BCK - Blackstar Group SE - Results for the year ended 31 December 2012
Blackstar Group SE
(Company number SE 4)
(Registered as an external company with limited liability in the Republic of South Africa under registration number 2011/008274/10)
Share code: BCK
ISIN: GB00B0W3NL87
("Blackstar" or "the Company" or "the Group")

Audited results for the year ended 31 December 2012

Key highlights

During the review period

- Blackstar disposed of half its interest in the Litha Healthcare Group Limited, resulting in a 4.6 times return on investment
- The successful realisation of value in New Bond Capital Limited ("NBC") allowed for a return of capital to NBC shareholders. The calculated return on investment was 27.5% (in South African Rands) and 12.9% (in Pounds Sterling) over the 10-month period that the investment was held by Blackstar
- With the realisation of the NBC investment, Blackstar also repaid the Investec Bank acquisition facility
- The disposal of services derivatives resulted in a 2.28 times return on investment
- Blackstar generated R22.1 million (GBP1.7 million) in corporate finance and monitoring fees
- Successful launch of the Blackstar Special Opportunities Fund in October 2012

Post the review period

- During 2013, Blackstar increased its interest in Times Media Group Limited to 18.3%
- On 4 March 2013, Blackstar launched an offer to acquire the entire share capital of NBC
- Blackstar bought back 5.9 million shares at 79 pence (R11.07). These shares will be reissued at 91 pence (R12.47) for the purposes of the NBC transaction
- As at 31 March 2013, the intrinsic Net Asset Value ("NAV") per share was R14.72 (GBP1.05)
- In April 2013, Blackstar Global Opportunity Fund was launched focusing on global markets
- Blackstar announces its intention to declare a final dividend of 17 South African cents (1.21 pence) per ordinary share

Directors' statement

Introduction

The period under review has in many ways been a watershed year for Blackstar Group SE ("Blackstar" or "the Company" or "the Group"), one which we believe has set a solid foundation for the Company.

We concluded three large transactions during the year, including the sale of 50% of Blackstar's shareholding in Litha Healthcare Group Limited ("Litha") at a significant premium relative to its cost.

In November 2012, Blackstar disposed of its listed services derivative investment via a series of on-market sales for cash consideration of R151.6 million (including dividends received), generating a 2.28 times return on investment in South African Rand and 2.04 times money on investment in Pounds Sterling, which equates to a 16% IRR and a 14% IRR, respectively, over the six year and four month holding period.

In January 2012, the Company acquired a significant shareholder interest in the South African investment company New Bond Capital Limited ("NBC"), formerly Mvelaphanda Group Limited ("MVG"). Following this acquisition we assumed the day-to-day management control of NBC in February 2012. We successfully realised NBC's assets within the year, and the proceeds of the sale were paid out to NBC shareholders. The NBC investment also enabled Blackstar to conclude a transaction for Times Media Group Limited ("TMG"), formerly Avusa Limited, whereby TMG shares were distributed in the form of a dividend in specie to NBC shareholders. We arranged, structured, led and concluded this transaction in October 2012 which saw Blackstar receive a direct shareholding in TMG.

In May 2012, the Company completed the transfer of its registered office from the United Kingdom to Malta and its tax residency from Luxembourg to Malta. The move to Malta has already delivered improved efficiencies and reduced the administrative and legal costs which arise from being present in two jurisdictions.

In January 2013 I took over as the hands-on CEO of TMG. Having conceived the opportunity and executed the deal, it made sense for Blackstar to drive the changes required for repositioning TMG.

During 2012, Blackstar generated corporate finance and monitoring fees of R22.1 million (GBP1.7 million) compared to R5.2 million (GBP0.4 million) in the prior year. By the end of the year we managed to increase our intrinsic NAV from R1.0 billion (GBP82.0 million) in December 2011, to R1.1 billion (GBP82.6 million) as at end December 2012.

Annexure A includes a breakdown of the intrinsic NAV of Blackstar as at 31 March 2013. This provides shareholders with a useful analysis of the current, true inherent value of each investment held.

Investment and Market Review

NBC

In January 2012, Blackstar acquired 28% of NBC (formerly MVG) for a total cash consideration of R470.0 million (GBP37.4 million), equivalent to R3.21 (GBP0.26) per NBC share. With this, Blackstar became the largest single investor in NBC.

To fund the acquisition, Blackstar utilised R150.0 million (GBP12.0 million) of its own cash resources together with R320.0 million (GBP25.9 million) from a debt facility provided by Investec.

William Marshall-Smith and I were appointed to the NBC Board and assumed the roles of Interim Financial Director and Interim Chief Executive Officer, respectively. Our specific objective was to unbundle and further realise the value of NBC's remaining investment portfolio in the most efficient manner possible. Blackstar subsequently realised all the investments and returned the capital to shareholders in January 2013.

Prior to this in November 2012, Blackstar had sold its investment in NBC for a total return of R194.8 million (GBP13.7 million). However, Blackstar continues to manage NBC, recovering the costs to do this directly from NBC in the form of fees and salaries.

NBC became a cash shell following the special dividend payment to shareholders in January 2013. NBC continues to retain capital in order to fund liabilities and contingencies which may arise. On 4 March 2013, Blackstar launched an offer to acquire all of the shares in NBC via an issue of Blackstar shares. The terms of the offer are 1.12 Blackstar shares in return for every 100 NBC ordinary shares held. NBC has a NAV of R80.6 million (GBP5.9 million), which comprises entirely of cash.

We view this transaction as essentially a placing, to enable Blackstar to get additional cash into the Company on an attractive basis. Blackstar will reissue the shares it recently bought back at 79 pence (R11.07), currently held as treasury shares, at a higher price of 91 pence (R12.47).

The transaction, which is expected to close in early June 2013, will increase Blackstar's asset base whilst reducing the cost base as a percentage of assets. In light of these benefits, Blackstar intends to try and identify similar acquisitions in the future.

