



CEO's Report

Sean Melnick

Introduction

The Peregrine group has enjoyed an outstanding year in terms of a strong increase in earnings, as well as the continued establishment of the group's positioning and reputation in the South African wealth and asset management industry.

The group's strategy of leveraging its presence as one of the longest standing members and currently largest player within the South African hedge fund industry, as well as focusing on the private wealth management market through Citadel, started yielding meaningful financial returns for the year under review. Profit from ordinary activities exceeded R150 million for the first time in the group's history, whilst profit from the core wealth and asset management businesses exceeded R100 million for the first time. The group's cumulative assets under management now exceed R18 billion.

Results

Revenue of R372,3 million was 7,1% higher than the previous year or 12,2% higher if compared to turnover levels of the businesses remaining in the group. Operating expenses decreased by 2,9% to R234,9 million, largely a result of an active focus on cost control. The net result was a 30% increase in profit from operations to R137,3 million.

Strong cash generation resulted in net interest earned of R13,9 million for the year, compared to interest paid of R1,6 million the previous year. The positive swing to interest received, together with no amortisation of goodwill as a result of a required change in accounting policy, helped boost profit from ordinary activities by 86,9% to R153,6 million. Without the goodwill benefit, earnings from ordinary activities would have increased by 42,9%.

Notwithstanding a full rate of taxation and an increase in minority interest, attributable earnings increased by 125% to R95,6 million. With a lower number of shares in issue due to on-going share repurchases, earnings per share increased by 138,2% to 49,1 cents per share. Headline earnings increased by 37,2% to R93,9 million, with headline earnings per share up 45,1% to 48,2 cents per share.

Operations

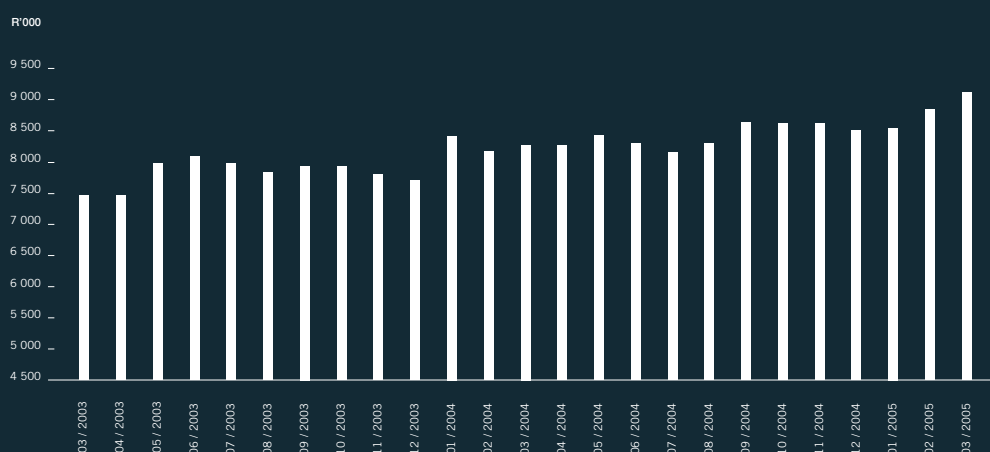
Wealth and asset management

The businesses within the wealth and asset management division delivered markedly improved performances across the board, resulting in a 73% increase in the division's profit from ordinary activities to R110,7 million. Comparisons with the previous year have been made at the profit from ordinary activities level which includes interest earned by each division and income from associates.

Wealth management

The group's wealth management arm, Citadel, produced profit from ordinary activities of R42,4 million, a 36% increase on the previous year. With only a minor contribution from performance fees, this profit effectively represents an annuity level of earnings off Citadel's average asset base of R8,5 billion for the year. Assets under management were R9,1 billion by year end.

Citadel - assets under management



Whilst performance of the underlying individual asset classes was satisfactory for the year under review, the strength of the rand continued to put a drag on investment performance. Through its performance fee formula, Citadel maintains a strong gearing towards investment performance and to any weakening of the local currency.

