

Chairman's letter



Jannie Mouton
Chairman, PSG Group

The table below is a simple look at PSG's business.

Our stated objective remains to increase the group's recurring headline earnings per share. Recurring earnings represents annuity-type income that can reasonably be expected to continue and increase the following year.

After completing *Project Unlock Value* in 2004, PSG embarked on *Project Growth*. The aim with *Project Growth* has been to increase PSG's recurring earnings. We are pleased with the increase in PSG's **recurring earnings** from 30c per share in 2004 to

186c per share in 2008. From this solid base, we will continue with *Project Growth*.

The **funding line** includes the preference dividends paid on the perpetual preference shares, the fair value gains/losses on the R440 million interest rate hedge, interest paid on the medium-term note programme, as well as secondary tax on companies.

Head office costs include the operating costs of the Stellenbosch office.

CENTS PER SHARE	2008	2007	2006	2005	2004
<i>Change year-on-year (recurring headline earnings)</i>	58%	38%	45%	15%	
RECURRING HEADLINE EARNINGS	185,7	117,9	85,4	59,0	51,1
Gross recurring headline earnings	203,5	131,9	110,5	64,2	57,0
<u>Less:</u> Head office costs	(17,8)	(14,0)	(25,1)	(5,2)	(5,9)
Funding (at head office)	(39,9)	(46,8)	(22,6)	1,3	11,9
Non-recurring items	149,3	448,2	289,0	29,7	13,3
HEADLINE EARNINGS	295,1	519,3	351,8	90,0	76,3
<i>Change year-on-year (headline earnings)</i>	(43%)	48%	291%	18%	

Increase in shareholders' wealth

Since inception PSG has aimed to increase shareholders' wealth. We use a total return index (TRI) to measure this. The compound annual growth rate (CAGR) of an investment in PSG since 25 November 1995 is 60% compared to the General Financial Sector (sector in which PSG is listed) CAGR of 18%.

	PSG TRI*	Change year-on- year	General Financial Sector TRI**	Change year-on- year
	R		R	
25 November 1995	100		100	
29 February 1996	643	543%	116	16%
28 February 1997	1 440	124%	183	58%
28 February 1998	4 682	225%	289	57%
28 February 1999	3 580	(24%)	351	22%
29 February 2000	3 157	(12%)	377	8%
28 February 2001	2 202	(30%)	274	(27%)
28 February 2002	1 700	(23%)	212	(23%)
28 February 2003	1 977	16%	168	(20%)
29 February 2004	3 818	93%	246	46%
28 February 2005	9 727	155%	368	50%
28 February 2006	28 364	192%	625	70%
28 February 2007	36 658	29%	933	49%
29 February 2008	31 655	(14%)	734	(21%)

* Total return index is measured by investing R100 on 25 November 1995 on the day of PSG's establishment together with all ordinary and special dividends reinvested as well as the effect if Capitec shares were kept and dividends reinvested since the unbundling in November 2003.

** From McGregor BFA. PSG is listed in the General Financial Sector.

Since establishment PSG has gone through four phases:

Phase 1	Phase 2	Phase 3	Phase 4
1995 to 1998	1998 to 2002	2002 to 2004	2004 to 2008
Establishing a financial services company	Weathering the storms	Project Unlock Value	Project Growth
<ul style="list-style-type: none"> Establishment of PSG Konsult, PSG Fund Management, acquisition of Channel Life, start of Keynes Rational (to become Capitec Bank) 	<ul style="list-style-type: none"> In 1998/9 emerging market crisis triggered by defaulting Asian economies 	<ul style="list-style-type: none"> In 2002, the South African A2 banking crisis PSG Investment Bank sold to Absa Listed and unbundled Capitec Bank and declared special dividends of R3 per share 	<ul style="list-style-type: none"> Emphasis on growing recurring earnings PSG commenced investments in the JSE Ltd and various agri companies (now grouped in Zeder Investments) and other private equity-type investments (now grouped in Paladin Capital)

Understanding PSG

PSG is a unique company that:

- Invests in new ventures where entrepreneurs are afforded the opportunity to establish new businesses
- Identifies and implements innovative ideas at existing businesses
- Acquires solid assets at reasonable prices

We are opportunistic and entrepreneurial, looking to enhance shareholders' wealth over time.

