

# BLACKSTAR

Blackstar Group Plc  
Interim Report 2010

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## Highlights

- Successful reverse listing of Litha Healthcare Group into Myriad Medical Holdings
- Successful realisation of Blackstar's indirect holding in Mvelaphanda Resources
- Further £1.7 million returned to shareholders through share buy-backs during the period
- Increase in attributable net asset value ("NAV") per share to 130 pence (31 December 2009: 129 pence) and
- Maiden interim dividend of 0.65 pence per share declared.

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# Directors' statement

## Introduction

The first half of 2010 will be remembered in South Africa for many years to come following the country's successful hosting of the 2010 FIFA World Cup (the "World Cup"). The World Cup has had a positive and significant impact on national unity and confidence as well as the world's perception of South Africa and the African continent as a whole. The Vuvuzelas are blowing in the winds of change for the African continent.

South Africa has also benefited from the strong rebound in liquidity to emerging markets which has helped South African public markets to remain buoyant. Over the past six months foreign investors have been net buyers of South African equities and bonds and these capital inflows have also been accompanied by a strengthening of the South African Rand ("Rand"). However, clouds still hang over the recovery of the global economy as Greece and other European countries grapple with high debt levels. These issues are expected to continue to affect South Africa given that Europe remains one of the country's largest trading partners.

The interim period ended 30 June 2010 had many highlights for Blackstar Group Plc ("Blackstar"), in particular the successful acquisition and rights issue executed by Myriad Medical Holdings Limited ("Myriad"), which has subsequently changed its name to Litha Healthcare Group Limited ("Litha"), and the realisation of Blackstar's indirect interest in Mvelaphanda Resources Limited ("Mvela"). Blackstar continued its share buy-back programme with a repurchase of 2,477,495 ordinary shares representing 3.13% of the Company's issued ordinary share capital.

## Operating Review

Blackstar has two operating subsidiaries namely KMG Steel Service Centres (Pty) Limited ("KMG") in which Blackstar holds an 87% interest and Ferro Industrial Products (Pty) Limited ("Ferro") where Blackstar has a 54% shareholding. The financial results for KMG and Ferro are consolidated with Blackstar's results.

### KMG

KMG delivered improved volumes for the first half of 2010 (93,026 tons), which was 8% up when compared to the same period last year (86,109 tons). Gross profit margin increased by 2.8% to 19.5%. This resulted in a profit before interest and taxation for the first half of the year ended 30 June 2010 of R4.1 million (£0.4 million) compared to a loss before interest and taxation of R80.8 million (£5.9 million) for the six months ended 30 June 2009.

Expectations for the second half of 2010 reflect more difficult trading conditions, with tonnage expected to be down by approximately 10% against the first half.

The reasons for the deteriorating market conditions are twofold. Firstly, market demand has slowed down while the anticipated recovery has yet to materialise. Secondly, there is currently significant instability in the form of fluctuating supplies and pricing of steel in the South African market.

A failure of gas supplies to the South African steel mills during February and March 2010, as well as a month long labour strike at the local iron ore transporter, Transnet, resulted in a decline in the production of steel and a buildup of overdue orders from the mills to the market. ArcelorMittal South Africa Limited ("AMSA"), the largest steel mill, could only partially deliver orders to the market. Furthermore, during the same period a disagreement arose between AMSA and Kumba Iron Ore Limited, AMSA's main South African iron ore supplier. This resulted in a temporary iron ore surcharge being levied by AMSA on its customers.

Once the strike and gas issues were resolved in June 2010, the market was then flooded with stock as these backlog orders could not be cancelled. This resulted in the market moving from an understocked to an overstocked position. The instability during the period also led AMSA to announce price increases in March, May and June and then decreases for July and August.

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## Directors' statement continued

Stock levels are therefore currently high in the South African market resulting in weak pricing, although the market should return to a normal situation by October/November 2010. KMG is currently controlling and monitoring its stock levels on a daily basis. During this uncertain time, KMG has been over geared as a result of the acquisition leverage. Blackstar has since taken steps to de-gear the business and put KMG on a more solid footing.

Since January 2010, KMG has repaid R39 million (£3.4 million) of its senior acquisition finance and has now settled all the outstanding mezzanine debt from the original acquisition in 2007.

### **Ferro**

Although the local markets were somewhat slower than expected in the period under review, significant growth was achieved in Ferro's export markets which resulted in the overall business increasing sales volumes year on year. Ferro's sales increased by 5.8% to R200.7 million (£17.5 million) for the six months ended 30 June 2010 when compared to the same period last year.

The unexpected strength of the Rand resulted in reduced imported raw material prices, however increased foreign competition had a material negative effect on a number of Ferro's divisions.

Overall, the business was able to achieve meaningful cost reductions which, when combined with the increased sales volumes, translated into a satisfactory year on year growth in profit.

Good working capital management throughout the period under review ensured that all Ferro's covenant ratios were comfortably exceeded. Blackstar has earned a good yield from Ferro which regularly pays out interest on its shareholder loans. Since January 2010, Blackstar received R8.5 million (£0.8 million) in interest on its shareholder loans.

### **Financial Review**

Revenue for the six months ended 30 June 2010 amounted to £106.1 million of which KMG contributed £88.6 million and Ferro £17.5 million. A gross profit of £17.2 million was achieved during the current reporting period compared to £5.6 million for the same period last year (which included KMG's results for the four months since acquisition and Ferro for a full six months).

Net gains on investments of £0.7 million includes the gain on realisation of the investment in Mvela as well as gains and losses arising on the remaining investment portfolio. The Group generated £1.0 million in fees from dividends and interest, the majority of which was received during the period.

Profit after tax attributable to equity holders amounted to £2.4 million for the six month period and basic earnings per ordinary share of 3.08 pence were reported at 30 June 2010.

There were no movements in goodwill or intangible assets other than foreign exchange adjustments and intangible asset amortisation.

Blackstar's shareholding in Litha (previously Myriad) increased to 51% in early April 2010 as a result of Blackstar's redeemable preference shares in Vermogen Medical (Pty) Limited becoming due and payable, and then subsequently reduced to 44.82% on 26 April 2010 on finalisation of the acquisition of Litha Healthcare Holdings (Pty) Limited. Blackstar's remaining interest in Litha was recognised as an investment in associate at its fair value of £11.7 million on 26 April 2010. Blackstar's share of Litha's earnings for the period post it becoming an associate amounted to £0.3 million and have been included in the Consolidated income statement as share of profit of associates.

Investments classified as loans and receivables amounted to £1.0 million as at 30 June 2010 compared to a carrying amount of £23.1 million at 31 December 2009. This decline is mainly attributable to the disposal of Blackstar's investment

in Mvela. Investments at fair value through profit and loss declined from £13.5 million to £9.3 million mainly as a result of Blackstar's investment in Litha now being accounted for as an investment in associate.

