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# BLACKSTAR

Blackstar Group SE  
Interim Report 2011

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## Highlights

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

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# Directors' statement

## Overview

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

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

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

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

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

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

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

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

## Post Balance Sheet Events

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

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

## Directors' statement continued

### Financial Review

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

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

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

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

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

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

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

### Transfer to Malta

Following approval by Blackstar's shareholders on 22 June 2011, Blackstar converted into a *Societas Europaea* or European public limited liability company on 27 June 2011. Following this conversion, the Company will be able to transfer its registered office from England and Wales to another member country of the European Union. This will lessen the administrative, legal and auditing costs which arise from it having its registered office in the United Kingdom and its tax residence and principal establishment in Luxembourg. The Directors plan to propose to Shareholders shortly that Blackstar transfer its registered office and tax establishment to Malta, which is the most efficient jurisdiction for the Company with respect to distributions to Shareholders.

### Special Dividend

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

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## **Outlook**

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

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

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

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

**Andrew Bonamour**

23 September 2011

# Annexure A

## Intrinsic Net Asset Value as at 31 August 2011

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

### Notes

- 1 For the purposes of determining the intrinsic values, listed investments on recognised stock exchanges are valued using quoted bid prices at 31 August 2011 and unlisted investments are shown at directors' valuation, determined using the discounted cash flow methodology. This methodology uses reasonable assumptions and estimations of cash flows and terminal values, and applies an appropriate risk-adjusted discount rate that quantifies the investment's inherent risk to calculate a present value. Given the subjective nature of valuations, the Group is cautious and conservative in determining the valuations and has a track record of selling its unlisted investments above the levels at which it values them.
- 2 Cash represents cash at the centre and excludes cash held by subsidiaries.
- 3 All amounts have been translated using the closing exchange rates at 31 August 2011, with the exception of the investment in Ferro, which has been translated from South African Rand to Pound Sterling using the exchange rate per the forward foreign exchange contract entered into by the Group.
- 4 Other unlisted comprises investments in Adreach (Pty) Limited, Blackstar Real Estate (Pty) Limited, Navigare Securities (Pty) Limited and FBDC Investors Offshore L.P ("Facebook") amongst others.
- 5 Other listed comprises investments in Shoprite Holdings Limited and Wallberg Blackstar African Fund amongst others.
- 6 Proceeds from the sale of investment in Ferro Industrial Products (Pty) Limited are expected to be realised by October 2011. The services derivative investment is expected to be realised in the first half of 2012.
- 7 The decline in intrinsic net asset value since 31 December 2010 is due to depreciation of the South African Rand against Pound Sterling since 31 December 2010, declines in the market value of Litha Healthcare Group Limited and the valuation of the Stalcor division as well as the dilutionary effect of the R100 million issue of shares at 85 pence per share.



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# Independent review report

## Independent review report to the shareholders of Blackstar Group SE

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and related notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### Directors' Responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

### Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

### BDO LLP

Chartered Accountants and Registered Auditors  
Gatwick  
United Kingdom  
23 September 2011

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

# Consolidated income statement

for the six months ended 30 June 2011

		Unaudited Six months to 30 June 2011 £'000	As restated* Unaudited Six months to 30 June 2010 £'000	As restated* Unaudited Year to 31 December 2010 £'000
<b>Continuing operations</b>				
Revenue		49,303	48,429	97,294
Cost of sales		(42,450)	(40,783)	(84,286)
<b>Gross profit</b>		<b>6,853</b>	7,646	13,008
Sales and distribution costs		(1,226)	(867)	(1,654)
Administrative expenses – Trading businesses				
Administrative expenses		(6,401)	(7,574)	(16,099)
Impairment of goodwill		(768)	–	(2,808)
Impairment of intangible assets		(286)	–	(732)
		<b>(7,455)</b>	(7,574)	(19,639)
Other income – Trading businesses		356	88	354
Net gain in respect of associates				
Share of profits of associates	8	1,537	281	1,539
Exceptional gain on dilution of interest in associate	8	2,188	–	–
		<b>3,725</b>	281	1,539
<b>Operating profit/(loss) before net investment (loss)/income</b>		<b>2,253</b>	(426)	(6,392)
Net investment (loss)/income				
Net (losses)/gains on investments	2	(1,573)	733	5,666
Fees, dividends and interest from loans, receivables and investments	3	481	986	1,247
		<b>(1,092)</b>	1,719	6,913
Administrative expenses – Investments				
Impairment of goodwill		–	–	(3,500)
Other administrative expenses		(1,900)	(1,248)	(3,217)
		<b>(1,900)</b>	(1,248)	(6,717)
Other income		–	1,926	1,758
<b>(Loss)/profit from operations</b>		<b>(739)</b>	1,971	(4,438)
Finance income		63	145	248
Finance costs		(780)	(1,472)	(2,719)
<b>(Loss)/profit before taxation</b>		<b>(1,456)</b>	644	(6,909)
Taxation		(133)	512	(1,541)
<b>(Loss)/profit from continuing operations</b>		<b>(1,589)</b>	1,156	(8,450)
<b>Discontinued operations</b>				
Profit/(loss) from discontinued operations net of taxation*	4	2,976	1,326	(4,719)
<b>Profit/(loss) for the period</b>		<b>1,387</b>	2,482	(13,169)
<b>Profit/(loss) for the period attributable to:</b>				
Equity holders of the parent		950	2,419	(11,121)
Non controlling interests		437	63	(2,048)
		<b>1,387</b>	2,482	(13,169)
<b>Basic and diluted earnings/(losses) per ordinary share attributable to equity holders (in pence)</b>	5	<b>1.27</b>	3.08	(14.39)
<b>Basic and diluted (losses)/earnings per ordinary share attributable to equity holders from continuing operations (in pence)</b>	5	<b>(1.98)</b>	2.05	(7.41)

\* Refer note 4

The notes on pages 13 to 30 form part of the consolidated interim financial statements.

