NORTHSTAR
ASSET MANAGEMENT

Client Letter 22 January 2004

Quarter End: 31st December 2003

Dear Investor

Despite the volatility in the rand and the stockmarket in 2003, South African shares ended the year recording healthy gains. More than ever, stock selection played a crucial role in determining the out-performance of Northstar's clients' portfolios.

The on-going strength of the rand continues to dominate the South African investment scene. Against the US dollar the rand has doubled off its low, and even against a strong euro the rand has appreciated by 25%. Given the rand's recovery and last year's share price gains, in dollar terms, recent returns have been dramatic.

In the short-term, the strong rand will have a major negative impact on the profits of many South African companies. Company costs continue to rise due to high wage increases and rental escalations agreed to during inflationary times, but the price of their products are rising at a slower pace on account of import substitution and a more open, price-sensitive, economy. Accordingly, we are reducing exposure to shares of companies whose earnings could suffer in this environment and are putting the proceeds to work in shares with more predictable earnings.

Long-term growth prospects are good. Interest rates have declined significantly and companies have considerable room to increase their borrowings and thus their return on shareholder equity. With the decline in the cost of borrowings, we expect to see fewer quality share placements on the JSE and a continuation of share buy-backs and delistings as entrepreneurs take quality companies private through structured deals. This augers well for share investors and we believe patience will be well rewarded.

In our experience, predicting exchange rates and market levels with confidence is difficult and not something we attempt to do. Instead, we rely on the consistent, disciplined application of our investment approach to position clients' portfolio towards those areas of the market that offer the best risk-return prospects. Many of our selected shares will be those temporarily, or seemingly permanently, out of favour with the broader investment community. Yet our experience and performance history suggests that these are often the same shares which offer greatest value.

By focusing on stocks selling at the biggest discount to their intrinsic value we have been able to adapt to shifting market conditions and participate in the recent stock market recovery while having limited losses during the preceding stock market declines.

We remain honoured to be entrusted to manage our clients' capital and look forward to continuing to produce pleasing returns.

Yours sincerely

Alexander Otten

Alexander Otten

US Dollar major currency index: 1975 - 2003

Source: HSBC International.

The global bear market appears to be over. It is almost a year since most major markets hit their nadir and most have since rebounded. Last year was the first since 1999 that international share investors made money, albeit far less than they lost in the prior three years.

Appearances may flatter to deceive. Just because they have recovered from their lows, by no means suggests that markets are once again in a bull phase. More than a decade later, the Japanese market continues to trade at one quarter the zenith it reached in the 1980's bubble.

After the recent recovery, by all valuations (including dividend yield, book value or cyclically adjusted price: earnings ratio) US shares are again expensive. This does not necessarily imply that a collapse is imminent. For most of the late 1990's the market looked expensive but still went up.

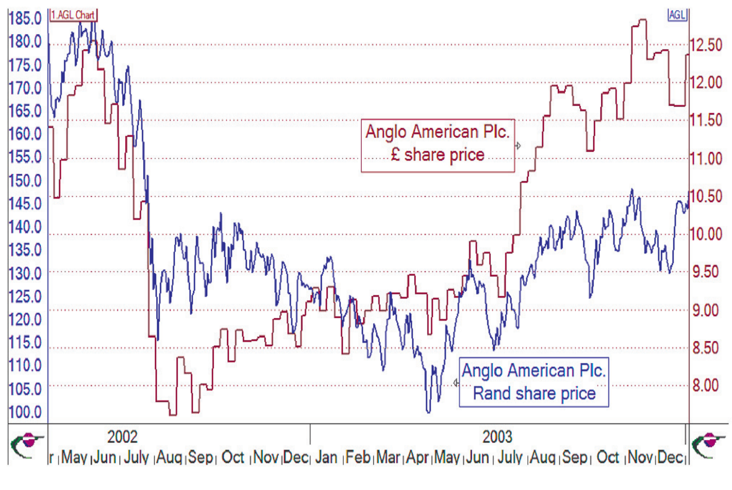
Global share markets are presently reflecting greater complacency by investors. Risk premiums are declining and the hardest hit stocks (with lowest quality earnings) have led the rebound. Discouraged by a miserly one percent yield on deposits, investors have piled in, keen not to miss the boat on the stock market's bounce.

Unusually, there is a large degree of consensus in the investment community as to the likely direction of the stock-market and the US dollar. This is particularly worrying as participants would be positioned in anticipation of their prophecies being fulfilled. Even small setbacks in the unfolding of their plans will produce unexpected volatility and will result in demand for higher risk premiums.

