

The logo features the word "BLACKSTAR" in a white, serif font. To the right of the text is a graphic element consisting of a horizontal line that curves upwards at its right end, forming a corner shape. At the top-right corner of this shape is a four-pointed starburst or spark-like symbol.

BLACKSTAR

Blackstar Group Plc
Annual Report and Accounts 2009

Highlights

- Maiden set of consolidated financial results incorporating trading subsidiaries
- Acquisition of Ferro Industrial Products (Pty) Limited (“Ferro”) and increase of shareholding in Kulungile Metals Group (Pty) Limited (“KMG”)
- Net asset value rose from 123 to 129 pence per share, this is after returning £5.0 million to shareholders via a tender offer
- Gross assets have more than doubled since inception
- Internalisation of investment advisory arrangements
- Realisation of investments in DCD-Dorbyl (Pty) Limited (“DCD”), York Timber Limited (“York”) and Credit U Holdings Limited (“Credit U”)

2	Directors’ statement	18	Consolidated cash flow statement
8	Directors’ report	19	Notes to the consolidated financial statements
12	Directorate	73	Company statement of changes in equity
13	Independent auditor’s report	74	Company balance sheet
14	Consolidated income statement	75	Company cash flow statement
15	Consolidated statement of comprehensive income	76	Notes to the Company financial statements
16	Consolidated statement of changes in equity	86	Company information
17	Consolidated balance sheet	87	Notice of meeting
		93	Form of proxy

Directors' Statement

Introduction

In the famous words of Charles Dickens, at the beginning of *A Tale of Two Cities*, "it was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair....." These varied emotions aptly describe 2009. This was a year that started with darkness and despair and ended on a cautiously optimistic note, at least as far as Southern Africa is concerned. In the third quarter of 2009 South Africa emerged from its first recession in 17 years with GDP growth of 0.9% (quarter on quarter). The average GDP growth rate for the period 2005 to 2008 was 4.9% per annum.

Blackstar produces its results in Pound Sterling but its businesses operate in South Africa. Therefore the exchange rate is an important variable. During 2009, the South African Rand ("Rand") strengthened some 16.54% against Pound Sterling.

Blackstar's results over the second half of 2009 showed an improvement over its interim period, despite market conditions remaining tough. Blackstar's full year results are the first that incorporate the financial results for its two operating subsidiary companies – ten months for KMG (previously a 47.5% shareholding held as part of the Group's investment portfolio and carried at fair value) and twelve months for Ferro. The adverse conditions in the economy and steel industry in general have had a negative impact on KMG's results. However despite the difficult environment, Ferro produced its best ever results enhancing margins and cash flow from its operations. Had KMG not had to write down their inventories as a result of the adverse conditions previously mentioned, the trading subsidiaries would have recorded a profit. Investments recovered well since the interim period buoyed by the recovery of Mvelaphanda Resources Limited ("Mvela") and Myriad Medical Holdings Limited ("Myriad") share prices. Net asset value attributable to equity holders increased from £93.2 million in December 2008 to £101.7 million in December 2009. This was after returning £5.0 million back to shareholders through a tender offer.

The first-time consolidation of the financial results of Blackstar's subsidiary companies has resulted in significant changes to the presentation of the Company's consolidated balance sheet. As a result we have included a pro-forma balance sheet in Annexure A, which presents the Company's financial information assuming that it was not required to consolidate investee companies, and provides information that is relevant for comparison of the Company's balance sheet to prior reporting periods.

In January 2009, Blackstar bought back 2,405,488 ordinary shares in the market for cancellation, representing 3.2% of the Company's shares in issue at the time. In June 2009, Blackstar concluded the internalisation of its investment advisory arrangements and completed a £5.0 million tender offer to its shareholders.

Blackstar's share price has been trading at a significant discount to its underlying net asset value per share. Such discounts affect many AIM traded investment companies and is not a purely a Blackstar phenomenon. Nevertheless the Blackstar board is mindful of this dislocation of value and has been actively looking at ways to close the gap. Blackstar's share price appreciated from a January 2009 low of 24 pence to 54 pence at the end of December 2009. Since year end the share price has appreciated to 66 pence.

Economic and Operating Environment Review

Despite the global turmoil, Africa is one of the fastest growing regions in the world. The IMF (International Monetary Fund) predicts that Africa will grow in GDP terms by 3.9% in 2010. Countries such as Angola, DRC, Zimbabwe, Zambia, Botswana and Mozambique are all experiencing over 5% per annum GDP growth and rely on South Africa for many products and services. Blackstar's subsidiary companies are well positioned to benefit from the increased economic activity north of our border. In June this year, South Africa will host the FIFA World Cup which is the first time this honour has been bestowed upon an African country. Economists predict that the FIFA World Cup will add 0.4% to 0.7% to economic growth in South Africa for this year. However despite the euphoria associated with the World Cup, the operating environment in Southern Africa remains difficult, weighed down by domestic as well as global issues. The strong Rand is hampering the recovery of many sectors, most notably resources and manufacturing. In addition, South Africa has many social and economic issues to grapple with over the next few years.

Notwithstanding the above, measured in US Dollars, the JSE ALSI appreciated some 60% from its lows in January 2009 to December 2009, compared to the FTSE 100 which appreciated 32% and the Dow Jones which appreciated 15%. This is partly the result of South Africa being a direct beneficiary of emerging market asset allocations. Over the past decade, the JSE ALSI has returned 231% versus a return of -22% and -9% for the FTSE 100 and Dow Jones respectively.

Investment Review

Blackstar's investments fared well in 2009, despite a dismal start to the year. Our indirect investment in Mvela recovered well with the share price appreciating 115% from January 2009 to December 2009. This recovery was largely a result of the recovery in resources (particularly platinum prices), as well as market speculation of a potential offer for Mvela.

Our investment in Myriad also experienced a sharp recovery with the share price appreciating 65% from January 2009 to December 2009. Myriad operates in the high growth area of medical supplies, single use consumables and medical capital equipment to both the public and private sectors. The healthcare sector is a high growth sector in South Africa and Myriad is ideally placed to benefit from the increased spend. In August 2009, Blackstar became more involved in the growth and development of Myriad. The CEO and COO retired and Blackstar provided one of its executives as interim CEO, backed by the resources of Blackstar. In December 2009, Myriad announced the conditional acquisition of a 51% holding in Litha Healthcare Holdings (Pty) Limited ("Litha"). Litha is a diversified healthcare business focusing on biotechnology, pharmaceuticals and consumables. Litha is the exclusive supplier of paediatric vaccines to the South African Government. The transaction diversifies Myriad's healthcare offering into three business lines – biotechnology (vaccines), pharmaceuticals and devices. The Litha management team provides Myriad with strong operational and industry experience. Following the completion of the acquisition, Myriad will change its name to Litha Healthcare Group Limited and will move to the main board of the JSE. The transaction will be funded by a combination of shares and cash. Blackstar is underwriting the R100 million rights offer by Myriad to partly fund the cash portion of the purchase price.

Prior to the conclusion of the Litha transaction, Blackstar will increase its shareholding in Myriad from 19.02% to 51.3%, following the acquisition of the 30.26% interest in Myriad held by Vermogen Medicals (Pty) Limited ("Vermogen"). Vermogen was Myriad's empowerment partner which was funded by Blackstar in 2006. The funding structure was unwound on 15 January 2010 as Vermogen were unable to refinance the amount owed to Blackstar. As a consequence of exceeding the 34.9% shareholding limitation, the South African Securities Regulation Panel required Blackstar to make a mandatory offer to Myriad's minority shareholders. Blackstar duly made the offer and only 0.88% of Myriad shareholders tendered their shares. Following the conclusion of the Litha transaction, Blackstar's shareholding will be approximately 44% of the enlarged group. The Litha acquisition is expected to close during April 2010.

Blackstar exited its remaining York shareholding in October 2009, realising £2.4 million, however the Company retains a £0.7 million investment in the York convertible preference shares. These preference shares will shortly convert into ordinary shares on a one-for-one basis which Blackstar intends realising.

In February 2009, Blackstar sold its effective 17% shareholding in DCD Dorbyl Limited for £13.8 million equating to a return of 2.83 times money and an IRR of 76% in Pound Sterling over the 20 month holding period. In addition the £6.7 million convertible loan provided to Credit U Limited was unwound, realising a profit of £0.4 million over a 12 month period.

KMG Operating Review

KMG is a dominant steel merchant and processor in South Africa and is number one in aluminium, number two in stainless steel and number three in carbon steel in terms of volumes sold. KMG also owns 100% of GRS, which has been in existence since 1950, and is the largest steel roofing and cladding company in South Africa. GRS also has a substantial African footprint, supplying a number of African countries from South Africa.

Blackstar did a leveraged buyout of KMG in June 2007 and in March 2009, Blackstar increased its shareholding in KMG from 47.5% to 73%.

On completion of the leveraged buyout in June 2007, a new management team was introduced and KMG subsequently acquired GRS in April 2008. GRS represented a downstream acquisition which enhanced the business offering. Over the initial 18 months since the investment was concluded, KMG performed remarkably well buoyed by infrastructure spending and a vibrant steel market. However as a result of the financial crisis, steel prices began to tumble whilst inventory levels were still building up and demand was slowing at a fast rate. Prices reduced on average by approximately 65% compared to the highest levels achieved during 2008. KMG's volumes contracted, effectively placing KMG under severe strain.

KMG's management along with Blackstar implemented a series of actions to alleviate the negative effects of a deteriorating market. A retrenchment program was implemented which reduced the workforce by 14% and stock levels were decreased in order to better match demand. KMG had to write down £3.7 million in its stock values and its margins came under

Directors' Statement continued

pressure. The consequence of these factors was that KMG recorded a loss from operating activities of £3.9 million for 2009 (for KMG's previously reported financial period a profit of £9.6 million was recorded for the twelve months ended 28 February 2009).

All of the above factors were compounded by the acquisition leverage that KMG still has on its balance sheet. This leverage has made the turnaround and right-sizing exercise all the more difficult. Blackstar and KMG management re-negotiated the covenants with KMG's bankers and Blackstar is in the process of converting its B Preference shares into equity. This will bring Blackstar's shareholding to 82% of KMG.

Although KMG as a Group had a difficult year, its subsidiary company GRS was able to produce a small profit despite the operating environment.

On the positive side, KMG made two small acquisitions in 2009. The first acquisition was a division from Hulamin Engineering Solutions which is a stockist and distributor of flat and rolled aluminum products and has branches throughout South Africa. As a result of this acquisition, KMG became the largest stockist and distributor of aluminum products in Southern Africa. During July 2009, KMG acquired 100% of Country Roofing (Pty) Limited ("Country Roofing"), a roofing contractor and steel stockist in Namibia which services Namibia, Angola, Southern DRC and Botswana. Country Roofing was acquired for R14 million and has produced profit before tax of R10 million since July 2009 which indicates what a good acquisition it has been for KMG.

The year ahead is anticipated to be a difficult one for KMG. Although steel prices have stabilised, the South African steel markets still haven't recovered and volumes remain low. Management's focus for this year is to de-gear and strengthen the balance sheet. We are fortunate to have a strong capable management team in place at KMG with over 40 years experience in the steel sector. KMG has a good position in South Africa and a solid footprint in the Sub-Saharan market.

From March 2009 (being the date from which KMG is consolidated), KMG was able to reduce their acquisition finance by £3.0 million to £13.0 million at 31 December 2009.

Ferro Operating Review

During January 2009, Blackstar acquired 56% of Ferro for £5.9 million, including the acquisition of certain shareholder loans at a fair value of £2.7 million. In August 2009, Blackstar decreased its shareholding to 54% when it sold shares to certain staff of Ferro. During the year Blackstar received £0.3 million in interest on its shareholder loan to December 2009.

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. 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.

In a difficult year, which saw a slowdown in the South African industrial sector, Ferro produced an excellent set of results. Although sales volumes were down across all divisions, margins were enhanced significantly due to operating efficiencies and the effects of cost saving measures implemented at the beginning of the year. Cash flow generated increased 43% and operating profit was up year on year by 25%. Ferro's focus on exports into Africa reaped significant rewards and it was able to develop new customer bases on the continent. It is worth noting that the exports to Zimbabwe increased by over 205% year on year which points to signs of recovery within the Zimbabwean economy.

Ferro's acquisition finance reduced by £0.8 million from January 2009 to 31 December 2009 as a result of capital repayments and Ferro ended the year with a strong balance sheet.

Financial Review

The financial review encompasses the results of Blackstar's three reporting segments namely: Investment activities (being the Blackstar investment portfolio); Industrial metals (being KMG and its subsidiaries); and Industrial chemicals (being Ferro).

Financial performance

Revenue for the year ended 31 December 2009 amounted to £154.2 million of which KMG contributed £124.7 million for the ten months since acquisition and Ferro £29.5 million for the twelve months since acquisition. The two trading subsidiaries

achieved a gross profit of £21.6 million, after taking into account KMG's write down of inventories to net realisable value of £3.7 million. Without this write-down of inventories, the trading subsidiaries would have recorded a trading profit.

A net gain on investments of £2.7 million was earned from investing activities. The most significant contributors to this gain were the Group's investments in Mvela, which accounted for a £3.6 million gain on the back of a recovery in the resources sector and Myriad which accounted for a £1.6 million gain. Although the remaining investments in the portfolio performed well, this was negated by the loss incurred on the disposal of the Group's residual interest in York. Overall to date, Blackstar has realised a substantial profit to cost from its investment in York.

The performance fee provision from prior periods, amounting to £0.2 million, was reversed on internalisation of the Company's investment advisory arrangements. Fees, dividends and interest from loans, receivables and investments declined from £7.1 million to £3.9 million. This decrease can be attributed to a decline in interest income as a result of Blackstar's realisation of its investments in DCD and Credit U as well as a decline in interest and dividend income as a result of the loan and preference shares in KMG being eliminated as an intergroup balance in the current financial year.

An impairment of goodwill amounting to £3.9 million was recognised on the goodwill arising on the acquisition of KMG. The reasons for this impairment are discussed below.

A significant increase in finance costs to £5.3 million is as a result of the finance charges in KMG and Ferro being consolidated.

The loss after tax attributable to equity holders of Blackstar amounted to £2.5 million of which KMG contributed a loss of £5.0 million and Ferro contributed £0.8 million profit. As a result of this loss, the Company reported an attributable loss per share of 3.33 pence for the year.

Balance sheet changes

Gross assets have more than doubled since Blackstar's inception and have increased to £172.7 million. Goodwill and intangible assets arise on consolidation of the Group's subsidiaries and are discussed in detail under a separate heading below.

Investments classified as loans and receivables amounted to £23.1 million at year end, a decline of £27.1 million when compared to the 31 December 2008 balance. £22.7 million of this movement was as a result of loans to KMG and preference shares held in KMG now being classified as inter-group transactions on acquisition of a controlling interest in the company and have therefore been eliminated on consolidation. The balance resulted from the realisation of the Company's investments in DCD and Credit U.

Investments at fair value through profit and loss declined from £33.2 million at 31 December 2008 to £13.5 million at 31 December 2009. This is mainly as a result of the sale of ordinary shares in DCD and York.

Borrowings increased due to the acquisition debt within both Ferro and KMG which amounted to £24.7 million at year end. This debt is ring-fenced within each subsidiary.

Other financial liabilities of £26.7 million mainly comprise secured, interest bearing, short-term loans held within Blackstar's subsidiary companies.

Changes in the equity of the Company reflect the effects of the capital re-organisation, share buy-backs, the tender offer and issue of new shares as a result of the internalisation.

A satisfactory working capital performance assisted Blackstar in generating cashflow of £11.6 million from operating activities. A total cash outflow of £24.1 million arose as a result of the acquisition of subsidiaries and the internalisation of investment advisory arrangements. Proceeds from disposal of investments amounted to £27.2 million comprising the settlement of the Credit U loan and proceeds on realisation of investments in DCD and York.

During the year, gearing levels improved as a result of repayments of borrowings of £11.1 million. Both KMG and Ferro are comfortably meeting their covenants as well as their debt servicing schedules.

Directors' Statement continued

Goodwill and intangibles

Blackstar's intangible assets, which have a carrying value of £14.6 million, comprise acquired marketing-related intangibles (brand names and registered trademarks), customer relationships and technology-related intangibles that arose on the acquisitions of KMG and Ferro. These intangible assets are being amortised over their useful lives and amortisation of £1.2 million has been included in the operating expenses within the income statement.

Goodwill of £27.9 million arose during the year ended 31 December 2009 of which £2.9 million arose on acquisition of Ferro, £9.4 million on acquisition of KMG, £14.9 million on the acquisition of Blackstar Group (Pty) Ltd ("Blackstar SA", previously Blackstar Fund Managers (Pty) Limited) and the internalisation of investment advisory arrangements and £0.7 million on acquisitions made by the KMG group.

The goodwill that arose on acquisition of the Group's operating subsidiaries represents the premium to net asset value on acquisition of these businesses and is attributable to acquiring long established businesses with strategic market positions, track record and ability to generate strong cash flows. The Blackstar SA goodwill is attributable to securing the services and the intellectual capital of the Blackstar SA team and the ability of the business to generate value for Blackstar. No further management fees, or further performance fees are payable to BML Limited (previously Blackstar Managers Limited) and at year end the Group has exceeded its anticipated growth in net asset value that was used to determine the internalisation consideration.

Goodwill is tested for impairment at each reporting date. An impairment of £3.9 million was recognised on goodwill arising on the acquisition of KMG. As discussed under the KMG operating review, it is anticipated that 2010 will be a difficult year for KMG as the steel industry struggles to recover from the downturn it has experienced.

None of the remaining goodwill was impaired as at year end.

Internalisation and Tender offer

The internalisation of Blackstar's investment advisory arrangements, including the acquisition of Blackstar SA, was approved by shareholders and completed in June 2009. As a result of the internalisation, BML is now the Company's largest shareholder owning 19.2% of the shares in issue. The tender offer was also completed in June 2009 and resulted in 7,462,673 ordinary shares being bought back at 67 pence – representing 8.6% of the enlarged share capital.

Since its inception Blackstar has returned £8.8 million to shareholders through share buy-backs and the tender offer representing 11% of the capital raised in 2006.

Dividends

The directors do not propose the payment of a dividend in respect of the year under review.

Post Balance Sheet Events and Outlook

The conversion of the KMG B preference shares into ordinary shares in KMG will result in an increased shareholding in KMG. As has been discussed within this report, several changes are expected within Myriad in the first half of 2010, which will also result in Blackstar increasing its investment in Myriad.

A resolution to cancel the capital redemption reserve of the Company in order to create distributable reserves was passed post year end and is expected to be effective in April 2010.