Gearing levels remained high, largely due to the acquisition debt within Ferro and KMG which amounted to £21.7 million at 30 June 2010. Other financial liabilities (consisting of secured, interest bearing short term loans within Blackstar's subsidiaries) increased by £9.0 million to £35.7 million at 30 June 2010 in order to finance increased working capital particularly in KMG.

£0.9 million of cash was absorbed by operating activities due to increased investment in working capital, reflective of the turbulent market conditions currently being experienced by KMG.

There was also a cash outflow of £5.0 million as a result of the changes in shareholding in Litha, the majority of which is the cost of additional shares acquired by Blackstar under the rights offer. Blackstar generated £15.9 million on disposal of investments and reported a healthy cash balance of £28.9 million at 30 June 2010, an increase of £11.6 million for the six month period.

### **Investment Review**

During the period under review, Blackstar sold its indirect shareholding in Mvela to Afripalm Resources (Pty) Limited for £19.9 million whilst retaining a right to receive 10% of any future equity value in the Afripalm Consortium. Afripalm Consortium continues to hold an interest of 19.2% in the ordinary shares of Mvela. The realisation of Blackstar's indirect investment in Mvela generated an overall profit since acquisition of £8.5 million for the company. This will be in line with Blackstar's investing policy, as well as the Board's intention to dispose of its existing minority investments where the company has little managerial input or influence.

In December 2009, Myriad announced the acquisition of Litha Healthcare Holdings (Pty) Limited which was underwritten by Blackstar. The acquisition closed in April 2010 and Myriad subsequently changed its name to Litha and moved its listing to the main board of the JSE. The acquisition of Litha, which was identified by Blackstar, has been a huge success with the share price appreciating some 50% since March. The new management took over towards the end of April 2010 and since then have been focusing on integrating the shared services into the new group.

Litha is a diversified healthcare business with divisions operating in Biotech, Medical and Pharmaceuticals.

**Biotech Division** – Litha, through the Biotech division, is the controlling shareholder in a Public Private Partnership (“PPP”) with the South African government to provide vaccines under the government's Expanded Program of Immunisation which targets a suite of free vaccines through government clinics and hospitals to all children in South Africa. Litha distributes these vaccines to government facilities. As part of the PPP, Litha is in the process of developing its own vaccine manufacturing plant in Cape Town which is due to begin manufacturing in 2013. This is the only vaccine manufacturing plant in Africa. The start of the manufacturing process will lead to increased margins for the Biotech division.

The vaccines have high barriers to entry with long lead times in registration of products and the manufacturing facilities by the World Health Organisation and the local Medical Control Council (“MCC”).

Litha has been actively looking for potential technology transfers of vaccine filling with multinational companies that could fill their potential vaccine manufacturing capacity when their facility will be completed in 2013. Litha is also aggressively looking for new business opportunities that could expand their product line in the next 5 to 10 years. An Industrial Development Corporation (“IDC”) loan for R75 million was approved by the IDC executive committee for further development of the manufacturing facility. The Biotech division's second quarter sales were strong due to the Pandemic public sector flu campaign that took place from May 2010 as well as the measles and polio mass immunisation campaign. In the second quarter Litha facilitated the planning for purchasing of services and equipment that will manufacture commercial vaccines in 2013.

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## Directors' statement continued

**Medical Division** – Litha's Medical division provides consumable devices to private and government hospitals predominately in the critical care and ICU areas.

This division has followed an aggressive business development strategy focusing on organic product expansion and is looking for some local manufacturing opportunities. Litha have set up structures that would allow for more information and product sharing between the various medical business units. Litha is trying to facilitate the shared services within the medical division for IT, finance, legal and logistics. Litha management have also been looking at various options for the underperforming Capex division.

**Pharmaceuticals Division** – The Pharmaceutical division has a variety of branded and generic products currently being marketed as well as at the MCC which are waiting for registration.

During May 2010 Litha finalised the purchase of 74% of the equity of Pharmafrika which it did not already own. This acquisition will form the platform for the Pharmaceuticals division (currently Litha's smallest business unit) to expand via further acquisitions in accordance with management's strategy. Litha recently signed a 10 year joint venture agreement with the fifth largest generic company, Actavis, for a minimum of 100 dossiers. This will give the Pharmaceuticals division a good medium-term pipeline.

Blackstar currently holds 44.8% of the ordinary shares in Litha which has been accounted for as an investment in associate and equity accounted.

### **Share buy-back**

During the period the company bought back 2,477,495 ordinary shares of 67 pence each, representing 3.13% of the Company's issued ordinary share capital. The repurchased ordinary shares were cancelled.

The Board of Blackstar continue to actively seek ways to close the large discount at which the Blackstar share price currently trades when compared to the net asset value per share of the Company.

### **Dividends**

As a reflection of the strengthened financial position and cash reserves available to Blackstar, the Board has resolved to declare an interim dividend of 0.65 pence per ordinary share. The Board recognises that regular dividends are an important part of shareholder wealth creation and the intention is to establish a progressive dividend policy going forward. The interim dividend will be paid on 20 November 2010 to shareholders on the register (the record date) on Friday 29 October 2010. The shares will be quoted ex-dividend on Wednesday 27 October 2010.

### **Post Balance Sheet Events**

#### **KMG**

The South African Government currently has committed to a R846 billion (£74 billion) infrastructure investment programme, taking place over the next 10 years. KMG as one of the largest steel merchants in South Africa will benefit from this government spending as the bulk of this investment is in power and transport assets (traditionally large steel consumers). However as mentioned in the Operating Review under KMG, the current trading conditions following the conclusion of the World Cup remain tough. With these difficult trading conditions in mind, Blackstar believed it was prudent to settle the outstanding acquisition finance in KMG in order for Blackstar to earn the yield that the bank would have earned had this loan not been settled and give the company more flexibility in order to capitalise from the government's spending programme. Blackstar therefore injected R120 million (£10.8 million) into KMG in the form of an interest bearing shareholder loan in order to settle the acquisition finance. This interest will be paid monthly to Blackstar.

We remain confident of the medium to longer term outlook for KMG given the government infrastructure programme, and the increased sales that KMG is currently achieving directly and indirectly into sub Saharan Africa.

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### **Blackstar Real Estate**

Blackstar recently formed a 100% held subsidiary called Blackstar Real Estate (Pty) Limited (“BRE”). The objective with BRE was initially to acquire the properties held by Blackstar’s subsidiaries and investments on a sale and lease back basis. However BRE is also exploring other opportunities that have arisen due to the prevailing economic conditions and where attractive deals can be structured with minimal investment in areas which have longer term potential.

Since 30 June 2010, BRE has acquired two industrial properties for a total purchase price of R17 million (£1.5 million) and subsequent to the purchase, a ten year lease was concluded with one of Blackstar’s subsidiaries. BRE contributed R2.5 million (£0.2 million) in equity to these transactions and the balance was funded by a mortgage bond.

Blackstar’s ultimate objective with BRE is to build up the asset base through selective acquisitions and then either list the company separately or sell it to a third party.

