Chairman's letter

After 15 years

PSG is an investment company established in 1995. The group consists of 35 underlying companies with a combined market capitalisation of R71bn, that operate across industries that include financial services, banking, agriculture, education, construction, manufacturing, mining and now also energy saving. PSG's market capitalisation is currently in excess of R7bn compared to R4,2bn as at 28 February last year.

Management has defined *five main business units* within the group on which we report:

- Capitec Bank (banking)
- PSG Konsult, including PSG Asset Management with effect from 1 March 2011 (wealth planning, asset management and stock broking). For the 2011 financial year, however, these two businesses were still reported on as separate units
- PSG Corporate, including 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)

A summary of significant events in PSG's 15-year history can be viewed on pages 8 to 9 of this report.

Our main objective

To create wealth for our shareholders through a combination of share price appreciation and the payment of dividends.

How have we performed?

We use the following two measures to evaluate our performance:

- Total Return Index
- Recurring headline earnings per share

Total Return Index (TRI)

It is our opinion that performance should not be measured in terms of the size of a company, but rather on the return that an investor receives over time. Executives are generally incentivised to build a large company which can justify a big salary bill – if this was the case with PSG, management would probably be earning multiples of their current salaries. As we are all PSG shareholders, we rather focus on shareholder wealth creation.

The TRI is the compounded annual growth rate of an investment, and is calculated by taking cognizance of both share price appreciation and dividends and other distributions paid. This is a sound measure of wealth creation and a means of benchmarking different companies.

Had you bought R100 000's worth of PSG shares in November 1995 and:

- reinvested all the dividends that you received into PSG; and
- held onto the Capitec shares that you received in terms of its unbundling in 2003 and reinvested the dividends received from those shares into Capitec;

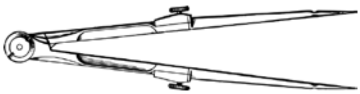
then your R100 000 would be worth approximately R99m today. This translates into a TRI of 56%, which is the highest of any listed company on the JSE Ltd over the 15-year period since PSG's establishment. We are proud of this achievement.

Had you, however, invested R100 000 into the ALSI in November 1995 and assumed that dividends were reinvested, your investment would be worth R914 000 today – a TRI of 15%.

Date	ALSI Investment* R'000	ALSI CAGR %	PSG Investment R'000	PSG CAGR %
15 November 1995	**100**		**100**	
29 February 1996	113		643	
28 February 1997	124	18%	1 371	661%
28 February 1998	124	10%	4 371	420%
28 February 1999	113	4%	3 343	191%
29 February 2000	161	12%	2 992	121%
28 February 2001	190	13%	2 161	79%
28 February 2002	238	15%	1 602	55%
28 February 2003	190	9%	1 871	49%
29 February 2004	254	12%	3 785	55%
28 February 2005	322	13%	9 655	63%
28 February 2006	468	16%	28 808	73%
28 February 2007	646	18%	36 401	69%
29 February 2008	788	18%	30 708	59%
28 February 2009	495	13%	24 931	51%
28 February 2010	733	15%	48 271	54%
28 February 2011	904	15%	95 623	57%
28 April 2011	**914**	**15%**	**98 742**	**56%**

* *Source for ALSI's average dividend yield: I-Net Bridge*

- *Since PSG's establishment in November 1995, it has paid R11,57 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 36 cents at formation to R43 at 28 April 2011.*



Recurring headline earnings

International Financial Reporting Standards (IFRS) have made our financial statements too complex and difficult to use as a measure of our performance. We consequently introduced the *recurring headline earnings* concept as the predominant measure of the group's financial performance from an earnings perspective.

Recurring headline earnings is calculated on a *see-through basis* throughout the group and is the sum of PSG's effective interest in that of each investment, regardless of our percentage shareholding. The result is that investments in which PSG or an underlying company holds less than 20% and are generally not equity accountable in terms of accounting standards, are included in the calculation of our *consolidated recurring headline earnings*. Marked-to-market fluctuations are excluded. This provides management and investors with a more realistic and simple way of evaluating PSG's earnings performance.

Recurring headline earnings per share increased from 129,5 cents in 2008 to 241,9 cents in 2011 – a compounded annual growth rate (CAGR) of 23%.

