RE:CM

_REGARDING CAPITAL MANAGEMENT

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INVESTING IN A BUSINESS

At RE:CM we like to invest in companies and not in stocks. We go to great lengths to understand the business and the industry in which it operates and judge the operations as a businessman would. As Benjamin Graham says in The Intelligent Investor: "Investment is most intelligent when it is most businesslike." In this process we tend to ignore sentiment as far as possible.

A company which comes out tops on most fronts as a very strong and well run business is AVI Ltd ("AVI"). AVI specialises in the manufacturing of branded consumer goods, glass packaging and transport of frozen goods. The stable of brands include well known everyday names such as I&J, Consol glass, Yardley, Five Roses and Baumann's biscuits, to name just a few. Having such strong brands gives the group a strong market following and pricing power in a competitive market place.

AVI has a wide customer base, supplying products for the daily consumer market where there is relatively low resistance to spending. Therefore it is far less susceptible to changes in consumer spending preferences than for instance in the case of clothing or electronic goods. This creates the base for sustainable earnings over time.

In addition to the strong brands, AVI also has businesses that dominate their specific markets. About 70% of the group's profits are generated by 2 businesses which are leaders in their sectors in the South African business environment.

- I&J, a seafood business, has 61% of the local retail market and
- Consol has 80% market share of glass packaging in South Africa.

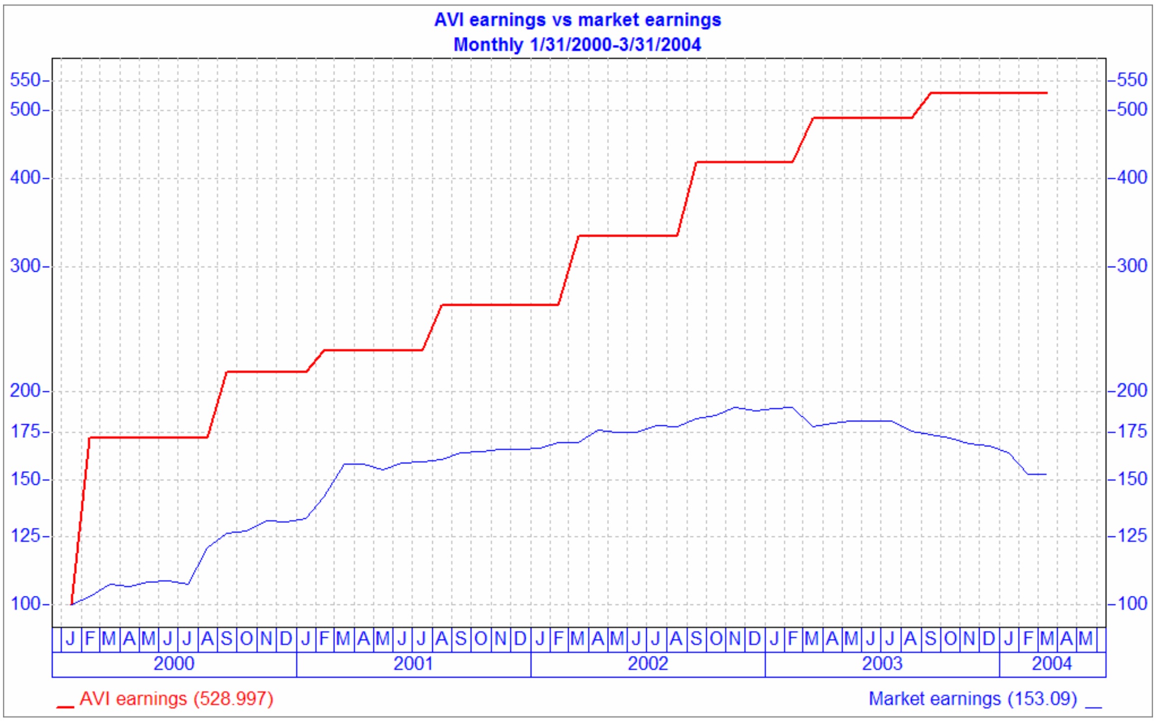
The group also benefits from exports through I&J. About 70% of I&J's revenues are from exports. This provides the group with a Rand hedge. In the past few years this part of the business has shown volatile earnings with the fluctuation of the Rand. At RE:CM we try and look through the noise of the short term volatility in performance and judge the business for its long term sustainable earnings power. I&J has rights to a limited resource and has over time achieved strong margins and earnings growth contributing positively to the group.

High market share and strong brands are reflected by the solid margins the group earns. The group achieves gross margins of 40% plus and operating margins of 12.5% and more.

