BLACKSTAR

Blackstar Group Plc
Annual Report and Accounts 2010

Highlights

- Repurchase of 5.5% of the Company’s ordinary shares in issue
- Litha share price increase 193% over the period
- Tangible intrinsic net asset value per share increased by 18% to 138 pence per share
- Maiden dividend of 1.55 pence per share declared

- Director’s statement
- Director’s report
- Directorate
- Independent auditor’s report
- Consolodated income statement
- Consolidated statement of comprehensive income
- Consolidated statement of changes in equity
- Consolidated balance sheet
- Consolidated cash flow statement
- Notes to the consolidated financial statements
- Company statement of changes in equity
- Company balance sheet
- Company cash flow statement
- Notes to the Company financial statements
- Company information
- Notice of meeting
- Form of proxy

Directors' statement

Overview

The main highlight of the 2010 financial year for Blackstar Group Plc ("Blackstar" or "the Group") has been the finalisation of the Litha Healthcare Group Limited ("Litha") transaction, which comfortably offset the downside of our involvement in the steel sector through KMG Steel Service Centres (Pty) Limited ("KMG"). KMG continued to be negatively affected by the local steel market and depressed state of the construction industry. Blackstar's consolidated income statement has been adversely affected by the recognition of our share of KMG's losses for the year and the impairment of KMG's intangible assets and goodwill recognised on its acquisition, all of which have arisen as a result of KMG's poor performance. Subsequent to year end, Blackstar has entered into a transaction that will involve the sale of one of KMG's divisions and the restructuring of KMG.

Blackstar's management team is particularly proud of what we have achieved with Litha to date and is enthused by the potential that the investment still holds. The market has responded well to Litha with the share price increasing by 193% over the period under review. When measured on a fair value basis this together with the pleasing performance of Blackstar's other investments, such as Ferro Industrial Products (Pty) Limited ("Ferro") has more than offset the losses and write downs in KMG. Another notable highlight during the year was the realisation of Blackstar's indirect investment in Mvelaphanda Resources Limited ("Mvela"), which generated an overall profit since acquisition of £8.5 million for Blackstar.

As a result of KMG, Blackstar's net asset value attributable to equity holders declined from £101.7 million to £90.2 million during the year, resulting in a decline in net asset value ("NAV") per share from 129 pence per share to 121 pence per share. The NAV reflects Blackstar's 45% holding in Litha using the equity accounting method. Had the investment in Litha been accounted for at fair value, this would have resulted in an additional gain of £24.5 million and an increase in NAV of 33 pence per share on the current year's reported NAV.

I would recommend that readers look at Annexure A for a breakdown of Blackstar's intrinsic NAV. This annexure provides an analysis of the Group balance sheet whereby each investment is reflected at fair value and then compared to its carrying value as reported in the consolidated balance sheet, where investments in subsidiaries and associates are consolidated and equity accounted. This is a useful tool in identifying the true inherent value of each investment held by Blackstar. The Annexure highlights the significant difference between the carrying value of Litha included in the consolidated balance sheet and its fair value.

Blackstar has no third party debt and all the subsidiaries debt is ring fenced to the companies.

In the period under review, Blackstar earned fees amounting to £0.6 million from its subsidiaries and associates in the form of investment monitoring, corporate finance, transaction arranging, guarantee and directors fees.

Blackstar's share price increased from a January 2010 low of 54 pence to 77 pence at the end of December 2010. Blackstar continued its share buy-back programme with the repurchase of 4,317,495 shares representing 5.5% of the Company's issued ordinary share capital. A final dividend of 0.90 pence per share has been declared for the period bringing the total dividend for the year to 1.55 pence per share.

During 2010, Blackstar's management has concentrated on maximising value within the Group's portfolio. A great deal of time has been spent on the restructuring and right sizing of KMG as well as assisting Litha's management with acquisitions.

In addition Blackstar management and Board are mindful of the dislocation of value between Blackstar's share price and underlying value and continue to actively seek ways to close the discount at which the Blackstar share price currently trades when compared to the net asset value per share of the Company. The on-going buy-back policy and the commencement of dividend declarations have largely contributed to the increase in Blackstar's share price by 43% during the period under review.

Economic and Operating Environment Review

There is a popular struggle song enjoyed by South African President Jacob Zuma called *Umshini Wami* (translated "Bring me my machine gun"). The lyrics to this song seem to aptly describe the situation that has been developing over the past few months on the African continent from Egypt to Libya to Cote d'Ivoire where the local populace of these countries have effectively vocalised their demands for freedom and a more democratic future. These developments emphasise the extent

to which, (and speed at which), Africa is changing, although it still has a long way to go. Although there are inherent risks, the continent presents many opportunities.

Risks aside, Blackstar management anticipates that over the next five years the average African economy will outpace its Asian counterparts and take the global lead in real GDP growth. Looking even farther ahead, Standard Chartered Plc forecasts that Africa's economy will grow at an average annual rate of 7% over 20 years, slightly faster than China's.

Blackstar's strategy has always been to participate in the African growth story from a South African base. Many South African companies do a healthy trade on the continent and are favourably exposed to the growth and development prospects of the region.

The recent substantial transactions by leading global businesses re-affirm both the continents potential and South Africa's position as a strategic gateway into Africa. Wal-Mart Stores Inc. recently acquired control of Massmart Holdings Limited for $4.2 billion and Japan's NTT Docomo purchased South Africa's largest IT company, Dimension Data Plc for $3.5 billion. South Africa was recently invited to join the BRIC ("Brazil, Russia, India and China") countries as the representative of Africa. This shows the importance of South Africa as the gateway to Africa.

Operating Review

Blackstar has two operating subsidiaries namely KMG in which Blackstar holds an 87% interest and Ferro where Blackstar has a 54% shareholding. The financial results for Ferro and KMG are consolidated with Blackstar's results. Blackstar has two associates, the most significant being Litha in which it currently holds 45%, and Navigare Securities (Pty) Limited ("Navigare") in which it holds 25%. Both associates are equity accounted. Refer to Annexure B for a review on Navigare.

Ferro

Ferro is a manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits and glass coatings.

Although the South African markets that Ferro serve were somewhat muted in 2010, Ferro was able to deliver modest revenue growth locally and compensated for the slow domestic growth by substantially growing export sales into Africa. Input costs were well controlled and the net effect was a satisfactory growth in EBIT of 23%.

Since Blackstar's involvement with Ferro, EBIT has increased by approximately 62%, and net debt has decreased from £12.7 million to the current £6.6 million at 31 December 2010 which has increased the equity value of Blackstar's investment significantly. Good working capital management throughout the period under review ensured that all Ferro's debt covenants were comfortably exceeded. Blackstar has received £1.2 million in interest on its shareholder loan over the last 18 months.

Ferro has a superb, experienced management team and it is a pleasure to be involved with them.

KMG

KMG consists of two main operating divisions namely Baldwin Steel ("Baldwins") and Stalcor. Baldwins is a carbon steel merchant and processor and is the third largest in the South African market. Stalcor trades in stainless steel and aluminium and from a market perspective is number one in aluminium and number two in stainless.

KMG also owns 100% of Global Roofing Solutions (Pty) Limited ("GRS"), which is the largest steel roofing and cladding manufacturer in South Africa. GRS also has a substantial African footprint, supplying a number of African countries from South Africa.

Overall the steel investment has been a disappointment to Blackstar and led us to re-assess our strategy with regards to Blackstar's exposure to this investment.

