Blackstar Group SE
Interim results for the six months ended 30 June 2011

Directors' statement

Highlights

- Successful secondary listing on the Altx of the JSE Limited and capital raising of R100 million
- Sale of subsidiary Ferro for £18.2 million, which will generate a return of 4.0 times money
- Special dividend of £5.5 million to be declared

Overview

The six months to the end June have been a busy period of progress for Blackstar. We began the process of completing a secondary listing on the Altx of the JSE Limited which culminated in a capital raising and successful listing on 12 August 2011. Blackstar raised R100 million through the issue of new shares to South African investors as part of the secondary listing process.

During the period under review, Blackstar reduced its exposure to the steel sector by selling its carbon steel division, Baldwins, out of KMG Steel Services Centres (Pty) Limited ("KMG") to Robor (Pty) Limited ("Robor") for an issue of 5% of the equity share capital in Robor. Robor has a solid market position and has remained profitable despite the downturn in the industrial sector in South Africa and is dividend paying. The Robor transaction has allowed a restructuring of the KMG group, including closure of the head office and a separation of the two remaining divisions, Global Roofing Solutions ("GRS") and Stalcor, into independent operating companies.

This will allow Blackstar to separate our steel interests into three distinct companies:

- Robor - South Africa's largest tube and pipe manufacturer;
- Global Roofing Solutions - the largest steel roofing and cladding company in South Africa; and
- Stalcor - one of the three appointed distributors of stainless steel and aluminium in South Africa.

GRS is a profitable and well managed business with attractive prospects in Southern Africa. Stalcor has struggled in the operating environment prevalent within the steel sector in South Africa due to the trading nature of its business. This trading environment has led to very tight working capital conditions, however we anticipate that the business should have stabilised by the end of 2011. Blackstar intends to exit from Stalcor in the short to medium term.

Litha Healthcare Group Limited ("Litha"), in which Blackstar holds a 39% interest, continued to perform well over the period ended June 2011. During the past six months Litha completed a number of small acquisitions within the pharmaceutical sector which increased the critical mass in the Litha Pharma division. The business continues to trade well and recently announced its interim results where it had grown earnings per share by 57%. Blackstar, together with management, are currently looking at numerous acquisition opportunities for Litha.

The balance of Blackstar's investments performed in line with expectations and have not changed materially.

Post Balance Sheet Events

On 15 August 2011, Blackstar announced the sale of its 54% interest in Ferro Industrial Products (Pty) Limited ("Ferro") for £18.2 million. The sale is still subject to certain conditions, however we expect the transaction to close by the end of October 2011. The realisation will generate a return of 4.0 times money and an internal rate of return of 72% in pounds sterling.

Blackstar, through its 100% held subsidiary, Blackstar Real Estate (Pty) Limited ("BRE"), also announced on 5 September 2011 that it has entered into an agreement to purchase a commercial property in Midrand, Gauteng, South Africa for £5.3 million (R58 million). The property will be held through a new property holding company ("Newco") with BRE owning 70% of the ordinary shares and Litha owning 30% of the ordinary shares. The property will be occupied by a large portion of Litha's operations within Gauteng. Litha has entered into a 12 year lease on the property with Newco. Blackstar secured £4.1 million (R45 million) of debt funding from Rand Merchant Bank, to be held in Newco over 10 years.

Annexure A provides a breakdown by investment of Blackstar's intrinsic net asset value of £95.3 million (R1.1 billion) as at 31 August 2011. This assists readers in understanding the true inherent value of each investment held by Blackstar. The annexure has been prepared as at 31 August 2011 in order to reflect the effect of the R100 million share issue arising on the secondary listing.

Financial Review

As a result of the sale of Baldwins and impending sale of Ferro, the results of these two businesses have been separately disclosed within the income statement under the heading "profit from discontinued operations" and comparatives have been restated. The profit from discontinued operations amounted to £3.0 million, of which Baldwins contributed £1.4 million and Ferro £1.6 million.

The operating profit before net investments of £2.3 million for the six months ended 30 June 2011 therefore comprises the results of the remaining trading businesses - GRS and Stalcor as well as net gains on associates. Blackstar's share of profit from associates amounted to £1.5 million, of which Litha contributed the majority of the profit. An exceptional gain of £2.2 million has been recognised under net gains from associates on dilution of Blackstar's shareholding in Litha. Blackstar's shareholding was diluted by 6% to 39% as a result of Litha issuing shares to non controlling shareholders in order to implement Litha's acquisition of the remaining 49% of Litha Healthcare Holdings (Pty) Limited. This reported operating profit before net investments of £2.3 million is after impairments of £768,000 on GRS goodwill and £286,000 on Stalcor's intangible assets, recognised as a result of the businesses not performing as anticipated due to slower market conditions.