### **Appointment of Non-executive director**

Charles Taberer was appointed as an independent Non-executive director to the board of Blackstar in August 2010. Mr Taberer has significant experience doing business in Africa and brings a great deal of relevant African and investment experience to the Company.

### **Outlook**

Whilst we remain confident in Blackstar’s operations and the Group’s existing investments, we are cautious on the overall outlook and expect the second part of the year to be flat. Blackstar has a strong balance sheet and adequate cash resources to enable it to withstand further macroeconomic shocks and to take advantage of any opportunities that may arise.

**Andrew Bonamour**

21 September 2010



## Annexure A

A pro-forma balance sheet as at 30 June 2010 has been presented below, which reflects the Company's financial information on the basis that all investments (whether the Company could be considered to exercise control, significant influence or otherwise) are accounted for as investments at fair value through profit and loss (i.e. carried at fair value) or investments classified as loans and receivables (i.e. carried at amortised cost) and are not consolidated or equity accounted. The investments in subsidiaries and associates have been reflected separately for ease of reference.

In addition, the Consolidated balance sheet as at 30 June 2010 has been presented below in a summarised manner, such that the consolidated net asset value of each subsidiary and associate is reflected in a single line.

The pro-forma balance sheet and summarised balance sheet are provided for information purposes only and for ease of comparison to prior reporting periods.

	Pro-forma Unaudited 30 June 2010 £'000	Consolidated Unaudited 30 June 2010 £'000	Consolidated Audited 31 December 2009 £'000
<b>Total assets</b>			
<b>Investments in subsidiaries:</b>			
Kulungile Steel Service Centres (Pty) Limited	27,008	27,465	27,871
Ferro Industrial Products (Pty) Limited	13,367	8,783	8,051
Blackstar Group (Pty) Limited and internalisation of investment advisory arrangements	14,900	15,075	14,951
<b>Investments in associates:</b>			
Litha Healthcare Group Limited	15,147	11,824	–
Navigare Securities (Pty) Limited	139	174	–
<b>Investments other:</b>			
Investments at fair value through profit and loss	9,263	9,263	13,482
Investments classified as loans and receivables	1,014	1,014	23,101
Cash and cash equivalents	26,125	26,125	13,384
Other financial assets	–	–	245
Trade and other receivables	535	535	1,679
<b>Total liabilities</b>			
Trade and other payables	(875)	(875)	(1,015)
<b>Total net assets</b>	<b>106,623</b>	<b>99,383</b>	<b>101,749</b>
<b>Equity</b>			
Share capital	51,363	51,363	53,023
Capital redemption reserve	1,660	1,660	30,156
Foreign currency translation reserve	6,613	8,390	9,594
Retained earnings	46,987	37,970	8,976
<b>Total equity attributable to equity holders</b>	<b>106,623</b>	<b>99,383</b>	<b>101,749</b>
<b>Net asset value per share (in pence)</b>	<b>139</b>	<b>130</b>	<b>129</b>

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# Independent review report

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

### 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 2010 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 2010 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  
21 September 2010

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 2010

		Unaudited Six months to 30 June 2010 £'000	As restated Unaudited Six months to 30 June 2009 £'000	Audited Year to 31 December 2009 £'000
<b>Revenue</b>		<b>106,095</b>	62,060	154,206
Cost of sales				
Cost of sales		(88,885)	(52,821)	(128,859)
Write-down of inventory to net realisable value		–	(3,602)	(3,742)
		<b>(88,885)</b>	(56,423)	(132,601)
<b>Gross profit</b>		<b>17,210</b>	5,637	21,605
Sales and distribution costs		(3,029)	(2,600)	(5,374)
Administrative expenses – Trading businesses				
Administrative expenses		(11,715)	(5,123)	(16,611)
Impairment of goodwill		–	–	(3,883)
		<b>(11,715)</b>	(5,123)	(20,494)
Other income – Trading businesses		162	–	308
Share of profit of associates	7	281	–	–
<b>Operating profit/(loss) before net investment income/(loss)</b>		<b>2,909</b>	(2,086)	(3,955)
Net investment income/(loss)				
Net gains/(losses) on investments	2	733	(4,923)	2,659
Fees, dividends and interest from loans, receivables and investments	3	986	2,463	3,923
		<b>1,719</b>	(2,460)	6,582
Administrative expenses – Investments				
Administrative expenses – Performance fee		–	243	243
Administrative expenses – Other		(1,248)	(2,310)	(3,540)
		<b>(1,248)</b>	(2,067)	(3,297)
Other income		1,926	–	–
<b>Profit/(loss) from operations</b>		<b>5,306</b>	(6,613)	(670)
Finance income		209	325	470
Finance costs		(2,912)	(2,537)	(5,256)
<b>Profit/(loss) before taxation</b>		<b>2,603</b>	(8,825)	(5,456)
Taxation		(121)	1,295	1,722
<b>Profit/(loss) for the period</b>		<b>2,482</b>	(7,530)	(3,734)
<b>Attributable to:</b>				
Equity holders of the parent		2,419	(6,520)	(2,547)
Non controlling interests		63	(1,010)	(1,187)
		<b>2,482</b>	(7,530)	(3,734)
<b>Basic and diluted earnings/(losses) per ordinary share attributable to equity holders (in pence)</b>	4	<b>3.08</b>	(8.84)	(3.33)

The notes on pages 15 to 29 form part of the consolidated interim financial statements.

# Consolidated statement of comprehensive income

for the six months ended 30 June 2010

	<b>Unaudited Six months to 30 June 2010 £'000</b>	Unaudited Six months to 30 June 2009 £'000	Audited Year to 31 December 2009 £'000
<b>Profit/(loss) for the period</b>	<b>2,482</b>	(7,530)	(3,734)
<b>Other comprehensive income/(loss):</b>			
Currency translation differences on investments and Rand denominated assets and liabilities	<b>(1,326)</b>	2,699	5,787
Currency translation differences on translation of foreign subsidiaries	<b>(32)</b>	1,200	1,699
Income tax relating to components of other comprehensive income	–	–	–
<b>Net comprehensive (loss)/income recognised directly in equity</b>	<b>(1,358)</b>	3,899	7,486
<b>Total comprehensive income/(loss) for the period</b>	<b>1,124</b>	(3,631)	3,752
<b>Attributable to:</b>			
Equity holders of the parent	<b>1,110</b>	(2,476)	5,182
Non controlling interests	<b>14</b>	(1,155)	(1,430)
	<b>1,124</b>	(3,631)	3,752

The notes on pages 15 to 29 form part of the consolidated interim financial statements.