Steel investments

Blackstar's steel and infrastructure interests include Global Roofing Solutions (Pty) Limited ("GRS"), Stalcor (Pty) Limited ("Stalcor"), and Robor (Pty) Limited ("Robor"). These businesses represent 22.4% of Blackstar's current gross intrinsic asset value as at 31 March 2013.

We remain conservative in the intrinsic NAV valuation of our steel interests. However, I maintain that these assets will prove very valuable should the promise of increased infrastructure spend become a reality.

GRS

Blackstar currently holds 100% of GRS, with its principle businesses being HH Robertson ("HHR") and Brownbuilt Metal Sections ("Brownbuilt"). These companies have been in existence since 1958 and 1964, respectively. GRS is the largest steel roofing and cladding company in South Africa.

The 2012 financial year was one of rapid change for GRS with the closure of the coil-to-coil coating line, and the consolidation of the Gauteng operations into a single facility. Both events resulted in abnormal costs totalling R14.3 million (GBP1.1 million) being incurred. We do however expect substantial cost-savings and streamlining of management as a result, and we look forward to improved efficiencies and greater productivity.

The recent Arcelor Mittal breakdown and the Medupi Power Station strike placed pressure on GRS with regard to meeting delivery requirements. However, the recent consolidation of operations has created improved controls and cost-efficiencies which mitigate some of the issues. I remain confident that the numbers will move in the right direction.

GRS's Namibian business continues on its path of strong growth. In 2012 we installed manufacturing facilities in Windhoek to enable a shorter and more cost-effective route to market, to satisfy the fast-growing industries in Angola and the Democratic Republic of Congo ("DRC"). GRS continues to grow its exports into Africa.

Robor

Robor is the largest steel tube and pipe manufacturer in southern Africa, and services the following industries:

- Agriculture
- Automotive
- Building and Construction
- Energy and Power Generation
- Manufacturing
- Mining
- Petrochemical
- Rail and Road
- Water Reticulation

Robor has a large export market with over one million tons of its products exported worldwide.

For the financial year ending 30 September 2012, Robor produced a solid set of financial results despite a tough trading environment. Robor succeeded in reducing group debt, and paid a dividend to shareholders.

The outlook for the remainder of the financial year looks encouraging, with volumes increasing. Robor will continue its African growth strategy by developing the company's businesses in Namibia, Botswana, Zimbabwe, Zambia, DRC and Mozambique.

At year end, Blackstar held 6.1% in Robor after purchasing additional shares at a total price of R5.0 million (GBP0.4 million) during the year. In February 2013, Blackstar spent a further R2.0 million (GBP0.1 million) buying Robor shares at an attractive valuation.

Stalcor

Stalcor is a tier-one distributor for both Columbus (stainless steel) and Hulamin (rolled, flat and extruded aluminium) products.

In June 2012, Blackstar brought in an equity partner into Stalcor who injected R5 million into the business. At the same time ordinary shares of Stalcor were allocated to the equity partner, as well as to management and a customer loyalty trust, bringing Blackstar's equity holding down to 50.1%. As the capital providers to Stalcor, Blackstar and its equity partner will be entitled to 18% of retained income (sharing in a ratio of 90:10 in favour of Blackstar) prior to other ordinary shareholders receiving any equity benefits.

At the beginning of 2012, we put in a new management team and this has resulted in Stalcor regaining lost market share, with sales in the second half of the year growing by 27%. The new management has done a superb job of managing working capital and strengthening their regional branches in KwaZulu-Natal and Cape Town and enhancing their facilities with both banks and trade suppliers. We believe 2013 will remain a difficult macro environment however management are looking at a number of opportunities to enhance the business.

Litha

Following Blackstar's disposal of half of its investment in Litha for R200.6 million (GBP15.6 million) in June 2012, Blackstar held 13.4% of Litha as at year-end. Litha is carried at a value of R260.6 million (GBP18.6 million) in the intrinsic NAV table and represents 23.3% of intrinsic net assets as at 31 March 2013.

Litha's 2012 financial results were negatively impacted by a number of once-off merger factors, the weakening Rand, and higher operating costs that all reduced Earnings Before Interest, Taxation, Depreciation and Amortisation ("EBITDA") - overall a very disappointing year. The physical merger of Litha Pharma and Pharmaplan is complete. However, there are still opportunities to improve efficiencies and reduce operating costs which will come into effect during 2013.

Litha's strategy for shifting into a revenue growth phase includes acquiring new products, signing more agencies, and maintaining organic growth. Litha will continue to broaden its footprint in the SADC region via joint ventures and licensing agreements with regional distributors.

TMG

Blackstar obtained its initial 11.5% interest in TMG as a result of a distribution of TMG shares by NBC to its shareholders. Subsequent to year-end, Blackstar acquired further shares in TMG and as at 31 March 2013, Blackstar held a 15.6% interest in TMG with a fair value of R312.7 million (GBP22.3 million), representing 27.9% of Blackstar's total intrinsic net asset value. By April 2013, Blackstar had increased its stake to 18.2% through the purchase of additional TMG shares.

As mentioned previously, I recently assumed the day-to-day running of TMG. TMG is an interesting opportunity. It is a business that has lost its way through the 2000's but owns some of South Africa's most well-known media publications, and is content rich.

TMG produces very strong cash flows and has remained profitable despite various issues. Firstly, TMG is a leverage opportunity: as the acquisition finance is repaid, the equity value will increase and we expect the TMG market capitalisation to rise as a result. To date, TMG has repaid 22% of its acquisition leverage within a five-month period. The leverage has allowed TMG to focus the business and bring efficiencies to its underlying operations.

Over the coming months, it is our intention to focus on the business' core operations. We will sell-off the non-core assets to reduce the leverage further, while having little impact on TMG's EBITDA. It is our view that TMG is a potentially very valuable and profitable platform.