By the second quarter of 2010, in the face of a fall in demand, a weakening of international steel prices and a stronger currency, it became apparent to us that under the same management team, KMG was heading down a path of repeating what had previously transpired. We recognised that stringent and decisive action was required to maintain the solvency and restore the profitability of KMG.

By the beginning of the third quarter Blackstar was actively involved in the business and the decision had been made to replace the existing management in an effort to safeguard our investment.

There were three main reasons for the underperformance of KMG:

- Management applied an incorrect trading strategy at the beginning of 2010 which endeavored to divert business away from independent middle tier distributors in favour of the more lucrative downstream customer base. However KMG was unsuccessful in making up the volumes with downstream customers and competitors replaced KMG in supplying the middle tier distributors;
- An overreaction to Arcelor Mittal South Africa Limited ("Arcelor") inability to meet local demand in the second quarter of 2010, resulting in the importation of stocks which had the effect of doubling stockholding and putting severe strain on working capital once Arcelor had delivered outstanding orders that were not cancelled; and
- An inaccurate assessment of the steel market for the second half of the financial year which was beset by a marked decline in the level of activity and a drop in steel prices.

KMG's woes were experienced by many steel companies both in public and private markets. Many companies were forced to close down due to their inability to obtain bank facilities and a depressed trading environment. Blackstar took the decision to de-risk itself as much as possible in relation to KMG and the steel market. In light of this we elected to sell Baldwins to Robor (Pty) Limited ("Robor") for a new issue of shares in Robor. (Refer to Annexure B for a description of Robor).

Restructuring of KMG and sale of Baldwins

Blackstar's investment thesis is based upon investing in businesses that occupy the dominant positions in their various markets in which they operate and the Baldwins division does not meet this criteria. Baldwins has steadily lost market share over the last two years whereas both GRS and Stalcor have remained number one and two respectively. The Baldwins division has been the problem area within KMG and where most of the trading losses have occurred. Blackstar therefore decided to sell the division to Robor.

The basic terms of the transaction will involve the sale of the Baldwins (carbon) division (comprising fixed and intangible assets) to Robor in exchange for an issue of 5% of the shares in Robor. Robor will purchase the carbon stock for cash and assist KMG in collecting the outstanding trade debtors, and trade creditors will be settled by KMG. The 5% of equity in Robor will be unbundled up to Blackstar.

This transaction makes sense for Blackstar as by selling off Baldwins in exchange for equity in Robor, Blackstar retains an upside to the turnaround in the Baldwins division. Robor is a diversified, dominant business with a strong balance sheet and pays regular dividends to shareholders.

The benefits of this transaction for Baldwins are numerous including the injection of capital, better buying power, and improved systems and procedures. Robor has five operating divisions; Baldwins will be the sixth. The transaction will permit a restructuring of KMG that should enhance profitability of the remaining assets of Stalcor and GRS.

This will be predominately driven by retrenchment of the head office function responsible for Baldwins and pushing down the remaining head office costs into GRS and Stalcor where the value of these costs can be properly assessed and reduced appropriately.

The transaction will allow Blackstar to separate our steel interest into two distinct areas:

- Robor
- KMG - GRS and Stalcor

It is our belief that a decentralised structure will not only reduce overheads but will also allow each of these businesses to grow independently.

Litha

Litha listed on the main board of the JSE in May 2010 after the acquisition of 51% of Litha Healthcare Holdings (Pty) Limited ("LHH") by previously listed Myriad Healthcare Holdings Limited ("Myriad"). Myriad subsequently changed its name to Litha Healthcare Group Limited ("Litha").

Blackstar identified and underwrote the Litha transaction. The acquisition increased Litha's size and diversified its healthcare offering into three divisions – Biotech (vaccines), Pharma (pharmaceuticals) and Medical (medical devices). In March 2011, Litha acquired the remaining 49% of LHH that it did not own, effective from 1 January 2011. With the acquisition of the balance of the shares in LHH, Litha expects to start extracting cost benefits from the integration and rationalisation of logistics and services.

Had the LHH and Pharmafrica (Pty) Limited ("Pharmafrica") results been included for the full 12 month periods of 2010 and 2009 as if it had operated as a group from 1 January 2009, core headline earnings per share increased by 86% indicating a strong operating performance. For more details on Litha's results, refer to www.lithahealthcaregroup.co.za.

Litha continues to look for potential pharmaceutical acquisitions that will give the Pharma division more scale. The Group recently increased its shareholding in The Biovac Consortium, thereby increasing its effective shareholding in The Biovac Institute - a key part of Litha's strategy going forward and its competitive advantage.

Litha Biotech

Towards the end of 2010, the supply agreement with the South African government was extended until December 2016 which allows the Litha Biotech division to continue to provide the government with its paediatric vaccines whilst Litha continues to build the local vaccine manufacturing plant in Cape Town. In 2011, the main focus will be on constructing and equipping the vaccine manufacturing facility, whilst attracting the appropriate skills. Attention will also be given to securing technology transfers that will ensure that skills transfer and knowledge is given whilst increasing the throughput of the facility.

Litha Pharma

The highlight for the pharmaceutical division was the recent acquisition of Pharmafrica in May 2010. Litha Pharma will continue to pursue some pharmaceutical acquisitions to build scale as well as to develop a balanced product pipeline of its own. Litha Pharma recently announced a deal with Cpoint Capital and its business development team will assist the Group in signing up licensing deals from India and Europe.

Litha Medical

The 2010 financial year was a watershed period in terms of growth and the integration of the seven medical business units into the greater Litha Healthcare Group. Eight new agencies are being negotiated and several new formularies and tender supply agreements were signed, many for a period of two years. Growth of more than 50% was achieved by two of the business units, Manta Forensic and Earth Medical.

In 2011, the focus will be on the synergies that exist between the various business units of the medical division, specifically in gaining business with the public sector and in improving export sales.

Litha Medical is currently looking for medical agencies that are not well represented in South Africa and can be included in one of the business units, thereby extending Litha's product line with little investment.

Financial Review

The financial review encompasses the results of Blackstar's four reporting segments namely: Investment activities (being the Blackstar investment portfolio including the associate Navigare); Industrial metals (being KMG and its subsidiaries); Industrial chemicals (being Ferro); and Healthcare (being the associate Litha). Associates Litha and Navigare have been equity accounted and included as single line items on the consolidated income statement and balance sheet.

Financial performance

Revenue for the year ended 31 December 2010 amounted to £208.1 million of which KMG contributed £172.0 million and Ferro £36.1 million. In 2009, revenue amounted to £154.2 million which included KMG's revenue of £124.7 million for the

ten months since acquisition and Ferro's revenue of £29.5 million for the twelve months since acquisition. The two trading subsidiaries achieved gross profit of £30.3 million, a gross profit margin of 15%, up 1% on the prior year's gross margin.

Total impairments of £11.7 million have been recognised on goodwill and intangible assets during the current financial year (2009: £3.9 million). Impairments are discussed in the goodwill and intangibles section below.

Other income of £1.8 million comprises a gain of £0.9 million arising on the change in shareholding in Litha from 51% to 45%. The balance relates to realised exchange gains earned on investments and loans.

A net gain on investments of £5.7 million was earned from investing activities. The most significant contributors to this gain were: the services derivative investment; the Mvela investment (which was realised during the year); and the Group generated an overall profit of £1.4 million from trading in listed shares and bonds, the majority of which was realised during the year.

The Group generated £1.2 million in fees, dividends and interest, which includes fees totalling £0.4 million from transaction arranging, underwriting and capital raising in respect of the Litha transaction. Fees, dividends and interest declined by £2.7 million from the prior year due to the realisation of investments classified as loans and receivables during the current period.

