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## Chairman's Report

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Louis Fourie

I am privileged to be in a position to report back to shareholders on a very good financial year for the Peregrine group. The group recorded profit from ordinary activities of R 153,6 million for the period, representing a 43% increase on the previous year. Headline earnings for the year jumped by 37% to R93,9 million, and headline earnings per share increased by 45% to 48,2 cents per share.

Our results can firstly be attributed to our well-niched wealth and asset management businesses operating within the context of a fairly robust local economy and a concomitant improvement in financial market conditions. The South African economy expanded by almost 4% during the period under review whilst the official prime lending rate declined further to a 24 year low of 10.5%. This lowering of interest rates was made possible by a subdued CPIX inflation rate, fluctuating between 3% and 5% over the last 12 months, and continued strength in the international value of our currency. Prudent fiscal policy also played an important role in allowing this continued stimulatory monetary stance.

These macro-economic conditions rubbed off on both business and consumer confidence, as reflected in fixed investment decisions and general spending patterns in South Africa. For instance, gross domestic fixed investment spending by the private sector jumped by 11% in real terms in 2004, the highest rate of increase in 10 years. Motor vehicle sales echoed this spending boom as monthly sales rose to a 24 year high in March 2005. House prices rose to their highest level in 20 years, up 120% in real terms from January 1999.

Increased levels of confidence in the real economy eventually also filtered through to financial markets. The All Share Index of the JSE increased by 74% between May 2004 and March 2005. In dollar terms, our share market was one of the best performing markets in the world in the nine months to March 2005, rising by 66%.

A second reason for the favourable results of the Peregrine group can be ascribed to the benefit of going about our business in a simple and focused way. Over the last three years, the group has been converted from a diversified financial services business into a specialised wealth and asset management business. Besides the savings in operational expenses this refocusing has brought about, it has also allowed the business to spend its energy and initiative in areas about which it is passionate and in which it excels.

Every underlying business in the group is allowed, encouraged and incentivised to be successful in its own right and none of these businesses are hamstrung by centrally-initiated, forced integration efforts. Cooperation between the different businesses takes place on merit and is initiated at business leader level.

Looking ahead, we are realistic about the fact that, cyclically, the favourable macro-economic conditions must at some point show some respite. Although there are no explicit indications that such a slowdown is overdue, we realise that the ever-rising deficit on the country's current account of its balance of payments will at some point put pressure on the currency. A weakening of the rand will introduce renewed inflation fears and at least stall the declining trend in interest rates and may eventually even lead to a change of direction in lending rates.

Another macro-economic factor we closely watch is the rating of emerging markets, which reached very demanding levels over the past eighteen months. Whenever global investors decide on a more realistic Third World appraisal, it will affect the local financial market as well, as South Africa remains a fully-fledged developing country.

From an asset management point of view, we are sensitive to these variables when advising our clients and in structuring portfolios on their behalf.

Besides these cyclical realities which we keep an eye on, we remain very positive about the medium to long-term potential of South Africa. As a group, we are fully committed to this country and look forward to making a constructive contribution to the future of South Africa. Insofar as the process of black economic empowerment is concerned, we fully subscribe to the intention embodied in the Financial Services Charter. The group's employment policy mirrors a pro-active and sincere employment equity mindset.

An important step was taken in the group's Black Economic Empowerment journey in April this year when the group sold 20% of its quantitative asset management subsidiary, PeregrineQuant, to empowerment companies Vunani Capital and Ilitye Financial Services. The board of directors of Peregrine regards this as a first step in our journey to empowering the group at a Holdings level.

Our group managed an asset base of R18,0 billion on behalf of clients by the end of the financial year under review, up 23% from the 2004 year. From a strategic point of view, the group remains committed to its core focus as a specialised wealth and asset management business. The group has no ambition of growing for the sake of size, but wants to embed itself further as a highly profitable and innovative niche player in the South African asset management domain.

We realise that to achieve this goal, we need to attract and retain relevant skills. We therefore place an important focus on harnessing the human capital in the group and on creating a stimulating employment experience for people with the appropriate skills, who subscribe to our values of mutual respect, an entrepreneurial spirit and intellectual honesty.

Finally, I am fortunate enough to be able to thank all our people for making the last financial year one to be proud of. It is an honour to lead people of integrity and gratifying to witness the result of many years of hard work. Congratulations to the management of every business in the group for motivating and guiding your people to achieve exceptional results.

To the board of directors of our group, thank you for taking the responsibility of guarding over the group and serving the interest of shareholders, personnel and clients. A special word of appreciation to Dr. Pierre Faure, who stepped down as non-executive director during the year after serving on the board for 7 years. It was an honour to have a person with the integrity of Pierre on our board for so many years. Also, welcome to Clive Beaver, who joined the board in January 2005 as an independent, non-executive director after retiring as a partner at Deloitte.

To our clients and business associates, it is a privilege to be in a relationship with you and we trust that we will be able to be of value to you for many years to come.



**Louis Fourie**

Chairman

31 May 2005