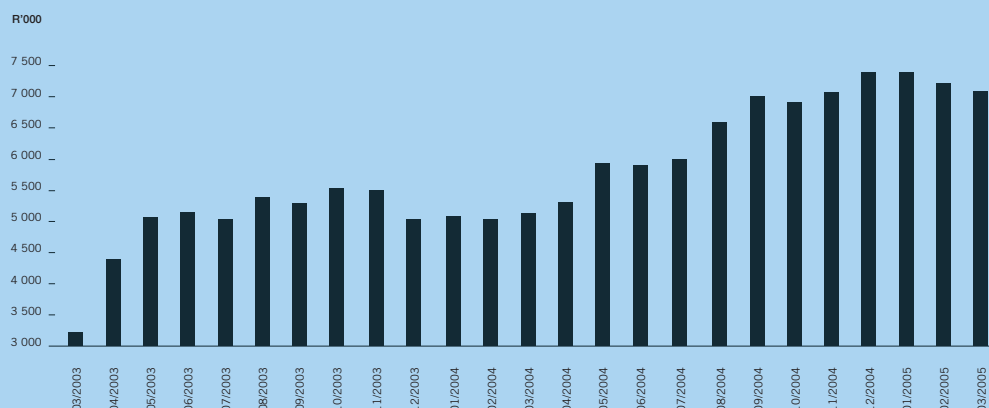
The business also retains a high level of operational gearing and has the ability to substantially increase its assets under management without incurring meaningful additional costs. In this regard, average new inflows exceeded R100 million per month for the year and the client retention remained highly satisfactory. Cambium, a joint venture with Sanlam Life, was launched in January. Assets have started migrating into the joint venture with significant inflows expected over time.

Asset management

The asset management businesses collectively increased profit from ordinary activities by 107% to R68,3 million. This excludes any proprietary return on group capital, which is included in the return from group investments.

PeregrineQuant (PQ) increased assets under management by 37% to R7,1 billion during the course of the year and has now reached the critical mass required to attain ongoing profitability. The maiden profit achieved is a pleasing turnaround from the losses sustained over the same period last year, resulting in a swing of almost R10 million to group profitability.

PeregrineQuant - assets under management



PQ recently announced the sale of a 20% equity stake to an empowerment consortium comprising Vunani Capital and Ilitye Financial Services. The input of the new shareholders, together with PQ's growing reputation as one of the country's leading quantitative asset management firms, is expected to continue fuelling the business' steady growth in assets under management.

Peregrine Capital, the group's fundamental equity hedge fund manager, increased profit from ordinary activities by more than 50% for the year under review. Assets under management grew to R1,6 billion from R965 million at the beginning of the financial year. Returns were consistently good across the suite of funds with substantial performance fees being earned. The funds remain closed to new business.

During the latter half of the financial year, management's share of the profitability of the business was increased, effectively creating a partnership between management and Peregrine. The board believes that this restructuring has significantly enhanced the sustainability of the single strategy hedge fund business model within the Peregrine group. Effective 1 January 2005, a modification was made to the fee formula applicable to the local funds, with the hurdle rate being reduced to zero, thus bringing the hurdle rate on all funds into line with the international fund managed by Peregrine Capital. This modification is expected to have an ongoing positive effect on earnings.

Pacific Dunes, which won the award for the best performing South African fixed-income fund over the past year in the Old Mutual Symmetry Multi-manager Hedge Fund Awards, reached profitability during the second half of the year, with assets under management currently at R144 million.

Below is a table summarising the performance and risk statistics of several of Peregrine's single strategy funds. Several other single strategy funds, across various asset classes, are in the process of being rolled out under the banner of Peregrine Investment Managers. The group continues to see this as a highly viable growth area.

