

# Chairman's letter

## Who are we?

PSG is an investment group consisting of some 40 underlying companies, employing more than 39 000 people with a salary bill in excess of R6 billion. The tax paid by employees and group companies exceeded R2,5 billion, which could have funded the building of 83 000 RDP houses in the past year. That is the extent of this group's influence and contribution to the wider South African economy.

Although we may appear to have a complex group structure, management has defined *six units*:

- Capitec Bank (banking)
- PSG Konsult (wealth planning and stock broking)
- PSG Fund Management (asset management)
- PSG Corporate, incl. PSG Capital (treasury services and corporate finance)
- Zeder Investments (investments in agricultural, food and beverage sectors)
- Paladin Capital (investments in sectors other than agriculture, food and beverages)

## Our main objectives

- Grow the company for all stakeholders
- Provide shareholders with an attractive return on their money invested through a combination of share price appreciation and the payment of dividends

## How have we performed?

- In the spirit of consistent, clear and unambiguous communication to stakeholders, PSG introduced the *recurring headline earnings* concept as the predominant measure of the group's financial performance a few years ago. At the time, *recurring headline earnings* was defined as reportable headline earnings in terms of accounting standards, excluding any marked-to-market movements and one-off items.

During the past year we revisited and fine-tuned this methodology by now measuring *recurring headline earnings* on a *see-through basis* throughout the group. PSG's *recurring headline earnings* is the sum of its effective interest in that of each of its underlying investees, regardless of its percentage shareholding. The result is that investments in which PSG or an investee holds less than 20% and is not allowed to equity account in terms of accounting standards, are now included in the calculation of our *consolidated recurring headline earnings*. This provides management and investors with a more realistic and simple way of evaluating PSG's financial performance.

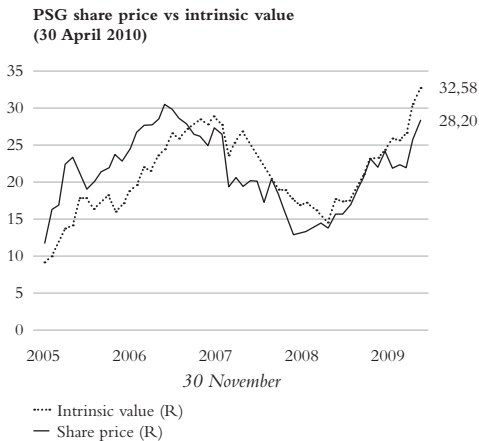
*Recurring headline earnings per share* increased from 60,3 cents in 2005 to 207,4 cents in 2010, a compounded annual growth rate (CAGR) of 28%.

Cents per share	2010	2009	2008	2007	2006	2005
<b>Recurring headline earnings</b>	<b>207,4</b>	174,3	131,6	75,2	62,8	60,3
<i>Change year-on-year</i>	<b>19%</b>	33%	75%	20%	4%	
Non-recurring items	<b>41,8</b>	(109,0)	163,5	444,1	289,0	29,7
<b>Reportable headline earnings</b>	<b>249,2</b>	65,3	295,1	519,3	351,8	90,0
<i>Change year-on-year</i>	<b>282%</b>	(78%)	(43%)	48%	291%	



- PSG's *intrinsic value* increased from R9,43 per share in November 2005 to R32,58 as at 30 April 2010 – a CAGR of 32%.