The taxation charge of £2.6 million includes the derecognition of KMG's deferred tax assets of £1.4 million. In light of KMG's results, it was management's belief that the deferred tax asset arising as a result of the tax losses would not be utilised in the near distant future and thus it was more prudent to derecognise these deferred tax assets. This deferred tax asset can be re raised when KMG starts generating taxable income.

The Group's EBITDA has increased from £6.5 million in 2009 to £11.1 million in 2010, an increase of 71%. Impairments of goodwill and intangible assets of £11.7 million were the main cause of the reported loss for the current financial year.

The loss after tax attributable to equity holders of Blackstar amounted to £11.1 million for the year ended 31 December 2010 compared to a loss of £2.5 million in the prior year. KMG contributed a loss after tax attributable to equity holders of £16.6 million prior to the elimination of inter-Group interest and fees, which has a significant impact on Blackstar's overall profitability and overshadows the pleasing performance of the remainder of the businesses within the Group. The Company reported an attributable loss per share of 14.39 pence per share for the year (2009: 3.33 pence per share).

Balance sheet changes

Gross assets amounted to £154.3 million at 31 December 2010. The decline of £18.3 million is mainly attributable to the sale of investments as noted below, impairments being raised on goodwill and intangible assets, and a decline in inventory as a result of the improved management of stock levels by KMG during the current financial year.

Goodwill and intangible assets arise on consolidation of the Group's subsidiaries and are discussed in detail under a separate heading below.

Investments in associates include £14.4 million in respect of Litha and £0.2 million in respect of Navigare. In the prior year these investments were classified as investments at fair value through profit and loss.

Investments classified as loans and receivables amounted to £1.4 million at year end 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 had a carrying value of £12.6 million and mainly comprise the derivative investment in a services company of £9.8 million. The decline in carrying value when compared to the prior year is mainly as a result of Blackstar's investment in Litha now being accounted for as an associate.

Borrowings have declined by £10.8 million during the year to £13.8 million at 31 December 2010. KMG repaid borrowings of £13.7 million during the year including the settlement of its acquisition debt, Ferro repaid borrowings of £1.0 million, whilst Blackstar Real Estate (Pty) Limited ("BRE") raised a mortgage bond of £1.3 million in respect of the acquisition of

properties from KMG. The balance of the movement in borrowings relates to foreign exchange adjustments. All debt is ring-fenced within each subsidiary.

Other financial liabilities of £29.5 million mainly comprise secured, interest bearing, short-term loans held within Blackstar's subsidiary companies.

The most notable change in the equity of the Company would be the cancellation of the Company's capital redemption reserve which created additional distributable reserves of £30.2 million. Other changes include the buy-back and cancellation of 4,317,495 ordinary shares during the year.

Goodwill and intangibles

Blackstar's intangible assets, which have a carrying value of £13.3 million, comprise acquired marketing-related intangibles (brand names and registered trademarks), customer relationships and technology-related intangibles that arose on the acquisitions of KMG and Ferro. These intangible assets are being amortised over their useful lives and amortisation of £1.5 million has been included in the operating expenses within the consolidated income statement. A further impairment of £1.7 million arose on the intangible assets recognised in respect of the acquisition of KMG. As mentioned previously, KMG has experienced tough trading conditions which has affected its profitability and resulted in a decline in the value of its intangible assets to below their current carrying value.

As at 31 December 2010, goodwill amounted to £18.8 million net of impairments raised of which £4.1 million relates to the acquisition of Ferro; £2.2 million to the acquisition of KMG (net of cumulative impairments of £10.4 million); £11.4 million (net of cumulative impairments of £3.5 million) in respect of the acquisition of Blackstar Group (Pty) Limited ("Blackstar SA") and the internalisation of investment advisory arrangements; and £1.1 million on acquisitions made by KMG.

Goodwill is tested for impairment at each reporting date. An impairment of £6.5 million was recognised on goodwill arising on the acquisition of KMG as a result of the difficult conditions experienced in the steel market. The goodwill in relation to Blackstar SA and the internalisation of investment advisory services was impaired by £3.5 million in line with the decline in Blackstar Group's net asset value and the term of the previous investment advisory agreement.

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

Investment Review

Blackstar's others investments fared well in 2010 in line with management's expectations. Each investment is covered in detail in Annexure B to this report.

Share Buy-backs

During the year Blackstar repurchased 4,317,495 ordinary shares of 67 pence each, representing 5.5% of the Company's issued ordinary share capital. The repurchased shares were cancelled.

Dividends

As a reflection of the strengthened financial position and cash reserves available to Blackstar, the Board has resolved to declare a final dividend of 0.90 pence per ordinary share to be paid on • May 2011 to those shareholders on the register (the record date) on • May 2011. The shares will be quoted ex-dividend on • May 2011. This brings the total dividend for the year to 1.55 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.

Post Balance Sheet Events and Outlook

[•]

Andrew Bonamour
Luxembourg
April 2011

Annexure A

Intrinsic Net Asset Value Breakdown

A pro-forma balance sheet as at 31 December 2010 has been presented below which reflects the Group's intrinsic NAV. The financial information is reflected on the basis that all investments (whether the Company could be considered to exercise control 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. 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 31 December 2010 has been presented below in a summarised manner, for ease of comparison, such that the consolidated net asset value of each subsidiary is reflected in a single line.

	Pro-forma Unaudited 31 December 2010 £'000	**Consolidated Audited 31 December 2010 £'000**
Total assets		
Investments in subsidiaries		
Kulungile Steel Service Centres (Pty) Limited	18,343	25,358
Ferro Industrial Products (Pty) Limited	17,377	10,687
Blackstar Group (Pty) Limited and internalisation of investment advisory arrangements	11,400	11,550
Blackstar Real Estate (Pty) Limited	749	787
Other	193	193
Investments in associates		
Litha Healthcare Group Limited	38,896	14,397
Navigare Securities (Pty) Limited	604	240
Investments other		
Investments at fair value through profit and loss	12,340	12,340
Investments classified as loans and receivables	1,126	1,126
Cash and cash equivalents	13,284	13,284
Trade and other receivables	418	418
Total liabilities		
Trade and other payables	(184)	(184)
Total net assets	114,546	90,196
Equity		
Share capital	50,130	50,130
Capital redemption reserve	2,893	2,893
Foreign currency translation reserve	13,673	14,604
Retained earnings	47,850	22,569
Total equity attributable to equity holders	114,546	90,196
Net asset value per share (in pence)	153	121
Net asset value per share excluding goodwill that arose on internalisation of investment advisory arrangements (in pence)	138	105

Notes

1 For the purposes of determining the pro-forma (intrinsic) values, listed investments on recognised stock exchanges are valued using quoted bid prices at year end 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 that are separately disclosed above.

Annexure B

Overview of Blackstar's Subsidiaries and Investments

1. Litha Healthcare Group Limited ("Litha") – Shareholding of 45% (Blackstar will hold 37% following the acquisition of the remaining 49% of Litha).

Litha is listed on the main board of the JSE Limited.

Summarised income statement

	Year ended 31 December 2010 £'000[1]
Revenue	111,017
EBITDA	11,732
EBIT	10,817
PBT	10,206

Summarised balance sheet

	31 December 2010 £'000[2]
Total shareholder's funds	48,488
Net debt/(cash)	(14,540)
Property, plant and equipment	7,640
Net current assets excluding debt/cash	(2,316)

1 For illustrative purposes, all figures have been converted from ZAR to £ at the average exchange rate for the period 1 January 2010 to 31 December 2010 of ZAR 11.303 to £1.
2 For illustrative purposes, all figures have been converted from ZAR to £ at the closing rate at 31 December 2010 of ZAR 10.358 to £1.

