



Chairman's Report

Louis Fourie

The global economic environment of the 12 months under review was less hostile than that of the preceding year. Global demand showed more strength, spurred on by surprisingly strong US economic growth and drastic cuts in developed countries' interest rates, initiated early in 2001.

The stimulative policy approach of the last three years acted as an important buffer against ongoing uncertainties in the geopolitical arena and contributed to a softening in global deflationary fears.

Stronger world economic growth led to a surge in commodity prices. This supported the currencies of major commodity exporters, including the South African rand. The rand strengthened by almost 20% against the US dollar in the year to 31 March 2004, notwithstanding an appreciation in excess of 30% in the preceding 15 months.

The global investment markets moved in tandem with the recovery in the world economy. A strong revival in US company profits augmented this trend. The MSCI world index, which measures the movement in global share prices, increased by more than 50% from its low in October 2002 to its recent high in April 2004. Since then, growing indications that the US interest rate cycle might have reached its lower turning point have led to a notable hesitancy amongst global investors.

In line with this global trend, the South African economy has shown strong growth in domestic demand. The main driving force behind this increase in spending was the significant cut in local interest rates in the second half of 2003. Domestic production, however, lagged this revival in spending, in part due to the inhibiting effect of the strong rand on our export industry. The strength of the currency and low global inflation also encouraged South Africans to buy cheaper foreign products.

Real GDP growth averaged 1.9% in 2003, compared to an increase of 4.2% in real domestic spending. Macro-economic policy nevertheless remained sound, while the strong rand allowed the Reserve Bank to bolster the country's net foreign exchange reserves.

Probably the most positive feature on the domestic front was South Africa's ability to take another step down the road of political maturity. The peaceful and professional way in which the third democratic election was conducted and the maturity with which the outcome was accepted has contributed hugely to underlying business confidence and the future economic stability of the country. A stable democracy is essential to our ability to address our nation's many socio-economic challenges.

The local investment market echoed this fairly favourable domestic environment and the overall index of the JSE rose by 54% between April 2003 and March 2004, although, as has been the case internationally, the threat of rising interest rates has started to rest quite heavily on share prices in recent months.

Turning to our industry, the last year has been an eventful one from a legislative and regulatory perspective.

In line with the global move towards greater security and the protection of investor interests, the Financial Intelligence Centre Act (FICA) imposed onerous client identification, record keeping and reporting requirements on the financial sector. This Act goes hand in hand with the Financial Advisory and Intermediary Services Act (FAIS) which will regulate all financial advisors, investment managers and other financial service providers from 30 September 2004. The Peregrine group has geared up its administrative capacity to ensure compliance with these requirements.

Furthermore, hedge fund investments have been under scrutiny by the Financial Services Board and restrictions have been imposed on certain hedge fund activities pending future regulation. A discussion paper on the future of hedge fund regulation has been published. Peregrine, being a significant and respected player in the hedge fund arena, is an active participant in the process embarked upon by the FSB to regulate the hedge fund industry.

In addition to these regulatory developments, the Reserve Bank has introduced new exchange control requirements which significantly affect offshore investments by institutional investors. The tax and exchange control amnesty ran from 1 June 2003 to 29 February 2004. As a group, Peregrine fully supported the process and is hopeful that this represents another step towards fewer foreign exchange controls in the future.

Finally, the Financial Sector Charter was adopted by the financial services industry late last year and the Broad-Based Black Economic Empowerment Act has recently become law. The Peregrine group is fully committed to this process of economic empowerment.

The Peregrine board of directors' realises that it is essential to take into account legal constraints and compliance risks on an ongoing basis. We are fully aware of the importance of being in touch with the direction in which regulators are moving and of allocating sufficient resources to ensure full compliance.

Within this general business environment, the Peregrine group recorded a 52% increase in operating profit. Headline earnings for the financial year under review amounted to R68,5 million, compared to R60,1 million in the 2003 financial year. The group's assets under management increased by 31% to R14,6 billion.

These financial results generated strong cash flow. This allowed the group to settle outstanding liabilities and to reinvest surplus cash in our own funds and shares, as detailed in the financial statements from page 32.

Contributions from the respective businesses in the group to these results are discussed in the CEO's report from page 15.

As stated in our previous annual report, the group's primary strategic goal since 2002 has been to refocus our business as a specialised wealth and asset management group. This implied selling off various non-core businesses. The positive results

of this process are becoming evident and we are satisfied that the group has established a foundation, with the requisite core skills base, from which to pursue organic growth in the areas in which we believe we can be market leaders.

The strategic intent of the Peregrine group is a simple one – to be leaders in the fields of sophisticated wealth and asset management in South Africa. Our South African focus underlines our belief in the economic future of South Africa and in our ability to make a contribution in the country we know best. We believe a business's global competence will increasingly be tested by its ability to first secure and then thrive in its local market.

To achieve this goal, we realise how important it is to create a work environment and business culture in which highly-skilled people want to work, are able to optimise their talent and can enjoy personal fulfillment. It therefore remains a core priority in the group to attract like-minded people of all cultures, who can thrive on our business values of mutual respect, entrepreneurial spirit and intellectual honesty.

In conclusion, it is my privilege to thank every person who worked in the group over the last year. You are the heart beat of our business, thank you for your devotion. To the CEO and management of every business in the group, thank you for leading our effort and serving your people with diligence.

To our board of directors, thank you for spending time and energy presiding over the interests of shareholders, personnel and clients. We realise that the enhanced regulatory environment has significantly added to the responsibility accompanying directorship, and we thank you for accepting the challenge. A special word of thanks to Rudi Stumpf, who is stepping down as a non-executive director to focus on other business commitments, for the excellent way in which he served our board over the past four years. A new non-executive director will be appointed in his place in due course.

To all clients and business associates, we value our relationship with you and thank you for your support.



Louis Fourie

Chairman

19 May 2004