In our view TMG is also more than just a newspaper print business, it generates and owns a lot of content. We will be launching live streaming radio in May 2013 and developing our Television assets further utilising the content that TMG currently owns.

Blackstar Real Estate

Blackstar owns a number of commercial properties based in the industrial, retail and commercial sectors of the property market. The most recent acquisition was the commercial property in Midrand, Gauteng, South Africa which was acquired in the first half of 2012 and is now occupied by Litha under a 12-year lease.

Blackstar Fund Managers - Hedge Fund

Over the past seven years, Blackstar has developed a successful and profitable track record making portfolio investments in various listed instruments, and employing its private equity processes and hedge fund strategies. In order to leverage off this track record and establish a fund management platform, Blackstar has launched both a local fund (South African focused) and a global hedge fund. Both funds have been seeded by Blackstar along with some other investors.

Blackstar has partnered with well-known, experienced hedge fund managers with impressive track records to complement Blackstar's existing intellectual capital and created Blackstar Fund Managers (Pty) Limited ("BFM"). Fund management is a scalable business and with relatively small capital investment, reasonable earnings can be produced as funds under management grow.

The Blackstar Special Opportunities Fund ("BSOF") has had a satisfactory start since launching on 1 October 2012, returning 8.3% up to March 2013.

BSOF is a multi-strategy fund with an emphasis on special opportunities within the South African market. Positions will be extensively researched using private equity research and analysis techniques to establish fundamental reasons for a difference between the price and value of a security. Technical analysis will overlay the investment process to maximise entry and exit pricing. Blackstar Group SE invested R20.8 million (GBP1.5 million) into the fund. BSOF has been consolidated in the 2012 annual financial statements.

The Blackstar Global Opportunities Fund ("BGOF") launched at the beginning of April 2013. BGOF is a global USD multi-strategy fund holding only highly liquid global securities in a combination of longer term-long and short positions, and shorter-term trading positions.

Longer-term holdings will be based on fundamental analysis and valuation, while trading will be based on high-risk return propositions. Technical and quantitative analysis will overlay the investment and trading processes. The size and liquidity of the fund universe makes it possible to significantly scale this business.

Other investments

The December 2011 report detailed that by 2012 year-end, Blackstar would hold an investment of R19.1 million (GBP1.4 million) in Shoprite Holdings Limited ("Shoprite"). At 31 March 2013, the investment had a fair value of R20.7 million (GBP1.5 million), representing 1.7% of Blackstar's current intrinsic net asset value as at 31 March 2013.

The decision to purchase the Lusaka shares was driven by the fact that Lusaka shares traded at a 43% discount to the JSE share price at the time of acquisition. The discount has persisted and is now at a 38% discount to the Shoprite JSE price. Unfortunately the pending Shoprite litigation has frozen share trading activity.

Shoprite has also suspended all dividends to shareholders on the Zambian exchange pending the outcome of the legal action against Lewis Nathan and Lusaka shareholders. Blackstar, along with other shareholders, has engaged Shoprite on this matter and is working to resolve the shareholder element of the dispute. We maintain our position that Shoprite is mistaken in challenging Lusaka shareholders, and that Blackstar will succeed in any legal proceedings.

Services derivatives which had an underlying exposure to Bidvest Group Limited were sold during November 2012 for R151.6 million (GBP11.6 million). The realisation generated a 2.28 times return on investment in South African Rands and 2.04 times money on investment in Pounds Sterling.

Financial Review

In light of the fact that a significant portion of Blackstar's shareholders are South African, Blackstar now presents its results in South African Rand in addition to Pounds Sterling. Comparatives have also been provided in Rands. The applicable exchange rates utilised to translate the financial information from Rands to Pounds Sterling are as follows: average ZAR/GBP exchange rate for the 12 months ended 31 December 2012 of 13.015 (2011:11.629) and a closing ZAR/GBP exchange rate of 13.773 as at 31 December 2012 (12.546 as at 31 December 2011).

The subsidiaries of Blackstar including Blackstar Group (Pty) Limited ("Blackstar SA"), BFM, GRS and its subsidiaries, Stalcor, Blackstar Real Estate (Pty) Limited ("BRE") and its subsidiaries have been consolidated in accordance with IFRS. In addition to these, the hedge fund BSOF has also been consolidated due to the fact that Blackstar has a controlling interest in the General Partner to the fund and also a beneficial interest in BSOF in the form of a direct investment. The associate Navigare Securities (Pty) Limited ("Navigare") has been equity accounted. Litha was also equity accounted up until the date of sale of half of the investment, at which point it ceased to be an associate and the remaining investment was transferred to the investments held at fair value through profit and loss category within the balance sheet and fair valued.

Financial performance

The statement of income separately reports profit generated by continuing and discontinued operations. The discontinued operations separately reported includes the results of the associate Litha until June 2012, being the date on which Blackstar disposed of half of its Litha shares, the results of Ferro Industrial Products (Pty) Limited to date of disposal in June 2011 as well as Stalcor's operations discontinued or disposed of during the 2011 financial year. Comparatives have been restated to separately disclose these discontinued operations.

A gross profit of R153.1 million (GBP11.8 million) was generated by the Group's trading businesses Stalcor, and GRS and its subsidiaries (2011: R141.5 million, GBP12.2 million).

Other income of R291.1 million (GBP22.3 million) comprises mainly of the following: net gains on investments of R19.9 million (GBP1.7 million); dividends from investments of R212.9 million (GBP16.4 million), fee income of R22.1 million (GBP1.7 million), R10.5 million (GBP0.8 million) of rental income generated by the Group's property portfolio and a R9.5 million (GBP0.7 million) fair value increase on two of the properties within the Group.

Blackstar was successful in generating additional fee income during the current year and as a result increased fee income by R16.9 million (GBP1.2 million) to R22.1 million (GBP1.7 million) when compared to the comparative year.

Dividends of R212.9 million (GBP16.4 million) include a capital distribution received by Blackstar from NBC in the form of TMG shares which were valued at R209.4 million (GBP16.1 million) being the closing TMG share price on the date the shares were received.

