NORTHSTAR
ASSET MANAGEMENT

Client Letter 12 January 2007

Quarter End: 31st December 2006

Dear Investor

As long-term investors we have little interest in quarterly results as these contribute little to understanding long-term performance and wealth creation. However, much as a marathon runner might measure performance over individual short stages within the marathon; we assess and report Northstar's performance on a quarterly basis.

In the past three months the Johannesburg Securities Exchange All Share Index (JSE ALSI – our benchmark) gained 11.4%. In the same period Northstar's clients enjoyed growth significantly above that figure. Slightly more relevantly, in 2006, the JSE ALSI rose by 37.7% and the average general equity asset management company delivered returns of 31.1%. In 2006 Northstar was pleased to deliver returns for the year closer to 50% and, for the second year running, was the top performing asset management company in South Africa.

While these results are pleasing, long-standing clients will know that over many years we have, in all market conditions, consistently and significantly outperformed the market and our competitors. As long-term investors we would encourage our clients to focus on our three-year and longer performance results, for it is through these medium and longer term results that we have been able to add significant value and generate real wealth on behalf of our clients.

In 1626 the Dutch settlers purchased New York's Manhattan Island from the Man-a-hat-a Indians for 60 guilders; or $25 at today's exchange rates. The question is; "who got the better deal?"

Had the Indians invested their 60 guilders in a portfolio generating a not unreasonable 8.0% pa return, that $25 would today be worth $125 trillion. This is sufficient capital to purchase not only all the real estate in the entire USA but all the shares listed on all USA stock exchanges as well.

Compounding is essentially earning interest today on the interest earned yesterday. Although somewhat trite, this example well illustrates the extraordinary power of compounding over a very long period of time (380 years). However, it is equally powerful in shorter time periods.

If an individual had invested R10,000 in the South African stock market (JSE ALSI) 5 years ago, today it would be worth R24,030. In that time, the average Northstar client has grown a similar R10,000, after all fees and expenses, into R37,111 today.

After the surge in prices in the fourth quarter of last year, it would be remiss of us if we did not caution investors against a possible, indeed probable, short-term pull-back. We would also advise clients to temper expectations of future returns. Over the past few years the markets and our clients' portfolios have delivered remarkable growth, in the long-term such returns are neither normal nor sustainable.

Despite this, and although the markets appear to be relatively fully priced at present, we remain confident in our abilities to apply our investment philosophy and to continue to deliver pleasing, and market beating, returns in the years ahead.

It remains our great privilege to be responsible for managing our clients' wealth. We know of no better way to express our appreciation than to apply our investment philosophy and to deliver superior returns which ensure that, over time, our clients' trust in Northstar is handsomely rewarded.

Yours sincerely

Alexander Otten

Alexander Otten

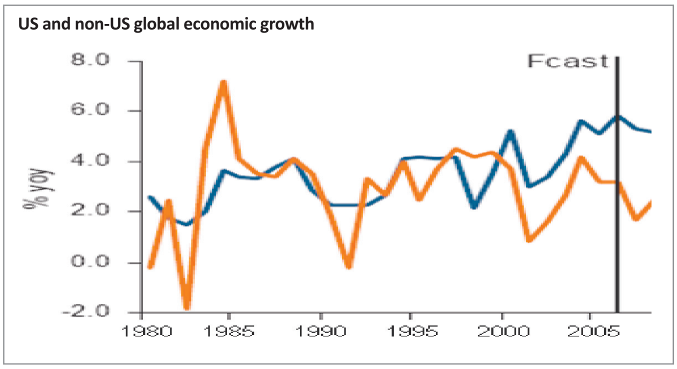
NORTHSTAR ASSET MANAGEMENT (PTY) LTD.
4 Chester Drive Bishopscourt 7708 South Africa
Tel: 021- 797 8184 Fax: 021- 797 4706
email: info@northstar.co.za web address: www.northstar.co.za

Company registration number 1996/001423/07
Member of the Fund Managers Association of South Africa
Regulated by the Financial Services Board of South Africa
VAT registration number 429 01 666 46
Member of the Investment Analysts Society of South Africa
Authorised Financial Services Provider - License number: 601

Market Report 12 January 2007

Quarter End: 31st December 2006

Over the past few years global growth has been the strongest in recorded economic history. As such, this is an optimal time for the global economy to absorb a slowdown in US economic growth.



The global economy will weather the storm better than expected. In aggregate we expect global growth, ex-US, to slow from 5.8% in 2006 to 5.3% in 2007. After initially moderating, US economic growth will pick up in the second half of 2007.

Prevailing economic policy is unlikely to cause the US to stall or tip into recession. Recessions tend to follow periods of high and rising wage cost which is countered by central bank tightening. China's export of deflation has kept wage pressures in check. While the lower dollar and higher corporate investment spending should benefit the US by creating a more balanced and stable economy.

In the same vein, the improving economies of Europe and Japan will balance the global economy. Their heightened prospects have energised central bankers in Europe and Japan to increase interest rates towards more normal levels.