Cents per share	2008	2009	2010	2011
Recurring headline earnings	129,5	174,3	207,4	**241,9**
Change year-on-year		*35%*	*19%*	***17%***
Non-recurring items	165,6	(109,0)	41,8	**64,8**
Reportable headline earnings	295,1	65,3	249,2	**306,7**
Change year-on-year		*(78%)*	*282%*	***23%***

How to value PSG

Asset/liability	29 Feb 2008 Rm	28 Feb 2009 Rm	28 Feb 2010 Rm	28 Feb 2011 Rm
Capitec*	1 114	857	2 367	**5 138**
PSG Konsult (incl. PSG Asset Management)**	1 156	873	948	**1 206**
Zeder Investments*	553	342	742	**1 069**
Paladin Capital*	758	413	834	**1 242**
Management fees/agreements†	216	216	361	**350**
Other investments (Thembeka prefs, cash, etc.)†	1 364	745	400	**548**
Total assets	**5 161**	**3 446**	**5 652**	**9 553**
Perpetual pref funding*	(571)	(486)	(541)	**(1 028)**
Other debt†	(143)	(350)	(539)	**(507)**
Total SOTP value	**4 447**	**2 610**	**4 572**	**8 018**
SOTP value per share (R)	**25,99**	**15,31**	**26,60**	**46,81**

** Listed on the JSE Ltd ** Over-the-counter † Valuation*

As PSG is an investment holding company, we believe that a sum-of-the-parts (SOTP) valuation is the most appropriate method to value our business. Listed assets and liabilities are valued using quoted market prices, whereas unlisted assets and liabilities are valued using appropriate valuation methods.

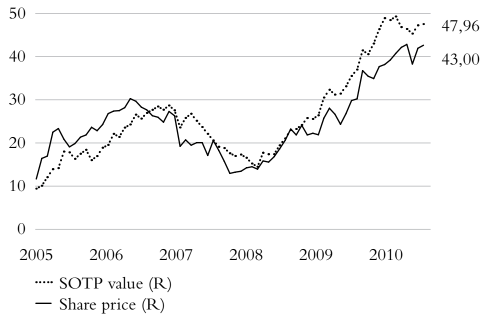
PSG's *SOTP* increased from R9,43 per share in November 2005 to R46,81 as at 28 February 2011 – a CAGR of 34%. At 28 April 2011, the *SOTP value* was R47,96 per share.

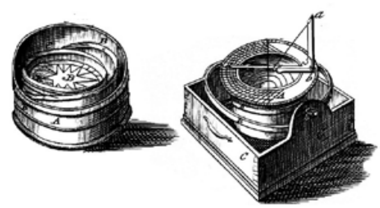
Management also uses the SOTP calculation to evaluate new investment opportunities. A new investment should ultimately have a positive effect on our SOTP value.

PSG has been successful over the years from a value creation perspective when it repurchased PSG shares at the appropriate time. As a rule of thumb, we will only consider buying back PSG shares when same is trading at a substantial discount to the SOTP value and there is no other identified investment opportunity more attractive than PSG itself. It makes logical sense as a buy-back should be seen as an investment in PSG. Similarly, we continue to invest in our existing portfolio when we believe a company is undervalued.

Over the past two financial years we invested R914m into PSG, Paladin, Zeder and Capitec, and at 28 February 2011 had created R585m in additional value for PSG shareholders.

PSG share price vs SOTP value (28 April 2011)

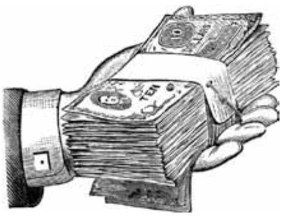




	Number of shares acquired m	Average price per share R	Total cost Rm	Market price as at 28 Feb 2011 R	MTM profit 24 months to 28 Feb 2011 Rm
Paladin	54	1,36	**73**	2,63	**68**
Zeder	173	1,41	**244**	2,62	**211**
Capitec	4	115,97	**436**	159,01	**162**
PSG Group share buy-back	7	22,80	**161**	43,20	**144**
Total			**914**		**585**

