Blackstar Group Plc

Strategic Update

Background to continue unlocking value in Blackstar shares.

The board of directors of Blackstar Group Plc ("Blackstar" or the "Company") (the "Board") continues to be mindful of the dislocation of value between Blackstar's share price and underlying intrinsic value per share. The Board has taken a number of steps to address this dislocation.

Over the past 2 years Blackstar has bought back 11.8 million shares at a significant discount to the intrinsic value per share which the Directors believe contributed to the increase in the Company's share price over that period. To supplement this strategy, in 2010 Blackstar implemented a flexible dividend policy and accordingly declared two dividends in 2010 which were capital in nature following the completion of the disposal of Blackstar's investment in Mvelaphanda Resources Limited. The capital returns through the dividends have amounted to a further £1.2 million over the past year. The Directors believe these efforts have largely contributed to the increase in Blackstar's share price by 56% since 1 January 2010 as at 10 May 2011.

Although there has been improvement, the dislocation of value between Blackstar's share price and underlying intrinsic value per share has persisted. In an effort to be proactive in unlocking the underlying value, Blackstar announced on 23 March 2011 that it had embarked on a process to do a secondary listing on the ALTx market of the Johannesburg Stock Exchange in order to be closer to its main market of operations and to attract local South African investors. In the opinion of the Board, South African investors are likely to be more familiar than the typical AIM investor with the Company's assets as these mainly comprise investments in companies which are recognised operators in their respective industries in South Africa. Furthermore, the Company has developed a profile and brand in South Africa and is well-known amongst South African institutional investors. South African investors are currently precluded from directly buying shares due to South African exchange controls restrictions. The ALTx listing process is progressing on schedule and Blackstar anticipates that the listing will be completed towards the end of June 2011.

In summary, Blackstar has followed a continuous, value-unlocking programme through:

1. ongoing share buybacks;
2. capital returns/dividends; and
3. a secondary listing on the Johannesburg Stock Exchange.

Capital Management Policy

Strategically the Board of Blackstar believes that in addition to the above value unlocking initiatives, more focus needs to be applied from a capital discipline point of view. Blackstar will continue to assess 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, special dividends or share buy-backs where appropriate. Particular attention to this capital management discipline will be applied in the event of a significant realisation. Following the proposed capital raising accompanying the secondary JSE listing and the successful disposal of Baldwins to Robor, Blackstar believes that it will have sufficient capital to meet its medium-term investing and portfolio requirements. It therefore anticipates that, in the event of a realisation, a large portion of the realised capital will be returned to shareholders in the most efficient manner.

SE Conversion and Migration

In light of Blackstar's commitment to returning excess capital and a number of operational challenges, the Board believes 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.

Currently, Blackstar is subject to the laws and regulations of the United Kingdom ("UK") and Luxembourg as the Company's registered office is in the UK and its principal establishment and tax residence is 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 understands 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 incurs additional audit, legal and administration costs and faces the resulting complexities of using multiple advisors for the different jurisdictions.

After having taken legal advice and having considered the above, the Board is of the opinion that Luxembourg is no longer the most beneficial jurisdiction in which to operate. In accordance with the legal advice that the Board has been given, the only manner in which the Company can achieve a migration out of the United Kingdom and subsequently cease to be tax resident in Luxembourg is to convert the Company into a *Societas Europaea* ("SE"), transfer its registered office from the UK to another EU member state and at the same time move the Company's administration function from Luxembourg to that EU member state. Following this process, the Company will become tax resident in the relevant EU member state.

A final decision as to which EU member state the Company should be transferred to has not yet been made by the Board. However, the Board has assessed the viability of a number of jurisdictions and currently considers Malta to be the most appropriate jurisdiction to transfer the Company to. 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.

Malta would also, in the view of the Board, provide the right tax and legal framework to efficiently implement the Board's capital management discipline. Malta would provide one operating and legal jurisdiction to reduce costs and operating complexities and the process of moving there is relatively uncomplicated. In addition, based on current tax rules, no withholding tax would be imposed on dividend or capital payments.

In summary, the Board considers that the benefits of a migration to Malta are as follows:

- There is currently no withholding tax levied on dividend distributions from a Maltese company to its shareholders, regardless of the country of residence of the shareholders. Likewise, capital reductions currently do not attract withholding tax; as such reductions would not be reclassified as dividend distributions.
- Generally, service providers for legal, administrative and audit costs charge appreciably less than Luxembourg or UK providers. English is widely spoken and the professional services are of a suitably high standard.
- There would be significant benefits from the reduced complexity of being subject to the laws of only one jurisdiction, rather than two.

- Operationally, the administration of Blackstar could be seamlessly moved to Malta using the same advisors and administrators who have a presence in Malta already.
- Malta is understood by the investing public of South Africa as other JSE listed investment companies are based in Malta.

Based on the above, the Board believes that it will be very beneficial from an operating, cost and tax efficiency point of view to transfer the registered office of the Company from the UK to another EU member state. The process to convert the Company to an SE is detailed in the Annual Report and accounts to 31 December 2010 (the “Annual Report”), a copy of which will be circulated to each of the Company’s shareholders shortly. In order to complete the conversion various shareholder approvals are required and these will be sought at the Company’s Annual General Meeting to be held on 22 June 2011. Details of the shareholder approvals which will be required are also set out in the Annual Report.

The conversion of the Company to an SE is a precursor to the subsequent transfer of Blackstar’s registered office out of the UK to a more favourable EU member state with the consequent establishment of its tax residence in that EU member state. However, as stated above, a final decision as to which EU member state the Company should be transferred to has not yet been made by the Board. A decision will be taken in this regard once all the necessary advice has been carefully considered by the Board, following which a proposal will be put to the shareholders for approval at a subsequent general meeting in the near future.

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