Asset/liability	Market price/	Intrinsic value	Intrinsic value	Intrinsic value	Valuation method
	share	30 Apr 2010	28 Feb 2010	28 Feb 2009	
	R	Rm	Rm	Rm	
Capitec	101,70	2 947	2 367	857	Market price
PSG Konsult	1,39	746	730	670	OTC 30-day VWAP
Zeder	2,10	833	742	342	Market price
Paladin Capital	2,37	1 098	834	413	Market price
PSG Fund Management (incl. PSG Future Wealth)		218	218	203	Sum of the parts valuation
Management fees/agreements		361	361	216	DCF/PE valuation multiple
Other investments (Thembeke prefs, cash, m Cubed, etc.)		493	400	745	
<b>Total assets</b>		<b>6 696</b>	<b>5 652</b>	<b>3 446</b>	
Perpetual pref funding	90,95	(553)	(541)	(486)	Market price
Other debt		(543)	(539)	(350)	Carrying value
<b>Total intrinsic value</b>		<b>5 600</b>	<b>4 572</b>	<b>2 610</b>	
<b>Intrinsic value per share (R)</b>		<b>32,58</b>	<b>26,60</b>	<b>15,31</b>	



- Since PSG's establishment in November 1995, PSG has paid R10,90 per share in dividends.
- Capitec was unbundled to shareholders on 1 December 2003 when Capitec was trading at R4,15 per share. The ratio was 1 Capitec share for every 3 PSG shares held.
- PSG's share price increased from 33 cents at formation to R28,20 as at 30 April 2010.
- The total return index of an investment in PSG yielded a CAGR of 56%, taking cognisance of the Capitec unbundling and reinvestment of all dividends. In other words, an investment of R100 000 would equal R60 million today.

### Why are companies successful and what makes for great investments?

Over the years the most successful investments we made were the companies with uncomplicated business models operating in industries with attractive growth prospects, and led by talented, hard-working and passionate people. But a simple business model does not mean that it is easy to make money – you need a focused and dedicated management team to continuously grow the business.

### But how does one grow one's business?

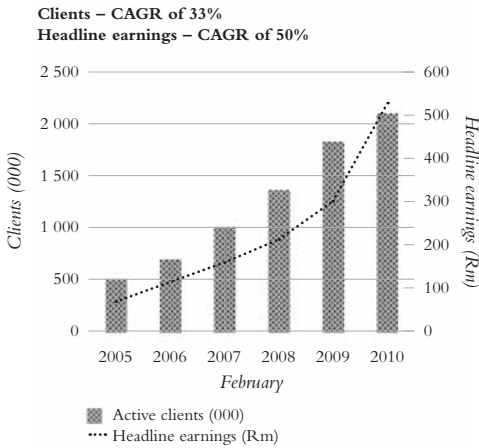
It is definitely easier said than done. What we have learnt is that the single most important contributor to success is client satisfaction. To achieve that, one needs to have a clear understanding of who they are, what it is that they want or need, and to serve them accordingly. Without clients one frankly does not have a business and it goes without saying that a company can only grow when its client base increases. A client-centric focus is thus imperative.

Let us look at our major operating companies:

#### Capitec Bank

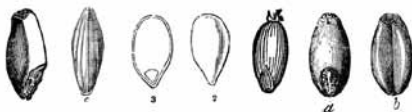
Capitec Bank is a prime example of a successful company that adheres to the above philosophies. At Capitec the client comes first. It offers the lowest cost, most innovative, fastest, easiest and friendliest way of doing banking. This is evident in the number of clients that increased from 500 000 in 2005 to 2,2 million at present.

Yes, hindsight is a perfect science – however, from the company’s perspective we might have made a mistake to have unbundled the Capitec investment in 2003, albeit that we believed it to have been the right decision at the time when PSG was a potential hostile takeover target. Before then, we owned 58% in this great company as opposed to 34,9% today. On the other hand, PSG shareholders remain in a neutral position had they held onto their unbundled Capitec shares.

