

The definitions on page 14 of the Prospectus apply throughout this document.

**Warning: The listing of Blackstar on the JSE will be a secondary listing on Alt\*. The primary listing of Blackstar is on AIM and the requirements of AIM will prevail post the secondary listing. Investing in Blackstar involves risk. The JSE does not guarantee the viability or success of Blackstar. Blackstar is not required to retain a Designated Adviser as Blackstar has appointed a South African sponsor in relation to its secondary listing on Alt\* and has a Nomad in the UK. The Nomad's responsibilities under the AIM Rules are owed solely to the LSE and are not owed to the Company or to any director of the Company or any other person.**

# BLACKSTAR

## Blackstar Group SE (formerly Blackstar Group PLC)

(incorporated as a European public limited-liability company in England and Wales)  
(company number SE30)

(principal establishment and tax residence in Luxembourg under R.C.S Luxembourg number B114318)  
(registered as an external Company with limited liability in the Republic of South Africa under registration number 2011/008274/10)

AIM share code: BLCK; JSE share code: BCK (ISIN GB00B0W3NL87)

(**"Blackstar"** or **"the Company"**)

## PROSPECTUS

This Prospectus has been prepared and issued in terms of the JSE Listings Requirements and the South African Companies Act 71 of 2008, as amended, and relates to the Private Placement of up to 15,000,000 (fifteen million) ordinary shares in the share capital of Blackstar, at an issue price of the Rand equivalent of £0.85 (eighty five Pence) each, and the subsequent secondary listing of Blackstar on Alt\*. The aforementioned issue price per Share represents a discount of 29.8% (twenty nine point eight per cent) to the NAV per Share of £1.21 (one hundred and twenty one Pence) as at 31 December 2010 and a discount of 30.9% (thirty point nine per cent) to the intrinsic value per Share of £1.23 (one hundred and twenty three Pence) as at the Last Practicable Date.

Assuming the Private Placement is fully subscribed, the total subscription consideration raised will be the Rand equivalent of £12,750,000 (twelve million seven hundred and fifty thousand Pounds Sterling).

Opening Date of the Private Placement at 09:00 on Monday, 18 July 2011

Closing Date of the Private Placement at 12:00 on Friday, 5 August 2011

Anticipated listing date on Alt\* on Friday, 12 August 2011

*This Prospectus is not an invitation to the public to subscribe for or an offer to the public to purchase Blackstar Shares. It is issued in compliance with the JSE Listings Requirements and the South African Companies Act for the purpose of providing information to the public and Qualifying Investors with regard to Blackstar.*

The directors of Blackstar, whose names are set out in the *Corporate Information* section, accept, collectively and individually, full responsibility for the accuracy of the information contained herein and certify that, to the best of their knowledge and belief, there are no omissions of facts or considerations which would make any statements of fact or opinion contained in this Prospectus false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this Prospectus contains all information required by law and the JSE Listings Requirements.

An English copy of this Prospectus, accompanied by the documents referred to in paragraph 14 of section 4 was filed with and registered by the Companies and Intellectual Property Commission on Friday, 15 July 2011 in terms of section 99(8) and section 99(9) of the South African Companies Act 71 of 2008, as amended.

The JSE has granted Blackstar a secondary listing as an investment entity on Alt\* under the abbreviated name "Blackstar", share code "BCK" and ISIN GB00B0W3NL87, with effect from the commencement of trade on Friday, 12 August 2011.

Following the Conversion of the Company to a *Societas Europaea*, Blackstar Shares are Euro denominated shares, however, the presentation currency of Blackstar is Pounds Sterling.

As at the Last Practicable Date:

- the authorised share capital of the Company consists of 150,000,000 (one hundred and fifty million) ordinary shares with a nominal value of €0.76 (seventy six Euro Cents) each;
- the issued share capital of the Company consists of 74,821,193 (seventy four million eight hundred and twenty one thousand one hundred and ninety three) ordinary shares with a nominal value of €0.76 (seventy six Euro Cents) each; and
- a share premium account of nil.

As at the Listing Date, assuming the Private Placement is fully subscribed and using the GBP:EUR exchange rate, on 21 June 2011 of €1.12778:£1, being the exchange rate applied on implementation of the Conversion:

- the authorised share capital of the Company will consist of 150,000,000 (one hundred and fifty million) ordinary shares with a nominal value of €0.76 (seventy six Euro Cents) each;
- the issued share capital of the Company will consist of 89,821,193 (eight nine million eight hundred and twenty one thousand one hundred and ninety three) ordinary shares with a nominal value of €0.76 (seventy six Euro Cents) each; and
- a share premium account of approximately €2,969,000 (two million nine hundred and sixty nine thousand Euros).

Shareholders are referred to paragraph 4.1 of section 1 of this Prospectus for the share capital as denominated in Pounds Sterling.

The ordinary shares issued in terms of the Private Placement will rank *pari passu* with all other ordinary shares issued by Blackstar.

BDO LLP and BDO South Africa Inc. whose reports are included in this Prospectus, have given and have not, prior to registration of this Prospectus, withdrawn their written consent to their name being included in the Prospectus in the capacity stated and the inclusion of their reports in the form and context in which they appear. The corporate adviser and sponsor, legal adviser and transfer secretary, whose names are included in this Prospectus, have given and have not, prior to registration of this Prospectus, withdrawn their written consents to the inclusion of their names in the capacities stated and, where applicable, to their reports being included in this Prospectus.

This Prospectus has been issued in connection with the Private Placement in South Africa only and is addressed only to persons to whom the Private Placement may lawfully be made. The Prospectus does not, accordingly, constitute an offer to buy or to subscribe for, or the solicitation of an offer to buy or subscribe for, shares in any jurisdiction in which such offer or solicitation is unlawful. Shareholders and any person (including, without limitation, custodians, nominees and trustees) who have a contractual or other legal obligation to forward this Prospectus to a jurisdiction outside South Africa should seek appropriate advice before taking any action.

An abridged version of this Prospectus will be published on the Securities Exchange News Services of the JSE and in the press on Monday, 18 July 2011.

**In this Prospectus, the exchange rate on the Last Practicable Date of R10.8569:£1 and €1.107:£1 has been used for reflecting the Rand denominated approximations and the Euro denominated approximations, respectively, of Pounds Sterling amounts. The Rand denominated Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on Friday, 5 August 2011, being the Closing Date of the Private Placement, and will be released on SENS on Monday, 8 August 2011. Fractions of Shares will not be issued and following the determination as aforesaid, the Company will apply the Rounding Principle when determining the final number of Shares to be allocated to each successful participant in the Private Placement.**

Corporate adviser and sponsor



Independent Auditors



Legal Adviser as to South African law



Edward Nathan Sonnenbergs Inc

AIM nominated adviser and broker



Collins Stewart Europe Limited

Independent Reporting Accountant



**This Prospectus is available in English only. Copies may be obtained from the registered offices of Blackstar, the transfer secretaries and the Corporate Adviser whose addresses are set out in the *Corporate Information* section of this Prospectus.**

Date of issue: Monday, 18 July 2011

## CORPORATE INFORMATION

### Directors

Andrew David Bonamour\*  
Wolfgang Andreas Baertz\*#  
Marcel Ernzer\*#  
John Broadhurst Mills\*#  
Charles Taberer\*#

\* non executive

# independent

### Principal place of business in Luxembourg

58 rue Charles Martel  
L-2134 Luxembourg

### Principal place of business in South Africa

2nd floor  
11 Crescent Drive  
Melrose Arch  
2076

### Corporate Adviser and Sponsor

PSG Capital (Pty) Limited  
Registration number 2006/015817/07  
1st Floor Ou Kollege Building  
35 Kerk Street  
Stellenbosch  
7599  
(P O Box 7403, Stellenbosch, 7599)

and at

Ground Floor  
DM Kisch Building  
Inanda Greens Business Park  
54 Wierda Road West  
Wierda Valley  
Sandton, 2196  
(P O Box 987, Parklands 2121)

### Legal Adviser as to South African law

Edward Nathan Sonnenbergs Inc  
Registration number 2006/018200/21  
150 West Street  
Sandton, 2196

### Transfer Secretaries

Link Market Services South Africa (Proprietary) Limited  
Registration number 2000/007239/07  
13th floor  
Rennie House  
19 Ameshoff Street  
Braamfontein, 2000  
(P O Box 4844, Johannesburg, 2000)

### AIM nominated adviser and broker

Collins Stewart Europe Limited  
9th floor  
88 Wood Street  
London, EC2V 7QR

### Company Secretary

John Kleynhans  
BA.LLB  
58 rue Charles Martel  
L-2134 Luxembourg

### Registered office

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2nd Floor  
Ibex House  
The Minories  
London  
EC3N 1DX

### International Adviser

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Berkshire House  
168-173 High Holborn  
London WC1V 7AA

### Legal Adviser as to English law

Paul, Hastings, Janofsky & Walker (Europe) LLP  
8th floor  
10 Bishops Square  
London, E1 6EG

### Registrars and receiving agents

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

### Independent Auditors

BDO LLP  
2 City Place  
Beehive Ring Road  
Gatwick  
West Sussex RH6 OPA

### Independent Reporting Accountants

BDO South Africa Inc.  
13 Wellington Road  
Parktown  
Johannesburg, 2193

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## **FORWARD LOOKING STATEMENT DISCLAIMER**

The definitions set out on page 14 of this Prospectus apply to this forward looking statement disclaimer.

Many of the statements included in this Prospectus are forward-looking statements that involve risks and uncertainties. Forward-looking statements may generally be identified by the use of terminology such as "may", "will", "anticipate", "expect", "intend", "plan", "estimate", "believe", or similar phrases. Other than statements of historical facts, all statements, including, among others, statements regarding the future financial position or business strategy, projected levels of growth in its market, projected costs, estimates of capital expenditures and plans and objectives of management for future operations of Blackstar and the Group are forward looking statements, and not based on facts.

The actual performance of Blackstar and/or the Group could accordingly differ materially from these forward-looking statements.

## SALIENT FEATURES

The definitions and interpretation commencing on page 14 apply to these salient features.

### 1. INTRODUCTION AND PURPOSE

#### 1.1 Background

- 1.1.1 The idea of Blackstar as an investment vehicle for exploring opportunities in Southern Africa was formed by Andrew Bonamour. Blackstar has since listing on AIM on 26 January 2006 raised £80 million, before expenses, from institutional investors such as Schroders, Eton Park, Lansdowne, Henderson and Midas.
- 1.1.2 Blackstar is an investment holding company that pursues listed and unlisted investment opportunities through its network of business associates and its ability to leverage off its strong relationships within the business community. Blackstar has a successful track record of identifying unusual investment opportunities and uses its ability and entrepreneurial flair to create and enhance value for the benefit of its stakeholders. Blackstar's investment strategy is opportunistic in nature and its investment processes vary, depending on the particular investment opportunity presented, between fundamental bottom-up and macro top-down processes, but are all underpinned by a strong quantitative approach. Blackstar's ability to enhance value for its stakeholders is illustrated by the case studies which have been included in **Annexure 1**.
- 1.1.3 The members of Blackstar's Investment Advisory Team have extensive and complimentary backgrounds in public and private investing, principal investing, corporate finance, financial modelling, structured finance and financial engineering with over 30 years combined investment experience in Africa. These skills have enabled Blackstar to develop a successful long term track record as evidenced in paragraph 2.4 below of this Salient Features section.
- 1.1.4 Blackstar was established to participate largely in African listed and unlisted investment opportunities, with the underlying themes of strategic market position, strong cash flows and the ability to exploit the wider African market from its South African base.
- 1.1.5 Blackstar invests a significant portion of its current assets into South African companies which offer a vast intellectual capital base and have large footprints on the African continent, providing an attractive entry point to the wider continent's growth potential. Many multinationals who want to establish a business in Africa select South Africa as their base and platform into Africa.
- 1.1.6 Blackstar has a global infrastructure and resources, allowing it to access investment opportunities globally. Blackstar believes that currently Africa represents an attractive investment destination that can generate above average returns over the medium to long term. Over the past decade sub-Saharan Africa's real GDP growth rate jumped to an annual average rate of 5.7%, up from only 2.4% over the previous two decades. Over the next five years the Board anticipates that the average African economy will outpace its Asian counterpart and take the global lead in real GDP growth. Looking even farther ahead, Standard Chartered forecasts in the Economist of 6 January 2011 that Africa's economy will grow at an average annual rate of 7% over the next 20 years, slightly faster than China's.
- 1.1.7 Blackstar has recently expanded its offering into fund management and has entered into a strategic co-operation agreement with Wallberg SA, a Luxembourg based asset management company, that will result in its wholly owned subsidiary, Blackstar SA, or any other of its Subsidiaries as it may nominate, being appointed as the asset manager to the Wallberg Blackstar Africa Fund, an African Equity focused fund, and to Lux Euro, an Emerging Debt focused fund, both Luxembourg UCITS III compliant funds.

#### 1.2 Rationale for the Private Placement and Listing

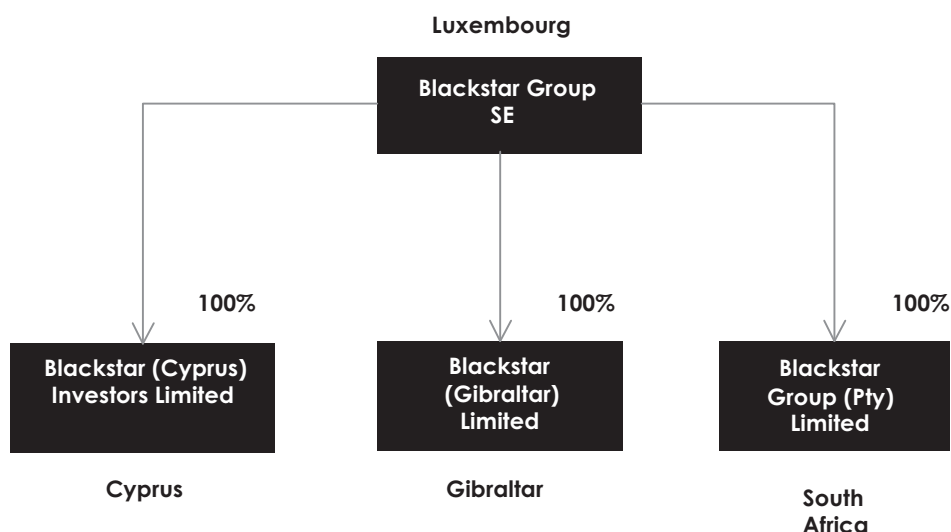
- 1.2.1 Building on its successful track record, Blackstar intends to raise up to £12.75 million or approximately R138.425 million additional capital from new investors in South Africa and list on the Alt\* as a secondary listing.
- 1.2.2 The capital raised will be used to fund investment opportunities in its pipeline, most notably Litha Healthcare, to develop and grow Blackstar's fund management business and shall be applied to the Listing and the Private Placement expenses referred to in paragraph 13.1 of section 1 of the Prospectus. The Company will target an IRR on investment of at least 20% and will target largely South African businesses with, as stated above, the underlying themes of strategic market position, strong cash flows, and the ability to exploit the wider African markets.
- 1.2.3 The purpose of the secondary listing on the Alt\* is to:
  - 1.2.3.1 enhance the liquidity and tradability in Blackstar Shares;
  - 1.2.3.2 unlock value for Blackstar's existing shareholders through enhanced price discovery;

- 1.2.3.3 reinforce Blackstar's connection with a market in which greater than 90% of its assets are located;
- 1.2.3.4 create awareness with prospective institutional and retail investors about the merits of investing in Blackstar;
- 1.2.3.5 appeal to a broader range of prospective investors, both institutional and retail, who are familiar with Blackstar's investments and its history therefore providing further access to capital in order to facilitate and accelerate the Company's growth and acquisitions falling within Blackstar's investment scope; and
- 1.2.3.6 facilitate the raising of additional capital to allow Blackstar to fund investment opportunities in its pipeline and develop its fund management business.

## 2. BRIEF OVERVIEW OF BLACKSTAR

### 2.1 Group structure

2.1.1 The Blackstar Group structure is as set out below:



2.1.2 Blackstar was previously known as Blackstar Group PLC. Blackstar Group PLC recently converted into a *Societas Europaea* or European public limited-liability company. Following this Conversion, the Company will be able to transfer its registered office from England and Wales to another member country of the European Union. This will lessen the administrative, legal and auditing costs which arose from it having its registered office in the United Kingdom and its tax residence and principal establishment in Luxembourg. The Directors plan to propose to Shareholders shortly that Blackstar transfer its registered office and tax establishment to Malta which is the most efficient jurisdiction for the Company for returning excess capital to Shareholders and will ensure that in pursuing its commitment to return excess capital to Shareholders, Shareholders are not adversely affected by the current tax regime.

2.1.3 Blackstar and Blackstar Cyprus's principal activities are to participate in investment opportunities in South Africa and Africa. These two entities are used in different combinations to provide the most efficient holding structure.

2.1.4 Blackstar Gibraltar's principal activity is acting as the treasury vehicle to the Blackstar Group.

2.1.5 Blackstar SA acts as the Investment Adviser to Blackstar as set out below in paragraph 2.2 of this Salient Features section.

2.1.6 A detailed diagrammatical representation of the full group structure of Blackstar is set out in **Annexure 2**.

### 2.2 Investment Adviser

2.2.1 Blackstar SA, with its team on the ground in South Africa, acts as the Investment Adviser to Blackstar.

2.2.2 Blackstar has concluded an Investment Service Agreement with Blackstar SA, whereby Blackstar SA provides administration services, research and investment advisory services, specific trading and hedging mandate services and client relationship management services to Blackstar. In consideration for the services performed, Blackstar SA is paid an arm's length fee as agreed to by the Board.

2.2.3 The salient terms of the Investment Service Agreement are set out in **Annexure 4**.

## 2.3 Investment Strategy

2.3.1 Blackstar's investment strategy is to achieve a balance between long-term capital growth and income, through investments in a range of listed and unlisted investment opportunities. Blackstar's investment thesis is based on targeting companies or assets with a material portion of their value derived from or located on the African continent. The geographic mix of investments will vary over time depending on the relative attractiveness of opportunities across different African countries and regions.

2.3.2 Blackstar allows investors to gain exposure to Blackstar's extensive South African and African network, experience and ability to source, negotiate, structure and implement attractive investment transactions which, over time, translate into excess returns on a risk-adjusted basis.

2.3.3 Blackstar believes that it has a competitive advantage over its peer group to generate significant returns based on the following factors:

2.3.3.1 Blackstar is an experienced African investor with a track record of outperformance in South Africa and across Africa;

2.3.3.2 an "on the ground" South African investment team, based in Johannesburg, with an in-depth understanding of the political, economic and cultural nuances of the region based on over 30 years of combined experience in Africa;

2.3.3.3 an established reputation with local corporate management teams and the investment community which is helpful for sourcing opportunities, working with management teams in a successful partnership, and executing strategies. Blackstar has successfully invested alongside some of the best known BEE investors in South Africa and Africa since its establishment in 2006, enabling it to develop strong links with BEE investor groups who in turn have strong political and commercial links throughout Africa.

## 2.4 Investment history and track record

2.4.1 Blackstar has a track record of superior returns and as at the Last Practicable Date, Blackstar had invested £113.7 million in South Africa. Since inception Blackstar has exited several investments and has generated an IRR of 30% (thirty per cent) in Pounds Sterling on these investments.

2.4.2 A significant portion of Blackstar's investments have been in public opportunities in South Africa and these investments have generated an IRR of 29% (twenty nine per cent) in Pounds Sterling up to 30 June 2011. Over the same period, the FTSE/JSE Africa All Share Total Return Index returned an IRR of 13% (thirteen per cent) in Pounds Sterling.

2.4.3 Since inception, Blackstar has increased its tangible intrinsic NAV attributable to equity holders from £75.4 million (net capital raised) to £91.8 million, as at 30 June 2011. This is after returning £13 million to Shareholders by way of dividends and share buy-backs. This performance has been achieved in spite of some of the most turbulent economic and trading conditions in living memory.

### 2.4.4 Summary of Blackstar's track record since inception

<i>Investment</i>	<i>Industry sector</i>	<i>Date of initial investment</i>	<i>Cost of the investment (£'000)</i>	<i>Investment Status</i>	<i>Gross IRR</i>
<b>Listed</b>					
York Timbers	Forestry	March – 07	17,140	Realised	18%
Mvelaphanda Resources	Resources	April – 07	12,667	Realised	22%
Litha Healthcare Services derivative	Health Care Support	October – 06	8,844	Partially realised	63%
Telecom derivative	Services	May – 06	5,658	Unrealised	13%
Credit U	Telecom-munications	March – 06	1,524	Realised	(15%)
Other	Micro Finance	April – 08	6,739	Realised	53%
			<u>6,885</u>	Partially realised	<u>43%</u>
<b>Total listed investment</b>			<u>59,457</u>		<u>29%</u>

<i>Investment</i>	<i>Industry sector</i>	<i>Date of initial investment</i>	<i>Cost of the investment (£'000)</i>	<i>Investment Status</i>	<i>Gross IRR</i>
<b>Unlisted</b>					
Euro Steel Holdings	Industrial/ Steel	July – 06	509	Realised	41%
DCD-Dorbyl	Industrial/ Engineering	March – 07	4,816	Realised	74%
KMG <sup>2</sup>	Industrial/ Steel	June – 07	37,543	Unrealised	n/a <sup>1</sup>
Ferro	Industrial/ Chemicals	January – 09	6,023	Unrealised	n/a <sup>1</sup>
Other			5,357	Partially realised	n/a <sup>1</sup>
<b>Total unlisted investment</b>			<u>54,248</u>		

**Note:**

- Investments in Subsidiaries are consolidated and are not carried at fair value.
- Includes investment in Global Roofing Solutions (Pty) Limited and Robor (Pty) Limited.

#### 2.4.5 Summary of current Investment Portfolio

The table below represents a summary of Blackstar's Investment Portfolio as at the Last Practicable Date:

<i>Investment</i>	<i>Industry sector</i>	<i>% interest in the company (%)</i>	<i>Cost of the investment (£'000)<sup>2</sup></i>	<i>Current market value of interest (£'000)<sup>1</sup></i>	<i>% of Blackstar's investment portfolio</i>
<b>Listed</b>					
Litha Healthcare – listed on the JSE.	Health Care	39	8,248	34,677	37.8
Services derivative – listed on the JSE	Support Services	N/A	5,658	9,469	10.3
Other	Various	Various	2,058	2,121	2.3
<b>Unlisted</b>					
Ferro Industrial Products	Industrial/ Chemicals	54	5,723	18,415	20.1
KMG <sup>3</sup>	Industrial/ Steel	99	37,137	17,494	19.0
Adreach	Media	15	2,769	1,841	2.0
Blackstar Real Estate	Real Estate	100	554	566	0.6
Navigare Securities	Financial Services	25	107	555	0.6
Other	Various	Various	788	947	1.0
Cash and cash equivalents	–	–	N/A	8,349	9.1
Borrowings	–	–	N/A	(2,612)	(2.8)
<b>Total</b>				<u><b>91,822</b></u>	<u><b>100</b></u>

**Note:**

- Valuation of investments by the Directors at Last Practicable Date.
- The cost of investment is the original cost of the investment currently held. This differs from the table in paragraph 2.4.4 above of this salient features section, which reflects the original cost of both the investment currently held and any previously realised portions.
- Includes investment in Global Roofing Solutions (Pty) Limited and Robor (Pty) Limited.

Further details of Blackstar's Investment Portfolio are set out in **Annexure 3**.

## 2.5 Prospects

Blackstar has an active pipeline of investment opportunities that it is looking to pursue and it intends to apply the majority of funds raised against these opportunities. These opportunities will be pursued through Blackstar directly or through its existing subsidiaries that are looking at acquiring companies in Africa to further expand their footprint on the continent. Blackstar has also earmarked potential foreign acquisitions as Blackstar has a global infrastructure and resources allowing it to access investment opportunities globally. Blackstar has expanded its offering into fund management and the Company will continue to develop and grow its fund management business.

Blackstar will continue to explore opportunities in the South African real estate sector that may arise as a result of the prevailing economic conditions and where attractive deals can be structured. Blackstar will use a portion of the funds raised to continue exploring these potential real estate opportunities.

## 3. SALIENT DATES AND FEATURES OF THE PRIVATE PLACEMENT

3.1 The Private Placement comprises an offer by Blackstar to Qualifying Investors to subscribe for Shares at the Private Placement issue price payable in Rand, equivalent to £0.85 (eight five Pence) per Share, as calculated using the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date, which offer may raise up to the Rand equivalent of £12.75 million.

3.2 The salient dates<sup>1</sup> and features of the Private Placement are as follows:

Private Placement issue price	the Rand equivalent of £0.85 (eighty five pence) per Share as calculated on the Closing Date
Number of Shares offered in terms of the Private Placement	up to 15,000,000 (fifteen million)
Total amount sought to be raised	£12.75 million or approximately R138.425 million
Minimum subscription per Qualifying Investor	R 5000 (five thousand Rand)
Minimum total subscription	the Private Placement is not subject to a minimum total subscription
Opening of the Private Placement at 09:00 on	Monday, 18 July 2011
Closing of the Private Placement at 12:00 on	Friday, 5 August 2011
The final Rand Private Placement issue price per Share will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on	Friday, 5 August 2011
Results of the Private Placement and the final Rand Private Placement issue price per Shares released on SENS on	Monday, 8 August 2011
Results of the Private Placement and the final Rand Private Placement issue price per Share published in the Press on	Wednesday, 10 August 2011
Notification of allotments on	Wednesday, 10 August 2011
Accounts at CSDP or broker updated and debited in respect of the Shares on the Settlement Date which is expected to be at the commencement of trade on	Friday, 12 August 2011

1. The above times and dates are subject to change. Any such change will be announced on SENS. All references to times are to local time in South Africa.

3.3 Qualifying Investors wishing to participate in the Private Placement must subscribe for a minimum total subscription consideration of R5 000 (five thousand Rand) per Qualifying Investor.

3.4 The Private Placement issue price as stated in the table above represents a discount of 29.8% (twenty nine point eight per cent) to the NAV per Share of £1.21 (one hundred and twenty one Pence) as at 31 December 2010 and a discount of 30.9% (thirty point nine per cent) to the intrinsic value per Share of £1.23 (one hundred and twenty three Pence) as at the Last Practicable Date. The NAV per Share as at 31 December 2010 has been set out in **Annexure 3**.

3.5 Qualifying Investors should note that, as a result of the Conversion of Blackstar to a *Societas Europaea*, Blackstar Shares are Euro denominated. However, as the presentation currency of Blackstar is Pounds Sterling, the Private Placement issue price has been set in Pounds Sterling. The Rand denominated Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date and will be released on SENS on Monday, 8 August 2011 and in the Press on Wednesday, 10 August 2011. Fractions of Shares will not be issued and following the determination as aforesaid, the Company will apply the Rounding Principle when determining the final number of Shares to be allocated to each successful participant in the Private Placement.

- 3.6 Blackstar will place a limited number of Shares with existing Shareholders in the UK which will form part of the total Private Placement Shares.

#### **4. LISTING ON JSE**

- 4.1 The JSE has formally approved the listing of all ordinary shares in the issued share capital of Blackstar as a secondary listing as an investment entity on the Alt\* under the abbreviated name "Blackstar", share code "BCK" and ISIN GB00B0W3NL87 with effect from the commencement of trade on Friday, 12 August 2011.
- 4.2 Following the Listing on Alt\*, Blackstar will only be required to comply with the listings requirements of its primary exchange, AIM, namely the AIM Rules, save as otherwise specifically stated to the contrary in the JSE Listings Requirements.

#### **5. FINANCIAL INFORMATION**

The preparation of the financial information set out in this Prospectus is the responsibility of the Directors of Blackstar.

##### **5.1 Historical financial information**

5.1.1 The audited historical financial information of Blackstar for the financial years ended 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010 is presented in **Annexure 6** and includes all information upon which the auditor is required to furnish its report in terms of Regulation 79 of the South African Companies Act.

5.1.2 The auditor's report on the historical financial information is presented in **Annexure 7** in compliance with the requirements of Regulation 79 of the South African Companies Act.

##### **5.2 Unaudited *pro forma* financial information**

5.2.1 The unaudited *pro forma* financial information for Blackstar, the preparation of which is the responsibility of the Directors, is presented in **Annexure 8**.

5.2.2 The *pro forma* financial information should be read in conjunction with the independent reporting accountants' report thereon as presented in **Annexure 9**.

5.2.3 The unaudited *pro forma* financial information has been prepared for illustrative purposes only to provide information as to how the Private Placement might have impacted on the financial position of the Blackstar Group. Because of its nature, the unaudited *pro forma* financial information may not be a fair reflection of the Blackstar Group's financial position after the Private Placement.

## SALIENT DATES AND TIMES

	2011 <sup>(1)</sup>
Abridged Prospectus published on SENS on	Monday, 18 July
Abridged Prospectus published in the press on	Monday, 18 July
Prospectus posted to Shareholders	Monday, 18 July
Opening of the Private Placement at 09:00 on	Monday, 18 July
Closing of the Private Placement at 12:00 on	Friday, 5 August
The final Rand Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on <sup>(2)</sup>	Friday, 5 August
Results of the Private Placement and the final Rand Private Placement issue price released on SENS on or about	Monday, 8 August
Results of the Private Placement and the final Rand Private Placement issue price released in the Press on or about	Wednesday, 10 August
Notification of allotments	Wednesday, 10 August
<b>Listing of Blackstar on the Alt* at commencement of trade on</b>	Friday, 12 August
Accounts at CSDP or broker updated <sup>(3)(4)</sup>	Friday, 12 August

### Notes

1. The above times and dates are subject to change. Any such change will be announced on SENS. All references to times are to local time in South Africa.
2. The Rand denominated Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date and will be released on SENS on Monday, 8 August 2011.
3. Shares will only be issued in dematerialized form and Qualifying Investors wishing to participate in the Private Placement must advise their CSDP or broker of their acceptance of the Private Placement in the manner and cut-off time stipulated by their CSDP or broker as their cut-off times will be a date earlier than the Closing Date.
4. CSDP's effect payment on a delivery versus payment basis.

## DEFINITIONS AND INTERPRETATION

In this Prospectus, annexures and attachment hereto, the exchange rate on the Last Practicable Date of R10.8569:£1 and €1.107:£1 has been used for reflecting the Rand denominated approximations and the Euro denominated approximations, respectively, of Pounds Sterling amounts, and unless the context indicates otherwise, references to the singular include the plural and vice versa, words denoting one gender include the others, expressions denoting natural persons include juristic persons and associations of persons and vice versa, and words in the first column hereunder have the meanings stated opposite them in the second column, as follows:

"Administrative Organ"	the newly constituted Board, being a one tier administrative organ established in terms of article 38(b) of the SE Regulation, which, pursuant to the Conversion replaced the previous Board, without any change to the composition of the previous Board, with effect from 30 June 2011;
"Adreach"	Adreach (Proprietary) Limited, (registration number 1998/013661/07), a private company incorporated in accordance with the laws of South Africa;
"AIM"	the AIM market, operated by the LSE;
"the AIM Rules"	the rules applicable to AIM companies as published by the LSE from time to time;
"Alt"	the Alternative Exchange of the JSE;
"Articles"	the articles of association of the Subsidiaries;
"BEE"	broad-based black economic empowerment, as defined in the South African BBBEE Act;
"Blackstar" or "the Company"	Blackstar Group SE (company number SE30) (with its tax residence and principal establishment in Luxembourg with R.C.S Luxembourg number B114318), a public company originally incorporated and registered in accordance with the laws of England and Wales, formerly known as Blackstar Group PLC, and which has been converted into a <i>Societas Europaea</i> , with its registered office in the United Kingdom and which is currently governed by the SE Regulation and the applicable UK and Luxembourg laws and regulations;
"Blackstar Cyprus"	Blackstar (Cyprus) Investors Limited (company number 177097), a public company incorporated in accordance with the laws of Cyprus;
"Blackstar Gibraltar"	Blackstar (Gibraltar) Limited (incorporation number 97653), a public company incorporated in accordance with the laws of Gibraltar;
"Blackstar Group" or "the Group"	Blackstar and its Subsidiaries;
"Blackstar Real Estate"	Blackstar Real Estate (Proprietary) Limited (registration number 2010/007146/07), a private company incorporated in accordance with the laws of South Africa;
"Blackstar SA" or "the Investment Adviser"	Blackstar Group (Proprietary) Limited (Registration number 2005/042844/07), a private company incorporated in accordance with the laws of South Africa;
"BML Limited"	BML Limited (Registration number 629747), a public company incorporated in accordance with the laws of British Virgin Islands, which has as its shareholders, the Ethamie Trust, holding 44.94% of the shareholding, the Inkululeko Trust, holding 29.96% of the shareholding and Apache Investments Limited holding 25.10% of the shareholding;
"Board" or "Board of directors" or "Directors"	the board of directors of Blackstar as at the Last Practicable Date, further details of whom appear in the <i>Corporate Information</i> section of this Prospectus, and which board, pursuant to the Conversion, is the Administrative Organ of the Company;
"Business Day"	any day other than a Saturday, Sunday or public holiday in South Africa;

"Cents"	South African cents;
"CFD"	a contract for difference;
"Closing Date"	the closing date of the Private Placement, being at 12:00 local South African time on Friday, 5 August 2011;
"Common Monetary Area"	South Africa, the Republic of Namibia and the Kingdoms of Swaziland and Lesotho;
"the Companies and Intellectual Property Commission"	the Companies and Intellectual Property Commission established in terms of section 185 of the South African Companies Act;
"Conversion"	the conversion of the Company on 27 June 2011 into a <i>Societas Europaea</i> pursuant to Article 2(4) of the SE Regulation;
"Credit U"	Credit U Holdings Limited (registration number 2002/003827/06), a public company incorporated in accordance with the laws of South Africa;
"CSDP"	a depository institution accepted by Strate as a participant in terms of the South African Securities Services Act, as amended, with whom a beneficial holder of Shares holds a dematerialised share account;
"Damille Investments"	Damille Investments Limited, being a Guernsey domiciled closed ended investment company;
"DCD-Dorbyl"	DCD-Dorbyl (Proprietary) Limited (registration number 2006/037611/07), a private company incorporated in accordance with the laws of South Africa;
"Dematerialised Shares"	shares which have been incorporated into the Strate system and which are no longer evidenced by certificates or other physical documents of title;
"Eton Park"	Eton Park Capital Management L.P., a privately owned hedge fund sponsor;
"Euro" or "EUR" or "€"	the legal common currency of the participating member states of the European Union;
"Euro Cents"	the legal currency making up a Euro, with 1 Euro comprising of 100 Euro Cents;
"Euro Steel Holdings"	Euro Steel Holdings (Proprietary) Limited (registration number 2004/032337/07), a private company incorporated in accordance with the laws of South Africa;
"Exchange Control Regulations"	the South African Exchange Control Regulations, 1961 (as amended), promulgated in terms of section 9 of the Currency and Exchanges Act, 1933 (Act 9 of 1933) (as amended);
"Facebook"	Facebook Incorporated, a Delaware corporation incorporated in accordance with the laws of Delaware;
"Ferro" or "Ferro Industrial Products"	Ferro Industrial Products (Proprietary) Limited (registration number 2004/000614/07), a private company incorporated in accordance with the laws of South Africa;
"GBP" or "£" or "Pounds Sterling" or "Sterling"	Pounds Sterling, the legal currency of the UK;
"GDP"	gross domestic product;
"Group Company"	the companies comprising the Blackstar Group;
"Henderson"	Henderson Global Investors Limited, a global asset management firm;
"IFRS"	International Financial Reporting Standards of Accounting;
"Investment Advisory Team"	the executive committee of the Investment Adviser, as more fully set out in paragraph 1.3 of section 4 of the Prospectus;
"the Investment Portfolio" or "the Blackstar Investment Portfolio"	the various investments of Blackstar as set out on paragraph 3.7 of section 1 and <b>Annexure 3</b> of the Prospectus;

"Investment Service Agreement"	the Investment Service Agreement dated 26 June 2009 entered into between the Company and Blackstar SA in terms whereof Blackstar SA is appointed as Investment Adviser to the Company and delivers administration services, research and investment advisory services, specific trading and hedging mandate services and client relationship management services to the Company, the salient terms whereof are set out in <b>Annexure 4</b> ;
"IPO"	initial public offering;
"IRR"	internal rate of return;
"JSE"	the JSE Limited (registration number 2005/022939/06), a public company incorporated in accordance with the laws of South Africa and which is licensed as an exchange in terms of the South African Securities Services Act;
"KMG"	KMG Steel Service Centres (Proprietary) Limited (registration number 2006/031549/07), a private company incorporated in accordance with the laws of South Africa;
"Lansdowne"	Lansdowne Partners Limited, an alternative investment management organisation;
"Last Practicable Date"	the last practicable date prior to the finalisation of this Prospectus, being 30 June 2011;
"the Listing"	the secondary listing of all the issued ordinary shares of Blackstar on the AltX;
"the Listing Date"	the proposed date of the Listing which is expected to be on Friday, 12 August 2011;
"Litha" or "Litha Healthcare"	Litha Healthcare Group Limited (registration number 2006/006371/06), a public company incorporated in accordance with the laws of South Africa;
"LSE"	the London Stock Exchange plc;
"Luxembourg"	the Grand Duchy of Luxembourg;
"Lynchwood Nominees"	a non-trading, privately owned, investment vehicle;
"Mvelaphanda Resources"	Mvelaphanda Resources Limited, (registration number 1980/001395/06), a public company incorporated in accordance with the laws of South Africa;
"Midas"	Midas Capital Partners Limited, a privately owned investment manager;
"NAV"	net asset value;
"Navigare"	Navigare Securities (Proprietary) Limited (registration number 2008/025723/07), a private company incorporated in accordance with the laws of South Africa;
"Nomad" or "Nominated Adviser"	Collins Stewart Europe Limited (registration number 1774003), a public company incorporated in accordance with the laws of England and Wales, the Company's nominated adviser for the purposes of the AIM Rules whose responsibilities under the AIM Rules are owed solely to the LSE and are not owed to the Company or to any Director or to any other person, full details of whom are set out in the <i>Corporate Information</i> section;
"Non-Resident"	a person whose registered address is outside the Common Monetary Area;
"Opening Date"	the opening date of the Private Placement, being at 09:00 local South African time on Monday, 18 July 2011;
"p" or "Pence"	British pence;
"the Press"	Business Day and Die Burger;
"the Private Placement"	the Private Placement by Blackstar of up to 15,000,000 (fifteen million) Shares at the Private Placement issue price to Qualifying Investors, thereby raising £12.75 million (twelve million seven hundred and fifty

	thousand Pounds Sterling), or approximately R138.425 million (assuming the maximum subscription in terms of the Private Placement is achieved);
"Private Placement issue price"	the subscription price payable for a Share in terms of the Private Placement, being the Rand equivalent of £0.85 (eighty five Pence) determined at the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date;
"Prospectus"	this bound document issued on Monday, 18 July 2011, including all annexures and enclosures thereto;
"PSG Capital"	PSG Capital (Proprietary) Limited (registration number 2006/015817/07), a private company incorporated in accordance with the laws of South Africa and which is the corporate adviser and sponsor to Blackstar;
"Qualifying Investors"	those specifically identified existing Shareholders, invited institutional investors, selected private clients and invited retail investors to whom the offer under the Private Placement will be addressed and made;
"Rand" or "R" or "ZAR"	South African Rand, the legal currency of South Africa;
"Register"	the register of Blackstar Shareholders;
"the Rounding Principle"	the rounding up or rounding down to the nearest whole number of a fraction of a Share on the basis that such fraction will be: <ul style="list-style-type: none"> <li>• rounded up to the nearest whole number of a Share if the fraction is greater than or equal to 0.5; or</li> <li>• rounded down to the nearest whole number of a Share if the fraction is less than 0.5;</li> </ul>
"SARB"	the South African Reserve Bank;
"Schroders"	Schroders Investment Management Limited, a privately owned investment manager;
"SE Regulation"	Council of the European Union Regulation No 2157/2001 of 8 October 2001 on the Statute for a European Company;
"SENS"	the Securities Exchange News Service of the JSE;
"Settlement Date"	the date upon which the issue price of Shares allotted to successful participants in terms of the Private Placement must be paid, being the Listing Date, which is anticipated to be on Friday, 12 August 2011;
"Shareholders" or "Blackstar Shareholders"	the registered holders of Blackstar Shares;
"Shares" or "Blackstar Shares"	ordinary shares with a nominal value of €0.76 (seventy six Euro Cents) each or £0.67 (sixty seven Pence) each in the issued share capital of Blackstar;
"South Africa" or "SA"	the Republic of South Africa;
"the South African BBBEE Act"	the South African Broad-based Black Economic Empowerment Act, 2003 (Act 53 of 2003) (as amended);
"the South African Companies Act"	the South African Companies Act, 2008 (Act 71 of 2008) (as amended) and the regulations issued pursuant thereto;
"the South African Securities Services Act"	the South African Securities Services Act, 2004 (Act 36 of 2004) (as amended);
"Standard Chartered"	Standard Chartered plc;
"Statutes"	the statutes of the Company;
"Strate"	Strate Limited (registration number 1998/022242/06), a registered central securities depository in terms of the South African Custody and Administration of Securities Act, 1992 (Act 85 of 1992) (as amended);
"Strate system"	the clearing and settlement system used by the JSE for security transactions to be settled and transfer of ownership to be recorded electronically, managed by Strate;

"the Subsidiaries"	Blackstar Cyprus, Blackstar Gibraltar, Blackstar SA, Blackstar Real Estate, KMG and Ferro;
"the Transfer Secretaries"	Link Market Services (Proprietary) Limited, registration number 2000/007239/07, a company incorporated in accordance with the laws of South Africa, the Transfer Secretaries of Blackstar;
"UCITS"	undertakings for collective investments in transferable securities;
"UK Companies Act"	the UK Companies Act 2006 (as amended);
"UK"	the United Kingdom of Great Britain and Northern Ireland;
"VAT"	value-added taxation in terms of the South African Value-Added Tax Act 1991 (Act 89 of 1991) (as amended);
"Wallberg Blackstar Africa Fund"	an open ended UCITS III compliant investment fund incorporated in Luxembourg;
"Wallberg SA"	Wallberg Invest S.A., a public limited company under the law of Luxembourg registered under reference R.C.S Luxembourg B-137 988; and
"York Timbers"	York Timbers Holdings Limited (registration number 1916/004890/06), a public company incorporated in accordance with the laws of South Africa.

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# BLACKSTAR

## Blackstar Group SE (formerly Blackstar Group PLC)

(incorporated as a European public limited-liability company in England and Wales)  
(company number SE30)

(domiciled in Luxembourg with R.C.S Luxembourg number B114318)

(registered as an external Company with limited liability in the Republic of South Africa under  
(registration number 2011/008274/10)

AIM share code: BLCK; JSE share code: BCK (ISIN GB00B0W3NL87)

("Blackstar" or "the Company")

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## PROSPECTUS

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### SECTION 1: INFORMATION ABOUT BLACKSTAR

#### 1. NAME, ADDRESS AND INCORPORATION

- 1.1. Blackstar was incorporated under the name Trendvale Limited with registered number 2396996.
- 1.2. The Company changed its name to Blackstar Investors PLC on 26 January 2006, thereafter to Blackstar Group PLC on 9 June 2009 and thereafter to Blackstar Group SE following its conversion to a European public limited-liability company or *Societas Europaea* on 27 June 2011.
- 1.3. The Company's registered office, its primary place of business in South Africa and the address of its transferring agents are set out in the *Corporate Information* section on page 3.
- 1.4. Blackstar was incorporated and registered in England and Wales as a private company on 20 June 1989 under the UK Companies Act and subsequently converted to a public company on 14 June 1995. Its registered office is in the United Kingdom, with its principal establishment and tax residence currently in Luxembourg, where it is registered under R.C.S Luxembourg number B 114 318. Blackstar converted into a *Societas Europaea* on 27 June 2011.
- 1.5. The Company registered as an external company in South Africa on 14 April 2011 under registration number 2011/008274/10.
- 1.6. The name, date and place of incorporation of each of the Subsidiaries are set out in **Annexure 12**.

#### 2. DIRECTORS, OTHER OFFICE HOLDERS, OR MATERIAL THIRD PARTIES

- 2.1. The full names, ages, business address, occupations, capacities and nationalities of the Directors of Blackstar are outlined below:

<i>Full name</i>	<i>Age</i>	<i>Capacity and occupation</i>	<i>Nationality</i>	<i>Business Address</i>
John Broadhurst Mills	42	Non-executive chairman	Irish	58, rue Charles Martel, L-2134 Luxembourg
Andrew David Bonamour	39	Non-executive director	RSA	11 Crescent drive, Melrose Arch 2076, RSA
Wolfgang Andreas Baertz	70	Non-executive director	German	58, rue Charles Martel L-2134 Luxembourg
Marcel Ernzer	56	Non-executive director	Luxembourg	54, rue de Cessange L-1320 Luxembourg
Charles Taberer	53	Non-executive director	RSA	58, rue Charles Martel L-2134 Luxembourg

- 2.2 The name and business address of the Company's auditors, attorneys and company secretary, together with the qualifications of the company secretary, are set out in the *Corporate Information* section on page 3.
- 2.3 The relevant provisions of the Statutes relating to the following matters are set out in **Annexure 5** to this Prospectus:
- 2.3.1 appointment and terms of office of the Directors;
- 2.3.2 qualification of Directors;
- 2.3.3 retirement or non-retirement of Directors under an age limit; and
- 2.3.4 any power enabling the Directors, in the absence of an independent quorum to vote remuneration, including pension or other benefits, to themselves or any members of their body.
- 2.4 No person holds any right in regard to the appointment of Directors and appointments are made on the basis of the relevant provisions of the Statutes as set out above in paragraph 2.3 of this section 1.
- 2.5 A summary of the provisions of the Statutes and the Articles of the Subsidiaries with regards to the following matters is set out in **Annexure 5** to this Prospectus:
- 2.5.1 the determination of the remuneration for directors within the Group;
- 2.5.2 any power enabling a director of the Group to vote remuneration to themselves or any members of their board.
- 2.6 For the year ended 31 December 2010, remuneration paid and benefits given to the Directors were as follows:

	Salary (£) <sup>(1)</sup>	Directors' fees (£) <sup>(1)</sup>	Fees for other services (£)	Provident fund & medical aid contributions (£)	Bonuses (£)	Total (£)
John Broadhurst Mills	–	46,000	–	–	–	46,000
Andrew David Bonamour	312,000	40,000	38,000	–	471,000 <sup>1</sup>	861,000
Wolfgang Andreas Baertz	–	35,000	–	–	–	35,000
Marcel Ernzer	–	35,000	–	–	–	35,000
Charles Taberer	–	15,000	–	–	–	15,000

**Notes:**

(1) Includes incentive bonus earned, amounting to £226,000 on closure of the investment in Mvelephanda Resources.

- 2.7 There will be no variation in the remuneration receivable by any of the Directors nor by any director of any other Group Company as a direct consequence of the Listing.
- 2.8 The borrowing powers exercisable by the Directors are governed by the Statutes, the relevant extracts whereof are set out in **Annexure 5**. The borrowing powers of the Directors may only be varied by an amendment to the Statutes at an extraordinary general meeting of Shareholders representing half of the capital of the Company before a Luxembourg notary, seventy five per cent of those present must vote in favour of the resolution.
- 2.9 The borrowing powers exercisable in relation to Group Companies, other than Blackstar, are similarly governed by the Articles of each Subsidiary. The relevant extracts from the aforementioned Articles in this regard are set out in **Annexure 5**. The borrowing powers exercisable in relation to Group Companies, other than Blackstar, may similarly only be varied by amending the relevant provisions of the Articles of the particular Subsidiary. For Subsidiaries incorporated in South Africa, such amendment would require the approval of the shareholders of the Subsidiary by way of a special resolution. For Subsidiaries incorporated outside South Africa, the amendment would require shareholder approval in such manner as required by the laws of the country which has jurisdiction in regard to the particular Subsidiary.
- 2.10 The borrowing powers of Blackstar and the other Group Companies have not been varied in the 3 years preceding the Last Practicable Date, are unlimited and have accordingly never been exceeded.
- 2.11 Other than the investment advisory services provided to Blackstar by its wholly owned Subsidiary, Blackstar SA, as more fully set out below in paragraph 3.4 of this section 1, no business of the Group is managed or proposed to be managed by a third party under contract.

### 3. HISTORY, STATE OF AFFAIRS AND PROSPECTS OF BLACKSTAR

#### 3.1 General history

- 3.1.1 Blackstar was incorporated as private company on 20 June 1989 and subsequently converted to a public company on 14 June 1995. Blackstar is an investment holding company and was established primarily to participate in South African listed and unlisted investment opportunities, with the underlying themes of strategic market position, strong cash flows and the ability to exploit the wider African market from its South African base.

- 3.1.2 The idea of Blackstar as an investment vehicle for exploring opportunities in Southern Africa was formed by Andrew Bonamour. Blackstar commenced its business as an investment holding company in 2005 and since listing on AIM on 26 January 2006 has raised £80 million, before expenses from institutional investors including Schroders, Eton Park, Lansdowne, Henderson and Midas. Blackstar has accordingly, as at the Last Practicable Date, been conducting its business as an investment holding entity for approximately 6 years.
- 3.1.3 The Company's entire issued share capital of 74,821,193 Shares are currently admitted to trading on AIM. The Directors confirm that, so far as they are aware, Blackstar is in full compliance with the requirements of AIM and is in compliance with all relevant competent authorities and regulatory bodies in the UK.
- 3.1.4 Details regarding the general history of the Subsidiaries, including the length of time during which the business of each such Subsidiary has been conducted, their main business, issued share capital, the date upon which they became Subsidiaries and the percentage shareholding in each such Subsidiary held by Blackstar, are set out in **Annexure 12**.

## 3.2 Overview of Blackstar

- 3.2.1 Blackstar is an investment holding company that pursues listed and unlisted investment opportunities through its network of business associates and its ability to leverage off its strong relationships within the business community. Blackstar has a successful track record of identifying unusual investment opportunities and uses its ability and entrepreneurial flair to create and enhance value for the benefit of its stakeholders. Blackstar's investment strategy is opportunistic in nature and its investment processes vary, depending on the particular investment opportunity presented, between fundamental bottom-up and macro top-down processes, but are all underpinned by a strong quantitative approach. Blackstar's ability to enhance value for its stakeholders is illustrated by the case studies which have been included in **Annexure 1**.
- 3.2.2 The members of Blackstar's Investment Advisory Team have extensive and complimentary backgrounds in public and private investing, principal investing, corporate finance, financial modelling, structured finance and financial engineering with over 30 years combined investment experience in Africa. These skills have enabled Blackstar to develop a successful long term track record as evidenced below in paragraph 3.6 of this section 1.
- 3.2.3 Blackstar invests a significant portion of its current assets into South African companies, which offer a vast intellectual capital base and have large footprints on the African continent, providing an attractive entry point to the wider continent's growth potential. Many multinationals who want to establish a business in Africa select South Africa as their base and platform into Africa.
- 3.2.4 Blackstar has a global infrastructure and resources, allowing it to access investment opportunities globally. Blackstar believes that currently Africa represents an attractive investment destination that can generate above average returns over the medium to long term. Over the past decade, sub-Saharan Africa's real GDP growth rate jumped to an annual average of 5.7%, up from only 2.4% over the previous two decades. Over the next five years the average African economy will outpace its Asian counterpart and take the global lead in real GDP growth. Looking even farther ahead, Standard Chartered forecasts in the Economist of 6 January 2011 that Africa's economy will grow at an average annual rate of 7% over the next 20 years, slightly faster than China's over the same period.
- 3.2.5 Blackstar has recently expanded its offering into fund management and has entered into a strategic co-operation agreement with Wallberg SA, a Luxembourg based asset management company, that will result in its wholly owned subsidiary, Blackstar SA, or any other of its Subsidiaries as it may nominate, being appointed as the asset manager to the Wallberg Blackstar Africa Fund, an African Equity focused fund, and to Lux Euro, an Emerging Debt focused fund, both Luxembourg UCITS III compliant funds, subject to regulatory approval.
- 3.2.6 **Background to Conversion and migration**
  - 3.2.6.1 On 11 May 2011, when it was still known as Blackstar Group PLC, the Company announced that in light of its commitment to returning excess capital and a number of operational challenges, the Board believed that the Company should be migrated to a jurisdiction that is more efficient for capital distributions and that reduces operational costs and complexities without impacting or prejudicing any rights of Blackstar's Shareholders.
  - 3.2.6.2 Blackstar Group PLC was subject to the laws and regulations of UK and Luxembourg due to the Company's registered office being in the UK and its principal establishment and tax residence being in Luxembourg. The Luxembourg tax laws impose a 15% withholding tax on dividends and, in certain circumstances, on capital payments to shareholders, unless a shareholder is able to benefit from an exemption. Based on research on Blackstar's Shareholder base, the Board understood that the majority of the Company's Shareholders do not benefit from this exemption. In addition, due to the fact that

Blackstar is subject to the laws of both the UK and Luxembourg, the Company incurred additional audit, legal and administration costs and faced the resulting complexities of using multiple advisors for the different jurisdictions.

3.2.6.3 The Board therefore decided that Luxembourg is no longer the most beneficial jurisdiction in which to operate. In accordance with the legal advice that the Board had been given, the only manner in which the Company could achieve a migration out of the UK and subsequently cease to be tax resident in Luxembourg was to convert the Company into a *Societas Europaea* pursuant to Article 2(4) of the SE Regulation, and subsequently transfer the registered office of the newly formed SE from the UK to another European Union member state, at the same time as moving the Company's administration function from Luxembourg to that EU member state (the "Transfer"). Following this process, the Company will become a tax resident in the relevant EU member state.

3.2.6.4 At the Company's annual general meeting of 22 June 2011, the Conversion was approved by an overwhelming majority of Shareholders. The Conversion was effective from 27 June 2011 and the memorandum and articles of association of the Company were replaced by the Statutes of the Company. The existing Board of Directors was replaced and constituted as a new Board, comprising of the same members as the previous Board, and which in the case of a *Societas Europaea*, is now referred to as the Administrative Organ. Various other changes to the Statutes required by the SE Regulation were made, including the change in the denomination of the share capital from Sterling to Euro.

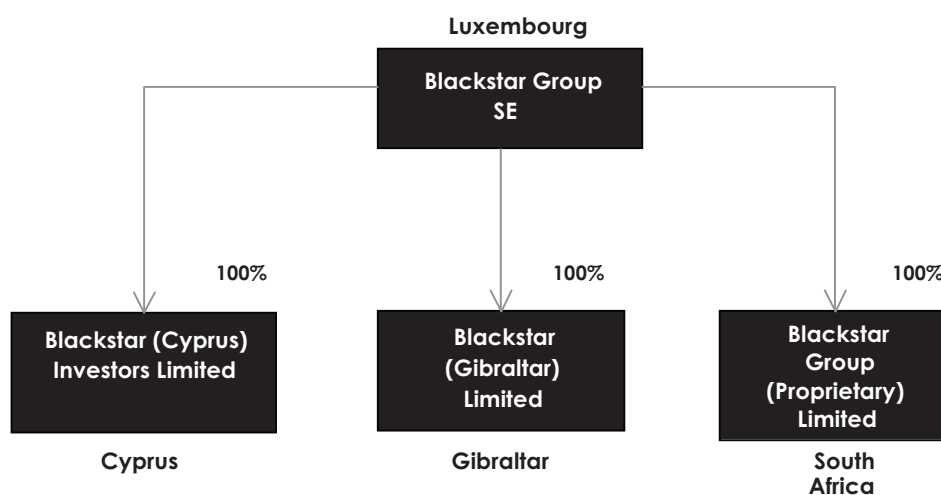
### 3.2.7 Proposed Transfer of the SE

3.2.7.1 Following the Conversion, the Company can commence the process to effect the Transfer. The Board has assessed the viability of a number of jurisdictions and considers Malta to be the most appropriate jurisdiction to which to transfer the Company. The Company is not able to migrate to certain other attractive jurisdictions (for example the Channel Islands) as Blackstar is not able to transfer its registered office outside of the UK while it remains a UK public limited company and an SE is only capable of being migrated to another EU member state. Malta is an EU Member State and Maltese company law is based, for the most part, on UK company law. The Board considers that Maltese shareholder protections are very comprehensive and that Malta would offer a sound and attractive corporate environment.

3.2.7.2 Following the completion of the Conversion, the Administrative Organ is in the process of preparing a transfer proposal document setting out the proposed details of the Transfer, including details of the location of proposed registered office of the Company, any necessary changes to the Statutes, the proposed Transfer timetable and any rights provided for the protection of Shareholders and/or creditors (the "Transfer Proposal"), which will be circulated to Shareholders. In order for the Transfer to become effective, the Transfer Proposal must be approved by the Shareholders at a general meeting.

### 3.3 Structure of Blackstar

3.3.1 A high level presentation of the Blackstar Group structure is set out in the diagram below. Qualifying Investors are referred to **Annexure 2** for a detailed diagram reflecting all subsidiaries and investee entities within the Blackstar Group.



- 3.3.2 Blackstar was previously known as Blackstar Group PLC. Blackstar Group PLC recently converted into a *Societas Europaea* or European public limited-liability company. Following this Conversion, the Company will be able to transfer its registered office from England and Wales to another member country of the European Union. This will lessen the administrative, legal and auditing costs which arose from it having its registered office in the United Kingdom and its tax residence and principal establishment in Luxembourg. The Directors plan to propose to Shareholders shortly that Blackstar transfer its registered office and tax establishment to Malta which is the most efficient jurisdiction for the Company for returning excess capital to Shareholders and will ensure that in pursuing its commitment to return excess capital to Shareholders, Shareholders are not adversely affected by the current tax regime.
- 3.3.3 Blackstar and Blackstar Cyprus's principal activities are to participate in investment opportunities in South Africa and Africa. These two entities are used in different combinations to provide the most efficient holding structure.
- 3.3.4 Blackstar Gibraltar's principal activity is acting as the treasury vehicle to the Blackstar Group.
- 3.3.5 Blackstar SA acts as the Investment Adviser to Blackstar as set out below in paragraph 3.4 of this section 1.