AVI's operations have proven to be strong cash generators and management has a good track record of investing excess cash well. They have bought back their own shares, investing in their own business, which they know well and understand, creating shareholder value. They have also invested in operations with strong brands or who have leadership positions in their market place. The group has targeted operations which directly fit with their current core focus, enhancing returns on equity. This is in direct contrast to companies who have gone on acquisition sprees in the past, issuing shares for cheap businesses, which do not necessarily contribute positively to the group's existing operations. Examples of this are Didata, Adcorp and Tourvest, who have all been prone to this in the past leaving current management with a diversified portfolio of weak operations to sort out and reposition.

Management has also shown that they continue to leverage off existing strong brands by continuously bringing new products to the market place. The group focuses on continued innovation to maintain the strength and appeal of their current portfolio of branded products. It is important to see the effective use and nurturing of strong assets in a business. This is evident in high and sustainable return on equity of 20% and more achieved by the group. This is what defines good management.

AVI is a business with a strong balance sheet. Fixed assets are continuously renewed supporting future operations, working capital is well managed and the group has cash on the balance sheet. Shareholders have been rewarded well with strong compounded annual dividend growth of about 26% over the past 5 years. The earnings generated by the group has also far outperformed the market since listing.

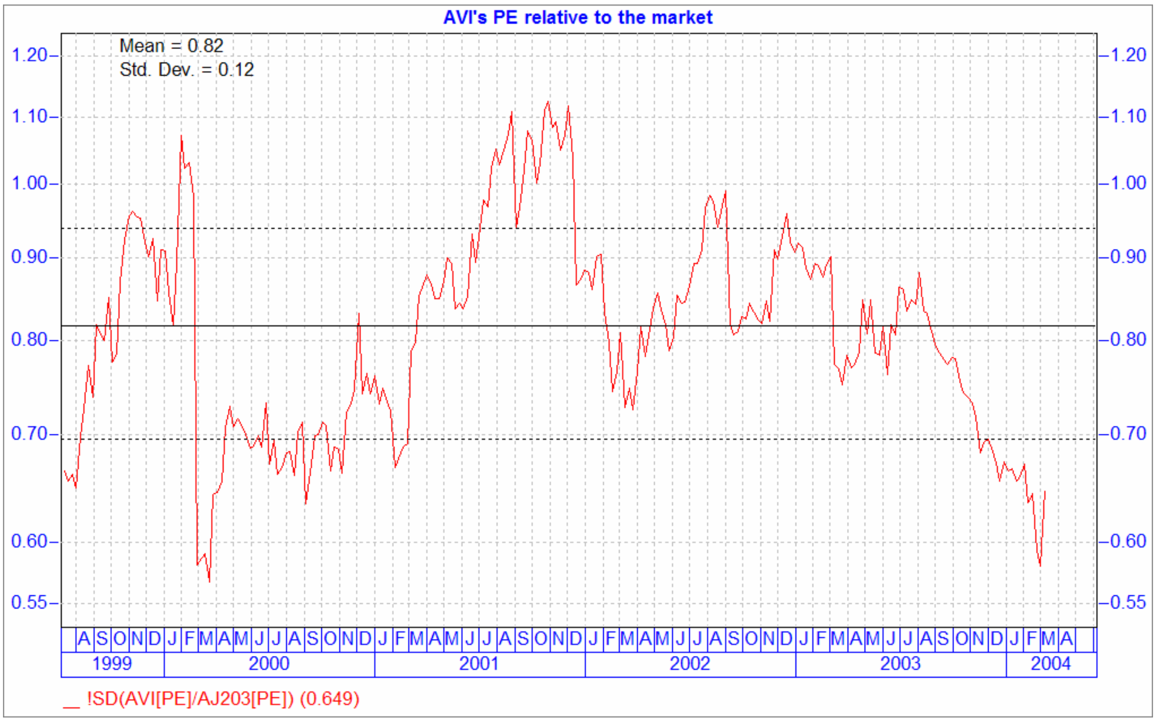


Source: Inet Bridge

In summary, attributes of a good business are:

- Strong brands;
- Large market share in key businesses evidenced by strong margins;
- Well capitalised balance sheet as indicated by strong returns on capital;
- Good management.

Very importantly the final investment decision depends on the price you pay for the company you are buying. The higher the quality of the business and its position in the market place, the more we are prepared to pay for it. We therefore do not concentrate on the earnings forecast for the next one or two years, but rather on the sustainability of the business over the long term through all economic cycles.



Source: Inet Bridge

In our opinion the current price of AVI is too low relative to its intrinsic value. AVI certainly does not deserve to trade at a discount to the market and especially not at a 35% discount. Furthermore AVI currently provides a dividend yield of 4.7% in comparison to the market's yield of 2.9%. At RE:CM we believe AVI is a sensible long term investment trading at an adequate margin of safety. This business should provide investors with superior returns over the long term…an intelligent investment.

Meirine Giggins, March 2004 Market Comment