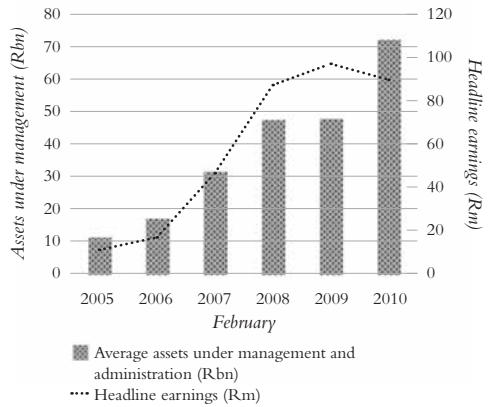


**PSG Konsult**

PSG Konsult is a one-stop solution for holistic financial planning to more than 120 000 clients. The 572 financial planners, stockbrokers and short-term insurance brokers act independently and only offer best of breed products. PSG Konsult will not allow a product to be recommended unless it has been thoroughly considered and approved by the Product Committee, which means that the likes of Fidentia and King Financial Services will not end up in a client’s investment portfolio. PSG Konsult operates out of 197 offices and through PSG Online has the premier private client online stock broking business in South Africa. The PSG Online platform will serve as an e-Commerce foundation for expanding PSG Konsult’s product offering.



**Assets under management – CAGR of 44%**  
**Headline earnings – CAGR of 52%**



**PSG Fund Management**

We have recently come to realise that the uncoordinated variety of funds offered by PSG Fund Management served only to confuse financial advisors and the investing public. This company was therefore not performing to its potential as we did not attract the quantum of assets that our various funds’ performance warranted.

We have consequently set out to rectify same. Research and analyst functions are now pooled together and we are in the process of creating a single PSG branded asset management business with a simplified holistic product range covering the full investment risk spectrum.

Mention should be made of the *PSG Tanzanite Flexible Fund*. It has been a consistent top 10%-performing fund over various periods during the past five years, and is an ideal building block in any client's investment portfolio. We are also proud of the achievement of the *PSG Alphen Growth Fund* which was ranked the best performing general equity fund in 2009.

**PSG Corporate**

PSG Corporate acts as PSG Group’s treasurer, and is the appointed manager to both Zeder and Paladin. The fee income derived from these management agreements more than covers all the operating costs incurred to run Zeder, Paladin and PSG Group.

Subsequent to year-end, PSG Financial Services raised a further R200 million in listed perpetual preference shares at an effective NACA yield of 8,9%. We continue to believe in this instrument as an attractive form of permanent capital.

### PSG Capital

PSG Capital is the corporate finance arm of PSG Group. It is a JSE-registered sponsor and designated advisor to 32 JSE-listed and numerous unlisted clients. PSG Capital plays an important advisory role at various companies within the group.

### Paladin and Zeder

Paladin and Zeder are both listed investment companies. Zeder focuses on the agri, food and beverage related sectors, while Paladin invests in all other sectors.

Their investment philosophy remains to partner with and add value to the underlying investments, to provide them with capital where appropriate and to support management. Zeder and Paladin are long-term strategic investors with no pre-defined exit strategy in mind.

### Corporate governance

PSG believes in good corporate governance. In our opinion, however, good corporate governance is not necessarily represented by set rules, policies or codes, committees, compliance officers or meetings. It is rather relevant, transparent, timely, accurate, succinct information provided to those charged with oversight, whom by nature are trustworthy and ambitious to act in the best interest of the company, and by extension all stakeholders.

A culture of good corporate governance is instilled at board level, and is applicable to the entire organisation. Management is responsible for ensuring that this is the case. This is how we continue to manage PSG Group and its investments.

PSG's board of directors has a 58% equity stake in PSG. Any poor decision thus impacts us directly.

### Corporate social investment

*Education* is one of the most basic needs of society. It ranks just after food and shelter in terms of importance, and we thoroughly believe that an educated community will sustainably improve the long-term well being of society. PSG has therefore directed its Corporate Social Investment efforts at supporting education on various levels.