### 3.4 Investment Adviser

- 3.4.1 Blackstar SA, with its team on the ground in South Africa, acts as the Investment Adviser to Blackstar.
- 3.4.2 Blackstar has concluded the Investment Service Agreement with Blackstar SA, whereby Blackstar SA provides administration services, research and investment advisory services, specific trading and hedging mandate services and client relationship management services to Blackstar. The material terms of the Investment Service Agreement are more fully set out in **Annexure 4**.
- 3.4.3 In consideration for the services performed, Blackstar SA is paid an arm's length fee as agreed to by the Board and as more fully set out in **Annexure 4**. The agreed fee for the financial year ended 31 December 2011 is £1,454,000.
- 3.4.4 Blackstar SA has been appointed indefinitely as the Investment Adviser of Blackstar. The appointment may be terminated as follows:
  - 3.4.4.1 by either party on 12 months' written notice of termination provided that no such notice of termination may be given before 31 December 2014;
  - 3.4.4.2 at any time, by either party if the other party commits a material breach of the Investment Service Agreement and fails to remedy the breach within 30 days of service of a notice requiring the breach to be remedied;
  - 3.4.4.3 by either party if the other party enters into liquidation (except for voluntary liquidation for the purposes of reconstruction or amalgamation) or any bankruptcy or other insolvency proceedings or an administrator or similar officer is appointed to the other party or in respect of all or substantially all of its property; or
  - 3.4.4.4 by mutual agreement.

In the event that the services of the Investment Adviser, or any of its successors-in-title, are terminated for any reason, the Board will appoint a replacement investment adviser and will determine the terms of such appointment.

### 3.5 Investment region and investment programme

#### 3.5.1 African opportunity<sup>1</sup>

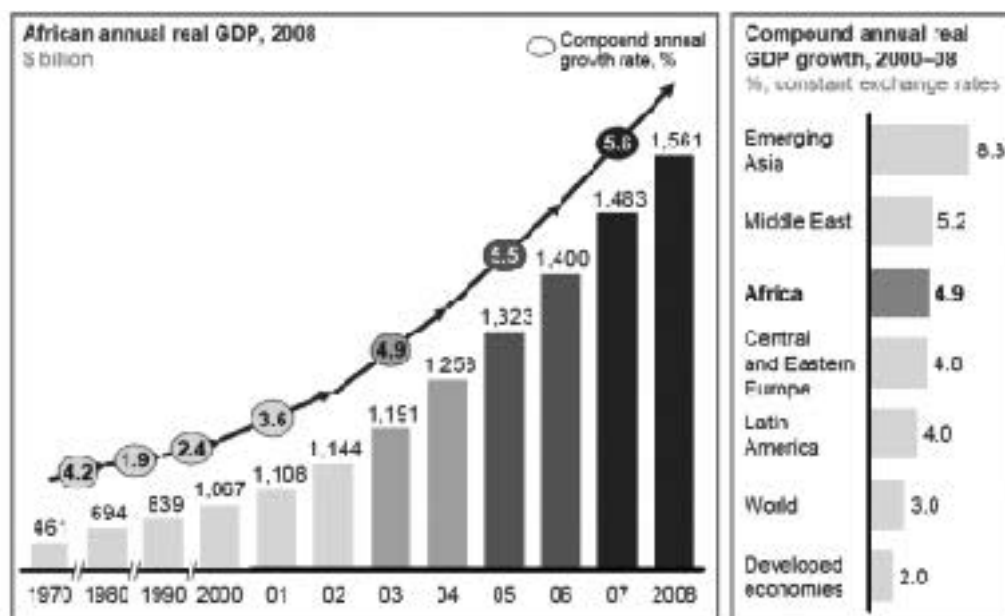
In the first scramble for Africa in the late 1800's and early 1900's, countries and individuals were comfortable investing and doing business in Africa. This was because most of the African continent was under European control. By the early 1950's there were many listed companies on global stock exchanges whose operations were focussed on Africa and investors were happy to own bonds issued by African sovereign countries.

However, this all changed in the early 1960's following the achievement of independence by many African countries. Africa then entered a dark period, dominated by civil war, the emergence of dictatorships and the subsequent nationalization of assets.

This all started to change in the late 1990's as countries realized they couldn't survive without being part of global economy. Africa started to open up and encourage foreign direct investment, most notably Zambia, Nigeria, Angola, Mozambique and Kenya. This led to changes in government and the gradual development of the continent's capital markets. Foreign companies and countries realized the important future role Africa could play in the global economy and the vast untapped resources which included a growing consumer base and the need for reliable and efficient infrastructure.

**Note:**

1. Source McKinsey Global Institute



SOURCE: International Monetary Fund; World Bank World Development Indicators; IvcKinee; Global Institute

Africa's Real GDP rose by 4.9% a year from 2000 to 2008, making it the world's third-fastest growing region. Africa's growth acceleration has been wide spread with 27 of its 30 largest economies expanding more rapidly after 2000. All sectors contributed, including resources, finance, retail, agriculture, transport and telecommunications. Natural resources directly accounted for just 24% of the continent's GDP growth from 2000 to 2008.

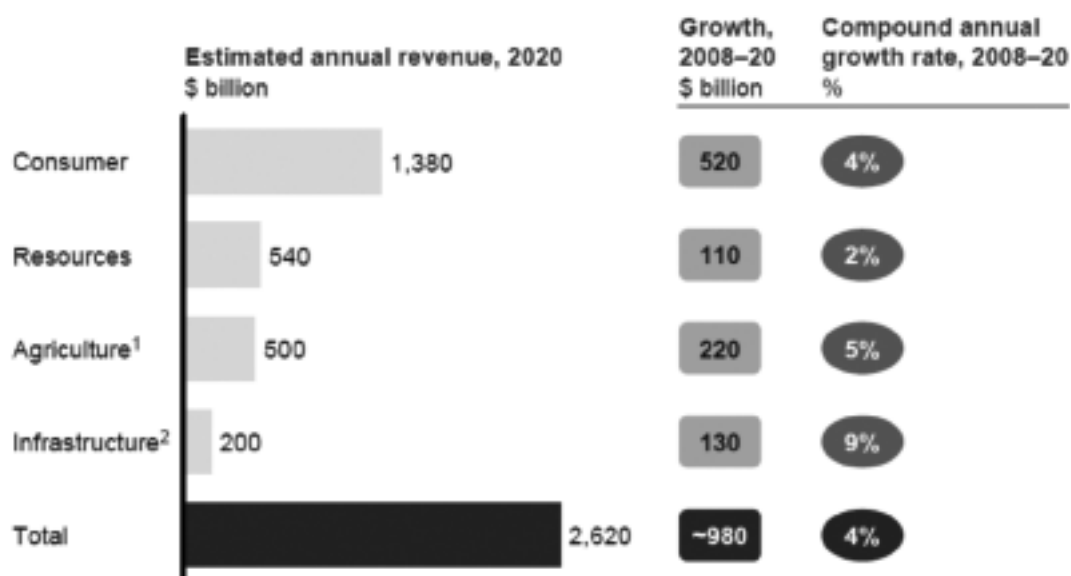
The key factors leading to Africa's significant recent growth have been improved political and macroeconomic stability and microeconomic reforms. Several countries halted their deadly conflicts, creating the political stability necessary to foster economic growth. Policy makers across the continent sought to reduce inflation, cut budget deficits, lower trade barriers, cut taxes, strengthen regulatory and legal systems and privatise companies.

Today the continent's long-term growth prospects are strong, propelled by both external trends in the global economy and internal changes in the continent's societies and economies.

Africa is expected to continue to profit from rising global demand for oil, natural gas, minerals, food, arable land and other natural resources. The continent boasts an abundance of resources, including an estimated 10% of the world's oil reserves, 40% of its gold reserves, and 80 to 90% of the chromium and the platinum group metals reserves. Demand for raw materials is growing fastest in the world's emerging economies, which now account for half of Africa's total trade. As trade patterns have shifted, African governments have sought to forge new types of economic partnerships in which buyers from these countries provide up-front payments, make infrastructure investments and share management skills and technology. Annual foreign direct investment in Africa has increased from US\$9 billion in 2000 to US\$62 billion in 2008 – almost as large as the flow into China, when measured relative to GDP.

The African continent's long-term growth is also expected to be driven by interrelated social and demographic trends that are creating new engines of domestic growth. Chief among these are urbanization and the rise of the middle-class African consumer. In 1980, just 28% of Africans lived in cities, rising to 40% today – a portion close to China's and larger than India's – a statistic which is projected to increase in the future.

As more Africans move from agricultural to urban based employment, their incomes are rising. For example, in 2008, roughly 85 million African households earned US\$5,000 or more, which is the level above which it is estimated that families can afford to start spending roughly half their income on items other than food. The number of households with discretionary income is projected to rise by 50% over the next 10 years, reaching 128 million. By 2030, the continent's top 18 cities could have a combined spending power of US\$1.3 trillion.



<sup>1</sup> We took the 2030 value of \$880 billion and calculated straight-line equivalent for 2020.  
<sup>2</sup> Represents investment. Assumes need remains as same share of GDP through 2020.

SOURCE: McKinsey Global Institute

Africa's economic growth is creating substantial new business opportunities. It is estimated that four industries alone could generate as much as US\$2.6 trillion in revenue annually by 2020, or US\$1 trillion more than today. The four groups are consumer-facing industries, resources, agriculture and infrastructure:

- African households spent a combined US\$860 billion in 2008, more than those in India or Russia. This is projected to rise to US\$1.4 trillion over the next decade;
- Africa's production of oil, gas, and most minerals, measured by volume, is projected to grow steadily at between 2% and 4% per year. At current prices, this would raise the value of resource production from US\$430 billion to US\$540 billion by 2020;
- With 60% of the world's uncultivated arable land and low crop yields, Africa has significant potential to experience a "green revolution" such as those that have transformed agriculture in Asia and Brazil. It is estimated that such a revolution could increase Africa's agricultural output from US\$280 billion per annum today to as much as US\$500 billion by 2020 and US\$880 billion by 2030; and
- Africa's government and private sources combined are currently investing about US\$72 billion per annum in building new infrastructure across the continent. However, Africa still has unmet needs. By 2020, Africa's total infrastructure investment could reach US\$200 billion.

If recent trends continue, Africa can be expected to play an increasingly important role in the global economy. By 2040, Africa will be home to one in five of the planet's young people and will have the world's largest working-age population. Global investors cannot afford to ignore the continent's immense potential. Today the rate of return on foreign investment in Africa is higher than in any other developing region.

### 3.5.2 Investment programme

#### 3.5.2.1 Investment strategy

3.5.2.1.1 Blackstar's investment strategy is to achieve a balance between long-term capital growth and income through investments in a range of listed and unlisted investment opportunities. Blackstar's investment thesis is based on targeting investment into companies or assets with a material portion of their value derived from or located on the African continent. The geographic mix of investments will vary over time depending on the relative attractiveness of opportunities across different African countries and regions.

3.5.2.1.2 Blackstar invests across four broad themes:

- **Growth:** Companies with growth potential in excess of average market growth, including:

- companies that are exposed to infrastructure development both in South Africa and the wider African continent;
- companies that are exposed to natural resources; and
- companies exposed to the emerging middle class whose increased buying power will translate into higher consumer spending across a number of sectors.
- **Value investing:** Companies that appear to be mispriced, being either overvalued or undervalued.
- **Event driven:** Situations such as mergers and acquisition opportunities where Blackstar can play an active role and act as a catalyst for change. Blackstar will identify target companies where it can add value by recommending and implementing:
  - improvements in the company's capital structure;
  - a new strategic plan that may involve the sale or disinvestment of business units;
  - a restructuring of operations to realise the value inherent in the company's assets;
  - the acquisition of a new company to enhance its value; and
  - IPO opportunities.
- **Distressed:** Distressed companies which have viable business models but have a lack of required capital to facilitate expansion and exploitation of opportunities. In such situations, Blackstar would attempt to structure a transaction which provides the target with stability and restores confidence in its finances, and in turn giving it the breathing space and the necessary stability to recover. This may also require the replacement of management or the board.

#### 3.5.2.2 Geographic Focus

Blackstar will target companies or assets with a material portion of their value derived from or located in Africa. South Africa is the commercial, financial, and intellectual hub of Africa, with the JSE boasting high liquidity and rigid regulatory and corporate governance requirements. The JSE represents a significant percentage of the total African market capitalization. South Africa also boasts a concentrated corporate sector, has an established democracy, sound legal framework and infrastructure, a first world financial system and a well diversified economy.

#### 3.5.2.3 Sourcing Opportunities and Transaction Execution

Blackstar employs a multi-faceted investment style incorporating best practices from value investing, growth investing, event driven investing and distressed investing. Fundamental analysis and extensive due diligence are at the core of the investment process.

The Investment Adviser will source transactions in a variety of ways which will combine a proactive and reactive investment strategy, including network and research-based idea generation. The Investment Adviser will analyse and monitor the universe of companies that fit in the investment criteria of Blackstar, creating a proprietary knowledge bank of potential targets.

Blackstar will actively seek to use relationships and contacts that include lawyers, accountants, investment banks, merger and acquisition specialists and industry participants, amongst others. Blackstar has established a reputation in the public market in South Africa and believes that it is well positioned to receive the "first call" to evaluate situations by existing investors.

Initially, through the investment sourcing process, it will be determined by an investment professional that the investment fits into Blackstar's investment profile. The salient features of the opportunity will subsequently be summarised in a screening report. The report will contain all relevant public information on the target company and where such a company is listed information such as company announcements, brokers analyst reports, analyst presentations, relevant company filings such as offer documents, prospectuses, memorandum and articles of association, and pertinent share trading data.

The Investment Adviser will analyse the business, legal, accounting positions and the industry in general to understand the macroeconomic drivers and industry trends. Analysis may often involve the input of specialists to provide expert advice on specific technical, commercial and legal issues.

The Investment Adviser will perform an analysis of the most recent ownership register of a potential target, to gain a better understanding of the current shareholders, their constituencies, intentions and requirements. Certain types of owners will lend themselves better to the Company's strategy than others. The Investment Adviser will also perform an assessment of the shareholding and incentives driving management and board members of target companies.

By seeking a deep and shared understanding of the key strengths and weaknesses of the target company, its management team and the industry concerned, the Investment Adviser is able to develop an investment plan and program that decreases financial risks and increases potential returns.

The Investment Adviser will model each potential investment under a variety of scenarios for a number of different time periods, rates of economic growth, sensitivity analysis, interest rate and currency analysis, and a range of exit values. In the case of cyclical industries or distressed opportunities, returns will also be modelled under a range of capital structures and events, i.e. restructuring, bankruptcy and recovery.

The Investment Adviser will also assess the difficulty and likely entry-price of acquiring the necessary stake in a particular company and when listed by checking with brokers and other market participants to analyse trading volumes and other market dynamics.

Particular consideration will be given to identifying ways of enhancing returns through various structuring techniques.

The final investment decision will be made through the agreement of the Board.

#### 3.5.2.4 *Investment Monitoring*

Once made, an investment will be carefully monitored on an ongoing highly proactive basis to enhance the strategic profile and profitability of each investment. Blackstar has extensive financial and business experience and will be able to provide valuable advice and assistance to management to assist in the growth and development of each investee company.

The primary role of the Investment Adviser will be to monitor and protect the Company's investment in a portfolio company. This will in most instances be achieved, from an investment monitoring perspective, through detailed and timely reporting requirements coupled with a thorough review and analysis of this information by the senior members of the Investment Adviser.

#### 3.5.2.5 *Investment Realisation*

Realisation options for all potential investments are investigated during the initial phase of evaluating an investment opportunity and continue during the monitoring phase when an investment has been made. Potential exit strategies will include:

- **Unlisted:**
  - management buyout;
  - acceptance of a buyout offer of the company; and
  - formal sale process through an investment banking house.
- **Listed:**
  - sales on the open market;
  - off-market sales to corporate buyers;
  - participation in a share buy-back; and
  - acceptance of a buyout offer for the company.

Blackstar has extensive experience in all the above forms of investment exits. No investments will be completed unless potential exit options are thoroughly reviewed prior to closing and a clearly defined exit strategy is determined.

### 3.6 Investment history and track record

3.6.1 Blackstar has a track record of superior returns and as at the Last Practicable Date, Blackstar had invested £113.7 million in South Africa. Since inception Blackstar has exited several of these investments and has generated an IRR of 30% (thirty per cent) in Pounds Sterling on these investments.

3.6.2 A significant portion of Blackstar's investments have been in public opportunities in South Africa and these investments have generated an IRR of 29% (twenty nine per cent) in Pounds Sterling up to the 30 June 2011. Over the same period, the FTSE/JSE Africa All Share Total Return Index returned an IRR of 13% (thirteen per cent) in Pounds Sterling.

3.6.3 Since inception, Blackstar has increased its tangible intrinsic NAV attributable to equity holders from £75.4 million (net capital raised) to £91.8 million as at 30 June 2011. This is after returning £13 million to Shareholders by way of dividends and share buy-backs. This performance has been achieved in spite of some of the most turbulent economic and trading conditions in living memory.

#### 3.6.4 Summary of Blackstar's track record since inception

<i>Investment</i>	<i>Industry sector</i>	<i>Date of initial investment</i>	<i>Cost of the investment (£'000)</i>	<i>Investment Status</i>	<i>Gross IRR</i>
<b>Listed</b>					
York Timbers	Forestry	March – 07	17,140	Realised	18%
Mvelaphanda Resources	Resources	April – 07	12,667	Realised	22%
Litha Healthcare	Health Care	October – 06	8,844	Partially realised	63%
Services derivative	Support Services	May – 06	5,658	Unrealised	13%
Telecom derivative	Telecommunications	March – 06	1,524	Realised	(15%)
Credit U	Micro Finance	April – 08	6,739	Realised	53%
Other			6,885	Partially realised	43%
<b>Total listed investment</b>			<b>59,457</b>		<b>29%</b>
<b>Unlisted</b>					
Euro Steel Holdings	Industrial/Steel	July – 06	509	Realised	41%
DCD-Dorbyl	Industrial Engineering	March – 07	4,816	Realised	74%
KMG <sup>2</sup>	Industrial/Steel	June – 07	37,543	Unrealised	n/a <sup>1</sup>
Ferro	Industrial/Chemicals	January – 09	6,023	Unrealised	n/a <sup>1</sup>
Other			5,357	Partially realised	n/a <sup>1</sup>
<b>Total unlisted investment</b>			<b>54,248</b>		

**Note:**

- Investments in Subsidiaries are consolidated and are not carried at fair value.
- Includes investment in Global Roofing Solutions (Pty) Limited and Robor (Pty) Limited.

### 3.7 Summary of current investment portfolio

3.7.1 The table below represents a summary of Blackstar's Investment Portfolio as at the Last Practicable Date:

<i>Investment</i>	<i>Industry sector</i>	<i>% interest in the company (%)</i>	<i>Cost of the investment (£'000)<sup>2</sup></i>	<i>Current market value of interest (£'000)<sup>1</sup></i>	<i>% of Blackstar's investment portfolio (%)</i>
<b>Listed</b>					
Litha Healthcare – listed on the JSE.	Health Care	39	8,248	34,677	37.8
Services derivative – listed on the JSE	Support Services	N/A	5,658	9,469	10.3
Other	Various	Various	2,058	2,121	2.3
<b>Unlisted</b>					
Ferro Industrial Products	Industrial/Chemicals	54	5,723	18,415	20.1
KMG <sup>3</sup>	Industrial/Steel	99	37,137	17,494	19.0
Adreach	Media	15	2,769	1,841	2.0
Blackstar Real Estate	Real Estate	100	554	566	0.6
Navigare Securities	Financial Services	25	107	555	0.6
Other	Various	Various	788	947	1.0
Cash and cash equivalents	–	–	N/A	8,349	9.1
Borrowings	–	–	N/A	(2,612)	(2.8)
<b>Total</b>				<b>91,822</b>	<b>100</b>

**Note:**

1. Valuation of investments by the Directors as at the Last Practicable Date.
  2. The cost of investment is the original cost of the investment currently held. This differs from the table in paragraph 3.6.4 above of this section 1, which reflects the original cost of both the investment currently held and any previously realised portions.
  3. Includes investment in Global Roofing Solutions (Pty) Limited and Robor (Pty) Limited.
- 3.7.2 Further details of Blackstar's Investment Portfolio are set out in **Annexure 3**.
- 3.7.3 Save for cash and cash equivalents as set out above in paragraph 3.7.1 of this section 1, none of Blackstar's funds are invested in instruments other than shares or securities .

### 3.8 Material changes

3.8.1 Save for the establishment of Blackstar, which saw a dormant shelf company being converted into an investment holding company, there have, in the last 5 years prior to the Last Practicable Date, and in the event of any entity becoming a Subsidiary of Blackstar during the aforementioned 5 year period, then, in relation to such Subsidiary for the period from becoming a Subsidiary to the Last Practicable Date been:

3.8.1.1 no material changes in the businesses of Blackstar or its Subsidiaries.

3.8.1.2 no change in controlling shareholder(s) or trading objects of Blackstar or any of its Subsidiaries.

### 3.9 Prospects

Blackstar has an active pipeline of investment opportunities that it is looking to pursue and it intends to apply the majority of funds raised against these opportunities. These opportunities will be pursued through Blackstar directly or through its existing subsidiaries that are looking at acquiring companies in Africa to further expand their footprint on the continent. Blackstar has also earmarked potential foreign acquisitions as Blackstar has a global infrastructure and resources allowing it to access investment opportunities globally. Blackstar has expanded its offering into fund management and the Company will continue to develop and grow its fund management business.

Blackstar will continue to explore opportunities in the South African real estate sector that may arise as a result of the prevailing economic conditions and where attractive deals can be structured. Blackstar will use a portion of the funds raised to continue exploring these potential real estate opportunities.

### 3.10 Principal immovable property owned and leased

- 3.10.1 The required disclosures in regard to the interests of Group Companies in immovable property are presented in **Annexure 11**.
- 3.10.2 The required disclosures in regard to the immovable property leased by Group Companies by way of leasehold are presented in **Annexure 11**.
- 3.10.3 Ferro is in the process of constructing a batching plant at an estimated total cost of R2 500,000 (two million five hundred thousand Rand), which is expected to be completed and operational by the end of September 2011.
- 3.10.4 Other than as set out in the preceding paragraph 3.10.3 of this section 1, neither Blackstar nor any other Group Company has any material commitments for the purchase, construction or installation of buildings, plant or machinery.

### 3.11 Financial Information

Details of Blackstar's turnover, profits and losses before and after tax, dividends paid, dividends paid in cents per share and the dividend cover for each of the financial years ended 31 December 2006, 2007, 2008, 2009 and 2010 are contained in consolidated form in **Annexure 6**.

### 3.12 Dividend policy

- 3.12.1 The Company will look to maintain a flexible policy regarding the payment of dividends. The Company applies a strict capital discipline and continually assesses its capital requirements and to the extent that Blackstar has capital in excess of its needs, it will be returned to shareholders in the form of capital reductions or special dividends. Particular attention to this capital management discipline will be applied in the event of significant realization of any investments.
- 3.12.2 There are accordingly no fixed dates for payment of dividends by the Company.
- 3.12.3 In terms of the Statutes, any dividends unclaimed for a period of 12 (twelve) years from the date on which they were declared or from date when payment thereof is due (as the case may be) may be declared by the Directors to be forfeited for the benefit of the Company.
- 3.12.4 There are no arrangements under which future dividends have been waived or have been agreed to be waived.

## 4. SHARE CAPITAL

### 4.1 Authorised and issued share capital

- 4.1.1 The authorised and issued share capital of Blackstar before and after the Listing is set out in the table below. The exchange rate on 21 June 2011 of €1.12778:£1, being the exchange rate used for purposes of implementing the Conversion, has also been used for reflecting the Euro denominated share capital amounts in the table below:

<i>Before the Private Placement</i>	<i>Share capital £'000</i>	<i>Share capital €'000</i>
<b>Authorised share capital</b>		
150,000,000 Shares of £0.67 (sixty seven Pence) each or €0.76 (seventy six Euro Cents) each	100,500	114,000
<b>Total Authorised share capital</b>	<u>100,500</u>	<u>114,000</u>
<b>Issued share capital</b>		
74,821,193 Shares of £0.67 (sixty seven Pence) each or €0.76 (seventy six Euro Cents) each	50,130	56,864
<b>Share premium</b> on 74,821,193 of £0.67 (sixty seven Pence)	nil	nil
<b>Total issued share capital and share premium</b>	<u>50,130</u>	<u>56,864</u>
<b>After the Private Placement and Listing assuming the Private Placement is fully subscribed</b>		
<b>Authorised Share Capital</b>		
150,000,000 Shares of £0.67 (sixty seven Pence) each or €0.76 (seventy six Euro Cents) each	100,500	114,000
<b>Total Authorised Share Capital</b>	<u>100,500</u>	<u>114,000</u>

### Issued Share Capital

89,821,193 Shares of £0.67 (sixty seven Pence) each or  
€0.76 (seventy six Euro Cents) each

60,180 68,264

### Share premium

On 89,821,193 Shares of £0.67 (sixty seven Pence) each  
or €0.76 (seventy six Euro Cents) each

2,700 2,969

### Total issued share capital and share premium

62,880 71,233

**Note:** Blackstar Shares are Euro denominated shares, however, the presentation currency of Blackstar is Pounds Sterling, therefore the Blackstar Private Placement issue price on the Closing Date will be determined relative to the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date.

4.1.2 At the general meeting of Shareholders held on 8 April 2011, Shareholders approved the resolutions authorising the Directors:

4.1.2.1 generally and unconditionally in accordance with section 551 of the UK Companies Act to exercise all powers of the Company to allot and issue Shares ("Relevant Securities"), up to a maximum aggregate nominal amount of £16,710,066, for a period expiring (unless previously revoked, varied or renewed) on 8 October 2012, or, if sooner, the end of the next annual general meeting of the Company to be held in 2012;

4.1.2.2 pursuant to section 570 and 573 of the UK Companies Act, generally to allot and issue equity securities (as defined in section 560 of the UK Companies Act) for cash pursuant to the authority referred to in paragraph 4.1.2.1 of this section 1 above as if section 561 (1) of the UK Companies Act did not apply to such allotment and issue, and without having to respect the pre-emption rights of existing Shareholders under the Luxembourg law on commercial companies of 10 August 1915, as amended, provided that such power shall expire on 8 October 2012, or if sooner, the end of the next annual general meeting of the Company to be held in 2012. This power is restricted in that, *inter alia*, allotments and issues of equity securities to persons other than the existing Shareholders of the Company in proportion to their existing shareholding, is limited to allotments and issues up to a maximum aggregate nominal amount of £10,050,000 and the issue price of such allotments and issues must be in the minimum amount of £0.85

but the Company may, before the expiry of the abovementioned period make an offer or agreement which would or might require the Relevant Securities to be allotted and issued after the authority expires and the Directors may allot Relevant Securities in pursuance of such offer or agreement as if the authority had not expired.

4.1.3 There are no treasury shares and no debentures have been created or issued by Blackstar.

4.1.4 There are no founder's and management or deferred Shares.

### 4.2 Voting, variation, conversion of rights and other rights of ordinary shareholders

4.2.1 The provisions of the Statutes relating to the voting rights and variation of rights attaching to Shares are set out in **Annexure 5**.

4.2.2 There are no preferential conversion or exchange rights to Blackstar Shares, nor do any Shareholders have any redemption rights or preferential rights to profits or capital.

4.2.3 The rights of Shareholders to participate in dividends, rights to profits or capital, including the rights of Shareholders on liquidation or distribution of capital assets of the Company are determined by the Statutes and the relevant extracts are set out in **Annexure 5**.

### 4.3 Alterations to authorised share capital

There have been no alterations in the authorised share capital of Blackstar in the last 3 years preceding the Last Practicable Date.

### 4.4 Issues of shares

4.4.1 On 25 June 2009, Blackstar issued a total of 13 341 851 Shares at £0.67 (sixty seven Pence) per Share to BML Limited and Novatrust Limited in terms of an issue of shares for cash in fulfillment of a contractual obligation. Since issuing the Shares for cash as aforesaid, the market value of Blackstar has increased, resulting in the higher issue price of £0.85 (eighty five Pence) for this Private Placement.

4.4.2 The following issues of shares between Group Companies has taken place in the 3 years prior to the Last Practicable Date:

4.4.2.1 On 15 April 2008, Blackstar Cyprus issued 300 ordinary shares to Blackstar at an issue price of EUR 34,260.86 per ordinary share in order to raise capital in Blackstar Cyprus.

- 4.4.2.2 In and during 2009, Blackstar Cyprus and KMG agreed a conversion mechanism in terms whereof 110 000 B preference shares with a total redemption value of R135,178,935, on 31 October 2009, held by Blackstar Cyprus in KMG were converted to 110 000 ordinary shares on 31 October 2009 and an additional 930 600 ordinary shares were issued by KMG to Blackstar Cyprus by way of two capitalisation issues.
- 4.4.2.3 On 17 August 2010 and 13 October 2010, Blackstar Real Estate issued 100 ordinary shares and 353 ordinary shares, respectively, to Blackstar Cyprus at an issue price of R8,499 per ordinary share in order to raise capital in Blackstar Real Estate.
- 4.4.3 Other than the issues referred to in paragraph 4.4.1 and 4.4.2 of this section 1, no Shares have been issued by the Company nor by any of its Subsidiaries in the 3 years preceding the Last Practicable Date.
- 4.4.4 In the 3 years preceding the Last Practicable Date, the Company has made the following share repurchases:
- 4.4.4.1 on 16 January 2009, 2 405 488 Shares were repurchased at £0.32 (thirty two Pence) per Share in the open AIM market;
- 4.4.4.2 on 29 June 2009, after having given all Shareholders at the time an opportunity to participate in a tender offer, 7 462 673 Shares were repurchased at £0.67 (sixty seven Pence) per Share from those Shareholders who had elected to participate in the tender offer, based on their *pro-rata* shareholding in the Company and subject to the rules that had been set out in the circular issued to Shareholders in respect of the tender offer;
- 4.4.4.3 on 11 May 2010, 2 477 495 Shares were repurchased at £0.69 (sixty nine Pence) per Share in the open AIM market;
- 4.4.4.4 on 26 October 2010, 840 000 Shares were repurchased at £0.75 (seventy five Pence) per Share in the open AIM market;
- 4.4.4.5 on 16 November 2010, 1 000 000 Shares were repurchased at £0.74 (seventy four Pence) per Share in the open AIM market.
- 4.4.5 On 3 May 2011, the shareholders of KMG passed a special resolution which has been lodged with the Commission in terms whereof KMG was authorised to repurchase the shares of the KMG staff trust and the shares of the previous chief executive officer of KMG at the par value thereof, which resulted in the combined shareholding of Blackstar and Blackstar Cyprus in KMG increasing to 99%.
- 4.4.6 Save for the issues as set out in this paragraph 4.4 of this section 1 and the issues that may be made in terms of the Private Placement, no further offers or issues of Shares have been made or are anticipated to be made by Blackstar.
- 4.4.7 Save as set out in this paragraph 4.4 of this section 1, no share repurchases, sub-divisions or consolidations have been undertaken by Blackstar.

#### 4.5 Unissued shares

The authorised but unissued Shares after Listing, will be under the control of the Directors, subject to the provisions above of paragraph 4.1.2 of this section 1.

### 5. OPTIONS OR PREFERENTIAL RIGHTS IN RESPECT OF SHARES

There is no contract or arrangement, either actual or proposed, whereby any option or preferential right of any kind has been or will be given to any person to subscribe for any Shares in the Company or any of its Subsidiary, save in respect of the Private Placement.

### 6. COMMISSION PAID OR PAYABLE IN RESPECT OF UNDERWRITING

- 6.1 No commissions were paid by Blackstar in respect of any underwriting in the 3 years preceding the Last Practicable Date.
- 6.2 No commissions, discounts, brokerages or other special terms have been granted by Blackstar in the 3 years preceding the Last Practicable Date, in connection with the issue or sale of any Shares in Blackstar, where this has not been disclosed in the audited annual financial statements of the Company.

### 7. MATERIAL CONTRACTS

- 7.1 Blackstar and its Subsidiaries have in the 3 years preceding the Last Practicable Date paid third parties a total of £465,403 (four hundred and sixty five thousand four hundred and three Pounds Sterling) in respect of secretarial fees and £1,406,793 (one million four hundred and six thousand seven hundred and ninety three Pounds Sterling) in respect of technical fees.

- 7.2 Blackstar has concluded written agreements with Capita Registrars, Blackstar's registrars and receiving agents in the UK, and Collins Stewart Europe Limited, Blackstar's Nomad in the UK, which agreements contain terms which are standard for contracts of this nature. Blackstar instructs technical advisers on an *ad hoc* basis, as and when required. Such technical services are provided on terms that are standard for instructions of this nature.
- 7.3 No royalties are payable by Blackstar to any party.
- 7.4 Each of the executive directors and other members of the Investment Advisory Team have concluded service contracts with Blackstar SA on terms and conditions that are standard for such appointments, which are available for inspection in terms of paragraph 14 of section 4 below.
- 7.5 No restraints of trade have been imposed on any of the Directors of Blackstar.
- 7.6 The contracts of all executive directors of the Investment Adviser are terminable on 1 month's notice, except for Andrew Bonamour and William Marshall-Smith whose service contracts are terminable on not less than 3 months notice provided that no such notice may be given before 1 June 2013.
- 7.7 The duration of the appointment of each executive director of the Investment Adviser is determined by the service contracts referred to above in paragraph 7.4 of this section 1, whilst the duration of the appointment of the Directors are determined by the provisions of the Statutes, excerpts of which are contained in **Annexure 5** hereto.
- 7.8 Other than the service agreements concluded by Blackstar with Capita Registrars and its Nomad referred to above in paragraph 7.2 of this section 1 and the service contracts concluded with the members of the Investment Advisory Team referred to above in paragraph 7.4 of this section 1, (to the extent that such contracts may be regarded as material contracts for purposes of regulation 63 of the South African Companies Act), no material contracts have been entered into by any Group Company, other than in the ordinary course of business, in the 2 years preceding the Last Practicable Date, or at any time, that contains an obligation or settlement that is material to the Blackstar Group at the Last Practicable Date.

## **8. INTEREST OF DIRECTORS AND PROMOTERS**

- 8.1 Neither Blackstar nor any other person has paid any amounts nor agreed to pay any amounts in the 3 years preceding the Last Practicable Date to any Directors or to a related person, or to any company of which a Director is also a director, or in which Directors are beneficially interested, directly or indirectly ("the associate company") or to any partnership, syndicate or other association of which the Directors are members ("the associate entity"), in cash or in securities or otherwise, either as an inducement to become or to qualify a person as a Director or for services rendered by Directors or by the associate company or associate entity in connection with the promotion or formation of the Company. For the purposes of this clause, Director includes a reference to the directors of the Subsidiaries.
- 8.2 No director or promoter of the Blackstar Group has, in the 3 years preceding the Last Practicable Date, any material beneficial interest, either direct or indirect, in the promotion of the Company or in respect of any property acquired within the Blackstar Group in the 3 years preceding the Last Practicable Date, or to be acquired, nor been a member of a partnership, syndicate or other association of persons that had such an interest nor has any cash or securities been paid or any other benefit given to any promoter in the aforementioned 3 year period.

## 9. LOANS

9.1 Details of material loans made to Group Companies by external parties (i.e. parties other than Group Companies) are set out below and in **Annexure 6**.

### 9.1.1 Unsecured Borrowings:

31 December 2010  
£'000

- Rand denominated, unsecured, non controlling shareholder loans in Ferro provided by ID Forbes Investments cc, J Herbst, D M van der Merwe and G Duncan. The loan bears interest at South African prime rate plus 300 basis points and has no fixed terms of repayment. The interest portion payable in the next 12 months is £0. The borrowings arose in Ferro to fund the purchase of assets.

**2,195**

### 9.1.2 Secured Borrowings:

31 December 2010  
£'000

- A Rand denominated, secured loan in Ferro provided by Investec Bank Limited, bearing interest at a fixed rate of 12.07% per annum, repayable in quarterly instalments, the final instalment being due in May 2014<sup>1</sup>. The interest portion payable in the next 12 months is £1,227,547. The borrowings arose in Ferro to fund the purchase of assets.

**9,399**

- A Rand denominated, secured mortgage loan in Blackstar Real Estate provided by Investec Bank Limited, bearing interest at a fixed rate of 11.81% per annum, repayable in fixed monthly instalments, escalating by 10% per annum, with the final instalment being due in 2020.<sup>2</sup> The interest portion payable in the next 12 months is £4,945. The borrowings arose in Blackstar Real Estate to fund the purchase of assets.

**1,413**

- Rand denominated, secured loan facilities in KMG<sup>3</sup> provided by ABSA Bank Limited, regulated by one loan agreement, in respect of which KMG can draw down up to a maximum amount of £62,568,000, the details of which are more fully set out in note 31.4.3 as read together with notes 22 and 23 of the historical financial information presented in **Annexure 6**.

**29,063**

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**42,070**

#### Notes:

1. Security for this loan has been provided in the form of the following:
  - a cession of all 'book debts of Ferro amounting to R44 million (£4.4 million) at the December 2010 year end;
  - a cession and pledge of all insurance policies held by Ferro;
  - a mortgage bond ranking as a first charge over Ferro's immovable property for a fixed capital amount of R23 million (£2.2 million) at the December 2010 year end;
  - a notarial bond ranking as a first charge over Ferro's moveable assets for a fixed capital sum R70 million (£6.8 million) at the December 2010 year end;
  - a cession and pledge of all cash balances and deposits held by the subsidiary of Ferro amounting to R34 million (£3.2 million) at the December 2010 year end; and
  - a cession and pledge of all shareholders loan accounts and all shares held in Ferro.
2. Security for this mortgage loan, in respect of immovable properties acquired by Blackstar Real Estate, has been provided in the form of the following:
  - a covering mortgage bond, ranking as a first charge, to be registered over the immovable properties acquired by Blackstar Real Estate for an aggregate amount of R14.6 million (£1.4 million) at the December 2010 year end, plus costs;
  - an unconditional, irrevocable guarantee from Blackstar for the full obligations of Blackstar Real Estate arising from the mortgage loan;
  - an unconditional, irrevocable rental guarantee from Blackstar for the full rental obligations of KMG;
  - a cession of rental income in respect of any lease agreement concluded or to be concluded in respect of the immovable properties acquired;
  - cession and pledge of all insurance policies over the immovable properties to be mortgaged; and

- a cession of shareholder loans in Blackstar Real Estate, which shareholder loans are to be subordinated in favour of the lender.
3. Security for these loan facilities has been provided in the form of the following:
- a cession and pledge of all shares in, and claims against Global Roofing Solutions (Proprietary) Limited ("GRS"), Helm Engineering (Proprietary) Limited ("Helm") and Domel Investments (Proprietary) Limited ("Domel");
  - subordination of all existing and future shareholders loans and claims between KMG, GRS, Helm and Domel;
  - special notarial bond to the value of R50 million registered over specified identifiable moveable property of GRS;
  - general notarial bond to the value of R90 million registered over all moveable assets of GRS;
  - general notarial bond to the value of R350 million registered over all moveable assets of KMG;
  - a cession and pledge by GRS of all accounts receivable and CGIC insurance policies;
  - cession by GRS of any other securities held by it in respect of security provided to GRS for any other receivables;
  - cession by GRS and KMG of all bank accounts, deposits and cash, with set-off balances to apply and be agreed to;
  - cession and pledge by GRS and KMG of all insurance policies;
  - cession by GRS and KMG, where possible, of any customer contracts, sale agreements or distribution agreements;
  - cession by KMG of all franchise agreements;
  - cession by GRS and KMG of any existing and future licenses, trademarks, trade names, copyright and patent rights;
  - registered hypothecs over all the identifiable trademarks held by GRS and KMG;
  - irrevocable and unlimited guarantees from KMG, Helm and Domel for the obligations of GRS;
  - irrevocable and unlimited guarantees from GRS, Helm and Domel for the obligations of KMG;
  - cession of all existing and future intercompany loans between KMG, GRS, Helm and Domel;
  - cession and pledge by the shareholders of KMG of all the shares held in KMG;
  - suretyship from the shareholders of KMG, limited to the value of the shares held in KMG;
  - all assets acquired by KMG in terms of the ABSA Commercial Asset Finance facility as referred to in note 31.4.3 to the historical financial information in **Annexure 6**;
  - cession of book debts and invoice discounting agreement by KMG in terms of the ABSA Working Capital Solutions finance facility as referred to in note 23 to the historical financial information in **Annexure 6**;
  - all assets acquired by GRS in terms of the ABSA Commercial Asset Finance facility and AVMS Maintenance facility as referred to in note 31.4.3 to the historical financial information in **Annexure 6**.

9.2 There are no material inter-Company financial or other transactions save for inter-company loans as disclosed in **Annexure 14** and save for the provision by Blackstar SA of investment advisory and management services to Blackstar in terms of the Investment Service Agreement. Full details of inter-company loans between Group Companies are presented in **Annexure 14** and present inter-Company balances before elimination on consolidation.

9.3 No material loans have been made by any Group Company to third parties. Full details of loans to external parties are set out in **Annexure 6**.

## 10. SHARES ISSUED OR TO BE ISSUED OTHERWISE THAN FOR CASH

Other than as set out in paragraph 4.4.2.2 of this section 1, no Shares have been issued or agreed to be issued by the Company or by any of its Subsidiaries in the 3 years preceding the Last Practicable Date, other than for cash.

## 11. PROPERTY ACQUIRED OR TO BE ACQUIRED

11.1 The Blackstar Group has not in the 3 years prior to the Last Practicable Date made any material acquisitions.

11.2 The application for Listing does not coincide, directly or indirectly, with the acquisition by the Company, or any of its Subsidiaries, of securities in or of the business undertaking of any other Company, in consequence of which that Company or business undertaking will become a subsidiary of or part of the business of Blackstar.

## 12. AMOUNTS PAID OR PAYABLE TO PROMOTERS

No amount has been paid or proposed to be paid in the 3 years preceding the Last Practicable Date to any promoter, or to any partnership, syndicate or other association of which that promoter is or was a member, nor has any cash or securities been paid nor proposed, nor any other benefit given nor proposed to any such promoter, partnership, syndicate or other association in the aforementioned 3 year period.

### 13. PRELIMINARY EXPENSES AND ISSUE EXPENSES

13.1 As at the Last Practicable Date, the estimated expenses of the Listing and the Private Placement, (exclusive of VAT), are as follows:

		R'000	£'000
Printing, publication, distribution and advertising expenses	Sterling Financial Print	65	6
JSE documentation fees	JSE	55	5
JSE listing fees	JSE	22	2
Strate	Strate	30	3
Transfer Secretaries	Link Market Services South Africa (Pty) Ltd	35	3
Corporate adviser and sponsor	PSG Capital	1,250–1,500	115–138
Capital raising	PSG Capital	3,450	318
Independent Reporting Accountants and Auditors	BDO SA Inc. & BDO LLP	97	9
South African Legal Advisers	Edward Nathan Sonnenbergs	1,000	92
Contingency	N/A	150	14
<b>TOTAL</b>		<u>6,154–6,404</u>	566–589

13.2 No preliminary expenses have been incurred in relation to the Listing and the Private Placement and the table set out in paragraph 13.1 of this section 1 represents the total estimated cost of the Listing and the Private Placement.

## SECTION 2: INFORMATION ABOUT THE OFFERED SECURITIES

### 1. PURPOSE OF THE OFFER

- 1.1 The Private Placement comprises an offer by Blackstar to Qualifying Investors to subscribe for Shares at the Private Placement issue price payable in Rand, equivalent to £0.85 (eight five Pence) per Share, as calculated using the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date, which offer may raise up to the Rand equivalent of £12.75 million.
- 1.2 The capital raised from the Private Placement will be used to fund investment opportunities in its pipeline, most notably Litha Healthcare, to develop and grow Blackstar's fund management business and shall be applied to the Listing and Private Placement expenses referred to in paragraph 13.1 of section 1. The Company will target an IRR on investment of at least 20% and will target largely South African businesses with the underlying themes of strategic market position, strong cash flows, and the ability to exploit the wider African markets.

### 2. TIME AND DATE OF THE OPENING AND OF THE CLOSING OF THE OFFER

Opening of the Private Placement at 09:00	on Monday, 18 July 2011
Closing of the Private Placement at 12:00	on Friday, 5 August 2011

#### Note:

All references to time are to local time in South Africa. The dates and times shown above are subject to amendment. Any such amendment will be released on SENS.

### 3. PARTICULARS OF THE OFFER

- 3.1 The other salient dates<sup>1</sup> and features of the Private Placement are as follows:

Private Placement issue price	the Rand equivalent of £0.85 (eighty five Pence) as calculated on the Closing Date
Number of Shares offered in terms of the Private Placement	up to 15,000,000 (fifteen million)
Total amount sought to be raised	£12.75 million or approximately R138.425 million
Minimum subscription per Qualifying Investor	R5,000 (five thousand Rand)
The final Rand Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on	Friday, 5 August 2011
Results of the Private Placement and the final Rand Private Placement issue price released on SENS on	Monday, 8 August 2011
Results of the Private Placement and the final Rand Private Placement issue price published in the Press on	Wednesday, 10 August 2011
Notification of allotments on	Wednesday, 10 August 2011
Accounts at CSDP or broker updated and debited in respect of the Shares on the Settlement Date which is expected to be at the commencement of trade on	Friday, 12 August 2011

<sup>1</sup> All references to time are to local time in South Africa. The dates and times shown above are subject to amendment. Any such amendment will be released on SENS.

- 3.2 Qualifying Investors wishing to participate in the Private Placement must subscribe for a minimum total subscription consideration of R5,000 (five thousand Rand) per Qualifying Investor.
- 3.3 The Private Placement issue price as stated in the table above represents a discount of 29.8% (twenty nine point eight per cent) to the NAV per Share of £1.21 (one hundred and twenty one Pence) as at 31 December 2010 and a discount of 30.9% (thirty point nine per cent) to the intrinsic value per Share of £1.23 (one hundred and twenty three Pence) as at the Last Practicable Date. The NAV per Share as at 31 December 2010 has been set out in **Annexure 3**.
- 3.4 Qualifying Investors should note that, as a result of the Conversion of Blackstar to a *Societas Europaea*, Blackstar Shares are Euro denominated. However, as the presentation currency of Blackstar is Pounds Sterling, the Private Placement issue price has been set in Pounds Sterling. The Rand denominated Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date and will be released on SENS on Monday, 8 August 2011 and in the Press on Wednesday, 10 August 2011. Fractions of Shares will not be issued and following the determination as aforesaid, the Company will apply the Rounding Principle when determining the final number of Shares to be allocated to each successful participant in the Private Placement.

- 3.5 Blackstar will place a limited number of Shares with existing Shareholders in the UK which will form part of the total Private Placement Shares.
- 3.6 It is anticipated that the capital raised from the Private Placement will be applied as follows:
- 3.6.1 listing costs: R6,154,000 to R6,404,000; and
- 3.6.2 the balance shall be used to fund its pipeline of investment opportunities that it is looking to pursue either directly or through its existing subsidiaries, develop and fund Blackstar's fund management business and to finance operating costs after listing.
- 3.7 The above is an approximation only and it remains in the Directors' absolute discretion to determine the allocation of the Private Placement proceeds.
- 3.8 Should there be any difference between the amounts stated above and the capital raised in terms of the Private Placement, such shortfall shall be funded from the Company's own resources or by way of funding from third parties, or in such other manner as the Board deems appropriate in the circumstances.
- 3.9 **Terms, conditions and procedure for acceptance**

The following additional terms and conditions relate to the Private Placement:

3.9.1 ***Participation in the Private Placement***

Only Qualifying Investors may participate in the Private Placement.

*Invited institutional investors*

Invited institutional investors are to provide PSG Capital with their completed application forms by 12:00 on Friday, 5 August 2011. Invited institutional investors will be informed of their allocated Shares, if any, by Wednesday, 10 August 2011, when the collated applications will be provided to the Transfer Secretaries and Strate. Invited institutional investors must make the necessary arrangements to enable their CSDP to make payment for allocated Shares on the Settlement Date. The allocated Shares will be transferred on a delivery-versus-payment basis, to successful institutional applicants on the Settlement Date, which is expected to be on Friday, 12 August 2011.

*Selected private clients*

Selected private clients are to provide PSG Capital with their completed application forms by 12:00 on Friday, 5 August 2011. Selected private clients will be informed of their allocated Shares, if any, by Wednesday, 10 August 2011. Selected private clients must make the necessary arrangements to enable their CSDP or broker, as the case may be, to make payment for allocated Shares on the Settlement Date. The allocated Shares will be transferred on a delivery-versus-payment basis, to successful private client applicants on the Settlement Date, which is expected to be on Friday, 12 August 2011.

*Invited retail investors*

Invited retail investors are to provide PSG Capital with their completed application forms by 12:00 on Friday, 5 August 2011. Invited retail investors will be informed of their allocated Shares, if any, by Wednesday, 10 August 2011. Invited retail investors must make the necessary arrangements to enable their CSDP or broker, as the case may be, to make payment for allocated Shares on the Settlement Date. The allocated Shares will be transferred on a delivery-versus-payment basis, to successful retail applicants on the Settlement Date, which is expected to be on Friday, 12 August 2011.

3.9.2 ***Parties who may not participate in the Private Placement***

The following categories of persons may not participate in the Private Placement:

- any person who may not lawfully participate in the Private Placement;
- institutional and retail investors who have not been invited to participate, and retail investors who are not clients of the selected institutions; and
- persons acting on behalf of a minor or a deceased estate or partnerships.

### 3.9.3 Applications

#### 3.9.3.1 *Submission and acceptance*

Completed application forms can be hand delivered, faxed or posted to:

*If delivered by hand or by courier:*

Attention:  
David Tosi/Almaree Kleinhans

PSG Capital (Pty) Limited  
1st Floor, Ou Kollege Building  
35 Kerk Street  
Stellenbosch  
7599

*If posted:*

Attention:  
David Tosi/Almaree Kleinhans

PSG Capital (Pty) Limited  
PO Box 7403  
Stellenbosch  
7599

*If faxed:*

Attention:  
David Tosi/Almaree Kleinhans

+27 21 887 9624

No applications will be accepted after 12:00 on Friday, 5 August 2011 unless the Board decides otherwise in its sole discretion.

#### 3.9.3.2 *Minimum subscription amount per Qualifying Investor*

Applications must be made for a minimum subscription price of R5,000 (five thousand Rand) per Qualifying Investor.

#### 3.9.3.3 *Applications irrevocable*

Applications submitted by Qualifying Investors are irrevocable and may not be withdrawn once received by PSG Capital.

#### 3.9.3.4 *Copies of applications*

Applications made on copies or reproductions of the application form will be accepted at the discretion of the Directors.

#### 3.9.3.5 *Alterations*

Any alterations on the application form must be authenticated by full signature unless the Directors decide otherwise in their absolute discretion.

#### 3.9.3.6 *Receipts*

Receipts will not be issued for applications, application monies or supporting documents received.

#### 3.9.3.7 *Evidence of capacity to apply*

No documentary evidence of capacity need accompany the Private Placement application form but the Directors reserve the right to call upon any applicant to furnish evidence of such capacity for noting, which evidence shall be held on file by PSG Capital or the Transfer Secretaries.

#### 3.9.3.8 *Reservation of rights*

The Board reserves the right in its sole discretion, subject to the proviso in the next paragraph, to accept or refuse any application(s), either in whole or in part (whether or not received timeously) if such applications do not comply with the terms and conditions of the Private Placement as set out herein or if applicants do not complete the required information in the application form or fail to follow any other instructions contained in the application form.

In the event of an over subscription for Shares in terms of the Private Placement, the Board will determine the formula for allocating shares to successful participants in its sole discretion provided that such formula will be calculated in such a way that a successful participant will not, in respect of his application, receive an allocation of a lesser number of Shares than any other successful participant that applied for the same number of Shares or a lesser number of Shares.

In amplification of the above paragraph and without limiting the proviso contained therein, the Board shall, in its sole discretion, determine an appropriate allocation mechanism, such that the Shares will be allocated on a fair and reasonable basis, as far as possible, taking into account the JSE shareholder spread requirements, the liquidity of the Shares and considering the potential shareholder base that the Board wishes to achieve.

#### 3.9.4 **Issue and allocation of Shares**

- 3.9.4.1 All Shares applied and subscribed for in terms of this Prospectus will be issued at the expense of Blackstar.
- 3.9.4.2 There are no conversion or redemption provisions relating to the Shares that will be issued in terms of the Private Placement.
- 3.9.4.3 All Shares issued in terms of this Prospectus will be allotted subject to the provisions of Blackstar's Statutes and will rank *pari passu* in all respects with the existing Shares in issue.
- 3.9.4.4 The bases of allocation of the Shares, based on the irrevocable applications accepted by the Company in accordance with paragraph 3.9.3 of this section 2 above, will be determined by the Company in its sole discretion, on the basis set out in paragraph 3.9.3.8 of this section 2 above.
- 3.9.4.5 It is intended that notice of all allocations will be given by Wednesday, 10 August 2011.
- 3.9.4.6 The allocated Shares will be issued to successful Qualifying Investors in dematerialised form only. Accordingly, all Qualifying Investors who wish to participate in the Private Placement must appoint a CSDP directly, or a broker, to receive and hold the Dematerialised Shares should their application be successful, as successful applicants' accounts with their CSDPs or broker, as the case may be, will be credited with the allocated Shares on the Settlement Date on a delivery-versus-payment basis. Should a Qualifying Investor require a physical share certificate for its Blackstar Shares allotted to it pursuant to the Private Placement, it will have to rematerialise its Blackstar Shares following the Listing and should contact its CSDP or broker to do so. In the event of rematerialisation of Blackstar Shares as aforesaid, physical share certificates and other documents of title will be delivered to Shareholders using such mode of delivery as complies with the requirements of Blackstar's primary exchange, AIM, for the delivery of documentation to Shareholders.

#### 3.9.5 **Payment and delivery of the Shares**

- 3.9.5.1 No payment should be submitted with the application form delivered to PSG Capital. Applicants must make the necessary arrangements to enable their CSDP or broker to make payment for the allotted Shares on the Settlement Date, which is expected to be on Friday, 12 August 2011.
- 3.9.5.2 Applicants must therefore refer to the agreement governing their relationship with their CSDP or broker.
- 3.9.5.3 As set out above in paragraph 3.9.4.6 of this section 2, the Shares will only be issued in dematerialised form pursuant to the Private Placement and transferred, on a delivery-versus-payment basis to successful Qualifying Investors on the aforementioned Settlement Date. Payment will be in South African currency.
- 3.9.5.4 The applicant's CSDP or broker must commit to Strate to the receipt of the applicant's allocation of Shares against payment on Friday, 12 August 2011. On the aforementioned Settlement Date, the applicant's allocation of Shares will be credited to the applicant's CSDP or broker against payment during the Strate settlement runs, prior to the opening of the market. The CSDP or broker concerned will receive and hold the dematerialised Shares on the applicant's behalf.

#### 3.9.6 **Representation**

Any person applying for or accepting Shares in terms of the Private Placement shall be deemed to have represented to the Company and PSG Capital that such person was in possession of a copy of this Prospectus at that time.

Any person applying for or accepting Shares in terms of the Private Placement on behalf of another:

- shall be deemed to have represented to the Company and PSG Capital that such person is duly authorised to do so and warrants that such person and the subscriber for whom such person is acting as agent is duly authorised to do so in accordance with all relevant laws;
- guarantees the payment of the Private Placement issue price; and
- warrants that a copy of this Prospectus was in the possession of the subscriber for whom such person is acting as agent.

### 3.9.7 **Applicable law**

The Private Placement, applications, allocations and acceptances in terms thereof will be exclusively governed by the laws of South Africa and each applicant will be deemed, by applying for Shares, to have consented and submitted to the jurisdiction of the courts of South Africa in relating to all matters arising out of or in connection with the Private Placement.

### 3.9.8 **Strate and trading of Shares on the JSE**

Shares may only be traded on the JSE in electronic form (Dematerialised Shares) and will be trading for electronic settlement in terms of Strate immediately following the Listing.

Strate is a system of "paperless" transfer of securities. Blackstar Shares will trade on the JSE using the Strate system. The principal features of Strate are as follows:

- trades executed on the JSE must be settled within 5 (five) Business Days;
- there will be penalties for late settlement;
- electronic record of ownership replaces share certificates and physical delivery of certificates; and
- all investors owing Dematerialised Shares or wishing to trade their Shares on the JSE are required to appoint either a broker or CSDP to act on their behalf and to handle all settlement requirements.

### 3.9.9 **Underwriting**

The Private Placement has not been underwritten and is not subject to an underwriting commission.

### 3.9.10 **Over-subscription**

The maximum number of Shares that can be subscribed for in terms of this Private Placement is 15,000,000 (fifteen million). In the event of an over subscription, Shares will be allotted and issued at the discretion of the Directors on the basis set out above in paragraph 3.9.3.8 of this section 2.

### 3.10 **Information regarding issue price of previous issues**

As set out in paragraph 4.4.1 of section 1 above, on 25 June 2009, Blackstar issued a total of 13,341,851 Shares at £0.67 (sixty seven Pence) per Share to BML Limited and Novatrust Limited in terms of an issue of shares for cash in fulfillment of a contractual obligation. Since issuing the Shares for cash as aforesaid, the market value of Blackstar has increased, resulting in the higher issue price of £0.85 (eighty five Pence) for this Private Placement.

## **4. MINIMUM SUBSCRIPTION**

The Private Placement is not subject to any minimum subscription being achieved.

## **SECTION 3: STATEMENTS AND REPORTS RELATING TO THE OFFER**

### **1. STATEMENT AS TO ADEQUACY OF CAPITAL**

The Directors are of the opinion that the working capital available to the Blackstar Group is adequate for the present requirements of Blackstar and the Blackstar Group, i.e. for a period of 12 months from the date of issue of this Prospectus.

### **2. REPORT BY DIRECTORS AS TO MATERIAL CHANGES**

There have been no material changes in the financial or trading position of Blackstar, including no material changes in the assets or liabilities of any Group Company, since the last audited financial period, until the Last Practicable Date.