Over a period of time, Blackstar will dispose of its minority investments where we have little management input or influence. Blackstar's objective is to develop a substantial industrial business in South Africa with the underlying themes of strategic market position, strong cash flow and the ability to exploit the wider African market.

We maintain our cautious view of the local, as well as global markets, for 2010. We are of the view that economic recovery will be slow and sporadic. Having said this, we remain confident that Blackstar will continue to grow the net asset value attributable to equity holders and management is actively investigating ways in which to do so.

The board of Blackstar continues to investigate ways to close the gap between net asset value and the share price. This remains a top priority for 2010.

Andrew Bonamour

1 April 2010

Annexure A

A pro-forma balance sheet as at 31 December 2009 has been presented below which reflects the Group's financial information on the basis that all investments (whether the Company could be considered to exercise control or otherwise) are accounted for as either investments at fair value through profit and loss or investments classified as loans and receivables and are not consolidated. The investments in subsidiaries have been reflected separately for ease of reference. The pro-forma balance sheet is provided for information purposes only and is relevant for comparison of the Group's balance sheet to prior reporting periods.

In addition, the consolidated balance sheet as at 31 December 2009 has been presented below in a summarised manner, for ease of comparison, such that the consolidated net asset value of each subsidiary is reflected in a single line.

	Pro-forma Unaudited 31 December 2009 £'000	Consolidated Audited 31 December 2009 £'000	Audited 31 December 2008 £'000
Total assets			
Investment in KMG	29,698	27,871	28,901
Investment in Ferro	12,122	8,051	—
Investment in Blackstar SA and internalisation of investment advisory arrangements	14,900	14,951	—
Investments classified as loans and receivables	23,346	23,346	27,464
Investments at fair value through profit and loss	14,193	14,193	26,985
Trade and other receivables	513	513	626
Cash and cash equivalents	13,384	13,384	17,831
Total liabilities			
Borrowings	—	—	(8,049)
Provisions	—	—	(404)
Trade and other payables	(560)	(560)	(181)
Total net assets	107,596	101,749	93,173
Equity			
Share capital	53,023	53,023	75,665
Capital redemption reserve	30,156	30,156	3,575
Foreign currency translation reserve	9,877	9,594	1,865
Retained earnings	14,540	8,976	12,068
Total equity attributable to equity holders	107,596	101,749	93,173
Net asset value per share (in pence)	136	129	123

Directors' Report

for the year ended 31 December 2009

The Directors present their report together with the audited financial statements for the year ended 31 December 2009.

Results and dividends

The consolidated income statement as set out on page 14 shows the loss for the year.

The Directors do not recommend the payment of a dividend (2008: nil).

Principal activities, review of business and future developments

The Company was incorporated in England and Wales and has its registered office at 2nd Floor Ibex House, The Minories, London, EC3N 1DX and has its principal place of business at 58 rue Charles Martel, L-2134 Luxembourg.

Through two capital raisings in 2006, the Company successfully raised an aggregate of £80 million (before expenses) to pursue its investing strategy and objectives and engaged BML Limited (previously Blackstar Managers Limited), an offshore management company, to assist with sourcing, evaluating and assessing potential investment opportunities.

In June 2009, the Company concluded the internalisation of its investment advisory arrangements with BML, including the acquisition of Blackstar Fund Managers (Pty) Limited, which subsequently changed its name to Blackstar Group (Pty) Limited ("Blackstar SA"). In acquiring Blackstar SA, the Company secured the services and the intellectual capital of the Blackstar SA team and the ability of the business to generate value for the Group.

The Company is an investment company, and its principal activities during the year as well as that of its Cyprus subsidiary were to participate in investment opportunities in South Africa and Sub-Saharan Africa. The principal activity of the Company's Gibraltar subsidiary is that of acting as a treasury vehicle to the Company.

The Company has a 54% interest in Ferro Industrial Products (Pty) Limited ("Ferro"), which 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 used on ceramic products.

The Company has a 73% interest in Kulungile Metals Group (Pty) Limited ("KMG"), which is a processor, distributor and stockist of carbon steel, stainless steel and aluminum and manufacturer and supplier of steel roofing and cladding.

The requirements of the business review have been included in the Directors' Statement as set out on pages 2 to 6 under the heading Financial Review.

Investment Policy

The investment objective of the Company is to generate shareholder returns through investing in a portfolio of industrial businesses in South Africa with the underlying themes of strategic market position, strong cash flows and the ability to exploit the wider African markets from its South African base. The Company may invest in the form of either equity or debt and may acquire directly or indirectly controlling or minority holdings in investee companies.

Acquired businesses will be run on a decentralised manner with local management maintaining an entrepreneurial focus and being responsible for their own operations. The Company will seek to be actively involved in setting the strategy of the investee companies and act as an allocator of capital and resources but will not take day to day responsibility for the management of investee companies. Over a period of time Blackstar intends to dispose of its existing minority investments where we have little management input or influence.

Blackstar is a long term investor and the Board places no limit on the length of time that any portfolio investment may be held. The Board will consider, on a case by case basis, the optimum exit strategy for each portfolio investment.

The Company expects to only hold a small number of portfolio investments at any one time. However, there is no minimum or maximum number of investments that the Company can hold at any one time, nor are there any maximum exposure limits per portfolio investment.

Blackstar finances its portfolio investments out of its own cash resources and utilises third party debt funding as appropriate. In addition, investee companies may themselves have gearing. There is no maximum gearing level for either the Company or on a Group basis. However the Directors will review the level of gearing in the Group on a regular basis.

Save as set out above, Blackstar does not have any investment restrictions.

Corporate Governance

The Board and its committees are responsible for maintaining a high standard of corporate governance and for ensuring that the Group's business is conducted with integrity and in an ethical manner.

The Board ensures that the Group complies with all relevant laws and regulations and ensures that the Group maintains effective operating systems and controls and a robust and informed investment approval process.

The Board has access to complete, accurate and timeous information in order to fulfill its responsibilities and is assisted by the following committees:

Audit Committee – The Audit Committee is chaired by Wolfgang Baertz and comprises John Mills, Julian Treger, Andrew Bonamour, and Marcel Ernzer. The Audit Committee provides a forum for reporting by the Company's external auditors and is responsible for reviewing a wide range of matters, including half-year and annual results and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders.

Remuneration Committee – The Remuneration Committee is chaired by John Mills and comprises Julian Treger, Andrew Bonamour, Wolfgang Baertz and Marcel Ernzer. The Committee will set the remuneration levels for the Directors having regard to market conditions and appropriate incentive schemes.

Nominations Committee – The Nominations Committee is chaired by Marcel Ernzer and comprises John Mills, Julian Treger, Andrew Bonamour and Wolfgang Baertz. The Nominations Committee deals with new appointments to the Board.

All material matters were reported to the Board of Directors which met six times during the year.

Going Concern

After making enquiries the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Policy and practice on the payment of creditors

It is the Group's policy to pay its creditors in accordance with the individual supplier's policy which is normally after having taken up to 30 days credit from each supplier. Trade creditor days for the Group at 31 December 2009 were 28 days (2008: 7 days).

Post balance sheet events

These are detailed in note 38 to the consolidated financial statements.

Charitable and political contributions

During the year, no charitable or political contributions were made.

Directors' Report continued

for the year ended 31 December 2009

Substantial shareholders

The Company is aware that the following shareholders had holdings of 5% or more of the issued ordinary shares of the Company on 1 April 2010:

	% of issued share capital
BML Limited	19.2%
Schroder Investment Management Limited	10.3%
Eton Park Capital Management LLC	9.7%
Lansdowne Partners Limited	9.0%
Angelo Gordon and Co	8.7%
Midas Capital Partners Limited	8.4%
Lynchwood Nominees Limited	8.0%
Kleinwort Benson Private Bank Limited	5.4%

Financial instruments – risk management

Details of the financial risk management objectives and policies of the Company and its subsidiaries are contained in note 31 to the consolidated financial statements.

Directors

The Directors of the Company at the end of the year and their beneficial interests in the ordinary share capital of the Company at the year end and as at the date of this report were as follows:

	Number of ordinary Shares 2009	Number of ordinary Shares 2008
Andrew Bonamour ¹	16,077,993	6,070,891
Julian Treger ²	2,491,570	1,364,075
John Mills	761,328	1,100,000
Wolfgang Baertz	150,000	100,000
Marcel Ernzer	—	—

Notes:

1 These shares are held by BML Limited and funds associated with Andrew Bonamour.

2 These shares are held by funds associated with Julian Treger and his family and also by E2Investors Limited, a company that is ultimately owned by discretionary trusts of which Julian Treger is a potential beneficiary.

No Director has options to purchase shares in the Company.

No Director has any direct interest in the shares of any of the subsidiary companies. Qualifying professional liability insurance for the benefit of the directors was in force during the financial year and at the date of this report.

Biographical details of all current Directors are to be found on page 12.

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The

Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

BDO LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

The Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

By order of the Board

Andrew Bonamour

1 April 2010

Directorate

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.

Andrew David Bonamour (Non-executive Director)

Andrew Bonamour was the founder of Blackstar Group Plc and is the executive chairman of Blackstar Group (Pty) Limited. Andrew previously worked at Brait S.A. Limited where he held positions in Investment Banking, principal investment divisions and Corporate Finance. At Brait, Andrew originated and played a lead role in a variety of transactions ranging from leveraged buyouts, mergers and acquisitions, capital replacements and restructurings. Andrew has an in depth knowledge of and experience in corporate finance, private equity and investment banking. Andrew holds a Bachelor of Commerce degree. Andrew is also a director of several companies both listed and unlisted.

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).

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. Over the previous years he was a director of several financial services companies including Corporate Management Services owned by Commercial Union, EEK Invest owned by Evangelische Kreditgenossenschaft, Piac owned by RZB Austria, UKB owned by Kokusai Securities and Witherthur Financial Services owned by Winterthur. He was also a director of several investment funds and was until 1998 serving on the board of ALFI, the Association of the Luxembourg Fund Industry.

Julian André Treger (Non-executive Director)

Julian Treger has been involved in the corporate finance and securities investment business since graduating from Harvard College (Magna Cum Laude) in 1984. After starting at Hambros Bank in corporate finance (M&A division), he attended Harvard Business School, thereafter he joined the J Rothschild Group to manage a portfolio of venture capital investments in both the UK and abroad and in providing corporate finance services to clients. In 1993, together with Brian Myerson, he founded Active Value Advisors. Julian is a principal advisor to Audley Capital in London, an onshore advisory business to a hedge fund and a private equity fund, whilst he continues to serve a number of other directorships.

Independent auditor's report

Independent auditor's report to the shareholders of Blackstar Group Plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Blackstar Group Plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Statements of changes in equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Cash Flow Statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent 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 statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

James Roberts

For and on behalf of BDO LLP, statutory auditor

Gatwick

United Kingdom

1 April 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement

for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Revenue	4	154,206	—
Cost of sales			
Cost of sales		(128,859)	—
Write-down of inventories to net realisable value		(3,742)	—
		(132,601)	—
Gross profit		21,605	—
Sales and distribution costs		(5,374)	—
Administrative expenses – Industrial businesses			
Administrative expenses		(16,611)	—
Impairment of goodwill	14	(3,883)	—
		(20,494)	—
Other income – Industrial businesses	4	308	—
Operating loss before net investment income/(loss)		(3,955)	—
Net investment income/(loss)			
Net gains/(losses) on investments	5	2,659	(13,715)
Fees, dividends and interest from loans, receivables and investments	6	3,923	7,139
		6,582	(6,576)
Administrative expenses – Investments			
Administrative expenses – Performance fee		243	1,467
Administrative expenses – Other		(3,540)	(2,824)
		(3,297)	(1,357)
Loss from operations	7	(670)	(7,933)
Finance income	10	470	864
Finance costs	10	(5,256)	(722)
Loss before taxation		(5,456)	(7,791)
Taxation	11	1,722	(36)
Loss for the year		(3,734)	(7,827)
Attributable to:			
Equity holders of the parent		(2,547)	(7,827)
Non controlling interests		(1,187)	—
		(3,734)	(7,827)
Basic and diluted losses per ordinary share attributable to equity holders continuing operations in pence	12	(3.33)	(10.34)

The notes on pages 19 to 72 form part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2009

	2009 £'000	2008 £'000
Loss for the year	(3,734)	(7,827)
Other comprehensive income:		
Currency translation differences on investments and Rand denominated assets and liabilities	5,787	651
Currency translation differences on translation of foreign subsidiaries	1,699	—
Income tax relating to components of other comprehensive income	—	—
Net comprehensive income recognised directly in equity	7,486	651
Total comprehensive income/(loss) for the year	3,752	(7,176)
Attributable to:		
Equity holders of the parent	5,182	(7,176)
Non controlling interests	(1,430)	—
	3,752	(7,176)

The notes on pages 19 to 72 form part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Treasury shares £'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 2007	78,465	775	11,754	(2,980)	11,121	1,214	100,349	—	100,349
Total comprehensive (loss)/ income for the year	—	—	—	—	(7,827)	651	(7,176)	—	(7,176)
Cancellation of ordinary shares	(2,800)	2,800	—	2,980	(2,980)	—	—	—	—
Dissolution of Illuminator Holdings Limited	—	—	(11,754)	—	11,754	—	—	—	—
Balance at 31 December 2008	75,665	3,575	—	—	12,068	1,865	93,173	—	93,173
Total comprehensive (loss)/ income for the year	—	—	—	—	(2,547)	7,729	5,182	(1,430)	3,752
Charge for share based payment Arising on acquisition of subsidiaries	—	—	—	—	97	—	97	36	133
Reduction in non controlling interests arising on acquisition of additional interest in subsidiary (refer note 30)	—	—	—	—	—	—	—	(619)	(619)
Additional non controlling interests arising on disposal of interest in subsidiary (refer note 30)	—	—	—	—	222	—	222	38	260
Buy-back of ordinary shares	(7,405)	2,405	—	—	(770)	—	(5,770)	—	(5,770)
Capital re-organisation	(24,176)	24,176	—	—	—	—	—	—	—
Issue of ordinary shares	8,939	—	—	—	—	—	8,939	—	8,939
Balance at 31 December 2009	53,023	30,156	—	—	8,976	9,594	101,749	(1,994)	99,755

No dividends were declared in any of the years presented above.

The notes on pages 19 to 72 form part of the consolidated financial statements.

Consolidated balance sheet

as at 31 December 2009

	Notes	2009 £'000	2008 £'000
Non-current assets			
Property, plant and equipment	13	19,259	—
Goodwill	14	26,772	—
Intangible assets	15	14,566	—
Investments classified as loans and receivables	16	975	36,371
Investments at fair value through profit and loss	17	10,802	23,328
Deferred tax assets	25	882	—
		73,256	59,699
Current assets			
Investments classified as loans and receivables	16	22,126	13,812
Investments at fair value through profit and loss	17	2,680	9,839
Other financial assets	18	307	—
Current tax assets		469	—
Trade and other receivables	19	24,374	626
Inventories	20	31,928	—
Cash and cash equivalents	21	17,521	17,831
		99,405	42,108
Total assets		172,661	101,807
Non-current liabilities			
Borrowings	22	(17,412)	—
Other financial liabilities	23	(3,726)	—
Provisions	24	(54)	(404)
Deferred tax liabilities	25	(4,272)	—
		(25,464)	(404)
Current liabilities			
Borrowings	22	(7,262)	(8,049)
Other financial liabilities	23	(22,946)	—
Provisions	24	(84)	—
Current tax liabilities		(1,134)	—
Trade and other payables	26	(15,814)	(181)
Bank overdrafts	21	(202)	—
		(47,442)	(8,230)
Total liabilities		(72,906)	(8,634)
Total net assets		99,755	93,173
Equity			
Share capital	27	53,023	75,665
Capital redemption reserve	27	30,156	3,575
Foreign currency translation reserve	27	9,594	1,865
Retained earnings	27	8,976	12,068
Total equity attributable to equity holders		101,749	93,173
Non controlling interest		(1,994)	—
Total equity		99,755	93,173
Net asset value per share (in pence)	28	129	123

The consolidated financial statements were approved by the Board and authorised for issue on 1 April 2010.

Andrew Bonamour

Director

The notes on pages 19 to 72 form part of the consolidated financial statements.

Consolidated cash flow statement

for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Cash flow from operating activities			
Cash generated/(absorbed) by operations	29	11,607	(7,775)
Interest received		2,824	1,253
Interest paid		(3,804)	(100)
Dividends received		674	264
Taxation paid		(745)	(73)
Cash generated/(absorbed) by operating activities		10,556	(6,431)
Cash flow from investing activities			
Purchase of property, plant and equipment		(1,728)	—
Additions to investments classified as loans and receivables		(1,103)	(6,569)
Purchase of investments at fair value through profit or loss		(542)	(3,575)
Acquisition of subsidiaries	30	(24,069)	—
Proceeds from disposal of property, plant and equipment		38	—
Proceeds from disposal of investments		27,215	16,195
Cash (absorbed)/generated by investing activities		(189)	6,051
Cash flow from financing activities			
Proceeds from borrowings		—	9,906
Repayment of borrowings		(11,108)	(3,329)
Movement in other financial liabilities (including short-term funding facilities)		(2,064)	—
Buy-back of ordinary shares		(5,770)	—
Issue of shares		8,939	—
Cash (absorbed)/generated by financing activities		(10,003)	6,577
Net increase in cash and cash equivalents		364	6,197
Cash and cash equivalents at the beginning of the year		17,831	10,295
Exchange (losses)/gains on cash and cash equivalents		(876)	1,339
Cash and cash equivalents at the end of the year	21	17,319	17,831

The notes on pages 19 to 72 form part of the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2009

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements have been consistently applied across all periods presented in the consolidated financial statements, except as noted in the paragraphs below which address instances where there has been a revision to an existing standard or a new standard has been issued and adopted by the Group during the current reporting period. All financial information has been rounded to the nearest thousand unless stated otherwise.

These consolidated financial statements of the Company and its subsidiaries (the "Group") 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.

During the current period, the Group elected to early adopt the revisions to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009) and consequential amendments to IAS 27 Consolidated and Separate Financial Statements with effect from 1 January 2009. The revisions have been applied prospectively from the first business combination that occurred during the year ended 31 December 2009. Further details of the changes arising as a result of adopting these statements are provided in note 1.2 below.

IFRS 8 Operating Segments (effective for period beginning on or after 1 January 2009) replaces IAS 14 Segmental reporting. Further details are provided in note 1.19 below.

The Group has adopted the revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

As permitted under the revised IAS 1, the Group has elected to present two statements comprising the income statement and separate statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

The Group has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7) effective for the year ending 31 December 2009. This amendment requires enhanced disclosures about fair value measurements and liquidity risk which have been provided in note 31. The Amendment does not change the recognition or measurements of transactions and balances in the financial statements.

