CHAIRMAN'S REPORT

It is once again my privilege to report back to shareholders on a year of record profitability for the Peregrine group. Although investment and trading conditions were very favourable at the start of the financial year, both the global financial markets and the local political and economic environment deteriorated rapidly during the course of the year, so much so that by year end, the year felt like a difficult one, despite the group's record financial performance.

The second half of Peregrine's financial year was permeated with the political uncertainties introduced by the change of leadership within South Africa's ruling party, the power outages, which severely disrupted many parts of the economy and served to meaningfully impair business confidence and an inflation rate rising into double digit territory with its attendant series of rate hikes.

On the international front, the credit crisis, triggered by the bursting of the US sub-prime mortgage bubble in August 2007 and the reverberations that subsequently shook world credit markets, also punctuated the latter two thirds of Peregrine's 2008 financial year. Despite its pervasive direct effect on so many financial institutions, the credit crisis did not create direct cause for concern for us and, indeed, no direct impact was felt by our business as a result thereof. This was a period in which we, as a group, were grateful for not having any banking related credit exposure.

The negative knock-on effects on world capital markets that the crisis created, however, had a clear and direct impact on our wealth and asset management businesses, serving to substantially reduce the earnings momentum with which the group commenced the year. Whilst the first quarter of the financial year was characterised by record levels of performance fees in our wealth management and hedge fund businesses, by the last quarter earnings had retreated closer to annuity levels only. Despite the deteriorating environment, Peregrine was still able to produce a record set of earnings for the full year, with a number of factors contributing to this somewhat anomalous situation.

Firstly, the group's businesses now produce an annuity stream of earnings even under difficult market conditions. Over the past decade the group has methodically built up a local client base of over R40 billion, both in the form of assets that we manage and assets that we transact in on our client's behalf. The group's strong net inflows, high client retention rates and focus on achieving positive real returns have all contributed to the growth in this base over time. I would like to think that, with the Peregrine group having crossed the critical mass threshold several years ago, this annuity stream now represents a fair ongoing reward for the substantial trust that our clients put in us to take care of their assets.

In addition, this annuity earnings base is augmented by performance fees when investment returns are meaningfully positive, resulting in earnings being a multiple of the annuity base in a period of good investment returns. This was very much the case in the first third of the financial year under review. The performance fee model, whilst a potentially lucrative source of earnings for the group, provides a strong alignment of interest with our clients. In simple terms, we produce our best financial results when our clients are earning positive real returns.

Thirdly, the derivative, equity and prime broking businesses housed within Peregrine Securities, whilst also producing an annuity flow of earnings, particularly from its prime broking client base, benefited significantly from a volatile environment in the form of substantially greater trading volumes. The sterling performance of this division, contributing 36% to group earnings for the year, is evidence of the diversification benefits to the group of this transactional based business.

Finally, the group's investment banking business produced a record set of results during the second half of the year which more than offset the lower levels of returns achieved from proprietary investments in hedge funds. Whilst returns on proprietary capital invested may introduce additional volatility to the group's earnings in the short term, the steady long term compounding of the group's initially small capital base, together with the reinvestment of earnings not required for operations, has resulted in a proprietary capital base now approaching R1 billion.

Taking all of this into account, the group's profitability for the year represented a return on equity (ROE) (after stripping out minorities) of 34.7%. On a pre-tax basis the ROE for the year amounted to 45.1%. This was achieved on a virtually ungeared balance sheet, highlighting the extent to which the business is ultimately driven by a simple recipe; highly talented and motivated professionals, who enjoy transacting in and investing money on their client's behalf and who are well incentivised to do so.

The retention of our key staff is clearly critical to the continued success of the business. Whilst a business such as ours can never escape specific key man risk, we have, through building strong and well incentivised management teams been able to mitigate the earnings impact associated with this risk somewhat over time.

The group has also managed to diversify its earnings sources over the past decade, whilst still retaining a focus on wealth and asset management related businesses. Two acquisitions which stand out in this regard are Citadel, which today serves as the group's wealth management arm, as well as Peregrine Securities (formerly Mercury). Together these two businesses provided the group with more than half of its earnings in the year under review.

In the same vein, the offshore acquisition of 51% of Stenham Limited (which only became effective on 4 April 2008) is anticipated to provide the group with yet another independent earnings stream whilst offering additional geographical, asset class and client base diversification benefits. The acquisition should also afford Peregrine a workable platform from which to expand its operations offshore, which we view as an increasingly important feature for key staff retention over the longer term.

A skeptic could argue that the timing of our Stenham acquisition has not been ideal. Buying control of an offshore wealth management business exposed to the international property and hedge fund markets and taking on meaningful debt for the first time in Peregrine's history, may, in the current environment, be seen as adding further volatility to our earnings. We remain confident, however, that we have acquired control of a business that fits ideally with the group's long term ambitions and is remarkably compatible from a cultural, client care and investment philosophy perspective. As with the group's two previous major acquisitions, we believe the benefits to the group will prove substantial over time.

In assessing the Peregrine group's prospects we find ourselves in a situation where the outlook for financial performance in the shorter term does not match our optimistic prognosis for our business over the longer term. The myriad of negative factors with which we finished the year under review have continued into the new financial year and as a consequence the results for the current year are likely to underperform those of the record year that has just passed. We are not uncomfortable with this situation. As long term investors in capital markets we accept that this will necessarily occur from time to time.

It remains for me to thank all of our stakeholders who have contributed to the success of the Peregrine group to date. A decade after listing our business with no assets under management, the acquisition of a controlling interest in Stenham has resulted in us, as a group now managing over $10 billion of clients' money. I look forward to seeing what can be built off this platform in years to come.

Sean Melnick - Chairman
28 May 2008