### **3. STATEMENT AS TO LISTING ON STOCK EXCHANGE**

- 3.1 All issued Shares of Blackstar are listed on AIM as a primary listing. No other class of securities is listed on any other exchange.
- 3.2 The listing of Blackstar on AIM occurred immediately following a private placement of 35 million shares to investors at £1 (one Pounds Sterling) per Share.
- 3.3 Blackstar has not applied for a listing on any exchange other than its successful listing on AIM and this Listing and has accordingly never been refused a listing on any exchange nor had any such application for a listing deferred.

### **4. REPORT BY AUDITOR WHERE BUSINESS UNDERTAKING TO BE ACQUIRED**

As at the Last Practicable Date, the Company has not identified any business undertaking which it will purchase directly or indirectly from the proceeds of the Private Placement, or from any part of such proceeds, or from any other funds.

### **5. REPORT BY AUDITOR WHERE COMPANY WILL ACQUIRE A SUBSIDIARY**

As at the Last Practicable Date, no part of the proceeds of the Private Placement, whether directly or indirectly, will be used in a manner that results in the acquisition by the Company or its Subsidiaries of securities of any other juristic person, with the direct or indirect result that the other juristic person will become a subsidiary of the Company.

### **6. REPORT BY AUDITOR OF THE COMPANY**

- 6.1 The audited historical financial information of Blackstar for the financial years ended 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010 is presented in **Annexure 6** and includes all information upon which the auditor is required to furnish its report in terms of Regulation 79 of the South African Companies Act.
- 6.2 The auditor's report on the historical financial information is presented in **Annexure 7** in compliance with the requirements of Regulation 79 of the South African Companies Act.

## SECTION 4: ADDITIONAL MATERIAL INFORMATION

### 1. DIRECTORS AND MANAGEMENT

#### 1.1 Composition of the Board

1.1.1 The Board comprises 4 independent non-executive Directors and 1 non-independent non-executive Director. There is no chief executive officer or financial Director, as these functions are performed by the Investment Advisory Team, more particularly, with Andrew Bonamour fulfilling the role of a chief executive officer and Sheenagh Grota fulfilling the role of an executive financial director. The audit committee has satisfied itself of the appropriateness of the expertise and experience of Sheenagh Grota to fulfill the role of a financial director.

1.1.2 None of the Directors, nor any other directors within the Group, are partners with unlimited liability.

#### 1.2 Experience of Directors

##### 1.2.1 **John Broadhurst Mills** – *Non-executive Chairman*

John Mills, a qualified solicitor, is currently a director of Maitland Luxembourg SA and certain Luxembourg and ISE listed investment funds. Over the previous five years, he was and continues to be a director and a principal in the Maitland Group and a number of other companies. He has had extensive experience in advising clients in the structuring and exiting of private equity investments, through both onshore and offshore vehicles.

##### 1.2.2 **Andrew David Bonamour** – *Non-executive Director*

Andrew has been involved in the corporate finance and securities investment business since 1993. Andrew started his career in 1993 at Rand Merchant Bank, where he gained experience and exposure across several divisions including equities, derivatives and treasury.

In 1999, Andrew joined Brait S.A. Limited, South Africa's largest private equity firm. While at Brait, Andrew held senior executive positions in investment banking and principal investment. He originated and played a lead role in a variety of transactions including leveraged buyouts, unique public opportunities, capital replacements and restructurings.

In 2005, Andrew founded Blackstar and is currently the chief executive officer of Blackstar SA which acts as the Investment Adviser to Blackstar. During the last six years Blackstar has invested £113.7 million in South Africa. Andrew is responsible for idea generation and oversees the investment advisory function.

Andrew serves on the boards of a number of private and publicly quoted companies.

Andrew holds a Bachelor of Commerce degree from the University of South Africa.

##### 1.2.3 **Wolfgang Andreas Baertz** – *Non-executive Director*

Wolfgang Baertz has significant experience within the banking sector over the previous 40 years. From 1968, he has been with Dresdner Bank initially in Frankfurt and for most of his career in Luxembourg where he held the positions of Head of Loans and Syndications Department (1970-1979), General Manager (1979-1982), Managing Director and Member of the Executive Committee (1982-1997) and President (1997-2003).

##### 1.2.4 **Marcel Ernzer** – *Non-executive Director*

Marcel Ernzer is an independent consultant within the financial sector. He was an auditor and later a consultant with Price Waterhouse Luxembourg from 1982-1986. From 1987-1996, he was responsible for setting-up and managing Unico Financial Services, a PSF in Luxembourg, owned by Credit Agricole, DZ Bank, Rabobank, RZB Austria, Cera Bank (later KBC) and Okobank. He is currently a director of Insinger de Beaufort Holdings S.A., Camera di Commercio Italo-Lussemburghese, Pro Fonds (Lux) Sicav and certain family owned commercial companies including Tetrabat, Taxirent and FAS.

##### 1.2.5 **Charles Taberer** – *Non-executive Director*

Since 2005, Charles Taberer has been a director at Tanmac Trading (Pty) Limited, a hotel and property development and trading company based in Durban, South Africa and has significant experience of doing business in Africa.

#### 1.3 The Investment Advisory Team

1.3.1 The Investment Adviser is staffed by executives with extensive and complementary backgrounds in public and private investing, principal investing, corporate finance, financial modelling, structured finance and financial engineering, with over 30 years combined experience investing in Africa.

1.3.2 Each member of the Investment Advisory Team possesses skills and experience which are valuable to the investment process. The ability to originate investment opportunities through research and networking and then subsequently perform insightful business and industry analysis are core strengths of the Investment Adviser. Financial structuring and general negotiating skills, as well as ongoing participation in overseeing and enhancing the value of each portfolio company, are all elements of the process.

1.3.3 The full names, ages, business address and capacities of the members of the Investment Advisory Team are outlined below:

<i>Full name</i>	<i>Age</i>	<i>Capacity and occupation</i>	<i>Nationality</i>	<i>Business Address</i>
Andrew David Bonamour	39	Chief Executive Officer	RSA	11 Crescent Drive, Melrose Arch 2076, RSA
William Marshall-Smith	33	Director	RSA	11 Crescent Drive, Melrose Arch 2076, RSA
Greg Weinstein	35	Director	RSA	11 Crescent Drive, Melrose Arch 2076, RSA
Thomas Bemelman	27	Investment Associate	RSA	11 Crescent Drive, Melrose Arch 2076, RSA
Sheenagh Grota	32	Chief Financial Officer	RSA	11 Crescent Drive, Melrose Arch 2076, RSA

#### 1.3.4 **Experience of the members of the Investment Advisory Team**

##### 1.3.4.1 **Andrew Bonamour – chief executive officer**

Shareholders and investors are referred to paragraph 1.2.2 of this section 4 above which sets out Andrew's experience.

##### 1.3.4.2 **William Marshall-Smith – Director**

William qualified as a chartered accountant at Deloitte and has worked in their financial services division in New York, USA, Cape Town, South Africa and the Isle of Man.

William has over ten years experience in corporate finance, public and private investing in South Africa. Prior to joining Blackstar SA in 2005, William was a partner in a boutique corporate finance and principle investing company with particular focus on public investing and BEE advisory.

William is a director of Blackstar SA, Litha, KMG, Blackstar Real Estate and Navigare.

##### 1.3.4.3 **Greg Weinstein – Director**

Greg qualified as a chartered accountant at PricewaterhouseCoopers and worked in the financial services division of Rand Merchant Bank, before joining Blackstar SA in 2006.

Greg has over twelve years experience in the financial markets in South Africa and is responsible for financial modelling in the business as well as assisting with the investment advisory function and conclusion of investment transactions.

Greg is a chartered financial analyst and a director of Blackstar SA and Ferro.

##### 1.3.4.4 **Thomas Bemelman – Investment Associate**

Thomas holds a Bachelor of Commerce degree with Honours in Investment Management from the University of Johannesburg.

Thomas joined Blackstar SA in June 2006 and is responsible for performing research and analysis of various public and private companies, as well as the South African economy and provides assistance with the investment advisory function.

Thomas is a director of Blackstar Real Estate and Adreach.

##### 1.3.4.5 **Sheenagh Grota – Chief Financial Officer**

Sheenagh qualified as a chartered accountant at KPMG and worked at Bidvest Group Limited as a project accountant where she performed a technical advisory role with a

focus on the review and implementation of new accounting standards within the Bidvest Group, before joining Blackstar SA.

Sheenagh is responsible for the financial management of Blackstar SA as well as the Group accounting (including compliance with IFRS), and preparation of the Blackstar annual reports.

#### 1.4 Additional information regarding the directors

None of the Directors of Blackstar, nor the directors of its Subsidiaries nor any members of the Investment Advisory Team have:

- 1.4.1 been declared bankrupt, insolvent or have entered into any individual voluntary compromise arrangements;
- 1.4.2 been or are directors with an executive function in respect of any company or entity in respect of which business rescue plans and/or resolutions have been proposed, application has been made for any such entity to be put in business rescue or any notices in terms of section 129(7) of the South African Companies Act have been issued, or which have entered into any receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company voluntary arrangements or any compromise or arrangement with creditors generally or any class of creditors of any company during the preceding 12 months;
- 1.4.3 entered into any compulsory liquidations, administrations or partnerships, voluntary arrangements of any partnerships where such directors are or were partners during the preceding 12 months;
- 1.4.4 entered into any receiverships of any asset(s) or of a partnership where such directors are or were partners during the preceding 12 months;
- 1.4.5 been publicly criticised by a statutory or regulatory authority, including recognised professional bodies or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;
- 1.4.6 committed any offence of dishonesty, fraud or embezzlement;
- 1.4.7 been removed from an office of trust, on the grounds of misconduct, involving dishonesty; and/or
- 1.4.8 been declared delinquent by an order of court nor been placed under probation in terms of section 162 of the South African Companies Act and/or section 47 of the South African Close Corporations Act, 1984 (Act 69 of 1984) (as amended) nor been disqualified by a court to act as a director in terms of section 219 of the South African Companies Act, 1973 (Act 61 of 1973) (as amended).

#### 1.5 Remuneration of Directors

- 1.5.1 No fees have been paid or are payable to any third party in lieu of Directors' fees.
- 1.5.2 No Shares have been issued in terms of a share option scheme, other scheme or structure, which have not been fully paid for.

#### 1.6 Interests of Directors

- 1.6.1 At the Last Practicable Date, the following Directors (and their associates), held, in aggregate, directly and indirectly, approximately 22.75% of Blackstar's issued Shares, in the manner set out below

Director	Beneficial		Non beneficial		Total	Percentage Held (%)
	Direct	Indirect	Direct	Indirect		
John Broadhurst Mills	–	761,328	–	–	761,328	1.02
Andrew David Bonamour <sup>1</sup>	–	–	–	16,077,993	16,077,993	21.49
Wolfgang Andreas Baertz	–	183,158	–	–	183,158	0.24
Marcel Ernzer	–	–	–	–	–	–
Charles Taberer	–	–	–	–	–	–
<b>Total</b>	–	17,022,479	–	16,077,993	17,022,479	22.75

1. The indirect non beneficial interest of Andrew David Bonamour of 21.49% is held as follows:

1.1 20.3% is held by BML Limited. Andrew David Bonamour is a beneficiary of a discretionary trust, the Ethamie Trust, which holds 44.94% of the shareholding in BML Limited; and

1.2 0.9% is held directly by the Ethamie Trust.

- 1.6.2 There have been no dealings in Shares by the Directors in the period between 31 December 2010 and the Last Practicable Date.
- 1.6.3 Save as disclosed in the table in paragraph 1.6.1 of this section 4 above in relation to Shares held in the Company, no Director of Blackstar nor any director of its Subsidiaries, has or had any beneficial interest, directly or indirectly, in any transaction which is, or was, material to the business of Blackstar and which was effected by Blackstar during the current financial year or the immediately preceding financial year or in respect of any previous financial year which remains in any respect outstanding or unperformed.
- 1.6.4 The relevant provisions of the Statutes relating to any power enabling a Director to vote on a proposal, arrangement or contract in which he is materially interested are set out in **Annexure 5**.

#### 1.7 **Details of other directorships**

Details of other directorships held by the directors of the Group are contained in **Annexure 13**.

#### 1.8 **Directors' responsibility statement**

The Directors, whose names are given in the *Corporate Information* section:

have considered all statements of fact and opinion in this Prospectus and:

- 1.8.1 accept, collectively and individually, responsibility for the accuracy of such statements; and
- 1.8.2 certify that, to the best of their knowledge and belief, there are no omissions of facts or considerations which would make any statements of fact or opinion contained in this Prospectus false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this Prospectus contains all information required by law and the Listings Requirements.

## 2. **CODE OF CORPORATE PRACTICE AND CONDUCT**

- 2.1 Blackstar is governed by its Board. The Board is responsible for ensuring that Blackstar complies with all of its statutory obligations as specified in the UK Companies Act, the South African Companies Act, its Statutes, the AIM Rules, the JSE Listings Requirements and all other regulatory requirements. The Board at all times acts in the best interests of the Company in ensuring an effective compliance framework, the integrity of its financial reporting and risk management, together with timely and transparent disclosure to shareholders. The Board on the Listing Date consists of the Directors set out in the *Corporate Information* section of this Prospectus.
- 2.2 Blackstar is committed to the principles of effective corporate governance and application of the highest ethical standards in the conduct of its business and affairs.
- 2.3 The Board holds regular Board meetings, at least one each quarter, at which financial and other reports are considered and where appropriate, voted on. In addition, the Board appoints members of and receives reports on their activities from various committees.
- 2.4 The Directors support high standards of corporate governance and confirm that they comply with the Quoted Companies Alliance Corporate Governance Guidelines for AIM companies, to the extent that they feel is appropriate for a company of Blackstar's size. An audit committee, a remuneration committee and a nominations committee, each consisting of at least one non-executive Director and the non-executive Chairman, have been established for this purpose.
- 2.5 The audit committee is responsible for ensuring that the financial performance, position and prospects of the Group are monitored, controlled and reported on. The audit committee sets the principles for recommending the use of the external auditors for non-audit purposes. It also meets with the auditors and discusses and reviews the accounts, the audit procedures and the Group's internal controls. The audit committee comprises of John Mills, Andrew Bonamour, Marcel Ernzer, Wolfgang Baertz and Charles Taberer and meets whenever there is business to discuss and at least twice a year, to consider the financial results that are due for public release.
- 2.6 The remuneration committee meets once per year and sets the remuneration levels for the Directors having regard to market conditions and appropriate incentive schemes. The remuneration committee comprises of John Mills, Andrew Bonamour, Marcel Ernzer, Wolfgang Baertz and Charles Taberer.
- 2.7 The nominations committee comprises of John Mills, Andrew Bonamour, Marcel Ernzer, Wolfgang Baertz and Charles Taberer and is chaired by Marcel Ernzer. The majority of the members of the nominations committee are independent.
- 2.8 Blackstar is committed to the principles of transparency, integrity and accountability as advocated in the King Code III. Accordingly, the Subsidiaries that are incorporated in South Africa endorse the King Code III and are taking steps to apply its principles in all sensible and material respects with the spirit and intent thereof and will explain any non-application in accordance with the requirements of King Code III.

### 3. MAJOR AND CONTROLLING SHAREHOLDERS AND SHAREHOLDER SPREAD

- 3.1 At the Last Practicable Date, the following Shareholders, to the best of the Directors' knowledge and belief, are beneficially interested in 5% or more of the issued share capital of Blackstar.

Shareholder	% of issued share capital (%)
BML Limited <sup>1</sup>	20.3
Schroders	11.1
Eton Park	10.3
Lansdowne	9.6
Midas Capital Partners Limited	8.8
Damille Investments	7.5
Lynchwood Nominees	6.3

1. As disclosed in note 1.1 to the table in paragraph 1.6.1 of this section 4, Andrew David Bonamour is a beneficiary of a discretionary trust, the Ethamie Trust, which holds 44.94% of the shareholding in BML Limited.

- 3.2 As at the Last Practicable Date, there is no Shareholder that together with its associates or any other party with which it has an agreement relating to any voting rights in Blackstar that can exercise or cause to be exercised 35% or more of the voting rights in the Company, nor will there be any such Shareholder on the Listing Date.

### 4. ADDITIONAL FINANCIAL INFORMATION

#### 4.1 Unaudited pro forma financial information

4.1.1 The unaudited *pro forma* financial information for Blackstar, the preparation of which is the responsibility of the Directors, is presented in **Annexure 8**.

4.1.2 The *pro forma* financial information should be read in conjunction with the independent reporting accountants' report thereon as presented in **Annexure 9**.

4.1.3 The unaudited *pro forma* financial information has been prepared for illustrative purposes only to provide information as to how the Private Placement might have impacted on the financial position of the Blackstar Group. Because of its nature, the unaudited *pro forma* financial information may not be a fair reflection of the Blackstar Group's financial position after the Private Placement.

#### 4.2 Independent reporting accountant's confirmation

The independent reporting accountants have provided confirmation to the JSE that they have reviewed this Prospectus and that the content hereof is not contradictory to any of the information contained in any of their report.

### 5. MATERIAL COMMITMENTS, LEASE PAYMENTS AND CONTINGENT LIABILITIES

The Blackstar Group has the material commitments, material lease payments and contingent liabilities as set out in **Annexure 6**.

### 6. ADDITIONAL INFORMATION REGARDING LOANS AND BORROWING POWERS

- 6.1 Neither Blackstar nor any of its Subsidiaries have made any loans to or for the benefit of any director of the Group, or to an associate of such director save for:

6.1.1 the loan to Tanmac Trading (Proprietary) Limited, being an entity in which Charles Taberer has an indirect interest; and

6.1.2 the loan to O<sub>2</sub> Capital (Proprietary) Limited, being an entity in which Stephen Levitt, being a director of a KMG, has an indirect interest

as more fully set out in notes 16 and 38 to the historical financial information contained in **Annexure 6**.

- 6.2 No loan capital is currently outstanding.

- 6.3 The borrowing powers of the directors of the Group are set out in **Annexure 5**.

- 6.4 The Group has no exchange control or similar restrictions on its borrowing powers in the UK but Blackstar SA, Blackstar Real Estate, KMG and Ferro are subject to the South African Exchange Control Regulations.

### 7. LISTING ON JSE

#### 7.1 JSE approval

7.1.1 The JSE has granted Blackstar a secondary listing of all of the Shares in the issued share capital of Blackstar, on Alt\* as an investment entity under the abbreviated name "Blackstar", share code "BCK" and ISIN GB00B0W3NL87 with effect from the commencement of trade on Friday, 12 August 2011.

7.1.2 Following the Listing on AltX, Blackstar will only be required to comply with the listings requirements of its primary exchange, namely the AIM Rules, save as otherwise specifically stated to the contrary in the JSE Listings Requirements.

## 7.2 Rationale for listing

7.2.1 The purpose of the secondary listing on the AltX is to:

7.2.1.1 enhance the liquidity and tradability in Blackstar Shares;

7.2.1.2 unlock value for Blackstar's existing Shareholders;

7.2.1.3 reinforce Blackstar's connection with a market in which greater than 90% of its assets are located;

7.2.1.4 create awareness with prospective institutional and retail investors about the merits of investing in Blackstar;

7.2.1.5 appeal to a broader range of prospective investors, both institutional and retail, who are familiar with Blackstar's investments and its history therefore providing further access to capital in order to facilitate and accelerate the Company's growth and acquisitions falling within Blackstar's investment scope; and

7.2.1.6 facilitate the raising of additional capital to allow Blackstar to fund its pipeline investment opportunities and develop its fund management business.

## 7.3 Exchange control regulations

7.3.1 Blackstar has obtained SARB approval for both the issue of its Shares pursuant to the Private Placement and the Listing. In order to expedite the Listing, SARB required an application to be submitted for administrative relief in terms of Exchange Control Regulation 24, which was submitted on 24 June 2011 and approved on 30 June 2011. Blackstar has undertaken to make payment of the levy in respect of this application.

7.3.2 Blackstar is an African Company as defined in Section H.(B)(ii) of the Exchange Control Rulings. South African Shareholders will be treated according to the provisions of Section H.(A) of the Exchange Control Rulings. In terms of these provisions, South African institutional investors may invest in Blackstar Shares quoted on the JSE using their permissible foreign portfolio investment allowances and South African private individuals may invest in Blackstar Shares without restriction.

7.3.3 **Annexure 15** sets out a summary of the Exchange Control Regulations relating to the acquisition of Blackstar Shares pursuant to the Private Placement and subsequent thereto, after the Listing. The summary is intended as a guide only and is therefore not comprehensive. If you are any doubt in this regard, you should consult an appropriate professional adviser or an authorised dealer.

## 8. DETAILS OF SUBSIDIARIES

Details regarding Blackstar's Subsidiaries and the directors of its major Subsidiaries appear in **Annexure 12**.

## 9. PROPERTY DISPOSED OF OR TO BE DISPOSED OF

Shareholders and investors are referred to **Annexure 10**, which sets out material disposals of assets of the Blackstar Group in the 3 years preceding the Last Practicable Date.

## 10. GOVERNMENT PROTECTION AND INVESTMENT ENCOURAGEMENT LAW

There is no Government protection or investment encouragement law affecting Blackstar or its Subsidiaries.

## 11. LITIGATION

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which Blackstar is aware, which may have or have had, in the 12 months prior to the Last Practicable Date, a material effect on the financial position of Blackstar.

## 12. VENDORS

The Blackstar Group has not purchased material assets in the 3 years preceding the Last Practicable Date from any vendor.

## 13. EXPERTS' CONSENTS

Each of the experts, whose names appear on the inside cover of this Prospectus, have given and have not, prior to the formal approval of this Prospectus by the JSE and the filing and registration thereof with the Commission, withdrawn their written consents to the inclusion of their names, and acting in the capacities stated and, where applicable, to their reports being included in this Prospectus.

#### 14. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents, or copies thereof, will be available for inspection at the registered offices of Blackstar and at PSG Capital (in both Stellenbosch and Johannesburg), at the addresses referred to in the *Corporate Information* section on page 3, during normal office hours for the period from the date of issue of this Prospectus to 10 Business Days after the Closing Date:

- 14.1 the Statutes of Blackstar;
- 14.2 the Articles of each of the Subsidiaries of Blackstar;
- 14.3 the audited consolidated financial statements of Blackstar for the years ended 31 December 2006, 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010;
- 14.4 the auditor's report on the historical financial information of Blackstar, as reproduced in **Annexure 7**;
- 14.5 the reporting accountants' report on the *pro forma* financial information of Blackstar, as reproduced in **Annexure 9**;
- 14.6 copies of the service contracts of the executive directors of the Investment Adviser and of the other members of the Investment Advisory Team;
- 14.7 a copy of the service agreement concluded with Capita Registrars, Blackstar's registrars and receiving agents in the UK;
- 14.8 a copy of the service agreement concluded with Collins Stewart Europe Limited, Blackstar's Nomad in the UK;
- 14.9 a copy of the Investment Service Contract;
- 14.10 valuation reports of the following immovable property, details of which immovable properties are more fully set out in **Annexure 11** hereof:
  - 14.10.1 erf 1345, South Germiston Extension 2;
  - 14.10.2 erf 193, 194, 195 and remainder erf 192 Richmond, Kwazulu Natal;
  - 14.10.3 erven 1344 and 1345 Shakas Head, Durban;
  - 14.10.4 erf 189, Vulcania Extension 1 Township, Brakpan;
  - 14.10.5 erf 1813, Richards Bay, Extension 9;
- 14.11 the written consents of the legal advisors of the Company to being named as acting in the stated capacity in the *Corporate Information* section and the use of their names in this Prospectus.
- 14.12 the written consents of the auditor and of the independent reporting accountant to being named as acting in the stated capacity in the *Corporate Information* section, the use of their names in this Prospectus and the inclusion of their reports herein.
- 14.13 the powers of attorneys signed by the Directors authorising, *inter alia*, Andrew Bonamour or any other Director of the Company to sign this Prospectus on their behalf; and
- 14.14 a copy of this Prospectus.

## **SECTION 5: INAPPLICABLE OR IMMATERIAL MATTERS**

The regulations of the South African Companies Act which are not applicable to the Private Placement and/or this Prospectus are as follows:

Name, address and incorporation: regulation 57 (2) (b) (ii); regulation 57 (3);

Directors, other office holders, or material third parties: regulation 58 (3) (d);

History, state of affairs and prospects of the company: regulation 59 (2) (a); regulation 59 (3) (b); regulation 59 (3) (c) (iii);

Options or preferential rights in respect of shares: regulation 61;

Commissions paid or payable in respect of underwriting: regulation 62;

Material Contracts: regulation 63 (1) (b);

Interests of directors and promoters: regulation 64 (2);

Loans: regulation 65 (2) (b);

Property acquired or to be acquired: regulation 67;

Amounts paid or payable to promoters: regulation 68

Preliminary expenses and issue expenses: regulation 69 (a) and (b);

Purpose of the offer: regulation 70 (b);

Particulars of the offer: regulation 72 (1) (d); regulation 72 (3);

Minimum subscription: regulation 73;

Statement as to adequacy of capital: regulation 74 (2) (b);

Report by directors as to material changes: regulation 75;

Report by auditor where business undertaking to be acquired: regulation 77;


Report by auditor where company will acquire a subsidiary: regulation 78;

Report by auditor of the company: regulation 79 (1) (b)'; regulation 79 (2); regulation 79 (3) (a) (i) and (ii); regulation 79 (3) (b) (i) and (ii); and

Requirements for prospectus of mining company: regulation 80.

1. Regulation 79 has two regulations numbered 79(1)(b). This is a reference to the 2nd regulation 79 (1) (b).

**SIGNED AT JOHANNESBURG ON 15 July 2011 BY ANDREW DAVID BONAMOUR ON BEHALF OF ALL THE DIRECTORS OF BLACKSTAR GROUP SE, AS LISTED BELOW, IN TERMS OF POWERS OF ATTORNEY SIGNED BY SUCH DIRECTORS:**



**JOHN BROADHURST MILLS  
WOLFGANG ANDREAS BAERTZ  
CHARLES TABERER**

**ANDREW DAVID BONAMOUR  
MARCEL ENZER**

## ANNEXURE 1

### SELECTED TRANSACTION CASE STUDIES

#### **Litha Healthcare Group Limited ("Litha") (formerly Myriad Medical Holdings Limited)**

Listed on the JSE (ticker: LHG)

Unique Public Opportunity – Unrealised

Creating a significant and unique player in a fragmented market

#### **Company description**

- Litha has diversified interests in vaccines, logistics, pharmaceuticals and medical devices.

#### **Transaction description**

- In October 2006 Blackstar invested £3.5 million into the IPO of Myriad Medical Holding Limited ("Myriad"). Blackstar invested £1.4 million directly, for a 23% stake in Myriad, and £2.1 million indirectly, to fund the Black Economic empowerment ("BEE") partners acquiring 26% of Myriad.
- In the beginning of 2009 Blackstar believed that Myriad needed to make a large acquisition to gain critical mass and to reconstitute the executive management of Myriad.
- In August 2009 Blackstar initiated the specific repurchase of shares and the resignation of the CEO and COO of Myriad.
- In December 2009 Myriad announced the acquisition of Litha Healthcare, the introduction of a new CEO and CFO, the rebranding of Myriad to Litha and the transfer of its listing to the main board of the JSE.

#### **Investment thesis and strategy**

- Significant and unique player – Blackstar's pre-IPO investment in Myriad was done to take advantage of the fragmented medical device industry creating a significant and unique player. The combined initial investment was done at a significant discount to the equity value of Myriad at IPO.
- Downside protected – Blackstar funded Myriad's BEE partner through a participating preference share, protecting its downside through the security package negotiated and participating in the upside performance of the underlying Myriad shares.
- High barriers to entry – Towards the end of 2009 Blackstar assisted Myriad in acquiring Litha Healthcare, this transaction significantly increased the scale of the group and diversified its offering into three medical business lines – biotechnology (vaccines), pharmaceuticals and medical devices, with high barriers to entry in the vaccines, pharmaceuticals and cold chain distribution business.

#### **Performance**

- Subsequent to Myriad's IPO, Blackstar realized 24% of its direct stake thereby generating 2.2 times money and reducing its concentration risk to the investment.
- In January 2010, as part of the refinancing of its preference shares, Blackstar took direct control of the BEE partner's 30% shareholding in Myriad (pre the Litha transaction).
- Subsequent to the Litha transaction being concluded Blackstar now directly owns 39% of Litha.
- At the Last Practicable Date, its unrealized stake in Litha was worth £34.7 million over a cost of £8.2 million and had generated a 63% IRR and 4.14 times money from this transaction.

## **Mvelaphanda Resources Limited ("Mvela")**

Listed on the JSE (ticker: MVL)

Unique Public Market Opportunity – Realised, save for the right to receive 10% of future realized equity value as set out below

Unlocking deep discount

### **Company description**

- Mvela is a leading, broad based, pan-African empowerment mining and minerals company. The Mvela group of companies has significant investments in gold, platinum and diamond sectors.

### **Transaction Description**

- Blackstar Cyprus invested alongside Lazarus Zim, CEO of Anglo American SA, into Mvela at a significant discount to market value at the time of the transaction and acquired a 7.7% stake through a vehicle that provided it with 4.9 times gearing on the investment.
- Blackstar Cyprus invested into Mvela through a special purpose vehicle ("SPV") in the form of cumulative redeemable preference shares (the "Preference Shares").

### **Investment thesis and strategy**

- Sector consolidation – Blackstar's strategy was aimed at the consolidation that it believed will occur in the empowerment resource sector in South Africa. Mvela is one of the only listed black owned resources company on the JSE.
- Mean reversion – Blackstar's strategy for Mvela was to move from a holding company to an operating company thereby removing the discount.
- Business networks – Through this transaction Blackstar aligned itself with two of the most prominent BEE businessmen in South Africa, namely Lazarus Zim and Tokyo Sexwale.

### **Performance**

- In late 2007, Mvela announced its acquisition of Anglo Platinum Limited's entire 22.3% interest in Northam Platinum Limited ("Northam") and Anglo Platinum Limited's 50% effective interest in the Booyesendal Platinum Project ("Booyesendal") for a total cash consideration of £280 million, as well as the subsequent acquisition by Northam of 100% of Booyesendal. The acquisition by Mvela was at an attractive valuation.
- Subsequent to the transaction, Mvela owned approximately 63% of the issued share capital of Northam. The transaction transformed Mvela from being an investment holding company to gaining control of the fourth largest global Platinum Group Metals resource in South Africa.
- In April 2010 Blackstar entered into an agreement to dispose of its Preference Shares in the SPV for £20.1 million in cash, whilst retaining a right to receive 10% of any future realized equity value of the SPV (the "Profit Participation"). Blackstar invested £12.4 million and this disposal represents a return of 1.74 times money and a 22% IRR, before any potential return from the Profit Participation is taken into account.

## **DCD-Dorbyl (Pty) Limited ("DCD-Dorbyl")**

Leveraged Buy Out – Realised

Leveraged exposure to growing industrial sector

### **Company description**

- DCD-Dorbyl supplies products and services to the rail transport, heavy engineering and the marine ship repair and off-shore oil industries.

### **Transaction description**

- Blackstar invested alongside Investec Private Equity to acquire 100% of DCD-Dorbyl in a leveraged buyout transaction. Blackstar partnered with a BEE industrial group called Siyahamba Engineering in a BEE special purpose vehicle established to acquire a 34% interest in the group.
- Blackstar received its capital plus a hurdle first and thereafter an effective stake of 16.7% in DCD-Dorbyl.

### **Investment thesis and strategy**

- The sector was experiencing a significant boom due to the capital expenditure programmes by Eskom, Transnet and major mining companies. DCD-Dorbyl also had large export orders from the US Government.
- DCD-Dorbyl was strategically positioned across a myriad of industrial sectors.
- Blackstar participated in a leveraged transaction with a gearing of 2.75x magnifying the returns on the investment.
- Real infrastructure spending in certain sectors had not yet begun. DCD-Dorbyl was perfectly positioned to take advantage of the spending that will take place in harbours, power generation, transport infrastructure and mining in South Africa and Africa.
- Due to DCD-Dorbyl's large export component, DCD-Dorbyl earned more than 50% of its revenue in US Dollars.

### **Performance**

- DCD-Dorbyl traded well with a full order book and almost doubled its forecast EBITDA in its first year since acquisition.
- The acquisition debt was paid down quickly which enhanced our investment.
- Blackstar disposed of its investment in DCD-Dorbyl in December 2008 and realised £13.8 million which equated to a return on investment of 2.83 times money and 74% IRR in Pound Sterling over the 20 month holding period.

## **Ferro Industrial Products (Pty) Limited ("Ferro")**

Leveraged Buy Out – Realised

Leveraged exposure to dominant industry player

### **Company description**

- Ferro is a manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits and glass coatings.

### **Transaction description**

- Leverage buyout in January 2009 where Blackstar acquired 54% of Ferro with management holding the balance.

### **Investment thesis and strategy**

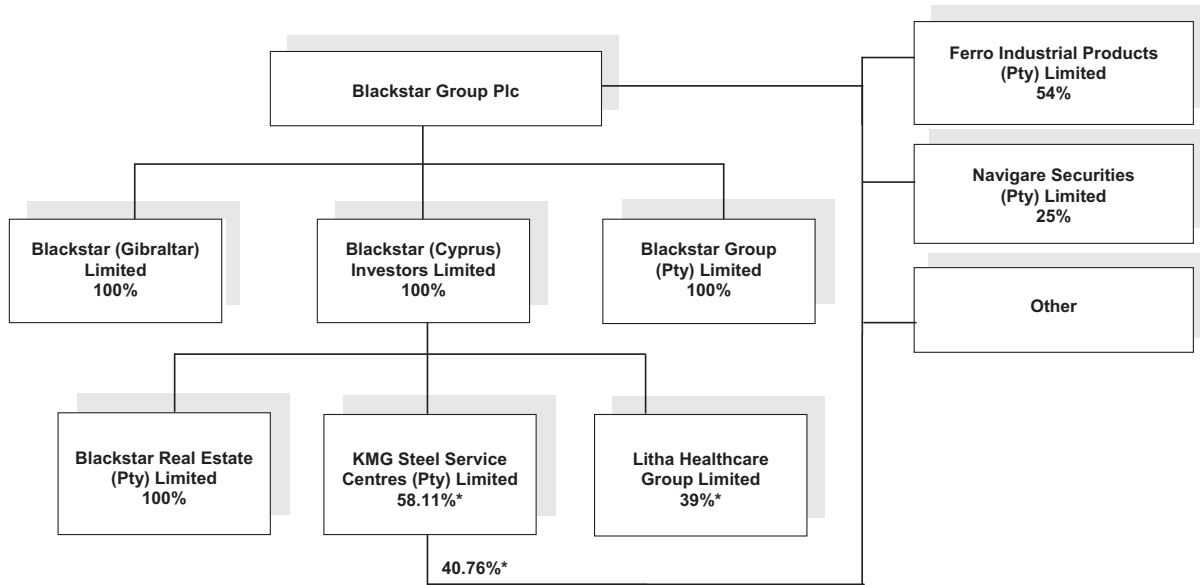
- Ferro has a strong reputation in the market and its brands are recognised as leaders in the industry.
- Ferro has in excess of 50% of the market share in each of its four operating divisions and in some cases 100% of the market.
- Exporter to many African countries, which is experiencing substantial growth.
- Strong ability to generate cash flow through the business cycles.
- High quality and experienced management team with a good track record and solid reputation.

### **Performance**

- Since Blackstar's involvement with Ferro, EBIT has increased by approximately 61%, and net debt has decreased from £12.2 million to the current £5.1 million at 30 June 2011. This has increased the equity value of Blackstar's investment significantly.
- Blackstar invested £6.0 million and has received £1.2 million in interest on its shareholder loan since investing. Blackstar's unrealised stake has estimated value of £18.4 million at 30 June 2011.

## ANNEXURE 2

### GROUP STRUCTURE



\* As at the Last Practicable Date, the Blackstar Group holds 99% of the shareholding in KMG, 58.11% being held by Blackstar Cyprus and the remaining 40.76% being held directly by Blackstar.

## ANNEXURE 3

### INVESTMENT PORTFOLIO

#### A. Intrinsic Net Asset Value Breakdown

The balance sheet as at 31 December 2010 has been presented below which reflects the Group's intrinsic NAV. For comparative purposes, the balance sheet for the prior year has also been included. The financial information is reflected on the basis that all investments (whether the Company could be considered to exercise control or otherwise) are accounted for as investments at fair value through profit and loss (i.e. carried at fair value) or investments classified as loans and receivables (i.e. at amortised cost) and are not consolidated or equity accounted. The investments in subsidiaries and associates have been reflected separately for ease of reference. In addition, the consolidated balance sheet as at 31 December 2010 has been presented below in a summarised manner, the components of net assets from the consolidated balance sheet have been re-allocated such that the value of each subsidiary and associate is reflected in a single line for ease of comparison with the pro-forma balance sheet.

	<i>Intrinsic value Unaudited 31 December 2010 £'000</i>	<i>Intrinsic value Unaudited 31 December 2009 £'000</i>	<i>Consolidated Audited 31 December 2010 £'000</i>
<b>Total assets</b>			
<b>Investments in subsidiaries</b>			
KMG Steel Service Centres (Pty) Limited	18,343	29,698	25,358
Ferro Industrial Products (Pty) Limited	17,377	12,122	10,687
Blackstar Group (Pty) Limited and internalisation of investment advisory arrangements	11,400	14,900	11,550
Blackstar Real Estate (Pty) Limited	749	–	787
Other	193	1,397	193
<b>Investments in associates</b>			
Litha Healthcare Group Limited	38,896	–	14,397
Navigare Securities (Pty) Limited	604	–	240
<b>Investments other</b>			
Investments at fair value through profit and loss	12,340	12,796	12,340
Investments classified as loans and receivables	1,126	23,101	1,126
Cash and cash equivalents	13,284	13,384	13,284
Trade and other receivables	418	513	418
Other financial assets	–	245	–
<b>Total liabilities</b>			
Trade and other payables	(184)	(560)	(184)
<b>Total net assets</b>	114,546	107,596	90,196
<b>Equity</b>			
Share capital	50,130	53,023	50,130
Capital redemption reserve	2,893	30,156	2,893
Foreign currency translation reserve	13,673	9,877	14,604
Retained earnings	47,850	14,540	22,569
<b>Total equity attributable to equity holders</b>	114,546	107,596	90,196
<b>Net asset value per share (in pence)</b>	153	136	121
<b>Tangible net asset value per share (in pence)</b>	138	117	105

#### Notes

- For the purposes of determining the intrinsic values, listed investments on recognised stock exchanges are valued using quoted bid prices at year end and unlisted investments are shown at directors' valuation, determined using the discounted cash flow methodology. This methodology uses reasonable assumptions and estimations of cash flows and terminal values, and applies an appropriate risk-adjusted discount rate that quantifies the investment's inherent risk to calculate a present value. Given the subjective nature of valuations, the Group is cautious and conservative in determining the valuations and has a track record of selling its unlisted investments above the levels at which it values them.
- Cash represents cash at the centre and excludes cash held by subsidiaries that are separately disclosed above.
- Tangible net asset value per share represents net asset value per share excluding goodwill which arose on internalisation of investment advisory arrangements.
- The information presented herein has been extracted from the published annual report and accounts of Blackstar for 2010.

## B. Overview of Blackstar's Investment Portfolio

### 1. Litha Healthcare Group Limited ("Litha") – Shareholding of 39%

Litha is a JSE-listed company with operations in the pharmaceutical, medical devices and biotechnology sectors of the healthcare industry. Litha is the result of the successful acquisition by Myriad Medical Holdings Limited of Litha Healthcare Holdings (Proprietary) Limited in 2010. The transaction was identified and underwritten by Blackstar and has been a huge success as the share price appreciated 239% since the transaction was announced up to 31 December 2010.

#### Summarised income statement

	<i>Year ended</i> 31 December 2010 R'000
Revenue	1,290,184
EBITDA	132,607
EBIT	122,265
PBT	15,358

#### Summarised balance sheet

	<i>31 December 2010</i> R'000
Total shareholder's funds	502,256
Net debt/(cash)	(150,605)
Property, plant and equipment	79,135
Net current assets excluding debt/cash	(23,989)

Litha's operating divisions are as follows:

**Biotech Division** – Litha's Biotech Division imports and distributes paediatric and adult vaccines under agency from several major international pharmaceutical companies. It is a supplier of paediatric vaccines to the South African government through The Biovac Institute ("TBI"), a Public-Private Partnership ("PPP") with the South African government for vaccine manufacture and supply.

Litha is the dominant supplier of vaccines to the South African healthcare market and has played a pioneering role in rebuilding the country's domestic capacity for the development and manufacture of vaccines.

The Biotech Division is the bedrock of Litha as a whole. It enjoyed immediate success and was supplying around 50-60% of the public sector market within three years of its establishment.

Litha is the controlling shareholder in TBI, which is the sole supplier of vaccines used in the country's Expanded Programme on Immunisation ("EPI"), immunising millions of infants and pre-school children at public health facilities every year.

As part of the PPP, Litha is in the process of developing its own vaccine manufacturing plant in Cape Town which is due to begin manufacturing in 2013. This is the only vaccine manufacturing plant in Africa. The start of the manufacturing process will lead to increased margins for the Biotech Division.

The other company within the division, Litha Vaccines (Pty) Limited, specialises in vaccines that fall outside the scope of the EPI, such as the rabies and influenza vaccines. The main customer for these products is also the domestic public health sector, but the company also supplies member states of the Southern African Development Community ("SADC").

Through substantial investments in manufacturing facilities, technology and skills transfer, and meeting exacting quality standards, the Biotech Division is ensuring that South Africa participates internationally in this exciting, dynamic and challenging area of medical research and development. The vaccines have high barriers to entry with long lead times in registration of products and the manufacturing facilities by the World Health Organisation and the local Medical Control Council ("MCC").

**Medical Division** – This division comprises the wholesale distribution, assembly and importation of local and international medical devices and consumables. It has rights to 34 leading international agencies with a wide range of different premier brands in the single-use consumable and medical capital equipment sectors.

It houses six specialist business units with a market presence in both the public and private sectors. Due to the highly specialised nature of the services and products supplied, employees have specialist medical backgrounds, within ICU, Critical Care, Operating Theatres, Paramedics and Emergency Services, as well as specialist training within their respective agency product lines.

**Pharmaceutical Division** – Litha's Pharmaceutical Division sells, markets and distributes pharmaceutical, generic, over-the-counter ("OTC") and ancillary products to the pharmaceutical and consumer related industry. This division is the fastest growing area of operations within Litha due to its focus on generic medicines. These medicines are marketed through license agreements, co-marketing agreements and joint ventures with international pharmaceutical and generics companies.

Growth prospects for this division are extremely good. The total South African pharmaceutical market is worth an estimated R16.5 billion and Litha's Pharmaceutical division is positioned to compete in the generics market through joint ventures with international generics companies.

A Business Development and Regulatory Unit ("BDRU") has already been established by Litha to manage the process of obtaining licences for a range of generic and branded medicines from the MCC. Most of these generics will be sourced from India, China and Europe.

## 2. Ferro Industrial Products (Pty) Limited ("Ferro") – Shareholding of 54%

Ferro is a manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits and glass coatings.

### Summarised income statement

	<i>Year ended</i> 31 December 2010 R'000
Revenue	407,648
EBITDA	79,596
EBIT	70,056
PBT	51,553

### Summarised balance sheet

	<i>31 December 2010</i> R'000
Total shareholder's funds	139,382
Net debt/(cash)	63,495
Property, plant and equipment	76,691
Net current assets excluding debt/cash	50,930

Ferro has a strong reputation in the market and its brands are recognised as leaders in the industry. Ferro has in excess of 50% of the market share in each of its four operating divisions and in some cases 100% of the market. Ferro also exports to many African countries and the export segment of the business is experiencing substantial growth.

Ferro's product formulations, complexity of mixes and technical expertise are a major barrier to entry particularly in the powder coatings and tiles business, which comprise at least 65% of the business. Quality is key in this industry and Ferro's track record and reputation, coupled with the relationship with Ferro Corporation in the USA create significant barriers to entry. In addition Ferro recently upgraded its powder coatings plant with machinery from Rohm and Haas. Following this upgrade, there is now adequate capacity within all manufacturing plants.

To support its business, Ferro has an exclusive license to use the Licensed Technology owned by Ferro Corporation or its affiliates at its premises to use and manufacture the Licensed Products. Ferro Corporation also licenses to Ferro some trademarks belonging to Ferro Corporation. In addition Ferro has a royalty bearing license with Tiger Coatings GmbH to make powder coating products at its facility and to use and sell the powder coating products. In addition Tiger Coatings GmbH provides Ferro with the technical information and know-how relating to the manufacture and application of the powder coating products as well as technical assistance and training services.

Ferro has performed exceptionally well since Blackstar invested into the company in January 2009. It has had significant growth in sales into Africa and has grown its EBITDA from R55 million to year end June 2009 to R79 million to year end December 2010. In the latest financial year to December 2010 Ferro generated cash of R67 million and reduced its total third party debt to R64 million compared to R142 million at June 2008. This equates to a change in the debt equity ratio of 128% in July 2008 to 33% in December 2010.

Ferro has demonstrated a strong ability to generate cash flow through the business cycles. It has a strong management team, a good track record and solid reputation. This coupled with its relationship with Ferro Corporation in the USA and Tiger Coatings GmbH in Austria provides the foundations for a successful operation.

## 3. KMG Steel Service Centres (Pty) Limited ("KMG") – Shareholding of 99%

The sale of Baldwins Steel, a division of KMG, to Robor (Proprietary) Limited ("Robor") was completed on 2 June 2011, therefore KMG now consists of two businesses, namely, Global Roofing Solutions (Proprietary) Limited ("GRS"), being a wholly owned subsidiary of KMG and Stainless Steel and Aluminium Corporation ("Stalcor"), being a division of KMG.

The Blackstar Group initially acquired 47.5% of KMG and then acquired a further 25.5% as agent, to facilitate a transaction which would have resulted in the Blackstar Group selling a large portion of its interest in KMG to a potential investor. As a result of the financial crises in late 2008, the transaction with the potential investor was aborted and the Blackstar Group was forced to take beneficial ownership of the additional shares in the first

quarter of 2009 bringing its shareholding in KMG to 73 per cent. In 2010, the "B" preference shares of Blackstar Cyprus in KMG were converted into ordinary shares which further increased the Group's shareholding in KMG. As at the Last Practicable Date, the Group holds to 99% of the shareholding in KMG, 40.76% of such shareholding being held directly by Blackstar and 58.11 per cent. being held by Blackstar Cyprus.

GRS, which has been in business since 1950, is the largest steel roofing and cladding company in South Africa. GRS also has a substantial African footprint supplying a number of African countries. The business is strongly aligned to infrastructure development, has a strong management team and excellent market position.

GRS owns 100% of Country Roofing (Pty) Limited, a roofing contractor and steel stockist in Namibia servicing Namibia, Angola and Botswana, thereby allowing KMG to extend its footprint into the Sub-Saharan market and to access the infrastructure spend occurring throughout this region.

Stalcor is one of the three major appointed distributors of stainless steel in South Africa for Columbus Stainless (Pty) Limited, a subsidiary of Acerinox SA (Spain). The product range is augmented by imports of stainless long products which are not manufactured in South Africa. Stalcor is also the largest appointed distributor for Hulamin Limited ("Hulamin") and accounts for approximately 50% of Hulamin's rolled and extruded product distribution in South Africa. The product range is augmented by imports. Distribution is carried on through a branch network in major centres throughout South Africa.

#### Summarised income statement

	<i>Year ended</i> 31 December 2010 R'000
Revenue	1,944,592
EBITDA	(39,572)
EBIT	(75,380)
PBT	(253,357)

#### Summarised balance sheet

	<i>31 December 2010</i> R'000
Total shareholder's funds	192,366
Net debt/(cash)	256,029
Property, plant and equipment	130,583
Net current assets excluding debt/cash	305,064

The steel industry in South Africa has been through a period of unprecedented volatility in prices which, coupled with the economic slowdown, has dampened steel volumes significantly. Many steel businesses have been forced to close down as a result of the difficult trading conditions experienced over the last two years. Steel maker Evraz Highveld Steel and Vanadium Corporation Limited ("Evraz") recently reported financial losses for its 2010 financial year.

KMG has a good market position in South Africa and is ideally placed given the current infrastructure spend occurring in the Sub-Saharan region. KMG has a large export market into Africa and it is our view that this will continue to be a growth market for KMG in the future.

#### 4. Robor – Shareholding of 5%

Following the sale of Baldwins Steel, a division of KMG, to Robor, a 5% shareholding in Robor has been acquired by the Group. Robor is the largest tube and pipe manufacturing business in Southern Africa, with a leading position in most of its markets. The majority of Robor's earnings are generated from the manufacture of small, bore-welded carbon and stainless steel tubing and piping using hot rolled steel supplied by Arcelor Mittal South Africa Limited and Evraz. Most tubes sold in Southern Africa are locally produced with imports not providing strong competition due to the relatively high costs of transport and moderate tariff protection. Additional earnings are generated from divisions focused on related products and services. Robor's products are used by a wide range of industries including construction, mining, automotive, agricultural, petrochemical, engineering, broad industrial, and general infrastructural projects such as power stations, railways and stadiums. Robor exports to over 50 countries worldwide.

Robor was acquired from Barloworld Limited in 2006 by management and Rand Merchant Bank. Robor has produced consistent returns for its shareholders. For more information please refer to Robor's website [www.robtor.co.za](http://www.robtor.co.za).

#### 5. Blackstar Real Estate (Pty) Limited ("BRE") – Shareholding of 100%

BRE was formed by Blackstar in the second half of 2010 with the objective of acquiring properties held by its subsidiaries and portfolio investments on a sale and lease back basis, as well as exploring other opportunities in the South African real estate sector that may arise as a result of the prevailing economic conditions and where attractive deals can be structured.

## Summarised income statement

	<i>Year ended</i> 31 December 2010 R'000
Revenue	–
EBITDA	(255)
EBIT	(255)
PBT	(340)

## Summarised balance sheet

	<i>31 December 2010</i> R'000
Total shareholder's funds	8,156
Net debt/(cash)	7,598
Property, plant and equipment	17,000
Net current assets excluding debt/cash	(193)

BRE currently holds interests in six properties, offering it exposure to the South African retail, leisure, industrial and development real estate sectors. BRE currently holds gross assets (properties) with a fair value of £3.4 million.

### 6. Adreach (Pty) Limited ("Adreach") – Shareholding of 15%

Adreach is an outdoor media company which operates in a unique segment of the media market offering outdoor advertising mainly through the use of government owned street poles. Adreach utilise street poles on high traffic volume routes and strategic locations to place their advertising space. Contracts for these street poles have been secured with the South African government, which grant Adreach exclusive use of the street poles for the next seven years with the option to renew the contract at the end of the period, thereby giving Adreach a monopoly in this type of advertising space.

## Summarised income statement

	<i>Year ended</i> 31 August 2010 R'000
Revenue	108,731
EBITDA	16,713
EBIT	5,293
PBT	3,216

## Summarised balance sheet

	<i>31 August 2010</i> R'000
Total shareholder's funds	30,828
Net debt/(cash)	7,260
Property, plant and equipment	16,151
Net current assets excluding debt/cash	8,268

Adreach offers customers certainty of exposure through repetition to a captive market. As traffic on South Africa's roads continues to increase, outdoor media is gaining more and more market share, consistently delivering 'in your face' brand exposure to these highly defined captive commuter and pedestrian audiences.

Adreach produced a satisfactory set of results for the financial year ended 31 August 2010. Adreach is implementing cost saving measures and is forecast to produce another strong set of results in the upcoming financial year.

### 7. Navigare Securities (Pty) Limited ("Navigare") – Shareholding of 25%

Blackstar funded this start-up niche equities trading house in 2009 based on the old partnership style brokerage. Blackstar backed four of South Africa's most experienced and successful equities traders with over 20 years of trading experience each. This was a small investment for Blackstar but has been extremely successful and its equity value in the business is currently valued at 3.9 times the original cost.

Navigare provides sales and trading in equities and derivatives (including CFD's, options, index and single stock futures) as well as African trading via joint venture agreements. Navigare is ranked fourth in terms of valued traded on the JSE, in the mid capitalisation stocks. Navigare has repaid its seed capital to Blackstar and recently paid its maiden dividend to its shareholders.

## Summarised income statement

	Year ended 31 December 2010 R'000
Revenue	25,592
EBITDA	5,493
EBIT	5,188
PBT	6,115

## Summarised balance sheet

	31 December 2010 R'000
Total shareholder's funds	6,926
Net debt/(cash)	(17,826)
Property, plant and equipment	590
Net current assets excluding debt/cash	(4,205)

### 8. Facebook Inc. ("Facebook")

In January 2011 Blackstar invested \$400,000 in Facebook through the FBDC Offshore Investors L.P. managed by Goldman Sachs Group Inc. Facebook is a social networking service that enables people to share and communicate with their friends.

As of December 2010, Facebook had over 600 million monthly active users, up from 300 million in September 2009 and 100 million in August 2008. Blackstar believes that Facebook could IPO in 2013.

### 9. Other

#### 9.1 Services Derivative

Blackstar concluded a secondary Black Economic Empowerment ("BEE") transaction with a large listed services company using derivative structures whereby Blackstar invested a fixed amount of its funds in exchange for an equity return, which is based on the performance of the underlying company. The investment has performed well over the year and is due to be realised at the beginning of 2012.

As part of a follow on transaction, in February 2011 Blackstar lent one of the BEE Groups £0.9 million for 12 months at an interest rate of 20%. This loan is secured by the underlying shares which represents four times cover on the loan.

#### 9.2 Trading activities

Towards the end of 2009, Blackstar commenced trading in listed shares and bonds. To date Blackstar has invested a cumulative amount of £ 3.8 million in listed shares and bonds and has generated an overall profit of £1.4 million. Blackstar has realised £4.7 million of the funds invested and had £0.5 million invested in listed shares at year end.

#### 9.3 Wallberg Blackstar Africa Fund

In December 2010 the Company entered into a strategic co-operation agreement with Wallberg Invest SA ("Wallberg") that will result in its wholly-owned South African subsidiary, Blackstar SA, or any other of its Subsidiaries as it may nominate, being appointed as the asset manager to the Wallberg Blackstar Africa Fund, a Luxembourg UCITS III compliant fund ("the Fund"), subject to regulatory approval.

The Fund, which targets liquid, listed investment opportunities with a large exposure to a growth path into Africa, was established in 2008 for an indefinite period in accordance with Part I of the Luxembourg Law of 20 December 2002, as amended, in the form of a fonds commun de placement. The UCITS legislation, established under a European Directive, regulates risk, liquidity, diversification, eligible asset constraints and counterparty exposure.

This is in line with the Company's strategy to increase its management of third party listed securities, principally in Africa. Blackstar was identified by Wallberg as an ideal partner to further develop the Fund which already has a strong track record. Although the current assets under management of the Fund are not significant, Blackstar and Wallberg believe that the Fund has the potential to raise significant additional capital, particularly as the African investment market plays an increasingly prominent role in the global economy. Fees generated from managing third party funds will accrue to Blackstar in the form of dividends from Blackstar SA, or from such other Subsidiary as may be nominated by the Company to act as the asset manager.

## C. Additional financial information regarding investments

### 1. Financial information in respect of investment portfolio:

	At 31 December 2010			For the year ended 31 December 2010	
	Assets	R'000 Liabilities	Equity	R'000 Revenues	Profit after tax
<b>Listed</b>					
Litha Healthcare – listed on the JSE	1,218,505	716,249	502,256	1,290,184	81,358
Services derivative – listed on the JSE	n/a	n/a	n/a	n/a	n/a
<b>Unlisted</b>					
KMG	663,921	471,555	192,366	1,944,592	(266,956)
Ferro Industrial Products	350,100	210,718	139,382	407,648	36,071
Blackstar Real Estate	22,634	18,584	4,050	–	200
Adreach	63,426	32,598	30,828	108,731	2,365
Navigare Securities	34,427	27,501	6,926	25,592	4,404

#### Note:

1. Adreach financials are at 31 August 2010.

### 2. An analysis of funds not invested in shares or securities:

2010	Industrial chemicals	Industrial metals	Investment activities Sterling and	Total
Functional currency	South African Rand £'000	South African Rand £'000	South African Rand £'000	£'000
Other financial liabilities (excluding forward exchange contracts and derivatives)	–	–	–	–
South African Rand	–	29,390	8	29,398
Cash and cash equivalents (including overdrafts)	–	–	–	–
South African Rand	3,245	1,734	828	5,807
US dollars	–	25	1	26
Sterling	–	–	12,805	12,805
Euro	–	–	423	423
Namibian Dollars	–	134	–	134
<b>Totals</b>	<b>3,245</b>	<b>1,893</b>	<b>14,057</b>	<b>19,195</b>

### 3. The following investments, classified as loans and receivables, were impaired during the year ended 31 December 2010:

	£'000
Balance at the beginning of the year	711
Impairment of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha	56
Currency exchange losses during the year	53
Release of impairment on redemption of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha	(820)
Balance at the end of the year	–

#### **Cumulative redeemable preference shares acquired in a special purpose vehicle established to acquire an interest in Litha**

The carrying value of the Group's cumulative redeemable preference shares in a special purpose vehicle that was established to acquire an interest in Litha was based on the value of the underlying assets in the special purpose vehicle less any external debt and potential liabilities. The realisable value of the investment was calculated taking into account current market conditions and expected future cash flows to be derived from the investment. It was determined that a further impairment of £56,000 was required during the financial year. The carrying value of the impairment raised was released as a result of the redemption of the cumulative redeemable preference shares.