The accounting policies that the Group applied in the presentation of the financial statements are set out below and have been consistently applied.

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

1. Accounting policies (continued)

1.2 Basis of consolidation (continued)

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, which 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.

The significant changes arising as a result of the revisions to IFRS 3 and amendments to relating standards, relevant to the Group's business combinations taking place during the current reporting period are detailed below:

- There is a choice on an acquisition-by-acquisition basis to measure the non controlling interest in the acquiree either at fair value or as its proportionate interest in the identifiable net assets of the acquiree. In the case of the acquisitions occurring in the current financial period, the Group has elected to measure non controlling interests at its proportionate interest in the identifiable net assets of the acquiree;
- Acquisition related costs are expensed as incurred;
- In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss;
- Total comprehensive income is attributed to the owners of the parent and non controlling interests even if this results in the non controlling interests having a deficit balance; and
- The acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

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.

1. Accounting policies (continued)

1.4 Property, plant and equipment (continued)

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.

Borrowings 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 and their fair values can be measured reliably. 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

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

1. Accounting policies (continued)

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 net selling price 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 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. Accounting policies (continued)

1.9 Financial instruments (continued)

1.9.1 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 – An associate is an entity over which the Group has 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. Investments in associates that are held as part of the Group's investment portfolio are carried at fair value even though the Group may have significant influence over those companies. 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.

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

1. Accounting policies (continued)

1.9 Financial instruments (continued)

1.9.1 Financial assets (continued)

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.

1.9.2 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. Accounting policies (continued)

1.10 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.

1.11 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.

1.12 Employee benefits

1.12.1 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.

1.12.2 Retirement benefits

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

1.13 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 the share based payment reserve.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

1. Accounting policies (continued)

1.14 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.

1.15 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.

1.16 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).

1. Accounting policies (continued)

1.16 Tax (continued)

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.

1.17 Translation of foreign currencies

The functional currency of Blackstar Group Plc 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.

1.18 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.

1.19 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.

1.20 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

1. Accounting policies (continued)

1.20 Significant judgements and areas of estimation (continued)

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:

1.20.1 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.

1.20.2 Asset lives and residual values

(Refer note 13).

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.

1.20.3 Impairment of assets

(Refer note 13, 14 and 15).

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. Refer note 14 for further details of impairment testing performed.

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. Determination of fair values (continued)

2.1 Determination of fair values arising on business combinations

2.1.1 Property, plant and equipment

Business combination is 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 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) On an earnings multiple basis involving the application of an earnings multiple to the earnings of the portfolio company, in which case:
 - The appropriate earnings of the portfolio company have been based on the latest audited account, more recent management accounts or forecast numbers, whichever indicate a maintainable result; and
 - The appropriate market multiple has been based on either comparable companies or industry sector multiples taken from the relevant stock exchange; and
 - The appropriate marketability discount has been applied to the enterprise value. This is to adjust for factors such as lack of marketability and country risk.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

2. Determination of fair values (continued)

2.2 Determination of fair values arising on balances carried or disclosed at fair value (continued)

2.2.1 Investments (continued)

- Enterprise value is apportioned to the enterprise's financial instruments in order of ranking. 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

Other than those adopted early as explained in note 1.1, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, 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:

Standards and Interpretations	Effective date
Improvements to IFRSs (2009)*	1 January 2010
Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)*	1 January 2010
Classification of Rights Issues (Amendment to IAS 32)	1 February 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*	1 April 2010
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

* These standards and interpretations are not endorsed by the EU at present.

The improvements in the Amendment Improvements to IFRSs clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The Group is in the process of determining the impact of this amendment, however it is not believed to be material.

Under the revised IAS 24 Related Parties Disclosure, the structure of definition of a related party has been simplified and inconsistencies eliminated. This may result in additional related parties for which disclosures will be required.

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.

4. Revenue and other income

Revenue of £154,206,000 arises from the sale of goods.

Other income of £308,000 arises on royalty fee income, sale of scrap, bad debt recoveries and other sundry income earned.

5. Net gains/(losses) on investments

	2009 £'000	2008 £'000
Net gains/(losses) on investments classified as loans and receivables	1,590	(173)
Reversal of impairments/(impairments) on investments classified as loans and receivables	4,069	(4,152)
Net losses on investments held at fair value through profit and loss	(2,792)	(9,390)
Loss on derivative in a designated fair value hedge relationship (refer note 31.7)	(208)	—
Net gains/(losses) on investments	2,659	(13,715)

6. Fees, dividends and interest from loans and investments

	2009 £'000	2008 £'000
Dividends from unimpaired investments classified as loans and receivables	2,312	1,582
Dividends from impaired investments classified as loans and receivables	466	2,343
Dividends from investments at fair value through profit and loss	—	214
Interest income from unimpaired investments classified as loans and receivables	1,009	2,764
Fee income	136	236
	3,923	7,139

7. Loss from operations

	2009 £'000	2008 £'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	75	40
– Other services pursuant to legislation	—	27
– Other services	12	3
– Paid to Associates of BDO LLP for audit of subsidiaries	55	—
	142	70
Staff costs		
Wages and salaries	15,612	—
Social security costs	403	—
Pension costs	1,176	—
	17,191	—
Impairment losses/(reversal of impairment losses) arising on financial assets:		
Trade receivables (raised via provision for impairment)	89	—
Investments	(4,069)	4,152
	(3,980)	4,152
Foreign exchange losses/(gains)		
Realised		
– On forward exchange contracts	204	—
– Other	(5,119)	—
	(4,915)	—
Unrealised		
– On forward exchange contracts	(4)	—
	(4,919)	—
Operating lease expense	2,131	—

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

8. Employees

The average number of employees (excluding Blackstar Group Plc Directors) during the year by function were as follows:

	2009	2008
Managerial	79	—
Administrative	242	—
Operational	919	—
	1,240	—

9. Directors' remuneration

Total directors' remuneration for the Group for the year ended 31 December 2009 was £522,000 (2008: £166,000). Fees for the current year include salaries earned by a director who is also an employee of one of the Group's subsidiaries. The highest paid director earned fees of £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 Plc held any share options and no options were granted or exercised in the year (2008: nil).

10. Net finance charges

	2009 £'000	2008 £'000
Finance income		
Interest income on bank balances	443	—
Interest income on trade receivables	5	864
Gain on derivative in a designated hedge accounting relationship (refer note 31.7)	22	—
	470	864
Finance costs		
Interest expense on bank overdrafts	(249)	—
Interest expense on borrowings from banks	(2,804)	(722)
Interest expense on non controlling shareholder loans	(343)	—
Interest expense on capitalised financial leases and instalment sale agreements	(30)	—
Interest expense on inventory financing facilities	(837)	—
Interest expense on invoice discounting agreement	(807)	—
Interest expense on other financial liabilities	(20)	—
Loss on derivative in a designated hedge accounting relationship (refer note 31.7)	(166)	—
	(5,256)	(722)
	(4,786)	142

11. Taxation

	2009 £'000	2008 £'000
Current taxation		
Current year	987	—
Prior years	(76)	36
	911	36
Deferred taxation		
Current year	(2,679)	—
Net Wealth tax	46	—
	(1,722)	36

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% (2008: 29.63%) are as follows:

	2009 £'000	2008 £'000
Loss before taxation	(5,456)	(7,791)
Tax at standard rate of corporate tax in Luxembourg	(1,560)	(2,308)
Income and expenses not subject to tax	(2,248)	1,180
Tax losses unutilised	2,116	1,128
(Under)/over provision from prior years	(76)	36
Net Wealth tax	46	—
Current tax charge for the year	(1,722)	36

12. Basic and diluted earnings per share

	2009 £'000	2008 £'000
Loss attributable to equity holders	(2,547)	(7,827)
Weighted average number of shares in issue (thousands)	76,454	75,665
Basic and diluted losses per share (in pence)	(3.33)	(10.34)

13. Property, plant and equipment

	2009 £'000	2008 £'000
Cost		
Land and buildings	3,698	—
Plant and machinery	16,544	—
Vehicles	519	—
Office furniture, fixtures and equipment	1,515	—
Capital work in progress	1,074	—
	23,350	—
Accumulated depreciation		
Land and buildings	(28)	—
Plant and machinery	(3,524)	—
Vehicles	(177)	—
Office furniture, fixtures and equipment	(362)	—
Capital work in progress	—	—
	(4,091)	—
Carrying amount	19,259	—

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

13. Property, plant and equipment (continued)

2009	Land and buildings £'000	Plant and machinery £'000	Vehicles £'000	Office furniture, fixtures and equipment £'000	Capital work in progress £'000	Total £'000
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	3,670	13,020	342	1,153	1,074	19,259

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 2009.

14. Goodwill

	2009 £'000	2008 £'000
Cost	30,655	—
Accumulated impairment losses	(3,883)	—
Carrying amount	26,772	—
	2009 £'000	2008 £'000
Carrying amount at the beginning of the year	—	—
Arising on acquisition of Ferro Industrial Products (Pty) Limited ("Ferro") (refer note 30)	2,949	—
Arising on acquisition of Kulungile Metals Group (Pty) Limited ("KMG") (refer note 30)	9,353	—
Arising on acquisition of Blackstar Group (Pty) Limited ("Blackstar SA", previously Blackstar Fund Managers (Pty) Limited) and internalisation of investment advisory arrangements (refer note 30)	14,882	—
Arising on other acquisitions made by subsidiary of KMG (refer note 30)	700	—
Impairment arising on goodwill in respect of KMG	(3,883)	—
Currency exchange gains during the year	2,771	—
Carrying amount at the end of the year	26,772	—

14.1 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, within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 39.

14. Goodwill (continued)

14.1 Impairment testing (continued)

The aggregate carrying amounts of goodwill as at 31 December 2009 allocated to each cash generating unit are as follows:

	Carrying amount prior to impairment £'000	Impairment £'000	Carrying amount net of impairment £'000
Investment activities segment			
CGU 1	14,882	—	14,882
Industrial chemicals segment (Ferro)			
CGU 1	935	—	935
CGU 2	710	—	710
CGU 3	1,895	—	1,895
	3,540	—	3,540
Industrial metals segment (KMG)			
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
	30,655	(3,882)	26,772

Impairment testing for Investment activities segment

As part of the internalisation of Blackstar's investment advisory arrangements, 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 agreements.

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 year end, a growth rate of 15% and a discount rate of 12% for a five year period (being the remaining term of the investment advisory agreement which was terminated following the internalisation). The recoverable amount exceeded the carrying amount and therefore no impairment was recognised.

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 2010. Cash flows for a further four years ending 31 December 2014 were determined by applying revenue and expense growth rates and margins to the 31 December 2010 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 cash flows were extrapolated for a further five years using a long term growth rate to perpetuity which does not exceed the long-term average growth rate for the industries and countries in which they operate.

The weighted average cost of capitals, used to determine the recoverable amounts for each cash generating unit within the Industrial chemicals and Industrial metals segments ranged between 12% and 13% 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

14. Goodwill (continued)

14.1 Impairment testing (continued)

An impairment loss of £3,883,000 was recognised at 31 December 2009 as the carrying amount of goodwill for CGU's 1, 2 and 3 within the Industrial metals segment exceeded their recoverable amounts. These cash generating units process and distribute carbon steel, aluminium and stainless steel and were negatively impacted by the financial crisis, which resulted in steel prices declining whilst inventory levels were building up and demand was slowing at a fast rate. Although steel prices have stabilised, the South African steel markets have still not recovered and volumes remain low, resulting in a lower recoverable amount for these particular cash generating units and the recognition of an impairment of goodwill.

The Group has two cash generating units, where the carrying amount of goodwill is significant in comparison to the Group's total carrying amount of goodwill, namely CGU 1 within the Investment activities segment and CGU 2 within the Industrial metals segment.

For CGU 1 within the Investment activities segment, the growth rate would need to decrease by 0.52% in order for the recoverable amount to equal the carrying amount of goodwill attributable to this unit. The discount rate would need to increase by 1.06% in order for the recoverable amount to equal the carrying amount of goodwill attributable to this unit.

Since the goodwill for CGU 2 within the Industrial metals segment has been impaired, the recoverable amount is equal to the carrying amount.

15. Intangible assets

	2009 £'000	2008 £'000
Cost		
Marketing related intangibles (brands)	5,948	—
Customer related intangibles	7,358	—
Technology related intangibles	1,237	—
Registered trademarks	1,272	—
	15,815	—
Accumulated amortisation		
Marketing related intangibles (brands)	(416)	—
Customer related intangibles	(707)	—
Technology related intangibles	(62)	—
Registered trademarks	(64)	—
	(1,249)	—
Carrying amount	14,566	—

2009	Marketing related intangibles (brands) £'000	Customer related intangibles £'000	Technology related intangibles £'000	Registered trademarks £'000	Total £'000
Carrying amount at the beginning of the year	—	—	—	—	—
Additions	—	—	—	—	—
Disposals	—	—	—	—	—
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	5,532	6,651	1,175	1,208	14,566

The amortisation is included in the line item "Administrative expenses – Industrial businesses" in the income statement.

There are no individually material intangible assets requiring separate disclosure as at 31 December 2009 and there were no impairments recorded during the reporting period.

16. Investments classified as loans and receivables

	2009 £'000	2008 £'000
Book cost at the beginning of the year	43,821	38,200
Additions during the year at cost	1,363	6,569
Disposals during the year at cost	(11,901)	(948)
Other movements	(18,895)	—
Book cost at the end of the year	14,388	43,821

	2009 £'000	2008 £'000
Carrying value at the beginning of the year	50,183	41,998
Additions during the year at cost	1,363	6,569
Disposals during the year at cost	(11,901)	(948)
Dividends relinquished on disposals	—	(90)
Net dividends accrued during the year	2,104	3,875
Net interest (received)/accrued during the year	(1,345)	2,375
Reversal of impairments/(impairments) during the year	4,069	(4,152)
Currency exchange gains during the year	37	556
Other movements	(21,409)	—
Carrying value at the end of the year	23,101	50,183

Other movements represent balances that now eliminate on consolidation as a result of the acquisition of KMG (refer note 30).

	2009 £'000	2008 £'000
Non-current portion	975	36,371
Current portion	22,126	13,812
	23,101	50,183

Analysis of gains/(losses) on investments

	2009 £'000	2008 £'000
Proceeds on disposals during the year	13,491	865
Investments at cost	(11,901)	(948)
Realised gains/(losses) on disposals based on historical cost	1,590	(83)
Less dividends relinquished on disposals from prior years	—	(71)
Realised gains/(losses) recognised in the income statement on disposals based on carrying value at prior year balance sheet date	1,590	(154)
Less dividends relinquished on disposals from the current year	—	(19)
Realised gains/(losses) recognised in the income statement on disposals based on carrying value at disposal date	1,590	(173)
Reversal of impairments/(impairments) during the year	4,069	(4,152)
Net gains/(losses) on investments	5,659	(4,325)

Refer note 31 Financial instruments for further details on the impairment of investments classified as loans and receivables.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

16. Investments classified as loans and receivables (continued)

The Group does not have a controlling interest in any of the investments classified as loans and receivables, which comprise the following:

	Carrying value 2009 £'000	Carrying value 2008 £'000
Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Myriad Medical Holdings Limited. Dividends are payable at South African Prime rate plus 1.5% nominal annual compounded monthly and the shares are redeemable in 2010.	3,403	1,917
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 are redeemable in 2010.	18,721	11,662
Loan to a special purpose vehicle established to acquire an interest in DCD-Dorbyl (Pty) Limited. The loan bears interest at South African Prime rate less 25 basis points per annum, nominal annual compounded semi-annually and has been repaid.	—	6,197
Cumulative redeemable class A preference shares in Kulungile Metals Group (Pty) Limited. Dividends are payable at 90% of South African Prime rate nominal annual compounded semi-annually and the shares are redeemable in 2013.	—	3,353
Cumulative redeemable class B preference shares in Kulungile Metals Group (Pty) Limited. Dividends are payable at 90% of South African Prime rate nominal annual compounded semi-annually and the shares are redeemable in 2010.	—	9,308
Loan to Kulungile Metals Group (Pty) Limited. The loan bears interest at 90% of South African Prime rate nominal annual compounded semi-annually and is repayable in 2013.	—	10,058
Loan to Credit U Holdings Limited. The loan bears interest at South African Prime rate plus 200 basis points per annum, nominal annual compounded monthly and has been repaid.	—	7,615
Loan to Adreach (Pty) Limited. The loan bears interest at South African Prime rate plus 2% nominal annual compounded monthly and is repayable in 2011.	212	73
Loan to Navigare Securities (Pty) Limited. The loan bears interest at 75% of South African Prime rate nominal annual compounded monthly and is repayable in 2014.	495	—
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.	270	—
Carrying value at the end of the year	23,101	50,183

Refer note 31 Financial instruments for further disclosure.

For details of investments pledged as security refer note 22 Borrowings and note 23 Other financial liabilities.

17. Investments at fair value through profit and loss

	2009 £'000	2008 £'000
Book cost at the beginning of the year	22,900	27,387
Additions during the year at cost	542	3,575
On acquisition of subsidiaries (note 30)	707	—
Disposals during the year at cost	(12,293)	(8,062)
Book cost at the end of the year	11,856	22,900
	2009 £'000	2008 £'000
Fair value at the beginning of the year	33,167	54,706
Additions during the year at cost	542	3,575
On acquisition of subsidiaries (note 30)	707	—
Disposals during the year at cost	(12,293)	(8,062)
Unrealised gains recognised in prior years on disposals	(8,205)	(8,503)
Unrealised gains/(losses) during the year	3,982	(8,155)
Currency exchange gains/(losses) during the year	725	(394)
Other movements	(5,143)	—
Fair value at the end of the year	13,482	33,167

Other movements 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 Organisation Limited (refer note 30).

