CEO'S REPORT

Introduction

The Peregrine group has produced another very satisfying set of results for the year under review. Attributable earnings increased by 49% to R374,7 million reflecting a return on average equity of 40.8%.

During the course of the year the group successfully implemented its BEE transaction. As part of the transaction 4 million treasury shares were sold to a BEE consortium at par, giving rise to a charge of R39,5 million being included in operating expenses as a cost of BEE credentials. The impact of the charge is a once-off reduction in headline and basic earnings per share of 20.4 cents per share.

Excluding the cost of acquiring BEE credentials:
- earnings attributable to ordinary shareholders increased by 64% to R414,2 million, and
- headline earnings per share increased by 67% to 186.7 cents per share.

Features for the year include:
- a highly satisfactory performance from the group's private client wealth management business, Citadel, which resulted in substantial performance fees being earned for the year, on top of a significant increase in new business inflows;
- meaningful organic growth within the group's flagship hedge fund business, growth in funds on the hedge fund platform and in the related prime broking operations, all contributing to enhance Peregrine's dominant position in the South African hedge fund industry;
- Peregrine Derivatives remains a top-rated SA derivative house and for the 12 months under review was the number one independent broker on the local futures exchange (SAFEX) by volume;
- a very encouraging contribution from the group's investment banking activities reflecting the well reported strength of the underlying economy;
- Caveo Fund Solutions, the group's joint venture with Investment Solutions, the country's largest multi-manager, produced a profitable set of maiden results. Caveo operates as a hedge fund of funds aimed particularly at the institutional market;
- the disposal of the majority of the group's shareholding in the JSE Limited, and
- strong cash generation by the group resulting in the annual dividend being increased by 50% to 45 cents per share.

Results

Total revenue, comprising operating revenue and investment income, increased by 61% to R1,113 billion from R692,7 million, both as a result of good investment performances by the wealth and asset management businesses across the group, off a materially larger asset base and due to generally buoyant market conditions.
Investment income, which includes the group's proprietary returns on hedge fund investments, profit on the sale of shares in the JSE Limited and returns on the group's investment banking portfolio increased to 18% of total revenue compared to 13% in the prior period.

Core operating expenses of the group increased by 34% after stripping out the costs of BEE credentials and the effect of direct staff profit participation in the increased profitability of each of the underlying businesses. The major contributors to this were Peregrine Securities and Citadel. Peregrine Securities experienced an increase in costs of 69% (excluding profit participation) of which 70% is attributable to an increase in variable costs (directly related to increased revenues) and 30% to an increase in administrative costs. The increased investment in staff and infrastructure should be seen in the context of a growing business which produced an overall profit increase of 82%.

Similarly, while Citadel's costs increased by 23% due largely to salary and office rental related increases, the business grew core profit (excluding performance fees) by 32% and overall profits by 99%.

Net interest received increased to R16,0 million from R4,1 million largely as a result of increased cash resources. Net interest earned from the group's broking activities, previously disclosed as part of interest received has been reclassified as part of operating revenue. The change more appropriately classifies the interest as part of revenue generating activities rather than as part of the group's financing activities.

With a slightly increased effective rate of taxation and a very similar number of shares in issue, basic earnings per share increased by 48% to 193.6 cents per share and headline earnings per share increased by 49% to 166.3 cents per share.

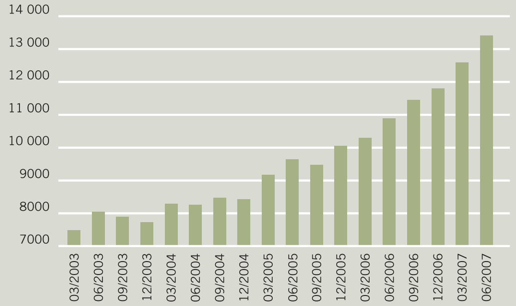
Diluted basic earnings per share increased by 47% to 179.1 cents per share and diluted headline earnings per share increased by 47% to 153.8 cents per share. These fully diluted earnings per share measures are pertinent in light of the anticipated issue of 18 million shares in terms of the staff deferred purchase scheme during the course of the year ending 31 March 2008.

