

# Reviewed results

## FOR THE YEAR ENDED 28 FEBRUARY 2010



**PALADIN**  
CAPITAL

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION		28 Feb 2010	28 Feb 2009
at 28 February 2010		Rm	Rm
<b>Assets</b>			
Investment in associated companies	2	1 052.1	709.8
Deferred income tax		2.8	1.1
<b>Financial assets</b>			
Equity securities			2.6
Loans and advances			19.5
Receivables		0.2	2.0
Cash and cash equivalents		2.3	0.1
Non-current assets held for sale			36.7
<b>Total assets</b>		<b>1 057.4</b>	<b>771.8</b>
<b>Equity</b>			
Ordinary shareholders' equity		1 009.8	602.0
Minority interests			1.7
<b>Total equity</b>		<b>1 009.8</b>	<b>603.7</b>
<b>Liabilities</b>			
<b>Financial liabilities</b>			
Borrowings		42.2	150.7
Trade and other payables		5.3	1.1
Current income tax liabilities		0.1	
Liabilities directly associated with non-current assets classified as held for sale			16.3
<b>Total liabilities</b>		<b>47.6</b>	<b>168.1</b>
<b>Total equity and liabilities</b>		<b>1 057.4</b>	<b>771.8</b>
<b>Net asset value per share (cents)</b>		<b>175.7</b>	<b>151.9</b>

CONDENSED GROUP INCOME STATEMENT		28 Feb 2010	28 Feb 2009
for the year ended 28 February 2010		Rm	Rm
<b>Income</b>			
Investment income		21.0	24.0
Fair value gains and losses on financial instruments			(2.2)
Fee income		0.7	
Other operating income		1.0	0.5
<b>Total income</b>		<b>22.7</b>	<b>22.3</b>
<b>Expenses</b>			
Administration and other expenses		(10.2)	(9.1)
Impairment charges		(7.0)	
		(17.2)	(9.1)
<b>Results of operating activities</b>		<b>5.5</b>	<b>13.2</b>
Finance costs		(13.6)	(12.5)
Share of profits/(losses) of associated companies		168.4	(43.6)
<b>Net income/(loss) before taxation from continuing operations</b>		<b>160.3</b>	<b>(42.9)</b>
Taxation		1.6	(0.2)
<b>Net income/(loss) from continued operations</b>		<b>161.9</b>	<b>(43.1)</b>
<b>Net profit for the year from discontinued operations</b>		<b>17.7</b>	<b>8.7</b>
		179.6	(34.4)
<b>Attributable to:</b>		<b>179.6</b>	<b>(34.4)</b>
– minority interest			2.8
– equity holders of the company		179.6	(37.2)
Attributable to equity holders of the company		179.6	(37.2)
Non-headline items	3	37.7	19.2
<b>Headline earnings/(loss)</b>		<b>217.3</b>	<b>(18.0)</b>
<b>Earnings/(loss) per share (cents)</b>			
– attributable		36.3	(9.5)
– headline		43.9	(4.6)
<b>Dividend per share (cents)</b>			
Interim		–	2.5
Final		–	2.5
<b>Number of shares (million)</b>			
– in issue		574.6	396.2
– weighted average		495.4	390.6

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME		28 Feb 2010	28 Feb 2009
for the year ended 28 February 2010		Rm	Rm
Net profit/(loss) of the group		179.6	(34.4)
Share of other comprehensive income of associated company		12.3	
<b>Total comprehensive income/(loss) for the year</b>		<b>191.9</b>	<b>(34.4)</b>
<b>Attributable to:</b>		<b>191.9</b>	<b>(34.4)</b>
– minority interest			2.8
– equity holders of the company		191.9	(37.2)