# Consolidated statement of changes in equity

for the six months ended 30 June 2010

	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 2008</b>	75,665	3,575	12,068	1,865	93,173	–	93,173
Total comprehensive (loss)/income for the period							
Loss for the period	–	–	(6,520)	–	(6,520)	(1,010)	(7,530)
Other comprehensive income/(loss) for the period	–	–	–	4,044	4,044	(145)	3,899
	–	–	(6,520)	4,044	(2,476)	(1,155)	(3,631)
Charge for share based payment arising on acquisition of subsidiaries	–	–	37	–	37	14	51
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
<b>Balance at 30 June 2009</b>	53,023	30,156	4,815	5,909	93,903	(1,760)	92,143
Total comprehensive income/(loss) for the period							
Loss for the period	–	–	3,973	–	3,973	(177)	3,796
Other comprehensive income/(loss) for the period	–	–	–	3,685	3,685	(98)	3,587
	–	–	3,973	3,685	7,658	(275)	7,383
Charge for share based payment	–	–	60	–	60	22	82
Reduction in non controlling interest arising on acquisition of additional interest in subsidiary	–	–	(94)	–	(94)	(19)	(113)
Additional non controlling interests arising on disposal of interest in subsidiary	–	–	222	–	222	38	260
<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 (refer note 16)	–	–	–	–	–	10,122	10,122
Reduction in non controlling interest arising on acquisition of additional interest in subsidiary (refer note 16)	–	–	14	–	14	(14)	–
Arising on deemed disposal of subsidiary on additional shares being issued by the subsidiary (refer note 16)	–	–	–	105	105	(10,192)	(10,087)
Reduction in non controlling interest arising on conversion of preference shares held in a subsidiary into ordinary shares (refer note 6)	–	–	(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

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

The notes on pages 15 to 29 form part of the consolidated interim financial statements.

# Consolidated balance sheet

as at 30 June 2010

		Unaudited 30 June 2010 £'000	As restated Unaudited 30 June 2009 £'000	Audited 31 December 2009 £'000
	Notes			
<b>Non-current assets</b>				
Property, plant and equipment		19,368	17,504	19,259
Goodwill	5	27,243	28,987	26,772
Intangible assets		14,420	14,271	14,566
Investments in associates	7	11,998	–	–
Investment classified as loans and receivables	8	794	196	975
Investments at fair value through profit and loss	9	7,774	11,123	10,802
Deferred tax assets		1,729	353	882
		<b>83,326</b>	<b>72,434</b>	<b>73,256</b>
<b>Current assets</b>				
Investments classified as loans and receivables	8	220	16,183	22,126
Investments at fair value through profit and loss	9	1,489	1,494	2,680
Other financial assets		139	–	307
Current tax assets		518	341	469
Trade and other receivables		35,667	26,409	24,374
Inventory		43,432	32,565	31,928
Cash and cash equivalents		32,840	15,127	17,521
		<b>114,305</b>	<b>92,119</b>	<b>99,405</b>
<b>Total assets</b>		<b>197,631</b>	<b>164,553</b>	<b>172,661</b>
<b>Non-current liabilities</b>				
Borrowings	10	(11,125)	(23,492)	(17,412)
Other financial liabilities	11	(4,402)	(3,372)	(3,726)
Provisions		(66)	–	(54)
Deferred tax liabilities		(4,357)	(4,621)	(4,272)
		<b>(19,950)</b>	<b>(31,485)</b>	<b>(25,464)</b>
<b>Current liabilities</b>				
Borrowings	10	(10,574)	(2,406)	(7,262)
Other financial liabilities	11	(31,263)	(21,055)	(22,946)
Provisions		–	–	(84)
Current tax liabilities		(1,768)	(487)	(1,134)
Trade and other payables		(30,938)	(16,046)	(15,814)
Bank overdrafts		(3,904)	(931)	(202)
		<b>(78,447)</b>	<b>(40,925)</b>	<b>(47,442)</b>
<b>Total liabilities</b>		<b>(98,397)</b>	<b>(72,410)</b>	<b>(72,906)</b>
<b>Total net assets</b>		<b>99,234</b>	<b>92,143</b>	<b>99,755</b>
<b>Equity</b>				
Share capital	12	51,363	53,023	53,023
Capital redemption reserve	12	1,660	30,156	30,156
Foreign currency translation reserve	12	8,390	5,909	9,594
Retained earnings	12	37,970	4,815	8,976
<b>Total equity attributable to equity holders</b>		<b>99,383</b>	<b>93,903</b>	<b>101,749</b>
Non controlling interest		(149)	(1,760)	(1,994)
<b>Total equity</b>		<b>99,234</b>	<b>92,143</b>	<b>99,755</b>
<b>Net asset value per share (in pence)</b>	13	<b>130</b>	<b>119</b>	<b>129</b>

The notes on pages 15 to 29 form part of the consolidated interim financial statements.

# Consolidated cash flow statement

for the six months ended 30 June 2010

		<b>Unaudited</b> <b>Six months to</b> <b>30 June</b> <b>2010</b> <b>£'000</b>	Unaudited Six months to 30 June 2009 £'000	Audited Year to 31 December 2009 £'000
	Notes			
<b>Cash flow from operating activities</b>				
Cash (absorbed)/generated by operations	14	(865)	3,180	11,607
Interest received		243	2,632	2,824
Interest paid		(2,180)	(1,088)	(3,804)
Dividends received		5,789	364	674
Taxation (paid)/refunded		(457)	34	(745)
<b>Cash generated by operating activities</b>		<b>2,530</b>	<b>5,122</b>	<b>10,556</b>
<b>Cash flow from investing activities</b>				
Purchase of property, plant and equipment		(830)	(429)	(1,728)
Additions to investments classified as loans and receivables		–	(112)	(1,103)
Purchase of investments at fair value through profit and loss		(2,133)	(325)	(542)
Acquisition of subsidiaries		–	(23,332)	(24,069)
Cash outflow on acquisition of subsidiary and subsequent deemed disposal (refer note 16)		(4,950)	–	–
Proceeds from disposal of property, plant and equipment		28	31	38
Proceeds from disposal of investments		15,918	24,102	27,215
<b>Cash generated/(absorbed) by investing activities</b>		<b>8,033</b>	<b>(65)</b>	<b>(189)</b>
<b>Cash flow from financing activities</b>				
Repayment of borrowings		(4,197)	(8,746)	(11,108)
Movement in other financial liabilities (including short-term funding facilities)		7,170	(1,934)	(2,064)
Buy-back of ordinary shares		(1,709)	(5,770)	(5,770)
Issue of shares		–	8,939	8,939
<b>Cash generated/(absorbed) by financing activities</b>		<b>1,264</b>	<b>(7,511)</b>	<b>(10,003)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>11,827</b>	<b>(2,454)</b>	<b>364</b>
Cash and cash equivalents at the beginning of the period		17,319	17,831	17,831
Exchange losses on cash and cash equivalents		(210)	(1,181)	(876)
<b>Cash and cash equivalents at the end of the period</b>	15	<b>28,936</b>	<b>14,196</b>	<b>17,319</b>

The notes on pages 15 to 29 form part of the consolidated interim financial statements.

# Notes to the interim consolidated financial statements (unaudited)

for the six months ended 30 June 2010

## 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) as endorsed by the European Union, using accounting policies that are expected to be applied for the financial year ending 31 December 2010.