Litha's operating divisions are as follows:

Biotech Division – Litha's Biotech Division imports and distributes paediatric and adult vaccines under agency from several major international pharmaceutical companies. It is a supplier of paediatric vaccines to the South African government through The Biovac Institute ("TBI").

Litha is the dominant supplier of vaccines to the South African healthcare market and has played a pioneering role in rebuilding the country's domestic capacity for the development and manufacture of vaccines.

The Biotech Division is the bedrock of Litha as a whole. It enjoyed immediate success and was supplying around 50-60% of the public sector market within three years of its establishment.

Litha is the controlling shareholder in a Public-Private Partnership ("PPP") with the South African government for vaccine manufacture and supply. Known as The Biovac Institute ("TBI"), this PPP is the sole supplier of vaccines used in the country's Expanded Programme on Immunisation ("EPI"), immunising millions of infants and pre-school children at public health facilities every year.

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 other company within the division, Litha Vaccines (Pty) Limited, specialises in vaccines that fall outside the scope of the EPI, such as the rabies and influenza vaccines. The main customer for these products is also the domestic public health sector, but the company also supplies member states of the Southern African Development Community ("SADC").

Directors' statement continued

Through substantial investments in manufacturing facilities, technology and skills transfer, and meeting exacting quality standards, Litha Biotech Division is ensuring that South Africa participates internationally in this exciting, dynamic and challenging area of medical research and development. 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").

Medical Division – This division comprises the wholesale distribution, assembly and importation of local and international medical devices and consumables. It has rights to 34 leading international agencies with a wide range of different premier brands in the single-use consumable and medical capital equipment sectors.

It houses six specialist business units with a market presence in both the public and private sectors. Due to the highly specialised nature of the services and products supplied, employees have specialist medical backgrounds, within ICU, Critical Care, Operating Theatres, Paramedics and Emergency Services, as well as specialist training within their respective agency product lines.

Pharmaceutical Division – Litha's Pharmaceutical Division sells, markets and distributes pharmaceutical, generic, over-the-counter ("OTC") and ancillary products to the pharmaceutical and consumer related industry. This division is the fastest growing area of operations within Litha due to its focus on generic medicines. These medicines are marketed through license agreements, co-marketing agreements and joint ventures with international pharmaceutical and generics companies.

Growth prospects for this division are extremely good. The total South African pharmaceutical market is worth an estimated R16.5 billion and Litha's Pharmaceutical division is positioned to compete in the generics market through joint ventures with international generics companies.

A Business Development and Regulatory Unit ("BDRU") has already been established to manage the process of obtaining licences for a range of generic and branded medicines from the MCC. Most of these generics will be sourced from India, China and Europe.

2. Ferro Industrial Products (Pty) Limited ("Ferro") – Shareholding of 54%

Ferro is a manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits and glass coatings.

Summarised income statement

	Year ended 31 December 2010 £'000[1]
Revenue	35,737
EBITDA	7,020
EBIT	6,198
PBT	4,561

Summarised balance sheet

	31 December 2010 £'000[2]
Total shareholder's funds	19,124
Net debt/(cash)	6,130
Property, plant and equipment	7,404
Net current assets excluding debt/cash	4,917

1 For illustrative purposes, all figures have been converted from ZAR to £ at the average exchange rate for the period 1 January 2010 to 31 December 2010 of ZAR 11.303 to £1.

2 For illustrative purposes, all figures have been converted from ZAR to £ at the closing rate at 31 December 2010 of ZAR 10.358 to £1.

Ferro has a strong reputation in the market and its brands are recognised as leaders in the industry. Ferro has in excess of 50% of the market share in each of its four operating divisions and in some cases 100% of the market. Ferro also exports to many African countries and the export segment of the business is experiencing substantial growth.

Ferro has demonstrated a strong ability to generate cash flow through the business cycles. It has a strong management team, a good track record and solid reputation. This coupled with its relationship with Ferro Corporation in the USA and Tiger Coatings GmbH in Austria provides the foundations for a successful operation.

3. KMG Steel Service Centres (Pty) Limited ("KMG") – Shareholding of 87%

Following the sale of Baldwins to Robor, which is expected to be completed in the first quarter of 2011, KMG will consist of two companies, GRS and Stalcor (Stainless Steel and Aluminium Corporation).

Blackstar initially acquired 47.5% of KMG and then acquired a further 25.5% as agent, to facilitate a transaction which would have resulted in Blackstar selling a large portion of its interest in KMG to a potential investor. As a result of the financial crises in late 2008, the transaction with the potential investor was aborted and Blackstar was forced to take beneficial ownership of the additional shares in the first quarter of 2009 bringing its shareholding in KMG to 73%. In 2010, Blackstar's "B" preference shares in KMG were converted into ordinary shares which further increased its shareholding in KMG to 87%.

GRS which has been in business since 1950, is the largest steel roofing and cladding company in South Africa. GRS also has a substantial African footprint supplying a number of African countries. The business is strongly aligned to infrastructure development, has a strong management team and excellent market position.

GRS owns 100% of Country Roofing (Pty) Limited, a roofing contractor and steel stockist in Namibia servicing Namibia, Angola and Botswana, thereby allowing KMG to extend its footprint into the Sub-Saharan market and to access the infrastructure spend occurring throughout this region.

Stalcor is one of the three major appointed distributors of stainless steel in South Africa for Columbus Stainless (Pty) Limited, a subsidiary of Acerinox SA (Spain). The product range is augmented by imports of stainless long products which are not manufactured in South Africa. Stalcor is also the largest appointed distributor for Hulamin Limited ("Hulamin") and accounts for approximately 50% of Hulamin's rolled and extruded product distribution in South Africa. The product range is augmented by imports. Distribution is carried on through a branch network in major centres throughout South Africa.

Summarised income statement

	Year ended 31 December 2010 £'000[1]
Revenue	172,036
EBITDA	(3,502)
EBIT	(6,669)
PBT	(22,415)

Summarised balance sheet

	31 December 2010 £'000[2]
Total shareholder's funds	18,571
Net debt/(cash)	24,718
Property, plant and equipment	12,607
Net current assets excluding debt/cash	29,452

1 For illustrative purposes, all figures have been converted from ZAR to £ at the average exchange rate for the period 1 January 2010 to 31 December 2010 of ZAR 11.303 to £1.

2 For illustrative purposes, all figures have been converted from ZAR to £ at the closing rate at 31 December 2010 of ZAR 10.358 to £1.

The steel industry in South Africa has been through a period of unprecedented volatility in prices which, coupled with the economic slow down, has dampened steel volumes significantly. Many steel businesses have been forced to close down as a result of the difficult trading conditions experienced over the last two years. Steel maker Evraz Highveld Steel and Vanadium Corporation Limited ("Evraz") recently reported financial losses for its 2010 financial year.

KMG has a good market position in South Africa and is ideally placed given the current infrastructure spend occurring in the Sub-Saharan region. KMG has a large export market into Africa and it is our view that this will continue to be a growth market for KMG in the future.