**4. An analysis of unrealised profits:**

<i>Investment</i>	<i>Cost of the Investment (£'000)</i>	<i>Current market value of interest (£'000)<sup>1</sup></i>	<i>Unrealised profit</i>
<b>Listed</b>			
Litha Healthcare – listed on the JSE	9,742	38,896	29,154
Services derivative – listed on the JSE	4,483	9,768	5,285
<b>Unlisted</b>			
KMG	34,787	18,343	(16,444)
Ferro Industrial Products	5,524	17,377	11,853
Blackstar Real Estate	717	749	32
Adreach	2,940	2,271	(669)
Navigare Securities	124	603	479
Other	1,191	1,620	429
Cash and cash equivalents	not applicable	13,284	n/a
Other receivables (net)	not applicable	235	n/a
<b>Total</b>		<u>103,146</u>	

## ANNEXURE 4

### SALIENT TERMS OF THE INVESTMENT SERVICE AGREEMENT

The following are the salient terms of the Investment Service Agreement:

#### 1. INTRODUCTION

- A. Blackstar may acquire participations in any form whatsoever in Sub-Saharan Africa and subject always to the AIM Rules and any other applicable law, rule or regulation or rule of a competent regulatory authority, Blackstar may participate in any other investment opportunity that the Board deems appropriate.
- B. Blackstar has requested that Blackstar South Africa (the Service Provider) provide certain Services relating to such participations and opportunities in South Africa and Sub-Saharan Africa and the Service Provider wishes to provide such services according to the terms and conditions set out in the Investment Service Agreement ("the Agreement").

#### 2. INTERPRETATION

In the Agreement, including the recitals hereto, the following words and expressions, except where the context otherwise requires, have the meanings indicated below:

- 2.1 **'BEE'** means Black Economic Empowerment;
- 2.2 **'Commencement Date'** means 26 June 2009;
- 2.3 **'Internalisation'** means the transactions more fully described in the Blackstar Investors Plc Circular to Shareholders, dated on or about 5 June 2009;
- 2.4 **'Investments'** means all investments made and to be made by Blackstar from time to time in accordance with this Agreement and the Investment Strategy, which investments shall include, but not be limited to, the acquisition of (or subscription to) shares, preference shares, derivatives and other financial instruments and the granting of loans;
- 2.5 **'Investment Opportunities'** means the sourcing of BEE and other investment opportunities in South Africa and Sub-Saharan Africa by the Service Provider within Blackstar's stated Investment Strategy;
- 2.6 **'Investment Strategy'** means the investment strategy as amended from time to time by the Board and as may be communicated to the Service Provider by Blackstar from time to time;
- 2.7 **'Long Stop Date'** means 28 August 2009;
- 2.8 **'Services'** means the services to be supplied by the Service Provider to Blackstar pursuant to the Agreement and further detailed below, which services may be varied by agreement between the parties from time to time:
- 2.8.1 **Administration Services including:**
- Monitoring foreign exchange exposure levels, along with relevant portfolio management;
  - Checking stock loan requirement, positions and fee accruals;
  - Making relevant cash payments and resolving any issues arising from these;
  - Making trade amendments and cancellations when errors occur;
  - Monitoring failed trades and working with the prime brokers to get resolved;
  - Checking margin reports;
  - Monitoring the corporate actions event diary;
  - Working with Blackstar to resolve any queries or exceptions;
  - Handling of all public share placement processing and documentation;
  - Reconciling monthly NAV calculations;
  - Reviewing expenses on a quarterly basis;
  - Assisting in external audit where required; and
  - Reviewing annual and half yearly financial statements.

#### 2.8.2 **Research and Advice Services including:**

- Supplying Blackstar with investment and market research in relation to Investments and Investment Opportunities, which includes notifying Blackstar when material events or activities are occurring in relation to the Investments;
- Preparing closing binders in respect of the Investments;
- Recommending Investments and Investment Opportunities. Once an Investment Opportunity has been identified, the Service Provider will ensure that the Board is duly and expeditiously informed of such opportunities in writing. The Board shall give full consideration to all investment proposals submitted to it by the Service Provider as expeditiously as possible. The Service Provider shall supply the Board (or its nominees) as expeditiously as possible with any additional information requested from the Service Provider from time to time; and
- Preparing quarterly reports, which will form part of Blackstar's Board packs.

#### 2.8.3 **Specific Trading and Hedging Mandate Services including:**

- Executing buy and sell trade instructions in publicly quoted instruments, pursuant to the mandate granted by the Board from time to time; and
- Attending to capital draw-downs requests in relation to Investments.

#### 2.8.4 **Client Relationship Management Services including:**

- Investor management including:
  - (a) Liaising with investors on behalf of Blackstar; and
  - (b) Responding to investor queries.
- Fund manager and shareholder management including:
  - (a) Liaising with underlying fund managers on *ad hoc* queries;
  - (b) Liaising with Blackstar on *ad hoc* queries; and
  - (c) Service specific queries.

2.9 **'Sub-Saharan Africa'** means the area of the African continent which lies south of the Sahara desert.

Save as set out in the Agreement, the function of the Service Provider shall be solely related to the provision of the Services and the Service Provider shall have no power to act on behalf of or bind Blackstar or, save in the discharge of its duties pursuant to the Agreement, otherwise act on behalf of Blackstar, without the prior specific written authority of Blackstar.

The Service Provider shall in the performance of the Services at all times act in good faith and with reasonable due diligence and use all reasonable professional skill and care at all times.

The Service Provider shall provide Blackstar with such additional advice, assistance or services as reasonably requested from time to time.

### **3. POTENTIAL CONFLICTS OF INTEREST AND DISCLOSURES**

3.1 The Service Provider may provide the Services in circumstances in which it has a direct or indirect material interest or a relationship of any description with another party which may involve a potential conflict with the Service Provider's duty to Blackstar. The Service Provider shall not be liable to account to Blackstar for any profit, commission, remuneration made or received from or by reason of such transactions or connected transactions and the Service Provider's remuneration shall not, unless otherwise agreed, be abated.

3.2 The Service Provider shall disclose any conflicts of interest contemplated in paragraph 3.1 and will be required to consult with Blackstar on how to minimise the impact of any such conflicts. If the parties fail to reach agreement on the best way in which to minimise the impact of any such conflicts, the decision of the Board shall be final.

### **4. COMMENCEMENT AND TERM**

4.1 The Agreement became effective on the Commencement Date and shall continue until either party gives 12 months' written notice to the other of termination, and that notice expires, provided that neither Blackstar nor the Service Provider shall be entitled to give such notice of termination before 31 December 2014.

4.2 Notwithstanding paragraph 4.1, each party may terminate the Agreement forthwith on written notice to the other party if:

- 4.2.1 a party (a '**Defaulting Party**') breaches any material provision of the Agreement and does not remedy such breach within 30 days after service of notice requiring such breach to be remedied; or
- 4.2.2 a Defaulting Party shall enter into liquidation (except for voluntary liquidation for the purposes of reconstruction or amalgamation) or any bankruptcy or other insolvency proceedings or there is appointed an administrator, receiver or any similar officer of a Defaulting Party or of all or substantially all its property.
- 4.3 The Agreement shall not be terminated otherwise than in accordance with paragraphs 4.1 and 4.2 without the written agreement of the parties hereto.

## **5. FEES AND EXPENSES**

- 5.1 In consideration of the Services performed by the Service Provider under the Agreement, Blackstar shall pay to the Service Provider a Services Fee determined on a basis that is agreed between the parties within 1 month of the Commencement Date and thereafter within 3 months of 31 December 2009 when the Service Fee for the next twelve month period will be determined. The Services Fee shall be reduced to writing and will be payable quarterly in advance.
- 5.2 For the avoidance of doubt, and subject to 5.1, Blackstar shall not be liable to the Service Provider for any costs incurred by the Service Provider in the running of its business, for example (but not limited) the cost of employing staff, the cost of occupying premises and the costs of maintaining a computer infrastructure.

## **6. OTHER APPOINTMENTS**

Nothing contained in the Agreement shall prevent the Service Provider from acting as an adviser or in any other capacity whatsoever for any other company or body of persons on such terms as the Service Provider may arrange and the Service Provider shall not be deemed to be affected with notice of or to be under any duty to disclose to Blackstar any fact or thing which may come to its knowledge or to the knowledge of any of its employees, officers or agents in the course of so doing or in any manner whatever otherwise than in the course of carrying out its duties under the Agreement.

## **7. DELEGATION AND ASSIGNMENT**

- 7.1 The Service Provider may in the execution and exercise of all or any of its rights, privileges, powers, duties and discretions under the Agreement act by a responsible officer for the time being of the Service Provider.
- 7.2 With the prior written consent of Blackstar, the Service Provider shall also be entitled to appoint sub-advisers.
- 7.3 The Service Provider shall remain liable for the acts and omissions of any sub-adviser as if they were the Service Provider's own acts and omissions, and the Service Provider shall be responsible for the fees and expenses of the sub-adviser.

## **8. LIMITATION OF LIABILITY AND INDEMNITY**

- 8.1 The Service Provider shall not be liable for any loss suffered by Blackstar or its agents in connection with the matters to which the Agreement relates except where such loss results from a material breach of the Agreement, fraud, negligence, or wilful default by the Service Provider. Blackstar shall indemnify and hold harmless the Service Provider against all or any direct losses, liabilities, actions, proceedings, claims, costs and expenses (including, without limitation, reasonable legal fees and expenses), (but excluding, for the avoidance of doubt, consequential losses and loss of profits) resulting from a material breach of the Agreement, fraud, negligence, or wilful default of the Service Provider, provided that the Service Provider shall not be indemnified with respect to any matter resulting from the Service Provider's own material breach of the Agreement, fraud, negligence or wilful default.
- 8.2 The Service Provider shall indemnify and hold harmless Blackstar against all or any direct losses, liabilities, actions, proceedings, claims, costs and expenses (including, without limitation, reasonable legal fees and expenses), (but excluding, for the avoidance of doubt, consequential losses and loss of profits) resulting from a material breach of the Agreement, fraud, negligence, or wilful default of the Service Provider, provided that Blackstar shall not be indemnified with respect to any matter resulting from Blackstar's own breach of the Agreement, fraud, negligence, or wilful default.
- 8.3 For the avoidance of doubt, the Service Provider will not be responsible for safe keeping of any assets and shall not be liable for any default of any counterparty, bank, the administrator or any other person which holds money, investments or documents of title on Blackstar's behalf or with or through which any transactions are effected pursuant to the Agreement.

## **9. GOVERNING LAW**

The Agreement shall be construed in accordance with and shall be governed by the laws of South Africa and the parties hereby agree to submit to the non-exclusive jurisdiction of the courts of South Africa with respect to any proceedings arising under this Agreement.

## ANNEXURE 5

### EXTRACTS FROM THE STATUTES, MEMORANDA AND ARTICLES OF ASSOCIATION OF THE BLACKSTAR GROUP COMPANIES

#### A. EXTRACTS FROM THE STATUTES OF BLACKSTAR GROUP SE

##### **"Statute 7: Rights Attached To New Shares And Provisions Relating To Shares**

- 7.1 Without prejudice to any special rights conferred on the holders of any existing shares or of any class of shares (which rights may only be varied or abrogated in accordance with Statute 8.8), any shares in the Company may be issued with or have attached thereto such rights or restrictions as the Company may from time to time determine.
- 7.2 All shares shall form one class and shall rank *pari passu* in respect of payment of dividends, entitlement to liquidation proceeds and otherwise. The balance of proceeds on any liquidation shall be allocated equally between the shares.
- 7.3 The shares shall be registered shares.

##### **Statute 8: Issuance Of Shares And Alteration Of Capital**

- 8.8 If at any time there are different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to Section 633 of the CA 2006 (and whether or not the Company is being wound up), be varied or abrogated in such manner (if any) as is provided by those rights, or with the sanction of a special resolution passed at a separate General Meeting of the holders of the shares of the class, but not otherwise.
- 8.11 The rights attached to any class of shares shall not (unless otherwise provided by the rights attached to the shares of that class or required by the SE Regulation) be deemed to be affected or varied by the creation or issue of further shares ranking in some or all respects *pari passu* therewith (but in no respect in priority thereto) or by the purchase or redemption by the Company of any of its own shares.

##### **Statute 10: Holders of, and Interests in Shares**

- 10.4 Any one of the joint holders of any share for the time being conferring a right to vote may vote either personally or by proxy at any meeting in respect of such share as if he were the sole holder, provided that if more than one of joint holders is present at any meeting, either personally or by proxy, the person whose name stands first in the register as one of such holders, and no other, shall be entitled to vote in respect of the share.
- 10.5 Save as required by statute, the Company shall be entitled to treat the person whose name appears upon the register in respect of any share as the absolute owner of that share, and shall not (save as aforesaid or as provided in these Statutes) be under any obligation to recognise any trust or equity or equitable claim to, or partial interest in, such share, whether or not it shall have express or other notice of any such interest.
- 10.6 In this Statute, unless inconsistent with the context, the following words shall have the following meanings:
- 10.6.1 s793 notice: a notice issued by or on behalf of the Company requiring disclosure of interests in shares pursuant to Section 793 of the CA 2006;
- 10.6.2 restrictions: one or more, as the case may be, of the restrictions referred to in Statute 10.8;
- 10.6.3 interested: the same meaning as it has for the purposes of Section 793 of the CA 2006 and so that a person other than the Member holding a share shall be treated as appearing to be interested in the share if the Member has informed the Company that the person is, or may be, so interested, or if the Directors (after taking account of any information obtained from the Member or, pursuant to a s793 notice, from any other person) know or have reasonable cause to believe that the person is, or may be, so interested;
- 10.6.4 market transfer: in relation to any share, a transfer pursuant to:
- (i) a sale of the share on a recognised investment exchange or on any stock exchange outside the United Kingdom on which shares of that class are listed or normally traded; or
  - (ii) a sale of the whole beneficial interest in the share to a person whom the Directors are satisfied is unconnected with the existing holder or with any other person appearing to be interested in the share; or
  - (iii) an acceptance of a takeover offer (as defined for the purposes of Part 28 of the CA 2006) which relates to the share.

- 10.7 If a Member or any person appearing to be interested in any share has been served a s793 notice and, in respect of any share specified in the notice (a "default share"), has been in default for a period of fourteen days after the s793 notice has been served in supplying to the Company the information required by the notice, the restrictions referred to below shall apply. Those restrictions shall continue for such period as the Directors may specify, but shall end not more than seven days after the earlier of:
- 10.7.1 the Company being notified that the default shares have been sold pursuant to a market transfer; or
- 10.7.2 due compliance, to the satisfaction of the Directors, with the s793 notice.
- 10.8 The restrictions referred to above are as follows:
- 10.8.1 if the default shares in which any one person is interested or appears to the Company to be interested represent less than 0.25% of the issued shares of the relevant class, the Member holding the default shares shall not be entitled, in respect of those shares, to attend or to vote, either personally, by representative or by proxy, at any general meeting of the Company;
- 10.8.2 if the default shares in which any one person is interested or appears to the Company to be interested represent at least 0.25% of the issued shares of the relevant class, the Member holding the default shares shall not be entitled, in respect of those shares:
- (i) to attend or to vote, either personally, by representative or by proxy, at any general meeting of the Company; or
- (ii) to receive any dividend or other distribution; or
- (iii) to transfer or agree to transfer any of those shares or any rights in them.
- 10.9 The restrictions in Statutes 10.8.1 and 10.8.2 shall not prejudice the right of either the Member holding the default shares or, if different, any person having a power of sale over those shares to sell or agree to sell those shares under a market transfer.
- 10.10 If any dividend or other distribution is withheld under Statute 10.8.2(ii), the Member shall be entitled to receive it as soon as practicable after the restrictions cease to apply. The Member shall not be entitled to interest during the intervening period.
- 10.11 The Directors shall not be liable to any person as a result of having imposed restrictions or having failed to determine that such restrictions shall cease to apply if the Directors acted in good faith.
- 10.12 Shares issued in right of default shares in respect of which a Member is for the time being subject to restrictions under this Statute shall on issue become subject to the same restrictions whilst held by that Member as the default shares in right of which they are issued. For this purpose, shares which the Company offers or procures to be offered to Members *pro rata* (or *pro rata* ignoring fractional entitlements and shares not offered to certain Members by reason of legal or practical problems associated with offering shares outside the United Kingdom) shall be treated as shares issued in right of default shares.
- 10.13 The Directors shall at all times have the right, at their discretion, to suspend, in whole or in part, any restrictions arising pursuant to this Statute either permanently or for a given period and to pay to a trustee any dividend payable in respect of any default shares or in respect of any shares issued in right of default shares. Notice of suspension, specifying the restriction suspended and the period of suspension shall be given to the relevant Member in writing within seven days after any decision to implement such a suspension.
- 10.14 The provisions of this Statute are without prejudice to, and shall not affect, the right of the Company to apply any of the provisions referred to in Part 18 of the CA 2006.
- 10.15 Nothing in this Statute shall limit the powers of the Company under s794 of the 2006 Act or any other powers whatsoever.

#### **Statute 27: Voting And Casting Vote**

- 27.1 At any general meeting every question shall be decided by a show of hands unless a poll is (on or before the declaration of the result of the show of hands) directed by the Chairman or demanded by:
- 27.2 at least three Members present in person or by proxy and entitled to vote; or
- 27.2.1 one or more Members present in person or by proxy representing not less than one-tenth of the total voting rights of all the Members having the right to vote at the meeting; or
- 27.2.2 one or more Members present in person or by proxy holding shares in the Company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

- 27.3 The demand for a poll may be withdrawn with the consent of the chairman, and in the event that such demand is withdrawn following a show of hands on the resolution in question, the result of the show of hands shall remain valid.
- 27.4 A declaration by the chairman that a resolution has been carried or not carried, or carried or not carried by a particular majority, and an entry to that effect in the minute book of the Company, shall be conclusive evidence of the facts, without proof of the number or proportion of the votes recorded in favour of or against such resolution.
- 27.5 For the purposes of determining which persons are entitled to attend or vote at a general meeting and how many votes such persons may cast, the Company may specify in the notice of the general meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the register in order to have the right to attend or vote at the meeting.
- 27.6 Notwithstanding there is an equality of votes at any general meeting, whether upon a show of hands or on a poll, the chairman shall not be entitled to a second or casting vote.

#### **Statute 28: Amendments To Resolutions**

- 28.1 If an amendment shall be proposed to any resolution under consideration but shall in good faith be ruled out of order by the chairman, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.
- 28.2 In the case of a resolution duly proposed as a special resolution, no amendment thereto (other than an amendment to correct a patent error) may in any event be considered or voted upon.
- 28.3 In the case of a resolution duly proposed as an ordinary resolution, no amendment thereto (other than an amendment to correct a patent error) may be considered or voted upon unless either at least forty-eight hours prior to the time appointed for holding the meeting or adjourned meeting at which such ordinary resolution is to be proposed notice in writing of the terms of the amendment and intention to move the same has been lodged at the office or the Chairman in his discretion decides that it may be considered or voted upon.

#### **Statute 31: Votes**

Subject to any specific provisions of these Statutes and any special terms as to voting upon which any shares may for the time being be held, upon a show of hands every Member present in person, by proxy (or proxies) or by representative (in the case of a corporate Member) shall have one vote and, upon a poll, every Member present in person or by representative (in the case of a corporate Member) or by proxy shall have one vote for every share held by him. On a poll a person entitled to more than one vote need not use all his votes, or cast all the votes he casts, in the same way.

#### **Statute 33: Persons Whose Calls Are Unpaid Not Entitled To Vote**

No Member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of the shares held by him in the Company have been paid.

#### **Statute 34: Objection To The Qualification Of A Vote**

If any objection shall be raised as to the qualification of any person or it is alleged that any votes have been counted which should not have been counted or that any votes have not been counted which ought to have been counted, the objection or allegation shall not vitiate the decision on any resolution unless it is raised at the meeting or adjourned meeting at which the vote objected to is given or tendered or at which the alleged error occurs. Any objection or allegation made in due time shall be referred to the chairman of the meeting, whose decision shall be final and conclusive.

#### **Statute 36: Directors, Number Of Directors**

- 35.1 The Company shall be managed by a Board being the Administrative Organ and consisting of at least three Directors with a maximum number of 10.

#### **Statute 37: Director's Retiring Age Excluded, Share Qualification, Remuneration And Repayment Of Expenses And Payment For Duties Outside Scope Of Ordinary Duties And Register Of Holdings Of Shares Or Debentures By Directors**

- 37.1 A Director shall be capable of being appointed or re-elected a Director notwithstanding that he shall have attained the age of 70.
- 37.2 A Director shall not require a share qualification. A Director shall be entitled to receive notice of and attend and speak at all general meetings of the Company and at all separate general meetings of the holders of any class of shares in the capital of the Company notwithstanding that he is not a Member.
- 37.3 The remuneration of the Directors for their services in the office of director shall in the aggregate not exceed €283 582 per annum and such remuneration shall be divided amongst the Directors as they shall agree or, in default of agreement, equally. The Directors may also be paid by way of additional

remuneration such further sums as the Company in general meeting may from time to time determine, and any such additional remuneration shall be divided among the Directors as they shall agree or, in default of agreement, equally.

- 37.4 The Company may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Directors, or of any committee of the Directors, or general meetings, or otherwise in or about the business of the Company.
- 37.5 Any Director who is appointed to any executive office or who serves on any committee or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director may be paid, in addition to any remuneration to which he may be entitled under Statute 37.3, such remuneration by way of salary, percentage of profits or otherwise, and/or may receive such other benefits, as the Directors may determine.
- 37.6 The Company shall, in accordance with the provisions of the Rules, duly keep at the office and the Luxembourg Office a register showing, in respect of each Director, the number, description and amount of any shares in or debentures of the Company and of any subsidiary of the Company in which he is interested. Such register shall be open to inspection between the hours of 10.00 a.m. and 12.00 noon on weekdays other than national holidays and shall also be produced at the commencement of each Annual General Meeting and shall remain open and accessible during the continuance of the meeting to any person attending the meeting.

### **Statute 39: Powers And Duties Of Directors**

- 39.1 The business of the Company shall be managed by the Directors who may exercise all such powers of the Company as are not required to be exercised by the Company in general meeting, subject to the provisions of these Statutes and of the Rules and to such regulations as may be prescribed by the Company by special resolution; but no regulation made by the Company by special resolution shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made. In the performance of their functions, the Directors shall comply with their duties (fiduciary or otherwise) including those as stated in the Rules.
- 39.3 Without prejudice to the generality of Statutes 39.1 and 39.2, the Directors may give or award pensions, annuities, gratuities and superannuation or other allowances or benefits to any persons who are or have at any time been employed by or in the service of the Company (including Directors who have held any executive office under the Company) and to the wives, husbands, widows, widowers, children and other relatives and dependants of any such persons and may set up, establish, join with other companies (being subsidiaries of the Company or companies with which it is associated in business), support and maintain pension, superannuation or other funds or schemes (whether contributory or non-contributory) for the benefit of such persons or any of them or any class of them.
- 39.4 Any Director shall be entitled to receive and retain for his own benefit any such pension, annuity, gratuity, allowance or other benefit. Any such pension or the participation in any such funds or schemes may, as the Directors consider desirable, be granted to an employee either before and in anticipation of or upon or at any time after his actual retirement.
- 39.5 The power conferred upon the Company by Section 247 of the CA 2006 Act to make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiaries in connection with the cessation or the transfer to any person of the whole or part of the undertaking of the Company or any subsidiary shall only be exercised by the Company with the prior sanction of a special resolution. If at any time the capital of the Company is divided into different classes of shares, the exercise of this power shall be deemed to be a variation of the rights attached to each class of shares and shall accordingly require the consent or sanction of the holders of the shares of each class in accordance with the provisions of Statutes 8.7 to 8.9.
- 39.6 The Directors may arrange that any branch of the business carried on by the Company or any other business in which the Company may be interested shall be carried on as or through one or more subsidiaries, and they may, on behalf of the Company, make such arrangements as they think advisable for taking the profits or bearing the losses of any branch or business so carried on or for financing, assisting or subsidising any such subsidiary or guaranteeing its contracts, obligations or liabilities, and they may appoint, remove and re-appoint any persons (whether Directors or not) to act as directors, managing directors or managers of any such subsidiary or any other company in which the Company may be interested and may determine the remuneration (whether by way of salary, commission on profits or otherwise) of any persons so appointed, and any Directors of the Company may retain any remuneration so payable to them.
- 39.10 All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments, and all receipts for moneys paid to the Company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the Directors shall from time to time determine.

#### **Statute 40: Directors' Interests, Declaration Of Interests, Interests Of Directors In Other Companies**

- 40.1 Subject to the provisions of these Statutes and the Rules and provided that he has disclosed to the Directors the nature and extent of any interest of his:
- 40.1.1 a Director may hold, subject to Sections 188 and 189 of the CA 2006, any office or place of profit under the Company in conjunction with the office of Director for such period, and on such terms as to remuneration and otherwise, as the Directors may determine, and a Director or any firm in which he is interested may act in a professional capacity for the Company and he or such firm shall be entitled to remuneration for professional services as if he were not a Director, provided that neither any Director nor any such firm may act as Auditor to the Company; and
  - 40.1.2 a Director may enter into or be interested in contracts or arrangements with the Company (whether with regard to any such office or place of profit or any such acting in a professional capacity or as vendor, purchaser or otherwise howsoever) and may have or be interested in dealings of any nature whatsoever with the Company and shall not be disqualified from office thereby.
- 40.2 No such contract, arrangement or dealing shall (subject to the provisions of the Rules) be liable to be avoided, nor (subject as aforesaid) shall any Director so contracting, dealing or being so interested be liable to account to the Company for any remuneration payable or profit arising out of any such contract, arrangement or dealing to which he is a party or in which he is interested by reason of his being a Director of the Company or the fiduciary relationship thereby established.
- 40.3 A Director who, to his knowledge, is in any way, whether directly or indirectly, interested in any contract or arrangement (or proposed contract or arrangement) shall declare the nature of his interest at a meeting of the Directors in accordance with the provisions of this Statute.
- 40.4 In the case of a proposed contract, such declaration shall be made at the meeting of Directors at which the question of entering into the contract is first considered or, if the Director concerned was not (or did not know that he was) at the date of that meeting interested in the proposed contract, at the next meeting of the Directors held after he became so interested, or knew he had become so interested. Where the Director becomes interested (or knows he is interested) in a contract after it is made, such declaration shall be made at the first meeting of Directors held after the Director concerned becomes so interested, or knows that he is so interested.
- 40.5 A general notice given to the Directors by a Director (if it is given at a meeting of Directors, or such Director takes reasonable steps to secure that it is brought up and read at the next meeting of Directors after it is given) to the effect that:
- 40.5.1 he is a Member of a specified company or firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with that company or firm; or
  - 40.5.2 he is to be regarded as interested in any contract which may, after the date of the notice, be made with a specified person who is connected with him,
  - 40.5.3 shall be a sufficient declaration of interest in relation to any contract so made.
- 40.6 For the purposes of this Statute 40:
- 40.6.1 a contract or arrangement of the kind described in Sections 198 to 202 of the CA 2006 made with a Director or a person connected with such Director shall if it would not otherwise be so treated (and whether or not prohibited by those Sections) be treated as a contract or arrangement in which that Director is interested; and
  - 40.6.2 a Director shall be deemed interested in any contract or arrangement in which any person connected with him is interested, whether directly or indirectly.
- 40.7 A Director may be or become a director or other officer or servant of, or otherwise interested in, any other company promoted by the Company or in which the Company may be in any way interested and shall not (in the absence of agreement to the contrary) be liable to account to the Company for any emoluments or other benefits received or receivable by him as director, or officer or servant of, or from his interest in, such other company.

#### **Statute 41: Authorisation of Directors' conflicts of interest**

- 41.1 If a Conflict Situation arises, the Directors may authorise it for the purposes of section 175 of the CA 2006 by a resolution of the Directors made in accordance with these Statutes.
- 41.2 Any authorisation made for the purposes of this Statute 41.8 shall be effective only if:
- 41.2.1 any requirement as to the quorum at a meeting at which the Conflict Situation is authorised is met without counting the Director or any other Director to whom the Conflict Situation relates; and

- 41.2.2 the Conflict Situation was authorised without any such Director voting or would have been authorised if his or their votes had not been counted.
- 41.3 At the time of the authorisation, or at any time afterwards, the Directors may impose any limitations or conditions or grant the authority subject to such terms which (in each case) they consider appropriate and reasonable in all the circumstances, including that:
- 41.3.1 any information obtained by a Director concerned, other than in his capacity as a Director or employee of the Company, which is confidential in relation to a third party, need not be disclosed or used for the benefit of the Company where such disclosure or use would constitute a breach of confidence;
- 41.3.2 no Director concerned shall, by reason of his being a Director or his doing anything as a Director, be accountable to the Company for any remuneration or other benefit received from a third party as a result of the Conflict Situation;
- 41.3.3 no Director concerned shall be required or entitled to attend those parts of meetings of the Directors or meetings of a committee of the Directors at which matters to which the Conflict Situation relates are discussed; and
- 41.3.4 no Director concerned shall be entitled to receive any papers or other documents in relation to, or concerning, matters to which the Conflict Situation relates.
- Subject to any such limitations, conditions or terms, any authorisation given by the Directors shall be deemed to be given to the fullest extent permitted by the Rules.
- 41.4 Any authorisation made for the purposes of this Statute may be revoked or varied at any time in the absolute discretion of the Directors.
- 41.5 A Director shall not be in breach of the duties he owes to the Company by virtue of sections 171 to 177 of the CA 2006 or otherwise because of anything done or omitted to be done in accordance with the provisions of this Statute or the terms of any authorisation given by the Directors in accordance with this Statute.

#### **Statute 42: Disqualification Of Directors**

- 42.1 The office of a Director shall be vacated if the Director:
- 42.1.1 becomes bankrupt or insolvent or compounds with his creditors generally or applies to the court for an interim order under Section 253 of the Insolvency Act 1986 (as amended by the Insolvency Act 2000) in connection with a voluntary arrangement;
- 42.1.2 is, or may be, suffering from mental disorder and either:
- (i) he is admitted to hospital in pursuance of an application for admission for treatment under the Mental Health Act 1983 or, in Scotland, an application for admission under the Mental Health (Scotland) Act 1984; or
- (ii) an order is made by a court having jurisdiction (whether in the United Kingdom or elsewhere) in matters concerning mental disorder for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs;
- 42.1.3 becomes prohibited from being a Director by reason of any order made under the Company Directors Disqualification Act 1986;
- 42.1.4 is disqualified from serving on the board or any corresponding organ of a public limited-liability company governed by the law of a Member State owing to a judicial or administrative decision delivered in a Member State;
- 42.1.5 is convicted of an indictable offence (not being an offence which, in the opinion of the Directors, does not affect his character or position as a Director of the Company);
- 42.1.6 is absent from meetings of the Directors for a period of six months (without leave having been given by a resolution of the Directors) and the Directors resolve that his office be vacated;
- 42.1.7 resigns his office by notice in writing left or received at the office or he in writing offers to resign and the Directors accept such resignation;
- 42.1.8 is removed from office under Section 198 of the CA 2006 or as provided in Statute 42; or
- 42.1.9 is requested in writing by all of the other Directors to resign his office.
- 42.2 But any act done in good faith by a Director whose office is so vacated shall be valid unless, prior to the doing of such act, written notice shall have been served upon the Company or an entry shall have been made in the Directors' minute book stating that such Director has ceased to be a Director of the Company.

#### **Statute 43: Appointment Of Directors, Election Of Directors, Fill Casual Vacancy**

- 43.1 The directors are required to retire upon the later of the expiry of their term of appointment or the annual general meeting in the year of the expiry of their term of appointment, whereupon such retiring Directors may be put forward for re-election by the Members.
- 43.2 The resigning Directors will be eligible for re-election.
- 43.3 The Company may also at any general meeting, if notice has been duly given, fill any vacancies in the office of Director, or appoint additional Directors, provided that the maximum number fixed in accordance with Statute 36 is not exceeded.
- 43.4 If two or more persons are proposed to be elected or re-elected as Directors at a general meeting, the election or re-election of each such person shall be the subject of a separate resolution.
- 43.5 No person, other than a Director retiring at the meeting or a person who is recommended by the Directors for election, shall be eligible for election to the office of Director at any general meeting unless, not less than seven nor more than forty-two days before the day appointed for the meeting, there shall have been left at the office notice in writing, signed by a Member duly qualified to attend and vote at such meeting, of his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.
- 43.6 If at any general meeting at which an election of Directors should take place the place of any retiring Director is not filled, such retiring Director shall (unless a resolution for his re-election shall have been put to the meeting and lost) continue in office until the Annual General Meeting in the next year, and so on from time to time until his place has been filled, unless at any such meeting it shall be determined to reduce the number of Directors in office.
- 43.7 The Directors shall have power at any time to appoint any other person to be a Director of the Company, either to fill a vacancy or as an addition to the Board of Directors, but so that the total number of Directors shall not at any time exceed the maximum. Any Director so appointed after the date of adoption of these Statutes shall hold office only until the next Annual General Meeting, when he shall retire but shall be eligible for election.

#### **Statute 44:**

The Company may, in accordance with and subject to the provisions of the Rules, by ordinary resolution, of which special notice has been given in accordance with Section 312 of the CA 2006, remove any Director (including a managing or other executive Director) before the expiration of his period of office (notwithstanding anything in these Statutes or in any agreement between the Company and such Director but without prejudice to any claim for damages in respect of the breach of any such agreement), and may by ordinary resolution appoint another person in his place.

#### **Statute 45: Proceedings Of Directors, Voting**

- 45.1 The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit, and determine the quorum necessary for the transaction of business. The Directors shall meet at least once every three months to discuss the progress and foreseeable development of the Company's business. Each Director is entitled to examine all information submitted to the Board. Until otherwise determined, two Directors physically present in Luxembourg and constituting the majority of the Directors shall constitute a quorum. A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Directors.
- 45.2 Any Director may participate in a meeting of the Directors or of a committee of the Directors by means of conference telephone or similar communications equipment or by means of electronic communication, provided that all the Directors participating in the meeting can communicate simultaneously and in an interactive manner with each other. The Directors participating in this manner shall be deemed to be present in person at such meeting and shall accordingly be counted in the quorum and entitled to vote. Subject to the Rules, all business transacted in such manner by the a committee of the Directors shall, for the purpose of these Statutes, be deemed to be validly and effectively transacted at a committee of the Directors notwithstanding that fewer than two Directors are physically present at the same place. Such a meeting shall be deemed to take place at such place as the Directors shall at such meeting resolve or, in the absence of any such resolution, where the largest group of those participating is assembled or, if there is no such group, where the Chairman of the meeting then is.
- 45.3 Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes, the Chairman shall have a second or casting vote.
- 45.4 Subject to the following paragraphs of this Statute 45, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which to his knowledge he has any material interest otherwise than by virtue of his interest in shares or debentures or other securities of, or otherwise in or

through, the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

- 45.5 A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
- 45.5.1 the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiaries;
  - 45.5.2 the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - 45.5.3 any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant as a holder of securities or in the underwriting or sub underwriting;
  - 45.5.4 any proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or Member or otherwise, provided that he does not to his knowledge hold any interest in shares (as that term is used in Part 22 of the CA 2006, but disregarding any interest attributable to any interest of such Director in shares of the Company itself) representing one % or more of any class of the issued equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to Members of the relevant company (any such interest being deemed for the purpose of this Statute to be a material interest in all circumstances);
  - 45.5.5 any arrangement for the benefit of employees of, or those that provide services to, the Company or any of its subsidiaries notwithstanding that he may be interested in any such arrangement in any present or proposed capacity whatsoever, except when the Directors are considering any matter concerning his individual rights of participation in any such arrangement;
  - 45.5.6 any proposal concerning the provision of any indemnity or the purchase or maintenance of any insurance policy for the benefit of any or all Directors or for the benefit of persons including Directors or the funding of expenditure incurred or to be incurred by any Director in defending any criminal or civil (including regulatory) proceedings or in connection with an application under any of Sections 661(3), 661(4) or 1157 of the CA 2006.
- 45.6 For the purposes of Statutes 45.4 and 45.5 there shall be imputed to a Director any material interest of a person (other than the Company itself, if applicable) connected with him and accordingly references in Statutes 45.4 and 45.5 to the Director and any interest or benefit which he has or may have, or any contract or arrangement to which he is or may be a party or in which he has or may have an interest, shall include references to the interests or benefits of any such connected person, and to any contract or arrangement to which such connected person is or may be a party.
- 45.7 Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company, such proposals may be divided and considered in relation to each Director separately and in such cases, each of the Directors concerned (if not debarred from voting under the proviso to Statute 45.5.4) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- 45.8 If any question shall arise at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned has not been fairly disclosed to the meeting.

#### **Statute 47: Delegation To Committees, Executive Directors, Express Decisions of the Board**

- 47.1 Without prejudice to Statute 47.6, the Board may generally or from time to time delegate all or part of its powers regarding daily management either to an executive or other committee or committees whether or not comprising Directors and to one or more Directors, managers or other agents, who need not necessarily be Members and may grant authority to such committees, Directors, managers, or other agents to sub-delegate. The Board shall determine the powers and special remuneration attached to this delegation of authority.
- 47.2 If authority for day-to-day management is delegated to a single Director, the prior consent of the general meeting is required.
- 47.3 All acts done by any meeting of the Directors or of a committee of Directors, or by any persons acting as Directors or alternate Directors, shall as regards all persons dealing in good faith with the Company,

notwithstanding that it is afterwards discovered that there was some defect in the appointment of any such Directors or persons acting as aforesaid, or that they or any of them were disqualified or had vacated office or were not entitled to vote, be as valid as if every such person had been duly appointed and was qualified to be a Director of the Company and had continued to be a Director or alternate Director and had been entitled to vote.

- 47.4 Subject to Statute 47.2, the Directors may from time to time appoint one or more of their number to an executive office, including the offices of Chairman, Deputy Chairman, managing Director, joint managing Director, assistant managing Director, Chief Executive Officer, Finance Director or manager or any other salaried office for such period and on such terms as they think fit. Without prejudice to any claim a Director may have for damages for breach of any contract of service between him and the Company, the appointment of any Director under this Statute shall be subject to determination if he ceases from any cause to be a Director or (subject to the terms of any contract between him and the Company) if the Directors resolve that his term of office as an executive Director be determined.
- 47.5 The Directors may entrust to and confer upon a Director holding such executive office any of the powers exercisable by them as Directors upon such terms and conditions and with such restrictions as they think fit, and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers but no person dealing in good faith and without notice of the revocation or variation shall be affected by it.
- 47.6 he following transactions shall require an express decision of the Board:
- 47.6.1 Strategy and long term objectives of the Company;
  - 47.6.2 Approval of annual budget;
  - 47.6.3 Changes to the Company's capital, corporate structure or listing;
  - 47.6.4 Approval of the annual report and accounts and dividend policy;
  - 47.6.5 Contracts and investments with a value in excess of €1 million, unless approved within the annual budgeting routine;
  - 47.6.6 Communication or information to shareholders and the public in general if classified as "ad-hoc";
  - 47.6.7 Appointment of Directors in accordance with Statute 43.7.

#### **Statute 52: Borrowing Powers And Debentures**

- 52.1 Subject to the provisions of this Statute, the Directors may exercise all the powers of the Company to borrow or raise money and to mortgage or charge all or any part of its undertaking, property and uncalled capital and to issue debentures and other securities whether outright or as security (principal or collateral) for any debt, liability or obligation of the Company or any third party.
- 52.2 The aggregate amount owing by the Company and all its subsidiary undertakings in respect of moneys borrowed by them or any of them (exclusive of moneys owing by the Company to any of its subsidiary undertakings or by any of its subsidiary undertakings to the Company or another of its subsidiary undertakings) shall not at any time without the previous sanction of the Company in general meeting exceed an amount equal to four times the aggregate of:
- 52.2.1 the amount paid up on the issued share capital of the Company; and
  - 52.2.2 the amounts standing to the credit of the capital and revenue reserves (including, without limitation, any share premium account, capital redemption reserve, revaluation reserve or merger reserve) of the Company and its subsidiary undertakings, plus or minus any balance standing to the credit or debit on profit and loss account.
  - 52.2.3 all as shown in the then latest audited consolidated balance sheet of the Company and its subsidiary undertakings but after:
  - 52.2.4 making such adjustments as may be appropriate in respect of any variation in the interest of the Company in subsidiary undertakings and in such paid up share capital and reserves since the date of the relevant balance sheet;
  - 52.2.5 deducting the amount of any distributions not attributable to the Company out of profits (whether of a capital or revenue nature) accrued prior to the date of such balance sheet which have been made, declared, or recommended since such date and were not provided for in the balance sheet; and
  - 52.2.6 deducting amounts attributable to goodwill or other intangible items.
- 52.3 For the purposes of this Statute, the expression "moneys borrowed" includes the following, except in so far as otherwise taken into account:

- 52.3.1 the principal amount (together with any fixed or minimum premium payable on final repayment) owing by the Company or any of its subsidiary undertakings under any debenture, debenture stock, bond or other security whether constituting a charge over the assets of such company or not, and whether issued for cash or otherwise;
- 52.3.2 the principal amount owing by the Company or any of its subsidiary undertakings under any acceptance credit opened on its behalf by any bank, acceptance house or finance company other than acceptances relating to the purchase or sale of goods in the usual course of trading;
- 52.3.3 the principal amount owing by the Company or any of its subsidiary undertakings in respect of any loan or advance from, or overdraft facility with, any bank, acceptance house or finance company;
- 52.3.4 the principal amount owing by the Company or any of its subsidiary undertakings under or in respect of any hire purchase agreement, finance lease (as defined in Statement of Standard Accounting Practice 21), conditional sale agreement, credit sale agreement or other agreement of a similar nature;
- 52.3.5 any deferred payment facilities from suppliers (which shall mean *inter alia* all trade credit in excess of 90 days granted to or taken by the Company or any of its subsidiary undertakings);
- 52.3.6 the nominal amount of any issued share capital and the principal amount of any borrowings (together, in each case, with any fixed or minimum premium payable on final repayment) the repayment of which is guaranteed or secured or is the subject of an indemnity given by the Company or any of its subsidiary undertakings and the beneficial interest in which is not owned by the Company or another of its subsidiary undertakings;
- 52.3.7 the nominal amount (including any fixed or minimum premium payable on final repayment) of any issued share capital, other than equity share capital, of any subsidiary undertaking of the Company the beneficial interest in which is not owned by the Company or another of its subsidiary undertakings;
- 52.3.8 but shall not include:
- (i) borrowings which are made for the express purpose of repaying the whole or any part of moneys borrowed falling to be taken into account for the purpose of this Statute (including any fixed or minimum premium payable on final repayment) and which are to be applied for that purpose within one month of being first borrowed (in which event they shall thereafter be treated as moneys borrowed falling to be taken into account for the purpose of this Statute);
  - (ii) a proportion of the borrowings of any partly owned subsidiary undertaking (but only to the extent that an amount equivalent to such proportion exceeds the amount of any borrowings from such partly owned subsidiary undertaking by the Company or another of its subsidiary undertakings) such proportion being the proportion of the issued equity share capital of such partly owned subsidiary undertaking the beneficial interest in which is not owned directly or indirectly by the Company or another of its subsidiary undertakings;
  - (iii) borrowings by the Company or any of its subsidiary undertakings for the purpose of financing any contract for the sale of goods to the extent that the purchase price receivable under such contract is guaranteed or insured by the Export Credits Guarantee Department of the Department of Trade and Industry or any other company, firm or institution carrying on similar business;
- 52.3.9 and so that:
- (i) moneys borrowed and outstanding in a currency other than sterling shall be converted into sterling at the London spot buying rate for such currency as quoted at about 11.00 a.m. on the day in question by the Royal Bank of Scotland plc;
  - (ii) any company which it is proposed shall become or cease to be a subsidiary undertaking contemporaneously with any relevant transaction shall be treated as if it had already become or ceased to be a subsidiary undertaking.
- 52.4 A certificate by the Auditors as to the aggregate amount of moneys borrowed which may at any one time in accordance with Statute 52.2 be owing by the Company and its subsidiary undertakings without such sanction as is provided for in that Statute, or as to the actual amount of moneys borrowed at any time, shall be conclusive and shall be binding upon the Company, its Members and all persons dealing with the Company.
- 52.5 No liability or security given in respect of moneys borrowed in excess of the limit imposed by Statute 52.2 shall be invalid or ineffectual except in the case of express notice at the time when the liability was incurred or security given that the limit had been or was thereby exceeded.

- 52.6 The Directors shall be obliged to take all available steps (including the exercise of all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings) for securing that the aggregate amount at any time owing in respect of moneys borrowed by the Company and its subsidiary undertakings shall not (without the requisite sanction) exceed the limit provided for in this Statute.
- 52.7 Subject to the provisions of the Rules, any debentures or other securities issued or to be issued by the Company shall be under the control of the Directors, who may issue them upon such terms and conditions and in such manner and for such consideration as they shall consider to be for the benefit of the Company.

#### **Statute 55: Dividends and Interim Dividends**

- 55.1 The Company may, acting through its Members at the Annual General Meeting, determine and approve dividends out of surplus profits. The Company may also declare interim and scrip dividends provided that the conditions of the Law are met. A dividend may only be declared if the Company is able to meet the criteria of the applicable laws.
- 55.2 Subject to the Rules and the rights of the holders of any shares entitled to any priority, preference or special privileges, and to the terms of issue of any shares, all dividends shall be declared and paid to the Members in proportion to the amounts paid up (as to nominal value) on the shares held by them respectively. No amount paid on a share in advance of calls shall be treated for the purposes of this Statute as paid on the share.
- 55.3 All dividends shall, subject as aforesaid, be apportioned and paid proportionately to the amounts paid up (as to nominal value) on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend from a particular date, or *pari passu* as regards dividends with a share already issued, it shall rank accordingly.
- 55.4 In respect of each dividend to be paid by the Company the Directors may determine a record date, and the dividend shall be payable to those persons registered as Members at the close of business on the record date in respect of that dividend, and the amount payable to each Member shall be determined by reference to the number of shares (or, where appropriate, the number of shares of the relevant class) registered in his name at that time.
- 55.5 The Directors shall lay before the Company in general meeting a recommendation as to the amount (if any) which they consider should be paid by way of dividend, and the Company in general meeting may declare the dividend to be paid, but such dividend shall not exceed the amount recommended by the Directors.
- 55.6 No dividend or interim dividend shall be paid otherwise than out of profits available for distribution in accordance with the provisions of the Rules.
- 55.7 Subject to any applicable laws, the Directors may from time to time pay to the Members, or any class of Members, such interim dividends as appear to the Directors to be justified by the profits of the Company.
- 55.8 If at any time the capital of the Company is divided into different classes of shares, the Directors may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential or special rights with regard to dividends, and provided that the Directors act *bona fide* they shall not incur any responsibility to the holders of any shares for any damage that they may suffer by reason of the payment of an interim dividend on any shares.
- 55.9 Subject to the provisions of the Law, the Directors may also pay half yearly or at other suitable intervals to be determined by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits justify the payment.

#### **Statute 56: Lien**

- 56.1 The Directors may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.
- 56.2 The Directors may retain the dividends payable upon shares in respect of which any person is, under the provisions as to the transmission of shares contained in these Statutes, entitled to become a Member, or which any person is under those provisions entitled to transfer, until such person shall become a Member in respect of such shares or shall transfer the same.

#### **Statute 57: Method Of Payment Of Dividends**

- 57.1 Any dividend or other money payable in respect of a share may be paid by cheque or warrant or similar financial instrument sent by ordinary post to the registered address of the person entitled or, if two or more persons are the holders of the share or are jointly entitled to it by reason of the death or bankruptcy

of the holder, to the registered address of that one of those persons who is first named in the register or to such person and to such address as the person or persons entitled may in writing direct. Every cheque or warrant or similar financial instrument shall be made payable to, or to the order of, the person or persons entitled or to such other person as the person or persons entitled may in writing direct.

- 57.2 Any such dividend or other money may be paid by any other method (including by direct debit, bank transfer or other means of electronic communication) which the Directors consider appropriate (including in respect of uncertificated shares, where the Directors are authorized to do so by or on behalf of the holder or joint holders in such manner as the Directors shall from time to time consider sufficient, by means of the relevant system concerned and subject always to the facilities and requirements of that relevant system).
- 57.3 Payment by direct debit, bank transfer or other means of electronic communication pursuant to Statute 57.2 shall be made to the bank or other account of the person otherwise entitled to receive payment by cheque or warrant or similar financial instrument pursuant to this Statute 57 details of which account have been provided to the Company in writing by the person entitled to receive the same, save in respect of payments through a relevant system which shall be made in such manner as is consistent with the facilities and requirements of the relevant system, including by the sending of an instruction to the operator of the relevant system to credit the cash memorandum account of the person entitled to receive payment or to such other person as the person or persons entitled may in writing direct.
- 57.4 The Company may cease to send any cheque or warrant or similar financial instrument (or to use any other method of payment) for any dividend payable in respect of a share if, in respect of at least two consecutive dividends payable on that share, the cheque or warrant or similar financial instrument has been returned undelivered or remains uncashed (or that other method of payment has failed), or after only one occasion if reasonable enquiries by the Company have failed to establish any new address of the registered holder, but, subject to the provisions of these Statutes, shall recommence sending cheques or warrants or similar financial instruments (or using another method of payment) for dividends payable on that share if the person or persons entitled so request.
- 57.5 Payment by such cheque or warrant or similar financial instrument or the collection of funds from, or transfer of funds by, any bank or other person so authorized on behalf of the Company in accordance with such direct debit or bank transfer or by means of such other form of electronic communication (including, without limitation, the making of a payment in accordance with the facilities and requirements of a relevant system) shall be an absolute discharge to the Company.
- 57.6 Any joint holder or other person jointly entitled to a share as aforesaid may give receipts for any dividend or other money payable in respect of the share.
- 57.7 No dividend or other moneys payable on or in respect of a share shall bear interest as against the Company.

#### **Statute 58: Method Of Payment Of Dividends Distribution Of Assets In Kind**

A general meeting declaring a dividend may, upon the recommendation of the Directors, direct that it shall be satisfied wholly or partly by the distribution of specific assets (and, in particular, of paid up shares or debentures of any other company) and, where any difficulty arises in regard to the distribution, the Directors may settle the same as they think fit and fix the value for distribution of any assets, and may determine that cash shall be paid to any Member upon the basis of the value so fixed in order to adjust the rights of Members, and may vest any assets in trustees.

#### **Statute 59: Unclaimed Dividends**

Payment by the Directors of any unclaimed dividend or other moneys payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof and any dividend unclaimed after a period of 12 years from the date of declaration of such dividend, or from the date such dividend becomes due for payment, shall be forfeited and shall revert to the Company.

#### **Statute 72: Indemnity**

- 72.1 This Statute 72 shall have effect, and any indemnity provided by or pursuant to it shall apply, only to the extent permitted by, and subject to the restrictions of, the Acts. It does not allow for or provide (to any extent) an indemnity which is more extensive than as permitted by the Acts and any such indemnity is limited accordingly. This Statute is also without prejudice to any indemnity to which any person may otherwise be entitled.
- 72.2 The Company may indemnify any person who is a Director, the Secretary or another officer of the Company (other than an Auditor) out of the assets of the Company from and against any loss, liability or expense incurred by him or them in relation to the Company.
- 72.3 The Directors may purchase and maintain insurance at the expense of the Company for the benefit of any such Director, Secretary or other officer and they may provide any such person with funds to meet expenditure incurred or to be incurred by him in defending any criminal or civil (including regulatory)

proceedings or in connection with an application under any of Sections 661(3), 661(4) or 1157 of the CA 2006."

**B. EXTRACTS FROM THE ARTICLES OF ASSOCIATION OF BLACKSTAR (GIBRALTAR) LIMITED**

"8.

8. The Directors may repay to any director all such reasonable expenses as he may incur in attending and returning from meetings of the Directors, or general meetings or otherwise in or about the business of the Company.

9. A Director who is in any way whether directly or indirectly interested in a contract or proposed contract with the Company shall declare the nature of his interest in manner required by Section 200 of the Ordinance. A Director may vote in respect of any such contract or proposed contract and if he does so vote his vote shall be counted and he shall be capable of constituting a quorum at any meeting of the Directors at which any such contract shall come before the Board for consideration.

10. A Director may hold any other office or place under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine.

11. Any Director may act himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director provided that nothing herein contained shall authorise a Director of his firm to act as Auditor of the Company.

12. The office of a Director shall be vacated in any of the following events, namely:

(a) If he becomes prohibited by law from acting as a Director.

(b) (If not being an Executive Director holding office as such for a fixed term) he resigns by writing under his left at the office.

(c) If he has a receiving order made against him or compound with his creditors generally.

(d) If he becomes an unsound mind.

(e) If he is absent from the meeting of Directors for six months without leave and the Directors resolve that his office be vacated.

(f) If he shall not hold any office or place of profit in competition with the Company.

13. (a) The appointment and removal of Directors shall be effected by Ordinary Resolution of the Company in General Meetings. The Company may by ordinary Resolution in General Meetings appoint a sole Director.

(b) The Company may from time to time in General Meetings increase or reduce the number of Directors. Any casual vacancy occurring in the Board of Directors may be filled by the Directors appointing another person to fill the vacancy for such periods as the vacancy exists. The directors may also appoint additional Directors, subject to the maximum number permitted from time to time.

15. Any Director may at any time appoint any person approved by the Directors to be an Alternate Director of the Company and may at any time remove any Alternate Director so appointed by him. An Alternate Director so appointed shall be entitled to receive from the Company such proportion (if any) of the remuneration otherwise payable to his appointor by way of remuneration for his services as a Director as the appointor may by notice in writing to the Company from time to time direct; but save as aforesaid shall not in respect of such appointment be entitled to receive any remuneration from the Company, not be required to hold any qualification but shall otherwise be subject to the provisions of these presents with regards to Directors.

An Alternate Director shall (subject to his giving to the Company an address in Gibraltar at which notices may be served upon him) be entitled to receive notices of all meetings of the Directors, and to attend and vote as a Director at any such meetings at which the Director appointing him is not personally present, and generally at such meetings to perform all the functions of his appointor as a Director in the absence of such appointor: An Alternate Director shall *ipso facto* cease to be an Alternate Director of his appointor ceases for any reason to be a Director, provided that if any Director retires by rotation but is re-elected at the meeting at which such retirement took effect, any appointment made by him pursuant to this Article which was in force immediately prior to his retirement shall continue to operate his re-election as if he had not so retired.

All appointments and removals of Alternate Directors shall be effected by writing under the hand of the Directors making or revoking such appointment left at the office.

16. All Cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or

otherwise executed as the case may be, in such manner as the Directors shall from time to time be resolutions determine.

18. Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other company or in any one or more of such ways, and the directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the directors may settle the same as they think expedient, and in particular any issue fractional certificates and fix the value for distribution of such assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the directors.
19. The directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.
20. The Directors may from time to time at their discretion raise or borrow secure the payment of any sum or sums of money for the purpose of the Company.
21. The Directors may raise or secure the payment or repayment of such money in such a manner and upon such terms and conditions in all respects as they think fit and in particular by the issue of bonds, debentures, debenture stock, notes or other obligations of the Company charges upon all or any part of the property of the Company (present and future) including its uncalled capital for the time being.
22. The Company may, upon the recommendation of the Directors by Ordinary Resolution resolve that it is desirable to capitalise any sum standing to the credit of profit or loss account or otherwise available for distribution, provided that such a sum not be required for paying the dividends on any share carrying a fixed cumulative preferential dividend and accordingly that the Directors be authorised and directed to appropriate the sum resolved to be capitalised to the members in the proportion in which the sum would have been divisible amongst them has the same been applied or been applicable in paying dividends and to apply such sum on their behalf, either in or towards paying up of the amounts outstanding if any of the time being paid on any shares held by such members respectively or in paying up in full un-issued share or debentures to the Company of a nominal amount equal to such sum, such shares or debentures to be allocated and distributed credited as fully paid up amongst such members in the proportion aforesaid or partly in one way and partly in another.
24. Subject to the provisions of the Ordinance, every Director, Auditor, Secretary or other Officer of the Company shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto."

### **C. EXTRACTS FROM THE ARTICLES OF BLACKSTAR (CYPRUS) LIMITED**

#### **"DIRECTORS**

83. The remuneration of the directors shall, from time to time be determined by the company in a general meeting. Such remuneration shall be deemed to accrue from day to day. The directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the directors or any committee of the directors or general meetings of the company or in connection with the business of the company.
84. The share holding qualification for directors may be fixed by the company in general meetings, and unless and until so fixed, no qualification shall be required.
85. A director of the company may be or become a director or other officer of, or otherwise interested in, any company promoted by the company or in which the company may be interested as a shareholder or otherwise, and no such director shall be accountable to the company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company unless the company otherwise directs

#### **BORROWING POWERS**

86. The directors may exercise all the powers of the company to borrow money, and to charge or mortgage its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability to obligation of the company or of any third party.

#### **POWERS OF DUTIES**

91. (1) A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the company, shall declare the nature of his interest at a meeting of the directors in accordance with section 191 of the Law.

- (2) A director may vote in respect of any contract proposed contract or arrangement, notwithstanding the he may be interested therein, and if he does so, his vote shall be counted and he may be counted in the quorum at any meeting of the directors at which any such contract or proposed contract or arrangement shall come before the meeting for consideration.
  - (3) A director may hold any other or place a profit under the company (other than the office auditor) in conjunction with his office of director for such period and on such terms (as to remuneration and otherwise) as the directors may determine, and no director or intending director shall be disqualified by his office by contracting with the company either with regards to his tenure of any such other office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract, or any contract or arrangement entered into or on behalf of the company in which any director is any way interested, be liable to avoided, nor shall any director so contracting or being so interested be liable to account to the company for any profit realised by any such contract or arrangement by reason of such director holding that office or of the fiduciary relation thereby established.
  - (4) Any director may act himself or his firm in a professional capacity for the company, and he or his firm shall be entitled to remuneration for professional services as if he were not a director; provided that nothing herein contained shall authorise a director or his firm to act as auditor to the company.
92. All cheques, promissory notes, drafts, bills of exchange, and other negotiable instruments, and all receipts for moneys paid to the company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the directors shall from time to time by resolution determine.

#### **PENSIONS**

94. The directors may grant retirement pensions or annuities or other gratuities or allowances, including allowances on death, to any person or persons in respect of service rendered by him or them to the company whether as managing directors or in any other office or employment under the company or indirectly as officers or employees of any subsidiary, associated or allied company of the company, notwithstanding that he or they may have been directors of the company and the company may make payments towards insurance, trusts schemes or funds for such purposes in respect of such a person or persons and may include rights in respect of such pensions, annuities and allowances in the term of engagement of any such person or persons.