The principal accounting policies adopted in the preparation of the consolidated interim financial statements have been consistently applied across all periods presented, with the exception of the early adoption of the revised IFRS 3 Business Combinations and consequential amendments to IAS 27 Consolidated and Separate Financial Statements during the prior reporting period, which has been applied prospectively. 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 2009 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts of Blackstar Group Plc for the year ended 31 December 2009 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 drew 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.

### 1.2 Reclassifications

On review of comparatives reported for the six months ended 30 June 2009, it was determined that reclassifications within the income statement categories were necessary in order to reflect more fairly the nature of the expenses. Such reclassifications have therefore been processed, the only notable one being the reclassification of expenses amounting to £2,978,000 from Sales and distribution costs to Administrative expenses - Trading businesses. This has not resulted in any change to the net loss reported for the six months ended 30 June 2009.

For comparability purposes, balance sheet and relating note disclosures for 30 June 2009 have been amended to reflect the disclosure format provided within the December 2009 Annual Accounts and Report. As a result, certain balances reported for the interim period ended 30 June 2009 were reclassified, none of which were material.

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

	Six months to 30 June 2010 £'000	Six months to 30 June 2009 £'000	Year to 31 December 2009 £'000
Net gains on investments classified as loans and receivables	3,408	1,545	1,590
(Impairments)/reversal of impairments on investments classified as loans and receivables	(56)	364	4,069
Net losses on investments held at fair value through profit and loss	(2,374)	(6,832)	(2,792)
Loss on derivative in a designated fair value hedge relationship	(245)	–	(208)
Net gains/(losses) on investments	733	(4,923)	2,659



**Notes to the interim consolidated financial statements (unaudited) continued**  
for the six months ended 30 June 2010

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

	Six months to 30 June 2010 £'000	Six months to 30 June 2009 £'000	Year to 31 December 2009 £'000
Dividends from investments classified as loans and receivables	576	1,393	2,778
Interest income from investments classified as loans and receivables	45	951	1,009
Fee income	365	119	136
	<b>986</b>	<b>2,463</b>	<b>3,923</b>

**4. Basic and diluted earnings/(losses) per share**

	Six months to 30 June 2010 £'000	Six months to 30 June 2009 £'000	Year to 31 December 2009 £'000
Net profit/(loss) attributable to equity holders	2,419	(6,520)	(2,547)
Weighted average number of shares in issue (thousands)	78,454	73,726	76,454
Basic and diluted earnings/(losses) per share (in pence)	3.08	(8.84)	(3.33)

**5. Goodwill**

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Carrying amount at the beginning of the period	26,772	–	–
Arising on acquisition of Ferro Industrial Products (Pty) Limited (“Ferro”)	–	2,949	2,949
Arising on acquisition of KMG Steel Service Centres (Pty) Limited (“KMG”, previously Kulungile Metals Group (Pty) Limited)	–	9,353	9,353
Arising on acquisition of Blackstar Group (Pty) Limited (“Blackstar SA”) and internalisation of investment advisory arrangements	–	14,882	14,882
Arising on acquisitions made by KMG	–	–	700
Impairment arising on goodwill in respect of KMG	–	–	(3,883)
Currency exchange gains during the period	471	1,803	2,771
Carrying amount at the end of the period	<b>27,243</b>	<b>28,987</b>	<b>26,772</b>

The aggregate carrying amounts of goodwill allocated by acquisition as at the end of the period are as follows:

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Ferro	3,680	3,311	3,540
KMG (net of impairment)	7,897	10,732	7,650
Blackstar SA and internalisation of investment advisory arrangements	14,882	14,944	14,882
Arising on acquisitions made by KMG	784	–	700
Carrying amount at the end of the period	<b>27,243</b>	<b>28,987</b>	<b>26,772</b>

## 6. Subsidiaries

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

	<b>Principal Activity</b>	<b>30 June 2010</b>	30 June 2009	31 December 2009
Blackstar (Cyprus) Investors Limited*	Investment company	<b>100%</b>	100%	100%
Blackstar (Gibraltar) Limited^	Investment company	<b>100%</b>	100%	100%
Ferro Industrial Products (Pty) Limited#	Industrial chemicals company	<b>54%</b>	56%	54%
KMG Steel Service Centres (Pty) Limited (previously Kulungile Metals Group (Pty) Limited)#	Industrial metals company	<b>87%</b>	73%	73%
Blackstar Group (Pty) Limited#	Investment advisory company	<b>100%</b>	100%	100%

\* Incorporated in Cyprus

^ Incorporated in Gibraltar

# Incorporated in South Africa

On 31 May 2010, the B preference shares held by Blackstar (Cyprus) Investors Limited ("Blackstar Cyprus") were converted into ordinary shares. KMG therefore issued fresh shares to Blackstar Cyprus which increased Blackstar's effective shareholding from 73% to 87%. As a result an amount of £1,907,000 (being the proportionate share of 14% of the carrying amount of the net liabilities of KMG) was transferred to non controlling interests (refer Consolidated statement of changes in equity).

During the period Blackstar held a controlling interest in Litha Healthcare Group Limited ("Litha", previously Myriad Medical Holdings Limited) for a total of 19 days. Refer note 16 for further details.

## 7. Investments in associates

It is the Group's accounting policy to account for investments in associates held as part of the Group's investment portfolio at fair value, and 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 accounting treatment is permitted by IAS 28 Investments in Associates which allows investments held by venture capital organisations to be excluded from the scope of IAS 28 Investments in Associates.

Two of the Group's associates, previously held within the investment portfolio, are no longer believed to meet the requirements for inclusion in this investment portfolio. In April 2010, Blackstar re-assessed their view of the investments in Litha and Navigare Securities (Pty) Limited ("Navigare") and believe that both of these investments no longer meet the specific criteria for inclusion in the venture capital division and should rather be transferred to the equity accounted for investment portfolio. The reclassifications arose as a result of a change in Blackstar's assessment and strategic view of these investments.

The investments in both Litha and Navigare, previously reported in December 2009 as investments held at fair value through profit and loss, are now accounted for as investments in associates. Blackstar's proportionate share of Litha and Navigare's earnings for the period since being classified as associates have been equity accounted.

**Notes to the interim consolidated financial statements (unaudited) continued**  
for the six months ended 30 June 2010

**7. Investments in associates (continued)**

	<b>Principal Activity</b>	<b>30 June 2010</b>	30 June 2009	31 December 2009
Litha Healthcare Group Limited (previously Myriad Medical Holdings Limited)#	Healthcare company	<b>45%</b>	19%	19%
Navigare Securities (Pty) Limited#	Stockbroking company	<b>25%</b>	25%	25%

# Incorporated in South Africa

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

	<b>30 June 2010</b>	30 June 2009	31 December 2009
	<b>£'000</b>	£'000	£'000
Total assets	<b>100,084</b>	–	–
Total liabilities	<b>(64,718)</b>	–	–
Net assets	<b>35,366</b>	–	–
Group's share of investments in associates	<b>11,998</b>	–	–
Total revenue	<b>28,880</b>	–	–
Total profit for the period	<b>688</b>	–	–
Group's share of profit of associates	<b>281</b>	–	–

The Company has provided security to a bank over 20.6% of its ordinary shares in Litha. The Group did not receive any dividends from any of its investments in associates.