PSG has significant influence through its subsidiaries and associates in more than 35 substantial operating companies that employ more than 21 500 people. It has a retail distribution network of more than 500 offices/outlets through PSG Konsult, Capitec Bank and several others through Kaap Agri and MGK. These companies also house recognised brands such as Pepsi, Ceres Fruit Juices, KWV, Bokomo Cereals, Capitec Bank, Channel Life, AIC Insurance, Alphen Asset Management, Perspex, IQuad, Big Box Containers, Tidy Files, Erbacon, MiWay and many more.

Over the past year the greater PSG Group (including associates) made the following contribution to society through creating jobs and paying taxes:

TAX PAID	R800 MILLION
SALARIES AND BONUSES TO EMPLOYEES	R3,4 BILLION

The foundation of PSG's success

We shall continue to abide by our key values in building a sustainable successful company. These include:

- **Energy, enthusiasm, passion and loyalty** – above all else.
- Continuous attention to our vision and the formulation of **clear strategies** through which this vision can be achieved.
- Clear, unambiguous **communication** to all stakeholders to ensure a thorough understanding of the company's activities and prospects.
- The appointment of **competent people** and identification and support of hard-working, **intelligent entrepreneurs** who are empowered through trust.

- No human resources or corporate communications departments. This is so important that we **do it ourselves**.
- **Assertiveness and decisiveness**. We make quick decisions, we make mistakes, we acknowledge them and learn from it.
- Promoting **shareholding** amongst management and staff.

People

Apart from capital, the right people remain a scarce resource. Human capital is the product of a person's personality, education, talent, training and experience. We aim to apply our monetary and human capital as efficiently as possible, steering away from activities that do not promote growth or add value. A bad transaction, like m Cubed, results not only in a waste of money but also of human capital. Although valuable lessons have been learnt, PSG can grow even more if those type of investments are avoided and time can be spent more productively on other opportunities.

We encourage our people, our most important asset, through the principles of **ultimate empowerment**:

- **Delegate** authority and responsibility.
- **Share** the well-being of the company with everyone.
- Get everybody **involved**.
- **Shorten** the decision-making process.
- Create a **positive environment** – little title and plenty dignity.
- **Grow** and **inspire** – don't control.
- **Create** companies not profit centres, more **responsible managers**, more **captains of industry**, more free and proud people – create **managing directors**.
- Develop **strategic thinking** – encourage people to take control of their own destiny.

In the end employees have to experience **freedom** and **purpose**.

PSG executive committee (Exco)

PSG has an active, profitable and self-sufficient operating head office where costs are tightly controlled. There are only 15 employees, including support staff and Zeder management.

The Exco's major responsibilities remain:

- Raising, allocating and managing of capital
- Overseeing group companies and other investments
- Acting as facilitator and enabler of transactions
- Starting new or investing in existing businesses

We meet formally every second week, where the standing agenda includes a study of the group's cash position and movements at corporate as well as subsidiary level. A rolling 12-month cash budget provides an indication of major inflows and outflows over the coming year, enabling effective cash flow management. All group companies report their profits monthly to the Exco. Timely information with unquestionable integrity is key. We continuously entrench this and other corporate governance measures throughout the group. This information helps us to effectively focus our attention on all the major investments. For any urgent matters the Exco can be consulted immediately.

The Exco manages assets in excess of R4 billion which includes about R1 billion in ad hoc investments at head office. These investments predominantly include listed shares such as Petmin, Vox Telecom, PSG local and offshore unit trusts, PSG hedge funds and the preference share investments at Thembeke Capital.

Project Growth Conference

In February 2008, PSG hosted a two-day Growth Conference with about 80 attendees from PSG and its strategic investments. Selected CEOs present on the relevant company's strategy and future at this important event on the PSG calendar.