After a six year rally (1995-'02) and 45% appreciation, the US dollar's recent 20% decline merely reverts it to its long-term average valuation. It remains vulnerable to further decline in order to get the record, and growing, trade and current account deficits towards a sustainable level.

For local investors, the impact of the rand's strength against all currencies (and not just an enfeebled US dollar) is well illustrated by comparing the respective returns of Anglo American's share price on the South African and the UK markets. In rand terms, Anglo shares appreciated by 13% in 2003 while in Pound terms the London listed share gave UK investors 38% in 2003; almost triple the Rand return.

Anglo American Plc. share price in Rand and Pound Sterling '02 & '03



Source: Northstar Asset Management.

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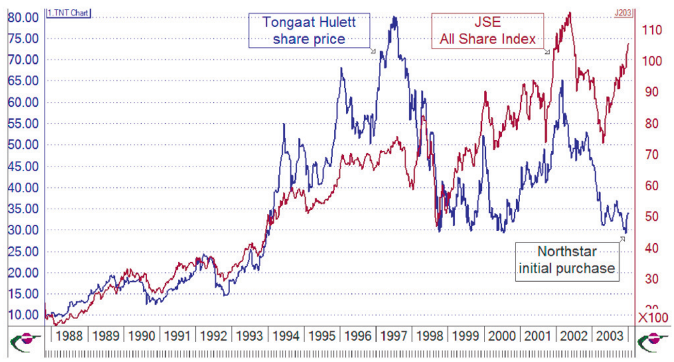
Few shares can be more out of favour with the investment community than one of our recent acquisitions, Tongaat-Hulett Group. In the last ten years while the JSE All Share Index has more than doubled, Tongaat's share price is unchanged at R30.00. It wasn't always like this. In the four years post-1993, Tongaat's share price outperformed the market massively and quadrupled as it rose from R20.00 to R80.00 by mid-1997. Since then, over R5billion was wiped off the company's market capitalisation.

Tongaat Hulett share price vs. JSE (All Share Index) 1988 - 2003



Source: Northstar Asset Management

The company has been caught in a near perfect storm. Drought, Brazilian dumping of sugar on world markets and punishing foreign exchange losses forced the company to report a half-year loss for the first time in the 25 years that we examined. Anglo American's 52% ownership is a legacy of the past. Defined as non-core, Anglo intends to divest itself of Tongaat, but is not a seller at the current fire-sale price.

Despite Hulett Aluminum achieving record sales volumes, the strong rand wiped out that division's contribution to the Group's profits. Subsidiary property development company Moreland was valued in the Group's 2002 balance sheet at R250m. The true value of its 13,000 ha of land is conservatively five times that and the success of its 400 ha Zimbali golf estate development is being followed up with three landmark projects which will contribute meaningfully to the Group over the next several years.

We have no way of foretelling how low disillusioned shareholders might be prepared to drive the share price of Tongaat. Having paid less than R30.00 per share for our clients' initial stake, we would be pleased if the price were to fall further and provide us with opportunity to add to our clients' position at even more attractive prices.

In the past quarter corporate activity has again been a crucial driver in enhancing our clients' returns by releasing value in our selected investments. Bidco, a local consortium, bid R3.1billion for Afrox's Afrox Healthcare and in so doing drove the share price up 25% in the quarter and 42% for the year.

Additionally, we witnessed the corporate restructuring of Avgold and Avmin, two of our preferred gold and commodity holdings. Once again considerable value is being unlocked for our clients as cash-strapped Avgold merged its substantial reserves with Harmony's muscular balance sheet and ARMgold's impeccable empowerment credentials. Both shares outperformed their peers and, despite the rand strengthening by over 20%, ended 2003 higher than they started it.

In the past month Naspers announced that it would be seeking a separate listing for its 50% owned Chinese instant messaging subsidiary, Tencent -which is pre-loaded on most cellphones sold in China. This lifted Naspers' share price by 40% in the quarter and by around 100% over 2003.

The art of wealth creation centers on patience. Seeking short-term rewards results in speculation. Wealth is created through time, not timing. Occasionally the market re-rates our selections quickly, but more typically the rerating takes time as the intrinsic value is recognized and released.

We have consistently managed to provide superior real long-term returns to our clients. This has been driven by our good share selection. In the years ahead our primary responsibility is that we keep searching, on our clients' behalf, for shares that offer outstanding long-term value.