**8. Investments classified as loans and receivables**

	<b>30 June 2010</b>	30 June 2009	31 December 2009
	<b>£'000</b>	£'000	£'000
Book cost at the beginning of the period	<b>14,388</b>	43,821	43,821
Additions during the period at cost	–	112	1,363
Disposals during the period at cost	<b>(13,537)</b>	(11,332)	(11,901)
Other movements*	–	(18,895)	(18,895)
Book cost at the end of the period	<b>851</b>	13,706	14,388

\* Other movements represent balances that now eliminate on consolidation as a result of the acquisition of KMG.

## 8. Investments classified as loans and receivables (continued)

	<b>30 June 2010 £'000</b>	30 June 2009 £'000	31 December 2009 £'000
Carrying value at the beginning of the period	<b>23,101</b>	50,183	50,183
Additions during the period at cost	–	112	1,363
Disposals during the period at cost	<b>(13,537)</b>	(11,332)	(11,901)
Unrealised gains recognised in prior years on disposals	<b>(46)</b>	–	–
Release of foreign currency translation reserve on disposals	<b>213</b>	–	–
Net dividends (received)/accrued during the period	<b>(6,090)</b>	1,393	2,104
Net interest accrued/(received) during the period	<b>12</b>	(1,721)	(1,345)
(Impairments)/reversal of impairments during the period	<b>(56)</b>	364	4,069
Currency exchange (losses)/gains during the period	<b>(2,583)</b>	(1,211)	37
Other movements*	–	(21,409)	(21,409)
Carrying value at the end of the period	<b>1,014</b>	16,379	23,101

\* Other movements represent balances that now eliminate on consolidation as a result of the acquisition of KMG.

	<b>30 June 2010 £'000</b>	30 June 2009 £'000	31 December 2009 £'000
Non-current portion	<b>794</b>	196	975
Current portion	<b>220</b>	16,183	22,126
	<b>1,014</b>	16,379	23,101

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

	<b>30 June 2010 £'000</b>	30 June 2009 £'000	31 December 2009 £'000
Proceeds on disposals during the period*	<b>16,778</b>	12,877	13,491
Investments at cost	<b>(13,537)</b>	(11,332)	(11,901)
Realised gains on disposals based on historical cost	<b>3,241</b>	1,545	1,590
Unrealised gains recognised in prior years on disposals	<b>(46)</b>	–	–
Release of foreign currency translation reserve on disposals	<b>213</b>	–	–
(Impairments)/reversal of impairments during the period	<b>(56)</b>	364	4,069
Net gains on investments	<b>3,352</b>	1,909	5,659

\* Proceeds on disposals includes an amount of £2,747,000, being the fair value of ordinary shares received on redemption of preference shares.

**Notes to the interim consolidated financial statements (unaudited) continued**  
for the six months ended 30 June 2010

**8. 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>Carrying value 30 June 2010 £'000</b>	Carrying value 30 June 2009 £'000	Carrying value 31 December 2009 £'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 150 basis points nominal annual compounded monthly and the shares have been redeemed	–	1,988	3,403
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 have been redeemed	–	14,195	18,721
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>220</b>	196	212
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	<b>518</b>	–	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	<b>276</b>	–	270
Carrying value at the end of the period	<b>1,014</b>	16,379	23,101

**9. Investments at fair value through profit and loss**

	<b>30 June 2010 £'000</b>	30 June 2009 £'000	31 December 2009 £'000
Book cost at the beginning of the period as previously reported	<b>11,856</b>	22,900	22,900
Other movements*	<b>(1,170)</b>	–	–
Book cost at the beginning of the period restated	<b>10,686</b>	22,900	22,900
Additions during the period at cost	<b>2,133</b>	325	542
On acquisition of subsidiaries	–	20	707
Disposals during the period at cost	<b>(1,393)</b>	(3,583)	(12,293)
Other movements #	<b>(1,292)</b>	–	–
Book cost at the end of the period	<b>10,134</b>	19,662	11,856

\* Other movements represent balances that now eliminate on consolidation as a result of the acquisition of ordinary shares in special purpose vehicles which hold interests in York Timber Holdings Limited. This was erroneously not reflected at 31 December 2009.

# Other movements in the current year represent balances that are now included under investments in associates.

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

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Fair value at the beginning of the period	13,482	33,167	33,167
Additions during the period at cost	2,133	325	542
On acquisition of subsidiaries	–	20	707
Disposals during the period at cost	(1,393)	(3,583)	(12,293)
Unrealised gains recognised in prior periods on disposals	(1,522)	(7,561)	(8,205)
Unrealised (losses)/gains during the period	(1,346)	(6,913)	3,982
Currency exchange gains during the period	431	908	725
Other movements <sup>^</sup>	(2,522)	(3,746)	(5,143)
Fair value at the end of the period	9,263	12,617	13,482

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

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Non-current portion	7,774	11,123	10,802
Current portion	1,489	1,494	2,680
	9,263	12,617	13,482

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

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Proceeds on disposals during the period	1,887	11,225	13,724
Investments at cost	(1,393)	(3,583)	(12,293)
Realised gains on disposals based on historical cost	494	7,642	1,431
Unrealised gains on disposals recognised in prior periods	(1,522)	(7,561)	(8,205)
Unrealised (losses)/gains during the period	(1,346)	(6,913)	3,982
Net losses on investments	(2,374)	(6,832)	(2,792)

**Notes to the interim consolidated financial statements (unaudited) continued**  
for the six months ended 30 June 2010

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

	Fair value 30 June 2010 £'000	Fair value 30 June 2009 £'000	Fair value 31 December 2009 £'000
Derivative investment in a telecom company, which gives the Group exposure to a minority interest in the underlying telecom company	723	906	1,002
Derivative investment in a services company, which gives the Group exposure to a minority interest in the underlying services company	5,078	3,183	5,744
Ordinary shares in Myriad Medical Holdings Limited*	–	1,150	2,294
Ordinary shares in York Timber Holdings Limited	–	2,808	–
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	–	381	–
Preference shares in a special purpose vehicle established to facilitate a community trust to acquire an interest in York Timber Holdings Limited, in which the Group participates. The shares are redeemable in 2011	–	609	–
Convertible, non-redeemable, cumulative preference shares in York Timber Holdings Limited	766	–	686
Option to subscribe for “N” preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited	–	1,490	1,678
Ordinary shares in Adreach (Pty) Limited	1,984	1,961	1,846
Ordinary shares in Navigare Securities (Pty) Limited*	–	125	134
Other listed shares	447	4	98
Other listed fixed income securities	265	–	–
<b>Fair value at the end of the period</b>	<b>9,263</b>	<b>12,617</b>	<b>13,482</b>

\* Now accounted for as investments in associates (refer note 7).