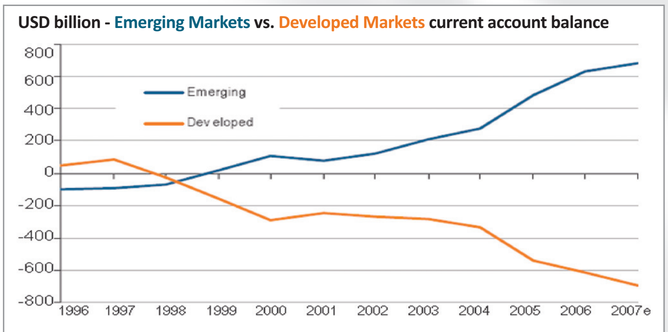
For Europe it has been a regular economic cycle. For the world's second largest economy, Japan, it has been anything but.

Japan stagnated in the 1990's as the bubble in asset prices deflated prices by over 70%. For a decade the authorities tried to combat deflation and revive the economy by slashing overnight interest rates to zero percent. Now that it is showing the first signs of revival, expect the authorities to allow the economic recovery to gain traction before normalising rates.

An unintended consequence of Japanese zero rates has been for global investors to borrow vast sums of Yen to then convert into currencies paying higher interest rates. This is known as the "carry trade". As expected, this "free" trade drove down the value of the Yen and up the price of many global asset classes and many currencies; in particular high yielding currencies.

In 2006 the Japanese central bank raised interest rates for the first time in 6 years from zero to 0.25%. Sentiment aside, this had little impact but, as Japanese interest rates are gradually normalised, expect the Yen to appreciate and for participants in the global carry trade to unwind their positions with concomitant consequences.

Both China and India are in rude economic health and will continue to grow robustly. Within twenty years both will bypass Japan to become the then second and third largest global economies.



Source: Merrill Lynch International Research

Emerging countries of today are very different from those of ten or twenty years ago. In contrast to when they ran a current account deficit 10 years ago, emerging markets (EM) as a group are now running an annual US$700 billion surplus while developed markets (DM) are annually in deficit by that amount.

Additionally, emerging markets are amassing, and currently hold 70% of the world's foreign currency reserves. This increases the robustness of their economies and substantially increases their ability to withstand economic shock.

NORTHSTAR
ASSET MANAGEMENT

It has been another busy and profitable quarter for our most preferred investment strategy; corporate restructuring. What we are doing here is identifying companies whose share price trades at a significant discount to the value of the sum of its parts; the share's intrinsic value. In essence we are hoping to pay less than one rand for each rand worth of company assets that we buy.

When we make the investment on behalf of our clients we have a view as to how value may be unlocked, but it does not always work out that way. Certainly, we have little idea as to when the appropriate restructuring will take place. However, as long as the businesses are well run, continue to generate surplus cash flow and retain attractive prospects, we patiently hold our investments for as long as may be required for the value to be unlocked.

In some instances management may unbundle assets, such as when Tigerbrands distributed shares in Spar and Astral to investors. In others instances management or competitors may make a bid to acquire the undervalued assets.

In the last quarter we had Naspers make a bid for a strategic asset of Johncom at a 50% premium to what many had assessed those assets to be worth. Additionally, we expect further corporate action from Caxton to unlock more value from Johncom which we still consider inexpensively priced. In the second instance, the management of Peermont, frustrated at the market's perpetual undervaluing of its shares, tendered an offer (which we accepted on behalf of our clients) to acquire all the shares in Peermont at a 40% premium to their September quarter-end price.

In the first half of 2007 we expect to see Tongaat, whose shares have increased fourfold since we presented our investment case in our December 2003 Market Report, to unbundled its stake in Hulett Aluminium. Thus unlocking further value for our clients.

Finally, new players in the form of private equity funds are making their presence felt in the South African market. These investors generally seek to acquire high quality businesses with sound management and with substantial free cash-flows. Investment criterion not unlike our own and, going forward, we would be little surprised to see these new arrivals on the SA investment scene making offers for companies included in our clients' portfolios.

On account of SA's historically high interest rates, local companies tend to carry less debt than their global counterparts. The lowering of domestic rates makes debt, which is usually the cheapest form of capital, more affordable. Companies can either do lunch or be lunch. Quality companies which fail to restructure their own balance sheets will become potential targets for private equity funds who will do the restructuring on acquiring the business. Indications of serious offers for Shoprite, Edcon and market talk of even Anglo American being potential targets, shows that size no longer protects companies with lazy balance sheets.

In 2006 the JSE delivered another strong advance and we were pleased to, yet again, enhance this performance on behalf of our clients. However, it would be irresponsible of us if we did not advise clients to temper their expectations of future returns. The extraordinary results that we have delivered over the past few years are abnormal and unsustainable.

The JSE is presently relatively fully priced and should not be relied on to generate strong returns in the next while. Complacency could prove expensive. Consequently, in our quest for value, we find that our clients' portfolios continue to have a low correlation to the makeup of the stockmarket index. This difference has enabled us to produce results which have been pleasingly different from the overall market and will, we believe, continue to do so.

As in most market cycles, future rewarding returns are less likely to come from the overall market and are more likely to be the result of superior share selection; an area we like to regard as our forte.