	2009 £'000	2008 £'000
Non-current portion	10,802	23,328
Current portion	2,680	9,839
	13,482	33,167

Analysis of (losses)/gains on investments

	2009 £'000	2008 £'000
Proceeds on disposals during the year	13,724	15,330
Investments at cost	(12,293)	(8,062)
Realised gains on disposals based on historical cost	1,431	7,268
Less unrealised gains on disposals recognised in prior years	(8,205)	(8,503)
Realised losses recognised in the income statement on disposals based on carrying value at prior year balance sheet date	(6,774)	(1,235)
Unrealised gains/(losses) during the year	3,982	(8,155)
Net losses on investments	(2,792)	(9,390)

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

17. Investments at fair value through profit and loss (continued)

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 2009 £'000	Fair value 2008 £'000
Derivative investment in a telecom company, which gives the Group exposure to a minority interest in the underlying telecom company.	1,002	725
Derivative investment in a services company, which gives the Group exposure to a minority interest in the underlying services company.	5,744	3,666
Ordinary shares in Myriad Medical Holdings Limited. *	2,294	1,033
Ordinary shares in York Timber Organisation Limited.	—	9,488
Preference shares in a special purpose vehicle established to facilitate a York staff trust to acquire an interest in York Timber Organisation Limited, in which the Group participates. The shares are redeemable in 2011.	—	598
Preference shares in a special purpose vehicle established to facilitate a community trust to acquire an interest in York Timber Organisation Limited, in which the Group participates. The shares are redeemable in 2011.	—	957
Convertible, non-redeemable, cumulative preference shares in York Timber Organisation Limited.	686	—
Option to subscribe for "N" preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited. The "N" preference shares will have an economic interest in the special purpose vehicle and are redeemable in 2014.	1,678	1,093
Ordinary shares in a special purpose vehicle established to acquire an interest in DCD-Dorbyl (Pty) Limited.	—	7,652
Ordinary shares in Kulungile Metals Group (Pty) Limited.	—	3,995
Ordinary shares in Adreach (Pty) Limited.	1,846	1,749
Ordinary shares in Blue Financial Services Limited.	—	24
Amount receivable from Claim Your Share Investments (Pty) Limited, a wholly owned subsidiary of Metier Investment and Advisory Services (Pty) Limited ("Metier"), in terms of an agency agreement, whereby the Company acquired 26% of the ordinary shares in Kulungile Metals Group (Pty) Limited as agent on behalf of Metier. #	—	2,187
Ordinary shares in Navigare Securities (Pty) Limited.	134	—
Ordinary shares in A.B.E Construction Chemicals Limited.	98	—
Fair value at the end of the year	13,482	33,167

* The Company has provided security to a bank over its ordinary shares in Myriad Medical Holdings Limited.

The ordinary shares in Kulungile Metals Group (Pty) Limited are not the property of the Company and the Company has no beneficial right or interest in these shares and cannot deal with these shares or with any rights or benefits attaching thereto except on and pursuant to instructions given to it by Metier. In addition, the Company granted to Metier, the right to sell the beneficial ownership of these shares in whole or in part to the Company or its nominee. In February 2009, Metier exercised its right to sell the beneficial ownership of the shares to the Company and KMG became a subsidiary of the Company (refer note 30).

Refer note 31 Financial instruments for further disclosure.

18. Other financial assets

	2009 £'000	2008 £'000
<i>Derivatives designated and effective as hedging instruments carried at fair value</i>		
Forward exchange contracts ("FECs")	62	—
Currency option accounted for as a derivative in an effective hedging relationship (refer note 31.7)	245	—
	307	—
Non-current portion	—	—
Current portion	307	—
	307	—

Refer note 31 Financial instruments for further disclosure.

19. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	23,079	—
Impairment allowance	(630)	—
	22,449	—
Prepayments and accrued income	446	626
Other receivables	1,479	—
	24,374	626

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 on trade receivables and the impairment allowance account.

20. Inventories

	2009 £'000	2008 £'000
Finished goods	24,451	—
Work in progress	311	—
Raw materials	7,163	—
Consumables	3	—
	31,928	—

The cost of inventories recognised as an expense amounts to £128,859,000 and has been reflected as cost of sales on the face of the income statement. This amount excludes £3,742,000 (2008: nil) in respect of write-downs of inventory to net realisable value. This write-down arose on KMG's inventories as a result of the steel market in South Africa experiencing a fast decline in demand after a particularly busy period which had resulted in inventory levels being built up (refer to the Directors' Statement for further explanation). There have been no reversals of inventory write-downs (2008: nil). A provision for obsolescence is raised for specific items identified as slow moving.

For details of inventories pledged as security refer note 22 Borrowings and note 23 Other financial liabilities.

21. Cash and cash equivalents

	2009 £'000	2008 £'000
Deposits and cash at bank	17,521	17,831
Bank overdrafts	(202)	—
Cash and cash equivalents per the cash flow statement	17,319	17,831

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

21. Cash and cash equivalents (continued)

£2.5 million is held by a bank in respect of the mandatory offer to Myriad Medical Holdings Limited ("Myriad") shareholders and cannot be transferred or withdrawn without the consent of Myriad. Subsequent to year end this restriction was lifted and the amount of £2.5 million was released (refer note 38 for further details). South African subsidiaries' cash and cash equivalents of £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 (being Blackstar Group Plc, Blackstar (Cyprus) Investors Limited and Blackstar (Gibraltar) Limited) amounted to £13,387,000 at year end.

For details of cash and cash equivalents pledged as security refer note 22 Borrowings and note 23 Other financial liabilities.

22. Borrowings

Borrowings comprise the following:

	2009 £'000	2008 £'000
Unsecured		
Comprises two Rand denominated, unsecured, non controlling shareholder loans. The one loan bears interest at 90% of the South African Prime rate nominal annual compounded semi-annually and is repayable in a bullet payment in 2013. The other loan bears interest at South African Prime rate plus 300 basis points and has no fixed terms of repayment.	2,434	—
Comprises Rand denominated, unsecured A preference shares in KMG held by non controlling shareholders. Dividends are payable at 90% of South African Prime rate nominal annual compounded semi-annually and the shares are redeemable in 2013.	135	—
Secured		
Other Rand denominated, secured loans bearing interest at variable amounts ranging from South African Prime rate plus 300 basis points to Johannesburg Interbank Accepted rate (Jibar) plus 350 to 500 basis points. Repayment terms range from quarterly payments of capital and interest to quarterly payments of interest only with the capital portions being payable on or before dates ranging between 2011 and 2013. +	12,982	—
Rand denominated, secured loan bearing interest at a fixed rate of 12.07% per annum, repayable in quarterly instalments with the final instalment due in May 2014. #	9,123	—
Borrowings denominated in Rands and bearing interest at the Johannesburg Interbank Accepted rate plus 275 basis points, repayable in 2009 or earlier. *	—	8,049
	24,674	8,049

+ The Group's subsidiaries within the KMG group, have one agreement with a bank which covers the various facilities available and relating securities provided. The secured, long term loans amounting to £2,434,000 (included in borrowings note 22) and the revolving inventory financing facility amounting to £14,257,000 (included in other financial liabilities 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 31.4.4 together with the utilised and unutilised portions of the facilities.

Security for this loan held by a subsidiary has been provided for in the form of the following:

- first rank cession of all of the subsidiary's book debts (amounting to £3.5 million at year end),
- first rank cession of all insurance policies held by the subsidiary,
- first rank mortgage bond over the subsidiary's property for a fixed amount of R23 million (£1.9 million),
- first rank notarial bond over the subsidiary's moveable assets for a fixed sum R70 million (£5.9 million),
- first rank cession of all cash balances and deposits held by the subsidiary (amounting to £3.3 million at year end),
- first rank cession and pledge on all shareholders loan accounts and all shares held in the company

* Security for the loan was provided in the form of the Group's ordinary shares in York Timber Organisation Limited, its ordinary shares in Myriad Medical Holdings Limited, its loan to Credit U Holdings Limited and a bank account comprising £3.5 million.

22. Borrowings (continued)

	2009 £'000	2008 £'000
Non-current portion	17,412	—
Current portion	7,262	8,049
	24,674	8,049

None of the borrowings at 31 December were in default or breach.

Refer note 31 Financial instruments for further disclosure.

23. Other financial liabilities

Other financial liabilities comprise the following:

	2009 £'000	2008 £'000
Subsidiary companies entered into a Rand denominated revolving inventory financing facility agreements. The loans bear interest at South African Prime rate less 50 basis points, are repayable monthly in arrears and capital is repayable on a rolling unspecified period. +	14,257	—
Subsidiary companies entered into Rand denominated invoice discounting agreements. The loans bear interest at South African Prime rate less 50 basis points. @	8,192	—
Lease accrual arising as a result of lease payments under operating leases being recognised as an expense on a straight-line basis over the lease term.	2,394	—
A Euro denominated, asset purchase agreement which is interest free. Repayment is in the form of a levy calculated based on the tones manufactured, payable over the period 2007 to 2012. The assets in respect of this agreement with a carrying amount of £1.1 million (included in property plant and equipment refer note 13) are held as security.	639	—
Rand denominated financial leases and instalment sale agreements. Interest rates vary per finance lease from 150 to 200 basis points below South African Prime rate and some leases bear interest at a fixed rate of between 12% and 13.5%. Amounts are repayable in monthly instalments. Assets with a carrying value of £1.2 million (and included in property, plant and equipment refer note 13) are held as security.	783	—
<i>Derivatives designated and effective as hedging instruments carried at fair value</i>		
Forward exchange contracts ("FECs")	69	—
Interest rate swaps accounted for as derivatives in effective hedging relationships (refer note 31.7)	338	—
	26,672	—

+ The Group's subsidiaries within the KMG group, have one agreement with a bank which covers the various facilities available and relating securities provided. The secured long term loans amounting to £2,434,000 (included in borrowings note 22) and the revolving inventory financing facility amounting to £14,257,000 (included in other financial liabilities 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 31.4.4 together with the utilised and unutilised portions of the facilities.

@ The security for these facilities are as follows:

- First cession of the subsidiaries' receivables (amounting to £13.1 million at 31 December 2009),
- Cession of Credit Guarantee Insurance Company policies held by the subsidiaries,
- Discounting of the subsidiaries' invoices, with recourse, with 25% retention margin,
- Cession of the subsidiaries' bank accounts utilised for debtor receipts (nil balance as at 31 December 2009).

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

23. Other financial liabilities (continued)

	2009 £'000	2008 £'000
Non-current portion	3,726	—
Current portion	22,946	—
	26,672	—

None of the other financial liabilities at 31 December were in default or breach.

Refer note 31 Financial instruments for further disclosure.

24. Provisions

	2009 £'000	2008 £'000
Non-current portion	54	404
Current portion	84	—
	138	404

Provisions comprise the following:

Provision for performance fee

In prior years, a provision was raised for the performance fee payable by Blackstar Group Plc 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 on acquisition of Blackstar SA and the resulting internalisation of Blackstar's investment advisory arrangements on 26 June 2009 (refer note 30).

Provision for redundancies

A provision for redundancies has been raised by the Group. The provision has been calculated based on the average wages, working hours and length of service of employment and is expected to be incurred by March 2010.

Provision for decommissioning

A provision is raised for the estimated costs of dismantling and removing items and restoring the site on which they are located.

	Provision for performance fee £'000	Provision for redundancies £'000	Provision for decommissioning £'000	Total £'000
Balance at 1 January 2008	5,767	—	—	5,767
Created	(1,467)	—	—	(1,467)
Utilised	(3,896)	—	—	(3,896)
Currency exchange losses/(gains) during the year	—	—	—	—
Balance at 31 December 2008	404	—	—	404
Acquisition of businesses	—	34	451	485
Created	—	11	47	58
Utilised	(404)	—	(483)	(887)
Currency exchange losses during the year	—	9	69	78
Balance at 31 December 2009	—	54	84	138

25. Deferred taxation

Movement in net deferred taxation

	2009 £'000	2008 £'000
Net deferred tax liability at the beginning of the year	—	—
On acquisition of subsidiaries	(5,206)	—
Recognised in income statement	2,679	—
Recognised in statement of comprehensive income	—	—
Recognised directly in equity	—	—
Currency exchange losses during the year	(863)	—
Net deferred tax liability at the end of the year	(3,390)	—

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2009 are attributable to the following:

	Assets £'000	Liabilities £'000	Net £'000
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	882	(4,272)	(3,390)

Unrecognised deferred tax assets

The Group has unutilised cumulative losses and capitalised expenses of £7,403,000 (2008: £15,311,000) 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.

26. Trade and other payables

	2009 £'000	2008 £'000
Trade payables	11,718	57
Salary related accruals	1,655	—
Other payables and accrued expenses	2,441	124
	15,814	181

Refer note 31 Financial instruments for further disclosure.

27. Share capital and reserves

	2009 £'000	2008 £'000
Authorised		
150,000,000 ordinary shares of £0.67 each	100,500	—
150,000,000 ordinary shares of £1.00 each	—	150,000
Issued and fully paid		
79,138,688 ordinary shares of £0.67 each	53,023	—
75,664,998 ordinary shares of £1.00 each	—	75,665

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

27. Share capital and reserves (continued)

Movement of the ordinary shares of £1.00 each for the year	Number of shares	Number of shares
Total number of shares in issue at the beginning of the year	75,664,998	78,464,998
Buy-back and cancellation of shares	(2,405,488)	(2,800,000)
Capital re-organisation	(73,259,510)	—
Total number of shares in issue at the end of the year	—	75,664,998

Movement of the ordinary shares of £0.67 each for the year	Number of shares	Number of shares
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	79,138,688	—

Buyback and cancellation of shares

On 16 January 2009, the Company purchased 2,405,488 ordinary shares of nominal value £1.00 each in the share capital of the Company, further to the authority granted to the Company at the extraordinary general meeting of the Company held on 15 January 2009. The price paid for these ordinary shares was 32p per share and these shares were subsequently cancelled.

Capital Re-organisation

Following the general meeting held on 25 June 2009, the Company implemented a capital re-organisation, which involved (i) the subdivision of each existing ordinary share into 67 new 1p ordinary shares and 33 deferred shares; (ii) the purchase by the Company of the deferred shares; (iii) the cancellation of all the deferred shares bought back by the Company and the cancellation of all the unissued deferred shares; and (iv) the consolidation of every 67 new 1p ordinary shares into one new ordinary share.

Issue of new shares

Following the general meeting held on 25 June 2009, the Company raised £8,939,040 by the issue of 13,341,851 new ordinary shares at 67p per share on 26 June 2009.

Tender offer and cancellation of shares

On 29 June 2009, the Company purchased 7,462,673 ordinary shares of nominal value 67p each in the share capital of the Company, further to the authority granted to the Company at the general meeting of the Company held on 25 June 2009. The price paid for these ordinary shares was 67p per share and these shares were subsequently cancelled.

Capital redemption reserve

The capital redemption reserve arose due to transfers from retained earnings in accordance with relevant legislation and on the cancellation of ordinary and deferred shares and is not distributable.

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.

Special reserve

The special reserve arose due to the merger accounting in the consolidation of Illuminator Holdings Limited. This special reserve was transferred to retained earnings in the prior year on dissolution of Illuminator Holdings Limited in July 2008.

Retained earnings

Retained earnings comprise cumulative net gains and losses recognised in the consolidated income statement.

28. Net asset value per share

	2009 £'000	2008 £'000
Total net assets attributable to equity holders	101,749	93,173
Number of shares in issue (thousands)	79,139	75,665
Net asset value per share (pence)	129	123

29. Cash generated/(absorbed) by operations

	2009 £'000	2008 £'000
Loss before taxation	(5,456)	(7,791)
Adjustments for:		
Profit on disposal property, plant and equipment	(10)	—
Depreciation of property, plant and equipment	2,170	—
Amortisation of intangible assets	1,150	—
Impairment of goodwill	3,883	—
Unrealised losses on investments	154	12,307
Realised (gains)/losses on disposal of investments	(3,021)	1,408
Dividends and interest from loans and investments	(3,787)	(6,903)
Finance income	(470)	(864)
Finance costs	5,256	722
Share based payment expense	133	—
Decrease in provisions	(829)	(5,363)
Changes in working capital		
Decrease/(increase) in trade and other receivables	6,089	(157)
Decrease in inventory	14,242	—
Decrease in trade and other payables	(7,904)	(1,134)
Increase in lease accrual	267	—
Movement in other financial liabilities in respect of FECs and derivatives in a hedging relationship	(260)	—
	11,607	(7,775)

30. Acquisition of subsidiaries

During the year ended 31 December 2009, the Group made acquisitions as detailed below. These acquisitions are in line with its strategy of investing in a portfolio of industrial 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 occurring in the current financial year, the Group has elected to measure non controlling interests at its proportionate interest in the identifiable net assets of the acquiree.

The following acquisitions were made during the current reporting year:

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.

During the year from date of acquisition, Ferro contributed £29.5 million to revenue and a profit before taxation of £2.9 million. (Revenue and profit before taxation from 1 January 2009 to date of acquisition, being 21 January 2009, is considered not to be material).

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

30. Acquisition of subsidiaries (continued)

Acquisition of shares in Ferro Industrial Products (Pty) Limited ("Ferro") continued

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)
Total net identifiable assets	508	2,670	3,178
Non controlling interest's at proportionate share of the acquiree's identifiable net assets			(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
Goodwill arising on acquisition			2,949

Fair value adjustments include the following: Land and buildings were valued by an independent valuer and the valuation reflected a fair value which was £0.1 million less than the carrying value per the on-acquisition balance sheet; independent valuations were performed on the intangible assets within the business and as a result the balance sheet at fair value includes customer relationship intangible assets with a fair value of £4.3 million, marketing-related intangibles (brands) and registered trademarks amounting to £1.3 million, and technology-related intangibles of £1.0 million. Goodwill of £2.9 million arose as a result of the established workforce which is not separately recognised as well as the fact that the anticipated value of future cash flows that were taken into account to determine the purchase consideration exceeded the net identifiable assets at fair value.

The Group incurred acquisition-related costs of £65,000 on the initial acquisition of 56%. These costs have been included in administrative expenses in the Group's consolidated income statement.

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% were paid for in cash and the proceeds on disposal are included in investments classified as loans and receivables (refer note 16).

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) has been transferred to non controlling interests and the difference of £94,000 between the aforementioned amount and the purchase price has been credited 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 has been transferred to non controlling interests and the loss on disposal of £222,000 has been included in retained earnings (refer Consolidated statement of changes in equity).

30. Acquisition of subsidiaries (continued)

Acquisition of a controlling interest in Kulungile Metals Group (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, 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.

During the year from date of acquisition, KMG contributed £124.7 million to revenue and a loss of £7.1 million to profit before taxation. Had KMG been acquired at the beginning of the year, the company would have contributed £151.4 million to revenue and a loss of £10.9 million to profit before taxation.

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

An independent valuer assisted in identifying and valuing the intangible assets on date of acquisition. Intangible assets at fair value comprise marketing-related intangibles (brands) at a fair value of £4.6 million and customer relationship intangible assets with a fair value of £1.9 million. Goodwill of £9.4 million represents the present value of the anticipated future excess earnings as identified by management on acquisition of the entity as well as the value of the assembled workforce.

No further costs were incurred on the further acquisition of 25.5% share resulting in a controlling interest being held in KMG.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

30. Acquisition of subsidiaries (continued)

Acquisition of Blackstar Group (Pty) Limited ("Blackstar SA", previously Blackstar Fund Managers (Pty) Limited)

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.

During the year from date of acquisition, Blackstar SA contributed nil to revenue and a loss before taxation of £754,000. Had Blackstar SA been acquired at the beginning of the year, the company would have contributed nil to revenue and a loss before taxation of £946,000.