The purpose of the conference was to:

- **Inform** and **inspire** all about PSG
- **Engage** people to **exchange** ideas
- Create proud **ambassadors**
- Increase **excitement** and market the group
- Most importantly, search for and identify **opportunities**

Throughout the year the CEOs will keep the Exco updated on their progress and we shall assist with the necessary advice and capital.

Dividends

As explained in our 2003 Annual Report:

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

"...if a company pays dividends, its shareholders earn a return on their investment irrespective of what the market values the share at. Furthermore, if management can consistently grow the dividend, the dividend yield on the original investment soon provides an exceptional return..."

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

PSG has always been a proud payer of dividends to its shareholders. **This year our dividend per share has increased by 25% to 112,5c.** Since the original buyout of PSG at 36c per share in November 1995, shareholders have received **791c per share in dividends.** This includes special dividends of 300c per share.

PSG's recurring headline earnings will be the benchmark of our dividends and future growth thereof. Concentrating on businesses with good cash flows without burdensome capital requirements are the ideal opportunities PSG will pursue.

In the absence of appropriate opportunities PSG will return idle cash to shareholders, but will also not hesitate to ask shareholders for additional capital when the need arises. This is the same relationship we have with our subsidiary companies that pay maximum dividends whilst we provide capital as and when the need arises.

Funding

PSG recently increased its variable rate perpetual preference share funding to R600 million with the intention of increasing it to R1 billion in the foreseeable future.

During 2006 PSG entered into a 10-year fixed (8,87% NACS) for floating (75% of prime) **interest rate hedge** with a nominal value of R440 million. Accounting standards require us to fair value this instrument and recognise these (non-recurring) movements through profit and loss. Due to the increase in interest rates over the past year, the pre-tax marked-to-market loss of R7 million in the previous year changed to a profit of R32 million in 2008. PSG also has **floating dividend preference share** investments in Thembeka Capital funding attractive BEE opportunities with a nominal value in excess of R150 million. The interest rate hedge of R440 million, combined with the preference share investments of R150 million, means PSG is substantially protected against movements in interest rates.

Despite uncertainties in the global credit market, Global Credit Rating Co. raised PSG Financial Services' long-term and short-term rating to "A" and "A1-" respectively.

Whilst PSG has R450 million in available overdraft facilities, the company remains relatively lowly geared with the capital capacity to enter into significant transactions.

Directors and shareholding

It is my pleasure to welcome Christo Wiese as a non-executive member to PSG's board of directors. He is a formidable and respected businessman and a significant shareholder in PSG. Pierre Malan, previously an alternate director, is now a full member of the board. He has been with the company since 1998 and heads up the private equity company Paladin Capital Ltd. We expect Paladin, which is already a significant venture, to grow rapidly under Pierre's leadership.

Over the past year the directors' shareholding increased from 37% to more than 50% of PSG's issued share capital. Since 2006 Markus Jooste added 15,5 million shares to bring his current shareholding to 20 million shares. Christo Wiese acquired his substantial interest in PSG through the exchange of KWV shares in 2006. Since then he has more than doubled his shareholding to 15,5 million. This helped to increase director, management, friends and family interests in PSG to approximately 70%.

Most of my own family's wealth is invested in PSG. Any bad decision hurts us directly; shareholders can be comfortable that we will act in the best interest of all stakeholders.

BEE

PSG's current BEE shareholding is approximately 7%. It is our intention to increase this over time.

Thembeka Capital is a black-owned and controlled BEE company, supported by PSG through preference share funding. It remains an important initiative by PSG. At inception in December 2005 it had a net asset value (NAV) of R1. At year-end, the NAV was R400 million, meaning that black shareholders' wealth increased by more than R200 million.

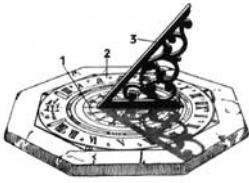


Overseas expansion and listing

Over the past year both PSG Konsult and PSG Fund Management expanded internationally. PSG Konsult acquired a 50% stake in a London-based financial advisor. This company services people in the UK with South African ties, but is also looking to expand its services. PSG Konsult also negotiated an agreement with a UK-based stockbroker, especially to execute trades on behalf of South African citizens. People with overseas funds, e.g. their R2 million foreign allowance, can now trade the majority of foreign listed shares across the world markets through their local PSG Konsult stockbroker.