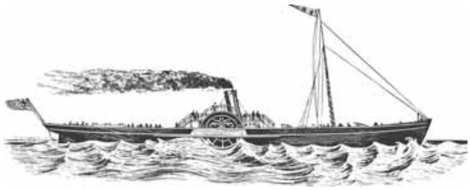
Our investment strategy and philosophy

- We invest in companies with uncomplicated business models operating in industries with attractive growth prospects, and led by talented, hard-working and passionate people.
- We believe in co-investing with management – management as owners are generally focused and dedicated to continuously growing their businesses.
- A culture of good corporate governance is instilled at board level, and is applicable to the entire organisation. It remains a cornerstone of the way we do business. 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 who by nature are trustworthy and ambitious to act in the best interest of the company, and by extension all stakeholders.
- We are long-term strategic investors with no pre-defined exit strategy.
- We add value by challenging management to innovate and grow their business, both organically and by means of acquisitions. We provide funding when needed.
- A company can only grow when its customer base increases. A focus on client satisfaction thus remains vitally important for our continued success.
- Funding remains critically important and integral to what we do. We talk about it in more detail below.



Funding

- The challenge is to fund long-term investments with long-term capital. People generally under-estimate how expensive it is using ordinary shares as a funding instrument.
- PSG was the first non-bank to issue *listed perpetual preference shares* in 2004. It is essentially a cheaper form of permanent capital and, as it is non-redeemable, eliminates one's risk of having to refinance debt in tough times. Today PSG has R1,19bn of perpetual preference shares in issue, having raised a further R502m to fund, inter alia, the Capitec rights issue during the year under review. With interest rates at a 30-year low, we were prudent in fixing the cost of the majority of this funding mechanism by means of an interest rate hedge. R440m has been fixed at 8,87% per annum until 31 August 2016 and R650m at 8,6% per annum until 31 August 2020.
- As at 28 February 2011, PSG's net gearing inclusive of the exposure under the perpetual preference shares (as a percentage of PSG's balance sheet NAV) amounted to an acceptable 35%. Excluding the never-to-be-redeemed perpetual preference shares, this figure reduces to 7%.



Our people

Our people are our single most important asset. We believe in employing smart individuals who are empowered through trust. They are encouraged to be entrepreneurial, creative, think out of the box and come up with ideas. They must take responsibility. We have faith in the integrity of our people and we all work together to make PSG a better company.

PSG Executive Committee ("Exco")

The PSG Exco comprises myself as chairman, Piet Mouton (CEO), Wynand Greeff (FD), Johan Holtzhausen (CEO: PSG Capital), Chris Otto and Dries Mellet (secretary). The committee meets at least twice per month and:

- Is responsible for determining and implementing the PSG Group strategy, as approved by the PSG Group board of directors
- Acts as the PSG investment committee
- Is the appointed manager to both Paladin Capital and Zeder Investments
- Acts as the PSG group treasurer, monitoring and managing the capital requirements, gearing and liquidity of the group, and allocates and invests the group's resources
- Monitors the group's performance and provides strategic input and direction to the underlying companies
- Is the custodian of good corporate governance throughout the group
- Assumes overall responsibility for growth and performance of PSG

Board of directors

The PSG Group board of directors comprises three executives and eleven non-executive directors. I continue to chair the board, although now as a non-executive. Although only certain of the non-executive directors are independent as defined by some rules, all of the non-executive directors are independent of thought and action.

Contrary to what King III prescribes, we believe that all our directors should own shares in the company. In most cases a large portion of their personal wealth is invested in PSG. Inevitably one looks better after your own car than a rental. A director as shareholder will thus share proportionally with you in the consequences of any good or bad decisions. Today, the directors own 58% in the issued share capital of PSG, net of treasury shares.

Let us look at our major operating companies:

Capitec Bank

Capitec, which now represents more than 50% of PSG's total assets, continues to grow and provide us with stellar returns. It remains an exceptional company run by an exceptional group of people – the same team that started the business eleven years ago. Its motto – Simplicity is the ultimate sophistication – is fast becoming a familiar expression among South Africans. Where Capitec was previously disregarded by the big banks in South Africa, it is now acknowledged as a serious contender.

During the past year, Capitec raised R1,05bn by means of a rights issue bolstering its capital base for future growth – for us it was a no-brainer to write out a cheque for R367m to follow our rights! Today Capitec's TRI stands at 71%, the highest of any listed company in South Africa over the last nine years since listing. Say no more.