Hedge fund performance and risk analysis to 31 March 2005

	ALSI	Pure Hedge Fund	Performance Fund	High Growth Fund	Global (\$) Fund	Pacific Dunes Fund	Description
General							
Inception date		01-Jul-98	01-Jul-98	01-Feb-00	01-Oct-03	01-May-03	
Asset Class		Equity	Equity	Equity	Equity	Fixed Income	
Reporting currency		Rand	Rand	Rand	US \$	Rand	
Returns							
Compound annual return	13.8%	37.1%	52.8%	36.8%	26.7%	13.3%	<i>Return since inception, ALSI since 1 July 1998, annualised</i> <i>Since inception, calendar quarters (e.g. Jan-March), non-annualised</i> <i>Since inception, non-annualised 12 months to 31 March 2005</i>
Average quarterly return	4.0%	8.4%	11.6%	8.4%	6.2%	3.0%	
Average monthly return	1.3%	2.7%	3.7%	2.7%	2.0%	1.0%	
Rolling 12-month return	28.9%	23.5%	35.2%	41.3%	24.5%	12.3%	
Variability of returns							
% of positive months	54.3%	91.4%	84.0%	77.4%	88.9%	91.3%	<i>Since inception, non-annualised</i> <i>Since inception, non-annualised</i> <i>Greatest loss, 1 calendar month</i> <i>Greatest loss across any unbroken series of losing months</i> <i>Since inception, annualised</i> <i>Last 12 months, annualised</i>
% of negative months	45.7%	8.6%	16.0%	22.6%	11.1%	8.7%	
Average positive monthly return	5.9%	3.1%	4.9%	4.1%	2.4%	1.2%	
Average negative monthly return	-4.1%	-1.0%	-2.6%	-2.1%	-1.2%	-0.5%	
Maximum monthly drawdown	-29.7%	-1.8%	-10.7%	-7.3%	-1.6%	-0.9%	
Maximum cumulative drawdown	-29.7%	-3.4%	-13.3%	-7.3%	-1.6%	-0.9%	
Standard deviation	23.4%	9.7%	19.1%	13.9%	5.3%	3.1%	
Semi-variance	10.5%	4.4%	7.7%	8.4%	6.5%	2.9%	
Risk-adjusted returns							
Sharpe ratio (RFR 7%)	0.3	3.1	2.4	2.1	3.7	2.3	<i>(Ann return since inception - NCD return) / (ann std dev since inception)</i> <i>(Rolling 12m return - NCD return) / (12m standard deviation)</i> <i>As with rolling Sharpe, but using semivariance (downside only)</i> <i>As with Sharpe, but without deducting NCD return</i>
Rolling 12-month Sharpe	1.6	3.7	3.8	4.1	2.5	1.9	
Sortino ratio	1.5	2.4	2.9	3.4	1.8	2.5	
Information ratio	0.6	3.8	2.8	2.7	5.1	4.2	
Relationship to other investments							
Correlation to ALSI40 - since inception	1.00	0.13	0.46	0.33	0.22	N/A	<i>Monthly returns, since inception</i> <i>Monthly returns, last 12 months</i>
Correlation to ALSI40 - last 12 months	1.00	0.24	0.35	0.16	0.40	N/A	

All funds are managed by Peregrine Capital with the exception of Pacific Dunes. All returns are after deducting fees.

With the group's reputation as a pioneering leader in the South African hedge fund arena, its wealth of experience in single strategy hedge funds and five years of experience in international hedge fund-of-funds (through Citadel), various opportunities in the local fund-of-hedge-fund market are currently being explored.

Structuring, broking and distribution

The structuring, broking and distribution activities housed within Peregrine Securities generated R24,8 million profit from ordinary activities, compared to R25,2 million in the previous year. The second half performance was particularly pleasing with earnings of R16,4 million for the six months.

The division has substantially increased the scope of its activities and offerings over the past eighteen months. Peregrine Equities has become a substantial player in the hedge fund market through the positioning of its prime-broking and CFD (contract-for-difference) products. This area, in particular, is being targeted to show strong growth as a major contributor to the division's profitability.

The division's recent focus on bolstering its derivative and quantitative research capability was vindicated post year end by the Financial Mail Analysts Survey, where the division's top rated analyst won both the derivative and quantitative research categories and Peregrine Securities was rated the number one derivative research house in the country for the first time in its history.

Group investments

Net of group costs, group investments returned R18,1 million for the year, with a reduction in group costs offset by a lower return on group capital. Contribution to profit from ordinary activities was virtually unchanged from the R18,0 million net return on group investments in the previous year.

Prospects

The Peregrine group's focus on wealth management, through Citadel and its strong positioning at several levels in the South African asset management arena, particularly in the area of hedge funds, are expected to be significant drivers of future profitability.

Peregrine's R18 billion asset base and its broking related businesses now provide the group with a relatively predictable level of ongoing annuity cash flow. In addition to this, a substantial portion of the assets under management are subject to performance fee participations. As such, Peregrine's financial performance, on an annual basis, will continue to be closely linked to the investment performance of its underlying businesses.

The directors are confident that the business model of continuing to invest in businesses which build Peregrine's annuity level of earnings, whilst retaining significant upside gearing to positive investment performance, will yield substantial value to shareholders over the medium to longer term.

Dividend

Given the group's strong cash flow generation and notwithstanding share repurchases totalling R32,4 million during the course of the year, the directors have resolved to declare a dividend of 12,0 cents per share, an increase of 140% on the previous year. Details of the salient dates for the dividend payment can be found on page 69.

Future dividend cover is anticipated to be a maximum of four times and possibly lower, depending on the level of share repurchase activity.

Appreciation

At the conclusion of one of the best years in the group's history, I would like to take the opportunity to extend my appreciation to all the people that have contributed to the refocusing and rebuilding of the group over the past several years. To the dozens of brilliant staff members within the individual businesses, to my executive team and to our board of directors, I thank you for your substantial efforts, for your passion, your commitment and your professionalism and I congratulate you on being responsible for building a substantial and, in many instances, unique entity within the sphere of wealth and asset management.



Sean Melnick

Chief Executive Officer

1 June 2005