Operating highlights

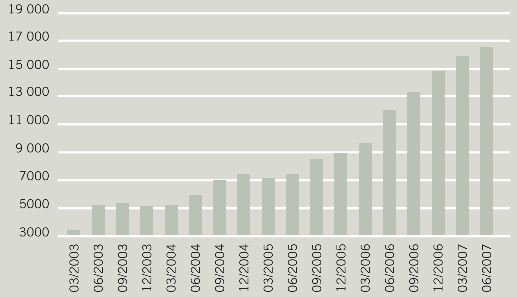
Private client **wealth management** firm, **Citadel**, produced a 99% increase in profit from ordinary activities to R146,4 million, contributing 26% to group profitability. Continued gross inflows of approximately R135 million on average per month, together with positive investment performance for the year, saw Citadel's asset base rise above R12 billion, with the business consistently accruing performance fees throughout the year. Citadel, whose pretax annuity earnings base now exceeds R6 million per month before performance fees, currently has more than three quarters of its client base in a position to pay performance fees, with a substantial portion of the balance on the threshold of paying performance fees.

Citadel's leading competitive positioning and brand profile in the local private client wealth management industry is endorsed by the increasing access it enjoys to substantially wealthy families from all sectors within South Africa's demographic composition. As a consequence, the group is very well positioned to benefit from the substantial wealth being created by the growth in the underlying economy.

Citadel - assets under management (R'000)



PeregrineQuant - assets under management (R'000)



The businesses within the **asset management** division collectively increased their contribution to group profitability by 22% to R133,5 million, or 24% of group profitability.

The group's hedge fund management operations, comprising Peregrine Capital, Peregrine Investment Managers (PIM) and Caveo Fund Solutions (Caveo) contributed R120,5 million (90%) of this amount. PeregrineQuant, whose assets under management now exceed R18 billion, contributed R13 million (10%) for the year.

Peregrine remains South Africa's largest single strategy hedge fund manager, managing R4,3 billion of single strategy hedge funds. The group's hedge fund flagship, **Peregrine Capital**, which has an outstanding (and the country's oldest hedge fund) track record, currently manages R3,2 billion. The group's newer ranges of hedge funds, housed within **PIM**, manage an additional R1,1 billion (a 39% increase over the prior year). PIM's growth reflects the successful addition of 4 new funds to the PIM platform, despite closing its fixed income fund as a result of unsatisfactory performance relative to benchmarks. There are currently 14 funds on the PIM platform.

Hedge fund returns were satisfactory across the group's suite of hedge funds with meaningful performance fees being earned in the second half of the year. Whilst it is difficult to predict returns in any single year, we envisage that the growth in the hedge fund industry (and consequentially in our funds) will continue at a significant pace and that returns will continue to be attractive on a risk adjusted basis over the medium to long term.

The group's hedge fund of fund business, **Caveo**, which is a joint venture with Investment Solutions, earned a profit in its maiden year with assets under management exceeding R1bn at year end. Prospects for the business are very encouraging with Caveo being well positioned to benefit from flows of institutional funds to this asset class.

PeregrineQuant, having built a reputation as one of the most respected participants in quantitative asset management in South Africa, has augmented its strategy during the course of the year and now provides a "hub" of integrated services to boutique asset managers. This strategy has been well received by the market.

The **broking and structuring activities** housed within **Peregrine Securities** produced an 82% increase in profitability to R149,5 million, contributing 27% to group profit from ordinary activities. The current year's profitability, whilst the beneficiary of increased market activity generally, reflects many years of investment and effort and it is particularly pleasing that this set of results reflects record performances for Peregrine Securities as a whole and for each of the division's underlying business units (Equities, Derivative broking and Derivative structuring).