PSG Konsult

PSG Konsult is the largest financial intermediary in South Africa offering a one-stop solution for holistic financial planning to more than 150 000 clients. Its 642 (2010: 548) financial planners, stockbrokers and short-term insurance brokers operate out of 216 (2010: 209) offices countrywide. Its subsidiary, PSG Online, has the premier private client online stock-broking business in South Africa and now serves as PSG Konsult's e-Business platform.

During the past couple of years, PSG Konsult acquired a number of businesses. Despite the additional capacity that has been created, its performance has been less than satisfactory – recurring headline earnings for the past financial year is lower than that of three years ago. We are, however confident that management's efforts to increase PSG Konsult's profitability will come to fruition and we will assist them when and where possible.

Effective 1 March 2011, **PSG Asset Management**, which previously consisted of PSG Fund Management, PSG Alphen, PSG Tanzanite, PSG Absolute Investments and PSG FutureWealth, merged with PSG Konsult. Whilst creating structure and space for PSG Konsult to achieve further growth in the financial services sector, it also provides PSG Asset Management with the opportunity to create a simplified structure, to establish a single, comprehensive asset management brand and centralise research, making it more widely available in the market. We support Willem Theron and his team in this initiative and believe that the combined business could serve as the platform for a fully fledged financial services offering.

Well done to the *PSG Flexible Fund* team for winning two Raging Bull awards as the Best Domestic Asset Allocation Flexible Fund over the three and five-year period ended 31 December 2010 – hou so aan!

PSG Corporate

The PSG Group head office in Stellenbosch comprises a mere 28 employees, which include the PSG Exco, those individuals responsible for the day-to-day operations of Paladin Capital and Zeder Investments, eight PSG Capital corporate finance professionals, as well as six secretaries and office assistants. This office administrates no less than five JSE-listed companies and contributed R21m to PSG's recurring headline earnings for the year ended 28 February 2011. We must be the only head office in South Africa that operates as a profit centre!

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 to 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.

Paladin

It was a year of ups and downs for Paladin.

- Not long ago, in July 2009, we sold our dream to the private schools group Curro's management and shareholders. We are happy to report that this dream is fast becoming a reality, with Curro's proposed listing later in 2011 being another step in the right direction.
- Paladin realised an after-tax profit of R208m when it sold its 50% investment in CIC to Imperial

for R364m. Having invested R67m originally and received R24m in dividends, CIC was an extraordinary investment with a compounded return of 64,8% over the four-year period.
- The performance of cyclical companies such as Erbacon and Top Fix in the construction sector, and tanker manufacturer GRW has been disappointing. There are plans in place for each of these businesses to return to profitability.
- With the resignation of the Paladin CEO earlier this year, Piet Mouton has assumed operational responsibility together with the Paladin management team. The PSG Exco remains responsible for managing Paladin's assets and delivering on the Paladin strategy.

Zeder

- During the past year, our KWV and Pioneer investments occupied a lot of our thinking space. Management, with the assistance of PSG Capital, assisted Pioneer to finally resolve its Competition Commission issues – Pioneer can now focus on business again. After a concerted and failed effort to sell KWV to Pioneer (which we still believe would have been a perfect fit), Zeder disposed of its entire interest for R286m cash.
- We continue to evaluate a spectrum of opportunities and we hope that we can build on the satisfactory performance of Zeder's current portfolio of assets.

The proceeds on the sale of the CIC and KWV investments provide Paladin and Zeder respectively with the necessary means to pursue other attractive opportunities.

Our contribution to the wider economy

We appreciate the opportunities that the stable South African economic environment in which we operate, presents. We endorse democracy and acknowledge the responsibility of business in terms of meeting our country's national goals, including the creation of job opportunities, economic growth and wealth creation, with meaningful black participation in the economy.

We believe that Thembeka Capital, a BBBEE investment company in which we own 49% through Paladin Capital, epitomises the latter having created R580m in value for its more than 500 direct and thousands of indirect black shareholders over the last five years. We are proud of our association with this company and encourage other companies throughout the group to follow suit.

PSG Group is profitable and, together with its associated companies, employs 36 000 people. Capitec alone creates more than 180 new jobs every month! The combined salary bill of the group exceeds R6,4bn, with the tax paid by group companies exceeding R1,7bn. This serves to confirm our belief to make a contribution to the wider South African economy by creating jobs and paying taxes.

