

AN OPEN LETTER TO THE PEOPLE OF BANGLADESH

About Us

Peregrine Investment Holdings Limited ("Peregrine") deeply regrets having to publish this notice. The Peregrine Group is the largest independent investment bank in Asia, ex-Japan. Peregrine distributes more Asian stocks and bonds than anyone else in the world. Headquartered in Hong Kong, Peregrine has 33 offices worldwide. We are the first and only international investment bank to have entered Bangladesh. We have made investments to develop a professional investment bank, staffed with experienced investment bankers, and run in a completely transparent and professional manner. The purpose of this notice is to provide facts about our company and the recent events in the share market.

SES Company is affiliated with Peregrine, and all SES brokerage and activities are managed by Peregrine. Ms. Runa Alam is a paid employee of Peregrine Bangladesh, which is a branch office of Peregrine Hong Kong. She is an owner of SES Company at Peregrine's request. Ms. Alam has not and does not buy or sell any shares for herself. The charge against SES Company, Ms. Alam, and Mr. Sabeth Siddique are based on discrepancies thought to be found by the Probe Committee in SES's trades. However, had the Probe Committee asked SES Company or Peregrine, we could have provided them with audited statements reconciling these differences.

Over the last one and half years we have set up our business to run as an international and, in particular, an American-style investment bank. A few examples of our compliance regime include: a) all of our stock transactions are reported daily to our head office in Hong Kong, and b) our trading records are all kept on computer and are audited by Rahman, Rahman & Huq. No information from the stock desk is allowed to go to other departments and more importantly, vice versa. Each department is separated and secured by lock and key and each employee of Peregrine signs a compliance manual which compels them to abide not only by the laws, rules and regulations of Bangladesh, but also the more stringent regulations and standards of the United States Securities and Exchange Commission and the Hong Kong Securities and Futures Commission.

About our People

Part of operating an international standard investment bank is having experienced investment bankers running it. Ms. Runa Alam is one of the few Bangladeshis who has had 14 years experience working for leading American investment banking houses in New York. She is also a Princeton University graduate in economics, and has an MBA from Harvard Business School. She has in turn attracted six overseas Bangladeshis and three experienced investment banking expatriates to Peregrine Bangladesh. Three more Bangladeshis with international investment banking expertise are also slated to join Peregrine Bangladesh. This group and 38 employees hired locally, represent a solid team of investment bankers who provide new financing options for Bangladeshi and multinational companies, as well as advice to many sections of Government. Peregrine and Ms. Runa Alam, in particular, have repeatedly assisted the capital markets and the small investors in Bangladesh whenever possible.

About the Problem

Based on our experience in seeing similar stock market situations in Asia and the rest of the world, we wrote to the Finance Ministry in November warning them of the possibility and consequences of a market crash. In December, we warned the appropriate authorities of the problems resulting from the fact that DVP trades do not settle through the Dhaka Stock Exchange clearing house. It should be noted that the problem is not with the DVP trades themselves, but with the system of actually clearing and settling the trades. DVP trades are successfully done all over the world, but they generally come under the appropriate stock exchange clearing house. As a matter of fact, SES Company, from its inception, has settled every trade done via DVP and non-DVP.

We have written papers for conferences and other government officials giving them information on the Central Depository and regulatory structures in other Asian economies. An enormous portion of our management time over the last six months has been devoted to this effort. We have also been a strong advocate of change within the Dhaka Stock Exchange. We have done this because we firmly believe that WITHOUT A PROPERLY REGULATED SYSTEM TO SELL TO SMALL INVESTORS, AND A CENTRAL DEPOSITORY, THE SMALL INVESTORS IN BANGLADESH WILL BE HURT AGAIN. NOTHING ELSE CAN PREVENT THE RECURRENCE OF THE LAST SIX MONTHS; AND IT IS IMPORTANT FOR ALL OF US TO UNDERSTAND THIS POINT.

Over the last six months we have repeatedly warned and advised many areas of the government and stock exchange members with regard to the stock market situation. To quote from a letter sent to the Finance Ministry and SEC in November and reprinted in several journals including the Financial Express and Artho Katha, we warned the Finance Ministry and the Probe Committee that in the event of a crash, there would be an overall "lack of confidence in the market" and "small investors would suffer huge losses." To avoid this situation we advocated major changes including:

- a proper outlet for small investors
- licensing and regulation of brokers to small investors, so small investors cannot be cheated
- a code of ethics to prevent conflicts of interest
- a central depository system
- a stronger SEC.

All of these changes, unfortunately, have yet to be implemented.

About our Commitment

Our commitment to Bangladesh was strong enough for us to endeavour to do everything we could to change the image of Bangladesh abroad, and to bring portfolio investment into the country. We realise that the foreign media's image of Bangladesh is negative, and we have used our full resources to inform the foreign investors and non-resident Bangladeshis of the investment potential here.