A net loss of £1.6 million was recognised on investments and, in the main, includes an unrealised loss of £1.5 million arising on the fair valuing of the derivative investment in a services company.

The profit after tax from continued and discontinued operations for the six months ended 30 June 2011 amounted to £1.4 million. The Group reported a profit attributable to equity holders of the parent of £1.0 million and basic and diluted earnings of 1.27 pence per share.

Ferro has been presented as a disposal group held for sale and thus its assets of £31.3 million and liabilities of £17.4 million have been separately disclosed on the balance sheet as at 30 June 2011. This presentation explains the significant decline in individual categories of assets and liabilities presented within the balance sheet as at 30 June 2011 when compared to prior reporting periods.

Total equity attributable to equity holders amounted to £83.1 million as at 30 June 2011 and the Group reported a net asset value per share of 111 pence.

The Group generated cash of £1.5 million from operating activities in the six month period to 30 June 2011. Cash and cash equivalents decreased by £7.8 million during the period. Significant cash flow movements during the period included a cash inflow of £12.2 million on disposal of Baldwins and a cash outflow of £15.7 million of other financial liabilities, mainly as a result of KMG's settlement of the inventory financing facility.

Transfer to Malta

Following approval by Blackstar's shareholders on 22 June 2011, Blackstar converted into a *Societas Europaea* or European public limited liability company on 27 June 2011. 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 arise 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 with respect to distributions to Shareholders.

Special Dividend

Following the closure of the Ferro transaction and the transfer to Malta (which is still subject to shareholder approval), the Board of Blackstar intends paying a special dividend of £5.5 million to its shareholders in line with our recent announcement on the Company's capital management policy. This equates to 6.5 pence per share. Including this special dividend, Blackstar will have returned £18.5 million to investors since inception.

Outlook

Over the past two years, the Board of Blackstar has been focused on closing the discount between net asset value and share price as well as increasing the tradability of the Blackstar shares. Largely due to the Company's on-going buy-back policy and the commencement of dividend declarations, Blackstar's share price increased some 10% during the period under review from 77 pence to 85 pence. From June 2009 to June 2011, the share price has appreciated 52%. Since listing on Altx of the JSE in South Africa, the Blackstar share price in South Africa has risen 10%.

An important variable to Blackstar's results is the Pound Sterling/South African Rand exchange rate which is volatile during these uncertain times.

The Board of Blackstar is now focussing on growing the asset base and scale of the Group. Blackstar has an active pipeline and hopes to conclude further transactions in the near term. The company has a strong balance sheet

Despite the fact that the operating environment for many of the Blackstar's subsidiaries and investments remains subdued, the Company's interests are well managed and have good prospects for the future.

Andrew Bonamour
23 September 2011

Annexure A

Intrinsic Net Asset Value as at 31 August 2011

	Unaudited £'000	Unaudited R'000
Litha Healthcare Group Limited	32,776	372,244
Ferro Industrial Products (Pty) Limited	18,182	200,076
Global Roofing Solutions (Pty) Limited and Stalcor division	14,616	166,000
Services derivative	9,120	103,578
Robor (Pty) Limited	4,403	50,000
Other unlisted	3,379	38,374
Other listed	2,480	28,171
Cash and cash equivalents	10,315	117,151
Net asset value	**95,271**	**1,075,594**
Net asset value per share (in Sterling/Rand)	**1.12**	**12.61**

Notes

1. For the purposes of determining the intrinsic values, listed investments on recognised stock exchanges are valued using quoted bid prices at 31 August 2011 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.
2. Cash represents cash at the centre and excludes cash held by subsidiaries.
3. All amounts have been translated using the closing exchange rates at 31 August 2011, with the exception of the investment in Ferro, which has been translated from South African Rand to Pound Sterling using the exchange rate per the forward foreign exchange contract entered into by the Group.
4. Other unlisted comprises investments in Adreach (Pty) Limited, Blackstar Real Estate (Pty) Limited, Navigare Securities (Pty) Limited and FBDC Investors Offshore L.P ("Facebook") amongst others.
5. Other listed comprises investments in Shoprite Holdings Limited and Wallberg Blackstar African Fund amongst others.
6. Proceeds from the sale of investment in Ferro Industrial Products (Pty) Limited are expected to be realised by October 2011. The services derivative investment is expected to be realised in the first half of 2012.
7. The decline in intrinsic net asset value since 31 December 2010 is due to depreciation of the South African Rand against Pound Sterling since 31 December 2010, declines in the market value of Litha Healthcare Group Limited and the valuation of the Stalcor division as well as the dilutionary effect of the R100 million issue of shares at 85 pence per share.