Robor – Shareholding of 5%

Robor is the largest tube and pipe manufacturing business in Southern Africa, with a leading position in most of its markets. The majority of Robor's earnings are generated from the manufacture of small, bore-welded carbon and stainless steel tubing and piping using hot rolled steel supplied by Arcelor Mittal South Africa Limited and Evraz. Most tubes sold in Southern Africa are locally produced with imports not providing strong competition due to the relatively high costs of transport and moderate tariff protection. Additional earnings are generated from divisions focused on related products and services. Robor's products are used by a wide range of industries including construction, mining, automotive, agricultural, petrochemical, engineering, broad industrial, and general infrastructural projects such as power stations, railways and stadiums. Robor exports to over 50 countries worldwide.

Robor was acquired from Barloworld Limited in 2006 by management and Rand Merchant Bank. Robor has produced consistent returns for its shareholders. For more information please refer to Robor's website www.robor.co.za.

4. Blackstar Real Estate (Pty) Limited ("BRE") – Shareholding of 100%

BRE was formed by Blackstar in the second half of 2010 with the objective of acquiring properties held by its subsidiaries and portfolio investments on a sale and lease back basis, as well as exploring other opportunities in the South African real estate sector that may arise as a result of the prevailing economic conditions and where attractive deals can be structured.

BRE currently holds interests in six properties, offering it exposure to the South African retail, leisure, industrial and development real estate sectors. Post these acquisitions, BRE currently holds gross assets (properties) with a fair value of £3.4 million.

5. Services Derivative

Blackstar concluded a secondary Black Economic Empowerment ("BEE") transaction with a large listed services company using derivative structures whereby Blackstar invested a fixed amount of its funds in exchange for an equity return, which is based on the performance of the underlying company. The investment has performed well over the year and is due to be realised at the beginning of 2012.

As part of a follow on transaction, in February 2011 Blackstar lent one of the BEE Groups £0.9 million for 12 months at an interest rate of 20%. This loan is secured by the underlying shares which represents four times cover on the loan.

6. Adreach (Pty) Limited ("Adreach") – Shareholding of 15%

Adreach is an outdoor media company which operates in a unique segment of the media market offering outdoor advertising mainly through the use of government owned street poles. Adreach utilise street poles on high traffic volume routes and strategic locations to place their advertising space. Contracts for these street poles have been secured with the South African government, which grant Adreach exclusive use of the street poles for the next seven years with the option to renew the contract at the end of the period, thereby giving Adreach a monopoly in this type of advertising space.

Summarised income statement

	Year ended 31 August 2010 £'000[1]
Revenue	9,267
EBITDA	1,424
EBIT	451
PBT	274

Summarised balance sheet

	31 August 2010 £'000[2]
Total shareholder's funds	3,274
Net debt/(cash)	641
Property, plant and equipment	1,426
Net current assets excluding debt/cash	730

1 For illustrative purposes, all figures have been converted from ZAR to £ at the average exchange rate for the period 1 September 2009 to 31 August 2010 of ZAR 11.737 to £1.
2 For illustrative purposes, all figures have been converted from ZAR to £ at the closing rate at 31 August 2010 of ZAR 11.326 to £1.

Adreach offers customers certainty of exposure through repetition to a captive market. As traffic on South Africa's roads continues to increase, outdoor media is gaining more and more market share, consistently delivering 'in your face' brand exposure to these highly defined captive commuter and pedestrian audiences.

Adreach produced a satisfactory set of results for the financial year ended 31 August 2010. Adreach is implementing cost saving measures and is forecast to produce another strong set of results in the upcoming financial year.

7. Navigare Securities (Pty) Limited ("Navigare") – Shareholding of 25%

Blackstar funded a start-up niche equities trading house in 2009 based on the old partnership style brokerage. Blackstar backed four of South Africa's most experienced and successful equities traders with over 20 years of trading experience each. This was a small investment for Blackstar but has been extremely successful and its equity value in the business is currently valued at 3.9 times the original cost.

Navigare provides sales and trading in equities and derivatives (including CFD's, options, index and single stock futures) as well as African trading via joint venture agreements. Navigare is ranked fourth in terms of valued traded on the JSE, in the mid capitalisation stocks. Navigare has repaid its seed capital to Blackstar and recently paid its maiden dividend to its shareholders.

Summarised income statement

	Year ended 31 December 2010 £'000[1]
Revenue	2,264
EBITDA	486
EBIT	459
PBT	541

Summarised balance sheet

	31 December 2010 £'000[2]
Total shareholder's funds	1,306
Net debt/(cash)	(1,721)
Property, plant and equipment	57
Net current assets excluding debt/cash	(406)

1 For illustrative purposes, all figures have been converted from ZAR to £ at the average exchange rate for the period 1 January 2010 to 31 December 2010 of ZAR 11.303 to £1.
2 For illustrative purposes, all figures have been converted from ZAR to £ at the closing rate at 31 December 2010 of ZAR 10.358 to £1.

8. Facebook Inc. ("Facebook")

In January 2011 Blackstar invested $400,000 in Facebook through the FBDC Offshore Investors L.P. managed by Goldman Sachs Group Inc. Facebook is a social networking service that enables people to share and communicate with their friends. As of December 2010, Facebook had over 600 million monthly active users, up from 300 million in September 2009 and 100 million in August 2008. Blackstar believes that Facebook could IPO in 2013.

9. Trading activities

Towards the end of 2009, Blackstar commenced trading in listed shares and bonds. To date Blackstar has invested a cumulative amount of £ 3.8 million in listed shares and bonds and has generated an overall profit of £1.4 million. Blackstar has realised £4.7 million of the funds invested and had £0.5 million invested in listed shares at year end.

10. Wallberg African All Stars

In December 2010 the Company entered into a strategic co-operation agreement with Wallberg Invest SA ("Wallberg") that will result in its wholly-owned South African subsidiary, Blackstar SA, which is regulated by the South African Financial Services Board, being appointed as the asset manager to Wallberg African All Stars, a Luxembourg UCITS III ("UCITS") compliant fund ("the Fund"), subject to regulatory approval.

The Fund, which targets liquid, listed investment opportunities with a large exposure to or growth path into Africa, was established in 2008 for an indefinite period in accordance with Part I of the Luxembourg Law of 20 December 2002, as amended, in the form of a fonds commun de placement. The UCITS legislation, established under a European Directive, regulates risk, liquidity, diversification, eligible asset constraints and counterparty exposure.

This is in line with the Company's strategy to increase its management of third party listed securities, principally in Africa. With an experienced, on the ground investment team and a history of outperformance, Blackstar was identified by Wallberg as an ideal partner to further develop the Fund which already has a strong track record. Although the current assets under management of the Fund are not significant, Blackstar and Wallberg believe that the Fund has the potential to raise significant additional capital, particularly as the African investment market plays an increasingly prominent role in the global economy. Fees generated from managing third party funds will accrue to Blackstar.

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 December 2010.

Results and dividends

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

The Directors recommended the payment of an interim dividend of 0.65 pence per ordinary share and a final dividend of 0.90 pence per share (2009: nil).

Principal activities, review of business and future developments

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

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

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

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

The Company has a 100% interest in Blackstar Real Estate (Pty) Limited, a property company, which initially acquired properties held by the Company's subsidiaries and investments on a sale and lease back basis and now explores other opportunities in the property sector where attractive deals can be structured with minimal investment in areas which have longer term potential.

The Company has an 87% interest in KMG Steel Service Centres (Pty) Limited, which is a processor, distributor and stockist of carbon steel, stainless steel and aluminum and manufacturer and supplier of steel roofing and cladding.

The Company has a 54% interest in Ferro Industrial Products (Pty) Limited, which is a manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits and glass coatings used on ceramic products.