#### **DISQUALIFICATIONS**

95. The office of director shall be vacated if the director:
- a. Ceases to be a director by virtue of section 176 of the Law; or
  - b. Becomes bankrupt or makes any arrangement or compensation with his creditors generally; or
  - c. Becomes prohibited from being a director by reason of any order made under section 180 of the law; or
  - d. Becomes of unsound mind; or
  - e. Resigned his office by notice in writing to the company.

#### **APPOINTMENT OF ADDITIONAL DIRECTORS AND REMOVALS OF DIRECTORS**

96. The directors shall have power at any time, and from time to time, to appoint any person to be a director, either to fill a casual vacancy or as an addition to the existing directors, but so that the total number of directors shall not at any time exceed the fixed in accordance with these regulations. Any director so appointed shall hold office, only until the following annual general meeting, and shall then be eligible for re-election.
97. The company may, by ordinary resolution, of which special notice has been given in accordance with section 136 of the law, remove any director before the expiration of his period of office, notwithstanding anything in these regulations or in any agreement or in any agreement between the company and such director. Such removal shall be without prejudice to any claim such director may have for damages for breach of any contract of service between him and the company.
98. At any time, and from time to time, the company may (without prejudice to the powers of the directors under regulation 96) by ordinary resolution, appoint any person as director and determine the period for which such person is to hold office.

#### **ALTERNATE DIRECTORS**

108. (a) Each director shall have power, from time to time, to nominate another director or any person, not being a director, to act as his alternate director and at his discretion to remove such alternate director.

- (b) An alternate director shall (except as regards power to appoint an alternate director and remuneration) be subject in all respects to the terms and conditions existing with reference to the other directors, and shall be entitled to receive notice of all meetings of the directors and to attend, speak and vote at any such meeting at which his appointor is not present.
- (c) One person may act as alternate director to more than one director while he is so acting, shall be entitled to a separate vote for each director he is representing and, if he is himself a director, his vote or votes as an alternative director shall be in addition to his own vote.
- (d) Any appointment or removal of an alternative director may be made by cable, telegram or radiogram or in any other manner approved by the directors. Any cable, telegram or radiogram shall be confirmed, as soon as possible, by letter, but may be acted upon by the company meanwhile.
- (e) If a director making any such appointment, as aforesaid, shall cease to be a director otherwise than by reason of vacating his office at a meeting of company at which he is re-elected, the person appointed by him shall thereupon cease to have any power or authority to act as an alternate director.
- (f) A director shall not be liable for the acts and defaults of any alternate director appointed by him.
- (g) An alternate director shall not be taken into account in reckoning the minimum or maximum number of directors allowed for the time being but shall be counted for the purpose of reckoning whether a quorum is present at any meeting of the directors attended by him at which he is entitled to vote.

#### **MANAGING DIRECTOR**

- 109. The directors may, from time to time appoint one more of their body to the office of managing director, for such period and on such terms, as they think fit, and subject to the terms of any agreement entered into in any particular case, may revoke such appointment. A director so appointed shall not, whilst holding that office, be subject to retirement by rotation or to be taken into account in determining the rotation of retirement of directors, but his appointment shall be automatically determined if he ceases, from any cause, to be a director.
- 110. A managing director shall receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another), as the directors may determine.
- 111. The directors may entrust and confer upon a managing director any of the powers exercisable by them, upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

#### **INDEMNITY**

- 138. Every director or other officer for the time being of the company, shall be indemnified out of the assets of the company against any damage or liability which he may sustain or incur in or about the execution of his duties including liability incurred by him in defending any proceeding whether civil or criminal in which judgement is given in his favour or in which he is acquitted or in connection with any application under section 383 of the Law in which relief is granted to him by the court; and no director or officer of the company shall be liable for any loss, damage or misfortune which may happen to or be incurred by the company in the execution of the duties of his office or in relation thereto. But this clause shall only have effect in so far as its provisions are not avoided by section 197 of the Law."

#### **D. EXTRACTS FROM THE ARTICLES OF ASSOCIATION OF BLACKSTAR GROUP (PROPRIETARY) LIMITED**

##### **"DIRECTORS**

- 60. The remuneration of the directors shall from time to time be determined by the company in general meeting or by the directors.
- 61. If any director be called upon to perform extra services or to make any special exertions in going or residing abroad, or otherwise, for any of the purposes of the company, the company may remunerate that director either by a fixed sum or by a percentage of profits or otherwise as may be determined, and such remuneration may be either in addition to, or in substitution for, the remuneration determined under Article 60.
- 62. A director shall not be required to hold any qualification shares.
- 63. It shall, however, be competent for every director, even if he is not a shareholder of the company, to attend general meetings of the company and to take part in the deliberations thereat and to express his views on any matter before the meetings, but he shall not be entitled, unless he is a shareholder or otherwise entitled to vote, to exercise any voting rights at any such general meeting, save as proxy for or representative of a member.

## **ALTERNATE DIRECTORS.**

64. Each director shall have the power to nominate any person whether a member of the company or not possessing the necessary qualifications of a director, to act as alternate director in his place during his absence or inability to act as such director, provided that the appointment of an alternate director shall be approved by the board, and on such appointment being made, the alternate director shall, in all respects be subject to the terms, qualifications, and conditions existing with reference to the other directors of the company.
65. The alternate directors, whilst acting in the stead of the directors who appointed them, shall exercise and discharge all the powers, duties and functions of the directors they represent. The appointment of an alternate director shall be revoked, and the alternate director shall cease to hold office, whenever the director who appointed him ceases to be a director or gives notice to the company that the alternate director representing him has ceased to do so, and in the event of the disqualification or resignation of any alternate director during the absence or inability to act of the director who he represents, the vacancy so arising shall be filled by the chairman of the directors who shall nominate a person to fill such vacancy, subject to the approval of the board.

## **POWERS AND DUTIES OF DIRECTORS**

66. The business of the company shall be managed by the directors who may pay all expenses incurred in promoting and incorporating the company, and may exercise all such powers of the company as are not by the Act, or by these Articles, required to be exercised by the company in general meeting, subject to these Articles, to the provisions of the Act, and to such regulations, not inconsistent with the aforesaid articles of provisions, as may be prescribed by the company in general meeting, but no regulation prescribed by the company in general meeting shall invalidate any prior act of the directors which would have been valid if such regulation had not been made. Without derogating from such generality, the directors shall have power:
  - 66.1 to execute in the name of the company any contracts and to make and draw, accept and endorse bills, notes and other instruments;
  - 66.2 to appoint any director or alternate director as an executive or managing director on such terms and conditions as they may determine and to remunerate a person so appointed by way of salary, commission, participation in profits or otherwise; any appointment so made may be revoked or altered by the directors subject always to any claim for damages arising out of any breach of contract by the company;
  - 66.3 to delegate to any directors, executive or other committee, managers, agents and other officers respectively any of the powers of the directors, and invest them respectively with any other powers which the directors in their discretion think expedient for the due conduct, management and regulation of any of the business or affairs of the company, and to fix their remuneration for the business and acts done by them respectively in the exercise of any such powers;
  - 66.4 to appoint and employ in and for the purpose of the transaction and management of the business of the company, or otherwise for the purposes thereof, and with such remuneration in addition to or in substitution for a salary and whether by way of interest in any particular business or transaction, commission on the gross amount or any portion thereof, or of participation in the profits thereof, or in return of profits of the company, or otherwise as the directors think fit, any director, manager, brokers, bankers, solicitors or other officers, agents and servants upon such terms as to their duties, powers (including their right of sub-delegation), duration of office and otherwise as the directors shall think fit, and generally to appoint and also from time to time and subject to any agreement with the company to remove or discharge from the company's service at their discretion any person for the time being in that service;
  - 66.5 to grant pensions, allowances, gratuities and bonuses to employees and ex-employees of the company or its predecessors in business or the dependants of such persons and to establish and subsidise any institutions, associations, clubs, pension and other funds and conveniences for the benefit of any of the company's employees or ex-employees or any dependants of such persons, and of any persons in whose welfare the company is interested, and in particular, to effect assurances against or upon the contingency of death, or of injury by reason of accidents of any description to such employees or other persons and generally to make donations, subscribe or guarantee money to or for charitable or benevolent objects, any exhibition, any person or person, public, general or useful objects. (For the purpose of this paragraph, the expression 'employee' or 'ex-employee' shall include any director or ex director of the company or of any company which is or was a subsidiary of the company or is or was in any way allied to or associated with the company or to or with any such subsidiary, subject always to the provisions of section 227 of the Act).

## **BORROWING POWERS**

70. The directors may exercise all the powers of the company to borrow money and to mortgage or bind its undertaking and property or any part thereof, and to issue secured or unsecured debenture,

debentures stock and other securities whether outright or as security for any debt, liability or obligation of the company or of any third party. The directors may borrow or secure monies for the purposes of the company without limit or restrictions.

#### **MANAGING DIRECTOR**

71. The directors may from time to time appoint one or more of their body to the office of managing director or manager for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another) as they may think fit and may revoke such appointment subject to the terms of any agreement entered into in any particular case. A director so appointed shall not, while holding such office, be subject to retirement by rotation or be taken into account in determining the rotation of retirement of directors, but his appointment shall terminate if he ceases for any reason to be a director.
72. The directors may from time to time entrust to or confer upon a managing director or manager, for the time being, such of the powers and authorities vested in them as they may think fit, and may confer such powers and authorities for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions as they may think expedient, and they may confer such powers and authorities either collaterally or to the exclusion of, or in substitution for, all or any of the powers and authorities of the directors and may from time to time revoke or vary all or any such powers and authorities.

#### **FOREIGN COMMITTEES**

74. The directors may from time appoint persons resident in a foreign country to be a foreign committee for the company in that country with such powers and duties as the directors may from time to time determine. The directors may from time to time establish branch registers of members and transfer offices in foreign countries, close the mat any time and may appoint and remove agents for any purposes in any foreign country.

#### **DISQUALIFICATION OF DIRECTORS**

75. The office of director shall be vacated if the director:
  - 75.1 ceases to be a director or becomes prohibited from being a director by virtue of any provision of the Act; or
  - 75.2 resigns his office by notice in writing to the company; or
  - 75.3 is removed from office pursuant to any other provision of the Act of these Articles.

#### **APPOINTMENT OF DIRECTORS**

76. The directors or the company in general meeting may appoint directors.

#### **PROCEEDINGS OF DIRECTORS**

78. No director or intending director shall be disqualified by his office from contracting with the company either as vendor, purchaser, lender or in any other manner whatsoever or in particular as an underwriter or guarantor for commission or profit on any shares or securities or liability of the company, or of any company in which the company may be interested, nor shall any such contract or arrangement entered into by or on behalf of the company in which any director shall be in any way interested, nor any contract or agreement entered into with any company or partnership of or in which any director shall be a member, director or partner or otherwise interested, be invalidated or voided by any such reason or by reason of the board of directors of the company not constituting and independent executive, nor shall any director so contracting or being or interested or acquiring any benefit under any contract or arrangement made or entered into by or on behalf of any person, company or partnership in relation to the affairs of the company be liable to account to the company for any profits or benefits realised by or under such contract or arrangements by reason of such director holding that office or by reason of the fiduciary relationship thereby established, and any director or directors so interested or acquiring any such benefits shall be entitled to vote at any board meeting or otherwise in relation to such contract as freely as if he or they were not interested and he shall be reckoned for the purpose of constituting a quorum of directors.
79. Nevertheless, any director of directors so interested or acquiring any benefit shall disclose the fact of his possessing any interest, whether as director or member or otherwise, whether or not it appears on the face of the contract or arrangement, in accordance with the provisions of the statutes. Provided that this Article shall not apply where the company has only one director.
84. The directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit. Any committee so formed shall in the exercise of the powers so delegated, conform to any rules that may be imposed on it by the directors.

**E. EXTRACTS FROM THE ARTICLES OF ASSOCIATION OF FERRO INDUSTRIAL PRODUCTS (PROPRIETARY) LIMITED**  
**“FILLING OF CASUAL VACANCIES ON AND ADDITIONS TO BOARD OF DIRECTORS**

62. The directors shall have power at any time to appoint any other person as a director, either to fill a casual vacancy or as an addition to the board, and provided that every appointment made in terms of this article shall be subject to the confirmation at the annual general meeting succeeding such appointment.

**QUALIFICATION OF DIRECTORS**

63. It shall not be necessary for a director to hold any shares in the Company in order to qualify him to act as such.

**REMUNERATION OF DIRECTORS**

64. The directors shall have a right to remuneration which amount shall be reflected in the annual financial statements and the approval of the financial statements at the annual general meeting shall be deemed to be approval of the directors remuneration.
65. The directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company, and if any director shall be required to perform extra services, or to go or reside abroad, or shall be otherwise specially occupied about the Company's business, he shall be entitled to receive a remuneration to be fixed by the directors, and such remuneration may be either in addition to or in substitution for his remuneration provided for in the last preceding article.

**DISQUALIFICATION OF DIRECTORS**

66. The office of a director shall *ipso facto* be vacated:
- 66.1 if he becomes insolvent, is sequestrated, assigns his estate, suspends payment or compounds with his creditors;
  - 66.2 if he becomes lunatic or of unsound mind;
  - 66.3 if he absents himself from the meetings of the directors for a period of 6 (six) months without special leave of absence from the board, and is not represented at any such meeting by an alternate director, and the board resolves that his office be vacated;
  - 66.4 if by notice in writing to the Company he resigns office;
  - 66.5 if he be removed from office by an ordinary resolution of the Company;
  - 66.6 if he becomes prohibited from being a director by reason of any Order made under section 219 of the Act.
67. A director may:
- 67.1 hold any other office or place of profit in the Company;
  - 67.2 act as a director of and/or hold any other office or place of profit any subsidiary Company of the Company;
  - 67.3 act by himself or by his firm in a professional capacity (other than as auditor) for the Company or any subsidiary Company or Company;
  - 67.4 act as a director of any Company promoted by the Company or in which the Company is interested; or
  - 67.5 subscribe for, guarantee the subscription of, or otherwise acquire shares in any such Company as is referred to in sub-articles 67.2 and 67.3 above; and shall be entitled to receive remuneration, profit or benefits therefor which he shall not be obliged to account for or pay over to the Company: provided always, however, that a director shall not be otherwise employed by the Company nor shall he act as a director of or be otherwise employed by any subsidiary Company of the company unless his appointment and remuneration in any such respect be determined or approved by a majority of the disinterested directors of the Company.
68. Subject to the provisions of article 67, no director shall be disqualified by his office from holding any office or place of profit under the Company (except as auditor) or under any other Company. No director or officer of the Company, who has been authorised by the directors of the Company to enter into any contract or proposed contract which is of significance in relation to the Company's business, shall be disqualified by his office from contracting or dealing with the Company or any other Company and, in this regard:
- 68.1 no contract or arrangement entered into by or on behalf of the Company in which any director or officer is directly or indirectly interested shall be avoided by virtue of such interest;

- 68.2 no director or officer shall be liable to account to the Company for any profit arising from any such office or place of profit or any such contract or arrangement;
- 68.3 any director or officer may vote as such or act on behalf of the Company in respect of any such contract or arrangement between the Company and himself or any other person including any Company in which he is in any way directly or indirectly interested or of which he is a director, officer or employee and in respect of any matter relating to or arising out of such contract or arrangement;
- 68.4 any officer of the Company may, within the limits of his authority as such, cause the Company to enter any contract or arrangement with any such persons (except himself) or with any other such Company in which he is in any way directly or indirectly interested or of which he is a director, officer or employee.
69. A director or officer shall be obliged to make full disclosure in the manner and at the times required by sections 234 to 238 inclusive of the Act, of the nature and extent of his direct or indirect interest in every contract or proposed contract or arrangement between the Company and himself or any other Company in which he is or becomes in any way directly or indirectly interested or of which he is or becomes a director, officer or employee.

#### **PERIOD OF OFFICE OF DIRECTORS**

70. The Company in general meeting may from time to time determine the number of directors, their terms of office and the manner of their retirement.

#### **SUSPENSION AND REMOVAL OF DIRECTORS**

71. Notwithstanding the provisions of any contract for the time being existing, the Company may by ordinary resolution remove any director from office and may by ordinary resolution appoint another person in his stead. The provisions of section 220 shall be complied with in connection with the removal of a director.
72. Pending the removal of a director in terms of section 220 of the Act, the directors may suspend such director from his office for the period commencing on the date on which the notice convening the meeting is given to the members until the date of the meeting.

#### **NOMINATION OF NEW DIRECTORS**

73. Save as is provided in article 62, new directors shall be appointed by ordinary resolution of the Company in general meeting.

#### **MANAGING DIRECTOR**

74. The directors may from time to time appoint 1 (One) or more of their body to the office of managing director or manager for such term and at such remuneration as they may think fit, and may revoke such appointment subject to the terms of any agreement entered into in any particular case, provided that the period of office of a managing director appointed in terms of an agreement shall be for a maximum period of 5 (Five) years at any one time. A director so appointed shall be subject to retirement in the same manner as the other directors except during the period of his agreement, and his appointment shall terminate if he ceases for any reason to be a director.
75. Subject to the provisions of any contract between himself and Company, a managing director shall be subject to the same provisions as to disqualification and removal as the other directors of the Company.
76. The directors may from time to time entrust to and confer upon a managing director for the time being such of the powers exercisable in terms of these articles by the directors as they may think fit and may confer such powers for such time and to be exercised for such objects and purposes, and upon such terms and conditions, and with such restrictions, as they think expedient; and they may confer such powers either collaterally with or to the exclusion of and in substitution for all or any of the powers of the directors in that behalf, and may from time to time revoke, withdraw, alter or vary all or any of such powers.
83. The directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit, and may from time to time revoke such delegation. Any committee so formed shall, in the exercise of the powers so delegated, conform to any conditions that may from time to time be imposed upon it by the directors. The meetings and proceedings of any such committee consisting of 2 (Two) or more members shall be governed by the provisions herein contained for regulating the meetings and proceedings of the directors, so far as the same are applicable thereto, and are not superseded by an regulations made by the directors under this article.

84. All acts done at any meeting of the directors or of a committee of directors, or by any person acting as a director shall, notwithstanding that it shall afterwards be discovered that there was some defect in the appointment of such directors or persons acting as aforesaid or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a director.

#### **ALTERNATIVE DIRECTORS**

85. Each director shall have power to appoint any person to act as alternate director in his place, and at his discretion to remove such alternate and appoint another in his place, provided that the appointment of such alternate director shall be approved of by the board. On such appointment being made and approved, the alternate director shall in all respects be subject to the terms and conditions existing with reference to the other directors of the Company, but shall not be entitled to receive any remuneration from the Company. An alternate director, whilst acting in the place of the director appointing him, shall exercise and discharge all the duties and functions of the director he represents. The appointment of an alternate director shall be cancelled and the alternate shall cease to hold office whenever the director who appointed him shall cease to be a director or shall give notice in writing to the secretary that the alternate director representing him shall have ceased to do so. The provisions of section 216(3) of the Act shall be complied with by any alternate director who so ceases to hold office.

#### **POWERS OF DIRECTORS**

6. The management of the Company, its affairs and its business shall be vested in the directors, in addition to the power and authorities herein expressly conferred upon them. The directors may, subject to the second proviso hereinafter mentioned, exercise all such powers and do all such acts and things as may be exercised or done by the Company (including the establishment of branch registers and the application for liquidation of the Company pursuant to the provisions of section 346 (1)(a) of the Act as read with the provisions of subsection (f) of section 344, if applicable) and which are not hereby or by the Act directed or required to be exercised or done by the Company in general meeting, but, subject, nevertheless, to the provisions of the Act and these articles, and provided further that although the directors shall have power to enter into a provisional contract for the sale or abandonment of all, or the major portion of the property or assets of the Company, or the absolute alienation of the whole or the major portion of the movable and immovable property of the Company and the rights belonging thereto or connected therewith, such provisional contract shall only become binding on the Company in the event of the same being ratified and confirmed by a resolution passed by a majority of the votes of the members present in person or by proxy at a general meeting convened for that purpose; and provided further that the directors shall not cause the Company to undertake any business or do any act not falling within the general scope of the objects set out in its memorandum except with the authority of a resolution of the Company.

#### **BORROWING POWERS**

88. The board of directors may from time to time and in such manner and on such terms as they deem fit, exercise all the powers of the Company to borrow, raise or secure the payment of money, either with or without any specific security on the undertaking or property of the Company.
89. The directors may raise or secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit, and in particular by the issue of bonds, perpetual or redeemable debentures or debenture stock, or any mortgage, charge or other security on the undertaking or the whole or any part of the property of the Company (both present and future), provided that no special privileges as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise shall be given, save with the sanction of the Company in general meeting.
90. Debentures, debenture stock, bonds or other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.
91. Any debentures, debenture stock, bonds or other securities may be issued at a premium, and with any special privileges as to redemption, surrender or drawings.
92. If any of the directors or any other person becomes personally liable for the payment of any sum primarily due from the Company, the directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the directors or persons becoming liable as aforesaid from any loss in respect of such liability.

#### **INDEMNITIES**

124. Every director and officer of the Company shall be indemnified out of the funds of the Company against all liability incurred by him as such director or officer, in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted, or in respect of any

proceedings which are abandoned or in connection with any application under section 248 of the Act in which relief is granted to him by the Court."

#### **F. EXTRACTS FROM THE ARTICLES OF ASSOCIATION OF BLACKSTAR REAL ESTATE (PROPRIETARY) LIMITED**

##### **"DIRECTORS**

55. The remuneration of the directors shall from time to time be determined by the company in general meeting.
56. If any director be called upon to perform extra services or to make any special exertions in going or residing abroad, or otherwise, for any of the purposes of the company, the company may remunerate that director either by a fixed sum or by a percentage of profits or otherwise as may be determined, and such remuneration may be either in addition to, or in substitution for, the remuneration determined under article 55.
57. A director shall not be required to hold a share of the company.

##### **ALTERNATE DIRECTORS**

58. Each director shall have the power to nominate any person whether a member of the company or not possessing the necessary qualifications of director, to act as alternate director in his place during his absence or inability to act as such director, provided that the appointment being made, the alternate director shall, in all respects, be subject to the terms, qualifications, and conditions existing with reference to the other directors of the company.
59. The alternate directors, whilst acting in the stead of the directors who appointed them, shall exercise and discharge all the powers, duties and functions of the directors they represent, The appointment of an alternate director shall cease to hold office, whenever the director who appointed him ceases to be a director or gives notice to the secretary of the company that the alternate director representing him has ceased to do so, and in the vent of the disqualification or resignation of any alternate director during the absence or inability to act of the director whom he represents, the vacancy so arising shall be filled by the chairman of the directors who shall nominate a person to fill such vacancy, subject to the approval of the board.

##### **POWERS AND DUTIES OF DIRECTORS**

60. The business of the company shall be managed by the directors who may pay all expenses incurred in promoting and incorporating the company, and may exercise all such powers of the company as are not by the Act, or by these articles, required to be exercised by the company in general meeting, subject to these articles, to the provisions of the Act, and to such regulations, not inconsistent with the aforesaid articles or provisions, as may be prescribed by the company in general meeting, but no regulation prescribed by the company in general meeting shall invalidate any prior act of the directors which would have been valid if such regulation had not been made.

##### **BORROWING POWERS**

61. The directors may exercise all the powers of the company to borrow money and to mortgage or bind its undertaking and property or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the company or of any third party.

##### **MANAGING DIRECTOR**

62. The directors may from time to time appoint one or more of their body to the office of managing director or manager for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another) as they may think fit and may revoke such appointment subject to the terms of any agreement entered into in any particular case. A director so appointed shall not, while holding such office, be subject to retirement by rotation, or be taken into account in determining the rotation of retirement of directors, but his appointment shall determine if he ceases for any reason to be a director."

#### **G. EXTRACTS FROM THE ARTICLES OF ASSOCIATION OF KMG STEEL SERVICE CENTRES (PROPRIETARY) LIMITED**

##### **"12. DIRECTORS**

- 12.3 Unless otherwise decided by a meeting of Members any casual vacancy occurring in the board of directors may be filled by the directors.
- 12.4 The company at a meeting of Members or the directors shall have power at any time, and from time to time, to appoint any person as a director but so that the total number of directors shall not at any time exceed the maximum number fixed by or in terms of these Articles.

### **13. QUALIFICATION OF DIRECTORS**

The shareholding qualification for directors and alternate directors may be fixed, and from time to time varied, by the company at any meeting of Members and unless and until so fixed no qualification shall be required.

### **14. REMUNERATION OF DIRECTORS**

- 14.1 The remuneration of the directors shall from time to time be determined by the directors. Such remuneration shall be deemed to accrue from day to day. The directors may also be paid all travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as directors including those of attending and travelling to and from meetings of the directors or any committee of the directors or at any meeting of Members of the company.
- 14.2 The directors may pay any director who serves on any committee or who devotes special attention to the business of the company, or otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, such extra remuneration by way of salary, commission, percentage of Profits or by any or all of these modes or otherwise as they may determine.

### **15. ALTERNATE AND ASSOCIATE DIRECTORS**

- 15.1 Any director shall have the power to nominate another person to act as alternate director in his place during his absence or inability to act as such director, and on such appointment being made, the alternate director shall, in all respects, be subject to the terms and conditions existing with reference to the other directors of the company. A person may be appointed as alternate to more than 1 (one) director. Where a person is alternate to more than 1 (one) director or where an alternate director is a director, he shall have a separate vote, on behalf of each director he is representing in addition to his own vote, if any.
- 15.2 The alternate directors, whilst acting in the place of the directors who appointed them, shall exercise and discharge all the duties and functions of the directors they represent. The appointment of an alternate director shall cease on the happening of any event which, if he were a director, would cause him to cease to hold office in terms of these Articles or if the director who appointed him ceases to be a director, or gives notice to the secretary of the company that the alternate director representing him shall have ceased to do so. An alternate director shall look to the director who appointed him for his remuneration.
- 15.3 The directors may from time to time appoint any person to be an associate director and may from time to time cancel any such appointment. The directors may fix, determine and vary the powers, duties and remuneration of any person so appointed but a person so appointed shall not be required to hold any shares to qualify him for appointment or have any right to attend or vote at any meeting of directors except by the invitation and with the consent of all the directors.

### **16. BORROWING POWERS OF DIRECTORS**

- 16.1 The directors may in their discretion, from time to time, raise or borrow from the Members or other persons any sums of money for the purposes of the company without limitation.
- 16.2 The directors may secure the payment of repayment of any sums of money borrowed or raised in terms of Article 16.1 or the payment of any debt, liability or obligation whatsoever of the company or of a third party, in such manner and upon such terms and conditions in all respects as they think fit, and in particular by the execution of bonds or the issue of debentures or debenture stock of the company charged upon all or any part of the property and rights of the company, both present and future, including its uncalled capital.

### **17. GENERAL POWERS AND DUTIES OF DIRECTORS**

- 17.1 The directors may from time to time appoint one or more of their body (provided always that the number of directors so appointed as managing director or joint managing directors and/or the holders of any other executive office including a chairperson who holds an executive office but not a chairperson who is a non-executive director shall at all times be less than one-half (1/2) of the number of directors in office) to the office of managing director or manager for such period and at such remuneration (whether by way of salary or commission, or participation in Profits or partly in one way and partly in another) and generally on such terms as they may think fit, and it may be made a term of his appointment that he be paid a pension, gratuity or other benefit on his retirement from office. The appointment of a managing director or manager shall determine *ipso facto* if he shall cease for any reason to be a director, or if the company at any meeting of Members shall resolve that his tenure of the office of managing director or manager be determined.
- 17.2 The directors may from time to time entrust to and confer upon a managing director or manager for the time being such of the powers vested in them as they may think fit, and may confer such powers for such time and to be exercised for such objects and upon such terms and with such restrictions as they may think expedient; and they may confer such powers either collaterally or to the exclusion of, and in substitution for, all or any of the powers of the directors, and may from time to time revoke or vary all or

any of such powers. A managing director appointed pursuant to the provisions hereof shall not be regarded as an agent or delegate of the directors and after powers have been conferred upon him by the directors in terms hereof he shall be deemed to derive such powers directly from this Article.

- 17.3 The directors shall have the power from time to time to delegate or allocate to any one of their Members or to any other person, whether in the Republic or not, such of the powers as are vested in the directors pursuant to the Statutes or under these Articles, as they may deem fit.
- 17.4 The directors may delegate or allocate any of their powers to committees consisting of such Member or Members of their body as they think fit; any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the directors. Save as aforesaid, the meetings and proceedings of a committee consisting of more than 1 (one) Member shall be governed by the provisions of these Articles regulating the meetings and proceedings of directors.
- 17.6 The directors may –
- 17.6.1 establish and maintain any non-contributory or contributory pension, superannuation, provident and benefit funds for the benefit of; and
- 17.6.2 give pensions, gratuities and allowances to and make payments for or towards the insurance of any persons who are employees or ex-employees (including directors or ex-directors) of the company, or of any company which is or was a subsidiary of the company or is or was in any way allied to or associated with it or any such subsidiary, and the wives, widows, families and dependants of such persons.

## **18. DISQUALIFICATION AND PRIVILEGES OF DIRECTORS**

- 18.1 A director shall cease to hold office as such if –
- 18.1.1 he ceases to be a director by virtue of the provisions of the Statutes or becomes prohibited from being a director by reason of any order made under the Statutes; or
- 18.1.2 his estate is sequestrated or he files a petition for the surrender of his estate or an application for an administration order, or if he commits an act of insolvency as defined in the insolvency law for the time being in force, or if he makes any arrangement or composition with his creditors generally; or
- 18.1.3 he is found lunatic or becomes of unsound mind; or
- 18.1.4 he is removed by a resolution of the company as provided in the Statutes; or
- 18.1.5 he resigns his office by notice in writing to the company; or
- 18.1.6 a notice removing him from office is signed by Members having a right to attend and vote at a meeting of Members who hold not less than 51% (fifty one per cent) of the total voting rights of all the Members who are at that time entitled so to attend and vote and is delivered to the company or lodged at its registered office; or
- 18.1.7 he is otherwise removed in accordance with any provisions of these Articles.
- 18.2 A director of the company may be or become a director of any subsidiary or other company promoted by the company or in which it may be interested as vendor, member or otherwise, or may represent the company in the management of any business or operations or concern in which the company may be interested as partner or otherwise or may be employed by the company in any capacity or may accept a retainer from the company in consideration for which he agrees to give his services to the company in any special capacity when called upon by the company to do so, and no such director shall be accountable to the company for any remuneration or other benefits received by him as a director or member of such company or representative of the company in such management or in any employment or retention of his services by the company. The directors may exercise the voting power conferred by the shares in any such other company held or owned by the company, or exercisable by them as directors of such other company, in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors or other officers of such company) and any director may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be, or be about to be, appointed a director or other officer of such company and as such is or may become interested in the exercise of such voting rights in manner aforesaid.
- 18.3 No director or intending director shall be disqualified by his office from contracting with the company in any manner whatsoever and in particular as –
- 18.3.1 and underwriter of any shares or securities; or
- 18.3.2 a guarantor of any liability of the company, or of any company in which the company may be interested, for a commission or profit, nor shall any such contract or arrangement entered into by or on behalf of the company in which any director shall be in any way interested, nor any contract or agreement entered into with any company or partnership of or in which any director

shall be a member, director or partner or otherwise interested, be invalidated or voided by any such reason or by reason of the board of directors of the company not constituting an independent quorum, nor shall any director so contracting or being so interested or acquiring any benefit under any contract or arrangement made or entered into by or on behalf of any person, company or partnership in relation to the affairs of the company be liable to account to the company for any Profits or benefits realised by or under such contract or arrangement by reason of such director holding that office or by reason of the fiduciary relationship thereby established, and any director so interested or acquiring any such benefits shall be entitled to vote at any board meeting or otherwise in relation to such contract as freely as if he were not interested and he shall be reckoned for the purpose of constituting a quorum of directors. Nevertheless, any director so interested or acquiring any benefit shall disclose the fact of his possessing any interest and full particulars thereof, be it as director or member or otherwise, whether or not it appears on the face of the contract or arrangements, in accordance with the provisions of the Statutes. A general notice In Writing given to the directors by a director to the effect that he is a member of a specified company or firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with that company or firm, shall be deemed to be a sufficient disclosure in relation to any contract or proposed contract so made or to be made.

18.4 Without detracting from the generality of Article 18.3 –

18.4.1 a director may hold any other office or place of profit in the company, other than that of auditor, in conjunction with his directorship, and may be appointed thereto upon such terms as to remuneration, tenure of office and otherwise as may be arranged by the directors. A director may, notwithstanding his interest, be counted in the quorum present at any meeting at which he is so employed or appointed to hold any such office of profit with the company and he may vote on such employment or appointment as though he had no interest therein;

18.4.2 a director may himself act or any firm of which he is a member may act in a professional capacity for the company, and he or his firm shall be entitled to remuneration for those professional services as if he were not a director; provided that nothing herein contained shall authorise a director or his firm to act as auditor of the company."

## ANNEXURE 6

### HISTORICAL FINANCIAL INFORMATION OF BLACKSTAR

#### A. EXTRACTS FROM THE AUDITED FINANCIAL RESULTS

Set out below is an extract from the audited financial results of Blackstar Group SE for the 5 (five) financial years ending 31 December 2006, 2007, 2008, 2009 and 2010 respectively. The historical financial information is the responsibility of the directors of Blackstar Group SE.

The historical financial information was audited by BDO LLP and was reported on without qualification for all of the aforementioned financial periods.

#### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT

	<i>Audited</i> 31 Dec 2010 12 months £'000	<i>Audited</i> 31 Dec 2009 12 months £'000	<i>Audited</i> 31 Dec 2008 12 months £'000	<i>Audited</i> 31 Dec 2007 12 months £'000	<i>Audited</i> 31 Dec 2006 12 months £'000
<b>ASSETS</b>					
<b>Non-current assets</b>	81,525	73,256	59,699	96,704	12,538
Property, plant and equipment	21,666	19,259	–	–	–
Goodwill	18,835	26,772	–	–	–
Intangible assets	13,281	14,566	–	–	–
Investments in associates	14,637	–	–	–	–
Investments classified as loans and receivables	873	975	36,371	41,998	2,816
Investments at fair value through profit and loss	12,056	10,802	23,328	54,706	9,722
Other financial assets	52	–	–	–	–
Deferred tax assets	125	882	–	–	–
<b>Current assets</b>	72,803	99,405	42,108	10,764	66,632
Investments classified as loans and receivables	502	22,126	13,812	–	–
Investments at fair value through profit and loss	545	2,680	9,839	–	–
Other financial assets	26	307	–	–	–
Current tax assets	423	469	–	–	–
Trade and other receivables	25,105	24,374	626	469	435
Inventories	27,006	31,928	–	–	–
Cash and cash equivalents	19,196	17,521	17,831	10,295	66,197
<b>Total assets</b>	<u>154,328</u>	<u>172,661</u>	<u>101,807</u>	<u>107,468</u>	<u>79,170</u>

	<i>Audited</i> 31 Dec 2010 12 months £'000	<i>Audited</i> 31 Dec 2009 12 months £'000	<i>Audited</i> 31 Dec 2008 12 months £'000	<i>Audited</i> 31 Dec 2007 12 months £'000	<i>Audited</i> 31 Dec 2006 12 months £'000
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Share capital	50,130	53,023	75,665	78,465	78,465
Capital redemption reserve	2,893	30,156	3,575	775	775
Foreign currency translation reserve	14,604	9,594	1,865	1,214	(839)
Special reserve	–	–	–	11,754	11,754
Treasury shares	–	–	–	(2,980)	–
Retained earnings	22,569	8,976	12,068	11,121	(11,143)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total equity attributable to equity owners	90,196	101,749	93,173	100,349	79,012
Non-controlling interest	(2,474)	(1,994)	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total equity</b>	<b>87,722</b>	<b>99,755</b>	<b>93,173</b>	<b>100,349</b>	<b>79,012</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Non-current liabilities</b>					
Borrowings	12,538	17,412	–	–	–
Other financial liabilities	3,937	3,726	–	–	–
Provisions	197	54	404	5,767	–
Deferred tax liabilities	4,733	4,272	–	–	–
Tax payable	–	–	–	37	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Current liabilities</b>	<b>45,201</b>	<b>47,442</b>	<b>8,230</b>	<b>1,315</b>	<b>158</b>
Borrowings	1,295	7,262	8,049	–	–
Other financial liabilities	25,540	22,946	–	–	–
Provisions	288	84	–	–	–
Current tax liabilities	442	1,134	–	–	–
Trade and other payables	17,635	15,814	181	1,315	158
Bank overdrafts	1	202	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total equity and liabilities</b>	<b>154,328</b>	<b>172,661</b>	<b>101,807</b>	<b>107,468</b>	<b>79,170</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Audited 31 Dec 2010 12 months £'000	Audited 31 Dec 2009 12 months £'000	Audited 31 Dec 2008 12 months £'000	Audited 31 Dec 2007 12 months £'000	Audited 31 Dec 2006 12 months £'000
<b>Continuing operations</b>					
Revenue	208,101	154,206	–	–	–
Cost of sales	(177,819)	(132,601)	–	–	–
Cost of sales	(177,528)	(128,859)	–	–	–
Write-down of inventories to net realisable value	(291)	(3,742)	–	–	–
<b>Gross profit</b>	<u>30,282</u>	<u>21,605</u>	<u>–</u>	<u>–</u>	<u>–</u>
Sales and distribution costs	(7,046)	(5,374)	–	–	–
Administrative expenses – Industrial businesses	(32,365)	(20,494)	–	–	–
Administrative expenses	(24,133)	(16,611)	–	–	–
Impairment of goodwill	(6,503)	(3,883)	–	–	–
Impairment of intangible assets	(1,729)	–	–	–	–
Other income – Industrial businesses	473	308	–	–	–
Share of profit of associates	1,539	–	–	–	–
<b>Operating profit/(loss) before net investment income/(loss)</b>	<u>(7,117)</u>	<u>(3,955)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net Investment income/(loss)	6,913	6,582	(6,576)	26,271	4,100
Net gains/(losses) on investments	5,666	2,659	(13,715)	21,763	3,701
Fees, dividends and interest from loans, receivables and investments	1,247	3,923	7,139	3,813	114
Realised gain on disposal/redemption of investments	–	–	–	695	285
Administrative expenses – Investments	(6,717)	(3,297)	(1,357)	(8,205)	(1,565)
Administrative expenses – Performance fee	–	243	1,467	(5,767)	–
Administrative expenses – Impairment of goodwill	(3,500)	–	–	–	–
Administrative expenses – Other	(3,217)	(3,540)	(2,824)	(2,438)	(1,565)
Other income	1,758	–	–	–	–
<b>Profit/(Loss) from operations</b>	<u>(5,163)</u>	<u>(670)</u>	<u>(7,933)</u>	<u>18,066</u>	<u>2,535</u>
Finance income	382	470	864	1,806	1,663
Finance costs	(5,764)	(5,256)	(722)	–	–
<b>Profit/(Loss) before taxation</b>	<u>(10,545)</u>	<u>(5,456)</u>	<u>(7,791)</u>	<u>19,872</u>	<u>4,198</u>
Taxation	(2,624)	1,722	(36)	(37)	–
<b>Profit/(Loss) for the year</b>	<u>(13,169)</u>	<u>(3,734)</u>	<u>(7,827)</u>	<u>19,835</u>	<u>4,198</u>
<b>Discontinued operations</b>					
Profit for the year from discontinued operations	–	–	–	2,629	–
<b>Profit/(Loss) for the year</b>	<u>(13,169)</u>	<u>(3,734)</u>	<u>(7,827)</u>	<u>22,464</u>	<u>4,198</u>

	Audited 31 Dec 2010 12 months £'000	Audited 31 Dec 2009 12 months £'000	Audited 31 Dec 2008 12 months £'000	Audited 31 Dec 2007 12 months £'000	Audited 31 Dec 2006 12 months £'000
<b>Attributable to:</b>					
Equity holders of the parent	(11,121)	(2,547)	(7,827)	22,264	4,198
Non-controlling interests	(2,048)	(1,187)	–	200	–
	<u>(13,169)</u>	<u>(3,734)</u>	<u>(7,827)</u>	<u>22,464</u>	<u>4,198</u>
Profit/(Loss) for the year	(13,169)	(3,734)	(7,827)	–	–
Other comprehensive income	4,642	7,486	651	–	–
Currency translation differences on investments and Rand denominated assets and liabilities	3,342	5,787	651	–	–
Currency translation differences on translation of foreign subsidiaries	1,300	1,699	–	–	–
Income tax relating to components of other comprehensive income	–	–	–	–	–
<b>Total comprehensive income/(loss) for the year</b>	<u>(8,527)</u>	<u>3,752</u>	<u>(7,176)</u>	<u>–</u>	<u>–</u>
<b>Attributable to:</b>					
Equity holders of the parent	(6,216)	5,182	(7,176)	–	–
Non-controlling interest	(2,311)	(1,430)	–	–	–
	<u>(8,527)</u>	<u>3,752</u>	<u>(7,176)</u>	<u>–</u>	<u>–</u>
	Audited 31 Dec 2010 12 months £'000	Audited 31 Dec 2009 12 months £'000	Audited 31 Dec 2008 12 months £'000	Audited 31 Dec 2007 12 months £'000	Audited 31 Dec 2006 12 months £'000
Number of issued ordinary shares (thousands)	74,821	79,139	75,665	78,465	78,465
Weighted average number of ordinary shares (thousands)	77,275	76,454	75,665	77,801	45,907
Earnings per share (Pence)					
– basic	(14.39)	(3.33)	(10.34)	28.62	9.14
– diluted	(14.39)	(3.33)	(10.34)	28.62	9.14
Net asset value per ordinary share (Pence)	121	129	123	133	101
Dividends per ordinary share (Pence)	1.55	–	–	–	–
Dividend cover ratio	(9.28)	–	–	–	–

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<i>Audited</i> 31 Dec 2010 12 months £'000	<i>Audited</i> 31 Dec 2009 12 months £'000	<i>Audited</i> 31 Dec 2008 12 months £'000	<i>Audited</i> 31 Dec 2007 12 months £'000	<i>Audited</i> 31 Dec 2006 12 months £'000
<b>Share capital</b>					
Opening balance	53,023	75,665	78,465	78,465	121
Buy-back of ordinary shares	–	(7,405)	–	–	–
Capital re-organisation	–	(24,176)	–	–	–
Cancellation of ordinary shares	(2,893)	–	(2,800)	–	–
Issue of ordinary shares	–	8,939	–	–	–
Consolidation and issue of new shares	–	–	–	–	78,344
Closing balance	<u>50,130</u>	<u>53,023</u>	<u>75,665</u>	<u>78,465</u>	<u>78,465</u>
<b>Share premium</b>					
Opening balance	–	–	–	–	–
Consolidation and issue of new shares	–	–	–	–	2,143
Capital raising expenses	–	–	–	–	(2,143)
Closing balance	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Capital redemption reserve</b>					
Opening balance	30,156	3,575	775	775	1,262
Consolidation and issue of new shares	–	–	–	–	(487)
Cancellation of ordinary shares	–	–	2,800	–	–
Buy-back of ordinary shares	2,893	2,405	–	–	–
Cancellation of capital redemption reserve fund	(30,156)	–	–	–	–
Capital re-organisation	–	24,176	–	–	–
Closing balance	<u>2,893</u>	<u>30,156</u>	<u>3,575</u>	<u>775</u>	<u>775</u>
<b>Foreign currency translation reserve</b>					
Opening balance	9,594	1,865	1,214	(839)	–
Currency exchange gains/ (losses) on investments	–	–	–	2,053	(839)
Total comprehensive (loss)/ income for the year	4,905	7,729	651	–	–
Arising on deemed disposal of subsidiary on additional shares being issued by the subsidiary	105	–	–	–	–
Closing balance	<u>14,604</u>	<u>9,594</u>	<u>1,865</u>	<u>1,214</u>	<u>(839)</u>
<b>Special reserve</b>					
Opening balance	–	–	11,754	11,754	11,754
Dissolution of Illuminator	–	–	(11,754)	–	–
Closing balance	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,754</u>	<u>11,754</u>
<b>Treasury shares</b>					
Opening balance	–	–	(2,980)	–	–
Buy-back of ordinary shares	–	–	–	(2,980)	–
Cancellation of ordinary shares	–	–	2,980	–	–
Closing balance	<u>–</u>	<u>–</u>	<u>–</u>	<u>(2,980)</u>	<u>–</u>

	<i>Audited</i> 31 Dec 2010 12 months £'000	<i>Audited</i> 31 Dec 2009 12 months £'000	<i>Audited</i> 31 Dec 2008 12 months £'000	<i>Audited</i> 31 Dec 2007 12 months £'000	<i>Audited</i> 31 Dec 2006 12 months £'000
<b>Retained earnings</b>					
Opening balance	8,976	12,068	11,121	(11,143)	(12,874)
Total comprehensive (loss)/ income for the year	(11,121)	(2,547)	(7,827)	22,264	4,198
Capital raising expenses	–	–	–	–	(2,467)
Cancellation of ordinary shares	–	–	(2,980)	–	–
Dissolution of Illuminator Holdings Limited	–	–	11,754	–	–
Charge for share based payment	23	97	–	–	–
Reduction in non-controlling interests arising on acquisition of additional interest in subsidiary	14	(94)	–	–	–
Additional non-controlling interests arising on disposal of interest in subsidiary	–	222	–	–	–
Buy-back of ordinary shares	(3,079)	(770)	–	–	–
Cancellation of capital redemption reserve fund	30,156	–	–	–	–
Reduction in non-controlling interest arising on conversion of preference shares held in a subsidiary into ordinary shares	(1,907)	–	–	–	–
Interim dividend paid	(493)	–	–	–	–
Closing balance	<u>22,569</u>	<u>8,976</u>	<u>12,068</u>	<u>11,121</u>	<u>(11,143)</u>
<b>Non-controlling interest</b>					
Opening balance	(1,994)	–	–	–	–
Total comprehensive (loss)/ income for the year	(2,311)	(1,430)	–	200	–
Charge for share based payment	8	36	–	–	–
Arising on acquisition of subsidiaries	10,122	(619)	–	3,272	–
Reduction in non-controlling interests arising on acquisition of additional interest in subsidiary	(14)	(19)	–	–	–
Additional non-controlling interests arising on disposal of interest in subsidiary	–	38	–	–	–
Non-controlling eliminated on disposal of subsidiary	–	–	–	(3,472)	–
Arising on deemed disposal of subsidiary on additional shares being issued by the subsidiary	(10,192)	–	–	–	–
Reduction in non-controlling interest arising on conversion of preference shares held in a subsidiary into ordinary shares	1,907	–	–	–	–
	<u>(2,474)</u>	<u>(1,994)</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Total equity</b>	<u>87,722</u>	<u>99,755</u>	<u>93,173</u>	<u>100,349</u>	<u>79,012</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Audited 31 Dec 2010 12 months £'000	Audited 31 Dec 2009 12 months £'000	Audited 31 Dec 2008 12 months £'000	Audited 31 Dec 2007 12 months £'000	Audited 31 Dec 2006 12 months £'000
<b>Cash flow from operating activities</b>	12,884	10,556	(6,431)	1,542	36
Cash generated / (absorbed) by operations	13,795	11,607	(7,775)	(413)	(1,627)
Interest received	461	2,824	1,253	1,817	1,663
Interest paid	(4,525)	(3,804)	(100)	–	–
Dividends received	5,798	674	264	138	–
Taxation paid	(2,645)	(745)	(73)	–	–
<b>Net cash flow from investment activities</b>	8,155	(189)	6,051	(54,464)	(9,277)
Purchase of property, plant and equipment	(2,748)	(1,728)	–	–	–
Additions to investments classified as loans and receivables	(746)	(1,103)	(6,569)	–	–
Purchase of investments at fair value through profit or loss	(5,019)	(542)	(3,575)	(52,889)	(9,799)
Acquisition of subsidiaries	(176)	(24,069)	–	–	–
Proceeds from disposal of property, plant and equipment	127	38	–	–	–
Proceeds from disposal of investments	21,667	27,215	16,195	592	522
Purchase of subsidiary held with the view to dispose	–	–	–	(4,231)	–
Proceeds from disposal of rights arising in respect of subsidiary held with a view to dispose	–	–	–	867	–
Cash outflow on acquisition of subsidiary and subsequent deemed disposal	(4,950)	–	–	–	–
Proceeds from the redemption of preference share investments	–	–	–	1,197	–
<b>Net cash flow from financing activities</b>	(19,358)	(10,003)	6,577	(2,980)	75,390
Proceeds from borrowings	1,312	–	9,906	–	–
Repayment of borrowings	(14,866)	(11,108)	(3,329)	–	–
Movement in other financial liabilities (including short-term funding facilities)	(2,232)	(2,064)	–	–	–
Buy-back of ordinary shares	(3,079)	(5,770)	–	(2,980)	–
Issue of shares	–	8,939	–	–	80,000
Capital raising expenses	–	–	–	–	(4,610)
Dividends paid to equity holders of the parent	(493)	–	–	–	–
<b>Net increase / (decrease) in cash and cash equivalents</b>	1,681	364	6,197	(55,902)	66,149
Cash and cash equivalents at beginning of the year	17,319	17,831	10,295	66,197	48
Exchange (losses) / gains on cash and cash equivalents	195	(876)	1,339	–	–
<b>Cash and cash equivalents at end of the year</b>	<u>19,195</u>	<u>17,319</u>	<u>17,831</u>	<u>10,295</u>	<u>66,197</u>

## SEGMENT REPORT

	Audited 31 Dec 2010 12 months £'000	Audited 31 Dec 2009 12 months £'000	Audited 31 Dec 2008 12 months £'000	Audited 31 Dec 2007 12 months £'000	Audited 31 Dec 2006 12 months £'000
<b>External revenue</b>					
Industrial chemicals	36,064	29,465			
Industrial metals	172,037	124,741			
Consolidated total reported by the Group	208,101	154,206			
<b>EBITDA</b>					
Industrial chemicals	7,042	5,045			
Industrial metals	(3,501)	(1,948)			
Investment activities	225	3,466			
Healthcare	1,460	–			
Inter-group transactions	31,998	(4)			
On acquisition fair value adjustments	–	–			
Equity account associates	(26,254)				
Other	170	(26)			
Consolidated total reported by the Group	11,140	6,533			
Depreciation and amortisation	(4,571)	(3,320)			
Impairment of goodwill and intangible assets	(11,732)	(3,883)			
Finance income and finance costs	(5,382)	(4,786)			
Profit/(loss) before taxation reported by the Group	(10,545)	(5,456)			
<b>Share of profit of associates</b>					
Healthcare	1,460	–			
Investment activities	79	–			
Consolidated total reported by the Group	1,539	–			
<b>Total assets</b>					
Industrial chemicals	33,799	29,468			
Industrial metals	64,095	77,580			
Investment activities	107,134	105,478			
Inter-group transactions	(22,672)	(32,219)			
On acquisition fair value adjustments	(3,165)	(7,646)			
Equity account associates	(24,863)	–			
Consolidated total reported by the Group	154,328	172,661			
<b>Investment in associates</b>					
Healthcare	14,397	–			
Investment activities	240	–			
Consolidated total reported by the Group	14,637	–			
<b>Total liabilities</b>					
Industrial chemicals	(20,343)	(20,873)			
Industrial metals	(81,568)	(81,652)			
Investment activities	(2,379)	(1,591)			
Inter-group transactions	22,672	32,219			
On acquisition fair value adjustments	15,689	(996)			
Other	(677)	(13)			
Consolidated total reported by the Group	(66,606)	(72,906)			

## **1. Accounting policies**

### **1.1 Basis of preparation**

The Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated statement of changes in equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, and the related notes ("the historical financial information") for the years ended 31 December 2010 and 2009 has been extracted, without adjustment from the audited statutory financial statements of the Company. The audited statutory financial statements of the Group for the year ended 31 December 2010 and 2009 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") published by the International Accounting Standards Board ("IASB") as endorsed for use by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The audited statutory financial statements of the Group for the year ended 31 December 2010 have been reported on without qualification by BDO LLP on 21 April 2011 and the audited statutory financial statements of the Group for the year ended 31 December 2009 have been reported on without qualification by BDO LLP on 1 April 2010.

The historical financial information for the years ended 31 December 2008, 2007 and 2006 has been extracted, without adjustment from the audited statutory financial statements of the Company. The audited statutory financial statements of the Company for the years ended 31 December 2008, 2007 and 2006 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") published by the International Accounting Standards Board ("IASB") as endorsed for use by the European Union and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS. The audited statutory financial statements of the Group for the year ended 31 December 2008 have been reported on without qualification by BDO Stoy Hayward LLP on 25 March 2009. The audited statutory financial statements of the Group for the year ended 31 December 2007 have been reported on without qualification by BDO Stoy Hayward LLP on 18 March 2008. The audited statutory financial statements of the Group for the year ended 31 December 2006 have been reported on without qualification by BDO Stoy Hayward LLP on 27 April 2007.

The accounting policies which follow are extracted from the 2010 financial statements. No adjustments have been applied to prior periods' reported financial information for changes to IFRSs subsequent to those individual periods.

### **1.2 Basis of consolidation**

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. These consolidated financial statements present the results of the Group as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non controlling interest's share of changes in equity since the date of the combination.

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired business. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date. Non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquired business' identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

### **1.3 Goodwill**

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying

amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit *pro-rata* on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

#### 1.4 **Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Self-constructed assets under construction (capital work in progress) are not depreciated until they are ready for use.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of the asset and all other borrowing costs are expensed.

Residual values and useful lives are reassessed annually.

Depreciation is provided on the straight-line basis so as to write the assets down to their estimated residual values, over the estimated useful lives of the assets.

The estimated useful lives are as follows:

Buildings	20 – 50 years
Plant and machinery	4 – 10 years
Office furniture, fixtures and equipment	3 – 10 years
Vehicles	3 – 5 years

Where significant components of an asset have different useful lives to the asset itself, these components are depreciated over their estimated useful lives.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss is reversed, then it is only reversed to the extent that the revised carrying amount of the asset would reflect the depreciation that would have been charged had the impairment not been reflected. Where a reversal of a previously recognised impairment loss is recognised, the depreciation charge for the asset is adjusted to allocate the assets' revised carrying amount, less residual value, on a systematic basis over its remaining useful life.

Surpluses or deficits on the disposal of property, plant and equipment are credited or charged to profit or loss. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

#### 1.5 **Intangible assets**

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. The cost of such intangible assets is their fair value at the acquisition date.

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on the straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The following useful lives are used in the calculation of amortisation for intangible assets:

Marketing related intangibles (brands)	5 and 20 years
Customer related intangibles (customer relationships)	3, 10 and 15 years
Technology related intangibles	20 years
Registered trademarks	20 years

#### 1.6 **Leases**

##### 1.6.1 *Operating leases*

Leases where the lessor retains the risk and rewards of ownership of the underlying assets are classified as operating leases. Payments made under operating leases are charged against income on the straight-line basis over the period of the lease.

### 1.6.2 *Finance leases*

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful lives of the asset. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

### 1.7 **Impairment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. Goodwill is tested annually for impairment. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed.

### 1.8 **Inventories**

Inventories are carried at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined using the first-in, first-out method for chemical coatings inventory and weighted average cost method for industrial metal inventories. The cost of work in progress, finished goods and contracts in progress includes direct costs and an appropriate allocation of overheads based on normal production levels. Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

### 1.9 **Associates**

An associate is an entity over which the Group has the ability to exercise significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Where investments in associates meet the specific criteria for inclusion in the venture capital division, they are carried at fair value even though the Group may have significant influence over those companies (refer note 1.10.1 below). When an associate no longer meets the requirements for inclusion in this investment portfolio, the investment is transferred to the equity accounted for investment portfolio. In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective dates on which the companies are included in the equity accounted for portfolio and up to the effective dates of disposals. In the events of associates making losses, the Group recognised the losses to the extent of the Group's exposure.

### 1.10 **Financial instruments**

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become party to the contractual provisions of the instrument. Financial instruments acquired for trading purposes and derivative instruments are stated at fair value. Resulting gains or losses are recognised directly in profit or loss.

Financial instruments presented in the financial statements include cash and cash equivalents, investments, trade and accounts receivable and trade and accounts payable. Financial instruments are initially recognised at fair value, when the Group becomes party to the contractual provisions of the instrument. Subsequent to initial recognition, these instruments are measured as follows:

#### 1.10.1 *Financial assets*

The classification of financial assets depends on their nature and purpose and is determined at the time of initial recognition.

**Investments at fair value through profit and loss** – Investments at fair value through profit and loss are financial assets held-for-trading and those designated at fair value through profit and loss at inception. These assets are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in profit or loss in the period in which they arise.

**Investments in associates which are part of the venture capital division** – Associates which meet the specific criteria for inclusion in the venture capital division, are included in the Group's investment portfolio at fair value. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in profit and loss in the period in which they arise. This treatment is permitted by IAS 28 Investment in Associates which allows investments held by venture capital organisations to be excluded from the scope of IAS 28 Investment in Associates provided that those investments upon initial recognition are designated as fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in profit or loss in the period of change.

**Investments classified as loans and receivables** – Investments classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; or
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

These assets are subsequently carried at amortised cost, using the effective interest rate method.

During the years ended 31 December 2007 and 31 December 2006 the Group classified certain of its investments with a carrying value of £41,998,000 and £2,816,000 respectively, in a held to maturity investment portfolio.

During 2008, following a review of these investments by the Board of Directors, the Group believed that they met the definition of loans and receivables as set out in IAS 39: "Financial Instruments: Recognition and Measurement" and should thus be classified as loans and receivables from inception rather than as investments held to maturity. As a result these investments have been reclassified as loans and receivables in the consolidated financial statements for the year ended 31 December 2008 and the comparative consolidated financial statements for the years ended 31 December 2007 and 31 December 2006 have been restated accordingly.