PSG Fund Management's operations in the Channel Islands were boosted by the acquisition of m Cubed's Guernsey book.

At the 2007 annual general meeting PSG Group announced its intention to list on the London Stock Exchange. Strategically, this listing would have enabled PSG to catapult expansion of the group



abroad. However, turmoil in the international financial markets ignited by the US sub-prime crisis continues to negatively affect financial services companies' share prices. Placing PSG shares at these market prices was in our opinion undervaluing the company and therefore made it unattractive to issue PSG scrip.

Nevertheless, it remains part of PSG's growth strategy to responsibly identify suitable overseas investment opportunities. Management will, however, be cautious not to direct its focus and energy away from its current business.

Capitec transaction

During *Project Unlock Value*, PSG's share price was trading well below its NAV and the company was threatened by a hostile takeover. In order to unlock value and protect Capitec from disappearing in a takeover it was decided to unbundle the bank in November 2003. Several of these shareholders remained loyal investors in both PSG and Capitec.

In May 2007, PSG offered 1,4545 PSG shares to all Capitec shareholders for every one share held to increase PSG's shareholding in Capitec from around 18,3%, acquired via the Arch Equity merger, to 34,9%. This embeds our strategic stake in a great company with promising growth prospects.

m Cubed and PSG FutureWealth

Over the past year PSG, through Jaap du Toit and Jacobus van Zyl Smit, progressed to finalise the outstanding matters at m Cubed. Leon de Wit was appointed as MD of m Cubed Life about 12 months ago and since then has devoted time to finalise the affairs to the benefit of all stakeholders.

Most importantly, the interests of the m Cubed Life policyholders have been safeguarded and the

policies are in the process of being transferred to *PSG FutureWealth* (previously Alternative Channel).

Effective 1 December 2007, PSG acquired 80% of Alternative Channel from Channel Life Management, as our co-investors, owns the other 20%. This will boost PSG Group's array of investment products and services. The company that has a linked life licence is currently offering investment products. It is also looking to expand its product offering further into life and other complementary investment products in closer association with PSG Fund Management.

Gross balance sheet assets at acquisition amounted to R4,5 billion. The addition of the selected m Cubed Life assets doubled the assets of PSG FutureWealth to R7,7 billion. Profit after tax amounted to R12 million (attributable to PSG was R8,9 million). The total investment by PSG was R50 million.

MiWay

We have joined *Sanlam* and *Santam* in this new initiative. One could arguably not have asked for better partners in the South African insurance and financial services industry. We look forward to combining their experience with the flair of René Otto in shaping the landscape of internet-based financial services.

Quince Capital

Despite the high expectations we had for this initiative, it inevitably became a victim of the sub-prime crisis. The cost of securitised funding increased to such an extent that we decided that unwinding the joint venture was in the best interests of all parties. As a result, Reunert will take back RC&C, the asset-backed finance venture dominant in office equipment, whilst PSG and Michiel le Roux are taking back Quince Property Finance/ZS Rational and Quince Scripfin. These remain well-run profitable businesses that in future will be expanded under Adato Capital.

PSG has to date received R16 million in dividends and, most importantly, the initial R300 million cash investment will be returned to us once the authorities have approved the transaction.

We will always be a bit contrarian

With reference to the current situation in South Africa, I always like telling this true story:

On 12 February 2002 Saambou Bank collapsed, sparking the A2 banking crisis in South Africa. A couple of days later, after having prepared for four months, we listed Capitec Bank at arguably one of the worst times. The price soon dropped severely to below R1 per share. At the time everyone wanted to take money offshore with the ruling R/\$ exchange rate above R12 (and increasing). However, two contrarian investors (I know them personally) decided to invest R400 000, which they previously (legally) took offshore, in 400 000 Capitec shares. What is their position today?