Gains on investments include a R125.3 million (GBP9.6 million) gain recognised when the remaining investment in Litha was transferred from the investment in associate category to investments at fair value through profit and loss and fair valued to its closing share price at 31 December 2012, and a R35.1 million (GBP2.7 million) realised gain recognised during the 2012 year on the services derivative investment.

Operating expenses for the Group have reduced from R351.5 million (GBP29.4 million) in 2011 to R246.5 million (GBP18.7 million) for the 2012 financial year mainly as a result of a decline in the total amount of impairments recognised in the current financial year. Included in operating expenses for 2012 are total impairments of R57.4 million (GBP4.2 million) recognised on goodwill, intangible assets, plant and equipment and investment properties (2011: R153.8 million, GBP12.4 million).

Fee income generated from investments of R22.1 million (GBP1.7 million) covers operating costs incurred by the investment activities segment excluding legal fees and staff incentive costs which are deal specific of R21.7 million (GBP1.7 million).

The Group generated an operating profit of R197.7 million (GBP15.4 million) in the current year compared to a loss of R118.6 million (GBP16.0 million) in the prior year. The main reasons for this significant improvement was a reduction in operating expenses and additional income generated from investments in the form of fee income and gains on disposals.

Net finance costs increased from R17.9 million (GBP1.5 million) in 2011 to R33.7 million (GBP2.6 million) in 2012. This is mainly as a result of the borrowings raised to finance the initial NBC acquisition (this debt was settled prior to year-end on disposal of the investment), as well as additional mortgage bonds taken out to fund the new property acquisition.

The profit after tax from continuing operations for the year ended 31 December 2012 amounted to R164.2 million (GBP12.8 million).

A profit of R128.2 million (GBP7.7 million) was generated by discontinued operations and comprises equity accounted earnings of Litha amounting to R70.0 million (GBP5.6 million) to date of disposal of 50% of the Litha investment, a net gain of R63.2 million (GBP2.5 million) recognised on disposal of the investment, and a R5.0 million (GBP0.4 million) loss arising as a result of further costs incurred during the current year relating to Stalcor's operations which were discontinued in the prior financial year.

The Group reported a profit attributable to equity holders of the parent of R292.4 million (GBP20.5 million), and basic and diluted earnings of 356.16 cents (25.03 pence) per share and headline earnings of 273.59 cents (21.11 pence) per share.

Balance sheet changes

Total equity attributable to equity holders amounted to R1.1 billion (GBP83.1 million) as at 31 December 2012.

Investments at fair value through profit and loss amounted to R610.0 million (GBP44.3 million) as at 31 December 2012 and mainly comprised the following carried at fair value: investment in Litha carried at R262.8 million (GBP19.1 million), TMG investment of R195.0 million (GBP14.2 million), R60.0 million (GBP4.4 million) investment in Robor, and the BSOF investment portfolio with a fair value of R53.1 million (GBP3.8 million).

Investments classified as loans and receivables declined by R25.7 million (GBP2.1 million) to R1.7 million (GBP0.1 million) mainly due to disposals during the year.

Investment properties increased by R13.5 million (GBP0.4 million) to R101.6 million (GBP7.4 million) mainly as a result of the acquisition of the new commercial property for R5.4 million (GBP0.4 million) which is occupied by Litha under a 12 year lease, as well as fair value increases of R9.5 million (GBP0.7 million) which were partially offset by an impairment of R4.1 million (GBP0.3 million).

Goodwill was impaired by a total of R30.4 million (GBP2.2 million) which includes an impairment of R26.8 million (GBP1.9 million) on the remaining goodwill relating to Blackstar SA on the internalisation of investment advisory arrangements, and a R3.6 million (GBP0.3 million) impairment being recognised on goodwill relating to one of GRS's South African subsidiaries. The goodwill recognised on the internalisation of the investment advisory arrangement has now been impaired to nil which is in line with the terms of the investment advisory arrangements. Goodwill is tested for impairment at each reporting date. The remaining goodwill of R9.0 million (GBP0.6 million) mainly comprises goodwill recognised on the GRS subsidiary in Namibia of R8.1 million (GBP0.6 million).

As at 31 December 2012, intangible assets of R22.7 million (GBP1.7 million) comprise acquired marketing-related intangibles (brand names and registered trademarks) that arose on the acquisition of GRS. This is after an impairment of R11.7 million (GBP0.9 million) was recognised on these intangible assets as a result of difficult market conditions during the year.

Gross assets increased from R1.2 billion (GBP95.2 million) in 2011 to R1.5 billion (GBP106.6 million) as at 31 December 2012. The main reasons for this are the increase in cash generated on successful realisation of investments which was then utilised to grow the investment portfolio, as well as an increase in value of the investments held.

Borrowings and other financial liabilities amounted to R180.2 million (GBP13.1 million) compared to R185.3 million (GBP14.8 million) at 31 December 2011 and mainly comprises mortgage bonds raised by property companies amounting to R82.4 million (GBP6.0 million) as well as R71.9 million (GBP5.2 million) of invoice discounting facilities utilised by Stalcor and GRS. The borrowings raised to finance the acquisition of the interest in NBC were settled on the subsequent realisation of the investment. All debt is ring-fenced within each subsidiary.

Cash and cash equivalents increased by R96.9 million (GBP5.2 million) during the current financial year to an amount of R351.9 million (GBP25.5 million) as at 31 December 2012. Significant cash flow movements during the period included a R657.2 million (GBP50.3 million) cash outflow on purchases of investments, proceeds of R671.1 million (GBP51.4 million) received in cash on the disposal of investments and a R200.6 million (GBP15.7 million) cash inflow on disposal of half of the investment in Litha.

Share buy-backs

In January 2013, Blackstar purchased 5.9 million ordinary shares of €0.76 each in the Company at a price of 79 pence (R11.07) per share, representing 7.19% of the issued ordinary share capital prior to such purchases. The shares are currently being held in treasury.