## 10. Borrowings

Borrowings comprise the following:

	<b>30 June 2010 £'000</b>	30 June 2009 £'000	31 December 2009 £'000
<b>Unsecured</b>			
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	<b>2,424</b>	2,280	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	<b>146</b>	120	135
<b>Secured</b>			
Other Rand denominated, secured, loans bearing interest at variable amounts ranging from Johannesburg Interbank accepted rate (Jibar) plus 350 to Jibar plus 450 basis points. Repayment terms range from quarterly payments of capital and interest to quarterly payments of interest only*	<b>10,127</b>	14,648	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	<b>9,002</b>	8,850	9,123
	<b>21,699</b>	25,898	24,674
Non-current portion	<b>11,125</b>	23,492	17,412
Current portion	<b>10,574</b>	2,406	7,262
	<b>21,699</b>	25,898	24,674

\* These loans held by KMG were repaid in September 2010. Blackstar Group provided the funds to settle this external debt. The Blackstar loans bear interest at the same rates as the external loans. Refer note 17 for further details.



**Notes to the interim consolidated financial statements (unaudited) continued**  
for the six months ended 30 June 2010

**11. Other financial liabilities**

Other financial liabilities comprise the following:

	<b>30 June 2010 £'000</b>	30 June 2009 £'000	31 December 2009 £'000
Subsidiary companies entered into 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. Securities have been provided by the subsidiary companies	<b>14,823</b>	10,588	14,257
A subsidiary company entered into a Rand denominated, invoice discounting agreement. The loan bears interest at South African Prime rate less 50 basis points. The subsidiary company has provided securities for this facility	<b>16,111</b>	9,988	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	<b>2,594</b>	2,057	2,394
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 fixed rates of between 12% and 13.5%. Amounts are repayable in monthly instalments. Assets held under finance leases are held as security	<b>849</b>	589	783
A Euro denominated, asset purchase agreement which is interest free and secured by the underlying assets. Repayment is in the form of a levy calculated based on the tonnes manufactured, payable over the period 2007 to 2012	<b>722</b>	765	639
Derivatives designated and effective as hedging instruments carried at fair value	<b>566</b>	440	407
	<b>35,665</b>	24,427	26,672
Non-current portion	<b>4,402</b>	3,372	3,726
Current portion	<b>31,263</b>	21,055	22,946
	<b>35,665</b>	24,427	26,672

## 12. Share capital and reserves

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
<b>Authorised</b>			
150,000,000 ordinary shares of £0.67 each	100,500	100,500	100,500
150,000,000 ordinary shares of £1.00 each	–	–	–
<b>Issued and fully paid</b>			
76,661,193 ordinary shares of £0.67 each	51,363	–	–
79,138,688 ordinary shares of £0.67 each	–	53,023	53,023
75,664,998 ordinary shares of £1.00 each	–	–	–

### Movement of the ordinary shares of £1.00 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	–	75,664,998	75,664,998
Buy-back and cancellation of shares	–	(2,405,488)	(2,405,488)
Capital re-organisation	–	(73,259,510)	(73,259,510)
Total number of shares in issue at the end of the period	–	–	–

### Movement of the ordinary shares of £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	79,138,688	–	–
Capital reorganisation	–	73,259,510	73,259,510
Issue of new shares	–	13,341,851	13,341,851
Tender offer, buy-back and cancellation of shares	(2,477,495)	(7,462,673)	(7,462,673)
Total number of shares in issue at the end of the period	76,661,193	79,138,688	79,138,688

### Buy-back and cancellation of shares

On 11 May 2010, the Company purchased 2,477,495 ordinary shares of nominal value £0.67 each in the share capital of the Company. The price paid for these ordinary shares was £0.69 per share and these shares have subsequently been cancelled. There are currently 76,661,193 ordinary shares of nominal value of £0.67 each in issue.

### Cancellation of capital redemption reserve

In April 2010, the High Court confirmed the cancellation of the capital redemption reserve of £30,156,000 in order to create distributable reserves.

### 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.

**Notes to the interim consolidated financial statements (unaudited) continued**  
for the six months ended 30 June 2010

**13. Net asset value per share**

	<b>30 June</b>	30 June	31 December
	<b>2010</b>	2009	2009
	<b>£'000</b>	£'000	£'000
Total net assets attributable to equity holders	<b>99,383</b>	93,903	101,749
Number of shares in issue (thousands)	<b>76,661</b>	79,139	79,139
Net asset value per share (in pence)	<b>130</b>	119	129

Net asset value per share has been calculated using the actual number of shares in issue at the end of the reporting period.

**14. Cash absorbed by operations**

	<b>30 June</b>	30 June	31 December
	<b>2010</b>	2009	2009
	<b>£'000</b>	£'000	£'000
Profit/(loss) before taxation	<b>2,603</b>	(8,825)	(5,456)
Adjustments for:			
Profit on disposal of property, plant and equipment	<b>(1)</b>	(15)	(10)
Depreciation of property, plant and equipment	<b>1,458</b>	686	2,170
Amortisation of intangible assets	<b>721</b>	489	1,150
Impairment of goodwill	<b>–</b>	–	3,883
Unrealised losses on investments	<b>2,758</b>	14,110	154
Realised gains on disposal of investments	<b>(3,735)</b>	(9,187)	(3,021)
Dividends and interest from loans and investments	<b>(621)</b>	(2,344)	(3,787)
Gain on deemed disposal of a subsidiary (refer note 16)	<b>(870)</b>	–	–
Release of foreign currency translation reserve on deemed disposal of a subsidiary (refer note 16)	<b>105</b>	–	–
Finance income	<b>(209)</b>	(325)	(470)
Finance costs	<b>2,912</b>	2,537	5,256
Share of profit of associates	<b>(281)</b>	–	–
Share based payment expense	<b>29</b>	51	133
Decrease in provisions	<b>(76)</b>	(404)	(829)
Changes in working capital			
(Increase)/decrease in trade and other receivables	<b>(10,318)</b>	995	6,089
(Increase)/decrease in inventory	<b>(10,227)</b>	10,896	14,242
Increase/(decrease) in trade and other payables	<b>14,468</b>	(6,019)	(7,904)
Increase in lease accrual	<b>105</b>	95	267
Movement in other financial liabilities in respect of FEC's and derivatives in hedging relationships	<b>314</b>	440	(260)
	<b>(865)</b>	3,180	11,607

**15. Cash and cash equivalents**

	<b>30 June</b>	30 June	31 December
	<b>2010</b>	2009	2009
	<b>£'000</b>	£'000	£'000
Cash and cash equivalents included in the cash flow statement comprise the following amounts in the balance sheet:			
Cash on hand and balances with banks	<b>32,840</b>	15,127	17,521
Overdrafts with banks	<b>(3,904)</b>	(931)	(202)
	<b>28,936</b>	14,196	17,319

## **16. Acquisition of subsidiary and subsequent deemed disposal**

At 31 December 2009, Blackstar held 19.02% of the ordinary shares in Myriad with a carrying amount of £2,294,000 and accounted for the investment as an investment at fair value through profit and loss (as is permitted by IAS 28 Investments in Associates for venture capital organisations).

