 842 |
| - Commission (received)/paid | (17 070) | 6 522 |
| - Management expenses | 8 594 | 7 071 |
| - Loss on foreign exchange differences | 11 598 | 12 358 |
| Underwriting profit | 6 169 | 7 044 |
| Interest income | 1 721 | 1 137 |
| Profit before taxation | 7 890 | 8 181 |
| Taxation | (2 367) | (2 454) |
| Profit after taxation | 5 523 | 5 727 |
| Transfer from contingency reserve | 4 047 | 2 485 |
| Net profit for the year | 9 570 | 8 212 |
| Cashflows | | |
| Cashflows from operating activities | 9 570 | 8 212 |
| Adjust for – | | |
| Unrealised exchange loss | 5 148 | 11 759 |
| Insurance provisions | 23 384 | 35 090 |
| Net cashflow from operating activities | 38 102 | 55 061 |
| The carrying amounts of the assets and liabilities of the Reinsurance Inward division were as follows: | | |
| ASSETS | | |
| Current assets | 66 859 | 89 551 |
| Reinsurance inwards accounts receivable | 55 031 | 81 996 |
| Cash resources | 11 828 | 7 555 |
| EQUITY AND LIABILITIES | | |
| Equity: Contingency reserve | (401) | (4 448) |
| Technical provisions | (97 762) | (129 310) |
| Gross unearned premium | (596) | (2 222) |
| Gross outstanding claims | (86 598) | (108 356) |
| Deferred income | (10 568) | (18 732) |
| Current liabilities | (969) | - |
| Reinsurance inwards accounts payable | (969) | - |
| Net liabilities | (32 273) | (44 207) |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|---|---------------------------|---------------------------|
| 7. NET INVESTMENT AND OTHER INCOME | | |
| Investment income: Dividends | 18 853 | 14 129 |
| – Cash | 18 764 | 13 820 |
| – Accrued | 89 | 309 |
| Interest received | 21 168 | 19 378 |
| Interest paid | (7 718) | (7 169) |
| Total net investment income | 32 303 | 26 338 |
| Unrealised profit/(loss) on investments | 112 980 | (106 178) |
| Profit/(loss) on disposal of investments | 27 463 | (16 401) |
| Profit on disposal of equipment | 21 | 189 |
| Total investment and other income/(loss) | <u>172 767</u> | <u>(96 052)</u> |

8. TAXATION

| | | |
|--------------------------------------|---------------|-----------------|
| South African normal tax: | | |
| Current taxation | 43 297 | 18 745 |
| – Income taxation | 42 412 | 18 745 |
| – Capital gains taxation | 885 | - |
| Deferred taxation | 33 550 | (32 543) |
| Secondary tax on companies | 8 136 | - |
| | 84 983 | (13 798) |
| Other taxes | 1 433 | 991 |
| – RSC levies | 501 | 366 |
| – Foreign withholding taxes | 2 | 93 |
| – Value added tax and skills levy | 930 | 532 |
| Taxation per income statement | <u>86 416</u> | <u>(12 807)</u> |
| Reconciliation of income tax rate: | | |
| Effective income tax rate | 27,4% | 24,2% |
| Normal and deferred tax | 84 983 | (13 798) |
| Tax effects of permanent differences | 8 041 | (3 326) |
| – Exempt income | 15 808 | (4 287) |
| – Standard tax on companies | (8 136) | - |
| – Disallowed expenses | (61) | - |
| – Tax saving on other taxes | 430 | (629) |
| – Prior year adjustment | - | 1 829 |
| Income tax at standard tax rate | <u>93 024</u> | <u>(17 124)</u> |
| Standard income tax rate | <u>30%</u> | <u>30%</u> |

An unutilised STC credit of R6 178 000 is available for set-off against any future dividends that may be declared.

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the company's net income/(loss) for the year of R228 384 000 (2003: (R48 694 000)) and a weighted number of shares in issue of 2 729 333.

No potential dilution of earnings exists.

The calculation of headline earnings/(loss) per share is based on the company's headline earnings/(loss) for the year of R228 363 000 (2003: (R48 882 000)) and a weighted number of shares in issue of 2 729 333.