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

Goodwill of £14.9 million arose of which £12.1 million was as a result of the liabilities of Blackstar SA assumed on acquisition and the balance of £2.7 million is attributed to securing the services and the intellectual capital of the Blackstar SA team and the ability of the business to generate value for Blackstar.

The Group incurred acquisition-related costs of £501,000. These costs have been included in administrative expenses in the Group's consolidated income statement.

Other acquisitions

During the course of the year, 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 aluminum 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 aluminum products in Southern Africa. The second was the acquisition of 100% of the shares in Country Roofing (Pty) Ltd, (now called GRS Namibia), a roofing and steel stockist located in Namibia for a cash consideration of £635,000 and on which goodwill of £634,000 arose. GRS Namibia services Namibia, Angola, Southern DRC and Botswana and thereby assists KMG with achieving its objective of increasing export sales. Goodwill totaling £700,000 arose on these acquisitions as the anticipated value of future cash flows taken into account in determining the purchase price exceeded the net assets acquired at fair value. During the year from date of acquisition, these acquisitions contributed £1.7 million to revenue and profit before taxation of £569,000. Had the acquisitions taken place on 1 January 2009, they would have contributed £2.4 million to revenue and profit before taxation of £808,000.

30. Acquisition of subsidiaries (continued)

Other acquisitions (continued)

The Group's subsidiary, Blackstar (Cyprus) Investors Limited ("Blackstar Cyprus") currently holds preference shares in two special purpose vehicles established to facilitate a staff trust and community trust to acquire an interest in York Timber Organisation 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 and these subsidiaries did not contribute to the Group's profit during the period post acquisition. No goodwill arose on these acquisitions.

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'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 share issued to Blackstar Cyprus	(1,396)	—	(1,396)
Trade and other payables	(1,917)	—	(2,373)
Total net identifiable assets	624	—	168
Cash consideration paid for shares			868
Goodwill arising on acquisition			700

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.

Net cash outflow on acquisition of subsidiaries

	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	(868)
Net cash and cash equivalents acquired	
Ferro	(250)
KMG	1,105
Blackstar SA	(29)
Other acquisitions	244
Net cash outflow on acquisition of subsidiaries	(24,069)

The Group did not acquire any interests in subsidiaries in the comparative year.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management

31.1 Categories of financial instruments

	2009 £'000	2008 £'000
Financial assets		
Financial assets at fair value through profit and loss (classified as held for trading in accordance with IAS 39)		
Investments at fair value through profit and loss	13,482	—
Currency option accounted for as a derivative in an effective hedging relationship	245	—
FECs in designated hedge accounting relationships	62	—
	13,789	—
Loans and receivables		
Investments classified as loans and receivables	23,101	50,183
Trade receivables	23,079	—
Cash and cash equivalents	17,521	17,831
	63,701	68,014
	77,490	68,014
Financial liabilities		
Financial liabilities at fair value through profit and loss (classified as held for trading in accordance with IAS 39)		
FECs in designated hedge accounting relationships	(69)	—
Interest rate swaps accounted for as derivatives in designated hedge accounting relationships	(338)	—
	(407)	—
Financial liabilities measured at amortised cost		
Borrowings at amortised cost	(24,674)	(8,049)
Other financial liabilities at amortised cost excluding lease accrual	(23,871)	—
Trade payables	(11,718)	(57)
Bank overdrafts	(202)	—
	(60,465)	(8,106)
	(60,872)	(8,106)

31.2 Financial risk management overview

Previously, Blackstar Group Plc only held non controlling interests in investments. In the current reporting year, in addition to its existing investments, Blackstar acquired controlling interests in businesses operating mainly in South Africa. As a result of the first time consolidation of trading subsidiaries in the current reporting year, the Group's exposures to the various financial risks has changed in comparison to the prior year.

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 in the way that it operates firstly through diversification of industry and secondly through decentralisation. As a result of this diversification in terms of industry, the Group is exposed to a range of financial risks, each managed in appropriate ways. However the impact of any one particular financial risk within any of these industries is limited for the reasons previously mentioned.

Subsidiaries are run on a decentralised manner with management maintaining an entrepreneurial focus and being responsible for the performance of their own operations including managing the financial risks of the operation. Blackstar's management team attend the board meetings and other key meetings held by the subsidiaries and are then responsible for reporting to the Blackstar Group board of directors. Operational management's remuneration is based on their operation's performance resulting in a decentralised and entrepreneurial environment.

31. Financial instruments and financial risk management (continued)

31.2 Financial risk management overview (continued)

Due to the diverse structure and decentralised management of the Group, there is no formal Group policy regarding the management of financial risks. Each subsidiary's Board of Directors is responsible for identifying and managing financial risk. Each of the subsidiaries' Board of Directors includes a Blackstar Group Plc Board director. Any key issues relating to financial risk are then reported to the Blackstar Board of directors. The Blackstar Group Board of directors are responsible for agreeing and reviewing the objectives, policies and processes for managing risks specifically relating to the investment portfolio. The information provided below for each financial risk has been collated for disclosure based on the manner 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 aforementioned risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. IFRS 7 requires certain disclosures by class of instrument. Due to the decentralised and diverse nature of the Group, the classes of instruments would be the segments as disclosed in the segmental report being Industrial metals (which includes the subsidiary KMG), Industrial chemicals (which includes the subsidiary Ferro) and Investment activities (which includes the Group's minority investments included in its investment portfolio as well as its subsidiary Blackstar SA).

Due to the diverse nature of the Group's various operations, management of each of the trading subsidiaries (Ferro and KMG) are responsible for developing and implementing a risk management strategy. For both Ferro and KMG, the managing director and financial director are involved in the day-to-day management of the business and will therefore identify any financial risks arising. Divisional heads within each company are also held responsible for identifying and managing financial risks. Both KMG and Ferro have monthly management/exco meetings, attended by the managing directors, financial directors and divisional heads. Divisional performance and areas of concern including the identification of risks and management thereof are discussed in these meetings. Any significant issues are noted for discussion at the company's board meeting. In addition to this, KMG have a financial management team which perform quarterly reviews at each of the branches. Ferro divisional heads include a summary of highlights and concerns for each division which is presented at the Ferro monthly board meetings.

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 account of the value of any collateral obtained. The carrying values, net of impairment allowances, amount to £22,449,000 (2008: nil) for trade receivables (refer note 19), £23,101,000 (2008: £50,183,000) for investments classified as loans and receivables (refer note 16), and £13,482,000 (2008: £33,167,000) for investments at fair value through profit and loss (refer note 17).

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 at fair value through profit and loss.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.1 Trade receivables

Refer note 19 Trade and other receivables.

Trade receivables by class

	2009 £'000	2008 £'000
Gross trade receivables		
Industrial chemicals	3,571	—
Industrial metals	19,508	—
Investment activities	—	—
	23,079	—
Impairment allowance		
Industrial chemicals	(127)	—
Industrial metals	(503)	—
Investment activities	—	—
	(630)	—
Net trade receivables		
Industrial chemicals	3,444	—
Industrial metals	19,005	—
Investment activities	—	—
	22,449	—

As illustrated by the table above of trade receivables by class, the Investment activities segment does not have trade receivables and the trade receivables comprise debtors arising from the trading subsidiaries included in the Industrial chemicals and Industrial metals segments. These trade receivables consist of a number of customers, spread across diverse industries. The subsidiaries' operational management perform ongoing credit evaluation on the financial condition of the customers.

The Group 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, under the guidance of the management in charge of each segment/subsidiary, 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 the operation's standard payment and delivery terms and conditions are offered, determining whether collateral is required, and if so the type of collateral to be obtained, and setting of credit limits for individual customers based on their references and credit ratings. Operational management are also held responsible for monitoring the operations' credit exposure. Both the Industrial chemical and Industrial metals segments have a policy of obtaining credit insurance for all debtors. The credit insurance company will set limits for each creditor. 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 (being Ferro or KMG). These directors will only provide their approval once other forms of security, such as suretyship, have been obtained. One of the divisions within Ferro has a 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.

The companies' credit controllers 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.

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.1 Trade receivables (continued)

One of the Group's subsidiaries, KMG, has significant credit risk exposure to one single customer. Sales to the customer contributed 5% of KMG's total revenue for the reported period since date of acquisition and 4% to Group revenue. Another subsidiary, Ferro, also has significant credit exposure to a single customer for which sales to the customer contributed 13% towards Ferro's total revenue and 2.4% to the Group's revenue. Amounts due by these two customers and included in the Group trade receivables as at 31 December 2009 amounted to £1 million. No impairments were raised for these debtors. As previously mentioned, exposure to credit risk is reduced as a result of the credit insurance taken out by both subsidiaries.

Each operation establishes an impairment allowance that represents its estimate of incurred losses in respect of trade 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.

As a result of the decentralised structure, subsidiary management has the responsibility of determining the impairment allowance in respect of trade receivables. The operations' average credit period 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 8% of the total allowance raised.

Movement in impairment allowance in respect of trade receivables

	2009 £'000	2008 £'000
Balance at the beginning of the year	—	—
Allowance raised during the year		
Industrial chemicals	56	—
Industrial metals	33	—
Investment activities	—	—
	89	—
Allowance utilised during the year		
Industrial chemicals	(124)	—
Industrial metals	—	—
Investment activities	—	—
	(124)	—
Net acquisition of businesses		
Industrial chemicals	503	—
Industrial metals	79	—
Investment activities	—	—
	582	—
Impairment written off against trade receivables		
Industrial chemicals	(38)	—
Industrial metals	(2)	—
Investment activities	—	—
	(40)	—
Currency exchange losses during the year	123	—
Balance at the end of the year	630	—

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.1 Trade receivables (continued)

Ageing of gross trade receivables at 31 December 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
Investment activities	—	—	—
	13,562	—	13,562
Past due			
0 – 30 days			
Industrial chemicals	1,315	—	1,315
Industrial metals	4,897	(62)	4,835
Investment activities	—	—	—
	6,212	(62)	6,150
31 – 60 days			
Industrial chemicals	244	(127)	117
Industrial metals	1,161	—	1,161
Investment activities	—	—	—
	1,405	(127)	1,278
61 – 90 days			
Industrial chemicals	—	—	—
Industrial metals	544	(81)	463
Investment activities	—	—	—
	544	(81)	463
91 + days			
Industrial chemicals	—	—	—
Industrial metals	1,356	(360)	996
Investment activities	—	—	—
	1,356	(360)	996
	9,517	(630)	8,887
Total	23,079	(630)	22,449

The credit quality of receivables not past due or impaired is considered by management of each segment to be of reasonable quality.

Collateral held on past due amounts

The Industrial metals segment has personal surety for past due trade receivables (net of impairment allowance) amounting to £444,000 as at 31 December 2009. An accurate fair value cannot be attached to personal surety.

As previously mentioned, both trading segments have a general policy of taking out credit insurance on their outstanding debtors balances 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 are past due with carrying amounts of £1,004,000 and £5,745,000 respectively. No other collateral was held in respect of past due trade receivables.

In certain instances the Group's operations reserve the right to collect inventory sold when the outstanding debt is not settled by the customer. The collateral detailed above is in addition to these afore-mentioned measures taken to reduce credit risk in respect of trade receivables.

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.2 Investments

All of the investments at 31 December, as disclosed in note 16 Investments classified as loans and receivables and 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 to 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 investments that were past due. Details of impairments are provided 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.

	2009		2008	
	Exposure £'000	Exposure Percentage	Exposure £'000	Exposure Percentage
Industrial (Steel)	98	0%	28,901	35%
Engineering	—	0%	13,849	17%
Resources	20,399	56%	12,755	15%
Forestry	686	2%	11,043	13%
Financial services	899	2%	7,639	9%
Support Services	5,744	16%	3,666	4%
Health Care	5,697	15%	2,950	4%
Media	2,058	6%	1,822	2%
Telecommunications	1,002	3%	725	1%
	36,583	100%	83,350	100%

To mitigate its risk, the Group has entered into various security arrangements in respect of its investments in Myriad Medical Holdings Limited and Mvelaphanda Resources Limited. Where the Group has invested in the form of preference shares and loans, the entities that have been funded by these preference shares and loans have provided security to the Group by either the Group taking security over the shares that the funding special purpose vehicle ("SPV") owns, or by the shareholders of the funding SPV entering into guarantee and put and call option agreements over their shares in the funding SPV, or by a combination of both of these arrangements. These arrangements provide the Group with security for the performance of the SPV's obligations to the Group. The security arrangements do not give the Group control of the shares or voting rights while there is no event of default. There have been no events of default during the year.

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:

	2009 £'000	2008 £'000
Balance at the beginning of the year	4,152	—
(Reversal of impairment)/impairment of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Myriad Medical Holdings Limited	(684)	1,212
(Reversal of impairment)/impairment of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Mvelephanda Resources Limited	(3,385)	2,940
Currency exchange losses during the year	628	—
Balance at the end of the year	711	4,152

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.2 Investments (continued)

Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Myriad Medical Holdings Limited.

The carrying value of the Group's cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Myriad Medical Holdings Limited is based on the value of the underlying assets in the special purpose vehicle less any external debt and potential liabilities. The Group identified that there had been changes to the indicators which had initially provided objective evidence of an impairment in the prior year. 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 the impairment of £711,000 is required and the balance of the impairment raised in the prior year was therefore reversed.

Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited

The carrying value of the Group's cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited is based on the value of the underlying assets in the special purpose vehicle less any external debt and potential liabilities. At year end, there were indications that the impairment raised in the prior year should be reversed. An impairment test was performed by comparing the current carrying value to the realisable value. This value was calculated taking into account current market conditions and expected future cash flows to be derived from the investment. As a result of this impairment test, the full impairment loss recognised in the prior year was reversed and there is no impairment loss recognised on this investment.

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 £202,000 and cash and cash equivalents amounted to £17,521,000 of which £2.5 million is held by a bank in respect of the mandatory offer to Myriad Medical Holdings Limited shareholders and cannot be transferred or withdrawn without the consent of Myriad (refer note 38 for further details). 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 £17,521,000, 66% was held in AAA rated money market funds, 8% with an AA rated financial institution and the balance with BBB+ or lower rated financial institutions (2008: Cash and cash equivalents with a carrying amount of £14,331,000 of which 57% was held in AAA rated money market funds, 40% with an AA- rated financial institution and the balance with a BBB+ rated institution). The credit risk on cash and cash equivalents is limited because of the high credit ratings assigned to the funds and financial institutions by international credit-rating agencies.

31.4 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Ultimate responsibility for liquidity risk lies with each of the subsidiaries' Board of directors for both the Industrial chemicals and Industrial metals segments and with the Blackstar Group Plc Board of directors for the Investment activities segment. All of the Boards manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and by continuously monitoring forecast and actual cash flows. Typically management of the trading subsidiaries monitor cash reserves on a monthly basis to ensure there are sufficient resources to meet liabilities in the short term. In addition to this they have undrawn facilities at their disposal to further reduce liquidity risk (refer note 31.4.4).

Cash inflows from trade receivables amounting to £23,079,000 at 31 December 2009 are also utilised to meet cash outflows on financial liabilities. Cash inflows arising from trade receivables balances are expected within 6 months or less.

31. Financial instruments and financial risk management (continued)

31.4 Liquidity risk (continued)

Entities within the Investment activities segment (namely Blackstar Group Plc, Blackstar Cyprus and Blackstar Gibraltar) have access to cash resources (cash on hand of £13.3 million) and each of the entities do not have borrowings or material liabilities. Furthermore Blackstar Group Plc has a facility of R20 million (£1.7 million) with a South African bank which is unutilised. This facility of R20 million (£1.5 million) was also available and unutilised in the prior year. Certain of the Group's underlying investments held within the Investment activities segment are in private, illiquid special purpose vehicles. This segment has sufficient funds to meet its operational requirements and financial obligations. 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 forecast cash requirements.

31.4.1 Contractual maturities of non-derivative financial liabilities, including interest payments and excluding the impact of netting agreements

The table below 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 based on the earliest date on which the Group can be required to pay. 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 31 December. 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.

2009	Carrying amount £'000	Total £'000	Undiscounted contractual cash flows					
			6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	
Borrowings (refer note 22)								
Unsecured, non controlling shareholder loans and preference shares	2,569	2,763	—	—	—	733	2,030	
Secured, interest bearing loans expected to be settled according to contractual maturities	17,525	19,443	2,292	2,292	6,573	8,286	—	
Secured, interest bearing loans 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	—	
	24,674	28,045	2,517	2,564	8,361	12,573	2,030	
Other financial liabilities (refer note 23)								
Revolving inventory financing facility agreement	14,257	14,258	8,387	5,871	—	—	—	
Invoice discounting agreement	8,192	8,192	4,096	4,096	—	—	—	
Financial leases and instalment sale agreements	639	681	210	95	170	206	—	
Asset purchase agreement	783	783	—	—	783	—	—	
	23,871	23,914	12,693	10,062	953	206	—	
Trade and other payables (refer note 26)	15,814	15,814	15,814	—	—	—	—	
Bank overdrafts	202	202	202	—	—	—	—	

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.4 Liquidity risk (continued)

31.4.1 Contractual maturities of non-derivative financial liabilities, including interest payments and excluding the impact of netting agreements (continued)

2008	Carrying amount £'000	Total £'000	Undiscounted contractual cash flows				
			6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Borrowings (refer note 22)							
Secured, interest bearing loans	8,049	7,561	7,561	—	—	—	—
Trade and other payables (refer note 26)	57	57	57	—	—	—	—

* The expected maturity of financial liabilities is not expected to differ from the contractual maturities as disclosed above with the exception of two of the secured, interest bearing loans (as separately noted above) which are expected to be settled earlier than the contracted. The expected undiscounted cash flows for these two particular loans are as follows:

2009	Carrying amount £'000	Total £'000	Expected undiscounted cash flows				
			6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Borrowings (refer note 22)							
Secured, interest bearing loans 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 derivatives

Refer note 18 Other financial assets and note 23 Other financial liabilities.

The following table details the Group's liquidity analysis for its derivatives. 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 rates, the current rate on 31 December has been utilised to calculate the net amount settled.

2009	Carrying amount £'000	Total £'000	Undiscounted contractual cash inflows/(outflows)				
			6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
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. Financial instruments and financial risk management (continued)

31.4 Liquidity risk (continued)

31.4.3 Trade payables by class

Refer note 26 Trade and other payables.

	2009 £'000	2008 £'000
Trade payables		
Industrial chemicals	3,459	—
Industrial metals	8,175	—
Investment activities	84	57
	11,718	57

31.4.4 Undrawn facilities and securities provided

The Group has the following undrawn facilities at its disposal to further reduce liquidity risk:

	2009 £'000	2008 £'000
Unsecured bank overdraft facility, reviewed annually and payable on call		
utilised	1,266	—
unutilised	1,170	—
	2,436	—
Secured bank overdraft facility, reviewed annually and payable on call		
utilised	—	—
unutilised	3,156	1,458
	3,156	1,458
Secured debtors financing facilities held by subsidiary companies		
utilised (refer note 23)	8,192	—
unutilised	19,903	—
	28,095	—

Refer note 23 Other financial liabilities for details of security provided for the invoice discounting agreements.