# Consolidated statement of comprehensive income

for the six months ended 30 June 2011

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

The notes on pages 13 to 30 form part of the consolidated interim financial statements.

# Consolidated statement of changes in equity

for the six months ended 30 June 2011

	Share capital £'000	Capital redemption reserve £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Attributable to equity holders £'000	Non controlling interests £'000	Total equity £'000
<b>Balance at 31 December 2009</b>	53,023	30,156	8,976	9,594	101,749	(1,994)	99,755
Total comprehensive income/(loss) for the period							
Profit for the period	–	–	2,419	–	2,419	63	2,482
Other comprehensive loss for the period	–	–	–	(1,309)	(1,309)	(49)	(1,358)
	–	–	2,419	(1,309)	1,110	14	1,124
Charge for share based payment	–	–	21	–	21	8	29
Buy-back of ordinary shares	(1,660)	1,660	(1,709)	–	(1,709)	–	(1,709)
Cancellation of capital redemption reserve fund	–	(30,156)	30,156	–	–	–	–
Arising on acquisition of subsidiary	–	–	–	–	–	10,122	10,122
Reduction in non controlling interests arising on acquisition of additional interests in subsidiary	–	–	14	–	14	(14)	–
Arising on deemed disposal of subsidiary on additional shares being issued by the subsidiary	–	–	–	105	105	(10,192)	(10,087)
Reduction in non controlling interests arising on conversion of preference shares held in a subsidiary into ordinary shares	–	–	(1,907)	–	(1,907)	1,907	–
<b>Balance at 30 June 2010</b>	51,363	1,660	37,970	8,390	99,383	(149)	99,234
Total comprehensive (loss)/income for the period							
Loss for the period	–	–	(13,540)	–	(13,540)	(2,111)	(15,651)
Other comprehensive income/(loss) for the period	–	–	–	6,214	6,214	(214)	6,000
	–	–	(13,540)	6,214	(7,326)	(2,325)	(9,651)
Charge for share based payment	–	–	2	–	2	–	2
Buy-back of ordinary shares	(1,233)	1,233	(1,370)	–	(1,370)	–	(1,370)
Interim dividend paid	–	–	(493)	–	(493)	–	(493)
<b>Balance at 31 December 2010</b>	50,130	2,893	22,569	14,604	90,196	(2,474)	87,722
Total comprehensive income/(loss) for the period							
Profit for the period	–	–	950	–	950	437	1,387
Other comprehensive (loss)/income for the period	–	–	–	(2,835)	(2,835)	172	(2,663)
	–	–	950	(2,835)	(1,885)	609	(1,276)
Release of foreign currency translation reserve on disposal of investments	–	–	58	(58)	–	–	–
Reduction in non controlling interests arising on subsidiaries buy-back of shares from non controlling shareholders (refer note 7)	–	–	(4,577)	–	(4,577)	4,577	–
Final dividend paid	–	–	(673)	–	(673)	–	(673)
<b>Balance at 30 June 2011</b>	50,130	2,893	18,327	11,711	83,061	2,712	85,773

An interim dividend of 0.65 pence per ordinary share was declared on 21 September 2010 and paid on 20 November 2010. A final dividend of 0.90 pence per ordinary share was declared on 21 April 2011 and paid on 26 May 2011.

The notes on pages 13 to 30 form part of the consolidated interim financial statements.

# Consolidated balance sheet

as at 30 June 2011

	Notes	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
<b>Non-current assets</b>				
Property, plant and equipment		9,684	19,368	21,666
Goodwill	6	13,829	27,243	18,835
Intangible assets		4,128	14,420	13,281
Investments in associates	8	17,422	11,998	14,637
Investments classified as loans and receivables	9	448	794	873
Investments at fair value through profit and loss	10	8,997	7,774	12,056
Other financial assets		16	–	52
Deferred tax assets		108	1,729	125
		<b>54,632</b>	<b>83,326</b>	<b>81,525</b>
<b>Current assets</b>				
Investments classified as loans and receivables	9	2,614	220	502
Investments at fair value through profit and loss	10	7,868	1,489	545
Other financial assets		–	139	26
Current tax assets		28	518	423
Trade and other receivables		22,836	35,667	25,105
Inventories		19,699	43,432	27,006
Cash and cash equivalents	17	10,844	32,840	19,196
		<b>63,889</b>	<b>114,305</b>	<b>72,803</b>
Assets in disposal group classified as held for sale	11	31,372	–	–
		<b>95,261</b>	<b>114,305</b>	<b>72,803</b>
<b>Total assets</b>		<b>149,893</b>	<b>197,631</b>	<b>154,328</b>
<b>Non-current liabilities</b>				
Borrowings	12	(2,038)	(11,125)	(12,538)
Other financial liabilities	13	(1,488)	(4,402)	(3,937)
Provisions		(171)	(66)	(197)
Deferred tax liabilities		(1,935)	(4,357)	(4,733)
		<b>(5,632)</b>	<b>(19,950)</b>	<b>(21,405)</b>
<b>Current liabilities</b>				
Borrowings	12	(61)	(10,574)	(1,295)
Other financial liabilities	13	(8,268)	(31,263)	(25,540)
Provisions		(11)	–	(288)
Current tax liabilities		(108)	(1,768)	(442)
Trade and other payables		(30,010)	(30,938)	(17,635)
Bank overdrafts	17	(2,614)	(3,904)	(1)
		<b>(41,072)</b>	<b>(78,447)</b>	<b>(45,201)</b>
Liabilities directly associated with assets in disposal group classified as held for sale	11	(17,416)	–	–
		<b>(58,488)</b>	<b>(78,447)</b>	<b>(45,201)</b>
<b>Total liabilities</b>		<b>(64,120)</b>	<b>(98,397)</b>	<b>(66,606)</b>
<b>Total net assets</b>		<b>85,773</b>	<b>99,234</b>	<b>87,722</b>
<b>Equity</b>				
Share capital	14	50,130	51,363	50,130
Capital redemption reserve	14	2,893	1,660	2,893
Foreign currency translation reserve	14	11,711	8,390	14,604
Retained earnings	14	18,327	37,970	22,569
<b>Total equity attributable to equity holders</b>		<b>83,061</b>	<b>99,383</b>	<b>90,196</b>
Non controlling interest		2,712	(149)	(2,474)
<b>Total equity</b>		<b>85,773</b>	<b>99,234</b>	<b>87,722</b>
<b>Net asset value per share (in pence)</b>	15	<b>111</b>	<b>130</b>	<b>121</b>