Corporate social investment

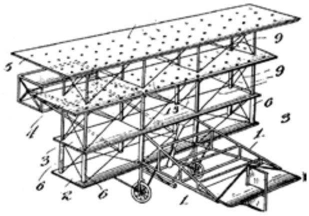
Education remains one of the most basic needs of society. It ranks just after food and shelter in terms of importance. We thoroughly believe that an educated community will sustainably improve the long-term well-being of society. PSG has therefore directed its corporate social investment efforts at supporting education on various levels.

- The *PSG Group Bursary Loan Scheme* at the University of Stellenbosch has since our donation of 100 000 PSG shares, supported a number of gifted but needy students. Their fields of study include medicine, actuarial science, accounting and science.
- PSG continues to financially support *Akkerdoppies*, a pre-primary school, which is part of the Sibusisiwe charity. Akkerdoppies is committed to early childhood development and provides essential education and skills to children from the needy communities of Stellenbosch. Since opening its doors in June 2009, it has grown from 40 to 118 children, and now employs 12 people. We are committed to a long-term relationship with this initiative and anticipate a significant positive contribution to the community.
- To date, Paladin has invested R103m in *Curro Private Schools* and provided funding of R153m. We foresee that the demand for alternatives to government schools will grow and Curro is suitably positioned to take advantage of this, offering affordable private education. It already has twelve campuses across the country, with the development of an additional two campuses currently under way. Given that Curro had four campuses a year ago, we are confident about its growth prospects.

  Although our intention is to profit from this investment, it remains 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 so doing provide proper educational facilities to the disadvantaged.

PSG subscribes to social upliftment through *Black Economic Empowerment (BEE)* and, together with Zeder and Paladin, has provided Thembeka with more than R500m in ordinary and preference share funding for BEE investments. This funding enabled broad-based black groups to acquire shares in Thembeka at virtually no cost.

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 only support our current bursary and pre-school projects in future, and to provide BEE funding to Thembeka. Our formal donation/sponsorship policy can be viewed at *www.psggroup.co.za*.



Our future

Our annual *PSG Growth Conference* was held in February 2011. It serves as a platform for CEOs of the underlying investments to showcase their companies and share their challenges and future growth plans. We remain excited about the potential within our group and we give you the assurance that there are plans in place to increase profitability and ultimately shareholder value.

Capitec

Capitec's compelling alternative value-for-money banking service offering has its roots in the lower market segment, but is rapidly gaining market share in the middle to higher income market. It continues to expand its footprint and opened an additional 54 branches during the past year. It adds 70 000 new satisfied clients every month and its active client base today totals 2,8 million clients.

With its introduction of longer-term loans and its intention to also target the middle to higher income market, we believe this company will continue to grow in the years to come. Capitec, "one of the great brands of tomorrow", remains an exceptional company and management is as focused as ever.

Zeder

Food will forever remain the most basic human need and Africa is seen as the future bread basket of the world. Zeder continues to accumulate agri assets at compelling valuations and we intend to become a leading agri role player.

Paladin

We believe the growth potential in the education sector to be enormous and we are excited about Curro's listing later this year.

BEE remains a prominent factor when doing business in South Africa and the requirements and monitoring thereof are likely to become stricter in the years to come. Being a qualifying BEE company, Thembeka will continue to benefit from BEE investment opportunities. It currently has an intrinsic value of approximately R1bn.

The private sector is capitalising on government's failure to address basic needs such as education, security, health care and other basic services. Paladin continues to evaluate opportunities in this space – Curro is a case in point. We have recently invested in *Energy Partners*, a company that offers energy saving solutions.

PSG Konsult, including PSG Asset Management

PSG Konsult continues to expand its footprint and product offering. The aforementioned merger of PSG Konsult and PSG Asset Management is expected to bring many synergies, and the combined entity is well positioned to compete as a premier financial services company in South Africa.

General

Our focus remains to create wealth for our shareholders by increasing both PSG's *recurring headline earnings* and *SOTP value* per share. We remain committed to uphold our reputation as a company that provides superior returns.

A word of thanks

I would like to thank my fellow directors, members of the PSG Exco and colleagues throughout the greater PSG Group. I enjoy working with you and appreciate your hard work.

Our success will not be possible without the loyal support of you, our shareholders. Thank you.

Jannie Mouton
Stellenbosch
13 May 2011