As noted in note 22 Borrowings and 23 Other financial liabilities, there is one agreement with a bank covering various facilities to the KMG Group, and the securities provided thereon.

Utilised and unutilised portions of the facilities provided by the bank under this agreement are as follows:

2009	Utilised £'000	Unutilised £'000	Total £'000
Revolving inventory financing facilities (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
	29,600	10,148	39,748

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.4 Liquidity risk (continued)

31.4.4 Undrawn facilities and securities provided (continued)

Details of the security provided under the agreement for these facilities are as follows:

- General Notarial Bond for £29.4 million (R350 million) over all moveable assets;
- Limited guarantee by Blackstar Group Plc limited to £10.5 million (R 125 million) plus ceded rights;
- Limited guarantee by Blackstar (Cyprus) Investors Limited (limited to its ceded rights);
- Limited guarantee by Blackstar (Gibraltar) Limited (limited to its ceded rights);
- Cession and pledge to KMG Shares by Blackstar Group Plc and all other shareholders;
- Cession and pledge of KMG preference shares by Blackstar (Cyprus) Investors Limited;
- Cession and pledge of all shareholder loan accounts and claims against KMG by Blackstar Group Plc, Blackstar (Cyprus) Investors Limited, Blackstar Gibraltar Ltd and all other shareholders;
- Key man policies to be taken out on the KMG CEO and other key management of KMG to the value of £839,000 (R10 million) and £168,000 (R2 million) each respectively in favour of the bank;
- Cession of any other securities held by the borrower in respect of security provided to the borrower for any other receivables or loan account.

31.5 Market risk

Market risk is the risk that changes in market price, 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.

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 segment

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 Blackstar Group Board of Directors meet on a quarterly basis to review the investment portfolio and consequently monitors currency risk on an ongoing basis. To mitigate this risk, the Group may hedge its currency exposure from time to time.

A currency option has been 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 is expected to be settled during the 2011 financial year.

Industrial metals and Industrial chemicals segment

The Group's subsidiaries within the Industrial metals and Industrial chemicals segments (which are both South African based) incur currency risk as a result of purchases and sales which are denominated in a currency other than their functional reporting currency (being the South African Rand). Both subsidiaries have a policy of hedging purchases denominated in a 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.

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.1 Currency risk (continued)

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 frame as when the actual cash flows occur.

2009	Settlement	Contract value		
		Foreign amount 000's	Rand amount 000's	
<i>In respect of forward exchange contracts relating to foreign liabilities as at 31 December 2009</i>				
	– US Dollars	October 2009 to March 2010	2,169	16,653
	– Euro	July 2009 to March 2010	711	8,053
	– Australian Dollars	October 2009 to March 2010	281	1,962
	– Sterling	July 2009 to February 2010	6	84
<i>In respect of forward exchange contracts relating to goods and services ordered not accounted for as at 31 December 2009</i>				
	– US Dollars	May 2009 to April 2010	2,751	21,267
	– Euro	November 2009 to February 2010	302	3,431

No forward exchange contracts were taken out during the prior financial year.

The net profit under forward foreign exchange contracts recognised in profit and loss amounted to £4,000 (2008: nil).

Exposure to currency risk

An analysis of financial assets and liabilities by currency, at the reporting date provides an indication of each of the classes exposure to currency risk:

2009	Industrial chemicals	Industrial metals	Investment activities	Total
	South African Rand £'000	South African Rand £'000	Sterling and South African Rand £'000	£'000
<i>Trade receivables (gross)</i>				
	South African Rand	19,219	—	22,761
	US Dollars	213	—	242
	Namibian Dollars	76	—	76
	3,571	19,508	—	23,079
<i>Trade payables</i>				
	South African Rand	7,541	41	9,547
	US Dollars	634	—	1,288
	Sterling	—	—	28
	Euro	—	43	704
	Australian Dollars	—	—	151
	3,459	8,175	84	11,718
<i>Borrowings</i>				
	South African Rand	13,521	—	24,674

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.1 Currency risk (continued)

Exposure to currency risk (continued)

2009	Industrial chemicals	Industrial metals	Investment activities	Total
	South African Rand	South African Rand	Sterling and South African Rand	
Functional currency	Rand	Rand	Rand	
	£'000	£'000	£'000	£'000
Other financial liabilities (excluding forward exchange contracts and derivatives)				
South African Rand	—	25,414	68	25,482
Euro	783	—	—	783
	783	25,414	68	26,265
Cash and cash equivalents (including overdrafts)				
South African Rand	3,340	(181)	885	4,044
Sterling	—	—	13,014	13,014
Namibian Dollars	—	261	—	261
	3,340	80	13,899	17,319

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 £8,643,000 (2008: £7,283,000) 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 £7,064,000 (2008: £7,044,000) in the reported net asset value of the Group.

The following significant exchange rates applied during the year:

	2009	2008
Rand/Sterling		
Opening rate	13.719	13.605
Closing rate	11.924	13.719

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:

	2009	2008
	£'000	£'000
Fixed rate instruments		
Financial assets		
Investments classified as loans and receivables (refer note 16)	—	—
Investments at fair value through profit and loss (refer note 17)	13,482	33,167
Financial liabilities		
Borrowings (refer note 22)	(9,123)	—
Other financial liabilities excluding lease accruals and derivatives (refer note 23)	(1,016)	—
	3,343	33,167

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.2 Interest rate risk (continued)

	2009 £'000	2008 £'000
Variable rate instruments		
Financial assets		
Investments classified as loans and receivables (refer note 16)	23,101	50,183
Investments at fair value through profit and loss (refer note 17)	—	—
Cash and cash equivalents (refer note 21)	17,521	17,831
Financial liabilities		
Borrowings (refer note 22)	(15,551)	8,049
Other financial liabilities excluding lease accruals and derivatives (refer note 23)	(22,855)	—
Overdrafts	(202)	—
	2,014	76,063

Analysis of interest income and expenses in respect of assets/(liabilities) not at fair value through profit or loss:

	2009 £'000	2008 £'000
Total interest income on financial assets (including interest income on investments reflected in note 6 and interest income on cash and cash equivalents reflected in note 10)	1,479	3,628
Total interest expense on financial liabilities (refer note 10)	(5,256)	(722)
	(3,777)	2,906

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 within the financial statements. Interest rate risk in respect of investments falling within the Investment activities segment is managed by the Blackstar Group Plc Board of Directors, who meet on a quarterly basis to review the investment portfolio and consequently monitors interest rate risk on an ongoing basis.

All interest bearing funding provided by the Group is linked to the South African Prime rate. In addition certain of the Group's investments have third party debt funding, which is linked to the South African Prime rate.

Borrowings and other financial liabilities

The Group adopts a policy of ensuring that its borrowings are at market-related rates to address its interest rate risk. Each of the segment's board of directors 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. Further details on the interest rate terms on borrowings and other financial liabilities are provided in note 22 and 23 respectively.

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 chemicals 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. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting year was outstanding for the whole 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.2 Interest rate risk (continued)

Sensitivity analyses (continued)

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 an increase of £374,000 (2008: a decrease of £1,000) 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 a decrease of £376,000 (2008: an increase of £2,000) in the reported net asset value of the Group. The Group's sensitivity to interest rates has changed significantly due to the fact that in the current year, two subsidiaries have been consolidated for the first time which has increased the Group's borrowings substantially (refer note 22 and 23 for the additional debt arising in the current reporting year).

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 Blackstar Group 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 £6,768,000 (2008: £5,502,000) 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 £3,973,000 (2008: £7,683,000) 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 cash flow basis was utilised to calculate the fair values of financial instruments accounted for at amortised cost. On performance of the calculation, the existing terms and conditions were reviewed for each financial instrument and were found to be reasonable estimates of the terms and conditions that would be offered on such a financial instrument as at 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 are believed to approximate the market related discount rates used in the fair value calculations. The fair values were therefore calculated to 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).

31. Financial instruments and financial risk management (continued)

31.6 Fair values (continued)

31.6.2 Fair value of financial instruments carried at fair value in the balance sheet (continued)

2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
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
	3,140	10,649	—	13,789
Financial liabilities at fair value through profit and loss				
Derivative financial liabilities (refer note 23)	(407)	—	—	(407)
	(407)	—	—	(407)
<hr/>				
2008	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Investments at fair value through profit and loss (refer note 17)	12,076	21,091	—	33,167
Derivative financial assets (refer note 18)	—	—	—	—
	12,076	21,091	—	33,167
Financial liabilities at fair value through profit and loss				
Derivative financial liabilities (refer note 23)	—	—	—	—

There were no transfers between levels during the current or prior year.

31.6.3 Significant assumptions used in determining fair value of financial assets and liabilities

Investments held at fair value through profit and loss

Investments held 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.

Derivative financial assets

Derivative financial instruments are fair valued utilising quoted prices from listed stock exchanges.

31.7 Hedge accounting

31.7.1 Cash flow hedges

A subsidiary of the Group entered into two interest rate swap agreements to hedge against the risk of fluctuations in interest rates arising as a result of two of its liabilities. These hedging instruments was marked to market at year end and have a credit balance of £338,000 at 31 December 2009 which has been included in Other financial liabilities (refer note 23). The underlying items being hedged would be the two loans amounting to £7,814,000 and are included in note 22 under the category Secured, Rand denominated loans with a carrying amount of £12,982,000. The interest rate swaps expire on the same date that the loans are settled, being June 2012 and June 2013.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

31. Financial instruments and financial risk management (continued)

31.7 Hedge accounting (continued)

31.7.1 Cash flow hedges (continued)

Total gains of £22,000 and losses of £166,000 arose on the interest rate swaps during the current financial year. These gains and losses have been included in finance income and finance costs respectively as this is where the interest expense arising on the underlying hedged item (the loans) is disclosed (refer note 10). None of the gains and losses arising on the hedging instruments are considered to be ineffective.

31.7.2 Fair value hedges

A subsidiary within the Group entered into a currency option to hedge against changes in the Sterling/Rand exchange rate with respect to a portion of one of its investments with a carrying value of £18,721,000 and included in investments classified as loans receivables (refer note 16). The currency option which was marked to market at year end, has a debit carrying value of £245,000 included in Other financial assets (refer note 18). A loss of £208,000 was recognised on the option and has been included in note 5 Gains and losses on investments as this is where the gains and losses arising on the investment have been 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.

The Group's objective is to develop a substantial industrial business in South Africa with the underlying themes of strategic market position, strong cash flow and the ability to exploit the wider African market. The Company is meeting such objectives by investing the capital that it manages in companies in South Africa and Sub-Saharan Africa.

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.

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. In January 2009 the Company bought back 2,405,488 ordinary shares in the market and completed a tender offer in June 2009, resulting in 7,462,673 ordinary shares being bought back.

In addition the Company completed the internalisation of its investment advisory arrangements in June 2009, resulting in 13,341,851 new ordinary shares being issued.

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 2009	31 December 2008
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%	nil
Kulungile Metals Group (Pty) Limited	South Africa	Industrial metals company	73%	47.5%
Blackstar Group (Pty) Limited (Previously Blackstar Fund Managers (Pty) Ltd)	South Africa	Investment advisory company	100%	nil

33. Subsidiary companies (continued)

During the current reporting year, the Company acquired a further 4% and disposed of 2% of the shareholding in Ferro Industrial Products (Pty) Limited post the initial acquisition of the subsidiary. These changes in shareholding have been accounted for as transactions with equity holders. Refer note 30 Acquisition of subsidiaries for further details.

34. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2009 £'000	2008 £'000
Land and buildings		
Less than one year	3,306	—
Due between one and five years	11,453	—
More than five years	6,640	—
	21,399	—
Equipment and vehicles		
Less than one year	574	—
Due between one and five years	984	—
More than five years	7	—
	1,565	—
	22,964	—

35. Capital commitments

Contracted capital expenditure of £452,000 (2008: nil) and non-contracted capital expenditure of £1,098,000 (2008: nil) on property, plant and equipment had been approved at 31 December.

36. Contingents

Guarantees

Blackstar Group Plc 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 (£12.6 million). The suretyship expires on 31 October 2010.

As detailed in note 31.4.4, certain companies within the Group have provided guarantees in respect of funding facilities provided by a bank to KMG. These guarantees have been provided as additional security to the bank for the debt financing provided by KMG and GRS. In addition the bank has security over the immovable and movable property of KMG and GRS. It is not probable that these items will result in an outflow of resources required to settle an obligation.

Contingent liabilities and contingent assets

There are no contingent liabilities or assets to report as at 31 December 2009 (2008: nil).

37. 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 Board of directors (all of which are non executives) would be considered to be key management personnel and thus related parties.

John Mills is deemed to be a related party, as in addition to being a Director, funds associated with John Mills are interested in 0.96% 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 £317,000 (2008: £219,000). At the balance sheet date £41,000 (2008: £20,000) was owing to Maitland.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

37. Related parties (continued)

Andrew Bonamour is deemed to be a related party as in addition to being a Director, funds associated with Andrew Bonamour are interested in 20.3% 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 19.2% of the issued shares in the Company. In 2009 advisory fees to BML amounted to £884,000 (2008: £1,876,000 for the twelve month period). No amounts were outstanding at year end (2008: £456,000 paid in advance). In addition, Andrew is an executive Director of Blackstar SA, which was acquired as part of the internalisation in June 2009. Details of Andrew's remuneration as a director of Blackstar SA have been provided in note 9.

Julian Treger is deemed to be a related party, as in addition to being a Director, he is a potential beneficiary of discretionary trusts that are interested in 3.15% of the issued share capital of the Company. Prior to the internalisation of investment advisory arrangements in June 2009, funds associated with Julian Treger were entitled to share in the fees payable by the Company under the terms of the investment advisory agreement. In 2009, advisory fees amounted to £76,000 (2008: £180,000 for the twelve month period). No amounts were outstanding at year end (2008: nil).

Details of Directors' remuneration are provided in note 9 to the consolidated financial statements. There are no other related parties transactions to disclose.

38. Post balance sheet events

Investment in KMG

Blackstar are in the process of converting the B preference shares held in its subsidiary, KMG, into ordinary shares. As a result of this conversion, anticipated to be completed in the first half of 2010, Blackstar's shareholding in KMG will be increased from 73% to 82%.

Investment in Myriad Medical Holdings Limited ("Myriad")

At 31 December 2009 Blackstar held 19.02% of the ordinary shares in Myriad with a carrying amount of £2.3 million and have accounted for the investment as an investment at fair value through profit and loss.

On 15 January 2010, Blackstar was entitled to acquire control of a further 30.26% of ordinary shares of Myriad as a result of Blackstar's redeemable preference shares in Vermogen Medical (Pty) Limited becoming due and payable. The transfer of the ownership of the shares to Blackstar is still in the process of being completed.

Following the closure of a mandatory offer to the minority shareholders of Myriad on 18 January 2010, Blackstar acquired an additional 0.88% of the outstanding ordinary shares of Myriad. As a result of the closure of the offer, the restrictions on the cash amount of £2.5 million (held by a bank in respect of the mandatory offer, refer note 21) were lifted post year end.

The result of the afore-mentioned transactions will increase Blackstar's shareholding in Myriad to 50.16%.

Myriad has announced the acquisition of 51% of Litha Healthcare Holdings (Pty) Limited. The acquisition is anticipated to be completed on 21 April 2010. It is expected that all shareholders will take up their rights, which will result in Blackstar retaining a non controlling interest in Myriad.

Cancellation of capital redemption reserve

A resolution to cancel the capital redemption reserve of the Company of approximately £30.2 million in order to create distributable reserves, was passed by shareholders of the Company at a General Meeting of the Company held on 8 March 2010. Application has been made to the High Court of England and Wales for the necessary confirmation by the Court for the cancellation of the capital redemption reserve to become effective. It is expected that the cancellation will become effective on 1 April 2010.

39. Segmental information

The Group has three reporting segments, as described below. Each segment operates in a separate industry and is managed by the individual segment's 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 includes the holding company Blackstar Group Plc as well as the subsidiaries Blackstar (Gibraltar) Limited and Blackstar (Cyprus) Investors Limited (through which all of the investments are made). The subsidiary, Blackstar SA is also included in this segment and is the entity through which the management team who assist in identifying investments and management thereof are employed.

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: the subsidiary 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 policy to account for property, plant and equipment at cost. No adjustment was required to the property, plant and equipment during the current 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 below and are then eliminated on consolidation (refer to the reconciliation below).

Segmental information is only provided for the current year ending 31 December 2009 as prior to this the Group's results were derived from its principal activity, investing in South Africa. As there was previously only one segment, information thereon can be derived directly from the comparatives provided in the balance sheet and income statement.

Notes to the consolidated financial statements continued

for the year ended 31 December 2009

39. Segmental information (continued)

39.1 Information about reportable segments for the year ended 31 December 2009

	As reported by segments			Consolidation adjustments			Reported by Group Consolidated total £'000
	Industrial chemicals £'000	Industrial metals £'000	Investment activities £'000	Inter-group transactions £'000	On acquisition fair value adjustments £'000	Other £'000	
External revenue	29,465	124,741	—	—	—	—	154,206
Write-down of inventories to net realisable value	—	(3,742)	—	—	—	—	(3,742)
Net gains/(losses) on investments	—	—	2,659	—	—	—	2,659
Fees, dividends and interest from loans, receivables and investments	—	—	3,923	—	—	—	3,923
EBITDA	3,409	(5,796)	(457)	—	(1,114)	(32)	(3,990)
Depreciation and amortisation							3,320
Finance income and finance costs							(4,786)
Loss before taxation per income statement							(5,456)
Total assets	29,468	77,580	105,478	(32,219)	(7,646)	—	172,661
Total liabilities	(20,873)	(81,652)	(1,591)	32,219	(996)	(13)	(72,906)

39.2 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 South Africa.

Below segment revenue for the year ended 31 December 2009 is presented on the basis of the geographical location of the customers:

	Industrial chemicals £'000	Industrial metals £'000	Investment activities £'000	Total £'000
South Africa	27,999	119,059	—	147,058
Other countries	1,466	5,682	—	7,148
Net revenue	29,465	124,741	—	154,206

39.3 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).