The notes on pages 13 to 30 form part of the consolidated interim financial statements.

# Consolidated cash flow statement

for the six months ended 30 June 2011

		Unaudited Six months to 30 June 2011 £'000	Unaudited Six months to 30 June 2010 £'000	Audited Year to 31 December 2010 £'000
	Notes			
<b>Cash flow from operating activities</b>				
Cash generated/(absorbed) by operations	16	4,127	(865)	13,795
Interest received		180	243	461
Interest paid		(1,845)	(2,180)	(4,525)
Dividends received		–	5,789	5,798
Taxation paid		(983)	(457)	(2,645)
<b>Cash generated by operating activities</b>		<b>1,479</b>	<b>2,530</b>	<b>12,884</b>
<b>Cash flow from investing activities</b>				
Purchase of property, plant and equipment		(917)	(830)	(2,748)
Additions to investments classified as loans and receivables		(1,653)	–	(746)
Purchase of investments at fair value through profit and loss		(2,914)	(2,133)	(5,019)
Acquisition of subsidiaries		–	–	(176)
Cash outflow on acquisition of subsidiary and subsequent deemed disposal		–	(4,950)	(4,950)
Proceeds from disposal of property, plant and equipment		8	28	127
Proceeds from disposal of investments		1,182	15,918	21,667
Disposal of discontinued operation, net of cash disposed of	4.1	12,168	–	–
<b>Cash generated by investing activities</b>		<b>7,874</b>	<b>8,033</b>	<b>8,155</b>
<b>Cash flow from financing activities</b>				
Proceeds from borrowings		–	–	1,312
Repayment of borrowings		(795)	(4,197)	(14,866)
Movement in other financial liabilities (including short-term funding facilities)		(15,707)	7,170	(2,232)
Buy-back of ordinary shares		–	(1,709)	(3,079)
Issue of shares		–	–	–
Dividends paid to equity holders of the parent		(673)	–	(493)
<b>Cash (absorbed)/generated by financing activities</b>		<b>(17,175)</b>	<b>1,264</b>	<b>(19,358)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(7,822)</b>	<b>11,827</b>	<b>1,681</b>
Cash and cash equivalents at the beginning of the period		19,195	17,319	17,319
Exchange (losses)/gains on cash and cash equivalents		(16)	(210)	195
<b>Cash and cash equivalents at the end of the period</b>	17	<b>11,357</b>	<b>28,936</b>	<b>19,195</b>

The notes on pages 13 to 30 form part of the consolidated interim financial statements.

# Notes to the interim consolidated financial statements (unaudited)

for the six months ended 30 June 2011

## 1. Accounting policies

### 1.1 Basis of preparation

The half-yearly report has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board ("IASB") as endorsed by the European Union, using accounting policies that are expected to be applied for the financial year ending 31 December 2011.

The principal accounting policies adopted in the preparation of the consolidated interim financial statements have been consistently applied across all periods presented. All financial information has been rounded to the nearest thousand unless stated otherwise.

The Group has chosen not to adopt IAS 34 Interim Financial Statements in preparing the consolidated interim financial statements.

The financial information in this half-yearly report does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The comparative financial information for the year ended 31 December 2010 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts of Blackstar Group SE for the year ended 31 December 2010 have been reported on by the Company's auditors and have been delivered to the Registrar of Companies. The auditor's report was unqualified, did not include a reference to matters to which the auditors draw attention by way of emphasis without qualifying their report, and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

## 2. Net (losses)/gains on investments

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Net (losses)/gains on investments classified as loans and receivables	(13)	3,352	3,432
Net (losses)/gains on investments at fair value through profit and loss	(1,674)	(2,374)	2,477
Net gains on trading financial instruments at fair value through profit and loss	114	–	2
Gain/(loss) on derivative in a designated hedge relationship	–	(245)	(245)
Net (losses)/gains on investments	(1,573)	733	5,666

## 3. Fees, dividends and interest from loans, receivables and investments

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Dividends from unimpaired investments classified as loans and receivables	–	576	576
Dividends from investments at fair value through profit and loss	1	–	8
Interest income from unimpaired investments classified as loans and receivables	117	45	116
Fee income	363	365	547
	481	986	1,247

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 4. Discontinued operations

Blackstar had two discontinued operations during the current reporting period: namely the Baldwins Steel division ("Baldwins") sold in June 2011; and Ferro Industrial Products (Pty) Limited ("Ferro") for which the Group had committed to a plan to sell the shares held in this company. The comparative information for the six months ended 30 June 2010 and the year ended 31 December 2010 were restated to present income generated and expenses incurred by discontinued operations separately from continuing operations. Ferro has been classified as a disposal group held for sale as at 30 June 2011 (refer note 11).