CONDENSED GROUP STATEMENT OF CASH FLOWS		28 Feb 2010	28 Feb 2009
for the year ended 28 February 2010		Rm	Rm
<b>Cash retained/(utilised) from operating activities</b>			
Cash generated/(utilised) by operating activities		18.0	(54.0)
Taxation paid			(6.7)
<b>Net cash flow from operating activities</b>		<b>18.0</b>	<b>(60.7)</b>
Net cash flow from investment activities		(164.0)	(71.1)
Net cash flow from financing activities		144.3	131.4
<b>Net decrease in cash and cash equivalents</b>		<b>(1.7)</b>	<b>(0.4)</b>
Cash and cash equivalents at beginning of period		4.0	4.4
<b>Cash and cash equivalents at end of period</b>		<b>2.3</b>	<b>4.0</b>
– Continued operations		2.3	0.1
– Discontinued operations			3.9

CONDENSED STATEMENT OF CHANGES IN EQUITY		28 Feb 2010	28 Feb 2009
for the year ended 28 February 2010		Rm	Rm
<b>Ordinary shareholders' equity at beginning of period</b>			
		602.0	633.6
Net shares issued (net of buy-backs and share issue cost)		342.1	26.7
Total comprehensive income/(loss)		191.9	(37.2)
Other reserves		(116.3)	
Dividend paid		(9.9)	(21.1)
<b>Ordinary shareholders' equity at end of period</b>		<b>1 009.8</b>	<b>602.0</b>
<b>Minority interest</b>			
Beginning of period		–	1.7
Net income for period		1.7	1.1
Movement in interest in subsidiaries		(1.7)	(0.3)
Dividend paid			(1.7)
<b>Total equity at end of period</b>		<b>1 009.8</b>	<b>603.7</b>

CONTRIBUTION TO HEADLINE EARNINGS		28 Feb 2010	28 Feb 2009
for the year ended 28 February 2010		Rm	Rm
<b>Recurring headline earnings</b>			
Equity accounted headline earnings from associates		87.1	68.0
Other (expenses)/income		(6.6)	3.3
<b>Recurring (see-through) headline earnings (Thembeke)</b>		<b>26.2</b>	<b>19.9</b>
<b>Funding and STC</b>			
Paladin		(11.2)	(13.0)
<b>Total recurring headline earnings</b>		<b>95.5</b>	<b>78.2</b>
<b>Non-recurring headline earnings/(loss)</b>			
Marked-to-market movement and dividend income (Thembeke)		148.3	(76.3)
Less: recurring (see-through) earnings (Thembeke)		(26.2)	(19.9)
Other income and expenses		(0.3)	
<b>Total headline earnings</b>		<b>217.3</b>	<b>(18.0)</b>
<b>Statistics</b>			
Recurring HEPS (cents)		19.3	20.0
HEPS (cents)		43.9	(4.6)

**Headline earnings increased to 43.9 cents per share compared to a headline loss of 4.6 cents per share in the prior year**

**Recurring headline earnings decreased by 3.5% to 19.3 cents per share**

**Intrinsic value of the portfolio increased by 140.1% to R1.17 billion and by 65.0% to R2.03 per share**

### NOTES

#### 1. Basis of presentation and accounting policies

The condensed financial statements have been prepared in terms of IAS 34 – *Interim Financial Reporting* and in compliance with the Listings Requirements of the JSE Limited. The accounting policies applied in the preparation of the condensed financial statements are consistent with those used in the previous year, except for the following standards which are effective for the financial year beginning 1 March 2009: IAS 1 (revised) – *Presentation of financial statements* and IFRS 8 – *Operating Segments*. The adoption of these standards has no material effect on the results, nor has it required any restatement of the results.

#### 2. Investment in associated companies

	28 Feb 2010	28 Feb 2009
	Rm	Rm
Carrying value		
– listed	417.3	246.1
– unlisted	634.8	463.7
<b>1 052.1</b>	<b>709.8</b>	
Market value of listed associates	461.2	169.3
Directors' valuation of unlisted associates	748.3	441.2
<b>1 209.5</b>	<b>610.5</b>	

Paladin has tested its investments in associated companies for impairment at year-end, and the directors are satisfied that its carrying value is fairly stated.