39.4 Analysis of revenue by product

	2009 £'000
Industrial chemicals	
Sale of specialised range of powder coatings	10,148
Sale of black and white plastic master batches	5,275
Sale of glass coating and glass decorating products	3,069
Sale of ceramic glazes and enamel products	10,973
	29,465
Industrial metals	
Sale of manufactured roofing sheets	33,530
Sale of stainless steel	38,789
Sale of carbon and aluminium steel	52,422
	124,741
	154,206

Company statement of changes in equity

for the year ended 31 December 2009

	Share capital £'000	Capital redemption reserve £'000	Foreign currency translation reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2007	78,465	775	661	(2,980)	8,314	85,235
Total comprehensive loss for the year	—	—	(681)	—	(695)	(1,376)
Cancellation of ordinary shares	(2,800)	2,800	—	2,980	(2,980)	—
Balance at 31 December 2008	75,665	3,575	(20)	—	4,639	83,859
Total comprehensive income/(loss) for the year	—	—	203	—	(12,633)	(12,430)
Buy-back of ordinary shares	(7,405)	2,405	—	—	(770)	(5,770)
Capital re-organisation	(24,176)	24,176	—	—	—	—
Issue of ordinary shares	8,939	—	—	—	—	8,939
Balance at 31 December 2009	53,023	30,156	183	—	(8,764)	74,598

No dividends were declared in any of the periods presented above.

The notes on pages 76 to 85 form part of the Company financial statements.

Company Balance Sheet

as at 31 December 2009

	Notes	2009 £'000	2008 £'000
Non-current assets			
Investments in subsidiary companies	3	68,694	56,807
Investments classified as loans and receivables	4	270	73
Investments at fair value through profit and loss	5	4,352	17,014
		73,316	73,894
Current assets			
Investments classified as loans and receivables	4	—	—
Investments at fair value through profit and loss	5	1,022	9,839
Trade and other receivables	6	217	624
Cash and cash equivalents	7	586	8,143
		1,825	18,606
Total assets		75,141	92,500
Non-current liabilities			
Provisions	8	—	(404)
		—	(404)
Current liabilities			
Borrowings	9	—	(8,049)
Current tax liability		(46)	—
Trade and other payables	10	(497)	(188)
		(543)	(8,237)
Total liabilities		(543)	(8,641)
Total net assets		74,598	83,859
Equity			
Share capital	11	53,023	75,665
Capital redemption reserve	11	30,156	3,575
Foreign currency translation reserve	11	183	(20)
Retained earnings	11	(8,764)	4,639
Total equity attributable to equity holders		74,598	83,859

The Company financial statement were approved by the Board and authorised for issue on 1 April 2010.

Andrew Bonamour

Director

The notes on pages 76 to 85 form part of the consolidated financial statements.

Company cash flow statement

for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Cash flow from operating activities			
Cash absorbed by operations	12	(3,588)	(7,671)
Interest received		130	283
Interest paid		(3)	(100)
Dividends and interest received from investments		13	1,780
Cash absorbed by operating activities		(3,448)	(5,708)
Cash flow from investing activities			
Additions to investments classified as loans and receivables		(235)	(6,569)
Acquisition of investments at fair value through profit or loss		(542)	(3,575)
Acquisition of subsidiaries	3	(37,612)	(9,400)
Proceeds from disposal of investments		13,491	15,038
Proceeds on disposal/redemption of shares in subsidiary		25,619	10,256
Cash generated by investing activities		721	5,750
Cash flow from financing activities			
Proceeds from borrowings		—	9,906
Repayment of borrowings		(7,561)	(3,329)
Buy-back of ordinary shares		(5,770)	—
Issue of shares		8,939	—
Cash (absorbed)/generated by financing activities		(4,392)	6,577
Net (decrease)/increase in cash and cash equivalents		(7,119)	6,619
Cash and cash equivalents at the beginning of the year		8,143	1,087
Exchange (losses)/gains on cash and cash equivalents		(438)	437
Cash and cash equivalents at the end of the year	7	586	8,143

The notes on pages 76 to 85 form part of the Company financial statements.

Notes to the Company financial statements

for the year ended 31 December 2009

1. Accounting policies

The financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements 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.

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. Investments in subsidiary companies are stated at cost less provisions where in the opinion of the Directors, there has been an impairment in the value of the investment.

The principal accounting policies which are relevant in the preparation of the Company financial statements are listed below and can be found on pages 19 to 30 of the consolidated financial statements:

Note 1.7	Impairment
Note 1.9	Financial instruments
Note 1.11	Provisions and contingent liabilities
Note 1.14	Revenue and investment income
Note 1.15	Finance income and finance costs
Note 1.16	Tax
Note 1.17	Translation of foreign currencies
Note 1.20	Significant judgements and areas of estimation
Note 2	Determination of fair values

2. Loss for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss in these financial statements. The Group's loss for the year includes a loss after tax of £12,633,000 (2008: loss after tax of £695,000) for the Company.

3. Investments in subsidiary companies

The principal subsidiaries of the Company at 31 December 2009 are as follows:

Name	Country of incorporation	Proportion of ownership	Method used to account for investment	Cost
Blackstar (Cyprus) Investors Limited ("Blackstar Cyprus")	Cyprus	100%	Consolidation	30,948
Blackstar (Gibraltar) Limited ("Blackstar Gibraltar")	Gibraltar	100%	Consolidation	16,530
Blackstar Group (Pty) Limited ("Blackstar SA", Previously Blackstar Fund Managers (Pty) Limited)	South Africa	100%	Consolidation	14,899
Ferro Industrial Products (Pty) Limited ("Ferro") *	South Africa	54%	Consolidation	3,106
Kulungile Metals Group (Pty) Limited ("KMG") #	South Africa	73%	Consolidation	3,211
Total cost of investment in subsidiary companies				68,694

*The Company has provided security to a bank over its ordinary shares in Ferro.

The Company has provided security to a bank over its ordinary shares in KMG.

3. Investments in subsidiary companies (continued)

	2009 £'000	2008 £'000
Cost		
Balance at the beginning of the year	56,807	50,799
Additions during the year at cost	37,612	16,264
Disposals and redemptions during the year at cost	(25,588)	(10,256)
Other movements	3,746	—
	72,577	56,807
Accumulated impairment		
Balance at the beginning of the year	—	—
Impairments of investments in subsidiaries	(3,883)	—
	(3,883)	—
Carrying amount at the end of the year	68,694	56,807

2009	Cost £'000	Accumulated impairment £'000	Carrying value £'000
Carrying amount at the beginning of the year	56,807	—	56,807
Additions during the year at cost	37,612	—	37,612
Disposals and redemptions during the year at cost	(25,588)	—	(25,588)
Impairments of investments in subsidiaries	—	(3,883)	(3,883)
Other movements	3,746	—	3,746
Carrying amount at the end of the year	72,577	(3,883)	68,694

2008	Cost £'000	Accumulated impairment £'000	Carrying value £'000
Carrying amount at the beginning of the year	50,799	—	50,799
Additions during the year at cost	16,264	—	16,264
Disposals and redemptions during the year at cost	(10,256)	—	(10,256)
Carrying amount at the end of the year	56,807	—	56,807

Other movements represent balances that are transferred from investments at fair value through profit and loss to investments in subsidiary companies as a result of the acquisition of a controlling interest in KMG.

An impairment of the investment in KMG has been recognised during the current reporting year. For further details refer to note 14 of the consolidated financial statements.

	2009 £'000	2008 £'000
Shares in subsidiary companies at cost	68,694	56,807
Amounts due by subsidiary companies	—	—
Amounts due to subsidiary companies	—	—
Total investments in subsidiary companies	68,694	56,807

Notes to the Company financial statements continued

for the year ended 31 December 2009

4. Investments classified as loans and receivables

	2009 £'000	2008 £'000
Book cost at the beginning of the year	70	—
Additions during the year at cost	235	6,569
Disposals during the year at cost	(70)	(6,499)
Book cost at the end of the year	235	70

	2009 £'000	2008 £'000
Carrying value at the beginning of the year	73	—
Additions during the year at cost	235	6,569
Disposals during the year at cost	(70)	(6,499)
Interest accrued during the year	9	—
Currency exchange gains during the year	23	3
Carrying value at the end of the year	270	73

	2009 £'000	2008 £'000
Non-current portion	270	73
Current portion	—	—
	270	73

Analysis of gains/(losses) on investments

	2009 £'000	2008 £'000
Proceeds on disposals during the year	77	6,864
Investments at cost	(70)	(6,499)
Realised gains on disposals based on historical cost/carrying value at prior year balance sheet date	7	365
Net gains on investments	7	365

The Company does not have a controlling interest in any of the investments classified as loans and receivables, which comprise the following:

	Carrying value 2009 £'000	Carrying value 2008 £'000
Loan to Adreach (Pty) Limited. The loan bears no interest and has no fixed terms of repayment.	—	73
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.	270	—
Carrying value at the end of the year	270	73

5. Investments at fair value through profit and loss

	2009 £'000	2008 £'000
Book cost at the beginning of the year	17,197	21,684
Additions during the year at cost	542	3,575
Disposals during the year at cost	(12,271)	(8,062)
Other movements	—	—
Book cost at the end of the year	5,468	17,197
	2009 £'000	2008 £'000
Fair value at the beginning of the year	26,853	39,923
Additions during the year at cost	542	3,575
Disposals during the year at cost	(12,271)	(8,062)
Unrealised gains recognised in prior years on disposals	(8,204)	(8,178)
Unrealised gains/(losses) during the year	2,431	(134)
Currency exchange losses during the year	(231)	(271)
Other movements	(3,746)	—
Fair value at the end of the year	5,374	26,853

Other movements represent balances that are now included in investments in subsidiary companies as a result of the acquisition of a controlling interest in KMG.

	2009 £'000	2008 £'000
Non-current portion	4,352	17,014
Current portion	1,022	9,839
	5,374	26,853

Analysis of (losses)/gains on investments

	2009 £'000	2008 £'000
Proceeds on disposals during the year	13,414	15,038
Investments at cost	(12,271)	(8,062)
Realised gains on disposals based on historical cost	1,143	6,976
Less unrealised gains on disposals recognised in prior years	(8,204)	(8,178)
Realised losses recognised in the income statement on disposals based on carrying value at prior year balance sheet date	(7,061)	(1,202)
Unrealised gains/(losses) during the year	2,431	(134)
Net losses on investments	(4,630)	(1,336)

Notes to the Company financial statements continued

for the year ended 31 December 2009

5. Investments at fair value through profit and loss (continued)

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 2009 £'000	Fair value 2008 £'000
Derivative investment in a telecom company, which gives the Group exposure to a minority interest in the underlying telecom company.	1,002	725
Ordinary shares in Myriad Medical Holdings Limited.*	2,294	1,033
Ordinary shares in York Timber Organisation Limited.	—	9,488
Ordinary shares in a special purpose vehicle established to acquire an interest in DCD-Dorbyl (Pty) Limited.	—	7,652
Ordinary shares in Kulungile Metals Group (Pty) Limited.	—	3,995
Ordinary shares in Adreach (Pty) Limited.	1,846	1,749
Ordinary shares in Blue Financial Services Limited.	—	24
Amount receivable from Claim Your Share Investments (Pty) Limited, a wholly owned subsidiary of Metier Investment and Advisory Services (Pty) Limited, ("Metier") in terms of an agency agreement, whereby the Company acquired 26% of the ordinary shares in Kulungile Metals Group (Pty) Limited as agent on behalf of Metier.#	—	2,187
Ordinary shares in Navigare Securities (Pty) Limited.	134	—
Ordinary shares in A.B.E Construction Chemicals Limited.	98	—
Fair value at the end of the year	5,374	26,853

* The Company has provided security to a bank over its ordinary shares in Myriad Medical Holdings Limited.

The ordinary shares in Kulungile Metals Group (Pty) Limited are not the property of the Company and the Company has no beneficial right or interest in these shares and cannot deal with these shares or with any rights or benefits attaching thereto except on and pursuant to instructions given to it by Metier. In addition, the Company granted to Metier, the right to sell the beneficial ownership of these shares in whole or in part to the Company or its nominee. In February 2009, Metier exercised its right to sell the beneficial ownership of the shares to the Company and KMG became a subsidiary of the Company (as set out in note 3 to the Company financial statements).

6. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables due by subsidiaries	192	15
Trade receivables due by external parties	—	—
Impairment allowance	—	—
Total trade receivables net of impairment allowance	192	15
Directors fees paid in advance	17	8
Prepayments and accrued income	7	601
Other receivables	1	—
	217	624

7. Cash and cash equivalents

	2009 £'000	2008 £'000
Deposits and cash at bank	586	8,143
Cash and cash equivalents per the cash flow statement	586	8,143

Cash and cash equivalents include cash in current accounts and term deposits.

£2.5 million is held by a bank in respect of the mandatory offer to Myriad Medical Holdings Limited shareholders and cannot be transferred or withdrawn without the consent of Myriad. Subsequent to year end this restriction was lifted and the amount of £2.5 million was released into the Company's bank account (refer note 17 for further details).

8. Provisions

	2009 £'000	2008 £'000
Non-current portion	—	404
Current portion	—	—
	—	404

Provisions comprise the following:

Provision for performance fee

In prior years, a provision was raised for the performance fee payable by Blackstar Group Plc under the terms of the investment advisory agreement. The provision was released on acquisition of Blackstar SA and the resulting internalisation of Blackstar's investment advisory arrangements on 26 June 2009.

	Provision for performance fee £'000
Balance at 1 January 2008	5,767
Created	(1,467)
Utilised	(3,896)
Balance at 31 December 2008	404
Created	—
Utilised	(243)
Performance fee paid during the year	(161)
Balance at 31 December 2009	—

9. Borrowings

	2009 £'000	2008 £'000
Carrying value at the beginning of the year	8,049	—
Increases during the year	—	6,577
Interest accrued during the year	361	622
Loans repaid during the year	(7,561)	—
Currency exchange (gains)/losses	(849)	850
Carrying value at the end of the year	—	8,049

	2009 £'000	2008 £'000
Non-current portion	—	—
Current portion	—	8,049
	—	8,049

The Company's borrowings in the prior year are denominated in Rands and bear interest at the Johannesburg Interbank Accepted Rate plus 275 basis points and are repayable in 2012 or earlier. Security for the loan was provided in the form of the Company's ordinary shares in York Timber Organisation Limited, its ordinary shares in Myriad Medical Holdings Limited, its loan to Credit U Holdings Limited and a bank account comprising £3.5 million.

Notes to the Company financial statements continued

for the year ended 31 December 2009

10. Trade and other payables

	2009 £'000	2008 £'000
Trade payables due to subsidiaries	387	11
Trade payables due to external parties	—	57
Total trade payables	387	68
Accrued expenses	77	120
Other payables	33	—
	497	188

11. Share capital and reserves

Details of the share capital and reserves are set out in note 27 to the consolidated financial statements.

12. Cash absorbed by operations

	2009 £'000	2008 £'000
Loss before taxation	(12,587)	(695)
Adjustments for:		
Profit on disposal of investment in subsidiaries	(31)	—
Impairment of investment in subsidiaries	3,883	—
Unrealised (gains)/losses on investments	(2,431)	134
Realised losses on disposal of investments	7,054	837
Dividends and interest from loans and investments	(22)	(1,780)
Finance income	(130)	(283)
Finance costs	364	722
Decrease in provision for performance fee	(404)	(5,363)
Changes in working capital		
Decrease/(increase) in trade and other receivables	407	(120)
Increase/(decrease) in trade and other payables	309	(1,123)
	(3,588)	(7,671)

13. Financial instruments

The Company is exposed to one or more of 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).

Information related to financial instruments and management of these risks is set out in note 31 to the consolidated financial statements. The following information relates specifically to the Company.

13.1 Financial instruments by category

	2009 £'000	2008 £'000
Financial assets		
Financial assets at fair value through profit and loss (classified as held for trading in accordance with IAS 39)		
Investments at fair value through profit and loss	5,374	26,853
Loans and receivables		
Investments classified as loans and receivables	270	73
Trade receivables	192	15
Cash and cash equivalents	586	8,143
	1,048	8,231
	6,422	35,084

13. Financial instruments (continued)

13.1 Financial instruments by category (continued)

	2009 £'000	2008 £'000
Financial liabilities		
Financial liabilities measured at amortised cost		
Borrowings at amortised cost	—	(8,049)
Trade payables	(387)	(68)
	(387)	(8,117)

13.2 Credit risk

At balance sheet date, the Company had no financial assets that were past due or impaired. The Company's maximum exposure to credit risk is equal to the carrying amount of the financial assets recorded in the financial statements (as detailed in note 13.1 above). The credit quality of financial instruments that are not past due or impaired is considered to be good.

13.3 Liquidity risk

All financial liabilities have a contractual maturity of less than 6 months and the expected maturity is not believed to differ from the contractual maturity.

The Company has facilities amounting to R20 million (£1.7 million) with a South African bank which have not been utilised. The Company's shares in Myriad are held as security for this facility. The same facility was available and unutilised at 31 December 2008.

13.4 Market risk

13.4.1 Currency risk

A 10% strengthening of the Rand against Pounds Sterling at the balance sheet date, all other variables held constant, would have resulted in an estimated increase of £624,000 (2008: £694,000) in the reported net asset value of the Company. A 10% weakening of the Rand against Pounds Sterling at the balance sheet date, on the same basis, would have resulted in an estimated decrease of £511,000 (2008: £1,653,000) in the reported net asset value of the Company.

13.4.2 Interest rate risk

A 1% increase in the South African Prime rate, all other variables held constant, would have resulted in an estimated decrease of £12,000 (2008: £274,000) in the reported net asset value of the Company. A 1% decrease in the South African Prime rate, on the same basis, would have resulted in an estimated increase of £12,000 (2008: £273,000) in the reported net asset value of the Company.

13.4.3 Market price risk

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 estimated increase of £942,000 (2008: £917,000) 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 an estimated decrease of £942,000 (2008: £1,928,000) in the reported net asset value of the Group.

13.5 Fair value

13.5.1 Fair value of financial instruments carried at amortised cost

The fair value of the financial instruments accounted for at amortised have been determined for both the current and prior year and approximate the carrying amounts at the respective year ends. Investments classified as loans and receivables and borrowings have a fair value which approximates the carrying amount due to the fact that the afore-mentioned instruments bear interest at rates linked to the South African Prime rate and are believed to approximate the market related discount rates which would be utilised in a discounted cash flow technique in order to calculate a fair value.

Notes to the Company financial statements continued

for the year ended 31 December 2009

13. Financial instruments (continued)

13.5 Fair value (continued)

13.5.2 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 (as defined in note 31.6.2 of the consolidated financial statements) based on the degree to which the fair value is observable:

2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments at fair value through profit and loss (refer note 5)	2,392	2,982	—	5,374

2008	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments at fair value through profit and loss (refer note 5)	10,545	16,308	—	26,853

There were no transfers between levels during the current year (2008: nil).

14. Capital under management

Information related to capital under management is set out in note 32 to the consolidated financial statements.