Consolidated income statement

for the six months ended 30 June 2011

	Unaudited Six months to 30 June 2011 £'000	As restated* Unaudited Six months to 30 June 2010 £'000	As restated* Unaudited Year to 31 December 2010 £'000
Continuing operations			
Revenue	**49,303**	48,429	97,294
Cost of sales	**(42,450)**	(40,783)	(84,286)
Gross profit	**6,853**	7,646	13,008
Sales and distribution costs	**(1,226)**	(867)	(1,654)
Administrative expenses – Trading businesses			
Administrative expenses	**(6,401)**	(7,574)	(16,099)
Impairment of goodwill	**(768)**	-	(2,808)
Impairment of intangible assets	**(286)**	-	(732)
	(7,455)	(7,574)	(19,639)
Other income – Trading businesses	**356**	88	354
Net gain in respect of associates			
Share of profits of associates	**1,537**	281	1,539
Exceptional gain on dilution of interest in associate	**2,188**	-	-
	3,725	281	1,539
Operating profit/(loss) before net investment (loss)/income	**2,253**	(426)	(6,392)
Net investment (loss)/income			
Net (losses)/gains on investments	**(1,573)**	733	5,666
Fees, dividends and interest from loans, receivables and investments	**481**	986	1,247
	(1,092)	1,719	6,913
Administrative expenses - Investments			
Impairment of goodwill	**-**	-	(3,500)
Other administrative expenses	**(1,900)**	(1,248)	(3,217)
	(1,900)	(1,248)	(6,717)
Other income	**-**	1,926	1,758
(Loss)/profit from operations	**(739)**	1,971	(4,438)
Finance income	**63**	145	248
Finance costs	**(780)**	(1,472)	(2,719)
(Loss)/profit before taxation	**(1,456)**	644	(6,909)
Taxation	**(133)**	512	(1,541)
(Loss)/profit from continuing operations	**(1,589)**	1,156	(8,450)
Discontinued operations			
Profit/(loss) from discontinued operations net of taxation	**2,976**	1,326	(4,719)
Profit/(loss) for the period	**1,387**	2,482	(13,169)

Profit/(loss) for the period attributable to:			
Equity holders of the parent	**950**	2,419	(11,121)
Non controlling interests	**437**	63	(2,048)
	1,387	2,482	(13,169)
Basic and diluted earnings/(losses) per ordinary share attributable to equity holders (in pence)	**1.27**	3.08	(14.39)
Basic and diluted (losses)/earnings per ordinary share attributable to equity holders from continuing operations (in pence)	**(1.98)**	2.05	(7.41)

Headline earnings reconciliation ^

	Unaudited Six months to 30 June 2011 £'000	As restated* Unaudited Six months to 30 June 2010 £'000	As restated* Unaudited Year to 31 December 2010 £'000
Profit/(loss) for the period attributable to equity holders of the parent	**950**	2,419	(11,121)
Adjusted for:			
Exceptional gain on dilution of interest in associate	**(2,188)**	-	-
Gain on disposal of discontinued operation	**(2,970)**	-	-
Gain on deemed disposal of a subsidiary	**-**	(870)	(870)
Impairment of intangible assets	**286**	-	1,729
Impairment of goodwill	**768**	-	10,003
Reclassification adjustments from other comprehensive income	**-**	(2,732)	(2,684)
Non-headline items included in equity accounted profits of associates	**(1)**	169	168
Loss/(profit) on disposal of property, plant and equipment	**18**	(1)	(25)
Total tax effects of adjustments	**(85)**	-	(477)
Total non-controlling interests' effects of adjustments	**31**	-	(163)
Headline losses	**(3,191)**	(1,015)	(3,440)
Basic and diluted headline losses per ordinary share attributable to equity holders (in pence)	**(4.26)**	(1.29)	(4.45)

* Comparative information for the periods ended 30 June 2010 and 31 December 2010 were restated to present income generated and expenses incurred by discontinued operations (Baldwins Steel division and Ferro) separately from continuing operations.

^ Disclosure of headline earnings has been provided in accordance with the JSE listing requirements.