Foreign portfolio investors are accustomed to receiving timely and accurate information in order to make investment decisions. We realised early on that a major reason for the low level of foreign portfolio investment in Bangladesh as compared to Pakistan, India, and even Sri Lanka is that foreign fund managers do not get accurate and timely information on the Bangladeshi economy, companies and the stock markets. Therefore, our research department publishes reports on Bangladesh and Bangladeshi companies to a standard that international investors understand and trust. We are the first bank to put a Bangladesh page on the Reuters screen which is viewed by portfolio investors around the world. We spend time and money to update these pages continuously. Similarly, our Peregrine Bangladesh index was created in order to provide foreign investors with a relevant and accurate benchmark for the market performance and it is quoted on Reuters on a daily basis. Our research head and managing director have made a number of trips abroad to meet with portfolio investors to promote long-term investment in Bangladesh. In December investors started to respond but they are now becoming increasingly wary of the market.

Peregrine has also spent its own funds on organising overseas meetings for high-level Bangladeshi government officials with large foreign portfolio and direct investors. We did this as a service to the country because we felt that we were best equipped to identify which investors were most likely to invest in Bangladesh. The result of these meetings has been that a number of multinationals visited Bangladesh and several have already signed MOUs in the power sector.

Peregrine's largest business in Bangladesh is arranging foreign direct investment into the infrastructure sector, especially the energy sector. In today's global environment, the traditional providers of funds for Bangladesh are multilaterals such as the World Bank, the Asian Development Bank and other similar institutions. However, aid agencies are increasingly unable or unwilling to fund such infrastructure projects. Private capital, or foreign direct investment is bridging the gap. In Asia alone, private capital is funding billions of dollars in power, ports, roads, bridge and telecom projects. Bangladesh has received almost none of this money. Such investment would certainly contribute to an early solution to Bangladesh's loadshedding problems. However without infrastructure, not only are the people of the country personally inconvenienced, but the country itself is held back from developing an industrial or sophisticated farming base. To date WE ARE DIRECTLY INVOLVED IN BRINGING OVER US\$1.6 BILLION IN INVESTMENT INTO BANGLADESH FOR POWER PROJECTS. OUR CLIENTS ARE SET TO PROVIDE THE FIRST NEW POWER PLANTS TO BANGLADESH. However, we fear that these international power companies are increasingly nervous with what has happened.

Given our efforts and especially the efforts of our managing director, Ms. Runa Alam, we are perturbed and disappointed that charges were filed against her and against Mr. Sabeth Siddique. Ms. Runa Alam is an executive with impeccable credentials who has been instrumental in bringing Peregrine to Bangladesh. She strongly believed that Bangladesh was making a transition from a planned economy where the government allocates capital to businesses, to a market economy where investment banks, insurance companies, fund managers, and banks allocate capital, and therefore a professional international company was needed in Bangladesh. Without her, few of the existing employees would have been found and brought to Bangladesh. She has been a driving force behind bringing foreign educated Bangladeshis back to their home country and also in increasing awareness, and improving Bangladesh's image abroad. Ms. Alam is an effective force in bringing foreign investor capital to Bangladesh.

SES Company, a Peregrine-affiliated company, only does stock market trading for Peregrine. Peregrine strictly imposes all the standards discussed above for SES Company. Additionally, since SES owners, Ms. Runa Alam and Mr. Sabeth Siddique are Peregrine employees, all such standards apply to them. The trading audits etc. are all performed on SES transactions. For all intents and purposes therefore, SES cannot operate in any way without instruction and supervision from Peregrine. The authorities were advised and fully aware of the relationship between Peregrine and SES both verbally and by letter. Additionally, SES Company only acts for funds (primarily international portfolio managers) and in no way is allowed to, nor acts for small investors.

About the Accusations

The Government's Probe Committee into the stock market crash has been unable to reconcile certain transactions made by SES Company between the Dhaka Stock Exchange Records and the custodian bank (Standard Chartered) delivery versus payment (DVP) records. These alleged inconsistencies have formed the basis for the issue of arrest warrants, the implied charge being that SES Company indulged in acts of manipulation or fraudulent trading. However, the differences in the numbers that were the basis of the charges are reconciled.

With regard to the charges against SES Company and its directors:

- The Probe Committee purports that SES Company gave the Committee a list of stock transactions, which are different from the Dhaka Stock Exchange (DSE) records.
- However, at no time did the Committee, the Securities and Exchange Commission (SEC), the Finance Ministry, or any other part of Government ask for an explanation or reconciliation of the alleged differences.
- SES Company has an audited report reconciling all trades and showing that SES Company was in no way involved in any act of manipulation, fraudulent trading or trading on or through the korb market and in no way improperly profited from its activities as a broker. It has emerged that the Probe Committee made a number of oversights when looking at our list of trades, including: failing to take fully legal trading on the Chittagong Stock Exchange (through our nominated CSE brokers) into account and inaccurate calculations based on only one custodian bank's records.

Therefore, on the basis of incomplete enquiries by the Probe Committee, proceedings were initiated against SES Company and its directors and warrants issued. Had the Committee bothered to make further enquiries the alleged discrepancies could have easily been clear. The international impact of these charges is that it will make both foreign investors, and non-resident Bangladeshis more hesitant to invest in Bangladesh.

The Future

Again Peregrine deeply regrets both the actions of the past week, as well as the need to write this letter. We hope that the current situation is resolved. We hope to keep working in, with, and for Bangladesh. Investment Banking in Bangladesh, in today's world, is not about profits, but about alleviating poverty and providing better lives for Bangladeshis through efficient and directed investments.

PEREGRINE

Peregrine Investments Holdings Limited