#### 4.1 Sale of Baldwins division

KMG comprised of two main operating divisions, namely Baldwins and Stalcor. Due to the continued losses incurred by Baldwins, the decision was taken in April 2011 to sell the division to Robor (Pty) Limited ("Robor"). The Baldwins division comprising, fixed and intangible assets, was sold to Robor in exchange for an issue of 5% of the equity share capital in Robor. Robor acquired the carbon inventories for cash and assisted KMG with collecting the outstanding trade receivables. The sale was effective on 1 June 2011.

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
<b>Results of discontinued operation</b>			
Revenue	30,214	40,185	74,742
Expenses other than finance costs	(31,257)	(39,757)	(76,630)
Impairment of goodwill	–	–	(3,695)
Impairment of intangible assets	–	–	(997)
Finance costs	(635)	(758)	(1,696)
Loss before taxation	(1,678)	(330)	(8,276)
Taxation	140	85	121
Gain on disposal of discontinued operation net of taxation	2,970	–	–
Profit/(loss) for the period	1,432	(245)	(8,155)
<b>Profit/(loss) for the period attributable to:</b>			
Equity holders of the parent	1,518	(152)	(7,504)
Non controlling interests	(86)	(93)	(651)
	1,432	(245)	(8,155)
<b>Earnings/(losses) per share from discontinued operation</b>			
Basic and diluted earnings/(losses) per share (in pence)	1.96	(0.19)	(9.71)
	Six months to 30 June 2011	Six months to 30 June 2010	Year to 31 December 2010
<b>Cash flows generated/(absorbed) by discontinued operation</b>			
Cash generated/(absorbed) from operating activities	10,438	(3,599)	(979)
Cash generated/(absorbed) from investing activities	3,190	109	(164)
Cash (absorbed)/generated from financing activities	(13,628)	3,484	1,126
Effect on cash flows	–	(6)	(17)



#### 4. Discontinued operations (continued)

##### 4.1 Sale of Baldwins division (continued)

	30 June 2011 £'000
<b>Effect of disposal on the financial position of the Group</b>	
The net assets disposed of were as follows:	
Property, plant and equipment	3,267
Goodwill, net of impairment	–
Intangible assets	653
Inventories	10,759
Cash and cash equivalents	–
Other financial liabilities	(509)
Trade and other payables	(460)
Net assets and liabilities	13,710
Consideration received	
Cash received	12,168
Shares in Robor (Pty) Limited at fair value	4,512
Gain on disposal of discontinued operation	2,970
Related tax expense	–
Gain on disposal of discontinued operation net of taxation	2,970
Consideration received, satisfied in cash	12,168
Cash and cash equivalents disposed of	–
Net cash inflow on disposal of discontinued operation	12,168

##### 4.2 Sale of Ferro

On 30 June 2011, Blackstar had committed to sell its net investment in Ferro. For further details on the sale, refer note 11.

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
<b>Results of discontinued operation</b>			
Revenue	18,194	17,481	36,064
Expenses other than finance costs	(15,484)	(14,574)	(30,209)
Finance costs	(552)	(618)	(1,215)
Profit before taxation	2,158	2,289	4,640
Taxation	(614)	(718)	(1,204)
Gain on disposal of discontinued operation net of taxation	–	–	–
Profit for the period	1,544	1,571	3,436
<b>Profit for the period attributable to:</b>			
Equity holders of the parent	913	959	2,105
Non controlling interests	631	612	1,331
	1,544	1,571	3,436
<b>Earnings per share from discontinued operation</b>			
Basic and diluted earnings per share (in pence)	1.18	1.22	2.72

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 4. Discontinued operations (continued)

#### 4.2 Sale of Ferro (continued)

	Six months to 30 June 2011	Six months to 30 June 2010	Year to 31 December 2010
<b>Cash flows generated/(absorbed) by discontinued operation</b>			
Cash generated/(absorbed) from operating activities	1,447	1,692	2,882
Cash absorbed from investing activities	(496)	(417)	(800)
Cash absorbed from financing activities	(687)	(831)	(1,827)
Effect on cash flows	264	444	255

#### 4.3 Summary of all discontinued operations

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
<b>Total results of discontinued operations</b>			
Revenue	48,408	57,666	110,806
Expenses other than finance costs	(46,741)	(54,331)	(106,839)
Impairment of goodwill	–	–	(3,695)
Impairment of intangible assets	–	–	(997)
Finance costs	(1,187)	(1,376)	(2,911)
Profit/(loss) before taxation	480	1,959	(3,636)
Taxation	(474)	(633)	(1,083)
Gain on disposal of discontinued operation net of taxation	2,970	–	–
Profit/(loss) for the period	2,976	1,326	(4,719)
<b>Profit/(loss) for the period attributable to:</b>			
Equity holders of the parent	2,431	807	(5,399)
Non controlling interests	545	519	680
	2,976	1,326	(4,719)

#### Total earnings/(losses) per share from discontinued operations

Basic and diluted earnings/(losses) per share (in pence)	3.25	1.03	(6.99)
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	Six months to 30 June 2011	Six months to 30 June 2010	Year to 31 December 2010
<b>Cash flows generated/(absorbed) by discontinued operation</b>			
Cash generated/(absorbed) from operating activities	11,885	(1,907)	1,903
Cash generated/(absorbed) from investing activities	2,694	(308)	(964)
Cash (absorbed)/generated from financing activities	(14,315)	2,653	(701)
Effect on cash flows	264	438	238

