NORTHSTAR
ASSET MANAGEMENT

Client Letter 21 July 2004

Quarter End: 30th June 2004

Dear Investor

The performance of the SA share market in 2004 can best be described as torpid. Our clients' portfolio returns have largely matched the lacklustre market as a consequence of gains made in some shares being off-set by losses in commodity shares which were hurt by the prevailing strong rand / weak US dollar.

Despite the discomfort we have experienced as a result of this, we have little changed our clients' portfolios as we believe that the inherent defensiveness of our strategy reduces risk and will continue to produce superior longer term results. Additionally, the appreciation of the rand allows us to increase our clients' exposure to world-class companies at a lower rand cost.

While we are not enthused by our recent results, we are reassured from our long term track record of significant out performance of the market. Prior periods of sluggish returns, which can last longer than one or two quarters, have usually preceded periods of our out performance which have more than compensated patient investors.

Aside from the negative performance of those shares which declined on the back of the strong rand, the last quarter saw many of our selected shares produce pleasing returns. In the quarter, we also took advantage of a temporary pullback in MTN's share price to double our exposure to the company, which later reported a 77% increase in profits for the past financial year and reaffirmed our analysis of its very attractive prospects.

We continue to hold companies which, through corporate activity, will unlock value for our clients. Kersaf's share price has been strong on account of it recently obtaining investor and regulatory approval to absorb SISA and to restructure itself. Similarly, with another of our clients' largest holdings, Tigerbrands announced that it will distribute to shareholders, and separately list, the Spar group. This will be just one more step in the ongoing process of unlocking substantial value inherent in Tigerbrands.

On the international front, as we anticipated in our previous Market Report, it is significant to note that interest rates, especially in the USA, have finally bottomed and are now headed upwards. Consequently, the environment for financial markets has become less benign and we will accordingly retain our cautious investment approach for the foreseeable future.

Yours sincerely

Alexander Otten

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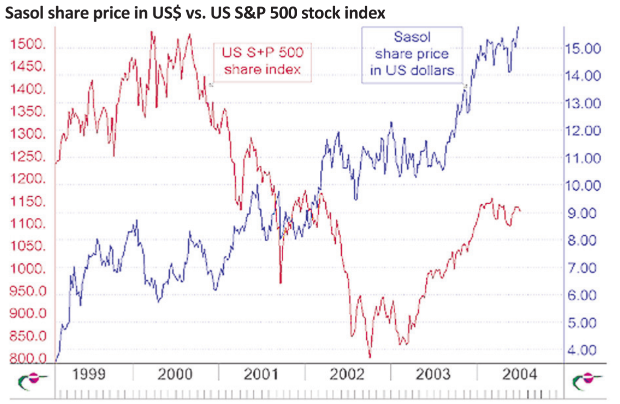
Our core competency at Northstar has always been finding good value for our investors in the stockmarket. Not all selections work out but our long-term track record has proved very rewarding for our clients. With this in mind it may be interesting for clients to look at two examples of our selected share investments.

Sasol share price in US$ vs. US S&P 500 stock index



Source: Northstar Asset Management

Sasol is our clients' largest single holding. Interestingly, the company's earnings are twice as sensitive to rand fluctuations as to the price of oil. While the strong rand has, over the recent past, held back the company's local earnings and share price, it is interesting to examine the company's share price in US dollars and compare its performance to that of the overall US stockmarket.

The S&P500 index is composed of the largest 500 companies listed on the US share market. Any investor owning this index over the past few years would have lost money. Since Jan 1999 the S&P 500 has declined by around 8%. During this same period Sasol's share price has appreciated by 400% in US$ terms. Given that the rand is presently back at levels it was in early 1999, the rand gain in Sasol's share price has been equally dramatic.

Rand vs. US dollar – 1999 to present.

Source: Northstar Asset Management

Despite the gains in Sasol's share price, it presently trades at a normalised PE multiple of 8 times, which is a discount to the prevailing 11 times of the overall JSE. An extremely well run business, Sasol has the added advantage of vast coal and gas reserveswhich have substantially longer life than many of the international oil companies' reserves.

Sasol has recently signed contracts to take its technology to Qatar and China and its own gas to liquid (GTL) projects will be coming on stream and contributing over the next few years. Our conservative investment analysis excludes all of these factors which, over time, could significantly add to the value of Sasol.

While we hold no strong short-term opinion, our medium-term view is that the rand is more likely to weaken than strengthen from current levels. Given Sasol's gearing to the rand this, in addition to its inherent attractiveness, further enhances the investment case in providing investors with an ongoing insurance against a possible decline in the rand.

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In 2003 we invested a small percentage of our clients' funds in MTN, at a share price below R17.00. We had been unable to build a significant position before the price ran away from us. In the past quarter MTN's share price reached R36.50 before swooning to briefly trade in the mid-twenties. This pleased us greatly as it allowed us to increase our client's holdings at attractive prices.

As the most profitable mobile phone operator in SA, and with little new capital expenditure requirements in this country, MTN SA generates considerable free cash-flow.

With this surplus cash flow and local knowledge, MTN has entered and established a secure position in a number of African countries where fixed line tele-densities are low and mobile phone demand, and profit margins, are high. MTN already generates over 40% of its earnings from outside SA and has a more than 50% market share in Cameroon, Uganda, Rwanda and Nigeria.

The Nigerian population is three times that of SA and its potential mobile phone market, partly due to the unreliability of the fixed line networks, is conservatively double the SA market. MTN now has a greater than 60% share of the Nigerian market and in 2004 doubled its subscriber base to 2m. As compared to 9.6m subscribers in SA.

Vodacom had planned to enter the Nigerian market and could have been a serious rival to MTN. Unfortunately, Vodacom made a poor choice of partner and, at the end of May withdrew, probably for the next year or two, from the Nigerian market.

MTN now has a couple of years to consolidate its dominant position in Nigeria and in doing so will be even more difficult to compete against. MTN's Nigerian operations have swung from a loss of R262m in 2002 to a profit of over R2billion in 2004. While such extraordinary growth rates are unsustainable, high growth rates will continue for many years as market penetration is in its infancy.

MTN's Nigerian operations capital requirements, vast as they are, are self-financing out of recurrent revenue. Debt has been reduced to just 3.6% which makes the company under-borrowed but allows it to use (cheaper) bank lending to seed new markets rather than issue additional shares in order to raise required capital.

For the Group as a whole earnings per share increase from 71 cents per share(cps) in 2002, to 143cps in 2003 to their recently reported 253cps in 2004. With high profitability MTN's surplus cash can be used either to fund new lucrative markets or returned to shareholders by way of a healthy and sustainable dividend stream. The current dividend is covered a conservative 6 times.

Management has bought a significant stake in the company and has used borrowings to pay for that stake, thereby aligning their interests with those of ordinary investors.

At its present share price MTN is inexpensive both intrinsically and when compared to the market as a whole. Reasonably one would expect to pay a high multiple, and certainly more than the market average, for a company which has the enviable margins, low debt level, attractive growth prospects, robust free cash flow and which dominates the markets in which it operates. Currently trading at a multiple of less than ten times its projected earnings, there is room for considerable re-rating of this share in terms of its current, and future, earnings.

In our investing clients' capital in companies with the pedigree and prospects of Sasol, MTN and the like, we retain confidence in our providing pleasing long-term returns to our clients.