No potential dilution of headline earnings exists.

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

Reconciliation between basic and headline earnings:

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|--|---------------------------|---------------------------|
| Net income/(loss) for the year | 228 384 | (48 694) |
| Profit on sale of property & equipment | (21) | (188) |
| Headline earnings/(loss) | <u>228 363</u> | <u>(48 882)</u> |

10. SHARE CAPITAL AND PREMIUM

| | | |
|---|--------------|--------------|
| Authorised 3 000 000 ordinary shares of R1 each | 3 000 | 3 000 |
| Issued: 2 729 333 ordinary shares of R1 each | 2 729 | 2 729 |
| Share premium account | 240 | 240 |
| Share capital and premium | <u>2 969</u> | <u>2 969</u> |

The 270 667 unissued ordinary shares are under the control of the directors in terms of a general authority given by the shareholders at the previous annual general meeting.

11. LONG-TERM LIABILITIES

Capitalised lease liabilities:

| | | |
|---|--------------|---------------|
| Total liability owing to African Merchant Bank Ltd in respect of a financial lease agreement | 12 014 | 16 214 |
| Less: Due within 12 months included in accounts payable | 3 940 | 2 551 |
| | <u>8 074</u> | <u>13 663</u> |

The lease liability is in respect of the sale and leaseback of land and buildings (refer note 12). The lease is payable over a 10-year period in bi-annual payments at an effective interest rate of 18,9%. The last instalment will be on 15 June 2007. Future commitments on the financial lease agreement are as follows (R'000):

| | Within one year | Two to five years | Total |
|----------------------------------|--------------------|----------------------|--------|
| Minimum lease payment | 5 737 | 9 428 | 15 165 |
| Finance charge | 1 797 | 1 354 | 3 151 |
| Present value of lease liability | 3 940 | 8 074 | 12 014 |

12. PROPERTY AND EQUIPMENT

| | Computer equipment & software | Furniture, equipment & motor vehicles | Land and buildings | Total |
|--------------------------------|-------------------------------------|---|-----------------------|----------|
| Book value at 30 June 2002 | 4 187 | 3 784 | 10 559 | 18 530 |
| - Cost | 24 561 | 13 495 | 10 559 | 48 615 |
| - Accumulated depreciation | (20 374) | (9 711) | - | (30 085) |
| Additions at cost | 2 229 | 768 | - | 2 997 |
| Disposals at book value | (30) | (50) | - | (80) |
| Depreciation | (3 045) | (1 358) | - | (4 403) |
| Book value at 30 June 2003 | 3 341 | 3 144 | 10 559 | 17 044 |
| - Cost | 20 967 | 13 424 | 10 559 | 44 950 |
| - Accumulated depreciation | (17 626) | (10 280) | - | (27 906) |
| Additions at cost | 1 529 | 531 | - | 2 060 |
| Disposals at book value | (1) | (11) | - | (12) |
| Depreciation | (2 836) | (1 441) | - | (4 277) |
| Book value at 31 December 2004 | 2 033 | 2 223 | 10 559 | 14 815 |
| - Cost | 21 969 | 13 763 | 10 559 | 46 291 |
| - Accumulated depreciation | (19 936) | (11 540) | - | (31 476) |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|---|---------------------------|---------------------------|
| 13. INVESTMENTS | | |
| Available-for-sale: | | |
| Listed investments at market value | 452 520 | 299 822 |
| Endowment policy at market value | 14 871 | 11 788 |
| Asset swap | 6 022 | 6 873 |
| Stocks | 3 743 | - |
| Preference shares | 17 040 | - |
| Unlisted investment at cost: 125 784 shares in Credit Insurance Zimbabwe Limited (11,4% of issued capital) | - | - |
| | 494 196 | 318 483 |
| Directors' valuation of unlisted investments | - | - |
| Directors' valuation of endowment policies | 14 871 | 11 788 |

For an analysis of listed investments refer to Appendix A on page 39.