## 5. Basic and diluted earnings/(losses) per share

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Net (loss)/profit attributable to equity holders of the parent from continuing operations	(1,481)	1,612	(5,722)
Net profit/(loss) attributable to equity holders of the parent from discontinued operations	2,431	807	(5,399)
Total net profit/(loss) attributable to equity holders of the parent	950	2,419	(11,121)
Weighted average number of shares in issue (thousands)	74,821	78,454	77,275
Basic and diluted earnings/(losses) per ordinary share attributable to equity holders (in pence)	1.27	3.08	(14.39)
Basic and diluted (losses)/earnings per ordinary share attributable to equity holders from continuing operations (in pence)	(1.98)	2.05	(7.41)

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

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

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

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 6. Goodwill

	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Cost	<b>21,339</b>	31,278	33,304
Accumulated impairment losses	<b>(7,510)</b>	(4,035)	(14,469)
Carrying amount	<b>13,829</b>	27,243	18,835
	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Ferro Industrial Products (Pty) Limited ("Ferro")	–	3,680	4,075
KMG Steel Service Centres (Pty) Limited ("KMG") (net of impairment)	<b>1,365</b>	7,897	2,241
Blackstar Group (Pty) Limited ("Blackstar SA") and internalisation of investment advisory arrangements (net of impairment)	<b>11,382</b>	14,882	11,382
Blackstar Real Estate (Pty) Limited ("BRE")	–	–	–
Arising on acquisitions made by KMG	<b>1,082</b>	784	1,137
Carrying amount at the end of the period	<b>13,829</b>	27,243	18,835
	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Carrying amount at the beginning of the period	<b>18,835</b>	26,772	26,772
Ferro goodwill reclassified to non-current assets held for sale	<b>(3,878)</b>	–	–
Arising on acquisitions made by KMG	–	–	247
Impairment arising on goodwill in respect of KMG	<b>(768)</b>	–	(6,503)
Impairment arising on goodwill in respect of internalisation of investment advisory arrangements	–	–	(3,500)
Currency exchange (losses)/gains during the period	<b>(360)</b>	471	1,819
Carrying amount at the end of the period	<b>13,829</b>	27,243	18,835

An impairment of £768,000 has been recognised on the goodwill relating to Global Roofing Solutions (Pty) Limited (a subsidiary of KMG) as two of its cash generating units have not performed in line with initial anticipations due to slow market conditions.

## 7. Subsidiaries

Details of the Company's principal subsidiaries, all of which have been included in these consolidated interim financial statements, are as follows:

	<b>Principal Activity</b>	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Blackstar (Cyprus) Investors Limited*	Investment company	100%	100%	100%
Blackstar (Gibraltar) Limited^	Investment company	100%	100%	100%
Ferro Industrial Products (Pty) Limited#	Industrial chemicals company	54%	54%	54%
KMG Steel Service Centres (Pty) Limited#	Industrial metals company	99%	87%	87%
Blackstar Group (Pty) Limited#	Investment advisory company	100%	100%	100%
Blackstar Real Estate (Pty) Limited#	Property company	100%	100%	100%

\* Incorporated in Cyprus

^ Incorporated in Gibraltar

# Incorporated in South Africa

On 3 May 2011, KMG bought back some of the non controlling shareholders ordinary shares at par value thereby increasing Blackstar's effective shareholding in KMG from 87% to 99%. As a result, an amount of £4,577,000 (being the proportionate share of 12% of the carrying amount of the net liabilities of KMG) was transferred to non controlling interests (refer consolidated statements of changes in equity).

## 8. Investments in associates

	<b>Principal Activity</b>	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Litha Healthcare Group Limited*	Healthcare company	39%	45%	45%
Navigare Securities (Pty) Limited*	Stockbroker	25%	25%	25%

\* Incorporated in South Africa

On 1 January 2011, Blackstar's shareholding in Litha was diluted from 45% to 39% as a result of Litha issuing shares to non controlling shareholders. Litha shares were issued on acquisition of a new business and a further share issue occurred in order to implement Litha's acquisition of the remaining 49% of Litha Healthcare Holdings (Pty) Limited. Blackstar has recognised a gain of £2,188,000 in the income statement (comprising the difference between the carrying value of the associate that has been derecognised and Blackstar's share of the proceeds received by Litha on issue of the shares).

Summarised financial information in respect of the Group's associates is set out below:

	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Total assets	142,749	100,084	121,013
Total liabilities	(98,839)	(64,718)	(70,958)
Net assets	43,910	35,366	50,055
Group's share of associates	17,422	11,998	14,637

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 8. Investments in associates (continued)

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Total revenue	80,444	28,880	105,332
Total profit for the period	3,953	688	3,574
Group's share of profit of associates	1,537	281	1,539

At 30 June 2011, Litha's closing bid price of R2.58 and the Group's share of Litha at this market price amounted to R376,624,000 (£34,604,000).

The Company has provided security to two banks for just over 57% of its ordinary shares in Litha.

The Group did not receive any dividends from either of its associates.

### 9. Investments classified as loans and receivables

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Carrying value at the beginning of the period	1,375	23,101	23,101
Additions during the period at cost*	1,807	–	746
Disposals during the period at cost	(164)	(13,537)	(13,985)
Unrealised losses on disposals recognised in prior periods	–	167	167
Net dividends and interest accrued/(received) during the period	72	(6,078)	(6,053)
Impairments during the period	–	(56)	(56)
Currency exchange losses during the period	(28)	(2,583)	(2,545)
Carrying value at the end of the period	3,062	1,014	1,375

\* Additions in the current period include the reclassification of an amount of £154,000 from investment in the associate Navigare to an equity loan.