Investments classified as loans and receivables are carried at amortised cost, using the effective interest rate method. If there is objective evidence that an impairment loss on investments classified as loans and receivables has been incurred, the amount of the loss is measured and the carrying amount of the asset shall be reduced. The amount of the loss shall be recognised in the income statement in the period in which it arises. This is consistent with the accounting policy that the Group adopted for the measurement of investments held to maturity.

**Trade receivables** – trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Cash and cash equivalents** – Cash and cash equivalents comprise cash in current accounts, money market funds and short term deposits with original maturities of three months or less.

**Impairment of financial assets** – Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For trade receivables, receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account.

**De-recognition of financial assets** – The Group de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### 1.10.2 *Financial liabilities and equity instruments issued by the Group*

**Classification as debt or equity** – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

**Equity instruments** – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

**Treasury shares** – Consideration paid/(received) for the purchase/(sale) of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate reserve. Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to the share premium account. The cancellation of treasury shares reduces the share capital and increases the capital redemption reserve by an amount corresponding to the nominal value of the shares.

**Trade and other payables** – Trade and other payables are stated at amortised cost.

**Other financial liabilities** – all other financial liabilities with the exception of derivatives are accounted for at amortised cost using the effective interest rate method.

**De-recognition of financial liabilities** – Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related un-amortised costs, and the amount paid for it is recognised directly in profit or loss.

**Effective interest method** – the effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

**Offset** – Where a legally enforceable right of set off exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the assets simultaneously, all related financial effects are offset.

#### 1.11 **Derivative financial instruments**

Certain Group entities enter into a variety of derivative financial instruments to manage their exposure to interest rate and foreign exchange rate risk, namely foreign exchange contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to the fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging

instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets and liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than twelve months and as a current asset or current liability if the remaining maturity of the hedge relationship is less than twelve months.

Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability.

#### 1.12 **Provisions and contingent liabilities**

Provisions are recognised when a present legal or constructive obligation exists as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate of the amount of the obligation can be made. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The Group discloses a contingent liability when it has a possible obligation arising from past events, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Financial guarantee contracts are initially recognised at fair value when the Group becomes party to the contract. Where it becomes probable that there will be an outflow of economic benefits under the financial guarantee contract then outflow of benefits is considered probable and the liability arising is subsequently re-measured at the higher of the best estimate of: the obligation arising under the contract; and the amount initially recognised less cumulative amortisation which has been recognised as revenue.

#### 1.13 **Employee benefits**

##### 1.13.1 *Short term employee benefits*

The cost of all short term employee benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to wages, salaries, annual and sick leave represent the amount that the Group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on current wage and salary costs to the Group.

##### 1.13.2 *Retirement benefits*

Certain Group companies provide retirement benefits for its employees. Contributions to the defined contribution plans are expensed in the year incurred.

#### 1.14 **Share based payments**

Equity settled share based payments granted to employees and other providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the entity's estimate of the equity instruments that will eventually vest. At each balance sheet date, the entity revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to retained earnings.

#### 1.15 **Revenue and investment income**

Revenue comprises net invoiced sales to customers, net of discounts allowed and excluding Value Added Tax. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of the future economic benefits is probable.

Investment fee income includes corporate finance and advisory fees, which are recognised on an accrual basis when the fees are earned and can be reliably estimated. Fee income is measured at the fair value of the consideration receivable.

Realised and unrealised gains and losses arising from changes in the fair value of investments at fair value through profit and loss are recognised in the income statement in the period in which they arise.

Interest income is recognised on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, when it is determined that such income will accrue to the Group.

Dividends are recognised when the right to receive payment has been established and it is determined that such income will accrue to the Group.

#### 1.16 **Finance income and finance costs**

Finance income comprises interest receivable on current account bank balances, and deposits held on call.

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Interest is recognised in the income statement as it accrues using effective interest rate method.

#### 1.17 **Tax**

Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment of tax payable for previous years.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- a) the initial recognition of goodwill; or
- b) the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects neither accounting profit
  - nor taxable profit (tax loss).

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries except to the extent that both of the following conditions are satisfied:

- a) the parent is able to control the timing of the reversal of the temporary difference; and
- b) it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- a) is not a business combination; and
- b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax is charged to profit and loss except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

#### 1.18 **Translation of foreign currencies**

The functional currency of Blackstar is the South African Rand, however the company has elected to present its financial statements in Pounds Sterling, being the denomination of the issued share capital of the company. The Group financial statements are also presented in Pounds Sterling.

Transactions denominated in currencies other than Pounds Sterling are translated at the rates of exchange ruling on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the rates of exchange ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are translated at the rates of exchange ruling on the date when the fair value was determined.

Foreign exchange gains and losses arising on translation of assets and liabilities denominated in Rands are recognised in the foreign currency translation reserve, whereas foreign exchange gains and losses arising on translation of assets and liabilities denominated in foreign currencies other than Rands are recognised in the income statement for the period.

### 1.19 **Foreign operations**

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Pounds Sterling at rates of exchange ruling at the balance sheet date. Income, expenditure and cash flow items are translated into Pounds Sterling at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity as a foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

Acquisition and disposals of foreign operations are accounted for at the rate ruling on the date of the transaction.

### 1.20 **Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker has been identified as the Board of Directors. This committee reviews the Group's internal reporting in order to assess performance. Management has determined the operating segments based on these reports.

### 1.21 **Significant judgements and areas of estimation**

The preparation of the financial statements requires the use of estimates, assumptions and judgements that affect the amounts reported in the balance sheet and income statement of the Group. Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although the estimates are based on management's best knowledge and judgements of current facts as at the balance sheet date, the actual outcome may differ from those estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

During the period, the areas involving higher degree of judgement or complexity, or areas where assumptions and estimates were significant to the financial statements are as follows:

#### 1.21.1 *Investments*

(Refer note 16 and 17).

The most critical estimates, assumptions and judgements relate to the determination of carrying value of investments at fair value through profit and loss and investments classified as loans and receivables.

In determining the carrying value of investments at fair value through profit and loss, the Group follows the International Private Equity and Venture Capital Valuation Guidelines, applying the overriding concept that fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. The nature, facts and circumstance of the investment drives the valuation methodology.

In determining the carrying value of investments classified as loans and receivables, the Group considers whether there have been any events or changes in circumstances which indicate that impairment may have occurred and reduces the carrying value by the estimated extent of the impairment.

#### 1.21.2 *Asset lives and residual values*

(Refer note 12).

Property, plant and equipment are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

#### 1.21.3 *Impairment of assets*

(Refer note 12, 13 and 14).

Property, plant and equipment, and intangible assets are considered for impairment if there is reason to believe that impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset and where it is a component of a larger economic unit, the viability of that unit itself.

Future cash flows expected to be generated by the asset are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using appropriate discount rates, is compared to the current net asset value and if lower, the assets are impaired to the present value.

Goodwill impairment tests are required to be performed on an annual basis. On acquisition, the goodwill is allocated to cash-generating units. A fair value is determined for each of these cash generating units using a discounted cash flow model using the budgets and forecasts set by management for each cash-generating unit and an appropriate discount rate. Actual outcomes may vary.

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2010

### **2. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### **2.1 Determination of fair values arising on business combinations**

##### *2.1.1 Property, plant and equipment*

Business combinations are based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate.

##### *2.1.2 Intangible assets*

The relief from royalty methodology was utilised to value marketing related intangibles (including brands) and technology related intangible assets. The basis for this method is that the value of an intangible asset is what the owner would have to pay to licence the asset if he did not own it. In other words, the value equates to the avoided cost of not having to pay a royalty.

##### *2.1.3 Inventories*

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

##### *2.1.4 Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For trade and other receivables with a relatively short life span, the carrying value would approximate the fair value.

#### **2.2 Determination of fair values arising on balances carried or disclosed at fair value**

##### *2.2.1 Investments*

The specific methodologies applied in valuing unrealised investments are described below:

The valuation approach follows the international Private Equity and Venture Capital Guidelines, applying the overriding concept that fair value is the amount for which an asset can be exchanged between knowledgeable and willing parties in an arm's length transaction. The nature, facts and circumstances of the investment drive the valuation methodology.

Investments at fair value through profit and loss include listed and unlisted investments:

Listed Equity Investments: All investments listed in recognised stock exchanges have been valued using quoted bid prices at year end.

Unlisted Equity investments: All unlisted equity investments have been valued as follows:

- (a) Where applicable, on the basis of a similar recent investment transaction by an independent third-party in the equity of the portfolio of the company. Where the

investment being valued was itself made fairly recently (within a period of one year), its costs provide a good indication of fair value; or

- (b) Using the discounted cash flow methodology, in which case:
- Enterprise value is apportioned to the enterprise's financial instruments in order of ranking. The enterprise value is derived, using reasonable assumptions and estimations of expected cash flows and the terminal value and discounting to the present value by applying the appropriate risk-adjusted discount rate that quantifies the risk inherent in the investment.
  - Given the subjective nature of valuations, the Group is cautious and conservative in determining the valuations.

#### 2.2.2 Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

#### 2.2.3 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

### 3. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. These are to be applied to financial statements with periods commencing on or after the following dates:

<i>Standards and Interpretations</i>	<i>Effective date</i>
Improvements to IFRSs (2010)	1 January 2011
Revised IAS 24 Related Party Disclosures	1 January 2011
Amendments to IFRIC 14 IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
IFRS 9 Financial Instruments*	1 January 2013
Amendment to IAS 32 – Classification of Rights Issues	Periods beginning on or after 1 February 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	Periods beginning on or after 1 February 2010
Amendments to IFRS 7 Disclosures-Transfers of Financial Assets*	Periods beginning on or after 1 July 2011
Deferred Tax: Recovery of Underlying Assets Amendments to IAS 12*	Periods beginning on or after 1 January 2012

\* These standards and interpretations are not endorsed by the EU at present.

#### **Improvements to IFRSs**

The improvements in the Amendment Improvements to IFRSs clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The impact of this amendment is not believed to be material.

#### **IAS 24 (revised)**

Under the revised IAS 24 Related Parties Disclosure, the structure of the definition of a related party has been simplified and inconsistencies eliminated. This may result in additional related parties for which disclosures will be required.

#### **IFRIC 14 (Amendments)**

This amendment to IFRIC 14 applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The Amendment permits such an entity to treat the benefit of such an early payment as an asset. The effect on the Group of adoption of the Amendment to IFRIC 14 has yet to be determined but is not believed to have a material impact.

## IFRS 9

IFRS 9 Financial Instruments will eventually replace IAS 39 in its entirety. IFRS 9 as issued on 12 November 2009 addresses the classification and measurement of financial assets only. The requirements for the classification and measurement of financial liabilities will be finalised and added to IFRS 9 once issues related to the recognition of changes in an entity's own credit risk have been addressed. The effect on the Group of adoption of IFRS 9 has yet to be determined.

## IAS 32 (Amendment)

This amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The Amendment requires that, provided the entity offers the rights, options or warrants *pro rata* to all of its existing owners of the same class of its own non-derivative equity instruments, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. This is not expected to have a significant impact on the Group's results.

## IFRIC 19

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability. It does not address the appropriate treatment for the creditor and does not apply to arrangements in which liabilities are extinguished in return for equity instruments in accordance with the original terms of the financial liability. The effect on the Group of adoption of IFRIC 19 is not expected to be significant.

## IFRS 7 (Amendments)

Amendments to IFRS 7 requires the disclosure of information in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. This may result in additional financial assets for which disclosures will be required.

## IAS 12 (Amendments)

These amendments require an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. The effect on the Group of adoption of the Amendment to IAS 12 has yet to be determined.

## 4. Revenue

	2010 £'000	2009 £'000
Sale of goods	207,947	154,206
Rendering of services	154	–
	<u>208,101</u>	<u>154,206</u>

## 5. Net gains on investments

	2010 £'000	2009 £'000
Net gains on investments classified as loans and receivables (Impairments)/reversal of impairments on investments classified as loans and receivables	3,488	1,590
Net gains/(losses) on investments held at fair value through profit and loss	(56)	4,069
Net gains on trading financial instruments at fair value through profit and loss	2,477	(2,792)
Loss on derivative in a designated hedge relationship	2	–
	(245)	(208)
Net gains on investments	<u>5,666</u>	<u>2,659</u>

## 6. Fees, dividends and interest from loans, receivables and investments

	2010 £'000	2009 £'000
Dividends from unimpaired investments classified as loans and receivables	576	2,312
Dividends from impaired investments classified as loans and receivables	–	466
Dividends from investments at fair value through profit and loss	8	–
Interest income from unimpaired investments classified as loans and receivables	116	1,009
Fee income	547	136
	<u>1,247</u>	<u>3,923</u>

## 7. Loss from operations

	2010 £'000	2009 £'000
This has been arrived at after charging/(crediting):		
Auditor's remuneration		
Paid to Group auditors		
– Audit fees of the Group and Company annual accounts	70	75
– Other services pursuant to legislation	–	–
– Other services	–	12
– Paid to Associates of BDO LLP for audit of subsidiaries	68	55
	<u>138</u>	<u>142</u>
	2010 £'000	2009 £'000
Staff costs		
Wages and salaries	17,843	15,612
Social security costs	142	403
Pension costs	1,822	1,176
	<u>19,807</u>	<u>17,191</u>
Impairment losses/(reversal of impairment losses) arising on financial assets:		
Trade receivables	369	89
Investments	56	(4,069)
	<u>425</u>	<u>(3,980)</u>
Foreign exchange losses/(gains)		
Realised		
On forward exchange contracts	533	204
Other	(514)	(5,119)
	19	(4,915)
Unrealised	–	
On forward exchange contracts	–	(4)
	<u>19</u>	<u>(4,919)</u>
Operating lease expense	<u>3,935</u>	<u>2,131</u>

## 8. Employees

The average number of employees (excluding Blackstar Group SE Directors) during the year by function were as follows:

	2010	2009
Managerial	79	79
Administrative	271	242
Operational	1,015	919
	<u>1,365</u>	<u>1,240</u>

## 9. Net finance charges

	2010 £'000	2009 £'000
<b>Finance income</b>		
Interest income on bank balances	355	443
Interest income on trade receivables	13	5
Interest income on other receivables	14	–
Gain on cashflow hedge of interest rate risk	–	22
	382	470
<b>Finance costs</b>		
Interest expense on bank overdrafts	(144)	(249)
Interest expense on borrowings from banks	(2,228)	(2,804)
Interest expense on non controlling shareholder loans	(306)	(343)
Interest expense on finance leases and instalment sale agreements	(101)	(30)
Interest expense on revolving inventory financing facility	(1,434)	(837)
Interest expense on debtors invoice discounting facility	(1,128)	(807)
Interest expense on other financial liabilities	(34)	(20)
Interest expense on trade payables	(22)	–
Loss on cashflow hedge of interest rate risk	(367)	(166)
	(5,764)	(5,256)
	<u>(5,382)</u>	<u>(4,786)</u>

## 10. Taxation

	2010 £'000	2009 £'000
<b>Current taxation</b>		
Current year	1,755	987
Prior years under/(over) provision	215	(76)
	1,970	911
<b>Deferred taxation</b>		
Current year	(697)	(2,679)
Prior years over provision	(25)	–
Prior years deferred tax asset derecognised	1,369	–
	647	(2,679)
Net wealth tax and secondary tax on companies	7	46
	<u>2,624</u>	<u>(1,722)</u>

The reason for the difference between the actual tax charge for the year and the standard rate of corporate tax in Luxembourg applied to profits of 28.59% (2009: 28.59%) are as follows:

	2010 £'000	2009 £'000
Loss before taxation	(10,545)	(5,456)
Add back share of profits of associates	(1,539)	–
Loss before taxation and share of profits of associates	(12,084)	(5,456)
Tax at standard rate of corporate tax in Luxembourg	(3,455)	(1,560)
Differing foreign tax rates	(200)	–
Income and expenses not subject to tax	1,274	(2,248)
Tax losses unutilised	3,439	2,116
Over/(under) provision from prior years	1,559	(76)
Net wealth tax and secondary tax on companies	7	46
Current tax charge for the year	<u>2,624</u>	<u>(1,722)</u>

## 11. Basic and diluted loss per share

	2010 £'000	2009 £'000
Net loss attributable to equity holders of the parent	(11,121)	(2,547)
Weighted average number of shares in issue (thousands)	77,275	76,454
Basic and diluted loss per share (in pence)	(14.39)	(3.33)

## 12. Property, plant and equipment

	2010 £'000	2009 £'000
<b>Cost</b>		
Land and buildings	4,933	3,698
Plant and machinery	22,021	16,544
Vehicles	881	519
Office furniture, fixtures and equipment	2,030	1,515
Capital work in progress	912	1,074
	<u>30,777</u>	<u>23,350</u>
<b>Accumulated depreciation</b>		
Land and buildings	(98)	(28)
Plant and machinery	(7,687)	(3,524)
Vehicles	(337)	(177)
Office furniture, fixtures and equipment	(989)	(362)
Capital work in progress	–	–
	<u>(9,111)</u>	<u>(4,091)</u>
Carrying amount	<u>21,666</u>	<u>19,259</u>

	<i>Land and buildings</i> £'000	<i>Plant and machinery</i> £'000	<i>Vehicles</i> £'000	<i>Office furniture, fixtures and equipment</i> £'000	<i>Capital work in progress</i> £'000	<i>Total</i> £'000
<b>2010</b>						
Carrying amount at the beginning of the year	3,670	13,020	342	1,153	1,074	19,259
Additions	229	1,586	381	200	352	2,748
Disposals	–	(9)	(79)	(14)	–	(102)
Depreciation	(57)	(2,436)	(165)	(448)	–	(3,106)
Transfers between categories	386	262	–	1	(649)	–
Currency exchange gains during the year	607	1,911	65	149	135	2,867
Carrying amount at the end of the year	<u>4,835</u>	<u>14,334</u>	<u>544</u>	<u>1,041</u>	<u>912</u>	<u>21,666</u>
<b>2009</b>						
Carrying amount at the beginning of the year	–	–	–	–	–	–
Additions	–	405	83	48	1,192	1,728
Disposals	–	(12)	(16)	–	–	(28)
On acquisition of subsidiaries and businesses	3,110	11,708	338	531	777	16,464
Depreciation	(19)	(1,847)	(110)	(194)	–	(2,170)
Transfers between categories	35	395	–	639	(1,069)	–
Currency exchange gains during the year	544	2,371	47	129	174	3,265
Carrying amount at the end of the year	<u>3,670</u>	<u>13,020</u>	<u>342</u>	<u>1,153</u>	<u>1,074</u>	<u>19,259</u>

For details of property, plant and equipment pledged as security refer note 22 Borrowings and note 23 Other financial liabilities.

There were no impairments recognised on property, plant and equipment during the year ended 31 December 2010 (2009: nil).

### 13. Goodwill

	2010 £'000	2009 £'000
Cost	33,304	30,655
Accumulated impairment losses	(14,469)	(3,883)
Carrying amount	<u>18,835</u>	<u>26,772</u>
	2010 £'000	2009 £'000
Ferro Industrial Products (Pty) Limited ("Ferro")	4,075	3,540
KMG Steel Service Centres (Pty) Limited ("KMG"), previously Kulungile Metals Group (Pty) Limited (net of impairment)	2,241	7,650
Blackstar Group (Pty) Limited ("Blackstar SA") and internalisation of investment advisory arrangements (net of impairment)	11,382	14,882
Arising on acquisitions made by KMG	1,137	700
Carrying amount at the end of the year	<u>18,835</u>	<u>26,772</u>
	2010 £'000	2009 £'000
Carrying amount at the beginning of the year	26,772	-
Arising on acquisition of subsidiaries KMG, Ferro and Blackstar SA and internalisation of investment advisory arrangements	-	27,184
Arising on acquisitions made by KMG	247	700
Impairment arising on goodwill in respect of KMG	(6,503)	(3,883)
Impairment arising on goodwill in respect of internalisation of investment advisory arrangements	(3,500)	-
Currency exchange gains during the year	1,819	2,771
Carrying amount at the end of the year	<u>18,835</u>	<u>26,772</u>

#### 13.1 Impairment testing

For the purpose of impairment testing, goodwill is allocated to operating divisions within each of the Group's segments, which represent the lowest level at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 40.

The aggregate carrying amounts of goodwill as at year end allocated to each cash-generating unit are as follows:

	Carrying amount at year end prior to impairment £'000	Impairment raised £'000	Carrying amount at 31 December 2010 net of impairment £'000
<b>2010</b>			
<b>Investment activities segment</b>			
CGU 1	14,882	(3,500)	11,382
<b>Industrial chemicals segment (Ferro)</b>			
CGU 1	1,076	-	1,076
CGU 2	817	-	817
CGU 3	2,182	-	2,182
	4,075	-	4,075
<b>Industrial metals segment (KMG)</b>			
CGU 1	-	-	-
CGU 2	3,702	(3,702)	-
CGU 3	2,387	(2,307)	80
CGU 4	1,772	(494)	1,278
CGU 5	965	-	965
CGU 6	786	-	786
CGU 7	269	-	269
	9,881	(6,503)	3,378
	<u>28,838</u>	<u>(10,003)</u>	<u>18,835</u>

	Carrying amount prior to impairment £'000	Impairment raised £'000	Carrying amount at 31 December 2009 net of impairment £'000
<b>2009</b>			
<b>Investment activities segment</b>			
CGU 1	14,882	–	14,882
<b>Industrial chemicals segment (Ferro)</b>			
CGU 1	935	–	935
CGU 2	710	–	710
CGU 3	1,895	–	1,895
	3,540	–	3,540
<b>Industrial metals segment (KMG)</b>			
CGU 1	1,787	(1,787)	–
CGU 2	4,791	(1,575)	3,216
CGU 3	2,594	(520)	2,074
CGU 4	1,539	–	1,539
CGU 5	838	–	838
CGU 6	683	–	683
	12,232	(3,882)	8,350
	<u>30,654</u>	<u>(3,882)</u>	<u>26,772</u>

#### *Impairment testing for Investment activities segment*

As part of the internalisation of Blackstar's investment advisory arrangements, in 2009 the Group acquired 100% of the ordinary shares of Blackstar SA. In addition, Blackstar and Blackstar SA ended all of their respective investment advisory agreements and as a result, on acquisition of the company, Blackstar also assumed the liability for termination of the investment advisory agreement.

The internalisation gave rise to goodwill of £14,882,000. The recoverable amount has been determined using a discounted cash flow model using the net asset value of the Group at the end of the year, a growth rate of 11.7% and discount rate of 15% for a four year period (being the remaining term of the investment advisory agreement which was terminated following the internalisation). In 2010, the recoverable amount was less than the carrying amount and an impairment of £3,500,000 was recognised. This impairment arose as the net asset value of the Group declined in 2010.

#### *Impairment testing for Industrial chemicals and Industrial metals segments*

The recoverable amounts of all of the cash-generating units within both the Industrial chemicals and Industrial metals segments have been determined by discounting the estimated future cash flows generated from the use of each cash-generating unit. The cash flow projections were based on formally approved budgets for the year ended 31 December 2011. Cash flows for a further four years ending 31 December 2015 were determined by applying revenue and expense growth rates and margins to the 31 December 2011 approved budgets. These rates, which differed for each cash-generating unit, were determined based on management's past experience and future expectations in the light of anticipated economic and market conditions.

The weighted average cost of capital, used to determine the recoverable amounts for each of the cash-generating units within the Industrial chemicals and Industrial metals segments ranged between 15% and 17% and were determined using a South African Government Bond risk free rate, appropriate risk premiums, Betas of industry comparable companies, South African debt rates and tax rates and the debt ratios of industry comparable companies.

An impairment loss of £6,503,000 was recognised at 31 December 2010 as the carrying amount of goodwill for CGU's 2,3 and 4 within the Industrial metals segment exceeded their recoverable amounts. These cash-generating units process and distribute carbon steel, aluminium, stainless steel and manufacture steel roofing and cladding. These units were negatively impacted by difficult market conditions including a decline in demand and weaker steel prices. This resulted in a lower recoverable amount for these particular cash-generating units and the recognition of an impairment of goodwill.

For CGU 5 within the Industrial metals segment, the discount rate would need to increase by 0.36% in order for the recoverable amount to equal the carrying amount of goodwill attributable to this unit.

The Group has one cash-generating unit, where the carrying amount of goodwill is significant in comparison to the Group's total carrying amount of goodwill, namely CGU 1 in the Investment activities segment. Since the goodwill for this segment has been impaired, the recoverable amount is equal to the carrying amount.

## 14. Intangible assets

	2010 £'000	2009 £'000			
<b>Cost</b>					
Marketing related intangibles (brands)	6,847	5,948			
Customer related intangibles	8,470	7,358			
Technology related intangibles	1,424	1,237			
Registered trademarks	1,462	1,272			
	18,203	15,815			
<b>Accumulated amortisation and impairments</b>					
Marketing related intangibles (brands)	(1,811)	(416)			
Customer related intangibles	(2,881)	(707)			
Technology related intangibles	(142)	(62)			
Registered trademarks	(88)	(64)			
	(4,922)	(1,249)			
Carrying amount	<u>13,281</u>	<u>14,566</u>			
	<i>Marketing related intangibles (brands) £'000</i>	<i>Customer related intangibles £'000</i>	<i>Technology related intangibles £'000</i>	<i>Registered trademarks £'000</i>	<i>Total £'000</i>
2010					
Carrying amount at the beginning of the year	5,532	6,651	1,175	1,208	14,566
Amortisation	(577)	(809)	(65)	(14)	(1,465)
Impairments	(644)	(1,085)	–	–	(1,729)
Currency exchange gains during the year	725	832	172	180	1,909
Carrying amount at the end of the year	<u>5,036</u>	<u>5,589</u>	<u>1,282</u>	<u>1,374</u>	<u>13,281</u>
	<i>Marketing related intangibles (brands) £'000</i>	<i>Customer related intangibles £'000</i>	<i>Technology related intangibles £'000</i>	<i>Registered trademarks £'000</i>	<i>Total £'000</i>
2009					
Carrying amount at the beginning of the year	–	–	–	–	–
On acquisition of subsidiaries and businesses	4,857	6,194	1,056	1,086	13,193
Amortisation	(386)	(650)	(56)	(58)	(1,150)
Currency exchange gains during the year	1,061	1,107	175	180	2,523
Carrying amount at the end of the year	<u>5,532</u>	<u>6,651</u>	<u>1,175</u>	<u>1,208</u>	<u>14,566</u>

The amortisation and impairment charges are included in the line item "Administrative expenses – Trading businesses" in the income statement.

KMG has experienced difficult trading conditions which has negatively impacted its profitability and resulted in intangible assets within the Industrial metals segment being impaired by an amount of £1,729,000 during the current financial year. Of the total impairment expense, £989,000 arose as the recoverable amounts of the intangible assets were less than the carrying values as at 31 December 2010. The recoverable amounts were calculated based on the value in use using a discounted cash flow model. Discount rates utilised ranged from between 19.5% to 21.3%. The remaining impairment of £740,000 arose as the recoverable amounts of the cash generating units to which these intangible assets were allocated were less than their carrying values and subsequent to impairment of the goodwill, this deficit was allocated to the intangible assets within each cash-generating unit (refer note 13 for details of the impairment testing performed on the individual cash-generating units within the Industrial metals segment).

There are no individually material assets requiring separate disclosure and there were no impairments recorded during the prior reporting year.

## 15. Investments in associates

It is the Group's accounting policy to account for investments in associates held as part of the Group's investment portfolio at fair value, and realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in profit and loss in the period in which they arise. This accounting treatment is permitted by IAS 28 Investment in Associates which allows investments held by venture capital organisations to be excluded from the scope of IAS 28 Investment in Associates.

Two of the associates of the Group which have previously been held within the investment portfolio are no longer believed to meet the requirements for inclusion in the investment portfolio. In April 2010, Blackstar re-assessed its view of the investments in Litha Healthcare Group Limited ("Litha"), previously Myriad Medical Holdings Limited ("Myriad") and Navigare Securities (Pty) Limited ("Navigare") and believe that both of these investments no longer meet the specific criteria for inclusion in the venture capital division and should rather be transferred to the equity accounted investment portfolio. The reclassifications arose as a result of a change in Blackstar's assessment and strategic view of these investments.

The investments in both Litha and Navigare, previously reported in December 2009 as investments held at fair value through profit and loss, are now accounted for as investments in associates. Blackstar's proportionate share of Litha's and Navigare's earnings for the period since being classified as associates have been equity accounted.

	<i>Principal Activity</i>	<i>31 December 2010</i>	<i>31 December 2009</i>
Litha Healthcare Group Limited*	Healthcare company	45%	19%
Navigare Securities (Pty) Limited*	Stock broker	25%	25%

\* Incorporated in South Africa.

Summarised financial information in respect of the Group's associates is set out below:

	<i>31 December 2010 £'000</i>	<i>31 December 2009 £'000</i>
Total assets	121,013	–
Total liabilities	(70,958)	–
Net assets	<u>50,055</u>	<u>–</u>
Group's share of associates	<u>14,637</u>	<u>–</u>
Total revenue	105,332	–
Total profit for the period	<u>3,574</u>	<u>–</u>
Group's share of associates	<u>1,539</u>	<u>–</u>

At 31 December 2010, Litha's listed share price closed at R2.76 and the Group's share of Litha at this market price amounted to R402,900,000 (£38,896,000).

The Company has provided security to a bank over 20.6% of its ordinary shares in Litha.

The Group did not receive any dividends from any of its associates.

## 16. Investments classified as loans and receivables

	<i>2010 £'000</i>	<i>2009 £'000</i>
Book cost at the beginning of the year	14,388	43,821
Additions during the year at cost	746	1,363
Disposals during the year at cost	(13,985)	(11,901)
Other movements	–	(18,895)
Book cost at the end of the year	<u>1,149</u>	<u>14,388</u>

Other movements represent balances that eliminate on consolidation as a result of the acquisition of KMG (refer note 30).

	2010 £'000	2009 £'000
Carrying value at the beginning of the year	23,101	50,183
Additions during the year at cost	746	1,363
Disposals during the year at cost	(13,985)	(11,901)
Unrealised losses on disposals recognised in prior years	167	–
Net dividends (received)/accrued during the year	(6,090)	2,104
Net interest accrued/(received) during the year	37	(1,345)
(Impairments)/reversal of impairments during the year	(56)	4,069
Currency exchange (losses)/gains during the year	(2,545)	37
Other movements	–	(21,409)
Carrying value at the end of the year	<u>1,375</u>	<u>23,101</u>

Other movements represent balances that eliminate on consolidation as a result of the acquisition of KMG (refer note 30).

	2010 £'000	2009 £'000
Non-current portion	873	975
Current portion	502	22,126
	<u>1,375</u>	<u>23,101</u>

#### **Analysis of gains/(losses) on investments**

	2010 £'000	2009 £'000
Proceeds on disposals during the year	17,306	13,491
Investments at cost	(13,985)	(11,901)
Realised gains on disposals based on historical cost	3,321	1,590
Add unrealised losses on disposals recognised in prior years	167	–
Realised gains recognised in the income statement on disposals based on carrying value at prior year balance sheet date	3,488	1,590
(Impairments)/reversal of impairments during the year	(56)	4,069
Net gains on investments	<u>3,432</u>	<u>5,659</u>

The Group does not have a controlling interest in any of the investments classified as loans and receivables, which comprise the following:

	<i>Carrying value 2010 £'000</i>	<i>Carrying value 2009 £'000</i>
Loan to Tanmac Trading (Pty) Limited. The loan bears interest at South African Prime rate plus 200 basis points nominal annual compounded monthly and is repayable in 2013	564	–
Loan to Adreach (Pty) Limited. The loan bears interest at South African Prime rate plus 200 basis points nominal annual compounded monthly and is repayable in 2011	244	212
Loan to staff of Ferro Industrial Products (Pty) Limited. The loan bears interest at 90% of South African Prime rate nominal annual compounded semi-annually and is repayable in 2015	318	270
Loan to Air-O-Thene Products (Pty) Limited. The loan bears interest at South African Prime rate plus 300 basis points nominal annual compounded monthly and is repayable on demand	249	–
Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha Healthcare Group Limited. Dividends are payable at South African Prime rate plus 150 basis points nominal annual compounded monthly and the shares have been redeemed	–	3,403
Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited. Dividends are payable at 91% of South African Prime rate nominal annual compounded monthly and the shares have been redeemed	–	18,721
Loan to Navigare Securities (Pty) Limited. The loan bears interest at 75% of South African Prime rate nominal annual compounded monthly and has been repaid	–	495
Carrying value at the end of the year	<u>1,375</u>	<u>23,101</u>

Refer note 31 Financial instruments for further disclosure.

#### **17. Investments at fair value through profit and loss**

	<i>2010 £'000</i>	<i>2009 £'000</i>
Book cost at the beginning of the year	11,856	22,900
Other movements*	(1,170)	–
Book cost at the beginning of the year restated	<u>10,686</u>	<u>22,900</u>
Additions during the year at cost	5,019	542
On acquisition of subsidiaries (note 30)	–	707
Disposals during the year at cost	(6,485)	(12,293)
Other movements#	(1,292)	–
Book cost at the end of the year	<u>7,928</u>	<u>11,856</u>

\* Other movements represent balances that now eliminate on consolidation as a result of the acquisition of ordinary shares in special purpose vehicles which hold interests in York Timber Holdings Limited. This was erroneously not reflected at 31 December 2009.

# Other movements in the current year represent balances that are now included under investments in associates.

	2010 £'000	2009 £'000
Fair value at the beginning of the year	13,482	33,167
Additions during the year at cost	5,019	542
On acquisition of subsidiaries (note 30)	–	707
Disposals during the year at cost	(6,485)	(12,293)
Unrealised gains on disposals recognised in prior years	(1,138)	(8,205)
Unrealised gains during the year	2,992	3,982
Currency exchange gains during the year	1,253	725
Other movements <sup>^</sup>	(2,522)	(5,143)
Fair value at the end of the year	<u>12,601</u>	<u>13,482</u>

<sup>^</sup> Other movements in the current year represent balances that are now included under investments in associates. Other movements in the prior year represent balances that now eliminate on consolidation as a result of the acquisition of KMG and the acquisition of ordinary shares in special purpose vehicles which hold interests in York Timber Holdings Limited.

	2010 £'000	2009 £'000
Non-current portion	12,056	10,802
Current portion	545	2,680
	<u>12,601</u>	<u>13,482</u>

### Analysis of gains/(losses) on investments

	2010 £'000	2009 £'000
Proceeds on disposals during the year	7,108	13,724
Investments at cost	(6,485)	(12,293)
Realised gains on disposals based on historical cost	623	1,431
Less unrealised gains on disposals recognised in prior years	(1,138)	(8,205)
Realised losses recognised in the income statement on disposals based on carrying value at prior year balance sheet date	(515)	(6,774)
Unrealised gains during the year	2,992	3,982
Net gains/(losses) on investments	<u>2,477</u>	<u>(2,792)</u>

The Group does not have a controlling interest in any of the investments at fair value through profit and loss. These investments are monitored on a fair value basis and comprise the following:

	Fair value 2010 £'000	Fair value 2009 £'000
Derivative investment in a services company, which gives the Group exposure to a minority interest in the underlying services company	9,768	5,744
Ordinary shares in Adreach (Pty) Limited	2,027	1,846
Ordinary shares in Wonderdeals 38 (Pty) Limited	261	–
Other listed shares	545	98
Derivative investment in a telecom company, which gives the Group exposure to a minority interest in the underlying telecom company	–	1,002
Ordinary shares in Litha Healthcare Group Limited*	–	2,294
Ordinary shares in Navigare Securities (Pty) Limited*	–	134
Convertible, non-redeemable, cumulative preference shares in York Timber Holdings Limited	–	686
Option to subscribe for "N" preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited	–	1,678
Fair value at the end of the year	<u>12,601</u>	<u>13,482</u>

\* These investments are now accounted for as investments in associates (refer note 15).

Refer note 31 Financial instruments for further disclosure.

**18. Other financial assets**

	2010 £'000	2009 £'000
Derivatives designated and effective as hedging instruments carried at fair value:		
Forward exchange contracts	78	62
Currency option accounted for as a derivative in an effective hedging relationship	–	245
	<u>78</u>	<u>307</u>
Non-current portion	52	–
Current portion	26	307
	<u>78</u>	<u>307</u>

Refer note 31 Financial instruments for further disclosure.

**19. Trade and other receivables**

	2010 £'000	2009 £'000
Trade receivables	24,698	23,079
Impairment allowance	(652)	(630)
	<u>24,046</u>	<u>22,449</u>
Prepayments and accrued income	405	446
Other receivables	654	1,479
	<u>25,105</u>	<u>24,374</u>

For details of trade receivables pledged as security refer note 22 Borrowings and note 23 Other financial liabilities.

Refer note 31 Financial instruments for further disclosure.

**20. Inventories**

	2010 £'000	2009 £'000
Finished goods	19,733	24,451
Work in progress	177	311
Raw materials	7,094	7,163
Consumables	2	3
	<u>27,006</u>	<u>31,928</u>

The cost of inventories recognised as an expense amounts to £177,528,000 (2009: £128,859,000) and has been reflected as cost of sales on the face of the income statement. This amount excludes £291,000 (2009: £3,742,000) in respect of write-downs of inventory to net realisable value. The write-down in both years arose on KMG's inventories as a result of the difficult conditions in the steel market in South Africa and weaker steel prices. There have been no reversals of inventory write-downs (2009: nil). A provision for obsolescence is raised for specific items identified as slow moving.

For details of inventories pledged as security refer to note 22 Borrowings and note 23 Other financial liabilities.

**21. Cash and cash equivalents**

	2010 £'000	2009 £'000
Deposits and cash at bank	19,196	17,521
Bank overdrafts	(1)	(202)
Cash and cash equivalents per the cash flow statement	<u>19,195</u>	<u>17,319</u>

South African subsidiaries' cash and cash equivalents of £5,911,000 (2009: £4,134,000) are ring-fenced and are not available to other entities within the Group. Transfers of cash are subject to South African exchange control regulations. Cash and cash equivalents held at the centre amounted to £13,285,000 at year end (2009: £13,387,000).

For details of cash and cash equivalents pledged as security refer to note 22 Borrowings and note 23 Other financial liabilities.

## 22. Borrowings

Borrowings comprise the following:

	2010 £'000	2009 £'000
<i>Unsecured</i>		
Loans to KMG and Ferro from non controlling shareholders. The KMG loan bears interest at 90% of the South African Prime rate nominal annual compounded semi-annually and is repayable in 2013. The Ferro loan bears interest at South African Prime rate plus 300 basis points and has no fixed terms of repayment	2,702	2,434
Cumulative redeemable class A preference shares in KMG held by a non controlling shareholder. Dividends are payable at 90% of South African Prime rate nominal annual compounded semi-annually and the shares are redeemable in 2013	169	135
Loan which bears interest at a fixed rate of 10% per annum and is repayable in monthly instalments ending in 2013	150	–
<i>Secured</i>		
Loans which bear interest at variable rates ranging from Johannesburg Interbank Agreed rate plus 350 to 500 basis points. The loans have been repaid*	–	12,982
Loan which bears at a fixed rate of 12.07% per annum, repayable in quarterly instalments with the final instalment payable in May 2014#	9,399	9,123
Mortgage loan which bear interest at a fixed rate of 11.81% per annum, repayable in monthly instalments, escalating by 10% per annum with the final instalment payable in 2020^	1,413	–
	<u>13,833</u>	<u>24,674</u>

Notes:

\* KMG has one agreement with a bank which covers the various facilities available to KMG and related securities provided. The long terms loans amounting to £nil (2009:£12,982,000) (refer note 22), and the revolving inventory financing facility amounting to £15,929,000 (2009:£14,257,000) (refer note 23) are included as part of the facilities utilised by KMG. Details of the security provided for both of the afore-mentioned liabilities have been provided in note 31.4.3.

# Security provided by Ferro for this loan includes first rank cession of the following: all of Ferro's book debts amounting to £4.4 million at year end; all insurance policies held by Ferro; all cash balances and deposits held by Ferro (amounting to £3.2 million); and first rank cession and pledge on all shareholders loan accounts and all shares held in Ferro. In addition to this Ferro has also provided as security first rank mortgage bond over Ferro's property for a fixed amount of R23 million (£2.2 million), and first rank notarial bond over Ferro's moveable assets for a fixed sum R70 million (£6.8 million).

^ The following security has been provided for Blackstar Real Estate (Pty) Limited's ("BRE") mortgage loan: unconditional, irrevocable guarantees from Blackstar Group SE for the full obligations of the BRE and for the full rental obligations of KMG; shareholder loans in BRE have been subordinated in favour of the lender (the bank); first covering mortgage bonds are registered over the properties in favour of the lender for an aggregate amount of R14.6 million (£1.4 million) plus costs; cession of rental income in respect of any lease agreement concluded or to be concluded in respect of the properties; and cession of all insurance policies over the mortgaged properties.

	2010 £'000	2009 £'000
Non-current portion	12,538	17,412
Current portion	1,295	7,262
	<u>13,833</u>	<u>24,674</u>

At year end none of the borrowings were in default or breach.

Refer note 31 Financial instruments for further disclosure.

## 23. Other financial liabilities

Other financial liabilities comprise the following:

	2010 £'000	2009 £'000
Revolving inventory financing facility. The loan bears interest at South African Prime rate plus 100 basis points. Interest is repayable monthly in arrears and the capital is repayable on a rolling unspecified period*	15,929	14,257
Debtors invoice discounting facility. The loan bears interest at South African Prime rate plus 100 basis points. Interest is repayable monthly in arrears and the capital is repayable on a rolling unspecified period#	9,117	8,192
Accrual arising on operating leases as a result of lease payments being recognised as an expense on a straight-line basis over the lease term	2,957	2,394
Asset finance loan, which is free of interest and has been repaid	–	783
Asset finance loan, which bears interest at a fixed rate of 10% per annum and is repayable in monthly instalments ending in 2013^	624	–
Finance leases and instalment sale agreements. Certain loans bear interest at rates ranging from 150 to 200 basis points below the South African Prime rate and the other loans bear interest at a fixed rate of between 12% and 13.5%. The loans are repayable in monthly instalments+	771	639
Derivatives designated and effective as hedging instruments carried at fair value		
Forward exchange contracts ("FECs")	79	69
Interest rate swaps	–	338
	<u>29,477</u>	<u>26,672</u>

Notes:

- \* KMG has one agreement with a bank which covers the various facilities available to KMG and related securities provided. The long terms loans amounting to £nil (2009:£12,982,000) (refer note 22), and the revolving inventory financing facility amounting to £15,929,000 (2009:£14,257,000) (refer note 23) are included as part of the facilities utilised by KMG. Details of the security provided for both of the afore-mentioned liabilities have been provided in note 31.4.3.
- # KMG has provided the following security for these facilities: first cession of KMG's receivables amounting to £13.1 million at year end; cession of Credit Guarantee Insurance Company policies held by KMG; discounting of KMG's invoices, with recourse, with 25% retention margin; and cession of KMG's bank accounts utilised for debtor receipts which had a nil balance as at 31 December 2010.
- ^ Assets with a carrying value of £0.7 million, included in property, plant and equipment have been provided as security.
- + Assets with a carrying value of £0.9 million, (2009:£1.2 million), included in property, plant and equipment have been provided as security.

	2010 £'000	2009 £'000
Non-current portion	3,937	3,726
Current portion	25,540	22,946
	<u>29,477</u>	<u>26,672</u>

At 31 December 2010, the revolving inventory financing facility held by KMG amounting to £15,929,000 was in breach due to the fact that the carrying value of inventory on hand was not at the required level as per the agreement. This breach was remedied subsequent to year end by repaying sufficient amounts of the liability in January and February 2011 so as to reduce the liability to an acceptable level in relation to the value of inventory held. By the end of February 2011, there was no breach of the terms of the facility.

None of the remaining other financial liabilities at 31 December 2010 were in default or breach and there were no defaults or breaches recorded in the prior year.

Refer note 31 Financial instruments for further disclosure.

## 24. Provisions

	2010 £'000	2009 £'000
Non-current portion	197	54
Current portion	288	84
	<u>485</u>	<u>138</u>

Provisions comprise the following:

### Provision for performance fees

In prior years, a provision was raised for the performance fee payable by Blackstar Group SE under the terms of the investment advisory agreement. The total performance fee was equal to 20% of the increase in the fair

value of investments of the Company subject to a 10% hurdle and making good any investment write-downs and general expenses. The provision was released in the prior year on the acquisition of Blackstar SA and the resulting internalisation of Blackstar's investment advisory arrangements on 26 June 2009.

#### **Provision for rectification**

A provision for rectification has been raised, where customers have been provided with a guarantee for certain products. This provision is based on the specific problematic products identified at year end.

#### **Provision for redundancies**

A provision for redundancies has been raised by the Group and is based on the staff identified to be retrenched and their average wages, working hours and length of service of employment.

#### **Provision for onerous contracts**

A provision for onerous contracts has been raised for operating leases for land and buildings which are considered by management to be onerous. The provision is calculated as the present value of the future cashflows identified as onerous net of any cash inflows from sub-letting and discounted using market-related rates.

#### **Provision for contingent consideration**

A provision has been raised for the consideration payable by KMG in respect of the acquisition of a subsidiary, which is dependent on the free cash flows generated by the entity over the next two and a half years. The provision is based on the formula per the purchase agreement.

	<i>Provision for performance fees £'000</i>	<i>Provision for rectification £'000</i>	<i>Provision for redundancies £'000</i>	<i>Provision for onerous contracts £'000</i>	<i>Provision for contingent consideration £'000</i>	<i>Total £'000</i>
Balance at 1 January 2009	404	–	–	–	–	404
Acquisition of businesses	–	34	451	–	–	485
Created	–	11	47	–	–	58
Utilised	(404)	–	(483)	–	–	(887)
Currency exchange losses	–	9	69	–	–	78
<b>Balance at 31 December 2009</b>	<b>–</b>	<b>54</b>	<b>84</b>	<b>–</b>	<b>–</b>	<b>138</b>
<b>Acquisition of business</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>102</b>	<b>102</b>
<b>Created</b>	<b>–</b>	<b>34</b>	<b>401</b>	<b>213</b>	<b>–</b>	<b>648</b>
<b>Utilised</b>	<b>–</b>	<b>(12)</b>	<b>(439)</b>	<b>–</b>	<b>–</b>	<b>(451)</b>
<b>Currency exchange losses</b>	<b>–</b>	<b>10</b>	<b>9</b>	<b>20</b>	<b>9</b>	<b>48</b>
<b>Balance at 31 December 2010</b>	<b>–</b>	<b>86</b>	<b>55</b>	<b>233</b>	<b>111</b>	<b>485</b>

## **25. Deferred taxation**

### **25.1 Movement in net deferred taxation**

	2010 £'000	2009 £'000
Net deferred tax liability at the beginning of the year	(3,390)	–
On acquisition of subsidiaries	–	(5,206)
Recognised in income statement	(647)	2,679
Currency exchange losses during the year	(571)	(863)
Net deferred tax liability at the end of the year	<u>(4,608)</u>	<u>(3,390)</u>

## 25.2 **Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities at year end are attributable to the following:

	Assets £'000	Liabilities £'000	Net £'000
<b>2010</b>			
Property, plant and equipment	–	(3,513)	(3,513)
Intangible assets	–	(2,729)	(2,729)
Inventories	124	–	124
Trade and other receivables	151	(92)	59
Other financial liabilities	828	–	828
Trade and other payables	320	–	320
Assessed losses	303	–	303
	1,726	(6,334)	(4,608)
Set-off of assets and liabilities	(1,601)	1,601	–
Deferred tax assets/(liabilities) per balance sheet	<u>125</u>	<u>(4,733)</u>	<u>(4,608)</u>
	Assets £'000	Liabilities £'000	Net £'000
<b>2009</b>			
Property, plant and equipment	–	(3,603)	(3,603)
Intangible assets	–	(3,172)	(3,172)
Inventories	25	–	25
Trade and other receivables	151	(99)	52
Other financial liabilities	670	–	670
Trade and other payables	519	–	519
Assessed losses	2,119	–	2,119
	3,484	(6,874)	(3,390)
Set-off of assets and liabilities	(2,602)	2,602	–
Deferred tax assets/(liabilities) per balance sheet	<u>882</u>	<u>(4,272)</u>	<u>(3,390)</u>

## 25.3 **Unrecognised deferred tax assets**

Blackstar Group SE has unutilised cumulative losses and capitalised expenses of £6,387,000 (2009: £7,403,000) that are deductible for tax purposes. Deferred tax assets have not been recognised due to the degree of uncertainty over both the amount and utilisation of the underlying tax losses and deductions.

The Group's subsidiary KMG has tax losses of £19,342,000 on which a deferred tax asset has not been recognised in the current year as it is not probable that future taxable profit will be available against which these tax losses can be utilised. The tax losses do not expire. In 2009, a deferred tax asset of £1,369,000 was recognised as it was believed by management at that point in time that future taxable profits would be available in the near future against which they could be utilised. After further losses being incurred during the current year, management revised their estimates resulting in the derecognition of the deferred tax asset.

## 26. **Trade and other payables**

	2010 £'000	2009 £'000
Trade payables	11,566	11,718
Salary related accruals	1,988	1,655
Other payables and accrued expenses	4,081	2,441
	<u>17,635</u>	<u>15,814</u>

Refer note 31 Financial instruments for further disclosure.

## 27. Share capital and reserves

	2010 £'000	2009 £'000
<b>Authorised</b>		
150,000,000 ordinary shares of £0.67 each	100,500	100,500
<b>Issued and fully paid</b>		
74,821,193 ordinary shares of £0.67 each	50,130	–
79,138,688 ordinary shares of £0.67 each	–	53,023

	<i>Number of shares</i>	<i>Number of shares</i>
<b>Movement of the ordinary shares of £1.00 each for the year</b>		
Total number of shares in issue at the beginning of the year	–	75,664,998
Buy-back and cancellation of shares	–	(2,405,488)
Capital re-organisation	–	(73,259,510)
Total number of shares in issue at the end of the year	–	–

### **Movement of the ordinary shares of £0.67 each for the year**

Total number of shares in issue at the beginning of the year	79,138,688	–
Buy-back and cancellation of shares	(4,317,495)	–
Capital re-organisation	–	73,259,510
Issue of new shares	–	13,341,851
Tender offer and cancellation of shares	–	(7,462,673)
Total number of shares in issue at the end of the year	74,821,193	79,138,688

### **Buy-back and cancellation of shares**

Further to the authority granted to the Company at the annual general meeting of the Company held on 10 May 2010, the Company purchased the following ordinary shares of nominal value of £0.67 each in the share capital of the Company: 2,477,495 shares on 11 May 2010 at a price of £0.69 per share, 840,000 shares on 26 October 2010 at a price of £0.75 per share and 1,000,000 shares on 16 November 2010 at a price of £0.74 per share. All of these shares were subsequently cancelled.

### **Cancellation of capital redemption reserve**

In April 2010, the High Court confirmed the cancellation of the capital redemption reserve of £30,156,000 in order to create distributable reserves.

### **Foreign currency translation reserve**

The foreign currency translation reserve comprises exchange differences arising on translation of assets and liabilities denominated in the functional currency (Rands) and all foreign exchange differences arising on translation of the financial statements of foreign operations.

### **Retained earnings**

Retained earnings comprise cumulative net gains and losses recognised in the consolidated income statement.

## 28. Net asset value per share

	2010 £'000	2009 £'000
Total net assets attributable to equity holders	90,196	101,749
Number of shares in issue (thousands)	74,821	79,139
Net asset value per share (pence)	121	129

## 29. Cash generated by operations

	2010 £'000	2009 £'000
Loss before taxation	(10,545)	(5,456)
Adjustments for:		
Profit on disposal of property, plant and equipment	(25)	(10)
Depreciation of property, plant and equipment	3,106	2,170
Amortisation of intangible assets	1,465	1,150
Impairment of intangible assets	1,729	–
Impairment of goodwill	10,003	3,883
Unrealised (gains)/losses on investments	(1,965)	154
Realised gains on disposal of investments	(3,944)	(3,021)
Dividends and interest from loans and investments	(700)	(3,787)
Gain on deemed disposal of a subsidiary (refer note 30.1.1)	(870)	–
Release of foreign currency translation reserve on deemed disposal of a subsidiary (refer note 30.1.1)	105	–
Finance income	(382)	(470)
Finance costs	5,764	5,256
Share of profit of associates	(1,539)	–
Share based payment expense	30	133
Decrease in provisions	198	(829)
Changes in working capital		
Decrease in trade and other receivables	2,851	6,089
Decrease in inventory	9,131	14,242
Decrease in trade and other payables	(684)	(7,904)
Increase in lease accruals	185	267
Movement in other financial liabilities in respect of FECs and derivatives in hedging relationships	(118)	(260)
	<u>13,795</u>	<u>11,607</u>

## 30. Acquisition of subsidiaries

During the year ended 31 December 2010, the Group made acquisitions as detailed below. These acquisitions are in line with its strategy of investing in a portfolio of businesses in South Africa with the underlying themes of strategic market positions, strong cash flows and the ability to exploit the wider African markets from its South African base. These investments may be in the form of either debt or equity (controlling or non controlling equity stakes).

For all of the acquisitions in both the prior year and current financial year, the Group has elected to measure non controlling interests at its proportionate interest in the identifiable net assets of the acquiree.

### 30.1 Acquisitions made during the current reporting year

The following acquisitions were made during the current reporting year:

#### 30.1.1 Acquisition of subsidiary and subsequent deemed disposal

At 31 December 2009, Blackstar held 19.02% of the ordinary shares in Myriad with a carrying amount of £2,294,000 and accounted for the investment as an investment at fair value through profit and loss (as is permitted by IAS 28 Investments in Associates for venture capital organisations).

On 8 April 2010, Blackstar obtained further shares in Myriad at a carrying amount of £3,879,000 as a result of Blackstar's redeemable preference shares in Vermogen Medical (Pty) Limited becoming due and payable, thereby increasing its shareholding to 50.16%.

Myriad acquired 51% of Litha Healthcare Holdings (Pty) Limited on 26 April 2010 and subsequently changed its name to Litha Healthcare Group Limited ("Litha"). This acquisition included a rights offer to existing shareholders and immediately thereafter a fresh issue of shares to Litha Healthcare Holdings (Pty) Limited's existing shareholders. Blackstar participated in the rights offer resulting in an increase in shareholding in Myriad from 50.16% to 51.6% at 26 April 2010. The fresh issue of shares to Litha Healthcare Holdings (Pty) Limited's existing shareholders then resulted in a dilution in Blackstar's shareholding to 44.82% on 26 April 2010.

As a result of the above transactions, Blackstar held a controlling interest in Myriad for a period of 19 days (being 8 April to 26 April 2010). The investment in Myriad was accounted for as an investment at fair value through profit and loss up until 8 April 2010 (with resulting gains and losses being recognised in the income statement) and thereafter it was consolidated as a subsidiary and a non controlling interest of £10,122,000 was recognised in the consolidated statement of changes in equity. Myriad's profit for the 19 days has not been consolidated in

the Group's Consolidated income statement, nor have Myriad's assets and liabilities been included for this 19 day period on a line-by-line basis within the Group's consolidated balance sheet as this has no material impact on the Group's results. Blackstar's participation in the rights offer and increase in shareholding in Myriad from 50.16% to 51.6% reduced the non controlling interest by £14,000 as reflected in the consolidated statement of changes in equity.

Myriad's issue of new shares resulted in Blackstar relinquishing its controlling interest in Myriad. In accordance with IFRS 3 Business Combinations, a Group gain of £870,000 was recognised in the consolidated income statement on the deemed disposal of the subsidiary. This gain was calculated as the difference between the fair value of the retained interest of £11,735,000 (being 44.82% at the quoted bid price on 26 April 2010) and the net assets disposed of amounting to £10,865,000 (being Blackstar's share of Myriad's net assets which were consolidated). As a result of this deemed disposal, the carrying amount of the non controlling interest at 26 April 2010 was released and the foreign currency translation reserve recognised on consolidation of the subsidiary, amounting to £105,000 was transferred to the consolidated income statement and recognised as a loss. Included in the consolidated cash flow statement is the cash outflow on acquisition of subsidiary and subsequent deemed disposal amounting to £4,950,000 the majority of which is the cost of the shares taken up by Blackstar in the rights offer. The fair value of the retained interest of £11,735,000 was transferred to investment in associates as Blackstar has significant influence over Litha from 27 April 2010 and Litha's net profit from this date onwards has been equity accounted (refer note 15).

### 30.1.2 Other acquisitions

On 1 July 2010, KMG acquired 100% of the shares in Helm Engineering (Pty) Limited ("Helm"). This was not a material acquisition from a Group perspective.

The net assets acquired were as follows:

	<i>Book value</i> £'000	<i>Fair value</i> <i>adjustments</i> £'000	<i>Fair value on</i> <i>acquisition</i> £'000
Trade and other receivables	196	–	196
Inventories	200	–	200
Cash and cash equivalents	–	–	–
Borrowings	(214)	–	(214)
Trade and other payables	(151)	–	(151)
Bank overdrafts	(31)	–	(31)
	<hr/>	<hr/>	<hr/>
Total net identifiable assets	–	–	–
Contingent consideration	–	(102)	(102)
Cash consideration paid for shares			145
			<hr/>
Goodwill arising on acquisition			247

During the year from date of acquisition, Helm contributed £1.1 million to revenue and a loss of £24,000 to profit after taxation. Had the acquisition taken place on 1 January 2010, Helm would have contributed £2.0 million to revenue and a loss of £51,000 to profit before taxation.

The consideration paid for Helm is dependent on the free cash flows generated by the entity over the next two and a half years. A provision for the contingent consideration has been raised based on the formula per the agreement and takes into account the budgeted free cash flows for the entity, approved by management, discounted at market related rates. The fair value for trade receivables acquired is disclosed in the tables above and as trade receivables have a short contractual maturity the fair values as disclosed would be equal to the contractual cashflows.

## 30.2 Acquisitions made during the prior reporting year

### 30.2.1 Acquisition of shares in Ferro Industrial Products (Pty) Limited ("Ferro")

On 21 January 2009, the Group acquired a controlling interest in Ferro, comprising 56% of the ordinary shares for a cash consideration of £3.2 million. As part of the acquisition, certain shareholders loans were acquired at their fair value £2.7 million. Ferro is a South African manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits, glass coatings and glaze coatings used on ceramic products.