Financial instruments: The directors consider that the carrying value of the financial assets and liabilities reported in the balance sheet approximate their fair value at year-end.

14. INVESTMENT IN ASSOCIATE COMPANY

| | | |
|--|---------------|---------------|
| Investment at cost | 33 462 | 33 462 |
| Share in retained income before impairment | 10 090 | 5 887 |
| Dividends received | - | (515) |
| Provision for impairment | (6 699) | (6 699) |
| Translation reserve | 1 099 | 5 165 |
| | <u>37 952</u> | <u>37 300</u> |

The company holds a 25% share in Mapfre America Caucción y Crédito SA, incorporated in Spain. The nature of the associate is credit insurance and their results have been included up to their latest financial year-end which was 31 December 2004.

Associated company financial position:

| | | |
|---------------------------|---------|---------|
| - Assets | 287 889 | 228 519 |
| - Liabilities | 141 991 | 72 739 |
| Results of operations: | | |
| - Revenue | 118 468 | 73 657 |
| - Profit before tax | 15 086 | 15 080 |
| - Income tax expense | 5 081 | 2 498 |
| - Net profit for the year | 9 443 | 9 114 |

14.1 Related party transactions

Reinsurance inwards transactions entered into with the associated company, Mapfre Garantias y Crédito SA (a subsidiary of Mapfre America Caucción y Crédito SA):

14.1.1 Income statements effects:

| | | |
|--|--------------|--------------|
| - Reinsurance inwards premium received | 728 | 755 |
| - Commission paid | (257) | (266) |
| - Claims paid | (965) | (772) |
| - Salvages received | 55 | 8 |
| | <u>(439)</u> | <u>(275)</u> |