The Company has a 45% interest in Litha Healthcare Group Limited, which is a diversified healthcare business with divisions operating in biotech, medical devices and pharmaceuticals.

The requirements of the business review have been included in the Directors' statement as set out on pages • to •.

Investment Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Buy-back and cancellation of shares
Further to the authority granted to the Company at the annual general meeting of the Company held on 10 May 2010, the Company purchased the following ordinary shares of nominal value of £0.67 each in the share capital of the Company: 2,477,495 shares on 11 May 2010 at a price of £0.69 per share, 840,000 shares on 26 October 2010 at a price of £0.75 per share and 1,000,000 shares on 16 November 2010 at a price of £0.74 per share. All of these shares were subsequently cancelled.

Policy and practice on the payment of creditors
It is the Group's policy to pay its creditors in accordance with the individual supplier's policy which is normally after having taken up to 30 days credit from each supplier. Trade creditor days for the Group at 31 December 2010 were • days (2009: 28 days).

Post balance sheet events
These are detailed in note 39 to the consolidated financial statements.

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

Substantial shareholders
The Company is aware that the following shareholders had holdings of 5% or more of the issued ordinary shares of the Company on 31 December 2010:

	% of issued share capital
BML Limited	•
Schroder Investment Management Limited	•
Eton Park Capital Management LLC	•
Lansdowne Partners Limited	•
Angelo Gordon and Co	•
Midas Capital Partners Limited	•
Lynchwood Nominees Limited	•

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

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

	Number of ordinary shares 2010	Number of ordinary shares 2009
Andrew Bonamour[1]	16,077,993	16,077,993
Julian Treger[2] (resigned on 10 May 2010)	—	2,491,570
John Mills	761,328	761,328
Wolfgang Baertz	183,158	150,000
Marcel Ernzer	—	—
Charles Taberer (appointed on 12 August 2010)	—	—

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

No Director has options to purchase shares in the Company.

No Director has any direct interest in the shares of any of the subsidiary companies.

Qualifying professional liability insurance for the benefit of the directors was in force during the financial year and at the date of this report.

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

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

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

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

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

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

By order of the Board

Andrew Bonamour
• April 2011

Directorate

John Broadhurst Mills (Non-executive Chairman)
John Mills, a qualified solicitor, is currently a director of Maitland Luxembourg SA and certain Luxembourg and ISE listed investment funds. Over the previous five years, he was and continues to be a director and a principal in the Maitland Group and a number of other companies. He has had extensive experience in advising clients in the structuring and exiting of private equity investments, through both onshore and offshore vehicles.

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

Wolfgang Andreas Baertz (Non-executive Director)
Wolfgang Baertz has significant experience within the banking sector over the previous 40 years. From 1968, he has been with Dresdner Bank initially in Frankfurt and for most of his career in Luxembourg where he held the positions of Head of Loans and Syndications Department (1970-1979), General Manager (1979-1982), Managing Director and Member of the Executive Committee (1982-1997) and President (1997-2003).

Marcel Ernzer (Non-executive Director)
Marcel Ernzer is an independent consultant within the financial sector. He was an auditor and later a consultant with Price Waterhouse Luxembourg from 1982-1986. From 1987-1996, he was responsible for setting-up and managing Unico Financial Services, a PSF in Luxembourg, owned by Credit Agricole, DZ Bank, Rabobank, RZB Austria, Cera Bank (later KBC) and Okobank. He is currently a director of Insinger de Beaufort Holdings S.A., Camera di Commercio Italo-Lussemburghese, Pro Fonds (Lux) Sicav and certain family owned commercial companies including Tetrabat, Taxirent and FAS. Over the previous years he was a director of several financial services companies including Corporate Management Services owned by Commercial Union, EEK Invest owned by Evangelische Kreditgenossenschaft, Piac owned by RZB Austria, UKB owned by Kokusai Securities and Witherthur Financial Services owned by Winterthur. He was also a director of several investment funds and was until 1998 serving on the board of ALFI, the Association of the Luxembourg Fund Industry.

Charles Taberer (Non-executive Director)
Charles Taberer is an executive director of Tanmac Trading (Pty) Limited, a property development and trading company based in South Africa. Charles has significant business experience in Africa and was previously the managing director of various private companies, covering a wide range of sectors including tobacco, cotton, gaming, leisure and hospitality.

Independent auditor’s report

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

We have audited the Group and Parent Company financial statements (the “financial statements”) of Blackstar Group Plc for the year ended 31 December 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Parent Statements of changes in equity, the Consolidated and Parent Company balance sheets, the Consolidated and Parent cash flow statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB’s website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group’s and the Parent Company’s affairs as at 31 December 2010 and of the Group’s loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

James Roberts
For and on behalf of BDO LLP, statutory auditor
Gatwick
United Kingdom
• April 2011

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

Consolidated income statement

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Revenue	4	**208,101**	154,206
Cost of sales			
Cost of sales		**(177,528)**	(128,859)
Write-down of inventories to net realisable value		**(291)**	(3,742)
		(177,819)	(132,601)
Gross profit		**30,282**	21,605
Sales and distribution costs		**(7,046)**	(5,374)
Administrative expenses – Trading businesses			
Administrative expenses		**(24,133)**	(16,611)
Impairment of goodwill	13	**(6,503)**	(3,883)
Impairment of intangible assets	14	**(1,729)**	—
		(32,365)	(20,494)
Other income – Trading businesses		**473**	308
Share of profits of associates	4	**1,539**	—
Operating loss before net investment income		**(7,117)**	(3,955)
Net investment income			
Net gains on investments	5	**5,666**	2,659
Fees, dividends and interest from loans, receivables and investments	6	**1,247**	3,923
		6,913	6,582
Administrative expenses – Investments			
Administrative expenses – Performance fee		**—**	243
Administrative expenses – Impairment of goodwill		**(3,500)**	—
Administrative expenses – Other		**(3,217)**	(3,540)
		(6,717)	(3,297)
Other income		**1,758**	—
Loss from operations	7	**(5,163)**	(670)
Finance income	9	**382**	470
Finance costs	9	**(5,764)**	(5,256)
Loss before taxation		**(10,545)**	(5,456)
Taxation	10	**(2,624)**	1,722
Loss for the year		**(13,169)**	(3,734)
Attributable to:			
Equity holders of the parent		**(11,121)**	(2,547)
Non controlling interests		**(2,048)**	(1,187)
		(13,169)	(3,734)
Basic and diluted loss per ordinary share attributable to equity holders from continuing operations in pence	11	**(14.39)**	(3.33)

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

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Loss for the year	**(13,169)**	(3,734)
Other comprehensive income:		
Currency translation differences on investments and Rand denominated assets and liabilities	**3,342**	5,787
Currency translation differences on translation of foreign subsidiaries and associates	**1,300**	1,699
Income tax relating to components of other comprehensive income	**—**	—
Net comprehensive income recognised directly in equity	**4,642**	7,486
Total comprehensive (loss)/income for the year	**(8,527)**	3,752
Attributable to:		
Equity holders of the parent	**(6,216)**	5,182
Non controlling interests	**(2,311)**	(1,430)
	(8,527)	3,752