Consolidated statement of comprehensive income
for the six months ended 30 June 2011

	Unaudited Six months to 30 June 2011 £'000	Unaudited Six months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
Profit/(loss) for the period	**1,387**	2,482	(13,169)
Other comprehensive (loss)/income :			
Currency translation differences on investments and Rand denominated assets and liabilities	**(2,132)**	(1,326)	3,342
Currency translation differences on translation of foreign subsidiaries and associates	**(531)**	(32)	1,300
Share of other comprehensive income of associates	**-**	-	-
Income tax relating to components of other comprehensive income	**-**	-	-
Net comprehensive (loss)/income recognised directly in equity	**(2,663)**	(1,358)	4,642
Total comprehensive (loss)/income for the period	**(1,276)**	1,124	(8,527)
Attributable to:			
Equity holders of the parent	**(1,885)**	1,110	(6,216)
Non controlling interests	**609**	14	(2,311)
	(1,276)	1,124	(8,527)

Consolidated statement of changes in equity

for the six months ended 30 June 2011

	Share capital £'000	Capital redemption reserve £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Attributable to equity holders £'000	Non controlling interests £'000	Total equity £'000
Balance at 31 December 2009	53,023	30,156	8,976	9,594	101,749	(1,994)	99,755
Total comprehensive income/(loss) for the period							
Profit for the period	-	-	2,419	-	2,419	63	2,482
Other comprehensive loss for the period	-	-	-	(1,309)	(1,309)	(49)	(1,358)
	-	-	2,419	(1,309)	1,110	14	1,124
Charge for share based payment	-	-	21	-	21	8	29
Buy-back of ordinary shares	(1,660)	1,660	(1,709)	-	(1,709)	-	(1,709)
Cancellation of capital redemption reserve fund	-	(30,156)	30,156	-	-	-	-
Arising on acquisition of subsidiary	-	-	-	-	-	10,122	10,122
Reduction in non controlling interests arising on acquisition of additional interests in subsidiary	-	-	14	-	14	(14)	-
Arising on deemed disposal of subsidiary on additional shares being issued by the subsidiary	-	-	-	105	105	(10,192)	(10,087)
Reduction in non controlling interests arising on conversion of preference shares held in a subsidiary into ordinary shares	-	-	(1,907)	-	(1,907)	1,907	-
Balance at 30 June 2010	51,363	1,660	37,970	8,390	99, 383	(149)	99,234
Total comprehensive (loss)/income for the period							
Loss for the period	-	-	(13,540)	-	(13,540)	(2,111)	(15,651)
Other comprehensive income/(loss) for the period	-	-	-	6,214	6,214	(214)	6,000
	-	-	(13,540)	6,214	(7,326)	(2,325)	(9,651)
Charge for share based payment	-	-	2	-	2	-	2
Buy-back of ordinary shares	(1,233)	1,233	(1,370)	-	(1,370)	-	(1,370)
Interim dividend paid	-	-	(493)	-	(493)	-	(493)

	Share Capital £'000	Capital redemption reserve £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Attributable to equity holders £'000	Non controlling Interest £'000	Total equity £'000
Balance at 31 December 2010	50,130	2,893	22,569	14,604	90,196	(2,474)	87,722
Total comprehensive income/(loss) for the period							
Profit for the period	-	-	950	-	950	437	1,387
Other comprehensive (loss)/income for the period	-	-	-	(2,835)	(2,835)	172	(2,663)
	-	-	950	(2,835)	(1,885)	609	(1,276)
Release of foreign currency translation reserve on disposal of investments	-	-	58	(58)	-	-	-
Reduction in non controlling interests arising on subsidiaries buy-back of shares from non controlling shareholders	-	-	(4,577)	-	(4,577)	4,577	-
Final dividend paid	-	-	(673)	-	(673)	-	(673)
Balance at 30 June 2011	50,130	2,893	18,327	11,711	83,061	2,712	85,773

An interim dividend of 0.65 pence per ordinary share was declared on 21 September 2010 and paid on 20 November 2010.

A final dividend of 0.90 pence per ordinary share was declared on 21 April 2011 and paid on 26 May 2011.