14.1.2 Balance sheet effects:

| | | |
|-----------------------------------|--------------|--------------|
| - Reinsurance accounts receivable | - | 108 |
| - Gross outstanding claims | (389) | (482) |
| | <u>(389)</u> | <u>(374)</u> |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|--|---------------------------|---------------------------|
| 15. DEFERRED TAXATION | | |
| 15.1 Deferred taxation movement | | |
| Balance at the beginning of the period | (13 214) | 19 329 |
| - Deferred tax liabilities | 4 372 | 32 013 |
| - Deferred tax assets | (17 586) | (12 684) |
| Charged/(credited) to income statement | 33 550 | (32 543) |
| - Temporary differences | 33 550 | (27 640) |
| - Prior year adjustment | - | (4 903) |
| Balance at the end of the period | 20 336 | (13 214) |
| - Deferred tax liabilities | 35 868 | 4 372 |
| - Deferred tax assets | (15 532) | (17 586) |
| 15.2 Deferred taxation balances | | |
| Unrealised surplus on revaluation of investments | 35 457 | 3 915 |
| - Normal taxation | 34 572 | 891 |
| - Capital gains taxation | 885 | 3 024 |
| Other | 411 | 457 |
| Deferred tax liabilities | 35 868 | 4 372 |
| Deferred income | (3 170) | (5 619) |
| Medical aid liability | (5 010) | (2 670) |
| Performance bonus | (4 477) | (3 718) |
| Leave pay and bonus provision | (2 415) | (3 763) |
| Sundry | (460) | (1 816) |
| Deferred tax assets | (15 532) | (17 586) |
| Net balance at end of period | <u>20 336</u> | <u>(13 214)</u> |
| 16. OTHER ACCOUNTS RECEIVABLE | | |
| Premium debtors | 64 984 | 61 750 |
| Value added tax | 2 565 | 1 323 |
| Staff loans | 2 018 | 1 900 |
| Other | 4 422 | 3 491 |
| | <u>73 989</u> | <u>68 464</u> |
| 17. OTHER ACCOUNTS PAYABLE | | |
| Provisions | 8 051 | 12 637 |
| - Provision for leave pay | 3 648 | 4 045 |
| - Provision for bonuses | 4 403 | 8 592 |
| Current portion of lease liability | 3 940 | 2 551 |
| Other | 13 245 | 34 149 |
| Other accounts payable | <u>25 236</u> | <u>49 337</u> |
| Provision reconciliation: | | |
| Balance at the beginning of the period | 12 637 | 13 244 |
| Provisions raised during the period | 4 253 | 11 999 |
| Provisions utilised during the period | (8 839) | (12 606) |
| Balance at the end of the period | <u>8 051</u> | <u>12 637</u> |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|--|---------------------------|---------------------------|
| 18. CASH GENERATED FROM OPERATING ACTIVITIES | | |
| Reconciliation of income/(loss) before taxation to cash generated by operations: | | |
| Income/(loss) before taxation | 310 081 | (57 080) |
| Adjustment for: | | |
| - Depreciation | 4 277 | 4 403 |
| - Provision for bad debts | (2 506) | (2 947) |
| - Accrued dividends | 89 | 309 |
| - Unrealised exchange loss | 5 197 | 10 492 |
| - Unrealised (profits)/loss on investments | (112 980) | 106 178 |
| - (Profit)/loss on sale of investments and fixed assets | (27 484) | 16 212 |
| - Insurance provisions | (12 404) | 22 409 |
| - Investment income | (32 303) | (26 338) |
| Operating profit before working capital changes | <u>131 967</u> | <u>73 638</u> |
| Working capital changes | | |
| Reinsurance accounts receivable | 15 480 | (52 249) |
| Other accounts receivable | (2 674) | 3 788 |
| Reinsurance accounts payable | (7 414) | 606 |
| Other accounts payable | (16 302) | 7 417 |
| Cash generated by operations | <u><u>121 057</u></u> | <u><u>33 200</u></u> |
| 19. TAXATION PAID | | |
| Amounts unpaid at the beginning of the year | (2 823) | (1 439) |
| Amounts per income statement | (86 416) | 12 807 |
| Deferred tax movement | 33 550 | (32 543) |
| Amount unpaid at end of year | 37 263 | 2 823 |
| Total taxation paid | <u><u>(18 426)</u></u> | <u><u>(18 352)</u></u> |
| 20. DIVIDENDS PAID | | |
| Dividends declared | (88 594) | (11 108) |
| Total dividends paid | (88 594) | (11 108) |
| 21. TOTAL LISTED SHARE PURCHASES | | |
| Net increase of cost in listed shares | 58 388 | (17 211) |
| Cost of listed shares sold | 9 820 | 18 266 |
| Total acquisitions | <u><u>68 208</u></u> | <u><u>1 055</u></u> |
| 22. UNCOVERED FOREIGN CURRENCY BALANCES | | |
| The following amounts included in current assets and liabilities represent a net uncovered foreign currency exposure in respect of operational activities: | | |
| Net foreign currency assets | 88 172 | 121 724 |
| Insurance provisions on foreign reinsurance inwards business | 87 161 | 110 383 |
| Net assets | <u><u>1 011</u></u> | <u><u>11 341</u></u> |

NOTES TO FINANCIAL STATEMENTS

for the 18 months ended 31 December 2004

| | 2004 (18 months) R'000 | 2003 (12 months) R'000 |
|---|---------------------------|---------------------------|
| 23. CONTINGENT LIABILITIES | | |
| Collateral security provided to employees in terms of the company's Housing Assistance Scheme | 158 | 191 |
| Letters of guarantees issued in favour of: | | |
| Department of Home Affairs | 7 | 7 |
| Calypso Ridge Properties | 35 | 35 |
| SA Post Office | 30 | 30 |
| Fashaf (Pty) Ltd and Jones Retailing (Pty) Ltd | - | 4 500 |
| Provisional liquidators, Retail Apparel Group | 7 362 | 7 362 |
| | <u>7 592</u> | <u>12 125</u> |

24. RETIREMENT BENEFITS

All the retirement benefit plans are governed by the Pension Funds Act, 1956 (Act no 24 of 1956).

The majority of permanent staff are members of the defined contribution fund, whilst a very small portion are defined benefit members.

At the last actuarial valuation as at 1 July 2003 the actuarial present value of promised retirement benefits amounted to R7,9 million.