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Non-current portion	448	794	873
Current portion	2,614	220	502
	3,062	1,014	1,375

### Analysis of (losses)/gains on investments

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Proceeds on disposals during the period	190	16,778	17,306
Investments at cost	(164)	(13,537)	(13,985)
Realised gains on disposals based on historical cost	26	3,241	3,321
Add unrealised losses on disposals recognised in prior periods	–	167	167
Realised gains recognised in the income statement on disposals based on carrying value at prior period balance sheet date	26	3,408	3,488
Realised exchange gains on disposal of investments released directly to retained earnings	(39)	–	–
Impairments during the period	–	(56)	(56)
Net (losses)/gains on investments	(13)	3,352	3,432

## 9. 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:

	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Loan to Tanmac Trading (Pty) Limited. The loan bears interest at South African Prime rate plus 200 basis points nominal annual compounded monthly and is repayable in 2013	<b>528</b>	–	564
Loan to Air-O-Thene (Pty) Limited. The loan bears interest at South African Prime rate plus 300 basis points nominal annual compounded monthly and is repayable on demand	<b>609</b>	–	249
Loan to Adreach (Pty) Limited. The loan bears interest at South African Prime rate plus 200 basis points nominal annual compounded monthly and is repayable in 2011	<b>107</b>	220	244
Loan to Navigare Securities (Pty) Limited. The loan bears interest at 75% of South African Prime rate nominal compounded monthly and has been repaid	–	518	–
Equity loan to Navigare Securities (Pty) Limited which is interest free	<b>127</b>	–	–
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	<b>315</b>	276	318
Loan to Ukuvula Investments (Pty) Limited. The loan bears interest at South African Prime rate plus 300 basis points nominal annual compounded monthly and is repayable on 30 September 2012	<b>1,376</b>	–	–
Carrying value at the end of the period	<b>3,062</b>	1,014	1,375

## 10. Investments at fair value through profit and loss

	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Fair value at the beginning of the period	<b>12,601</b>	13,482	13,482
Additions during the period at cost*	<b>7,426</b>	2,133	5,019
Disposals during the period at cost	<b>(915)</b>	(1,393)	(6,485)
Unrealised losses on disposals recognised in prior periods	<b>(86)</b>	(1,522)	(1,138)
Unrealised (losses)/gains during the period	<b>(1,649)</b>	(1,346)	2,992
Currency exchange (losses)/gains during the period	<b>(512)</b>	431	1,253
Other movements <sup>^</sup>	–	(2,522)	(2,522)
Fair value at the end of the period	<b>16,865</b>	9,263	12,601

\* Additions in the current period include Robor shares with a fair value of £4,512,000 received on disposal of the Baldwins operation (refer note 4).

<sup>^</sup> Other movements in the prior periods represent balances that are now included under investments in associates.

	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Non-current portion	<b>8,997</b>	7,774	12,056
Current portion	<b>7,868</b>	1,489	545
	<b>16,865</b>	9,263	12,601

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

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

#### Analysis of (losses)/gains on investments

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Proceeds on disposals during the period	992	1,887	7,108
Investments at cost	(915)	(1,393)	(6,485)
Realised gains on disposals based on historical cost	77	494	623
Less unrealised gains on disposals recognised in prior periods	(86)	(1,522)	(1,138)
Realised losses recognised in the income statement on disposals based on carrying value at the prior period balance sheet date	(9)	(1,028)	(515)
Realised exchange gains on disposal of investments released directly to retained earnings	(16)	–	–
Unrealised (losses)/gains during the period	(1,649)	(1,346)	2,992
Net (losses)/gains on investments	(1,674)	(2,374)	2,477
	<b>30 June 2011 £'000</b>	<b>30 June 2010 £'000</b>	<b>31 December 2010 £'000</b>
Derivative investment in a telecom company, which gives the Group exposure to a minority interest in the underlying telecom company	–	723	–
Derivative investment in a services company, which gives the Group exposure to a minority interest in the underlying services company	7,831	5,078	9,768
Convertible, non-redeemable, cumulative preference shares in York Timber Holdings Limited	–	766	–
Ordinary shares in Adreach (Pty) Limited	1,730	1,984	2,027
Ordinary shares in Robor (Pty) Limited	4,594	–	–
Ordinary shares in Wonderdeals 38 (Pty) Limited	319	–	261
Ordinary shares in Fantastic Investments 379 (Pty) Limited	33	–	–
Investment in FBDC Investor Offshore Holdings L.P.	250	–	–
Other listed shares, funds and fixed income securities	2,108	712	545
Fair value at the end of the period	16,865	9,263	12,601



## 11. Assets and liabilities classified as held for sale

The Group's subsidiary Ferro (the Industrial chemicals segment), is presented as a disposal group held for sale following the signing of the sale agreement becoming highly probable on 30 June 2011. The transaction is expected to be completed in October 2011, once all the suspensive conditions including the approval of the South African Competition Authorities have been met.

The carrying amount of the disposal group is lower than its fair value less costs to sell and thus no impairment loss has been recognised.

As at 30 June 2011, the disposal group comprised the following assets and liabilities:

	<b>30 June 2011 £'000</b>
<b>Assets in disposal groups classified as held for sale</b>	
Property, plant and equipment	6,935
Goodwill	3,878
Intangible assets	7,051
Trade and other receivables	5,203
Inventories	5,178
Cash and cash equivalents	3,127
	<b>31,372</b>
<b>Liabilities directly associated with assets in disposal group classified as held for sale</b>	
Borrowings	10,449
Other financial liabilities	10
Deferred tax liabilities	2,048
Current tax liabilities	75
Trade and other payables	4,834
	<b>17,416</b>