Dividends

As a reflection of the strengthened financial position and cash reserves available to Blackstar, the Board has resolved to declare a final gross dividend of 17 South African cents (1.42 cents in Euros and 1.21 pence in Pounds Sterling) per ordinary share. The exchange rates have been fixed for the calculation of the Euro and Pounds Sterling equivalents based on the closing exchange rates on Thursday, 18 April 2013 of EUR 1 = ZAR 11.983 and GBP 1 = ZAR 14.000. The Board recognises that regular dividends are an important part of shareholder wealth creation.

The dividend will be paid in accordance with the salient dates and times set out below:

Last day to trade on the South African register	Friday, 7 June 2013
Trading ex-dividend commences on the South African register	Monday, 10 June 2013
Last day to trade on the UK register	Tuesday, 11 June 2013
Trading ex-dividend commences on the UK register	Wednesday, 12 June 2013
Record date for shareholders recorded on the UK and South African registers	Friday, 14 June 2013
Date of payment	Tuesday, 18 June 2013

Share certificates may not be dematerialised or rematerialised between Monday, 10 June 2013 and Friday, 14 June 2013, both days inclusive, and transfers between the UK register and the South African register may not take place during that period.

Dividend Tax will be withheld from the amount of the gross dividend of 17 South African cents per share paid to South African shareholders at the rate of 15% unless a shareholder qualifies for exemption. After the Dividend Tax has been withheld, the net dividend will be 14.45 South African cents per share. There are no other taxes (foreign or otherwise) to be withheld from the dividend. The Company had a total of 82,088,422 shares in issue (which includes 5,900,000 shares held in treasury) at the date on which the dividend was announced, 19 April 2013. The dividend will be distributed by Blackstar Group SE (Malta tax registration number 995944033) and is regarded as a foreign dividend. There are no Secondary Tax on Companies ("STC") credits available for use.

Blackstar Foundation

Blackstar is committed to reaching out to those less fortunate and giving back to the community. The Blackstar Foundation, a non-profit organisation, has been registered and will focus on the education of underprivileged children, providing bursaries, educating and funding the tools required to assist with their education. Blackstar has donated R1.0 million (GBP0.08 million) to the Foundation and third parties have donated a further R0.2 million (GBP0.02 million). These funds have been invested and returns generated will be utilised by the Blackstar Foundation to fund the education of identified individuals. The Blackstar Foundation will continue to source further donations from Corporates and individuals.

Blackstar: Management Incentive Scheme

At present, Blackstar does not have a formalised share incentive scheme in place to remunerate and retain Management. As such the Board is proposing to implement a share incentive scheme that will be presented at the upcoming annual general meeting of the Company and put to a Shareholder vote.

Much of Blackstar's success is based on the intellectual capital that is held within its current management. We are constantly in competition with other companies and funds (with share incentive schemes already in place) who vie for the talent we currently hold within our ranks. It has become imperative for Blackstar to introduce a share incentive scheme that levels the playing field, allowing us to retain and attract new talent, and effectively grow the Company.

For Blackstar to align all Management incentives with the performance expectations of our Shareholders is vital. The proposed scheme will therefore be linked to the NAV per share of the Company. Share prices will fluctuate over time but ultimately NAV per share will drive the Company's share price. When making asset allocation decisions, Management will explore all opportunities to create value on a per share basis, which may include share buy backs.

The share incentive scheme will be structured so that it is non-dilutive for Shareholders. This means that participants in the scheme will accrue shares based on a portion of the NAV growth per share that has been created. In order to retain talent over the long-term, participants will receive the value of their share incentives incrementally, over a defined period of time.

The Board believes that through this model, Management will be motivated to drive share performance, and align with our Shareholders' interests.

Outlook

The 2012 period under review has been a busy and successful year for Blackstar. Several investments have been realised with pleasing returns and the remaining investments have been reassessed and reviewed during the year ensuring they are well-positioned to generate profitable returns going forward. TMG is proving to be an exciting opportunity and the successful finalisation of the NBC transaction will enhance Blackstar's balance sheet placing it in a good position to invest in new, attractive ventures. Blackstar maintains a strong focus on cost control and lowering these as a percentage of total assets.

It is our view that there may be opportunities for Blackstar to potentially absorb some of the operating companies which are currently in realisation mode, have decent assets, and which trade at large discounts to their intrinsic NAV.

It has been well publicised that the Cypriot government has been attempting to push through a levy on all deposits held in the island's banks in return for an EU bailout. This will have no impact on Blackstar as although it has a subsidiary registered in Cyprus (Blackstar (Cyprus) Investors Limited), none of the Group's bank accounts are held with Cypriot banks.

Subject to them being endorsed for use in the EU, Blackstar intends to adopt the Investment Entities amendments to IFRS 10, IFRS 12, and IAS27. These amendments introduce an exception to the principle that all subsidiaries need to be consolidated and instead allows qualifying investment entities to measure the investments in particular subsidiaries at fair value through profit and loss. As a result of adopting these amendments, the Blackstar consolidated statement of financial position would be more closely aligned with the intrinsic NAV of the Group.