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Property, plant and equipment	5,630	(143)	5,487
Intangible assets	2,905	3,757	6,662
Trade and other receivables	3,480	–	3,480
Inventories	4,151	–	4,151
Cash and cash equivalents	1	–	1
Borrowings	(10,081)	–	(10,081)
Other financial liabilities	(836)	–	(836)
Deferred taxation	(990)	(944)	(1,934)
Trade and other payables	(3,501)	–	(3,501)
Bank overdrafts	(251)	–	(251)
	<hr/>	<hr/>	<hr/>
Total net identifiable assets	508	2,670	3,178
Non controlling interest's at proportionate share of the acquiree's identifiable net assets			<hr/> (216)
Total net identifiable assets at fair value attributable to equity holders of the parent			2,962
Cash consideration paid for shares in Ferro			3,223
Loan payable by Ferro, assumed as part of the acquisition			2,688
			<hr/>
Goodwill arising on acquisition			2,949

*Acquisition and disposal of non controlling interest in Ferro*

On 19 August 2009, the Group acquired an additional 2% for £113,000 and sold 4% to Ferro staff for an amount of £261,000 thereby decreasing its ownership from 56% to 54%. The additional 2% was paid for in cash and the proceeds on disposal were included in investments classified as loans and receivables.

As a result of the purchase of 2%, an amount of £19,000 (being the proportionate share of the carrying amount of the net assets of Ferro) was transferred from non controlling interests and the difference of £94,000 between the afore-mentioned amount and the purchase price was debited to retained earnings. On sale of the 4%, the proportionate share of the carrying amount of the net assets of Ferro amounting to £38,000 was transferred to non controlling interests and the profit on disposal of £222,000 was included in retained earnings.

30.2.2 *Acquisition of a controlling interest in KMG Steel Service Centres (Pty) Limited ("KMG")*

On 9 March 2009, the Group acquired a further 25.5% of the ordinary shares for a cash consideration of £3.3 million, bringing its shareholding in KMG to 73%. The shares were initially acquired by the Group in 2008 as an agent on behalf of Claim Your Share Investments (Pty) Limited, a wholly owned subsidiary of Metier Investment and Advisory Services (Pty) Limited, which exercised its right to sell the beneficial ownership of the shares to the Group on an arm's length basis. KMG is a processor, distributor and stockist of carbon steel, stainless steel and aluminium in the form of high quality sheet, plate and coil as well as structural and other long product profiles. KMG also owns 100% of Global Roofing Solutions (Pty) Limited ("GRS"), a steel roofing and cladding company.

The initial investments of 47.5%, classified as an investment in associate and designated as an investment at fair value through profit and loss, had a fair value at 8 March 2009 of £3.7 million. No gain or loss arose as a result of re-measuring the interest to fair value prior to the business combination as there had been no significant change in the fair value to what was previously reported at 31 December 2008.

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Property, plant and equipment	10,140	–	10,140
Intangible assets	5,019	1,511	6,530
Investments at fair value through profit and loss	16	–	16
Trade and other receivables	20,323	–	20,323
Inventories	34,367	–	34,367
Cash and cash equivalents	1,105	–	1,105
Borrowings	(34,841)	–	(34,841)
Other financial liabilities	(21,402)	–	(21,402)
Deferred taxation	(2,839)	(423)	(3,262)
Trade and other payables and provisions	(16,070)	–	(16,070)
Total net identifiable liabilities	(4,182)	1,088	(3,094)
Non controlling interest's proportionate share of the acquiree's identifiable net liabilities			835
Total net identifiable liabilities at fair value attributable to equity holders of the parent			(2,259)
Consideration paid to obtain control (25.5%)			3,348
Fair value of previously held interest (47.5%)			3,746
Goodwill arising on acquisition			9,353

### 30.2.3 Acquisition of Blackstar Group (Pty) Limited ("Blackstar SA")

As part of the internalisation of Blackstar's investment advisory arrangements, on 26 June 2009 the Group acquired 100% of the ordinary shares of Blackstar SA for a cash consideration of £2.8 million. In addition, Blackstar and Blackstar SA ended all their respective investment advisory agreements and as a result, on acquisition of the company, Blackstar also assumed Blackstar SA's liability for termination of the investment advisory agreements amounting to £12.1 million.

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Property, plant and equipment	144	–	144
Intangible assets	1	–	1
Investments at fair value through profit and loss	4	–	4
Trade and other receivables	27	–	27
Cash and cash equivalents	18	–	18
Borrowings	(73)	–	(73)
Deferred taxation	(10)	–	(10)
Trade and other payables	(47)	–	(47)
Bank overdrafts	(47)	–	(47)
Total net identifiable assets	17	–	17
Consideration paid for the shares of Blackstar SA			2,765
Liabilities of Blackstar SA assumed on acquisition			12,134
Goodwill arising on acquisition			14,882

### 30.2.4 Other acquisitions

A total of four less material acquisitions were made by the Group.

The Group's subsidiary, KMG, made two acquisitions during July 2009, the first being the acquisition of Hulamin Engineering Solutions, a stockist and distributor of flat and rolled aluminium products with branches throughout South Africa, for a cash consideration of £234,000. As a result of this acquisition, KMG became the largest stockist and distributor of alumis products in Southern Africa. The second was the acquisition of 100% of the shares in Country Roofing (Pty) Limited, (now GRS Namibia), a roofing and steel stockist located in Namibia for a cash consideration of £634,000. GRS Namibia services Namibia, Angola, Southern DRC and Botswana and thereby assists KMG with achieving its objective of increasing export sales.

In the prior year, the Group's subsidiary, Blackstar (Cyprus) Investors Limited ("Blackstar Cyprus") held preference shares in two special purpose vehicles established to facilitate a staff trust and community trust to acquire an interest in York Timber Holdings Limited. In December 2009, Blackstar Cyprus called and acquired 100% of the ordinary shares and shareholder loans in both of these special purpose vehicles. No consideration was paid for these shares.

The net assets acquired were as follows:

	<i>Book value</i> £'000	<i>Fair value</i> <i>adjustments</i> £'000	<i>Fair value on</i> <i>acquisition</i> £'000
Property, plant and equipment	693	–	693
Investments at fair value through profit and loss	687	–	687
Trade and other receivables	2,075	–	2,075
Inventories	238	–	238
Cash and cash equivalents	244	–	244
Preference shares issued to Blackstar Cyprus	(1,396)	–	(1,396)
Trade and other payables	(2,373)	–	(2,373)
Total net identifiable assets	168	–	168
Cash consideration paid for shares			868
Goodwill arising on acquisition			<u>700</u>

The fair value for all trade receivables acquired is disclosed in the tables above. These fair values include an impairment allowance and as trade receivables have a short contractual maturity, the fair values as disclosed would be equal to the contractual cash flows.

None of the goodwill arising on the acquisitions is deductible for tax purposes.

### 30.3 Net cash outflow on acquisition of subsidiaries

	2010 £'000	2009 £'000
Consideration paid		
Ferro – initial purchase of 56%	–	(3,223)
Ferro – purchase of loan	–	(2,688)
Ferro – acquisition of a further 2%	–	(113)
KMG	–	(3,348)
Blackstar SA	–	(2,765)
Blackstar SA – internalisation of investment advisory arrangements	–	(12,134)
Other acquisitions	(145)	(868)
Net cash and cash equivalents acquired		
Ferro	–	(250)
KMG	–	1,105
Blackstar SA	–	(29)
Other acquisitions	(31)	244
Net cash outflow on acquisition of subsidiaries	<u>(176)</u>	<u>(24,069)</u>

## 31. Financial instruments and financial risk management

### 31.1 Categories of financial instruments

	2010 £'000	2009 £'000
<b>Financial assets</b>		
<b>Financial assets at fair value through profit and loss</b>		
Investments at fair value through profit and loss (refer note 17)	12,601	13,482
Currency option accounted for as a derivative in an effective hedging relationship (refer note 18)	–	245
FECs in designated hedge accounting relationships (refer note 18)	78	62
	12,679	13,789
<b>Loans and receivables</b>		
Investments classified as loans and receivables (refer note 16)	1,375	23,101
Trade receivables (refer note 19)	24,698	23,079
Cash and cash equivalents (refer note 21)	19,196	17,521
	45,269	63,701
	<u>57,948</u>	<u>77,490</u>
<b>Financial liabilities</b>		
<b>Financial liabilities at fair value through profit and loss</b>		
FECs in designated hedge accounting relationships (refer note 23)	(79)	(69)
Interest rate swaps accounted for as derivatives in designated hedge accounting relationships (refer note 23)	–	(338)
	(79)	(407)
<b>Financial liabilities measured at amortised cost</b>		
Borrowings (refer note 22)	(13,833)	(24,674)
Other financial liabilities excluding lease accruals and derivatives (refer note 23)	(26,441)	(23,871)
Trade payables (refer note 26)	(11,566)	(11,718)
Bank overdrafts (refer note 21)	(1)	(202)
	(51,841)	(60,465)
	<u>(51,920)</u>	<u>(60,872)</u>

### 31.2 Financial risk management overview

The Group has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; and market risk (which comprises currency risk, interest rate risk and market price risk).

The Group's major financial risks are mitigated through industry diversification and decentralisation. Thus the impact on the Group of any one particular risk within any of these industries is limited. Investee companies are run on a decentralised manner with management of the underlying business maintaining an entrepreneurial focus. The risks within the underlying businesses are managed by their local management teams who are responsible for their own operations.

The Board of Directors ensure that the investee companies are well staffed with strong, experienced management teams who are responsible for designing, implementing and monitoring the process of risk management. These management teams are remunerated based on operational performance and are incentivised appropriately. In addition Blackstar is represented on each of the investee companies' Board of Directors.

Due to the diverse structure and decentralised management of the Group, there is no formal Group policy regarding the management of financial risks. The Board of Directors is responsible for agreeing and reviewing the objectives, policies and processes for managing risks specifically relating to the investment portfolio.

The management of each of the Group's operating subsidiaries (KMG and Ferro) are responsible for designing and implementing a risk management strategy. The managing directors, financial directors and divisional heads of KMG and Ferro are involved in the day-to-day management of the business, thereby identifying any financial risks. Both KMG and Ferro have monthly executive management meetings, where areas of concern and risks, and management thereof, are discussed. Any significant issues are further escalated to the Board of Directors of each company where appropriate.

The information provided below for each financial risk has been collated for disclosure based on the way in which the business is managed and what is believed to be useful information for shareholders. This note presents information about the Group's exposure to each of the afore-mentioned risks, the

Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. IFRS 7 requires certain information to be disclosed by class of instrument. The classes of instruments for the company and its subsidiaries are Industrial metals (KMG), Industrial chemicals (Ferro) and Investment activities (which includes Blackstar SA, BRE and the Group's minority investments).

### 31.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, investments, cash and cash equivalents and guarantees.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained. The carrying values, net of impairment allowances, amount to £24,046,000 (2009: £22,449,000), for trade receivables (refer note 19), £1,375,000 (2009:£23,101,000) for investments classified as loans and receivables (refer note 16), £12,601,000 (2009: £13,482,000) for investments at fair value through profit and loss (refer note 17), and £19,196,000 (2009: £17,521,000) for cash and cash equivalents (refer note 21).

The impairment allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point, the amount which is considered irrecoverable is written off against the financial assets directly.

Similarly, an impairment allowance account is utilised to record impairments of investments classified as loans and receivables and investments at fair value through profit and loss.

#### 31.3.1 Trade receivables

##### Trade receivables by class

	2010 £'000	2009 £'000
Gross trade receivables		
Industrial chemicals	4,387	3,571
Industrial metals	20,311	19,508
	24,698	23,079
Impairment allowance		
Industrial chemicals	(229)	(127)
Industrial metals	(423)	(503)
	(652)	(630)
Net trade receivables		
Industrial chemicals	4,158	3,444
Industrial metals	19,888	19,005
	<u>24,046</u>	<u>22,449</u>

Trade receivables by class comprise debtors arising from the trading subsidiaries included in the Industrial chemicals and Industrial metals segments. These trade receivables consist of a large number of customers, spread across diverse industries. The subsidiaries' operational management perform ongoing credit evaluation on the financial position of its customers.

Each segment has a general credit policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. As a result of the decentralised structure of the Group, operational management of each segment are responsible for implementation of policies to meet the above objective. This includes credit policies under which new customers are analysed for credit worthiness before standard payment and delivery terms and conditions are offered, determining whether collateral is required, and if so the type of collateral, and setting of credit limits for individual customers based on their references and credit ratings. Operational management are also responsible for monitoring credit exposure. Both segments have a policy of obtaining credit insurance for its debtors. The credit insurance companies set limits for each customer. Transactions with customers for whom the company was unable to obtain credit insurance or transactions which result in the credit limits being exceeded have to be authorised by the financial director and/or managing director of the relevant company. These directors will only provide their approval once other forms of security, such as suretyship, have been obtained. Ferro has one key customer for whom credit insurance has not been obtained. The customer is a reputable, listed company and thus Ferro management assessed the debtor to be low risk.

Each segments' credit controller, together with the financial directors, are responsible for monitoring credit risk which includes detail reviews of the age analysis and the flagging of problematic debtors whose accounts are then placed on hold.

KMG has significant credit risk exposure to a single customer. Sales to the customer contributed 4% to Group revenue. Ferro has significant credit exposure to a single customer for which sales to the customer contributed 2% to Group revenue. Amounts due by these two customers and included in the Group trade receivables as at 31 December 2010 amounted to £0.2 million. No impairments were raised for these debtors.

Each segment establishes an impairment allowance that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Each segment is responsible for determining the impairment allowance in respect of trade receivables. The average credit periods depend on the type of industry in which they operate as well as the credit worthiness of their customers. The majority of the customers are given credit terms ranging from cash on delivery to 60 days from statement. The largest impairment raised for a specific trade receivable was obtained for each reporting operation and calculated as a percentage of the Group's total impairment allowance at year end, and it was determined that the percentage did not exceed 11% (2009: 8%) of the total allowance raised.

Movement in impairment allowance in respect of trade receivables

	2010 £'000	2009 £'000
Balance at the beginning of the year	630	-
Allowance raised during the year		
Industrial chemicals	125	56
Industrial metals	244	33
	369	89
Allowance utilised during the year		
Industrial chemicals	-	(124)
Net acquisition of businesses		
Industrial chemicals	-	503
Industrial metals	-	79
	-	582
Impairment written off against trade receivables		
Industrial chemicals	(49)	(38)
Industrial metals	(385)	(2)
	(434)	(40)
Currency exchange losses during the year	87	123
Balance at the end of the year	652	630

Ageing of trade receivables

2010	Gross trade receivables £'000	Impairment allowance £'000	Net trade receivables £'000
Not past due			
Industrial chemicals	2,226	–	2,226
Industrial metals	11,467	–	11,467
	13,693	–	13,693
Past due			
0 – 30 days			
Industrial chemicals	1,727	–	1,727
Industrial metals	4,648	(5)	4,643
	6,375	(5)	6,370
31 – 60 days			
Industrial chemicals	434	(229)	205
Industrial metals	1,521	(54)	1,467
	1,955	(283)	1,672
61 – 90 days			
Industrial metals	879	(187)	692
91 + days			
Industrial metals	1,796	(177)	1,619
	11,005	(652)	10,353
Total	<u>24,698</u>	<u>(652)</u>	<u>24,046</u>

Ageing of gross trade receivables

2009	Gross trade receivables £'000	Impairment allowance £'000	Net trade receivables £'000
Not past due			
Industrial chemicals	2,012	–	2,012
Industrial metals	11,550	–	11,550
	13,562	–	13,562
Past due			
0 – 30 days			
Industrial chemicals	1,315	–	1,315
Industrial metals	4,897	(62)	4,835
	6,212	(62)	6,150
31 – 60 days			
Industrial chemicals	244	(127)	117
Industrial metals	1,161	–	1,161
	1,405	(127)	1,278
61 – 90 days			
Industrial metals	544	(81)	463
91 + days			
Industrial metals	1,356	(360)	996
	9,517	(630)	8,887
Total	<u>23,079</u>	<u>(630)</u>	<u>22,449</u>

The credit quality of receivables not past due nor impaired is considered by management of each segment to be of reasonable quality.

*Collateral held on past due amounts*

As previously mentioned, both segments have a policy of taking out credit insurance for its debtors to limit their exposure to credit risk. At year end, the Industrial chemicals and Industrial metals segments had taken out credit insurance cover for net trade receivables which were past due with carrying amounts of £1,803,000 (2009: £1,004,000) and £5,513,000 (2009: £5,745,000) respectively. No other collateral was held in respect of past due trade receivables.

The Industrial metals segment has collateral in the form of surety for past due trade receivables (net of impairment allowance) amounting to £523,000 as at 31 December 2010 (2009: £444,000). An accurate fair value cannot be attached to personal surety.

In certain instances the Group's operations reserve the right to collect inventory sold when the outstanding debt is not settled by the customer.

### 31.3.2 Investments

With the exception of the loan to Air-O-Thene Products (Pty) Limited amounting to £249,000 (2009: nil) all of the investments classified as loans and receivables fall under the Investment activities segment (refer note 16). All of the investments at 31 December, as disclosed in note 17 Investments at fair value through profit and loss, fall under the Investment activities segment. An integral part of the Group's credit risk management process is the approval of all investment and financing transactions by the Board of Directors. The Group manages its credit risk by setting acceptable exposure limits for companies and industry segments. The Group provides financing to companies in which it has invested or to special purpose vehicles established to acquire an equity interest in portfolio companies. This financing is provided on the strength of the underlying companies in which the Group has invested.

The Board meets on a quarterly basis to review the investment portfolio, in particular the underlying performance of the companies in which it has invested and consequently monitors credit risk on an ongoing basis. At balance sheet date, the Group had no financial assets that were past due. Details of impairments are detailed below. An industry analysis of the investment portfolio, including investments at fair value through profit and loss and investments classified as loans and receivables, is set out in the table below. No single industry is considered to be materially more risky than another.

	2010		2009	
	Exposure £'000	Exposure Percentage	Exposure £'000	Exposure Percentage
Support Services	9,768	70%	5,744	16%
Media	2,271	16%	2,058	6%
Other	1,373	10%	–	0%
Real Estate	564	4%	–	0%
Resources	–	0%	20,399	56%
Health Care	–	0%	5,697	15%
Telecommunications	–	0%	1,002	3%
	2010		2009	
	Exposure £'000	Exposure Percentage	Exposure £'000	Exposure Percentage
Financial services	–	0%	899	2%
Forestry	–	0%	686	2%
Industrial (Steel)	–	0%	98	0%
	<u>13,976</u>	<u>100%</u>	<u>36,583</u>	<u>100%</u>

For investments classified as loans and receivables, the Group has obtained security in the form of guarantees and in some cases the pledges of shares owned by the borrower. For investments held at fair value through profit and loss, no such securities are held by the Group.

Analysis of impairments in respect of financial instruments classified as loans and receivables  
The following investments classified as loans and receivables were impaired during the year:

	2010 £'000	2009 £'000
Balance at the beginning of the year	711	4,152
Impairment/(reversal of impairment) of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha	56	(684)
Reversal of impairment of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Mvela	–	(3,385)
Currency exchange losses during the year	53	628
Release of impairment on redemption of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha	(820)	–
Balance at the end of the year	–	711

Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha

The carrying value of the Group's cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha was based on the value of the underlying assets in the special purpose vehicle. The realisable value of the investment was calculated taking into account current market conditions and expected future cash flows to be derived from the investment. It was determined that a further impairment of £56,000 was required during the financial year. The carrying value of the impairment raised was released as a result of the redemption of the cumulative redeemable preference shares.

#### 31.3.3 *Cash and cash equivalents*

Any excess cash and cash equivalents are held in current accounts, money market funds, and term deposits. At year end, overdrafts amounted to £1,000 (2009: £202,000) and cash and cash equivalents amounted to £19,196,000 (2009: £17,521,000). Refer note 22 and 23 for details of cash and cash equivalents provided as securities for borrowings and other financial liabilities respectively. Of the carrying value of cash and cash equivalents amounting to £19,196,000, 61% was held in AAA rated money market funds, 17% with an A rated financial institution and the balance with a BBB+ or lower rated financial institutions. In 2009, of the value of cash and cash equivalents amounting to £17,521,000, 66% was held in AAA rated money market funds, 8% with an A rated financial institution and the balance with BBB+ or lower rated financial institutions. The credit risk on cash and cash equivalents is limited because the high credit ratings assigned to the funds and financial institutions by international credit-rating agencies.

#### 31.3.4 *Guarantees*

Refer note 36 Contingencies and guarantees for further details of guarantees issued by the Group. The Group's maximum exposure to credit risk, without taking into account collateral or any other credit enhancements held, in respect of guarantees would be equal to the amounts disclosed in note 36.

### 31.4 **Liquidity risk**

Liquidity risk is the risk that an entity within the Group may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Operational management in each segment is responsible for implementation of policies and procedures for managing liquidity risk in each of their respective businesses.

The Industrial chemicals and Industrial metals segments manage working capital, in particular the collection of trade receivables, on an on-going basis. Management maintain relationships with the companies' bankers and monitor cash reserves on an on-going basis to ensure there are sufficient cash resources to meet liabilities in the short term.

Cash inflows from trade receivables amounting to £24,069,000 at 31 December 2010 (2009: £23,079,000) are to be utilised to meet cash outflows on financial liabilities. Cash inflows arising from trade receivables balances are expected within 6 months or less. In addition the segments have undrawn facilities at their disposal to further reduce liquidity risk (refer note 31.4.3).

KMG has experienced difficult trading conditions over the past two years. The current economic conditions create uncertainty, particularly over the level of demand and pricing of KMG's products and consequently the availability of banking facilities in the foreseeable future. Despite the difficult conditions, KMG continues to receive sufficient financial support from its bankers and no matters have been drawn to its attention to suggest that continuation of facilities may not be forthcoming on acceptable terms. KMG has contracts and relationships with key suppliers and customers. In addition, Blackstar has sufficient financial resources to support the business and subsequent to year end KMG sold its Baldwins (carbon) division, which has been the problematic area within KMG and where most of the trading losses have occurred to Robor, thereby improving its financial position and strengthening its balance sheet.

The Board of Directors is responsible for ensuring the Investment activities segment (other than Blackstar SA and BRE) has sufficient funds to meet its operational requirements and financial obligations. The Group has access to cash on hand of £13.3 million) at the centre as well as an unutilised facility of R20 million (£1.9 million). This unutilised facility was in place at the prior year end. All surplus cash within this segment is invested in liquid cash and money market instruments. The type of instrument and its maturity date depends on the Group's forecasted cash requirements.

The management of Blackstar SA and BRE are responsible for managing liquidity risk in each of their respective businesses.

31.4.1 *Contractual maturities of non-derivative financial liabilities, including interest payments and excluding the impact of netting agreements*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of the financial liabilities. The table includes both interest and principal cash flows. To the extent that interest flows are at a floating rate, the undiscounted amount is derived utilising the interest rate at year end. The contractual maturity is based on the earliest date on which the Group may be required to pay. Where there are no fixed terms of repayment, the undiscounted amount has been included in the 6 months or less column.

	<i>Undiscounted contractual cash flows</i>						
	<i>Carrying amount</i>	<i>6 months</i>	<i>6 – 12</i>	<i>1 – 2</i>	<i>2 – 5</i>	<i>More than</i>	
<i>2010</i>	<i>£'000</i>	<i>Total or less</i>	<i>months</i>	<i>years</i>	<i>years</i>	<i>5 years</i>	
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowings (refer note 22)							
Unsecured borrowings	3,021	3,160	34	29	58	844	2,195
Secured borrowings	10,812	11,976	1,225	1,232	4,761	3,223	1,535
	<u>13,833</u>	<u>15,136</u>	<u>1,259</u>	<u>1,261</u>	<u>4,819</u>	<u>4,067</u>	<u>3,730</u>
Other financial liabilities (refer note 23)							
Revolving inventory financing facility	15,929	15,929	7,965	7,964	–	–	–
Debtors invoice discounting facility	9,117	9,117	4,558	4,559	–	–	–
Asset finance loan	624	690	113	113	226	238	–
Finance leases and instalment sale agreements	771	889	145	137	221	386	–
	<u>26,441</u>	<u>26,625</u>	<u>12,781</u>	<u>12,773</u>	<u>447</u>	<u>624</u>	<u>–</u>
Trade payables (refer note 26)	<u>11,566</u>	<u>11,566</u>	<u>11,566</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Bank overdrafts	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The expected maturity of financial liabilities is not expected to differ from the contractual maturities as disclosed above.

	<i>Undiscounted contractual cash flows</i>						
	<i>Carrying amount</i>	<i>6 months</i>	<i>6 – 12</i>	<i>1 – 2</i>	<i>2 – 5</i>	<i>More than</i>	
<i>2009</i>	<i>£'000</i>	<i>Total or less</i>	<i>months</i>	<i>years</i>	<i>years</i>	<i>5 years</i>	
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowings (refer note 22)							
Unsecured borrowings	2,569	2,763	–	–	–	733	2,030
Secured borrowings expected to be settled according to contractual maturities	17,525	19,443	2,292	2,292	6,573	8,286	–
Secured borrowings for which expected maturity is expected to differ from the contractual maturities (refer note below )	4,580	5,839	225	272	1,788	3,554	–
	<u>24,674</u>	<u>28,045</u>	<u>2,517</u>	<u>2,564</u>	<u>8,361</u>	<u>12,573</u>	<u>2,030</u>
Other financial liabilities (refer note 23)							
Revolving inventory financing facility	14,257	14,258	8,387	5,871	–	–	–
Debtors invoice discounting facility	8,192	8,192	4,096	4,096	–	–	–
Finance leases and instalment sale agreements	639	681	210	95	170	206	–
Asset finance loan	783	783	–	–	783	–	–
	<u>23,871</u>	<u>23,914</u>	<u>12,693</u>	<u>10,062</u>	<u>953</u>	<u>206</u>	<u>–</u>
Trade payables (refer note 26)	<u>11,718</u>	<u>11,718</u>	<u>11,718</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Bank overdrafts	<u>202</u>	<u>202</u>	<u>202</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The expected maturity of financial liabilities is not expected to differ from the contractual maturities as disclosed in the previous table with the exception of two of the secured, interest bearing loans (as separately noted) which are expected to be settled earlier than contracted. The expected discounted cashflows for these two particular loans are as follows:

	Undiscounted contractual cash flows						
	Carrying amount £'000	6 months Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
2009							
Secured borrowings for which expected maturity is expected to differ from the contractual maturities	4,580	4,830	3,137	1,693	–	–	–

### 31.4.2 Contractual maturities of derivative financial liabilities

Refer note 18 Other financial assets and note 23 Other financial liabilities.

The table below details the Group's liquidity analysis for its derivative financial liabilities. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivatives that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is dependent on future exchange rates, the exchange rate at year end has been utilised to calculate the net amount.

	Undiscounted contractual cash inflows/(outflows)						
	Carrying amount £'000	6 months Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
2010							
FEC's	(1)	(1)	(1)	–	–	–	–

	Undiscounted contractual cash inflows/(outflows)						
	Carrying amount £'000	6 months Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
2009							
FEC's	(7)	(7)	(7)	–	–	–	–
Interest rate swaps accounted for as derivatives in effective hedging relationships	(338)	(338)	–	–	–	(338)	–
Currency option accounted for as a derivative in an effective hedging relationship	245	245	245	–	–	–	–
	(100)	(100)	238	–	–	(338)	–

### 31.4.3 Undrawn facilities and securities provided

The Group has the following undrawn facilities at its disposal to further reduce liquidity risk:

	2010 £'000	2009 £'000
Unsecured bank overdraft facility, reviewed annually and payable on call		
Utilised	–	1,266
Unutilised	145	1,170
	<u>145</u>	<u>2,436</u>
Secured bank overdraft facility, reviewed annually and payable on call		
Utilised	–	–
Unutilised	4,827	3,156
	<u>4,827</u>	<u>3,156</u>
Secured debtors invoice discounting facilities held by subsidiary companies		
Utilised (refer note 23)	9,117	8,192
Unutilised	22,259	19,903
	<u>31,376</u>	<u>28,095</u>

KMG has the following additional undrawn facilities in terms of an agreement with its bankers ("the Bank").

Utilised and unutilised portions of the facilities provided by the Bank under this agreement are as follows:

	<i>Utilised</i> £'000	<i>Unutilised</i> £'000	<i>Total</i> £'000
2010			
Revolving inventory financing facility (refer note 23)	15,929	3,379	19,308
Foreign exchange contract facility	161	7,273	7,434
Other facilities	3,856	594	4,450
	<u>19,946</u>	<u>11,246</u>	<u>31,192</u>

In terms of the agreement, securities provided to the Bank for the facilities for both KMG and GRS include: cession and pledge over claims and other assets of KMG and GRS including shares in KMG's subsidiaries; GRS's accounts receivables and CGIC insurance policies; any other securities held by GRS for any other receivables; all KMG and GRS bank accounts, deposits and cash; all insurance policies for KMG and GRS; where possible all customer contracts, sale and distribution agreements held by KMG and GRS; all franchise agreements; any existing and future licenses, trademarks, trade names, copyright and patent rights; all existing and future intercompany loans between KMG and its subsidiaries. In addition to this, other securities provided to the bank include: general notarial bonds to the value of £33.8 million (R350 million) and £8.7 million (R90 million) over all moveable assets of KMG and GRS respectively; subordination of all existing and future shareholders loans and claims between KMG and its subsidiaries; registered hypothecs over all the identifiable trademarks held by GRS and KMG; irrecoverable and unlimited guarantees provided by KMG and its subsidiaries for the obligations of both KMG and GRS. The shareholders of KMG have pledged all the shares held in KMG to the Bank and provided suretyship limited to the value of the shares held in KMG. Further securities have been provided to the Bank for the additional facilities provided to KMG and its subsidiaries in accordance with the relevant agreements.

	<i>Utilised</i> £'000	<i>Unutilised</i> £'000	<i>Total</i> £'000
2009			
Revolving inventory financing facility (refer note 23)	14,257	–	14,257
Other secured borrowings (refer note 22)	12,982	618	13,600
Secured bank overdraft facility	1,247	1,090	2,337
Foreign exchange contract facility	–	5,200	5,200
Other facilities	1,114	3,240	4,354
	<u>29,600</u>	<u>10,148</u>	<u>39,748</u>

### 31.5 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk has been broken down into currency risk, interest rate risk and market price risk.

#### 31.5.1 Currency risk

The Group's activities expose it to financial risks of changes in foreign currency. The exposure to currency risk has been discussed in further detail by class. The Industrial chemicals and Industrial metals segments have been grouped together due to the fact that the nature of their exposure to currency risk as well as their management thereof is similar.

##### *Investment activities*

Currency risk arises because the Group makes investments in South Africa in Rands, which differs to the Group's reporting currency (Sterling). The value of these assets is exposed to currency risk giving rise to gains or losses on translation into Sterling. Currency risk also arises because operations within this segment, incur costs from service providers in various parts of the world whose currency is not the same as the Group's reporting currency (Sterling). The Board of Directors meet on a quarterly basis to review the investment portfolio and consequently monitors currency risk on an on-going basis. To mitigate this risk, the Group may hedge its currency exposure from time to time.

In the prior year, a currency option was taken out by one of the subsidiaries within the Investment activities segment to hedge against fluctuations in currency arising on the settlement of one of the investments classified as loans and receivables and which was settled during the 2010

financial year. There were no other currency options taken out during the current financial year nor any outstanding at 31 December 2010.

#### *Industrial metals and Industrial chemicals*

Currency risk arises in the Industrial metals and Industrial chemical segments as the subsidiaries in these segments make purchases and sales which are denominated in a currency other than their reporting currency (South African Rand). Both subsidiaries have a policy of hedging purchases denominated in foreign currency by taking out forward exchange contracts ("FECs"). Hedges may be taken out for sales in foreign currencies; this decision is taken by the financial director depending on the materiality of the sale. It is the Group's policy not to trade in derivative financial instruments for speculative purposes.

The periods in which the cash flows associated with the forward exchange contracts are expected to occur are detailed below under the heading 'Settlement'. The periods in which the cash flows are expected to impact the income statement are believed to be in the same time period as when the actual cash flows occur.

				<i>Contract value</i>	
		<i>Settlement</i>		<i>Foreign amount</i>	<i>Rand amount</i>
				<i>000's</i>	<i>000's</i>
<b>2010</b>					
<i>In respect of FECs relating to foreign liabilities as at 31 December 2010</i>					
US Dollars	January 2011	February 2011		244	1,716
Euro	January 2011	April 2011		858	8,316
Australian Dollars	January 2011	March 2011		69	473
<i>In respect of FECs relating to goods and services ordered not accounted for as at 31 December 2010</i>					
US Dollars	January 2011	April 2011		612	4,435
				<i>Contract value</i>	
		<i>Settlement</i>		<i>Foreign amount</i>	<i>Rand amount</i>
				<i>000's</i>	<i>000's</i>

<b>2009</b>					
<i>In respect of FECs relating to foreign liabilities as at 31 December 2009</i>					
US Dollars	January 2010	March 2010		2,169	16,653
Euro	January 2010	March 2010		711	8,053
Australian Dollars	January 2010	March 2010		281	1,962
Sterling	January 2010	February 2010		6	84
<i>In respect of FECs relating to goods and services ordered not accounted for as at 31 December 2009</i>					
US Dollars	January 2010	April 2010		2,751	21,267
Euro	January 2010	February 2010		302	3,431

The net gain under forward FECs recognised in profit and loss amounted to £4,000 (2009: £4,000).

#### Exposure to currency risk

An analysis of financial assets and liabilities by currency, at the reporting date provides an indication of each of the segments' exposure to currency risk:

Functional currency	Industrial chemicals	Industrial metals	Investment activities Sterling and South African	Total
	South African Rand £'000	South African Rand £'000	Rand £'000	£'000
<b>2010</b>				
<i>Trade receivables (gross)</i>				
South African Rand	4,071	20,175	–	24,246
US Dollars	316	136	–	452
	<u>4,387</u>	<u>20,311</u>	<u>–</u>	<u>24,698</u>
<i>Trade payables</i>				
South African Rand	2,004	8,453	9	10,466
US Dollars	166	–	–	166
Sterling	–	–	19	19
Euro	570	233	61	864
Australian Dollars	46	–	–	46
Namibian Dollars	–	5	–	5
	<u>2,786</u>	<u>8,691</u>	<u>89</u>	<u>11,566</u>
<i>Borrowings</i>				
South African Rand	<u>11,594</u>	<u>826</u>	<u>1,413</u>	<u>13,833</u>
<i>Other financial liabilities (excluding FECs and derivatives)</i>				
South African Rand	<u>–</u>	<u>29,390</u>	<u>8</u>	<u>29,398</u>
<i>Cash and cash equivalents (including overdrafts)</i>				
South African Rand	3,245	1,734	828	5,807
US Dollars	–	25	1	26
Sterling	–	–	12,805	12,805
Euro	–	–	423	423
Namibian Dollars	–	134	–	134
	<u>3,245</u>	<u>1,893</u>	<u>14,057</u>	<u>19,195</u>
<b>2009</b>				
<i>Trade receivables (gross)</i>				
South African Rand	3,542	19,219	–	22,761
US Dollars	29	213	–	242
Namibian Dollars	–	76	–	76
	<u>3,571</u>	<u>19,508</u>	<u>–</u>	<u>23,079</u>
<i>Trade payables</i>				
South African Rand	1,965	7,541	41	9,547
US Dollars	654	634	–	1,288
Sterling	28	–	–	28
Euro	661	–	43	704
Australian Dollars	151	–	–	151
	<u>3,459</u>	<u>8,175</u>	<u>84</u>	<u>11,718</u>
<i>Borrowings</i>				
South African Rand	<u>11,153</u>	<u>13,521</u>	<u>–</u>	<u>24,674</u>

	<i>Industrial chemicals</i>	<i>Industrial metals</i>	<i>Investment activities Sterling and South African</i>	<i>Total</i>
<i>Functional currency</i>	<i>South African Rand £'000</i>	<i>South African Rand £'000</i>	<i>Rand £'000</i>	<i>£'000</i>
<i>Other financial liabilities (excluding FECs and derivatives)</i>				
South African Rand	–	25,414	68	25,482
Euro	783	–	–	783
	<u>783</u>	<u>25,414</u>	<u>68</u>	<u>26,265</u>
<i>Cash and cash equivalents (including overdrafts)</i>				
South African Rand	3,340	(181)	885	4,044
Sterling	–	–	13,014	13,014
Namibian Dollars	–	261	–	261
	<u>3,340</u>	<u>80</u>	<u>13,899</u>	<u>17,319</u>

#### Sensitivity analyses

A 10% strengthening of the Rand against the Sterling at the balance sheet date, all other variables held constant, would have resulted in an increase of £6,915,000 (2009: £8,643,000) in the reported net asset value of the Group. A 10% weakening of the Rand against Sterling at the balance sheet date, on the same basis, would have resulted in a decrease of £5,658,000 (2009: £7,064,000) in the reported net asset value of the Group.

The following significant exchange rate applied during the year:

	2010	2009
<b>South African Rand/Sterling</b>		
Opening rate	11.924	13.719
Closing rate	10.358	11.924

#### 31.5.2 Interest rate risk

Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows associated with financial instruments will fluctuate because of changes in market interest rates. The following financial instruments are exposed to interest rate risk: investments, borrowings, other financial liabilities and cash and cash equivalents.

At the reporting date the interest rate profile of the Group's interest bearing financial instruments were as follows:

	2010 £'000	2009 £'000
<b>Fixed rate instruments</b>		
<i>Financial assets</i>		
Investments classified as loans and receivables (refer note 16)	–	–
Investments at fair value through profit and loss (refer note 17)	12,601	13,482
<i>Financial liabilities</i>		
Borrowings (refer note 22)	(10,962)	(9,123)
Other financial liabilities excluding lease accruals and derivatives (refer note 23)	(837)	(1,016)
	<u>802</u>	<u>3,343</u>

### Variable rate instruments

#### Financial assets

Investments classified as loans and receivables (refer note 16)	1,375	23,101
Investments at fair value through profit and loss (refer note 17)	–	–
Cash and cash equivalents (refer note 21)	19,196	17,521

#### Financial liabilities

Borrowings (refer note 22)	(2,871)	(15,551)
Other financial liabilities excluding lease accruals and derivatives (refer note 23)	(25,604)	(22,855)
Overdrafts (refer note 21)	(1)	(202)
	<u>(7,905)</u>	<u>2,014</u>

Interest income and expenses in respect of assets/(liabilities) not at fair value through profit or loss can be analysed as follows:

	2010 £'000	2009 £'000
Total interest income on financial assets (including interest income on investments classified as loans and receivables in note 6 and interest income on cash and cash equivalents in note 9)	498	1,479
Total interest expense on financial liabilities (refer note 9)	<u>(5,764)</u>	<u>(5,256)</u>
	<u>(5,266)</u>	<u>(3,777)</u>

#### Investments

The Group's exposure to interest rates on investments is detailed in note 16 Investments classified as loans and receivables and note 17 Investments at fair value through profit and loss. Interest rate risk in respect of investments falling within the Investment activities segment is managed by the Board of Directors, who meet on a quarterly basis to review the investment portfolio and consequently monitors interest rate risk on an on-going basis.

#### Borrowings and other financial liabilities

The Group adopts a policy of ensuring that its borrowings are at market-related rates. Operational management in each segment is responsible for monitoring borrowing levels and exposure to interest rate risk on an on-going basis. The variable rates are influenced by movements in the South African Prime borrowing rates.

#### Cash and cash equivalents

Any excess cash and cash equivalents are invested with banks at short term market interest rates. Overdrafts which arise in the Industrial chemical and Industrial metals segments are linked to the South African Prime rate.

#### Sensitivity analyses

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting year. A 1% change has been used as this is what could reasonably be expected as a change in interest rates based on historical movements in interest rates within South Africa.

A 1% decrease in the South African Prime rate effective from the beginning of the year, all other variables held constant, would have resulted in a decrease of £4,000 (2009: increase of £374,000) in the reported net asset value of the Group. A 1% increase in the South African Prime rate effective from the beginning of the year, on the same basis, would have resulted in an increase of £4,000 (2009: decrease of £376,000) in the reported net asset value of the Group.

### 31.5.3 Market price risk

#### Investments

The Group is exposed to market price risk in its listed and unlisted investments (which fall within the Investment activities segment) as well as country risk as all the investments are in companies operating in South Africa. This is in line with the Group's investment strategy. Listed and unlisted investments are susceptible to market price risk arising from the performance of the underlying companies and uncertainties about future prices in the case of listed investments. The Board of

Directors meet on a quarterly basis to review the investment portfolio, in particular the underlying performance of the companies in which it has invested and consequently monitors the value of its investments on an ongoing basis.

Assuming that the investment portfolio is directly correlated to the FTSE/JSE Africa All Share Index, an increase of 10% in the FTSE/JSE Africa All Share Index at the balance sheet date, all other variables held constant, would have resulted in an increase of £6,854,000 (2009: £6,768,000) in the reported net asset value of the Group. A decrease of 10% in the FTSE/JSE Africa All Share Index at the balance sheet date, on the same basis, would have resulted in a decrease of £5,725,000 (2009: £,973,000 in the reported net asset value of the Group).

### 31.6 Fair values

The carrying amount of all financial assets and liabilities as is reflected in the balance sheet approximate fair value with the exception of investments classified as loans and receivables, borrowings and other financial liabilities all of which have been accounted for at amortised cost using the effective interest rate method.

#### 31.6.1 Fair value of financial instruments carried at amortised cost

A discounted cashflow method was utilised to calculate the fair values of financial instruments accounted for at amortised cost. For the purposes of the calculation, the existing terms and conditions were reviewed for each financial instruments and were found to be reasonable estimates of the terms and conditions that would be offered on such a financial instruments as at 31 December 2010 and 31 December 2009 (refer respective notes for details of the terms). Investments classified as loans and receivables bear interest at rates linked to the South African Prime rate and these rates approximate the market related discount rates used in the fair value calculations. The fair values calculated therefore approximate the carrying values.

#### 31.6.2 Fair value of financial instruments carried at fair value in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value adjustments are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>2010</b>				
<i>Financial assets at fair value</i>				
<i>through profit and loss</i>				
Investments at fair value through profit and loss (refer note 17)	10,313	2,288	–	12,601
Derivative financial assets (refer note 18)	78	–	–	78
	<u>10,391</u>	<u>2,288</u>	<u>–</u>	<u>12,679</u>
<i>Financial liabilities at fair value</i>				
<i>through profit and loss</i>				
Derivative financial liabilities (refer note 23)	79	–	–	79
	<u>79</u>	<u>–</u>	<u>–</u>	<u>79</u>

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>2009</b>				
<i>Financial assets at fair value through profit and loss</i>				
Investments at fair value through profit and loss (refer note 17)	3,078	10,404	–	13,482
Derivative financial assets (refer note 18)	62	245	–	307
	<u>3,140</u>	<u>10,649</u>	<u>–</u>	<u>13,789</u>
<i>Financial liabilities at fair value through profit and loss</i>				
Derivative financial liabilities (refer note 23)	(407)	–	–	(407)
	<u>(407)</u>	<u>–</u>	<u>–</u>	<u>(407)</u>

There were no transfers between levels during the current or prior financial year.

### 31.6.3 Significant assumptions used in determining fair value of financial assets and liabilities

Investments at fair value through profit and loss

Investments at fair value through profit and loss include unlisted shares which are measured at fair value (refer note 17). Details of the valuation methodologies utilised to calculate fair values have been provided in note 2 to the consolidated financial statements.

Derivative financial assets

Derivative financial instruments are fair valued utilising quoted prices from listed stock exchanges.

### 31.7 Hedge accounting

KMG entered into two interest rate swap agreements to hedge against the risk of fluctuations in interest rates arising on two secured loans amounting to £7,814,000 at 31 December 2009 (refer note 22). These hedging instruments were marked to market at year end and have a credit carrying value of £338,000 as at 31 December 2009 (refer note 23). The loans were settled during the current financial year and the interest rate swaps were settled on the same date. Thus there is no balance as at 31 December 2010. Thus there are no outstanding interest rate swaps as at 31 December 2010. A loss of £367,000 arose on the interest rate swaps during the current financial year (2009: gains of £22,000 and a loss of £166,000). These gains and losses have been included in net finance charges (refer note 9) as this is where the interest expense arising on the underlying hedged item is disclosed. None of the gains and losses arising on the hedging instruments are considered to be ineffective.

Blackstar Gibraltar entered into a currency option to hedge against the risk of changes in the Sterling/Rand exchange rate in respect of a portion of one of its investments classified as loans and receivables with a carrying value of £18,721,000 at 31 December 2009 (refer note 16). The investment was realised during the current financial year and thus there is no outstanding currency option at 31 December 2010. The currency option was marked to market at year end and had a debit carrying value of £245,000 as at 31 December 2009 (refer note 18). A loss of £245,000 (2009: loss of £208,000) arose on the currency option during the current financial year and is included in net gains on investments (refer note 5) as this is where the gains and losses arising on the investment were disclosed.

## 32. Capital management

Through two capital raisings the Company raised £80 million (£75.4 million after capital raising expenses) in 2006, which it manages in accordance with its investment strategy.

As set out in the circular dated 23 March 2011, the Company is planning a placing of up to 15 million new shares. The price at which these shares will be issued is expected to be no less than £0.85 per share. If the placing is subscribed in full, it is expected to raise gross proceeds of approximately £12.75 million for the Company.

The Group's objective is to develop a substantial business in South Africa with the underlying themes of strategic market position, strong cash flow and the ability to exploit the wider African markets from its South African base. The Company is meeting such objectives by investing the capital that it manages in companies in South Africa and Sub-Saharan Africa.

The Group has also expanded its offering into fund management and intends applying a portion of its capital to continue developing and growing its fund management business.

The Board of Directors meets on a quarterly basis and is responsible for reviewing the capital structure of the Group. The Board seeks to maintain a balance between return on capital, gearing within the Group and usage of the Group's equity capital. The key performance indicator for the Group is return on capital employed.

The Company finances its portfolio of investments out of its own capital resources and utilises third party debt funding as appropriate on a limited basis. In addition, investee companies may themselves have gearing, which is ring-fenced within the companies and is based on the levels of gearing that the companies can sustain. The Directors review the level of gearing in the Group on a regular basis.

From time to time the Company acquires its own ordinary shares in the market. Such buy-backs depend on market prices and available cash resources and reserves. During the year, the Company bought back 4,317,495 ordinary shares in the market.

The Company looks to maintain a flexible policy regarding the payment of dividends. The Company is of the view that the Group requires a balance between the retention of earnings for investment opportunities and the establishment of consistent dividend declarations as they form an important part of shareholder wealth creation. There are accordingly no fixed dates for declaration and payment of dividends by the Company.

The Company has no externally imposed capital requirements and there have been no other changes in the capital that it manages.

### 33. Subsidiary companies

Details of the Company's subsidiaries, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of incorporation and operation	Principal activity	Proportion of ownership	
			31 December 2010	31 December 2009
Blackstar (Cyprus) Investors Limited	Cyprus	Investment company	100%	100%
Blackstar (Gibraltar) Limited	Gibraltar	Investment company	100%	100%
Ferro Industrial Products (Pty) Limited	South Africa	Industrial chemicals company	54%	54%
KMG Steel Service Centres (Pty) Limited	South Africa	Industrial metals company	87%	73%
Blackstar Group (Pty) Limited	South Africa	Investment advisory company	100%	100%
Blackstar Real Estate (Pty) Limited	South Africa	Investment property company	100%	–

On 31 May 2010, the B preference shares held by Blackstar Cyprus were converted into ordinary shares. KMG therefore issued fresh shares to Blackstar Cyprus which increased Blackstar's effective shareholding from 73% to 87%. As a result an amount of £1,907,000 (being the proportionate share of 14% of the carrying amount of the net liabilities of KMG) has been transferred to non controlling interests (refer consolidated statement of changes in equity).

During the year, Blackstar Real Estate (Pty) Limited was formed by Blackstar with the objective of acquiring properties held by its subsidiaries and portfolio investments on a sale and lease back basis, as well as exploring other opportunities in the South African real estate sector that may arise as a result of the prevailing economic conditions and where attractive deals can be structured.

### 34. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2010 £'000	2009 £'000
<b>Land and buildings</b>		
Less than one year	4,183	3,306
Due between one and five years	13,006	11,453
More than five years	4,916	6,640
	22,105	21,399
<b>Equipment and vehicles</b>		
Less than one year	574	574
Due between one and five years	910	984
More than five years	–	7
	1,484	1,565
	<u>23,589</u>	<u>22,964</u>

### 35. Capital commitments

Contracted capital expenditure of £68,000 (2009: £452,000) and non contracted capital expenditure of £751,000 (2009: £1,098,000) on property, plant and equipment had been approved at year end.

### 36. Contingencies and guarantees

#### Guarantees

Blackstar Group SE has provided suretyship, by binding itself jointly and severally as surety for and co-principal debtor in solidum with KMG to and in favour of one of KMG's suppliers for an amount not exceeding R150 million (£14.6 million), (2009: R150 million (£12.6 million)). The suretyship expires on 31 October 2011.

Blackstar Group SE has bound itself jointly and severally liable to a landlord as surety in respect of a lease agreement entered into by Blackstar SA.

Blackstar Group SE has provided guarantees to a bank in respect of the mortgage bond taken out by BRE to acquire properties. Details of these guarantees are provided in note 22.

#### Contingent liabilities and contingent assets

There are no contingent liabilities or assets to report as at 31 December 2010 (2009: nil).

### 37. Directors' remuneration

2010	Non-executive directors fees £'000	Fees payable under terms of investment advisory agreement £'000	Salary earned as employee of a subsidiary of the Group			Total £'000
			Salary £'000	Other benefits £'000	Performance bonus £'000	
<i>Non-executive directors fees</i>						
John Broadhurst Mills	46	–	–	–	–	46
Andrew David Bonamour	40	–	312	38	471*	861
Wolfgang Andreas Baertz	35	–	–	–	–	35
Marcel Ernzer	35	–	–	–	–	35
Charles Taberer	15	–	–	–	–	15
Julian Andre Treger	45	–	–	–	–	45
	<u>216</u>	<u>–</u>	<u>312</u>	<u>38</u>	<u>471</u>	<u>1,037</u>

\* Includes incentive bonus earned of £226,000 on closure of the investment in Mvelephanda Resources Limited.

2009	Non-executive directors fees £'000	Fees payable under terms of investment advisory agreement £'000	Salary earned as employee of a subsidiary of the Group <sup>#</sup>			Total £'000
			Salary £'000	Other benefits £'000	Performance bonus £'000	
<i>Non-executive directors fees</i>						
John Broadhurst Mills	40	–	–	–	–	40
Andrew David Bonamour	30	–	106	30	105	271
Wolfgang Andreas Baertz	30	–	–	–	–	30
Marcel Ernzer	30	–	–	–	–	30
Julian Andre Treger	35	76	–	–	–	111
	<u>165</u>	<u>76</u>	<u>106</u>	<u>30</u>	<u>105</u>	<u>482</u>

<sup>#</sup> Salary earned is from 1 July 2009, being the date Blackstar SA was acquired by the Blackstar Group, to 31 December 2009.

The highest paid Director earned fees of £861,000 (2009: £271,000).

The Company does not operate a pension scheme for its Directors.

All Directors' fees payable to John Mills are payable to the Maitland Group.

No Directors of Blackstar Group SE held any share options and no options were granted or exercised during the year (2009: nil).

Details of the Directors' beneficial interest in the ordinary share capital of the Company at year end is provided in the Directors' Report.

### 38. Related parties

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The Group's associates, Litha and Navigare, are considered to be related parties. During the current financial year the Company and Blackstar SA earned fees totalling R3,750,000 (£332,000) from transaction arranging, underwriting and capital raising in respect of the Litha transaction. Blackstar SA also earned additional fees amounting to R784,000 (£69,000) from Litha in the form of directors and monitoring fees. As at 31 December 2010, Blackstar SA reflected a prepayment of fees amounting to R58,000 (£6,000). As at 31 December 2009, Blackstar Gibraltar held a loan to Navigare amounting to £495,000 and accounted for as an investment classified as loans and receivables. The loan was repaid in 2010 and Blackstar Gibraltar earned interest of £28,000 on the loan during the current financial year.

John Mills is deemed to be a related party, as in addition to being a Director, funds associated with John Mills are interested in 1.02% of the issued share capital of the Company. In addition, John is a Director of Maitland Luxembourg S.A. Maitland provided a variety of services to the Company, on a commercial, arm's length basis. In 2009, fees to Maitland for advisory and administrative services amounted to £204,000 (2009: £317,000). At the balance sheet date £58,000 (2009: £41,000) was owing to Maitland.

Andrew Bonamour is deemed to be a related party as in addition to being a Director, funds associated with Andrew Bonamour are interested in 21.49% of the issued share capital of the Company. Andrew is a potential beneficiary of family trusts that own shares in BML Limited ("BML"). Prior to the internalisation of investment advisory arrangements in June 2009, BML provided investment advisory services to the Company under the investment advisory agreement, and was also entitled to share in any performance fees payable by the Company under the terms of the investment advisory agreement. BML is interested in 20.32% of the issued shares in the Company. In 2009 advisory fees to BML amounted to £884,000 and there were no amounts outstanding at 31 December 2009. No such advisory fees were paid during the current financial year.

Charles Taberer was appointed as a director during the current financial year. A loan amounting to £564,000 was provided by Blackstar Gibraltar to Tanmac Trading (Pty) Limited in which Charles Taberer has an indirect exposure. The terms and conditions of the loan are considered to be at arms length.

Details of Directors' remuneration are provided in note 37 to the consolidated financial statements. There are no other related parties transactions to disclose.

### 39. Post balance sheet events

On 23 March 2011 Blackstar announced its intention to seek a secondary listing on the ALTx market of the Johannesburg Stock Exchange and to obtain shareholders approval in this regard. Blackstar's shareholders duly voted in favour of the resolutions that will allow Blackstar to complete the secondary listing and raise additional capital from South African investors on 8 April 2011. It is anticipated that the ALTx listing will take place during June 2011.

On 4 April 2011, Blackstar also announced it had entered into a conditional agreement with Robor to dispose of KMG's Baldwins division, in exchange for an issue of 5% of the equity share capital of Robor. The agreement is subject to Competition Commission approval as well as fulfillment of certain conditions which are common in transactions of this nature.

### 40. Segmental information

The Group has four reporting segments, as described below. Each segment operates in a separate industry and is managed by the individual segments' management team. For each of the segments, the Board of Directors review internal management reports to assess performance.

The operating segments have been identified as follows:

*Industrial chemicals* segment includes the subsidiary Ferro. Ferro is a South African manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits, glass coatings and glaze coatings used on ceramic products;

*Industrial metals* segment includes the subsidiary KMG and its subsidiaries. KMG is a processor, distributor and stockist of carbon steel, stainless steel and aluminium in the form of high quality sheet, plate and coil as well as structural and other long product profiles. KMG also owns 100% of GRS, a steel roofing and cladding company; and

*Investment activities* segment includes the holding company Blackstar Group SE, the subsidiaries Blackstar Gibraltar and Blackstar Cyprus (through which all of the investments are made), Blackstar SA, BRE and the Group's associate Navigare.

*Healthcare* segment includes the associate Litha. Litha is a diversified healthcare business with the following divisions Biotech, Medical and Pharmaceuticals. The Biotech division is currently in the process of developing its own vaccine manufacturing plant in Africa and is the controlling shareholder in a Public Private Partnership with the South African government to provide vaccines under the government's Expanded Program of

Immunisation which targets a suite of free vaccines to government clinics and hospitals to all children in South Africa. Litha's Medical division provides consumable devices to private and government hospitals predominantly in the critical and ICU areas. The Pharmaceuticals division has a variety of branded and generic products currently being marketed as well products awaiting registration with the Medical Control Council.

The Board of Directors assess the performance of the operating segments based primarily on the measures of revenue and EBITDA. Other information provided, except as noted below, is measured in a manner consistent with that in the financial statements.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies with the following exception: Ferro included in the Industrial chemicals segment has an accounting policy to revalue property, plant and equipment. This revaluation is reversed on consolidation as it is the Group's policy to account for property, plant and equipment at cost. No adjustment was required to the property, plant and equipment during the current or prior financial year as Ferro have not revalued its property, plant and equipment since becoming a subsidiary of Blackstar.

Transactions between reportable segments are included in the segmental information provided and are then eliminated on consolidation (refer to the reconciliation below).

On preparation of the segmental report for the current period it was noted that the segmental EBITDA reviewed by the Board of Directors to assess performance includes inter-Group income and expenses. For comparability, the comparatives for December 2009 have been adjusted to include inter-Group transactions.

#### 40.1 **Information about reportable segments**

	2010 £'000	2009 £'000
<b>Revenue</b>		
As reported by segment:		
Industrial chemicals	36,064	29,465
Industrial metals	172,037	124,741
Consolidated total reported by the Group	<u>208,101</u>	<u>154,206</u>
<b>EBITDA</b>		
As reported by segment:		
Industrial chemicals	7,042	5,045
Industrial metals	(3,501)	(1,948)
Investment activities	225	3,466
Healthcare	1,460	–
Total EBITDA reported by segments	<u>5,226</u>	<u>6,563</u>
Consolidation adjustments		
Inter-Group transactions and consolidation of subsidiaries	31,998	(4)
Equity account associates	(26,254)	–
Other	170	(26)
Consolidated total reported by the Group	<u>11,140</u>	<u>6,533</u>
Depreciation and amortisation	(4,571)	(3,320)
Impairment of goodwill and intangible assets	(11,732)	(3,883)
Finance income and finance costs	(5,382)	(4,786)
Loss before taxation reported by the Group	<u>(10,545)</u>	<u>(5,456)</u>
<b>Share of profit of associates</b>		
Healthcare	1,460	–
Investment activities	79	–
Consolidated total reported by the Group	1,539	–
<b>Total assets</b>		
As reported by segment:		
Industrial chemicals	33,799	29,468
Industrial metals	64,095	77,580
Investment activities	107,134	105,478
Total assets reported by segments	<u>205,028</u>	<u>212,526</u>
Consolidation adjustments		
Inter-Group transactions	(22,672)	(32,219)
On acquisition fair value adjustments and consolidation of subsidiaries	(3,165)	(7,646)
Equity account associates	(24,863)	–
Consolidated total reported by the Group	<u>154,328</u>	<u>172,661</u>

	2010 £'000	2009 £'000
<b>Investments in associates</b>		
Healthcare	14,397	–
Investment activities	240	–
	<u>14,637</u>	<u>–</u>
Consolidated total reported by the Group		
<b>Total liabilities</b>		
As reported by segment:		
Industrial chemicals	(20,343)	(20,873)
Industrial metals	(81,568)	(81,652)
Investment activities	(2,379)	(1,591)
	<u>(104,290)</u>	<u>(104,116)</u>
Total liabilities reported by segments		
Consolidation adjustments		
Inter-Group transactions	22,672	32,219
On acquisition fair value adjustments and consolidation of subsidiaries	15,689	(996)
Other	(677)	(13)
	<u>(66,606)</u>	<u>(72,906)</u>
Consolidated total reported by the Group		

#### 40.2 **Geographical information**

Both the Industrial chemicals and Industrial metals segments have their operations in South Africa and the Industrial metals business has a less significant operation in Namibia (Southern Africa). The Investment activities segment operates and holds investments located in South Africa. Thus for all segments, non-current assets are located in the Southern Africa region.