The fair value of assets to be used to settle promised retirement benefits at the same time amounted to R11,3 million, leaving a surplus of R3,4 million.

25. POST-RETIREMENT MEDICAL AID

An actuarial valuation as at 1 January 2004 indicated a liability of R16 700 000 (2003: R8 900 000).

The next valuation will be performed during the 2006 financial year.

26. SOLVENCY RATIOS

The solvency ratios have been calculated on two bases:

| | | |
|---|--------|--------|
| 26.1. The statutory surplus asset ratio representing net insurance assets as a percentage of net premium income (gross premium income less reinsurances as defined by the Short-term Insurance Act, Act 53 of 1998) | 150,7% | 100,3% |
| 26.2. The solvency margin in terms of international reporting guidelines representing shareholders' funds as a percentage of net premium income (gross premium income less total reinsurances) | 205,3% | 108,6% |

APPENDIX A: SHARE PORTFOLIO

| | Shares held | | Total cost | | Market value | |
|--|-------------|-----------|----------------|----------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | | (R'000) | (R'000) | (R'000) | (R'000) |
| Ordinary Shares | | | | | | |
| Absa Group Ltd | 115 000 | - | 5 910 | - | 8 739 | - |
| Anglo American plc | 563 512 | 593 912 | 27 152 | 27 502 | 75 229 | 68 828 |
| Anglo American Platinum Corp Ltd | 145 000 | 155 000 | 10 610 | 11 303 | 30 015 | 36 658 |
| AVI Ltd | 330 000 | - | 6 528 | - | 7 590 | - |
| Barloworld Ltd | 100 000 | - | 6 528 | - | 10 630 | - |
| BHP Billiton plc | 553 409 | 553 409 | 9 888 | 9 888 | 36 525 | 22 020 |
| Imperial Holdings Ltd | 220 000 | 170 000 | 10 018 | 7 508 | 22 880 | 9 112 |
| Investec Ltd | 21 090 | 21 090 | 4 203 | 4 203 | 3 817 | 2 077 |
| Investec plc | 35 910 | 35 910 | 7 157 | 7 157 | 6 513 | 3 537 |
| Liberty Group Ltd | 163 212 | 180 000 | 5 458 | 5 458 | 10 870 | 9 108 |
| Massmart Holdings Ltd | 120 000 | - | 3 594 | - | 5 435 | - |
| Nedcor Ltd | 189 125 | 133 500 | 11 116 | 8 613 | 14 714 | 11 948 |
| Old Mutual plc | 570 256 | 570 000 | 8 152 | 8 152 | 8 155 | 6 299 |
| Pick 'n Pay Stores Ltd | 900 000 | 754 573 | 6 666 | 4 273 | 20 880 | 10 262 |
| Remgro Ltd | 330 000 | 330 000 | 3 501 | 3 501 | 31 139 | 21 120 |
| Richemont Securities AG | 1 600 000 | 2 200 000 | 1 206 | 1 206 | 30 080 | 27 324 |
| SABMiller plc | 315 000 | 266 589 | 9 822 | 6 604 | 30 067 | 13 556 |
| Sanlam Ltd | 1 100 000 | 955 000 | 8 606 | 7 329 | 14 300 | 6 685 |
| Sasol Ltd | 338 000 | 418 000 | 13 247 | 14 076 | 40 898 | 34 924 |
| Standard Bank Group Ltd | 462 071 | 380 000 | 12 104 | 8 157 | 30 404 | 12 464 |
| Telkom Group Ltd | 70 000 | - | 5 695 | - | 6 860 | - |
| Tiger Brands Ltd | 50 000 | - | 4 193 | - | 4 845 | - |
| Other shares individually comprising less than 1% of the total market value of the portfolio | | | 1 799 | 4 875 | 1 935 | 3 900 |
| TOTAL | | | 183 153 | 139 805 | 452 520 | 299 822 |

CREDIT GUARANTEE INSURANCE CORPORATION OF AFRICA LTD

Reg No 1956/000368/06

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Nkonki Inc, 3 Simba Road, Sunninghill, Sandton

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ADMINISTRATION