Consolidated balance sheet
as at 30 June 2011

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
Non-current assets			
Property, plant and equipment	**9,684**	19,368	21,666
Goodwill	**13,829**	27,243	18,835
Intangible assets	**4,128**	14,420	13,281
Investments in associates	**17,422**	11,998	14,637
Investments classified as loans and receivables	**448**	794	873
Investments at fair value through profit and loss	**8,997**	7,774	12,056
Other financial assets	**16**	-	52
Deferred tax assets	**108**	1,729	125
	54,632	83,326	81,525
Current assets			
Investments classified as loans and receivables	**2,614**	220	502
Investments at fair value through profit and loss	**7,868**	1,489	545
Other financial assets	**-**	139	26
Current tax assets	**28**	518	423
Trade and other receivables	**22,836**	35,667	25,105
Inventories	**19,699**	43,432	27,006
Cash and cash equivalents	**10,844**	32,840	19,196
	63,889	114,305	72,803
Assets in disposal group classified as held for sale	**31,372**	-	-
	95,261	114,305	72,803
Total assets	**149,893**	197,631	154,328
Non-current liabilities			
Borrowings	**(2,038)**	(11,125)	(12,538)
Other financial liabilities	**(1,488)**	(4,402)	(3,937)
Provisions	**(171)**	(66)	(197)
Deferred tax liabilities	**(1,935)**	(4,357)	(4,733)
	(5,632)	(19,950)	(21,405)
Current liabilities			
Borrowings	**(61)**	(10,574)	(1,295)
Other financial liabilities	**(8,268)**	(31,263)	(25,540)
Provisions	**(11)**	-	(288)
Current tax liabilities	**(108)**	(1,768)	(442)
Trade and other payables	**(30,010)**	(30,938)	(17,635)
Bank overdrafts	**(2,614)**	(3,904)	(1)
	(41,072)	(78,447)	(45,201)
Liabilities directly associated with assets in disposal group classified as held for sale	**(17,416)**	-	-
	(58,488)	(78,447)	(45,201)
Total liabilities	**(64,120)**	(98,397)	(66,606)
Total net assets	**85,773**	99,234	87,722

Equity			
Share capital	**50,130**	51,363	50,130
Capital redemption reserve	**2,893**	1,660	2,893
Foreign currency translation reserve	**11,711**	8,390	14,604
Retained earnings	**18,327**	37,970	22,569
Total equity attributable to equity holders	**83,061**	99,383	90,196
Non controlling interest	**2,712**	(149)	(2,474)
Total equity	**85,773**	99,234	87,722
Net asset value per share (in pence)	**111**	130	121

Consolidated cash flow statement

for the six months ended 30 June 2011

	Unaudited Six months to 30 June 2011 £'000	Unaudited Six months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
Cash flow from operating activities			
Cash generated/(absorbed) by operations	**4,127**	(865)	13,795
Interest received	**180**	243	461
Interest paid	**(1,845)**	(2,180)	(4,525)
Dividends received	**-**	5,789	5,798
Taxation paid	**(983)**	(457)	(2,645)
Cash generated by operating activities	**1,479**	2,530	12,884
Cash flow from investing activities			
Purchase of property, plant and equipment	**(917)**	(830)	(2,748)
Additions to investments classified as loans and receivables	**(1,653)**	-	(746)
Purchase of investments at fair value through profit and loss	**(2,914)**	(2,133)	(5,019)
Acquisition of subsidiaries	**-**	-	(176)
Cash outflow on acquisition of subsidiary and subsequent deemed disposal	**-**	(4,950)	(4,950)
Proceeds from disposal of property, plant and equipment	**8**	28	127
Proceeds from disposal of investments	**1,182**	15,918	21,667
Disposal of discontinued operation, net of cash disposed of	**12,168**	-	-
Cash generated by investing activities	**7,874**	8,033	8,155
Cash flow from financing activities			
Proceeds from borrowings	**-**	-	1,312
Repayment of borrowings	**(795)**	(4,197)	(14,866)
Movement in other financial liabilities (including short-term funding facilities)	**(15,707)**	7,170	(2,232)
Buy-back of ordinary shares	**-**	(1,709)	(3,079)
Issue of shares	**-**	**-**	-
Dividends paid to equity holders of the parent	**(673)**	**-**	(493)
Cash (absorbed)/generated by financing activities	**(17,175)**	1,264	(19,358)
Net (decrease)/increase in cash and cash equivalents	**(7,822)**	11,827	1,681
Cash and cash equivalents at the beginning of the period	**19,195**	17,319	17,319
Exchange (losses)/gains on cash and cash equivalents	**(16)**	(210)	195
Cash and cash equivalents at the end of the period	**11,357**	28,936	19,195

Notes to the interim consolidated financial statements

for the six months ended 30 June 2011

Financial information

The interim financial information has been reviewed by the Group's auditors BDO LLP in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom.

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