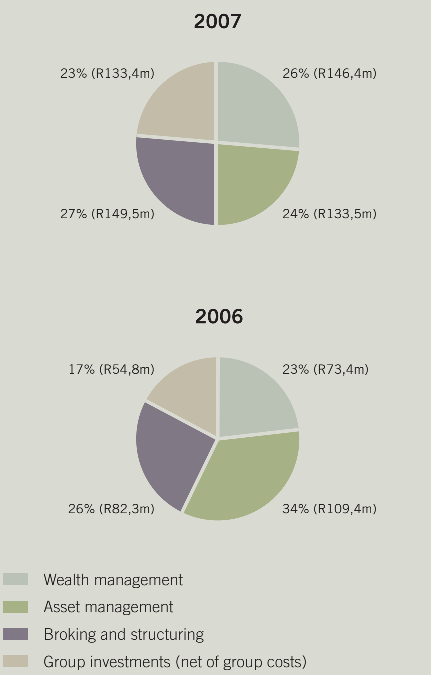
Peregrine Securities houses one of the country's largest local prime broking operations and offers a fully integrated hedge fund solution to the market. The business continues to grow through the introduction of new funds and fund managers, and as a result of strong organic growth from existing managers. The prime broker currently has in excess of R8bn in client assets across all asset classes.

Growth in **Peregrine Equities** has slowed from the previous year, due mainly to a maturing business cycle and tighter selection criteria for new managers. At the same time, the cost base has increased as the business has focused internally on new staffing, technology and on client risk management processes that are becoming more of a focus in the SA hedge fund industry. Peregrine Equities has become a top ten JSE broker by volume.

Peregrine Derivatives remains a top-rated SA derivative house and for the 12 months under review was the number one independent broker on the local futures exchange (SAFEX) by volume. The business continues to enjoy good growth and penetration into the derivative structuring and consulting environment, servicing the asset management and pension fund industry and remains a dominant agency broker in the SAFEX interbank derivative market. The expanding use of derivatives within the hedge fund environment has become a solid revenue source for the business and offers good growth potential.

Return on group investments (net of group costs) increased by 143% to R133,4 million, contributing 23% to group profitability. Returns comprise investment returns achieved on the group's proprietary hedge fund and investment banking portfolios as well as realised profits on the sale of JSE Limited shares in the amount of R54,9 million. Over the course of the year investments were made into several new hedge funds and no withdrawals of group capital were made from any of the group's existing hedge fund investments. As at balance sheet date the group had R672 million invested in hedge funds, an increase of 81% over the prior period. Sound returns were achieved across this increased hedge fund base. Particularly pleasing returns were achieved within the group's investment banking portfolio, which comprises 11% of the group's proprietary investments.

Segmental contribution to operating profit



Notwithstanding an increase in management bonuses, which are commensurate with the increase in the group's profitability, head office costs have remained constant. Management changes made in the latter part of the financial year are expected to reflect in an increase in the cost base in the forthcoming year.

Prospects

We are encouraged by what the group can achieve by continuing to build on its well established positions in the local private client wealth management, securities broking and hedge fund niches. In addition, the strength of our balance sheet and the cash generating nature of the underlying businesses presents us with a wonderful platform from which to consider appropriate and aligned acquisitions in due course. We remain, however, fully aware that the group's overall financial performance will continue to be closely linked to the investment performance of our subsidiary businesses and investment markets generally and, as such, any short term forecasts would be imprudent.

Dividend

As a consequence of the very satisfactory results for the year and in keeping with the stated dividend policy of paying out a minimum of 25% of each year's earnings, the directors resolved to declare a dividend of 45 cents per share for the year, an increase of 50% on the previous year. Details of the dividend can be found on page 35.

Constitution of the board

In order to recognise certain leadership changes previously communicated and to give effect to the successful implementation of our BEE transaction, certain amendments to the board took place during the year. Details of these can be found on page 35.

Subsequent to the year end and in line with the requirements of the Corporate Laws Amendment Act, Mr S Stein, who has served as the chairman of the group audit committee for the past three years has been appointed to the board of Peregrine as an independent non-executive director.

Appreciation

The transition of the day-to-day executive responsibilities from Sean Melnick to myself, which commenced in November 2006 is now complete. I would like to extend my sincere thanks to Sean for the seamless manner in which we have been able to navigate the change and the trust he has shown in giving me the space and opportunity to operate.

To all the staff within the Peregrine "eco-system" and to our board of directors, thank you for your effort, guidance and support. We are busy building a very special business and look forward to, together, leveraging the powerful foundation we have in place.

To all our clients, thank you for your support and loyalty, as without you we have nobody to serve.

Keith Betty
Group Chief Executive
30 June 2007