The R400 000 offshore investment would probably be worth about R350 000, maybe even R400 000 today. But the contrarian investors that invested in Capitec increased their R400 000 to more than R15 million, excluding dividends of another R1 million received over the same period.

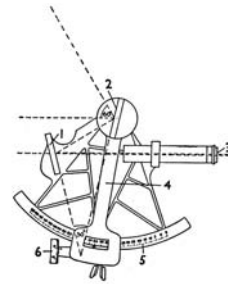
Yes, a cycle sometimes takes a long time. I always think: sell if everyone around the braai talks about buying shares and buy when there is blood in the streets. Sell your spec stand on the West Coast and buy a house in Harare. Buy on bad news, sell on good news. In the words of well respected Warren Buffett: "Be fearful when others are greedy and greedy when others are fearful." We shall (continue to) follow the same principle at PSG.

PSG is a New South Africa company with our inception after the advent of democracy in 1994. This country has offered us many opportunities, and some that we pursued contributed to our growth record of the past 12 years.

In the world today, and probably even more so in South Africa, things are not looking too good. Yes, there are great concerns over Eskom and yes, crime is at unacceptably high levels. If you are negative, make a decision – leave or stay, but stop complaining. It is exactly during these times that there are opportunities to make a positive contribution to our country (and some money) that all the pessimists are missing. I challenge you to be contrarian!

Review of operations

This year we encouraged the CEOs to expand their contributions in the "Review of Operations" section of this report. We hope this will give you better insight into their industries and companies, as well as how they are managing them.



Guiding us into the future

I want to end with an extract from certain applicable principles highlighted in the 2001 Annual Report that still guide us today and into the future:

- “ • *We are a living company and changes are going to happen. We will effect dramatic changes if it is in the interests of shareholders.*
- *We are a going concern and want to be in business for the long term.*
- *We are and will be honest and transparent to our stakeholders.*
- *Corporate governance, excellent administration and good management information systems are cornerstones.*
- *Cash is king.*
- *We continue to investigate alternatives to enhance shareholder value.”*

PSG for me

In my view PSG is a great success. PSG gave me confidence and freedom. It has worked for me to buy the shares and keep them. I have continuously reinvested my dividends and to this day have never sold a share. Retirement passed me at 60 and I'm now looking at 70. I am looking forward to PSG's future, I still think and dream about it every day.

The way forward

PSG is in the best position it has ever been with all companies operating satisfactorily. Our recurring earnings have increased to such an extent that we are less dependent on the stock market for profits. All the companies are well structured with their own boards of directors and talented, hard-working people. PSG Group is well capitalised and well positioned to take advantage of opportunities.

Thanks

I would sincerely like to thank the board, staff, management, clients and shareholders for their loyal support during the past year.

Jannie Mouton
Stellenbosch
16 May 2008

Notice

Annual general meetings and investor presentations

All shareholders and other interested parties are welcome to attend the annual general meetings (AGMs) followed by presentations and Q&A sessions for selected PSG Group companies on Friday, 20 June 2008 at Lanzerac, Stellenbosch. This will be a good opportunity to learn more about PSG Group and its activities.

Company	AGM time	Chairman	Presentation & Q&A time	Presenter
PSG Konsult	09:30	Jaap du Toit	09:35 – 10:15	Willem Theron (CEO)
Thembeke Capital	10:30	KK Combi	10:40 – 11:20	KK Combi / Piet Mouton (MD)
Paladin Capital	10:35	Jannie Mouton	10:40 – 11:20	Johan Holtzhausen
Zeder Investments	11:30	Jannie Mouton	11:35 – 11:50	Antonie Jacobs
PSG Financial Services	12:00	Jannie Mouton		
PSG Group	12:05	Jannie Mouton	12:10	Jannie Mouton

There will be a finger lunch following the PSG Group presentation. Please confirm attendance with Jaki Nieuwoudt at E-mail: jakin@psgcapital.com Fax: 021 887 9619 Telephone: 021 887 9602