Andrew Bonamour
19 April 2013

Annexure A
Intrinsic NAV as at 31 March 2013

	Unaudited R'000	Unaudited GBP'000
Times Media Group Limited	312 730	22 278
Litha Healthcare Group Limited	260 571	18 563
Global Roofing Solutions (Pty) Limited	155 000	11 042
Stalcor (Pty) Limited	32 000	2 280
Robor (Pty) Limited	63 931	4 554
Blackstar Real Estate (Pty) Limited	30 260	2 156
Other listed	102 021	7 268
Other unlisted	7 487	533
Cash and cash equivalents	156 678	11 233
Intrinsic NAV	1 120 678	79 907
Actual number of shares in issue net of treasury shares held ('000)	76 188	76,188
Intrinsic NAV per share (in Rands/Pounds Sterling)	14.71	1.05
Ordinary share price on 31 March 2013 (in Rands/Pounds Sterling)	11.50	0.79
Ordinary share price discount to NAV	22%	25%

Notes

1 The intrinsic NAV provides a measure of the underlying value of the Group's assets and does not indicate when the investments will be realised, nor does it guarantee the value at which the investments will be realised.
2 For the purposes of determining the intrinsic values, listed investments on recognised stock exchanges are valued using quoted bid prices 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 in the ordinary course of business above the levels at which it values them.
3 All amounts have been translated using the closing exchange rates at 31 March 2013. The GBP/ZAR closing exchange rate at 31 March 2013 was 14.037.
4 Other listed include investments in Shoprite Holdings Limited, Blackstar Global Opportunities Fund and Blackstar Special Opportunities Fund.
5 Other unlisted include investments in Navigare Securities (Pty) Limited and Blackstar Fund Managers (Pty) Limited.

Consolidated statement of income
for the year ended 31 December 2012

2011 R'000	2012 R'000		2012 GBP'000	*As restated 2011 GBP'000
1 058 912	1 063 016	Revenue	81 676	91 058
(917 372)	(909 943)	Cost of sales	(69 915)	(78 887)
141 540	153 073	Gross profit	11 761	12 171
91 369	291 102	Other income	22 302	1 176
(351 502)	(246 488)	Operating expenses	(18 694)	(29 384)
(118 593)	197 687	Operating profit/(loss)	15 369	(16 037)
(17 912)	(33 741)	Net finance costs	(2 592)	(1 541)
2 220	6 174	Finance income	474	191
(20 132)	(39 915)	Finance costs	(3 066)	(1 732)
495	490	Share of profit from associate	38	43
(136 010)	164 436	Profit/(loss) before taxation	12 815	(17 535)

(4 935)	(262)	Taxation	(36)	(421)
(140 945)	164 174	Profit/(loss) from continuing operations	12 779	(17 956)
		Discontinuing operations		
115 151	128 198	Profit from discontinued operations, net of taxation	7 741	10 739
(25 794)	292 372	Profit/(loss) for the year	20 520	(7 217)
		Profit/(loss) for the period attributable to:		
(29 832)	292 365	Equity holders of the parent	20 544	(7 584)
4 038	7	Non controlling interests	(24)	367
(25 794)	292 372		20 520	(7 217)
(37.86)	356.16	Basic and diluted earnings/(losses) per ordinary share attributable to equity holders (in cents/pence)	25.03	(9.62)
(177.29)	199.99	Basic and diluted earnings/(losses) per ordinary share attributable to equity holders from continuing operations (in cents/pence)	15.60	(22.65)

* Refer note 4

Headline earnings/(losses) reconciliation ^

Year to 31 December 2011 R'000	Year to 31 December 2012 R'000		Year to 31 December 2012 GBP'000	*As restated Year to 31 December 2011 GBP'000
(29 832)	292 365	Profit/(loss) for the period attributable to equity holders of the parent	20 544	(7 584)
		Adjusted for:		
(22 476)	-	Exceptional gain on dilution of interest in associate	-	(2 188)
(85 373)	(63 152)	Gain on disposal of discontinued operation	(2 531)	(7 861)
9 869	11 716	Impairment of intangible assets	851	861
141 619	30 417	Impairment of goodwill	2 208	11 382
2 345	11 172	Impairment of property, plant and equipment	853	202
-	4 050	Impairment of investment properties	311	-
(2 885)	(53 300)	Non-headline items included in equity accounted profits of associates	(4 257)	(248)
(1 055)	(1 708)	Profit on disposal of property, plant and equipment	(131)	(91)
(3 121)	(6 674)	Total tax effects of adjustments	(498)	(272)
183	(295)	Total non controlling interests' effects of adjustments	(23)	15
9 274	224 591	Headline earnings/(losses)	17 327	(5 784)
11.77	273.59	Basic and diluted headline earnings/(losses) per ordinary share attributable to equity holders (in cents/pence)	21.11	(7.34)

^ Disclosure of headline earnings/(losses) has been provided in accordance with the JSE Listing Requirements
*Refer note 4

Consolidated statement of comprehensive income
for the year ended 31 December 2012

2011 R'000	2012 R'000		2012 GBP'000	2011 GBP'000
(25 794)	292 372	Profit/(loss) for the year	20 520	(7 217)
		Other comprehensive income/(loss):		
-	-	Currency translation differences on translation of Rand denominated Group entities	(7 681)	(9 075)
-	-	Release of foreign currency translation reserve on disposal of associate/subsidiary	2 407	(1 261)
-	-	Net comprehensive loss recognised directly in equity	(5 274)	(10 336)
(25 794)	292 372	Total comprehensive income/(loss) for the year	15 246	(17 553)
		Attributable to:		
(29 832)	292 365	Equity holders of the parent	15 184	(18 095)
4 038	7	Non controlling interests	62	542
(25 794)	292 372		15 246	(17 553)

Consolidated statement of changes in equity for the year ended 31 December 2012

	Share capital R'000	Share premium R'000	Capital redemption reserve R'000	Treasury shares reserve R'000	Retained earnings R'000	Attributable to equity holders R'000	Non-controlling interests R'000	Total equity R'000
Balance as at 31 December 2010	519 267	-	29 965	-	392 400	941 632	(25 643)	915 989
Total comprehensive income/(loss) for the period	-	-	-	-	(29 832)	(29 832)	4 038	(25 794)
Income/(loss) for the period	-	-	-	-	(29 832)	(29 832)	4 038	(25 794)
Other comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-
Capital raising	77 612	22 125	-	-	-	99 737	-	99 737
Buy-back of ordinary shares	-	-	-	(29 452)	-	(29 452)	-	(29 452)
Arising on reclassification of investment, now a subsidiary	-	-	-	-	-	-	75	75
Reduction in non controlling interests arising on subsidiary share buy-back of shares from non-controlling shareholders	-	-	-	-	(50 276)	(50 276)	50 276	-
Reduction in non-controlling interests arising on acquisition of additional interests in subsidiary	-	-	-	-	(4 520)	(4 520)	4 520	-
Arising on disposal of subsidiary	-	-	-	-		-	(34 020)	(34 020)
Dividend paid	-	-	-	-	(80 175)	(80 175)	-	(80 175)
Balance as at 31 December 2011	596 879	22 125	29 965	(29 452)	227 597	847 114	(754)	846 360