Segmental revenue is presented below on the basis of the geographical location of the customers:

	<i>Industrial chemicals</i> £'000	<i>Industrial metals</i> £'000	<i>Investment activities</i> £'000	<i>Total</i> £'000
<b>2010</b>				
South Africa	33,286	158,775	–	192,061
Other countries	2,778	13,262	–	16,040
	<u>36,064</u>	<u>172,037</u>	<u>–</u>	<u>208,101</u>
Revenue				
<b>2009</b>				
South Africa	27,999	119,059	–	147,058
Other countries	1,466	5,682	–	7,148
	<u>29,465</u>	<u>124,741</u>	<u>–</u>	<u>154,206</u>
Revenue				

#### 40.3 **Major customers**

As has been disclosed in note 31.3, the Group does not rely on any one major customer (i.e. revenues from any one single customer do not exceed 10% of the Group's total revenue).

#### 40.4 Analysis of revenue by product

	2010 £'000	2009 £'000
<b>Industrial chemicals</b>		
Sale of specialised range of powder coatings	11,943	10,148
Sale of black and white plastic master batches	6,309	5,275
Sale of glass coating and glass decorating products	2,972	3,069
Sale of ceramic glazes and enamel products	14,840	10,973
	36,064	29,465
<b>Industrial metals</b>		
Sale of manufactured roofing sheets	41,934	33,530
Sale of stainless steel	20,759	38,789
Sale of carbon and aluminium steel	109,344	52,422
	172,037	124,741
	<u>208,101</u>	<u>154,206</u>

#### B. COMPANY STAND ALONE HISTORICAL FINANCIAL INFORMATION

Set out below is an extract from the audited financial results of Blackstar Group SE in regards of the Company stand alone accounts for the 5 (five) financial years ending 31 December 2006, 2007, 2008, 2009 and 2010 respectively. The Company stand alone historical financial information is the responsibility of the directors of Blackstar Group SE.

As set out in part A of this **Annexure 6**, the historical financial information was audited by BDO LLP and was reported on without qualification for all of the aforementioned financial periods.

	Audited 31 Dec 2010 12 months £'000	Audited 31 Dec 2009 12 months £'000	Audited 31 Dec 2008 12 months £'000	Audited 31 Dec 2007 12 months £'000	Audited 31 Dec 2006 12 months £'000
<b>Profit/(Loss) after tax for the year</b>	1,149	(12,633)	(695)	10,272	1,629
<b>Total assets</b>	75,957	75,141	92,500	92,313	77,222
<b>Total liabilities</b>	<u>183</u>	<u>543</u>	<u>8,641</u>	<u>7,078</u>	<u>149</u>

#### C. HEADLINE EARNINGS RECONCILIATION

Set out below is a reconciliation of headline earnings for the Blackstar Group SE in regards to the 5 (five) financial years ending 31 December 2006, 2007, 2008, 2009 and 2010 respectively.

	Audited 31 Dec 2010 12 months £'000	Audited 31 Dec 2009 12 months £'000	Audited 31 Dec 2008 12 months £'000	Audited 31 Dec 2007 12 months £'000	Audited 31 Dec 2006 12 months £'000
<b>Profit/(Loss) attributable to equity holders of the company</b>	(11,121)	(2,547)	(7,827)	22,264	4,198
<b>Non-headline items (net of tax and non-controlling interest):</b>					
– Gain on deemed disposal of a Subsidiary	(870)	–	–	–	–
– Net loss/(profit) on sale of property, plant and equipment <sup>1</sup>	77	(2)	–	–	–
– Impairment of intangible assets (goodwill included)	11,732	3 883	–	–	–
– Non-headline items of associated companies <sup>2</sup>	168	–	–	–	–
<b>Headline earnings/(loss) for the year</b>	(14)	1,334	(7,827)	22,264	4,198
Basic and diluted headline earnings per share (pence)	-(0.02)	1.75	-(10.34)	28.62	9.14
Weighted average number of ordinary shares (thousands)	77 275	76,454	75,665	77,801	45,907

## ANNEXURE 7

### AUDITOR'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION PRESENTED IN ACCORDANCE WITH THE PROVISIONS OF THE SOUTH AFRICAN COMPANIES ACT

11 July 2011

The Directors  
Blackstar Group SE  
2nd Floor  
Ibex House  
The Minories  
London  
EC3N 1DX

Dear Sirs

#### **INDEPENDENT AUDITOR'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION OF BLACKSTAR GROUP SE ("BLACKSTAR")**

##### **Introduction**

The board of directors of Blackstar has resolved to apply for a secondary listing on the AltX of the JSE Limited ("**the proposed listing**").

At your request and for the purpose of the prospectus of Blackstar to be issued on or about 18 July 2011 ("**the Prospectus**"), we present our report on the historical financial information of Blackstar for the financial years ended 31 December 2006, 2007, 2008, 2009 and 2010, as presented in parts A and B of Annexure 6 to the Prospectus, in compliance with the South African Companies Act ("**Financial Information**").

We have audited the group annual financial statements of Blackstar for the financial years ended 31 December 2006, 2007, 2008, 2009 and 2010 from which the financial information presented has been extracted. The financial information presented comprises the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and a summary of significant accounting policies.

##### **Responsibility**

###### **Directors' Responsibility**

The directors of Blackstar are responsible for the preparation, contents and presentation of the Prospectus statement and the fair presentation of the Financial Information in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

###### **Auditor's Responsibility**

Our responsibility is to audit and express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with International Standards on Auditing (UK & Ireland). Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the Financial Information is free from material misstatement.

An audit involves obtaining evidence about the amounts and disclosures in the financial information sufficient to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial information.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

##### **Opinion**

In our opinion, the Financial Information of Blackstar which has been prepared in accordance with the basis of preparation as set out in parts A and B of Annexure 6 to the Prospectus, presents fairly, in all material respects, for the purposes of the Prospectus, the financial position of Blackstar at 31 December 2006, 2007, 2008, 2009 and 2010, and its financial performance and cash flows for the years then ended in accordance with the

recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as adopted by the European Union and in the manner required by the Companies Act of South Africa.

We further confirm that:

1. the debtors and creditors include accounts other than trade accounts, as detailed in notes 19 and 26, respectively, of the historical financial information;
2. the provisions for doubtful debts appear to be adequate;
3. adequate provision has been made for obsolete, damaged or defective goods, and supplies purchased at prices in excess of current market prices;
4. intercompany profits in the Group have been eliminated; and
5. as at the Last Practicable Date, there have been no material changes in the assets and liabilities of the Company or any of its Subsidiaries since the date of the last annual financial statements, being 31 December 2010.

Yours faithfully

BDO LLP  
Partner: James Roberts  
*Registered Auditor*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)."

## ANNEXURE 8

### UNAUDITED PRO FORMA FINANCIAL INFORMATION OF BLACKSTAR

The unaudited *pro forma* statement of financial position at 31 December 2010 of Blackstar is set out below. The unaudited *pro forma* statement of financial position has been prepared for illustrative purposes only to provide information on how the capital raised might have impacted on the financial position of the Group. Because of its nature, the unaudited *pro forma* statement of financial position may not be a fair reflection of the Group's financial position, after the capital raising. The unaudited *pro forma* financial information is presented in a manner that is consistent with the accounting policies of Blackstar as set out in **Annexure 6** of this pre-listing statement.

The unaudited *pro forma* statement of financial position as set out below should be read in conjunction with the limited assurance report of the independent reporting accountants which is included as **Annexure 9** to this circular.

The directors of Blackstar are responsible for the preparation of the unaudited *pro forma* statement of financial position.

#### **Unaudited pro forma consolidated statement of financial position at 31 December 2010 reflecting the effects of the capital raising**

	<i>Audited pro forma before the capital raising<sup>1</sup> £'000</i>	<i>Pro forma adjustments £'000</i>	<i>Unaudited pro forma after capital raising<sup>5</sup> £'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	21,666	–	21,666
Goodwill	18,835	–	18,835
Intangible assets	13,281	–	13,281
Investments in associates	14,637	–	14,637
Investments classified as loans and receivables	873	–	873
Investments at fair value through profit and loss	12,056	–	12,056
Other financial assets	52	–	52
Deferred tax assets	125	–	125
	<u>81,525</u>	<u>–</u>	<u>81,525</u>
<b>Current assets</b>			
Investments classified as loans and receivables	502	–	502
Investments at fair value through profit and loss	545	–	545
Other financial assets	26	–	26
Current tax assets	423	–	423
Trade and other receivables	25,105	–	25,105
Inventories	27,006	–	27,006
Cash and cash equivalents	19,196	12,250	31,446
	<u>72,803</u>	<u>12,250</u>	<u>85,053</u>
<b>Total assets</b>	<u>154,328</u>	<u>12,250</u>	<u>166,578</u>

	<i>Audited pro forma before the capital raising<sup>1</sup> £'000</i>	<i>Pro forma adjustments £'000</i>	<i>Unaudited pro forma after capital raising<sup>5</sup> £'000</i>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	50,130	12,250	62,380
Capital redemption reserve	2,893	–	2,893
Foreign currency translation reserve	14,604	–	14,604
Retained earnings	22,569	–	22,569
	<hr/>	<hr/>	<hr/>
Total equity attributable to equity owners	90,196	12,250	102,446
Non-controlling interest	(2,474)	–	(2,474)
	<hr/>	<hr/>	<hr/>
	87,722	12,250	99,972
	<hr/>	<hr/>	<hr/>
<b>Non-current liabilities</b>			
Borrowings	12,538	–	12,538
Other financial liabilities	3,937	–	3,937
Provisions	197	–	197
Deferred tax liabilities	4,733	–	4,733
	<hr/>	<hr/>	<hr/>
	21,405	–	21,405
	<hr/>	<hr/>	<hr/>
<b>Current liabilities</b>			
Borrowings	1,295	–	1,295
Other financial liabilities	25,540	–	25,540
Provisions	288	–	288
Current tax liabilities	442	–	442
Trade and other payables	17,635	–	17,635
Bank overdrafts	1	–	1
	<hr/>	<hr/>	<hr/>
	45,201	–	45,201
	<hr/>	<hr/>	<hr/>
<b>Total equity and liabilities</b>	<b>154,328</b>	<b>12,250</b>	<b>166,578</b>
	<hr/>	<hr/>	<hr/>
Number of shares in issue ('000)	74,821	15,000	89,821
Net asset value per share (pence)	121	(7)	114
Net tangible asset value per share (pence) <sup>6</sup>	78	–	78

**Notes and assumptions:**

1. The "Unaudited *pro forma* before the capital raising" figures are extracted from the audited financial statements of Blackstar Group SE for the year ended 31 December 2010.
2. The Net asset value per share and intrinsic net tangible asset value per share figures are calculated based on the actual number of shares in issue at 31 December 2010.
3. 15,000,000 new shares are assumed to have been issued at a subscription price of 85 pence per new share thereby raising gross capital of £12.75 million.
4. Adjustment has been made for deduction of estimated costs of £500,000, expensed directly against the share capital.
5. The net proceeds of the capital raising, amounting to £12.25 million will earn interest at the prevailing South African benchmark overnight rate on deposits, currently amounting to an annual interest rate of 5.26 per cent. until such time as the capital is deployed in suitable investment opportunities as more fully described in paragraph 1.2 of section 2 in the Prospectus.
6. The "Unaudited *pro forma* after capital raising" column is based on the assumption that the capital raising was implemented on 31 December 2010.
7. Net tangible asset value per share represents net asset value per share excluding goodwill and intangible assets of the Group.

## ANNEXURE 9

### INDEPENDENT REPORTING ACCOUNTANTS REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF BLACKSTAR

"The Directors  
Blackstar Group SE  
2nd Floor  
Ibex House  
The Minories  
London  
EC3N 1DX

11 July 2011

Dear Sirs

#### **Independent Reporting Accountants' limited assurance report on the unaudited *pro forma* financial information of Blackstar Group SE ("Blackstar")**

##### **Introduction**

We have performed our limited assurance engagement with regard to the unaudited *pro forma* statement of comprehensive income and statement of financial position (collectively "the *pro forma* financial information") of Blackstar set out in Annexure 8 of the Prospectus to be issued on or about 18 July 2011 in connection with the private placement of up to 15,000,000 ordinary shares in the share capital of Blackstar ("Private Placement").

The *pro forma* financial information has been prepared for purposes of complying with the requirements of the JSE Limited ("JSE"), for illustrative purposes only, to provide information about how the Private Placement might have affected the reported financial information had the Private Placement been undertaken on 1 January 2010 for statement of financial position purposes and on 31 December 2010 for statement of financial position purposes.

Because of its nature, the *pro forma* financial information may not present a fair reflection of the financial position, changes in equity and results of operations of Blackstar, after the Private Placement.

##### **Directors' responsibility**

The directors of Blackstar are solely responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the Prospectus and for the financial information from which it has been prepared.

Their responsibility includes determining that the *pro forma* financial information contained in the Prospectus has been properly compiled on the basis stated, the basis is consistent with the accounting policies of Blackstar and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information as disclosed in terms of the JSE Listings Requirements.

##### **Reporting accountants' responsibility**

Our responsibility is to express a limited assurance conclusion on the *pro forma* financial information included in the Prospectus. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements applicable to *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the *Revised Guide on Pro Forma Financial Information* issued by the South African Institute of Chartered Accountants.

This standard requires us to comply with ethical requirements and to plan and perform the assurance engagement to obtain sufficient appropriate audit evidence to support our limited assurance conclusion, expressed below.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

##### **Sources of information and work performed**

Our procedures consisted primarily of comparing the unadjusted audited historical financial information of Blackstar with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Blackstar, considering the evidence supporting the *pro forma* adjustments, recalculating the amounts based on the information obtained and discussing the *pro forma* financial information with the directors of Blackstar.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Blackstar and other information from various public, financial and industry sources.

Whilst our work performed involved an analysis of the historical audited financial information and other information provided to us, our limited assurance engagement does not constitute either an audit or review of any of the underlying financial information undertaken in accordance with the International Standards on Auditing or the International Standards on Review Engagements and accordingly, we do not express an audit or review opinion.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe that our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

#### **Opinion**

Based on our examination of the evidence obtained, nothing has come to our attention that causes us to believe that in terms of Section 8.17 and 8.30 of the JSE Listings Requirements:

- the *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of Blackstar; and
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed pursuant to Section 8.30 of the JSE Listings Requirements.

Yours faithfully  
BDO (South Africa) Incorporated

Per Nigel Griffith  
Chartered Accountant (SA)  
Registered Auditor  
Director"

## ANNEXURE 10

### MATERIAL DISPOSALS

The following material disposals have been made by the Group in the 3 years preceding the Last Practicable Date:

<b>Name of Group Company that disposed of the asset</b>	Blackstar Cyprus
<b>Name of Purchaser</b>	An Afripalm Resources (Pty) Limited group company
<b>If Purchaser was a company other than a public company, the names and addresses of the beneficial shareholders of the purchasing company</b>	Asset was a preference share in Afripalm Resources (Pty) Limited. Preference shares were repaid by a group company of Afripalm Resources (Pty) Limited. Shareholder list not available.
<b>Address of Purchaser</b>	2nd floor, 135 West Street, Sandton
<b>Nature of asset sold ("the Property")</b>	Cumulative redeemable preference shares in Afripalm Resources (Pty) Limited
<b>Details of the Valuation of the Property</b>	Preference shares were redeemed at capital value plus accrued dividends
<b>Consideration received</b>	R230 million
<b>Method of payment of the consideration i.e. paid in cash or by issue of shares/comboination)</b>	Cash
<b>Effective Date of Disposal</b>	23 April 2010
<b>Name of Group Company that disposed of the asset</b>	Blackstar
<b>Name of Purchaser</b>	Shares sold on the open market of the JSE
<b>Nature of asset sold ("the Property")</b>	Ordinary Shares in York Timber Holdings Limited
<b>Details of the Valuation of the Property</b>	JSE Market price of York Timber Holdings Limited
<b>Consideration received</b>	R201 million
<b>Method of payment of the consideration i.e. paid in cash or by issue of shares/comboination)</b>	Cash
<b>Effective Date of Disposal</b>	18 April 2008

## ANNEXURE 11

### DETAILS OF IMMOVABLE PROPERTY HELD BY THE GROUP

The following immovable property and/or leasehold property is held by the Group:

<b>Group Company which holds the asset</b>	Blackstar Real Estate (Pty) Limited
<b>Nature of interest</b>	Freehold
<b>Situation of the property</b>	Erf 1813 Richards Bay Extension 9
<b>Area of the property</b>	Richards Bay
<b>Group Company which holds the asset</b>	Blackstar Real Estate (Pty) Limited
<b>Nature of interest</b>	Freehold
<b>Situation of the property</b>	Erf 1345 South Germiston Extension 2
<b>Area of the property</b>	Germiston
<b>Group Company which holds the asset</b>	Blackstar Real Estate (Pty) Limited
<b>Nature of interest</b>	57.5% of the issued share capital in Wonderdeals 38 (Pty) Limited, being a property entity, which holds the legal title to the property by way of freehold
<b>Situation of the property</b>	Erf 193,194,195 and the remainder of erf 192 Richmond, Kwazulu Natal
<b>Area of the property</b>	Kwazulu Natal
<b>Group Company which holds the asset</b>	Blackstar Real Estate (Pty) Limited
<b>Nature of interest</b>	25% of the issued share capital in Fantastic Investments (Pty) Limited, being a property entity, which holds the legal title to the property by way of freehold
<b>Situation of the property</b>	Erven 1344 and 1345 Shakas Head, Durban, Kwazulu Natal
<b>Area of the property</b>	Kwazulu Natal
<b>Group Company which holds the asset</b>	Ferro Industrial Products (Pty) Limited
<b>Nature of interest</b>	Freehold
<b>Situation of the property</b>	Erf 189, Vulcania Extension 1 Township, Brakpan
<b>Area of the property</b>	Brakpan
<b>Group Company which holds the asset</b>	Ferro Industrial Products (Pty) Limited
<b>Nature of interest</b>	Freehold
<b>Situation of the property</b>	unit 1, SS Bofors Two, Epping, Cape Town
<b>Area of the property</b>	Cape Town
<b>Group Company which holds the asset</b>	KMG Steel Service Centres (Pty) Limited
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	Erf 1345 South Germiston Extension 2
<b>Area of the property</b>	Germiston
<b>Tenure of the property</b>	Lease period 10 years. Lease expires in May 2020. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 8 years and 11 months
<b>Rental payable</b>	R151,500 per month with a 10% annual escalation
<b>Group Company which holds the asset</b>	KMG Steel Service Centres (Pty) Limited
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	Erf 1813 Richards Bay Extension 9
<b>Area of the property</b>	Richards Bay
<b>Tenure of the property</b>	Lease period 10 years. Lease expires in May 2020. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 8 years and 11 months

<b>Rental payable</b>	R28,500 per month with a 10% annual escalation
<b>Group Company which holds the asset</b>	KMG Steel Service Centres (Pty) Limited
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	Martin Boulevard, NW7, Vanderbijlpark
<b>Area of the property</b>	Vanderbijlpark
<b>Tenure of the property</b>	Lease period 12 years. Lease expires in July 2020. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 9 years and one month
<b>Rental payable</b>	R248,459 per month with a 7.5% annual escalation
<b>Group Company which holds the asset</b>	KMG Steel Service Centres (Pty) Limited
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	16 Quality Road, Isando
<b>Area of the property</b>	Isando
<b>Tenure of the property</b>	Lease period 12 years. Lease expires in November 2015. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 4 years and 5 months
<b>Rental payable</b>	R1,031,459 per month with an 8% annual escalation
<b>Group Company which holds the asset</b>	KMG Steel Service Centres (Pty) Limited
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	Lot 25142 Pinetown, Durban
<b>Area of the property</b>	Durban
<b>Tenure of the property</b>	Lease period 10 years. Lease expires in March 2012. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 9 months
<b>Rental payable</b>	R197,480 per month with a 11% annual escalation
<b>Group Company which holds the asset</b>	KMG Steel Service Centres (Pty) Limited
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	Erf 32599, Cape Town
<b>Area of the property</b>	Cape Town
<b>Tenure of the property</b>	Lease period 10 years. Lease expires in December 2018. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 7 years and 6 months
<b>Rental payable</b>	R251,790 per month with a 9% annual escalation
<b>Group Company which holds the asset</b>	Global Roofing Solutions (Pty) Ltd
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	9 Tile Road, Anderbolt, Boksburg
<b>Area of the property</b>	Boksburg
<b>Tenure of the property</b>	Lease period 10 years. Lease expires in May 2014. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 2 years and 11 months
<b>Rental payable</b>	R203,370 per month with a 7% annual escalation
<b>Group Company which holds the asset</b>	Global Roofing Solutions (Pty) Ltd
<b>Nature of interest</b>	Leasehold
<b>Situation of the property</b>	Cnr Killarney Ave, Manzo and Mansell Roads, Killarney Gardens
<b>Area of the property</b>	Killarney
<b>Tenure of the property</b>	Lease period 10 years. Lease expires in November 2014. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 3 years and 5 months
<b>Rental payable</b>	R67,084 per month with a 9% annual escalation
<b>Group Company which holds the asset</b>	Global Roofing Solutions (Pty) Ltd
<b>Nature of interest</b>	Leasehold

**Situation of the property**

**Area of the property**

**Tenure of the property**

**Rental payable**

Cnr Fritz Stockenstrom & Leon Bartel Str, East End, Bloemfontein  
Bloemfontein

Lease period 10 years. Lease expires in February 2018. As at the Last Practicable Date, the unexpired portion of the lease is accordingly 6 years and 8 months

R34,242 per month with a 6% annual escalation

## ANNEXURE 12

### DETAILS OF SUBSIDIARIES

Name of company	Date and place of incorporation	Registr. No.	Issued share capital	% held by Blackstar and/or by wholly owned Subsidiary of Blackstar	Infer-company loan(R)	Nature of business	Date of becoming a Subsidiary	Directors
1. Blackstar Cyprus	20 May 2006 Limassol, Cyprus	177079	2,600	100%	-	Investment holding company	20 May 2006	Eva Shammias, John Mills, Duncan Sproul, Andrew Bonamour
2. Blackstar Gibraltar	8 December 2006 Gibraltar	97653	10,000	100%	-	Investment holding company and treasury operation	8 December 2006	Louis Tray, Guy Stagnetto, John Mills, Andrew Bonamour
3. Blackstar Real Estate	14 April 2010 Pretoria, RSA	2010/007146/07	453	100%	-	Property holding company	14 April 2010	Andrew Bonamour, William Marshall-Smith, Thomas Bemelman
4. Blackstar SA	5 December 2005 Pretoria, RSA	2005/042844/07	10,000	100%	-	Investment advisory company	25 June 2009	Andrew Bonamour, William Marshall-Smith, Greg Weinstein

Name of company	Date and place of incorporation	Registr. No.	Issued share capital	% held by Blackstar and/or by wholly owned Subsidiary of Blackstar	Inter-company loan (R)	Nature of business	Date of becoming a Subsidiary	Directors
5. KMG	9 October 2006	2006/031549/07	2,040,600	99%	-	Steel distribution and roofing	March 2009	Andrew Bonamour, William Marshall-Smith, Charles Taberer, Joyce Gressel, Gavin Jacobson, Steven Levitt, Chris Ransome
6. Ferro	25 January 2004 Pretoria	2004/000614/07	200,000	54%	35,980,738	Industrial Chemicals	January 2009	Ian Forbes, Andrew Bonamour, Greg Weinstein, Johan Herbst, D M van der Merwe, G Duncan, W Shipway, S Holzapfel, T l'Ons

**Notes:**

1. There have been no alterations in the share capital of the Subsidiaries nor any offers of shares by the Subsidiaries for subscription or sale to the public in the 3 years preceding the date of issue of this Prospectus save that:
  - 1.1 in and during 2009, Blackstar Cyprus and KMG agreed a conversion mechanism in terms whereof, 110,000 B preference shares held in KMG by Blackstar Cyprus were converted to ordinary shares and additional ordinary shares were issued to Blackstar Cyprus as capitalisation issues, resulting in the cancellation of the 110,000 B Preference Shares and the existing issued ordinary share capital of KMG increasing from 1,000,000 ordinary shares to 2,040,600 ordinary shares; and
  - 1.2 on 3 May 2011, the shareholders of KMG passed a special resolution which has been lodged with the Commission in terms whereof KMG was authorised to repurchase the shares of the KMG staff trust and the shares of the previous chief executive officer of KMG free of consideration, which resulted in the shareholding of the Blackstar Group in KMG increasing to 99%.
2. All the Subsidiaries commenced business on or shortly after the date of their incorporation.
3. The opinion of the Directors and the grounds for such opinion as to the prospects of the business of its subsidiary companies, to the extent applicable, is contained in Annexure 3 and on the prospects for the Company is contained in paragraph 3.9 of section 1 of the Prospectus. A general description giving a fair presentation of the state of affairs of material subsidiaries is contained in paragraphs 3.2 and 3.3 of section 1 of the Prospectus and in Annexure 3.

### Details of Directors of major Subsidiaries

The full names, ages, business address, capacities and nationalities of the directors of the major Subsidiaries of Blackstar are outlined below:

Subsidiary in respect of which individual acts as a director	Full name	Age	Capacity and occupation	Nationality	Business Address
KMG	Andrew Bonamour	39	Non-Executive Chairman	RSA	11 Crescent Drive, Melrose Arch, 2076
KMG	William Marshall-Smith	33	Non-Executive Director	RSA	11 Crescent Drive, Melrose Arch, 2076
KMG	Charles Taberer	52	Non-Executive Director	RSA	SUITE 6A, UMHLANGA CENTRE, 189 RIDGE ROAD, UMHLANGA
KMG	Steven Levitt	57	Non-Executive Director	RSA	BLOCK E, BAYER CAMPUS, 27 WRENCH ROAD, ISANDO, 1600
KMG	Chris Ransome	48	Non-Executive Director	RSA	IFS CONSULTING, BRADENHAM HALL, MELLIS ROAD, RIVONIA, 2128
KMG	Gavin Jacobson	50	Executive Director	RSA	BLOCK E, BAYER CAMPUS, 27 WRENCH ROAD, ISANDO, 1600
KMG	Joyce Gressel	47	Executive Director	RSA	BLOCK E, BAYER CAMPUS, 27 WRENCH ROAD, ISANDO, 1600
Ferro	Andrew Bonamour	39	Non-Executive Director	RSA	11 Crescent Drive, Melrose Arch, 2076
Ferro	Greg Weinstein	35	Non-Executive Director	RSA	11 Crescent Drive, Melrose Arch, 2076
Ferro	Ian Forbes	62	Executive Director	RSA	Atomic Street, Vulcania, Brakpan, 1540
Ferro	Johan Herbst	46	Executive Director	RSA	Atomic Street, Vulcania, Brakpan, 1540
Ferro	D M van der Merve	48	Executive Director	RSA	Atomic Street, Vulcania, Brakpan, 1540
Ferro	G Duncan	69	Executive Director	RSA	Atomic Street, Vulcania, Brakpan, 1540
Ferro	W Shipway	42	Executive Director	RSA	Atomic Street, Vulcania, Brakpan, 1540
Ferro	S Holzapfel	47	Executive Director	RSA	Atomic Street, Vulcania, Brakpan, 1540
Ferro	T l'Ons	33	Executive Director	RSA	Atomic Street, Vulcania, Brakpan, 1540

## ANNEXURE 13

### OTHER DIRECTORSHIPS

The table below sets out the names of the companies and other entities of which the Directors of the Blackstar and the directors of its major Subsidiaries are or have been directors, members or partners during the five years preceding the Last Practicable Date:

<i>Director</i>	<i>Name of company or entity</i>	
John Broadhurst Mills	Greenset International Limited (closed)	Director
	Hydra Fund Limited	Director
	Ffulcrum Fund Limited	Resigned
	Maitland International Holdings plc	Resigned
	Maitland Nominees Limited	Director
	MTC Holdings Limited	Director
	Signet Multi-Manager SPC Inc	Director
	Maitland Trustees Limited	Director
	Star Convertible Fund Limited	Director
	Almega S.A.	Director
	Culross Global SPC Limited	Director
	Tobacco Products International Limited	Director
	Maitland & Co S A R L (closed)	Director
	Lysandre S.A.	Resigned
	Gedeon Investments S.A.	Director
	Krisman S.A.	Resigned
	Relay S.A.	Resigned
	Zirconium S.A.	Resigned
	Baluiki S.A.	Resigned
	Jaoui S.A.	Resigned
	Murfet S.A.	Resigned
	Sonon (Protector) Limited	Director
	Theseus Limited	Director
	Slaney Limited	Resigned
	Paladin Limited	Director
	DAL Funds Ltd	Director
	MIH Services Limited	Director
	Rochester Income Fund Limited	Director
	Akalya Fund Ltd	Director
	Akalya Management Ltd	Director
	Lagsby Limited	Director
	Solon Director Limited	Director
	Praetor Services Limited	Director
	Sportnik Holding ApS (closed)	Director
	Irmet Limited	Resigned
	Tortoise Management Limited	Director
	Holwave Limited	Director
	Venture Incorporation Limited	Director
	Blaircross Limited	Resigned
	Fiduciaire T.A. Services Limited	Director
	Akalya Investments Limited	Director
	Maitland Luxembourg S.A.	Director
	Solon (Management) Limited	Director
	Stellux Limited	Resigned
	Maitland Asset Management Holdings Limited	Director
	Vesta Fund Limited	Director
	Cofinance Group S.A.	Director
	MWV Guaranty Limited	Director
	MS Investment Management Limited	Director
	AI Fund Ltd	Director
	Campbell International Inc.	Resigned
	Premarex Inc.	Resigned
	The Reelife Company S.A.	Director
	EP Griffin (I.O.M.) Limited	Resigned
	Hagia Sophia Limited	Director
	Trazan Business Investments Limited	Director
	Perinvest Convertible Fund Limited	Director
	The Commercial Property Finance Fund Limited	Resigned

<i>Director</i>	<i>Name of company or entity</i>	
John Broadhurst Mills (continued)	Palisade Global Limited	Director
	Lapeta S.A.	Director
	Mercury Trade and Shipping Company S.A.	Resigned
	Veritas Inc.	Director
	First Geminus Company (PTC) Limited	Director
	Coastline Company ApS	Director
	IBEX Growth Fund Limited Class A	Director
	ABIDA Fund Limited	Director
	E-clipse Interactif Limited	Resigned
	E-clipse Marketing Limited	Resigned
	E-clipse Technologies Limited	Resigned
	Global Trading Solutions Limited	Director
	Sigas Finance Limited	Director
	Africa Resources Holdings Limited	Resigned
	Africa Services Limited	Resigned
	Alban Holdings S.A.	Resigned
	Vilazuan Holdings S.A.	Resigned
	Tabayin Holdings Inc.	Resigned
	Bunclody Holdings Limited	Director
	Bytes Technology Group (BVI) Limited	Director
	Casady Enterprises Inc	Director
	Holisox Limited	Director
	Masters International Group Limited	Director
	Newborg Art Corporation Limited	Director
	Piedmont Leaf Tobacco Company N V	Director
	Ponmed Limited	Director
	Rosaire S A	Director
	The Bettina Collection Limited	Director
	Westfield Limited	Director
	Wilderness Exploration Holdings Limited	Director
	Zeedijk Handelmaatschappij NV	Director
	Alabaster Limited	Director
	Ashford Road Limited	Resigned
	Hellaby S.A.	Resigned
	Wave Investments Inc	Director
	Bay Trading Inc.	Resigned
	Bay Trading Inc.	Resigned
	Indora Limited	Resigned
	Renshaw Services Limited	Resigned
	Gancho (PTC) Limited	Resigned
	Antioch Limited	Resigned
	Balustrade Limited	Resigned
	Calman International (PTC) Limited	Resigned
	Cotinga Limited	Resigned
	Edmar Investments Ltd.	Resigned
	Elan Enterprises Ltd.	Resigned
	Gladius Investments Limited	Director
	Harbour Holdings Inc.	Director
	Hartmann Investments Limited	Resigned
	The Helle Skov Company Inc.	Director
	Hempson Limited	Resigned
	Kordestan Limited	Resigned
	Mara Trading Inc.	Director
	Mercury Fine Art Limited	Resigned
	Mirage Equity Partners Limited	Resigned
	Nestal Enterprises Ltd.	Resigned
	Obconica Limited	Resigned
	Purval Investments Inc.	Resigned
	Stockton Company Ltd.	Resigned
	Taurus Twin Investments Limited	Resigned
	Tysland Investments Limited	Resigned
	Xalopan Limited	Resigned
	ABIDA Management Limited	Director
	Victory Funds Limited	Director
	FinSource (BVI) Limited	Director
	Maitland Fund Services (BVI) Limited	Director

<i>Director</i>	<i>Name of company or entity</i>	
John Broadhurst Mills (continued)	Solar Investments S.A.	Resigned
	Jade Advisory Services Ltd.	Resigned
	Lunar Investments S.A.	Resigned
	IBEX Capital Management Limited	Director
	Inversanda Estate Limited	Resigned
	Comm-Elec Limited	Director
	Comm-Elec Limited	Director
	Quistaquay Limited	Resigned
	Wyndene Limited	Resigned
	Derrian Investments Limited	Resigned
	Peninsula Trustees Limited	Resigned
	Kamarina Limited	Director
	Arcade Investments S.A.	Resigned
	Midocean Management and Trust Services (BVI) Limited	Director
	Cougar Growth Fund Limited	Director
	Abstund Holding Limited	Resigned
	African Mineral Trading & Exploration Limited	Resigned
	Maitland Services Limited	Director
	Douglas Tobacco Company Limited	Director
	Inkaza Property Company (PTC) Limited	Director
	Maitland Switzerland S.A.	Director
	Troutriver Limited	Resigned
	Topglas Investments S.A.	Resigned
	Compass Multi-Manager Fund Limited	Director
	Intel Handelsgezelschap N.V.	Resigned
	Paladin Limited	Director
	Constantia – Global Hedged Equity Fund	Director
	Comglobal Limited	Resigned
	Perianth Limited	Resigned
	AIBC Investcorp Holdings S.A.	Director
	Investcorp Capital S.A.	Director
	Galileo Worldwide Limited	Director
	Theseus Trustees (Bermuda) Limited	Director
	Loadestar Investments Limited	Resigned
	Midocean Nominees Limited	Director
	Momats Limited	Director
	Ocean Management Holdings Limited	Director
	Alpha Multi Strategy Blend of Funds SPC	Resigned
	O.P.A.M. Limited	Director
	Olympus Fund Limited	Director
	Shenandoah Global Multi-Strategy Fund SPC, Ltd	Director
	U-Tron Research & Development Limited	Director
	Constantia Fund Limited	Director
	Juxta Limited	Resigned
	Maitland FS Holdings International Limited	Director
	The Green Light Property Fund Limited	Director
	CDMT	Director
	Athol Worldwide Limited	Resigned
	MS Alpha Fund Limited	Director
	Athol Property Limited	Resigned
	Tilpu Agencies Limited	Resigned
	Splendour Holdings Limited	Director
	Splendour Holdings Limited	Resigned
	Sutler Limited	Resigned
	Southacre Investments Limited	Resigned
	EMEA Hospitality Investment	Resigned
	Epicure Berlin Property Management and Holdings S.A.	Resigned
	Grove Equity Plus Fund Limited	Director
	Kowitz Inc	Director
	FinSource (IOM) Limited	Director
	Grove Multi-Strategy Fund Limited	Director
	QF Fund Management Limited	Director
	QF Fund Limited	Director
	Gentiane Investment Management SPC Limited	Resigned
	Deane Ltd	Director
	Hagia Sophia Fund SPC Ltd	Director

<i>Director</i>	<i>Name of company or entity</i>	
John Broadhurst Mills (continued)	Blackstar (Gibraltar) Limited	Director
	Blackstar (Cyprus) Investors Limited	Director
	Craton Investment Management Ltd	Director
	Overberg Investments Limited	Director
	Constantia Fund SPC Ltd	Director
	Maitland Management Ireland Limited	Director
	MS Yamad LLC	Director
	MS Investments Ltd.	Director
	MS Yamad Fund L.P.	Director
	TVP – The Value Partners Fund Limited	Resigned
	BBD S.A.	Resigned
	Ardagh Group S.A.	Director
	Ilion Diversified Fund Spc Ltd	Director
	Boccard Asset Mangement Ltd.	Director
	Dynamic Multi Strategy Fund Limited	Director
	Tortoise Investments Ltd	Director
	JSMC Fund Management Limited	Director
	Citygrove Developments S.à.r.l.	Resigned
	Ubique Funds SPC Limited	Director
	Cofival S.A.	Director
	Jofina S.A.	Director
	Evolution One General Partner (BVI) Limited	Director
	Hematite Investments S.A.	Director
	Comont S.A.	Director
	Medarco Holdings S.A.	Director
	Inspired Evolution Investment Advisors (BVI) Limited	Director
	Evolution One (BVI) L.P.	Director
	International Marketing & Investment Consultants Inc	Director
	Culross Arbitrage Master Limited	Director
	Culross Global Master Limited	Director
	Culross H Master Limited	Director
	GFI Holdings One Limited	Director
	Quattro Holdings One Limited	Director
	SCF Holdings Limited	Director
	Maitland Malta Limited	Resigned
	Berkeley International Holdings S.A.	Director
	Solon Director (Malta) Limited	Director
	Slaney Limited	Director
	Shenandoah Capital Partners Limited	Director
	Curloss Managed Account Platform SPC Limited	Director
	GFI Series 2 Holdings Limited	Director
	Culross Long Term Alpha Master Limited	Director
	Sky Eagle Aero Limited	Director
	Evolution One General Partner (SA) (Pty) Ltd	Director
	Signet Dynamic Portfolio SPC Inc.	Director
	Signet Global Strategies SPC Limited	Director
	Indelible Inc.	Director
	Arran Island Limited	Director
	B&D Holdings Limited	Director
	Braeburn Investments Limited	Director
	Coconut Palm Properties Limited	Director
	Dirndal Limited	Director
	Driftwood Beach Properties Limited	Director
	Eastnor Limited	Director
	Edinburgh Investments Limited	Director
	Grand Matanzal Limited	Director
	Hoggs Hill Ltd.	Director
	Javari Ltd.	Director
	Kensington Management Company	Director
	King Air Aviation Limited	Director
	LPK Trust Company	Director
	Maryland Corporation	Director
	New Oxford Limited	Director
	Saratoga Aviation Limited	Director
	SGL Education Limited	Director
	SGL Real Estate Limited	Director

<i>Director</i>	<i>Name of company or entity</i>	
John Broadhurst Mills (continued)	Shetland Limited	Director
	Shipston Group Limited	Director
	St. Andrew's Bay Limited	Director
	Stonor Group Limited	Director
	Twining Properties Limited	Director
	Wycombe Enterprises Limited	Director
	10G Technologies Inc.	Director
Andrew David Bonamour	Blackstar Group SE	Director
	Blackstar Group (Pty) Ltd	Director
	KMG Steel Service Centres (Pty) Ltd	Director
	Global Roofing Solutions (Pty) Ltd	Director
	Adreach (Pty) Limited	Resigned
	Ukuvula Investments (Pty) Ltd	Director
	Ferro Industrial Products (Pty) Ltd	Director
	Wonderdeals 38 (Pty) Ltd	Director
	Cloudbreak Properties (Pty) Ltd	Director
	Main Street 488 (Pty) Ltd	Director
	Litha Healthcare Group Ltd	Director
	Navigare Securities (Pty) Ltd	Director
	Main Street 493 (Pty) Ltd	Director
	Fluxrab Investments no. 140 (Pty) Ltd.	Director
	Mulberry Hill Estate CC	Member
	Blackstar Real Estate (Pty) Ltd	Director
Credit U Holdings Limited	Resigned	
Isitali Investments (Pty) Ltd	Resigned	
York Timber Holding Limited	Resigned	
Wolfgang Andreas Beertz	Yeoman International Holdings S.A.	Director
	Ardagh Group S.A.	Director
	Indurisk	Director
	Sireo Immobilienfonds	Director
	ALLfin Group	Director
	Conquest 91'	Director
	Pamdies Re	Director
Marcel Enzer	Camera di Commercio Italo-Lussemburghese	Director
	Multiple managers Sicav	Director
	Insinger de Beaufort Manager Selection Sicav	Director
	Absolute Return Strategy Sicav	Director
	F.A.S. SA	Director
	Insinger de Beaufort Holdings SA	Director
	Wallberg Invest SA	Director
	Aviva Investors	Director
	Pro Fonds (Lux) Sicav	Director
William Marshall-Smith	Blackstar Group (Pty) Ltd	
	Kulungile Metals Group (Pty) Ltd	Director
	Autumn Star Trading 897 (Pty) Ltd	Director
	Credit U Holdings Limited	Director
	Bassap Investments (Pty) Limited	Resigned
	Reyapele Investments (Pty) Limited	Director
	Fluxrab Investments No 140 (Pty) Ltd	Resigned
	Main Street 488 (Pty) Ltd	Director
	Litha Healthcare Group Ltd	Director
	Cloudbreak Properties (Pty) Ltd	Director
	Navigare Securities (Pty) Ltd	Director
	Ukuvula Investments (Pty) Ltd	Director
	Wonderdeals 38 (Pty) Ltd	Director
	Main Street 493 (Pty) Ltd	Director
Blackstar Real Estate (Pty) Ltd	Director	
Fantastic Investments 379 cc	Member	
Charles Taberer	Tanmac Trading (Pty) Ltd	Director
	Quickvest 362 (Pty) Ltd	Director
	Northern Lights Trading 100 (Pty) Ltd	Director
	KMG Steel Service Centres (Pty) Ltd	Director
	Chesswood Holdings 54 (Pty) Ltd	Director

<i>Director</i>	<i>Name of company or entity</i>	
Charles Taberer (continued)	Circle Way Trading 137 (Pty) Ltd	Director
	The Docklands Hotel (Pty) Ltd	Director
	64 on Gordon Hospitality (Pty) Ltd	Director
Greg Weinstein	Blackstar Group (Pty) Ltd	Director
	Ferro Industrial Products (Pty) Ltd	Director
	Main Street 488 (Pty) Limited	Director
	Main Street 493 (Pty) Limited	Director
Ian Forbes	ID Forbes Investment cc	Member
Steven Levitt	Air-O-Thene Products (Pty) Ltd	Director
	Global Roofing Solutions (Pty) Ltd	Director
	Inala Technologies (Pty) Ltd	Director
	KMG Steel Service Centres (Pty) Ltd	Director
	Msele Nedventures Limited	Director
	O2 Capital (Pty) Ltd.	Director
Chris Ransome	Alpine Automation SA (Pty) Ltd	Director
	Pressing Concepts (Pty) Limited	Director
	Bramel Business Solutions (Pty) Ltd	Director
	Christopher Ransome Family Trust	Trustee
	Cogito Investments (Pty) Ltd	Director
	Composite Capital Partners (Pty) Ltd	Director
	Composite Capital Properties Africa (Pty) Ltd	Director
	DCD Empowerment Trust	Trustee
	DCD Investment Trust	Trustee
	DCD Share Trust	Trustee
	DMT Investment Trust	Trustee
	DMT Share Trust	Trustee
	Engineering Runoff Company (Pty) Ltd	Director
	GRS Investment Trust	Trustee
	GRS Share Trust	Trustee
	Hermanusdoorns Aandeleblok Ltd	Director
	Hispania (Pty) Ltd	Director
	Holmewood Trust	Trustee
	IFS Consulting (Pty) Ltd	Director
	IFS Investments (Pty) Ltd	Director
	JJD Property Holdings (Pty) Ltd	Director
	Kent Road Investment Trust	Director
	Lefika Residential Projects International (Pty) Ltd	Director
	Midas Group (Pty) Ltd	Director
	New Adventure Investments 161 (Pty) Ltd	Director
	Pilot Trust	Trustee
	Sansedoni Investments (Pty) Ltd	Director
	Speedroll Industrial (Pty) Ltd	Director
	Sunquest Trust	Trustee
	Tiholme Nominees (Pty) Ltd	Director
Gavin Jacobson	Global Roofing Solutions (Pty) Ltd	Director
	Alpine Automation SA (Pty) Ltd	Director
	Pressing Concepts (Proprietary) Limited	Director
	Helm Engineering (Pty) Ltd	Director
	Country Roofing (Pty) Ltd	Director
Joyce Gressel	Brandsense cc	Member
	KMG Steel Services Centre (Pty) Ltd	Director
	Global Roofing Solutions (Pty) Ltd	Director

## ANNEXURE 14

### INTERCOMPANY LOANS AND BORROWINGS

#### Inter-group loans as at 31 December 2010

<i>Lender</i>	<i>Borrower</i>	<i>Loan</i>	<i>Balance out standing (incl interest) GBP</i>	<i>Impairment raised GBP</i>	<i>Carrying value of loan GBP</i>	<i>Interest charged GBP</i>	<i>Interest rate</i>
Blackstar Gibraltar	Blackstar Real Estate	Properties	396,403	–	396,403	(5,666)	Prime NACM
Blackstar Gibraltar	Ferro	Shareholder loan	3,473,595	–	3,473,595	(421,522)	Prime plus 3% NACM
Blackstar Gibraltar	KMG	Working capital	13,658,285	–	13,658,285	(22,156)	3 month JIBAR plus 450 basis points
Blackstar Gibraltar	KMG	Shareholder loan	16,128,590	(11,237,708)	4,890,882	(1,765,824)	90% of prime NACS
Blackstar Group SE	KMG	Vehicle finance	204,781	–	204,781	(1,725)	Prime plus 1% NACM
Blackstar Cyprus	KMG	A preference shares	5,376,109	(5,376,109)	–	(411,273)	90% of prime NACS
Blackstar Cyprus	Blackstar Gibraltar	Loan	8,049,384	–	8,049,384	(49,384)	1 year LIBOR (calculated on last business day of each month) plus 0.5%
			47,287,147	(16,613,817)	30,673,330	(2,677,551)	

## ANNEXURE 15

### SOUTH AFRICAN EXCHANGE CONTROL REGULATIONS

A summary of the South African Exchange Control Regulations relating to the acquisition of Blackstar Shares after the secondary listing of the Company's Shares on the Alt\* of the JSE is provided below.

Blackstar is an African Company as defined in Section H.(B)(ii) of the Exchange Control Rulings. South African Shareholders will be treated according to the provisions of Section H.(A) of the Exchange Control Rulings.

The following summary is intended as a guide and is therefore not comprehensive. If you are in any doubt in regard hereto, please consult your professional adviser or authorized dealer:

#### 1. South African individuals

South African individuals will be able to acquire shares of foreign entities that are listed on the JSE, such as Blackstar, without restriction. Such shares are on the South African register and are Rand-denominated. Consequently, an acquisition of Blackstar Shares by a South African individual will not affect such individual's offshore investment allowance.

South African individuals need not take any administrative action and can instruct their broker to buy and sell Blackstar Shares on their behalf as they would with any other listed security on the JSE.

#### 2. South African institutional investors

South African retirement funds, long-term insurers, collective investment scheme management companies and investment managers who have registered with the SARB Financial Surveillance Department as institutional investors for exchange control purposes are entitled to a foreign portfolio investment allowance. In addition to such institutional investors' general foreign portfolio investment allowance, these entities are entitled to invest an additional special allowance of 5 per cent of their total retail assets in the equity securities of African Companies that are listed on the JSE, such as Blackstar.

South African institutional investors may utilise their general foreign portfolio investment allowance plus the additional African Company special allowance to subscribe for Shares in Blackstar in terms of the Private Placement.

#### 3. Member brokers of the JSE

In terms of Section H(E) of the SARB Exchange Control Rulings, a special dispensation was provided to local brokers to facilitate the trading in shares of foreign companies. South African brokers are now allowed, as a book building exercise, to purchase Blackstar Shares offshore and to transfer them to Blackstar's South African share register. This special dispensation is confined to shares of inward listed companies and brokers may warehouse such shares for a maximum period of 30 days only.

#### 4. South African corporate entities and trusts

South African corporate entities or trusts will be able to acquire Blackstar Shares on the South African register, via the JSE, without restriction. A South African corporate entity or trust need not take any additional administrative actions and can instruct its broker to accept, buy and sell Blackstar Shares on its behalf as it would with any other listed security on the JSE.

#### 5. Non-residents of the common monetary area

Non-residents of the Common Monetary Area may acquire Blackstar Shares on the Alt\* of the JSE, provided that payment is received in foreign currency from a non-resident account.

Non-residents of the Common Monetary Area may sell Blackstar Shares on the Alt\* of the JSE and repatriate the proceeds without restriction.

However, former residents of the Common Monetary Area who have emigrated may not use blocked funds to acquire Blackstar Shares.

#### 6. Movement of Blackstar Shares between registers

Blackstar Shares are fully fungible and may be transferred between the South African and UK registers.

Eligible South African Shareholders may only acquire Blackstar Shares, via the JSE, that are already on the South African share register maintained by Blackstar's South African transfer secretaries.

Member brokers of the JSE may acquire shares on foreign exchanges and transfer them to the South African share register as described in paragraph 3 above. Non-residents are not subject to the SARB Exchange Control Regulations and may freely transfer Blackstar Shares between registers.

#### Capital raising

Subsequent to the inward listing, SARB are agreeable to the placement of up to 15 million Blackstar Shares on the JSE.

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## **Blackstar Group SE**

**(formerly Blackstar Group PLC)**

*(incorporated as a European public limited-liability company in England and Wales)  
(company number SE30)*

*(domiciled in Luxembourg with R.C.S Luxembourg number B114318)*

*(registered as an external Company with limited liability in the Republic of South Africa under registration  
number 2011/008274/10)*

AIM share code: BLCK; JSE share code: BCK (ISIN GB00B0W3NL87)

**("Blackstar" or "the Company")**

### **PRIVATE PLACEMENT APPLICATION FORM TO BE COMPLETED BY QUALIFYING INVESTORS**

**An offer to subscribe for ordinary shares in Blackstar ("the Blackstar Shares") at an issue price payable in Rand, equivalent to £0.85 per Blackstar Share, to Qualifying Investors by way of a private placement of up to 15,000,000 (fifteen million) Blackstar Shares in terms of the prospectus which was registered by the Registrar of Companies on Friday, 15 July 2011 ("the Prospectus").**

**The definitions on page 14 of the Prospectus apply to this Private Placement application form.**

The final Rand Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on Friday, 5 August 2011 after the closing of the Private Placement and will be released on SENS on Monday, 8 August 2011 and in the press on Wednesday, 10 August 2011. Successful applicants will be advised of their allotment of Shares in terms of the Private Placement by Wednesday, 10 August 2011.

Please refer to the instructions overleaf before completing this application form.

#### **Dematerialised Shares**

The allocated Shares will be transferred to successful Qualifying Investors in dematerialised form only. Accordingly, all Qualifying Investors who wish to participate in the Private Placement must appoint a Central Securities Depository Participant ("**CSDP**") directly, or a broker, to receive and hold the Dematerialised Shares should their application be successful. Should a Qualifying Investor require a physical share certificate for its Blackstar Shares allotted to it pursuant to the Private Placement, it will have to rematerialise its Blackstar Shares following the Listing and should contact its CSDP or broker to do so.

As allocated Blackstar Shares will be transferred to successful Qualifying Investors on a delivery-versus-payment basis, payment will be made by your CSDP or broker on your behalf.

Qualifying Investors should complete this application form and hand deliver, fax or post it to:

*If delivered by hand or by courier:*

Attention: David Tosi/Almaree Kleinhans  
PSG Capital (Pty) Limited  
1st Floor, Ou Kollege Building  
35 Kerk Street  
Stellenbosch  
7599

*If posted:*

Attention: David Tosi/Almaree Kleinhans  
PSG Capital (Pty) Limited  
PO Box 7403  
Stellenbosch  
7599

*If faxed:*

Attention: David Tosi/Almaree Kleinhans  
+27 21 887 9624

In the event that this application form is submitted through a broker, the broker must stamp this application form.

This application form is to be received by no later than 12:00 on Friday, 5 August 2011.

Qualifying Investors must contact their CSDP or broker and advise them that they have submitted the application form as instructed above. Pursuant to the application, applicants must make arrangements with their CSDP or broker for payment to be made as stipulated in the agreement governing their relationship with their CSDP or broker, in respect of the Blackstar Shares allocated to them in terms of the Private Placement by the Settlement Date, expected to be Friday, 12 August 2011.



### Reservation of Rights

The Directors of Blackstar reserve the right to accept or reject any application, in whole or in part, or to pro rate any or all application(s) (whether or not received timeously), in any manner as they may, in their sole and absolute discretion, determine.

Applications must be for a minimum subscription amount of R5,000 (five thousand Rand) per Qualifying Investor.

To the Directors of Blackstar:

1. I/we, the undersigned, confirm that I/we have full legal capacity to contract and, having read the Prospectus, hereby irrevocably apply for and request you to accept my/our application for the under-mentioned Rand value of Shares in Blackstar at an issue price of the Rand equivalent of £0.85 (eighty five Pence) per Share (as determined after the closing of the Private Placement on the Closing Date) or any lesser Rand value that may, in your absolute discretion, be allotted to me/us, subject to the articles of association of Blackstar.
2. I/we understand and accept that if my application is successful my Blackstar Shares will be issued in dematerialised form and I/we will hand this application form to PSG Capital (Pty) Ltd and will provide appropriate instructions to my/our CSDP or broker, as the case may be, with regard to the application herein and the payment thereof, as stipulated in the agreement governing my/our relationship with my/our CSDP/broker, as the case may be ("**the Custody Agreement**").
3. I/we acknowledge and accept that payment in respect of this application will be, in terms of the Custody Agreement entered into between me/us and my/our CSDP or broker, as the case may be, on a delivery-versus-payment basis.

Dated _____ 2011	Telephone number Cellphone number
Signature	
Assisted by (where applicable)	
Surname of individual	Mr. Mrs. Miss. Other Title
First names in full or name of entity	
Identity/Registration number	
To be completed by all Applicants:	
Postal address (preferably PO Box)	
Total Rand value of Shares applied for in terms of the Private Placement	R
Note: minimum subscription amount of R5,000 (five thousand Rand) per Qualifying Investor is required	

Applicants should note that the Rand denominated Private Placement issue price will be determined based on the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date and will be released on SENS on Monday, 8 August 2011 and in the Press on Wednesday, 10 August 2011. Fractions of Shares will not be issued and following the determination as aforesaid, the Company will apply the Rounding Principle when determining the final number of Shares to be allocated to each successful applicant in the Private Placement. Applicants should further note that Blackstar Shares are Euro denominated shares, however, as the presentation currency of Blackstar is Pounds Sterling, the Rand denominated Private Placement issue price will be determined relative to the closing ZAR:GBP exchange rate, as quoted by Bloomberg, on the Closing Date and not the ruling ZAR:EUR exchange rate on the Closing Date.

Required information in the table below must be completed by your CSDP or broker with their stamp and signature affixed thereto.

CSDP name	
CSDP contact person	
CSDP contact telephone number	
SCA or bank CSD account number	
Scrip account number	
Settlement bank account number	
Stamp and signature of CSDP or broker	

This application constitutes a legal contract between the Company and the applicant. Application forms will not be accepted unless the above information has been completed.



**Instructions:**

1. Applications may be made on this application form only for a minimum subscription amount of R5,000 (five thousand Rand) for a single addressee acting as applicant. Copies or reproductions of the application form may be accepted in the discretion of the Company.
2. Applications are irrevocable and may not be withdrawn once submitted.
3. All CSDP's and brokers will be required to retain this application form for presentation to the Directors if required.
4. Please refer to the terms and conditions of the Private Placement set out in paragraph 3 of section 2 of the Prospectus. Applicants should consult their brokers, bankers, or other professional advisers in case of doubt as to the correct completion of this application form.
5. Applicants need to have appointed a CSDP or broker and must advise their CSDP or broker in terms of the Custody Agreement. Payment will be made in terms of their Custody Agreement on a delivery-versus-payment basis.
6. No payment should be submitted with this application form to PSG Capital (Pty) Limited.
7. If payment is dishonoured for any reason, or not made for any reason, Blackstar, may in its sole discretion, regard the relevant application as invalid or take such steps in regard thereto as it may deem fit.
8. No receipts will be issued for application forms, application monies or any supporting documentation.
9. All alterations on the application form must be authenticated by full signature.
10. Blocked Rand may be used by emigrants and Non-Residents of the Common Monetary Area (comprising the Republics of South Africa and Namibia and the Kingdoms of Swaziland and Lesotho) for payment in terms of this application form and reference should be made to paragraph 7.3 of section 4 and Annexure 15 of the Prospectus that deals with Exchange Control Regulations. If you are in any doubt in regard hereto, please consult your professional advisers.
11. As allocated Blackstar Shares are being transferred to successful Qualifying Investors on a delivery-versus-payment basis, no payment will be required if the Private Placement or Listing is not successful.