15. Contingent liabilities and guarantees

The Company has provided a guarantee in respect of funding facilities provide by a bank to KMG for an amount not exceeding R125 million (£10.5 million). This guarantee has been provided as additional security to the bank for the debt financing provided to KMG and Global Roofing Solutions (Pty) Limited. In addition the bank has security over the immovable and movable property of KMG and Global Roofing Solutions (Pty) Limited. It is not probable that these items will result in an outflow of resources required to settle an obligation.

In addition, the Company has provided suretyship, by binding itself jointly and severally as surety for and co-principal debtor in solidium with KMG to and in favour of one of KMG's suppliers for an amount not exceeding R150 million (£12.6 million). The suretyship expires on 31 October 2010.

16. Related party transactions

Details of related parties are set out in note 37 to the consolidated financial statements. In addition the subsidiaries set out in note 3 to the Company financial statements are related parties to the Company.

On 26 June 2009, the Company acquired 100% of the shares in Blackstar SA. Consistent with prior years, the Company continues to pay an advisory fee, paid quarterly in advance, to its subsidiary. The advisory fee for the year ending 31 December 2009 amounted to £1,634,000. A portion of the advisory fee for the 2010 financial year had been paid in advance at 31 December 2009 and amounts to £170,000. Blackstar SA may incur expenses on behalf of the Company and vice versa. These amounts are invoiced and re-imbursed on a monthly basis.

17. Post balance sheet events

Investment in Myriad Medical Holdings Limited ("Myriad")

At 31 December 2009 Blackstar held 19.02% of the ordinary shares in Myriad with a carrying amount of £2.3 million and have accounted for the investment as an investment at fair value through profit and loss.

On 15 January 2010, Blackstar was entitled to acquire control of a further 30.26% of ordinary shares of Myriad as a result of Blackstar's redeemable preference shares in Vermogen Medical (Pty) Limited becoming due and payable. The transfer of the ownership of the shares to Blackstar is still in the process of being completed.

17. Post balance sheet events (continued)

Investment in Myriad Medical Holdings Limited ("Myriad") (continued)

Following the closure of a mandatory offer to the minority shareholders of Myriad on 18 January 2010, Blackstar acquired an additional 0.88% of the outstanding ordinary shares of Myriad. As a result of the closure of the offer, the restrictions on the cash amount of £2.5 million (held by a bank in respect of the mandatory offer, refer note 7) were lifted post year end.

The result of the afore-mentioned transactions will increase Blackstar's shareholding in Myriad to 50.16%.

Myriad has announced the acquisition of 51% of Litha Healthcare Holdings (Pty) Limited. The acquisition is anticipated to be completed on 21 April 2010. It is expected that all shareholders will take up their rights, which will result in Blackstar retaining a non controlling interest in Myriad.

Cancellation of capital redemption reserve

A resolution to cancel the capital redemption reserve of the Company of approximately £30.2 million in order to create distributable reserves, was passed by shareholders of the Company at a General Meeting of the Company held on 8 March 2010. Application has been made to the High Court of England and Wales for the necessary confirmation by the Court for the cancellation of the capital redemption reserve to become effective. It is expected that the cancellation will become effective on 1 April 2010.

Company information

Directors

J B Mills (Non-executive Chairman)
A D Bonamour (Non-executive)
J A Treger (Non-executive)
W A Baertz (Non-executive)
M Ernzer (Non-executive)

Principal place of Business

58 rue Charles Martel
L-2134 Luxembourg
Tel: +352 (40) 25 05 449
Fax: +352 (40) 25 05 509
E-mail: info@blackstar.lu
Website: www.blackstar.lu

Registered Office

Blackstar Group Plc
2nd Floor
Ibex House
The Minorities
London
EC3N 1DX

Solicitors to the Company (as to South African law)

Edward Nathan Sonnenbergs Inc
150 West Street
Sandton 2196
South Africa

Solicitors to the Company (as to English law)

Macfarlanes LLP
20 Cursitor Street
London EC4A 1LT

International Advisor

Maitland Advisory LLP
Berkshire House
168-173 High Holborn
London WC1V 7AA

Registrars and Receiving Agents

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

Nominated Advisor and Broker

Collins Stewart Europe Limited
88 Wood Street
London EC2V 7QR

Bankers

ING Luxembourg S.A.
Investec Bank Limited
Goldman Sachs International

Auditors

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex RH6 0PA

Notice of meeting

BLACKSTAR GROUP PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 2396996)
(R.C.S. Luxembourg number B114318)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Blackstar Group Plc (the “Company”) will be held at 58 rue Charles Martel, L-2134 Luxembourg on 10 May 2010 at 12h00 CET (or as soon thereafter as it may be held) in the presence of a Luxembourg notary for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY BUSINESS:

1. To receive and consider the accounts and reports of the directors, statutory auditor and the independent auditors, and any other documents required by law to be attached or annexed to the stand-alone accounts of the Company for the year ended 31 December 2009 and to the consolidated accounts for the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009.
2. To adopt the Company’s audited stand-alone annual accounts for the financial year ended 31 December 2009.
3. To adopt the Group’s audited consolidated annual accounts for the financial year ended 31 December 2009.
4. To re-elect Wolfgang Baertz, who retires from office pursuant to the Memorandum and Articles of Association of the Company (the “Articles”), as a director of the Company.
5. To re-elect Andrew Bonamour, who retires from office pursuant to the Articles, as a director of the Company.
6. To re-elect Marcel Ernzer, who retires from office pursuant to the Articles, as a director of the Company.
7. To re-elect John Mills, who retires from office pursuant to the Articles, as a director of the Company.
8. To re-elect Julian Treger, who retires from office pursuant to the Articles, as a director of the Company.
9. To re-elect John Kleynhans as the Company’s statutory auditor and to authorise the directors to determine his remuneration.
10. To re-elect BDO LLP as the Company’s independent auditors and to authorise the directors to determine their remuneration.

Directors’ authority to allot and issue shares

11. That the directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (“the Act”) to exercise all the powers of the Company to allot and issue shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company (“Relevant Securities”), up to a maximum aggregate nominal amount of £17,674,306, for a period expiring (unless previously revoked, varied or renewed) on 10 August 2011 or, if sooner, the end of the next annual general meeting of the Company, but the Company may, before such expiry, make an offer or agreement which would or might require Relevant Securities to be allotted after this authority expires and the directors may allot Relevant Securities in pursuance of such offer or agreement as if this authority had not expired and that the Articles be amended to reflect the effect of this resolution.

Disapplication of pre-emption rights

12. That subject to the passing of Resolution 11 above, the directors be generally empowered pursuant to section 570 and 573 of the Act to allot and issue equity securities (within the meaning of section 560 of the Act) for cash, pursuant to the authority conferred by Resolution 11 as if section 561(1) of the Act did not apply to such allotment and issue, provided that this power shall expire on 10 August 2011 or, if sooner, the end of the next annual general meeting of the Company. This power shall be limited to the allotment and issue of equity securities:

12.1 in connection with an offer of equity securities (including, without limitation, under a rights issue, open offer or similar arrangement) in favour of holders of Ordinary Shares in the capital of the Company in proportion (as nearly as may be practicable) to their existing holdings of Ordinary Shares but subject to such exclusions or other arrangements as the directors deem necessary or expedient in relation to fractional entitlements or any legal, regulatory or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and

12.2 otherwise than pursuant to paragraph 12.1 up to an aggregate nominal amount of £2,651,146;

but the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted and issued after this power expires and the directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired and that the Articles be amended to reflect the effect of this resolution.

This power applies in relation to a sale of shares which is an allotment and issue of equity securities by virtue of section 560(2)(b) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by Resolution 11" were omitted.

Company's authority to purchase its own shares

13. That the Company be and is generally and unconditionally authorised pursuant to section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its Ordinary Shares of 67 pence each on such terms and in such manner as the directors shall determine, provided that:

13.1 the maximum number of Ordinary Shares hereby authorised to be purchased is 11,862,889;

13.2 the maximum price which may be paid for each Ordinary Share shall be 5 per cent above the average of the middle market quotations for an Ordinary Share (as derived from the AIM appendix to the Daily Official List of the London Stock Exchange plc) for the five business days immediately before the day on which the purchase is made (in each case exclusive of expenses);

13.3 the minimum price which may be paid for each Ordinary Share shall be one penny; and

13.4 this authority (unless previously revoked, varied or renewed) shall expire on 10 August 2011 or, if sooner, at the end of the Annual General Meeting of the Company to be held in 2011 except in relation to the purchase of Ordinary Shares the contract for which was concluded before such date and which will or may be executed wholly or partly after such date and that the Ordinary Shares bought back in terms of this resolution be cancelled at the relevant time and that any employee of Maitland Luxembourg S.A. or of M Partners be hereby appointed to appear before a public notary in Luxembourg for the purpose of amending the Articles to reflect the changes resulting from the cancellation of any Ordinary Shares bought back in accordance with the terms of this resolution.

SPECIAL BUSINESS:

14. To the extent permitted by law, and in accordance with Article 37 of the Articles, to grant a discharge to the directors in respect of the execution of their mandates to 31 December 2009.

15. To the extent permitted by law, and in accordance with Article 37 of the Articles, to grant a discharge to the statutory auditor in respect of the execution of his mandate to 31 December 2009.

16. To the extent permitted by law, and in accordance with Article 37 of the Articles, to grant a discharge to the independent auditors in respect of the execution of their mandate to 31 December 2009.

17. To approve the continuation of the current investment policy as set out on page 8 of the Company's Annual Report.

Resolutions 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 14, 15, 16, and 17 are to be proposed as ordinary resolutions and Resolutions 11, 12 and 13 as special resolutions. Resolutions 11, 12 and 13 require a 75 per cent majority by value of the Ordinary Shares

present or represented at the Annual General Meeting. In addition, in order to pass Resolutions 11, 12 and 13 under Luxembourg law, a quorum of more than half of the issued Ordinary Shares by value is required to be present or represented at the Annual General Meeting. Resolutions 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 14, 15, 16, and 17 may be passed at the Annual General Meeting by a simple majority representing more than 50 per cent by value of the Ordinary Shares present or represented at the Annual General Meeting. The quorum requirement in relation to Resolutions 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 14, 15, 16, and 17 is at least two Members present or represented at the Annual General Meeting.

In accordance with Luxembourg law, the Annual General Meeting cannot be adjourned if there is no quorum. Accordingly, if at the Annual General Meeting (the "First Meeting") the aforesaid quorum requirement of more than half of the issued Ordinary Shares by value is not present, Resolutions 11, 12 and 13 will not be proposed and will, therefore, not be capable of being passed. The Board of Directors may then decide to convene a subsequent General Meeting (the "Second Meeting") to re-consider Resolutions 11, 12 and 13 (and any other Resolutions not passed at the First Meeting), for which a further notice of meeting will be sent to the Members in accordance with the Articles.

The quorum requirement in relation to all the Resolutions at the Second Meeting will be at least two Members present or represented at the Second Meeting.

If Resolutions 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 14, 15, 16 and 17 are not passed at the First Meeting, they can be passed at the Second Meeting by a simple majority representing more than 50 per cent by value of the Ordinary Shares present or represented at the Second Meeting.

At the Second Meeting Resolutions 11, 12 and 13 can be validly adopted by a majority of 75 per cent by value of the Ordinary Shares present or represented.

By order of the Board
1 April 2010

Registered Office:
Capita Company Secretarial Services
2nd Floor
Ibex House
The Minorities
London
EC3N 1DX

Notes:

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote at the meeting instead of him. The proxy need not be a member of the Company but must attend the meeting in order to represent his appointor. A member entitled to attend and vote at the meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
2. A member entitled to attend and vote at the meeting is entitled to appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares held by that member. To appoint more than one proxy, you may photocopy the enclosed Form of Proxy. Please indicate in the Form of Proxy the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
3. To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars (PXS), 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours before the time appointed for taking the poll, or where the poll is taken not more than 48 hours after it was demanded, the document(s) must be delivered at the meeting at which the demand is made. If you prefer, you may return the proxy form to the Registrar in an envelope addressed to FREEPOST RSBH-UXKS-LRBC, Capita Registrars (PXS), 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
4. A Form of Proxy which may be used to appoint a proxy and give proxy directions accompanies this notice. If you do not receive a proxy form and believe that you should have one, or if you require additional proxy forms in order to appoint more than one proxy, please contact Capita Registrars on 0871 664 0300 or from overseas +44 208 639 3399. Calls cost 10p per minute plus network charges, lines are open 8.30 am – 5.30 pm (GMT) Monday – Friday.
5. The register of interests of the directors and their families in the share capital of the Company and copies of contracts of service of directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company and at the principal place of business of the Company in Luxembourg during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting.
6. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 12h00 (CET) on 8 May 2010 (being not more than 48 hours prior to the time fixed for the meeting) or, if the meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting.
7. Any corporation that is a member of the Company may, by resolution of its directors or other governing body, authorise any person it thinks fit to act as its representative at the Annual General Meeting.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on the above date and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent, Capita Registrars, (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

INTENTIONALLY LEFT BLANK

Form of proxy

BLACKSTAR GROUP PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 2396996 and registered office at Capita Company Secretarial Services, 2nd Floor, Ibex House, The Minories, London EC3N 1DX) (R.C.S. Luxembourg number B114318)

Form of Proxy

For use at the Annual General Meeting to be held in the presence of a Luxembourg notary at 58 rue Charles Martel, L-2134 Luxembourg, on 10 May 2010 at 12h00 (CET)
Please read the notice of Annual General Meeting and the explanatory notes below before completing this form.

I/We
(Please insert full name in block capitals)

of
(Please insert address in block capitals)

being (a) member(s) of Blackstar Group Plc (the "Company"), hereby appoint the Chairman of the Meeting,

or (see Note 1)

as my/our proxy in relation to all/ of my/our shares, to attend and vote for me/us at the Annual General Meeting of the Company to be held on 10 May 2010 at 12h00 (CET) and at any adjournment of that meeting. I/We direct the proxy to vote in relation to the resolutions referred to below as follows:

Please indicate by ticking the box if this proxy appointment is one of multiple appointments being made .

For the appointment of one or more proxy (see Note 1).

Resolutions	For	Against	Vote Withheld*
1 To receive and consider the accounts and reports of the directors, statutory auditor and the independent auditors and any other documents required by law to be attached or annexed to the stand-alone accounts of the Company for the year ended 31 December 2009 and to the consolidated accounts for the Group for the year ended 31 December 2009.			
2 To adopt the Company's audited stand-alone annual accounts for the financial year ended 31 December 2009.			
3 To adopt the Group's audited consolidated annual accounts for the financial year ended 31 December 2009.			
4 To re-elect Wolfgang Baertz as a director of the Company.			
5 To re-elect Andrew Bonamour as a director of the Company.			
6 To re-elect Marcel Ernzer as a director of the Company.			
7 To re-elect John Mills as a director of the Company.			
8 To re-elect Julian Treger as a director of the Company.			
9 To re-elect the Company's statutory auditor and to authorise the directors to determine his remuneration.			
10 To re-elect the Company's independent auditor and to authorise the directors to determine its remuneration.			
11 To authorise the directors to allot and issue ordinary shares up to an aggregate nominal amount of £17,674,306 in the capital of the Company and the amendment of the Company's Articles to reflect the effect of Resolution 11.			
12 To authorise the disapplication of statutory pre-emption rights in the case of an allotment and issue of shares by the directors and the amendment of the Company's Articles to reflect the effect of Resolution 12.			
13 To authorise the Company to purchase its own shares and that the shares bought back in terms of Resolution 13 be cancelled at the relevant time and that any employee of Maitland Luxembourg S.A. or M Partners be appointed to appear before a public notary in Luxembourg for the purpose of amending the Company's Articles to reflect the changes resulting from the cancellation of any shares bought back in accordance with the terms of Resolution 13.			
14 To grant a discharge to the directors in respect of the execution of their mandates to 31 December 2009.			
15 To grant a discharge to the statutory auditor in respect of the execution of his mandate to 31 December 2009.			
16 To grant a discharge to the independent auditors in respect of the execution of their mandate to 31 December 2009.			
17 To approve the continuation of the current investment policy.			

If you want your proxy to vote in a certain way on the resolutions specified, please place an "X" in the appropriate box. If you fail to select any of the given options your proxy can vote as he/she chooses or can decide not to vote at all. The proxy can also do this on any other resolution that is put to the meeting.

* The "Vote Withheld" option is to enable you to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

Please indicate below whether or not you intend to be present at the meeting. This information is sought for administrative purposes only and will not affect your right to attend the meeting, notwithstanding any indication to the contrary.

I will be attending the Meeting I will not be attending the Meeting

Signature Date2010

Notes:

1. To appoint as a proxy a person other than the Chairman of the meeting insert the full name in the space provided. A proxy need not be a member of the Company. You can also appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. The following options are available:
 - (a) To appoint the **Chairman** as your **sole proxy** in respect of all your shares, simply fill in any voting instructions in the appropriate box and sign and date the Form of Proxy.
 - (b) To appoint a **person other than the Chairman as your sole proxy** in respect of all your shares, delete the words 'the Chairman of the meeting (or)' and insert the name and address of your proxy in the spaces provided. Then fill in any voting instructions in the appropriate box and sign and date the Form of Proxy.
 - (c) To appoint **more than one proxy**, you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. If you wish to appoint the Chairman as one of your multiple proxies, simply write 'the Chairman of the Meeting'. All forms must be signed and should be returned together in the same envelope.
2. If no voting indication is given, the proxy will vote as he thinks fit or, at his discretion, abstain from voting.
3. The Form of Proxy above must arrive at Capita Registrars (PXS), 34 Beckenham Road, Beckenham, Kent BR3 4TU accompanied by any Power of attorney under which it is executed (if applicable) no later than 48 hours before the time set for holding the meeting or, if the meeting is adjourned, such time being no later than 48 hours before the time fixed for the adjourned meeting at which the person named in the Form of Proxy proposes to vote.
4. A corporation must execute the Form of Proxy under either its common seal or the hand of a duly authorised officer or attorney.
5. The Form of Proxy is for use in respect of the shareholder account specified above only and should not be amended or submitted in respect of a different account.
6. The 'Vote Withheld' option is to enable you to abstain on any particular resolution. Such a vote is not a vote in law and will not be counted in the votes 'For' and 'Against' a resolution.
7. Shares held in uncertificated form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.
8. Completion and return of the Form of Proxy will not preclude you from attending and voting in person at the Meeting should you subsequently decide to do so.
9. If you prefer, you may return the proxy form to the Registrar in an envelope addressed to FREEPOST RSBH-UXKS-LRBC, Capita Registrars (PXS), 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Blackstar Group Plc

58 rue Charles Martel

L-2134 Luxembourg

www.blackstar.lu