#### 3. Non-headline items (net of tax and minorities)

	28 Feb 2010	28 Feb 2009
	Rm	Rm
Impairment of investments	60.9	10.1
Impairment of loans	6.0	
Net profit on sale/dilution of investment in subsidiaries and minority interest	(17.4)	
Net profit on sale/dilution of investment in associated companies	(8.2)	
Non-headline items of associated companies	(3.6)	9.1
<b>37.7</b>	<b>19.2</b>	

#### 6. Segment report

For the year ended 28 February 2010	Income Rm	Recurring headline earnings Rm		Non-recurring headline earnings Rm		Headline earnings Rm		Net asset value Rm	
Investment companies			10.3	122.1	132.4	275.7			
Services	0.1		37.5		37.5	203.0			
Mining, construction and related services	18.4		56.8	(2.5)	54.3	424.0			
Manufacturing			7.3		7.3	94.5			
Education			1.4		1.4	51.4			
Other			(6.6)	2.2	(4.4)	(1.7)			
Before funding and STC	20.2		106.7	121.8	228.5	1 046.9			
Funding & STC	2.5		(11.2)		(11.2)	(37.1)			
<b>Total</b>	<b>22.7</b>		<b>95.5</b>	<b>121.8</b>	<b>217.3</b>	<b>1 009.8</b>			
Non-headline					(37.7)				
Attributable					179.6				

For the year ended 28 February 2009	Income Rm	Recurring headline earnings Rm		Non-recurring headline earnings Rm		Headline earnings Rm		Net asset value Rm	
Investment companies			4.3	(96.2)	(91.9)	96.4			
Services			27.9		27.9	193.6			
Mining, construction and related services	21.5		42.8		42.8	278.2			
Manufacturing			12.9		12.9	161.9			
Education									
Other	(1.7)		3.3		3.3	3.6			
Before funding and STC	19.8		91.2	(96.2)	(5.0)	733.7			
Funding and STC	2.5		(13.0)		(13.0)	(130.0)			
<b>Total</b>	<b>22.3</b>		<b>78.2</b>	<b>(96.2)</b>	<b>(18.0)</b>	<b>603.7</b>			
Non-headline					(19.2)				
Attributable					37.2				

#### 7. Review by auditors

The company's external auditors, PricewaterhouseCoopers Inc., have reviewed the condensed financial statements. A copy of their unqualified review opinion is available on request at the company's registered office.

### OVERVIEW

Paladin is PSG Group's private equity investment company in sectors other than agriculture, food and beverages. Paladin invests in businesses that are easily understood, that have strong sustainable cash flows, where management are large shareholders and where Paladin's share of profit after tax is greater than R10 million. Paladin is strategically involved in its investee companies and actively partners with the entrepreneurs and management to advance the businesses to the next level. Paladin currently has 13 investments across the economic spectrum which is either equity accounted or marked-to-market from an accounting perspective.

### LISTING

Paladin listed on the JSE on 1 September 2009 and raised R150 million by means of a renounceable rights offer to PSG Group shareholders shortly thereafter.

### RESULTS

In the spirit of consistent clear and unambiguous communication to stakeholders, management introduced the *recurring headline earnings* concept as the predominant measure of Paladin's financial performance. Previously *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. Paladin'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 Paladin 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 *recurring headline earnings*. This provides management and investors with a more realistic and simple way of evaluating Paladin's financial performance and provides a reasonability indicator for Paladin's intrinsic value calculation.

Paladin's *recurring headline earnings* increased by 22.1% to R95.5 million. This is predominantly due to an increase in earnings from investee companies and the first time inclusion of Petmin's results. However, *recurring headline earnings* per share decreased by 3.5% from 20.0 cents to 19.3 cents, mainly as a result of:

- An additional 128.2 million shares in issue relating to the aforementioned renounceable rights offer at R1.17 per share; and
- A loss contribution from GRW, an aluminium and steel road tanker manufacturer, which was severely affected by the downturn in the economy. Recent results have however improved significantly, with GRW returning to profitability.