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 12. Borrowings

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
<b>Unsecured</b>			
Loans to KMG and Ferro from non controlling shareholders. The KMG loan bears interest at 90% of the South African Prime rate nominal annual compounded semi-annually and is repayable in 2013. The Ferro loan bears interest at South African Prime rate plus 300 basis points and has no fixed terms of repayment. The Ferro loan has been reclassified to non-current liabilities held for sale	483	2,424	2,702
Cumulative redeemable class A preference shares in KMG held by a non controlling shareholder. Dividends are payable at 90% of South African Prime rate nominal annual compounded semi-annually and the shares are redeemable in 2013	161	146	169
Loan which bears interest at a fixed rate of 10% per annum and is repayable in monthly instalments ending in 2013	110	–	150
<b>Secured</b>			
Loans which bear interest at variable amounts ranging from Johannesburg Interbank Agreed rate plus 350 to 500 basis points. The loans have been repaid	–	10,127	–
Loan which bears interest at a fixed rate of 12.07% per annum, repayable in quarterly instalments with the final instalment due in May 2014. This loan has been reclassified to non-current liabilities held for sale	–	9,002	9,399
Mortgage loan which bears interest at a fixed rate of 11.81% per annum, repayable in monthly instalments, escalating by 10% per annum with the final instalment payable in 2020	1,345	–	1,413
	<b>2,099</b>	<b>21,699</b>	<b>13,833</b>
	<b>30 June 2011 £'000</b>	<b>30 June 2010 £'000</b>	<b>31 December 2010 £'000</b>
Non-current portion	2,038	11,125	12,538
Current portion	61	10,574	1,295
	<b>2,099</b>	<b>21,699</b>	<b>13,833</b>

### 13. Other financial liabilities

Other financial liabilities comprise the following:

	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Revolving inventory financing facility. The loans bear interest at South African Prime rate plus 100 basis points. Interest is repayable monthly in arrears and the capital is repayable on a rolling unspecified period	<b>2,756</b>	14,823	15,929
Debtors invoice discounting facility. The loan bears interest at South African Prime rate plus 100 basis points. Interest is repayable monthly in arrears and the capital is repayable on a rolling unspecified period	<b>5,195</b>	16,111	9,117
Accrual arising on operating leases as a result of lease payments being recognised as an expense on a straight-line basis over the lease term	<b>1,193</b>	2,594	2,957
Asset finance loan, which bears interest at a fixed rate of 10% per annum and is repayable in monthly instalments ending in 2013	<b>508</b>	–	624
Finance leases and instalment sale agreements. Certain loans bear interest at rates ranging from 150 to 200 basis points below the South African Prime rate and the other loans bear interest at a fixed rate between 12% and 13.5%. The loans are repayable in monthly instalments	<b>104</b>	849	771
Asset finance loan, which is interest free and has been repaid	–	722	–
<i>Derivatives designated and effective as hedging instruments carried at fair value</i>			
Forward exchange contracts (“FECs”)	–	566	79
	<b>9,756</b>	35,665	29,477
	<b>30 June 2011 £'000</b>	30 June 2010 £'000	31 December 2010 £'000
Non-current portion	<b>1,488</b>	4,402	3,937
Current portion	<b>8,268</b>	31,263	25,540
	<b>9,756</b>	35,665	29,477

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 14. Share capital and reserves

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
<b>Authorised</b>			
150,000,000 ordinary shares of €0.76 (2010: £0.67) each	<b>100,500</b>	100,500	100,500
<b>Issued and fully paid</b>			
76,661,193 ordinary shares of £0.67 each	–	51,363	–
74,821,193 ordinary shares of €0.76 (2010: £0.67) each	<b>50,130</b>	–	50,130

#### Movement of the ordinary shares of €0.76 (2010: £0.67) each for the period

	Number of shares	Number of shares	Number of shares
Total number of shares in issue at the beginning of the period	<b>74,821,193</b>	79,138,688	79,138,688
Buy-back and cancellation of shares	–	(2,477,495)	(4,317,495)
Total number of shares in issue at the end of the period	<b>74,821,193</b>	76,661,193	74,821,193

Following approval by Blackstar's shareholders on 22 June 2011, Blackstar converted into a Societas Europaea or European public limited liability company on 27 June 2011. Following this conversion, the base currency changed from Sterling to Euros and thus the share capital of the Company was converted from a par value £0.67 to a par value of €0.76 using the exchange rate on the prevailing date.

#### Foreign currency translation reserve

The foreign currency translation reserve comprises exchange differences arising on translation of assets and liabilities denominated in the functional currency (Rands) and all foreign exchange differences arising on translation of the financial statements of foreign operations.

#### Retained earnings

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

### 15. Net asset value per share

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Total net assets attributable to equity holders	<b>83,061</b>	99,383	90,196
Number of shares in issue (thousands)	<b>74,821</b>	76,661	74,821
Net asset value per share (in pence)	<b>111</b>	130	121

## 16. Cash absorbed by operations

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Profit/(loss) for the period	1,387	2,482	(13,169)
Taxation			
Continuing operations	133	(512)	1,541
Discontinued operations	474	633	1,083
Profit/(loss) before taxation	1,994	2,603	(10,545)
Adjustments for:			
Loss/(profit) on disposal property, plant and equipment	18	(1)	(25)
Depreciation of property, plant and equipment	1,538	1,458	3,106
Amortisation of intangible assets	489	721	1,465
Impairment of intangible assets	286	–	1,729
Impairment of goodwill	768	–	10,003
Unrealised losses/(gains) on investments	1,735	2,758	(1,965)
Realised gains on disposal of investments	(48)	(3,735)	(3,944)
Dividends and interest from loans and investments	(118)	(621)	(700)
Gain on deemed disposal of a subsidiary	–	(870)	(870)
Release of foreign currency translation reserve on deemed disposal of a subsidiary	–	105	105
Gain on disposal of discontinued operation	(2,970)	–	–
Finance income	(133)	(209)	(382)
Finance costs	2,036	2,912	5,764
Share of profit of associates	(1,537)	(281)	(1,539)
Exceptional gain on dilution of interest in associate	(2,188)	–	–
Share based payment expense	–	29	30
(Decrease)/increase in provisions	(273)	(76)	198
Changes in working capital			
(Increase)/decrease in trade and other receivables	(4,028)	(10,318)	2,851
(Increase)/decrease in inventories	(9,952)	(10,227)	9,131
Increase/(decrease) in trade and other payables	18,100	14,468	(684)
(Decrease)/increase in lease accruals	(1,584)	105	185
Movement in other financial liabilities in respect of FEC's and derivatives in hedging relationships	(6)	314	(118)
	4,127	(865)	13,795