- The *PSG Group Bursary Loan Scheme* at the University of Stellenbosch currently supports eight gifted but needy students to obtain a degree.
- PSG continues to financially support *Akkerdoppies*, a pre-primary school, which is part of the Sibusisiwe charity. It provides essential education and skills to 93 children from the needy communities of Stellenbosch. *The effectiveness of investing in the*

*education of a young child was proved by the World Bank who conducted a study which found that for every \$1 spent on a pre-schooler you need to spend \$7 on an adult.* PSG's contribution of close to R1 million in the past year was used to upgrade and expand the school's facilities. We intend to build a long-term relationship with this initiative and look forward to Akkerdoppies increasing its footprint in the community.

- During 2009/2010, Paladin also entered the education sector on a for-profit basis by investing R102 million in *Curro Private Schools*. We foresee that the demand for alternatives to government schools will grow and Curro is suitably positioned to take advantage of same. It already has four schools across the country, with the development of an additional three campuses currently underway.

Although our intention is to profit from this investment, it remains for a good cause. South Africa will ultimately benefit from the provision of quality education. However, arguably the biggest advantage will be to enable Government to direct its focus on areas where the conditions of education are particularly poor and, in doing so, provide proper educational facilities to the disadvantaged.

PSG also subscribes to social upliftment through *Black Economic Empowerment (BEE)*, and together with Zeder and Paladin have provided Thembeke with more than R500 million in ordinary and preference share funding for BEE investments. This funding enabled broad-based black groups to acquire shares in Thembeke at virtually no cost.

To illustrate by example, The United Reformed Church, a significant church grouping with the overwhelming majority of its members being previously disadvantaged, acquired 800 000 Thembeke shares for a total consideration of R80 towards the end of 2006. Since subscription, they have received more than R1,5 million in dividends and as they have no debt against their shares, the full amount can be used to uplift their community. Today their stake in Thembeke is worth more than R40 million.

In addition, *The PSG Group BEE Employees Trust* currently owns an unencumbered 10,5% in Thembeke, the value of which equates to approximately R75 million. The BEE employee participants' dividend entitlement to date has exceeded R1,5 million.

PSG is often approached to make donations or sponsor events. As a holding company, however, we see ourselves as investors and therefore rather encourage our underlying group companies to further contribute to society. PSG Group Ltd has consequently decided to in future only support our current Bursary and



Pre-School projects, and to provide BEE funding to Thembeka. Our formal donation/sponsorship policy can be viewed at [www.psggroup.co.za](http://www.psggroup.co.za).

**How is PSG positioned and where will the growth come from?**

We held a PSG Growth Conference in February this year, and I am happy to report that the majority of our companies throughout the group are well poised for growth.

*Capitec*

Capitec’s extended advertising campaign has made South Africans aware of the compelling alternative value-for-money banking service offering that has its roots in the lower market segment, but is rapidly gaining market share in the middle to higher income market. A quote from Bernardo Trujillo: “Rich people love low prices, poor people need them”.

Capitec was recently nominated as one of the “Great Brands of Tomorrow” by renowned Swiss-based financial services group, Credit Suisse. It is the only brand from Africa to be nominated and finds itself in the company of Facebook, Apple, Polo, Swatch, Hyundai, Mahindra, and Amazon.com.

Although Capitec has grown exponentially over the past years, its market share remains relatively small. With its introduction of longer term loans and intention to also target the middle to higher income market, we believe this company will continue to grow in the years to come.

*Zeder*

Food will forever remain the most basic human need. Zeder’s focus remains to acquire assets in this sector at lower price-earnings multiples and price-to-book values of below one. Warren Buffett always refers to a “margin of safety” when investing at compelling multiples – this is what I understand it to be.

*Paladin*

We believe the growth potential in the education sector to be enormous. However, Paladin also has stakes in other companies that offer growth prospects. A point in case is CIC, an agency business for fast moving consumer goods like Colgate-Palmolive and Diageo (Heineken, Johnny Walker). It specifically has a strong presence in South Africa’s neighbouring countries.