	Share capital R'000	Share premium R'000	Capital redemption reserve R'000	Treasury shares reserve R'000	Retained earnings R'000	Attributable to equity holders R'000	Non-controlling interests R'000	Total equity R'000
Balance as at 31 December 2011	596 879	22 125	29 965	(29 452)	227 597	847 114	(754)	846 360
Total comprehensive income for the period	-	-	-	-	292 365	292 365	7	292 372
Income for the period	-	-	-	-	292 365	292 365	7	292 372
Other comprehensive income for the period	-	-	-	-	-	-	-	-
Cancellation of ordinary shares	(22 208)	-	22 208	29 452	(29 452)	-	-	-
Arising on acquisition of investment in subsidiary	-	-	-	-	-	-	7	7
Reduction in non-controlling interests arising on rights issue by subsidiary	-	-	-	-	(309)	(309)	309	-
Increase in non-controlling interests arising on part disposal of subsidiary	-	-	-	-	5 087	5 087	(5 087)	-
Arising on creation of Blackstar Special Opportunities Fund	-	-	-	-	-	-	33 379	33 379
Balance as at 31 December 2012	574 671	22 125	52 173	-	495 288	1 144 257	27 861	1 172 118

	Share capital GBP'000	Share premium GBP'000	Capital redemption reserve GBP'000	Treasury shares reserve GBP'000	Retained earnings GBP'000	Foreign currency translation reserve GBP'000	Attributable to equity holders GBP'000	Non-controlling interests GBP'000	Total equity GBP'000
Balance as 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	-	-	-	-	(7 584)	(10 511)	(18 095)	542	(17 553)
Income/(loss) for the period	-	-	-	-	(7 584)	-	(7 584)	367	(7 217)
Other comprehensive income/(loss) for the period	-	-	-	-	-	(10 511)	(10 511)	175	(10 336)
Capital raising	6 923	1 974	-	-	-	-	8 897	-	8 897
Buy-back of ordinary shares	-	-	-	(2 272)	-	-	(2 272)	-	(2 272)
Arising on reclassification of investment, now a subsidiary	-	-	-	-	-	-	-	6	6
Reduction in non controlling interests arising on subsidiary share buy-back of shares from non-controlling shareholders	-	-	-	-	(4 577)	-	(4 577)	4 577	-

Reduction in non-controlling interests arising on acquisition of additional interests in subsidiary	-	-	-	-	(415)	-	(415)	415	-
Arising on disposal of subsidiary	-	-	-	-	-	-	-	(3 126)	(3 126)
Release of foreign currency translation reserve on disposal of investments	-	-	-	-	815	(815)	-	-	-
Dividend paid	-	-	-	-	(6 217)	-	(6 217)	-	(6 217)
Balance as at 31 December 2011	57 053	1 974	2 893	(2 272)	4 591	3 278	67 517	(60)	67 457

	Share capital GBP'000	Share premium GBP'000	Capital redemption reserve GBP'000	Treasury shares reserve GBP'000	Retained earnings GBP'000	Foreign currency translation reserve GBP'000	Attributable to equity holders GBP'000	Non-controlling interests GBP'000	Total equity GBP'000
Balance as at 31 December 2011	57 053	1 974	2 893	(2 272)	4 591	3 278	67 517	(60)	67 457
Total comprehensive income/(loss) for the period	-	-	-	-	20 544	(5 360)	15 184	62	15 246
Income for the period	-	-	-	-	20 544	-	20 544	(24)	20 520
Other comprehensive income/(loss) for the period	-	-	-	-	-	(5 360)	(5 360)	86	(5 274)
Cancellation of ordinary shares	(1 706)		1 706	2 272	(2 272)	-	-	-	-
Arising on acquisition of investment in subsidiary	-	-	-	-	-	-	-	1	1
Reduction in non controlling interests arising on rights issue by subsidiary	-	-	-	-	(24)	-	(24)	24	-
Increase in non controlling interests arising on part disposal of subsidiary	-	-	-	-	397	-	397	(397)	-
Arising on creation of Blackstar Special Opportunities Fund	-	-	-	-	-	-	-	2 393	2 393
Balance as at 31 December 2012	55 347	1 974	4 599	-	23 236	(2 082)	83 074	2 023	85 097

A final dividend of 10.10 South African cents, 0.90 pence, per ordinary share was paid on 26 May 2011.
A special dividend of 80.53 South African cents, 6.5 pence, per ordinary share was paid on 2 December 2011.
A final dividend of 17 South African cents, 1.21 pence, per ordinary share has been proposed, to be paid on 18 June 2013.