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 17. Cash and cash equivalents

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Deposits and cash at bank	10,844	32,840	19,196
Bank overdrafts	(2,614)	(3,904)	(1)
Cash and cash equivalents per the balance sheet	8,230	28,936	19,195
Cash and cash equivalents included under assets and liabilities classified as held for sale	3,127	–	–
Cash and cash equivalents per the cash flow statement	11,357	28,936	19,195

### 18. Post balance sheet

#### Disposal of investment in Ferro

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

#### Secondary listing on Altx of JSE Limited and issue of new ordinary shares

Blackstar listed its ordinary shares as a secondary listing on the Altx of JSE Limited, with effect from the commencement of trade on 12 August 2011. In addition, Blackstar issued and allotted 10,467,229 new ordinary shares of €0.76 each at R9.53 per share (the Rand equivalent of the 85 pence per ordinary share) pursuant to the private placement to raise R100 million. Following this issue, the Company's issued share capital consists of 85,288,422 ordinary shares.

#### Acquisition of property

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

### 19. Segmental information

The Group has the following reporting segments: Industrial chemicals (which includes the subsidiary Ferro), Industrial metals (including the subsidiary KMG and its subsidiaries), Healthcare (which includes the associate Litha) and Investment activities (which includes the holding company Blackstar Group SE, the subsidiaries Blackstar Gibraltar, Blackstar Cyprus, Blackstar SA, BRE and the Group's associate Navigare). 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 Board of Directors assess the performance of the operating segments based primarily on the measures of revenue and EBITDA. Other information provided is measured in a manner consistent with that in the financial statements.

The Baldwins division, which falls within the Industrial chemicals segment, is a discontinued operation and was sold in June 2011. The Industrial metals segment is a discontinued operation as the subsidiary Ferro is to be sold by October 2011. Refer note 4.

## 19. Segmental information (continued)

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
<b>Revenue</b>			
As reported by segment:			
Industrial chemicals	18,194	17,481	36,064
Industrial metals	79,517	88,614	172,037
Total revenue reported by segments	97,711	106,095	208,101
Less reported by discontinued operations			
Industrial chemicals	(18,194)	(17,481)	(36,064)
Industrial metals	(30,214)	(40,185)	(74,742)
	(48,408)	(57,666)	(110,806)
Consolidated total from continuing operations reported by the Group	49,303	48,429	97,295

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
<b>EBITDA</b>			
As reported by segment:			
Industrial chemicals	3,357	3,513	7,043
Industrial metals	3,326	1,769	(3,502)
Investment activities	(8,553)	3,094	145
Healthcare	3,725	281	1,539
Total EBITDA reported by segments	1,855	8,657	5,225
Less EBITDA reported by discontinued operations			
Industrial chemicals	(3,357)	(3,513)	(7,043)
Industrial metals	(2,954)	(1,028)	825
	(6,311)	(4,541)	(6,218)
Total EBITDA reported by continuing segments	(4,456)	4,116	(993)
Consolidation adjustments			
Inter-group transactions and consolidation of subsidiaries	3,362	2,509	32,123
Equity account associates	2,414	(3,680)	(26,254)
	5,776	(1,171)	5,869
Consolidated EBITDA for continuing operations reported by the Group	1,320	2,945	4,876
Depreciation and amortisation	(1,005)	(974)	(2,274)
Impairment of goodwill and intangible assets	(1,054)	–	(7,040)
Finance income and finance costs	(717)	(1,327)	(2,471)
(Loss)/profit before taxation per income statement	(1,456)	644	(6,909)

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
<b>Share of profit of associates</b>			
Healthcare	1,531	246	1,460
Investment activities	6	35	79
Consolidated total reported by the Group	1,537	281	1,539

## Notes to the interim consolidated financial statements (unaudited) continued

for the six months ended 30 June 2011

### 19. Segmental information (continued)

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
<b>Total assets</b>			
As reported by segment:			
Industrial chemicals	34,122	31,960	33,799
Industrial metals	58,214	103,143	64,095
Investment activities	96,871	106,280	107,134
Consolidation adjustments			
Inter-group transactions	(16,483)	(23,334)	(22,672)
On acquisition fair value adjustments and consolidation of subsidiaries	(5,221)	(17,129)	(3,165)
Equity account associates	(17,610)	(3,289)	(24,863)
Consolidated total reported by the Group	149,893	197,631	154,328
	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
<b>Investment in associates</b>			
Healthcare	17,335	11,824	14,397
Investment activities	87	174	240
Consolidated total reported by the Group	17,422	11,998	14,637
	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
<b>Total liabilities</b>			
As reported by segment:			
Industrial chemicals	(19,756)	(21,542)	(20,343)
Industrial metals	(74,304)	(97,674)	(81,568)
Investment activities	(4,567)	(1,537)	(2,379)
Consolidation adjustments			
Inter-group transactions	16,483	23,334	22,672
On acquisition fair value adjustments and consolidation of subsidiaries	18,668	(978)	15,689
Other	(644)	–	(677)
Consolidated total reported by the Group	(64,120)	(98,397)	(66,606)



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# Company information

## Directors

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

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Investec Bank Limited  
Goldman Sachs International

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