On 8 April 2010, Blackstar obtained further shares in Myriad at a carrying amount of £3,879,000 as a result of Blackstar's redeemable preference shares in Vermogen Medical (Pty) Limited becoming due and payable, thereby increasing its shareholding to 50.16%.

Myriad acquired 51% of Litha Healthcare Holdings (Pty) Limited on 26 April 2010 and subsequently changed its name to Litha Healthcare Group Limited ("Litha"). This acquisition included a rights offer to existing shareholders and immediately thereafter a fresh issue of shares to Litha Healthcare Holdings (Pty) Limited existing shareholders. Blackstar participated in the rights offer resulting in an initial increase in shareholding in Myriad from 50.16% to 51.6% at 26 April 2010. The fresh issue of shares to Litha Healthcare Holdings (Pty) Limited's existing shareholders then resulted in a dilution of Blackstar's shareholding to 44.82% on 26 April 2010.

As a result of the above transactions, Blackstar held a controlling interest in Myriad for a period of 19 days (being 8 April to 26 April 2010). The investment in Myriad was accounted for as an investment at fair value through profit and loss up until 8 April 2010 (with resulting gains and losses being recognised in the income statement) and thereafter it was consolidated as a subsidiary and a non controlling interest of £10,122,000 was recognised in the consolidated statement of changes in equity. Myriad's profit for the 19 days has not been consolidated in the Group's Consolidated income statement, nor have Myriad's assets and liabilities been included for this 19 day period on a line-by-line basis within the Group's Consolidated balance sheet as this has no material impact on the Group's results. Blackstar's participation in the rights offer and increase in shareholding in Myriad from 50.16% to 51.6% reduced the non controlling interest by £14,000 as reflected in the Consolidated statement of changes in equity.

Myriad's issue of new shares resulted in Blackstar relinquishing its controlling interest in Myriad. In accordance with IFRS 3 Business Combinations, a Group gain of £870,000 was recognised in the Consolidated income statement on the deemed disposal of the subsidiary. This gain was calculated as the difference between the fair value of the retained interest of £11,735,000 (being 44.82% at the quoted bid price at 26 April 2010) and the net assets disposed of amounting to £10,865,000 (being Blackstar's share of Myriad's net assets which were consolidated). As a result of this deemed disposal, the carrying amount of the non controlling interest at 26 April 2010 was released and the foreign currency translation reserve recognised on consolidation of the subsidiary, amounting to £105,000 was transferred to the Consolidated income statement and recognised as a loss. Included in the Consolidated cash flow statement is the cash outflow on acquisition of subsidiary and subsequent deemed disposal amounting to £4,950,000 the majority of which is the cost of the shares taken up by Blackstar in the rights offer. The fair value of the retained interest of £11,735,000 was transferred to investments in associates as Blackstar has significant influence over Litha from 27 April 2010, and Litha's net profit from this date onwards has been equity accounted (refer note 7).

## **17. Post balance sheet events**

Post 30 June 2010, Blackstar has injected £10,775,000 into KMG in the form of an interest-bearing shareholder loan in order to settle the acquisition finance in KMG.

Blackstar recently formed a 100% held subsidiary called Blackstar Real Estate (Pty) Limited ("BRE") which initially had an objective of acquiring properties held by Blackstar's subsidiaries and investments on a sale and lease back basis. However BRE is also exploring other opportunities that have arisen due to the prevailing economic conditions. Since June 2010, BRE has acquired two industrial properties with a purchase price of £1,482,000.

Charles Taberer was appointed as an independent Non-executive director to the board of Blackstar in August 2010. Mr Taberer has significant experience doing business in Africa and brings a great deal of relevant African and investment experience to the Company.

## **18. 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 Plc as well as subsidiaries Blackstar Gibraltar, Blackstar Cyprus, Blackstar SA, the associate Navigare and other portfolio investments). 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.

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

for the six months ended 30 June 2010

### 18. Segmental information (continued)

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.

On preparation of the segmental report for the current period it was noted that the segmental EBITDA reviewed by the Board of Directors to assess performance includes inter-group income and expenses. In December 2009, the EBITDA disclosed by segment excluded inter-group income and expenses. For comparability, the comparatives for December 2009 have been adjusted to include inter-group transactions.

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
<b>External revenue</b>			
As reported by segment:			
Industrial chemicals	17,481	13,869	29,465
Industrial metals	88,614	48,191	124,741
Consolidated total reported by the Group	106,095	62,060	154,206
<b>EBITDA</b>			
As reported by segment:			
Industrial chemicals	3,490	1,951	5,045
Industrial metals	1,768	(2,898)	(1,948)
Investment activities	3,129	(4,493)	(417)
Healthcare	246	–	–
Consolidation adjustments:			
Inter-group transactions	(1,967)	1	(23)
On acquisition fair value adjustments	1	1	19
Other	818	–	(26)
Consolidated total reported by the Group	7,485	(5,438)	2,650
Depreciation and amortisation	(2,179)	(1,175)	(3,320)
Finance income and finance costs	(2,703)	(2,212)	(4,786)
Profit/(loss) before taxation reported by the Group	2,603	(8,825)	(5,456)
<b>Share of profit of associates</b>			
Healthcare	246	–	–
Investment activities	35	–	–
Consolidated total reported by the Group	281	–	–
<b>Total assets</b>			
As reported by segment:			
Industrial chemicals	31,960	26,798	29,468
Industrial metals	103,143	75,572	77,580
Investment activities	106,621	96,068	105,478
Consolidation adjustments			
Inter-group transactions	(23,676)	(28,625)	(32,219)
On acquisition fair value adjustments:	(20,417)	(5,260)	(7,646)
Consolidated total reported by the Group	197,631	164,553	172,661
<b>Investment in associates</b>			
Healthcare	11,824	–	–
Investment activities	174	–	–
Consolidated total reported by the Group	11,998	–	–

**18. Segmental information (continued)**

	<b>30 June 2010 £'000</b>	30 June 2009 £'000	31 December 2009 £'000
<b>Total liabilities</b>			
As reported by segment:			
Industrial chemicals	<b>(21,546)</b>	(20,722)	(20,873)
Industrial metals	<b>(97,674)</b>	(78,257)	(81,652)
Investment activities	<b>(1,878)</b>	(572)	(1,591)
Consolidation adjustments:			
Inter-group transactions	<b>23,679</b>	28,625	32,219
On acquisition fair value adjustments	<b>(978)</b>	(1,484)	(996)
Other	<b>–</b>	–	(13)
Consolidated total reported by the Group	<b>(98,397)</b>	(72,410)	(72,906)

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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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## Bankers

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

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