Consolidated statement of financial position
as at 31 December 2012

2011 R'000	2012 R'000		2012 GBP'000	2011 GBP'000
		Non-current assets		
94 872	74 631	Property, plant and equipment	5 418	7 563
88 050	101 585	Investment properties	7 375	7 018
36 178	9 022	Goodwill	656	2 884
36 972	22 713	Intangible assets	1 650	2 947
206 234	1 870	Investments in associates	136	16 437
1 799	1 741	Investments classified as loans and receivables	126	144
46 260	517 728	Investments at fair value through profit and loss	37 588	3 687
-	-	Other financial assets	-	-
1 157	2 405	Deferred tax assets	177	92
511 522	731 695		53 126	40 772
		Current assets		
25 628	-	Investments classified as loans and receivables	-	2 042
130 457	92 314	Investments at fair value through profit and loss	6 702	10 398
23	917	Other financial assets	67	2
310	2 155	Current tax assets	155	24
144 797	141 009	Trade and other receivables	10 238	11 540
125 997	148 117	Inventories	10 753	10 042
255 124	352 063	Cash and cash equivalents	25 560	20 334

682 336	736 575		53 475	54 382
1 193 858	1 468 270	Total assets	106 601	95 154
		Non-current liabilities		
(88 792)	(92 366)	Borrowings	(6 705)	(7 077)
(9 844)	(2 400)	Other financial liabilities	(175)	(785)
(2 490)	(1 939)	Provisions	(141)	(199)
(18 802)	(13 305)	Deferred tax liabilities	(969)	(1 499)
(119 928)	(110 010)		(7 990)	(9 560)
		Current liabilities		
(7 549)	(4 528)	Borrowings	(329)	(602)
(79 150)	(80 870)	Other financial liabilities	(5 871)	(6 308)
(1 168)	(2 500)	Provisions	(182)	(93)
(1 069)	(313)	Current tax liabilities	(23)	(85)
(138 569)	(97 814)	Trade and other payables	(7 101)	(11 044)
(65)	(117)	Bank overdrafts	(8)	(5)
(227 570)	(186 142)		(13 514)	(18 137)
(347 498)	(296 152)	Total liabilities	(21 504)	(27 697)
846 360	1 172 118	Total net assets	85 097	67 457
		Equity		
596 879	574 671	Share capital	55 347	57 053
22 125	22 125	Share premium	1 974	1 974
29 965	52 173	Capital redemption reserve	4 599	2 893
(29 452)	-	Treasury shares reserve	-	(2 272)
-	-	Foreign currency translation reserve	(2 082)	3 278
227 597	495 288	Retained earnings	23 236	4 591
847 114	1 144 257	Total equity attributable to equity holders	83 074	67 517
(754)	27 861	Non-controlling interests	2 023	(60)
846 360	1 172 118	Total equity	85 097	67 457
993	1 394	Net asset value per share (in cents/pence)	101	79

Consolidated statement of cash flows
for the year ended 31 December 2012

2011 R'000	2012 R'000		2012 GBP'000	2011 GBP'000
		Cash flow from operating activities		
71 614	(46 018)	Cash generated/(absorbed) by operations	(3 048)	2 013
3 503	6 174	Interest received	348	310
(16 504)	(28 688)	Interest paid	(2 204)	(1 627)
2 670	3 537	Dividends received	272	230
(15 981)	(9 635)	Taxation paid	(740)	(1 431)
45 302	(74 630)	Cash generated/(absorbed) by operating activities	(5 372)	(505)
		Cash flow from investing activities		
(13 297)	(11 167)	Purchase of property, plant and equipment	(857)	(1 164)
(58 350)	(5 405)	Purchase of investment properties	(415)	(5 018)
(21 683)	(41)	Additions to investments classified as loans and receivables	(3)	(1 883)
(34 042)	(657 174)	Purchase of investments at fair value through profit or loss	(50 336)	(2 965)
23	(21 734)	Acquisition of subsidiaries, net of cash acquired	(1 560)	2
5 186	2 401	Proceeds from disposal of property, plant and equipment	185	446
37 268	671 133	Proceeds from disposal of investments	51 402	3 080
272 476	200 569	Disposal of discontinued operations, net of cash disposed	15 651	23 006
187 581	178 582	Cash generated by investing activities	14 067	15 504
		Cash flow from financing activities		
54 980	333 697	Proceeds from borrowings	25 639	4 728
(24 163)	(333 143)	Repayment of borrowings	(25 597)	(2 181)
(197 582)	(7 619)	Movement in other financial liabilities (including short-term funding facilities)	(585)	(16 804)
(29 452)	-	Buy-back of ordinary shares	-	(2 272)
99 737	-	Capital raising	-	8 897
(80 175)	-	Dividends paid to equity holders of the parent	-	(6 217)
(176 655)	(7 065)	Cash absorbed by financing activities	(543)	(13 849)
56 228	96 887	Net increase in cash and cash equivalents	8 152	1 150
198 831	255 059	Cash and cash equivalents at the beginning of the year	20 329	19 195
-	-	Exchange losses on cash and cash equivalents	(2 929)	(16)

255 059	351 946	Cash and cash equivalents at the end of the year	25 552	20 329

Notes to the consolidated financial statements
for the year ended 31 December 2012

1. Financial information

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2012 or 2011 as defined in section 171 of the Malta Companies, Act 1995. Statutory accounts for the year ended 31 December 2011 have been delivered to the Luxembourg Registrar of Companies and those for the year ended 31 December 2012 will be delivered to the Malta Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts, their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports. Their reports for the year ended 31 December 2012 did not contain statements under s149 paragraph (10),(11),(12) of the Malta Companies Act, 1995. The auditors report for the year ended 31 December 2011 did not contain statements under s498 (2) or (3) of the UK Companies Act, 2006, (which the Company was subject to at that time).

2. Distribution of the annual report and accounts to shareholders

Copies of the Group's audited statutory accounts for the year ended 31 December 2012 will be dispatched to shareholders shortly.

3. Adoption of a secondary presentational currency

In light of the fact that a significant portion of Blackstar's shareholders are now South African, the decision was taken to add the South African Rand as an additional presentational currency (Blackstar's functional currency is the Rand). Blackstar's financial report is therefore published in both Pounds Sterling and Rands and comparatives have been provided in both currencies.

4. Comparative figures

In order to improve disclosures and readability for users, the Group elected to change the presentation of its statement of income and group income and expenditure according to its function. Comparatives have been restated for these changes. The actual results of the Group have not been impacted in any way by the amendments to the presentation of the figures.

The comparative information for the year ended 31 December 2011 was restated to present income generated and expenses incurred by discontinued operations separately from continuing operations.

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