Paladin's *reportable headline earnings* increased to R217.3 million (43.9 cents per share) as opposed to an R18.0 million loss (4.6 cents per share) in the prior year. This increase is mainly as a result of *marked-to-market profits* incurred in Thembeke's investment portfolio of listed shares in the JSE Limited, PSG Group and Capitec Bank.

### CORPORATE ACTION

- The acquisition of a 50% interest in Curro, a private school group, for R50 million;
- The acquisition of a 9.4% stake in Petmin for R92 million from PSG Group by means of a share swap;
- The acquisition of an additional 17.5% stake in Topfix for R19.6 million, a provider of scaffolding and scaffolding personnel. Paladin now holds 28.2%;
- The acquisition of a 20.4% stake in Spirit Capital, a leveraged buy-out specialist for R12.8 million;
- The disposal of Paladin's interest in Mainfin and Axon for a total amount of R21.4 million;
- Played a key negotiating role in the merger of Erbacon with Civcon, whereby Erbacon doubled in size; and
- Thembeke's key transactions for the year were the acquisition of 10% of Overberg Agri for R37.7 million, and an additional 5 million PSG shares for R77.9 million by way of a share swap and cash.

### REVIEW OF OPERATIONS

Paladin groups its 13 investments into five operational segments, namely; investment companies, services, mining, construction and related services, manufacturing and education.

#### Investment companies (Thembeke and Spirit)

The investment companies segment had a strong performance, with *reportable headline earnings* increasing to R132.4 million as opposed to a R91.9 million loss in the prior year. This was mainly attributable to *marked-to-market profits* at Thembeke.

*Recurring headline earnings* increased by 139.5% to R10.3 million. Inherent to the nature of Thembeke as a BEE investment company, it is relatively highly geared. The pleasing increase in *recurring headline earnings* is as a result of the growth in the underlying earnings of Thembeke's investee companies exceeding the associated cost of funding.

#### Services (CIC, IQuad and African Unity)

*Recurring headline earnings* increased by 34.4% to R37.5 million.

#### Mining, construction and related services (Precrete, Petmin, Erbacon and Topfix)

*Recurring headline earnings* increased by 32.7% to R56.8 million. This was mainly attributable to the first time inclusion of Petmin's results and the full year inclusion of Topfix's results.

#### Manufacturing (GRW, Lesotho Milling and Protea Gieterij)

The manufacturing segment had disappointing results with *recurring headline earnings* decreasing by 43.4% to R7.3 million. This was mainly as a result of the aforementioned loss contribution from GRW.

#### Education (Curro)

Curro was acquired effective 1 July 2009. The results for the year were in line with expectations for a developing high growth company.

### INTRINSIC VALUE

Paladin's intrinsic value is calculated by using market values for listed investments and market-related multiples for unlisted investments. While intrinsic value increased by 140.1% to R1.17 billion, on a per share basis the increase was 65.0% to R2.03 per share as a result of a 45.0% increase in shares in issue.

INTRINSIC VALUE	28 FEB 2010			28 FEB 2009		
	% OF HELD	% OF PORT-FOLIO	VALUE Rm	% OF HELD	% OF PORT-FOLIO	VALUE Rm
<b>Investment companies</b>						
THEMBEKA	49%	23%	272	49%	19%	110
SPIRIT	20%	1%	15	0%	0%	–
		24%	287		19%	110
<b>Services</b>						
CIC	50%	18%	213	49%	15%	87
IQUAD	43%	2%	24	42%	4%	24
<b>AFRICAN UNITY</b>	43%	1%	17	54%	2%	9
		21%	254		21%	120
<b>Mining, construction and related services</b>						
PRECRETE	22%	14%	163	22%	16%	93
PETMIN	9%	10%	120	0%	0%	–
ERBACON	22%	8%	100	26%	14%	85
TOPFIX	28%	4%	48			