Furthermore BEE will remain a prominent factor when doing business in South Africa. We believe the requirements and monitoring thereof will only become stricter in the coming years. Thembeka Capital is a qualifying BEE company in which Paladin owns a 49% interest. This company will surely benefit from BEE investment opportunities. Thembeka currently has assets of more than R1 billion.

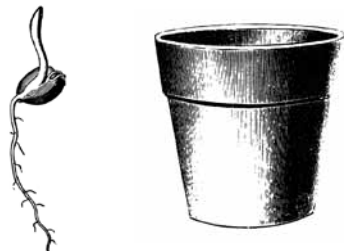
*PSG Konsult and PSG Fund Management*

The recovery in the financial markets has already seen both PSG Konsult and PSG Fund Management benefiting from same. PSG Konsult is working on organic and acquisitive initiatives which should see the company increase in size and profitability. The aforementioned restructuring of PSG Fund Management should in time result in an increase in assets and performance.

*General*

Our focus remains to grow both PSG’s *recurring headline earnings* and *intrinsic value* per share. In order to do so, we shall continue to invest in assets and sectors that offer attractive growth prospects and returns.

We remain devoted to the continued success of PSG.



*We need your support*

Finally, our group contains a vast number of strong brands that have stood and will stand the test of time. Just living your daily life you may come in contact with these and can make a difference. A day in the life of a “loyal PSG supporter” should look something like this:

07:00	Breakfast
	Weet-Bix, Nu-laid eggs, a Sasko Sam toastie with Marmite/Redro and a glass of Liqui-Fruit fruit juice ( <b>Pioneer</b> )
07:55	Drop your kids off at <b>Curro</b>
08:15	Do your banking at the local <b>Capitec</b> branch (the other banks are still closed)
09:00	Shopping
	Cadburys, Red Bull, Vanish, Dettol, Gaviscon, Nurofen, Veet of which <b>VMS/CIC</b> is the agent in SA
	Promeal pet food ( <b>Overberg Agri</b> )
	Packaging in Consol glass silica supplied by <b>Petmin</b>
10:00	Mid-morning snack
	Safari dried fruit and Ceres fruit juice ( <b>Pioneer</b> )
11:30	Stop at your <b>PSG Konsult</b> broker
	Share portfolio discussion and trade on the <b>JSE Ltd</b> via <b>PSG Online</b>
	Short-term insurance review
13:00	Lunch
	Tydstroom chicken breasts, Cerebos salt with Werda beetroot, Spekko rice and a cold Pepsi ( <b>Pioneer</b> and <b>Spirit Capital</b> )

14:00	Read the newspaper and study your investment portfolio performance
	You are extremely satisfied with the performance of your investment in the PSG Tanzanite Flexible Fund ( <b>PSG Fund Management</b> )
15:00	Tea time
	Lipton Ice Tea, Kwalitey biscuits ( <b>Pioneer</b> )
15:30	Visit <b>Kaap Agri</b> branch
	Fill your vehicle up with diesel and buy some <b>Agricol</b> bird seed
16:30	Meet with <b>PSG Capital</b>
	Discuss acquisition of complimentary business
17:30	Body corporate trustees meeting
	Approve levy guarantee from <b>Baedex</b>
19:00	Dinner at Laborie
	Bottle of newly released <b>KWV</b> Sauvignon Blanc and/or 2005 <b>KWV</b> Roodeberg
	Lamb chops (from <b>KLK</b> 's Carnarvon abattoir) and White Star “mieliepap” ( <b>Pioneer</b> )
	Dark chocolate cake baked with fine ingredients from Moir's ( <b>Pioneer</b> )
	Nightcap(s) = <b>KWV</b> 10-year brandy or Amarula Cream Liqueur ( <b>Distell</b> )

**A word of thanks**

To my fellow directors and colleagues throughout the greater PSG Group, thank you for all your effort and input over the past year, it is much appreciated. Also to our shareholders, thank you for your loyal support.



**Jannie Mouton**  
19 May 2010  
Stellenbosch