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

Consolidated statement of changes in equity

for the year ended 31 December 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
Balance at 31 December 2008	75,665	3,575	12,068	1,865	93,173	—	93,173
Total comprehensive (loss)/ income for the year							
Loss for the year	—	—	(2,547)	—	(2,547)	(1,187)	(3,734)
Other comprehensive income/ (loss) for the year	—	—	—	7,729	7,729	(243)	7,486
	—	—	(2,547)	7,729	5,182	(1,430)	3,752
Charge for share based payment	—	—	97	—	97	36	133
Arising on acquisition of subsidiaries	—	—	—	—	—	(619)	(619)
Reduction in non controlling interests 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
Buy-back of ordinary shares	(7,405)	2,405	(770)	—	(5,770)	—	(5,770)
Capital re-organisation	(24,176)	24,176	—	—	—	—	—
Issue of ordinary shares	8,939	—	—	—	8,939	—	8,939
Balance as at 31 December 2009	53,023	30,156	8,976	9,594	101,749	(1,994)	99,755

Consolidated statement of changes in equity continued

for the year ended 31 December 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
Balance as at 31 December 2009	53,023	30,156	8,976	9,594	101,749	(1,994)	99,755
Total comprehensive income/(loss) for the year							
Loss for the year	—	—	(11,121)	—	(11,121)	(2,048)	(13,169)
Other comprehensive income/(loss) for the year	—	—	—	4,905	4,905	(263)	4,642
	—	—	(11,121)	4,905	(6,216)	(2,311)	(8,527)
Charge for share based payment	—	—	23	—	23	8	31
Cancellation of capital redemption reserve fund	—	(30,156)	30,156	—	—	—	—
Buy-back of ordinary shares	(2,893)	2,893	(3,079)	—	(3,079)	—	(3,079)
Arising on acquisition of a subsidiary (refer note 30)	—	—	—	—	—	10,122	10,122
Reduction in non controlling interests arising on acquisition of additional interests in subsidiary (refer note 30)	—	—	14	—	14	(14)	—
Arising on deemed disposal of subsidiary on additional shares being issued by the subsidiary (refer note 30)	—	—	—	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 33)	—	—	(1,907)	—	(1,907)	1,907	—
Interim dividend paid	—	—	(493)	—	(493)	—	(493)
Balance as at 31 December 2010	50,130	2,893	22,569	14,604	90,196	(2,474)	87,722

An interim dividend of 0.65 pence per ordinary share was declared on 29 October 2010.

A final dividend of 0.90 pence per ordinary share will be paid to shareholders registered on • May 2011.

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

Consolidated balance sheet

as at 31 December 2010

	Notes	**2010 £'000**	2009 £'000
Non-current assets			
Property, plant and equipment	12	**21,666**	19,259
Goodwill	13	**18,835**	26,772
Intangible assets	14	**13,281**	14,566
Investments in associates	15	**14,637**	—
Investments classified as loans and receivables	16	**873**	975
Investments at fair value through profit and loss	17	**12,056**	10,802
Other financial assets	18	**52**	—
Deferred tax assets	25	**125**	882
		81,525	73,256
Current assets			
Investments classified as loans and receivables	16	**502**	22,126
Investments at fair value through profit and loss	17	**545**	2,680
Other financial assets	18	**26**	307
Current tax assets		**423**	469
Trade and other receivables	19	**25,105**	24,374
Inventories	20	**27,006**	31,928
Cash and cash equivalents	21	**19,196**	17,521
		72,803	99,405
Total assets		**154,328**	172,661
Non-current liabilities			
Borrowings	22	**(12,538)**	(17,412)
Other financial liabilities	23	**(3,937)**	(3,726)
Provisions	24	**(197)**	(54)
Deferred tax liabilities	25	**(4,733)**	(4,272)
		(21,405)	(25,464)
Current liabilities			
Borrowings	22	**(1,295)**	(7,262)
Other financial liabilities	23	**(25,540)**	(22,946)
Provisions	24	**(288)**	(84)
Current tax liabilities		**(442)**	(1,134)
Trade and other payables	26	**(17,635)**	(15,814)
Bank overdrafts		**(1)**	(202)
		(45,201)	(47,442)
Total liabilities		**(66,606)**	(72,906)
Total net assets		**87,722**	99,755
Equity			
Share capital	27	**50,130**	53,023
Capital redemption reserve	27	**2,893**	30,156
Foreign currency translation reserve	27	**14,604**	9,594
Retained earnings	27	**22,569**	8,976
Total equity attributable to equity holders		**90,196**	101,749
Non controlling interest		**(2,474)**	(1,994)
Total equity		**87,722**	99,755
Net asset value per share (in pence)	28	**121**	129

The consolidated financial statements were approved by the Board and authorised for issue on • April 2011.

Andrew Bonamour
Director

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

Consolidated cash flow statement

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Cash flow from operating activities			
Cash generated by operations	29	**13,795**	11,607
Interest received		**461**	2,824
Interest paid		**(4,525)**	(3,804)
Dividends received		**5,798**	674
Taxation paid		**(2,645)**	(745)
Cash generated by operating activities		**12,884**	10,556
Cash flow from investing activities			
Purchase of property, plant and equipment		**(2,748)**	(1,728)
Additions to investments classified as loans and receivables		**(746)**	(1,103)
Purchase of investments at fair value through profit or loss		**(5,019)**	(542)
Acquisition of subsidiaries	30	**(176)**	(24,069)
Cash outflow on acquisition of subsidiary and subsequent deemed disposal	30	**(4,950)**	—
Proceeds from disposal of property, plant and equipment		**127**	38
Proceeds from disposal of investments		**21,667**	27,215
Cash generated/(absorbed) by investing activities		**8,155**	(189)
Cash flow from financing activities			
Proceeds from borrowings		**1,312**	—
Repayment of borrowings		**(14,866)**	(11,108)
Movement in other financial liabilities (incuding short-term funding facilities)		**(2,232)**	(2,064)
Buy-back of ordinary shares		**(3,079)**	(5,770)
Issue of shares		**—**	8,939
Dividends paid to equity holders of the parent		**(493)**	—
Cash absorbed by financing activities		**(19,358)**	(10,003)
Net increase in cash and cash equivalents		**1,681**	364
Cash and cash equivalents at the beginning of the year		**17,319**	17,831
Exchange gains/(losses) on cash and cash equivalents		**195**	(876)
Cash and cash equivalents at the end of the year	21	**19,195**	17,319

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

Notes to the consolidated financial statements

for the year ended 31 December 2010

1. Accounting policies

1.1 Basis of preparation

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

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") published by the International Accounting Standards Board ("IASB") as endorsed for use by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

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

1.2 Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. These consolidated financial statements present the results of the Group as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the Non controlling interest's share of changes in equity since the date of the combination.

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired business. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date. Non-current assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquired business' identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

1.3 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

1. Accounting policies (continued)

1.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Self-constructed assets under construction (capital work in progress) are not depreciated until they are ready for use.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Borrowings costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of the asset and all other borrowing costs are expensed.

Residual values and useful lives are reassessed annually.

Depreciation is provided on the straight-line basis so as to write the assets down to their estimated residual values, over the estimated useful lives of the assets.

The estimated useful lives are as follows:

Buildings	20 – 50 years
Plant and machinery	4 – 10 years
Office furniture, fixtures and equipment	3 – 10 years
Vehicles	3 – 5 years

Where significant components of an asset have different useful lives to the asset itself, these components are depreciated over their estimated useful lives.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss is reversed, then it is only reversed to the extent that the revised carrying amount of the asset would reflect the depreciation that would have been charged had the impairment not been reflected. Where a reversal of a previously recognised impairment loss is recognised, the depreciation charge for the asset is adjusted to allocate the assets' revised carrying amount, less residual value, on a systematic basis over its remaining useful life.

Surpluses or deficits on the disposal of property, plant and equipment are credited or charged to profit or loss. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. The cost of such intangible assets is their fair value at the acquisition date.

Intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on the straight-line basis over their estimated useful lives. The estimated useful lives and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

1. Accounting policies (continued)

1.5 Intangible assets (continued)

The following useful lives are used in the calculation of amortisation for intangible assets:

Marketing related intangibles (brands)	5 and 20 years
Customer related intangibles (customer relationships)	3, 10 and 15 years
Technology related intangibles	20 years
Registered trademarks	20 years

1.6 Leases

1.6.1 Operating leases

Leases where the lessor retains the risk and rewards of ownership of the underlying assets are classified as operating leases. Payments made under operating leases are charged against income on the straight-line basis over the period of the lease.

1.6.2 Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease, and depreciated over the estimated useful lives of the asset. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

1.7 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. Goodwill is tested annually for impairment. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed.

1.8 Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition, and is determined using the first-in, first-out method for chemical coatings inventory and weighted average cost method for industrial metal inventories. The cost of work in progress, finished goods and contracts in progress includes direct costs and an appropriate allocation of overheads based on normal production levels. Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

1. Accounting policies (continued)

1.9 Associates

An associate is an entity over which the Group has the ability to exercise significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Where investments in associates meet the specific criteria for inclusion in the venture capital division, they are carried at fair value even though the Group may have significant influence over those companies (refer note 1.10.1 below). When an associate no longer meets the requirements for inclusion in this investment portfolio, the investment is transferred the equity accounted for investment portfolio. In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective dates on which the companies are included in the equity accounted for portfolio and up to the effective dates of disposals. In the events of associates making losses, the Group recognised the losses to the extent of the Group's exposure.

1.10 Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become party to the contractual provisions of the instrument. Financial instruments acquired for trading purposes and derivative instruments are stated at fair value. Resulting gains or losses are recognised directly in profit or loss.

Financial instruments presented in the financial statements include cash and cash equivalents, investments, trade and accounts receivable and trade and accounts payable. Financial instruments are initially recognised at fair value, when the Group becomes party to the contractual provisions of the instrument. Subsequent to initial recognition, these instruments are measured as follows:

1.10.1 Financial assets

The classification of financial assets depends on their nature and purpose and is determined at the time of initial recognition.

Investments at fair value through profit and loss – Investments at fair value through profit and loss are financial assets held-for-trading and those designated at fair value through profit and loss at inception. These assets are carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in profit or loss in the period in which they arise.

Investments in associates which are part of the venture capital division – Associates which meet the specific criteria for inclusion in the venture capital division, are included in the Group's investment portfolio at fair value. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in profit and loss in the period in which they arise. This treatment is permitted by IAS 28 Investment in Associates which allows investments held by venture capital organisations to be excluded from the scope of IAS 28 Investment in Associates provided that those investments upon initial recognition are designated as fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in profit or loss in the period of change.

Investments classified as loans and receivables – Investments classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; or
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

These assets are subsequently carried at amortised cost, using the effective interest rate method.

1. Accounting policies (continued)

1.10 Financial instruments (continued)

1.10.1 Financial assets (continued)

Trade receivables – trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents – Cash and cash equivalents comprise cash in current accounts, money market funds and short term deposits with original maturities of three months or less.

Impairment of financial assets – Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For trade receivables, receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account.

De-recognition of financial assets – The Group de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

1.10.2 Financial Liabilities and Equity Instruments issued by the Group

Classification as debt or equity – Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments – An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Treasury shares – Consideration paid/(received) for the purchase/(sale) of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate reserve. Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to the share premium account. The cancellation of treasury shares reduces the share capital and increases the capital redemption reserve by an amount corresponding to the nominal value of the shares.

1. Accounting policies (continued)

1.10 Financial instruments (continued)

1.10.2 Financial Liabilities and Equity Instruments issued by the Group (Continued)

Trade and other payables – Trade and other payables are stated at amortised cost.

Other financial liabilities – all other financial liabilities with the exception of derivatives are accounted for at amortised cost using the effective interest rate method.

De-recognition of financial liabilities – Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expires. On de-recognition, the difference between the carrying amount of the financial liability, including related un-amortised costs, and the amount paid for it is recognised directly in profit or loss.

Effective interest method – the effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Offset – Where a legally enforceable right of set off exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the assets simultaneously, all related financial effects are offset.

1.11 Derivative financial instruments

Certain Group entities enter into a variety of derivative financial instruments to manage their exposure to interest rate and foreign exchange rate risk, namely foreign exchange contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to the fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets and liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

The fair value of hedging derivatives is classified as a non-current asset or a non current liability if the remaining maturity of the hedge relationship is more than twelve months and as a current asset or current liability if the remaining maturity of the hedge relationship is less than twelve months.

Derivatives not designated into an effective hedge relationship are classified as a current asset or current liability.

1.12 Provisions and contingent liabilities

Provisions are recognised when a present legal or constructive obligation exists as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate of the amount of the obligation can be made. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The Group discloses a contingent liability when it has a possible obligation arising from past events, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

1. Accounting policies (continued)

1.13 Employee benefits

1.13.1 Short term employee benefits

The cost of all short term employee benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to wages, salaries, annual and sick leave represent the amount that the Group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on current wage and salary costs to the Group.

1.13.2 Retirement benefits

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

1.14 Share based payments

Equity settled share based payments granted to employees and other providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the entity's estimate of the equity instruments that will eventually vest. At each balance sheet date, the entity revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to retained earnings.

1.15 Revenue and investment income

Revenue comprises net invoiced sales to customers, net of discounts allowed and excluding Value Added Tax. Revenue is recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of the future economic benefits is probable.

Investment fee income includes corporate finance and advisory fees, which are recognised on an accrual basis when the fees are earned and can be reliably estimated. Fee income is measured at the fair value of the consideration receivable.

Realised and unrealised gains and losses arising from changes in the fair value of investments at fair value through profit and loss are recognised in the income statement in the period in which they arise.

Interest income is recognised on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, when it is determined that such income will accrue to the Group.

Dividends are recognised when the right to receive payment has been established and it is determined that such income will accrue to the Group.

1.16 Finance income and finance costs

Finance income comprises interest receivable on current account bank balances, and deposits held on call.

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Interest is recognised in the income statement as it accrues using effective interest rate method.

1.17 Tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment of tax payable for previous years.

1. Accounting policies (continued)

1.17 Tax (continued)

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

(a) the initial recognition of goodwill; or
(b) the initial recognition of an asset or liability in a transaction which:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit
- nor taxable profit (tax loss).

A deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries except to the extent that both of the following conditions are satisfied:

(a) the parent is able to control the timing of the reversal of the temporary difference; and
(b) it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

(a) is not a business combination; and
(b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax is charged to profit and loss except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

1.18 Translation of foreign currencies

The functional currency of Blackstar is the South African Rand, however the company has elected to present its financial statements in Pounds Sterling, being the denomination of the issued share capital of the company. The Group financial statements are also presented in Pounds Sterling.

Transactions denominated in currencies other than Pounds Sterling are translated at the rates of exchange ruling on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated using the rates of exchange ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are translated at the rates of exchange ruling on the date when the fair value was determined.

Foreign exchange gains and losses arising on translation of assets and liabilities denominated in Rands are recognised in the foreign currency translation reserve, whereas foreign exchange gains and losses arising on translation of assets and liabilities denominated in foreign currencies other than Rands are recognised in the income statement for the period.

1. Accounting policies (continued)

1.19 Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Pounds Sterling at rates of exchange ruling at the balance sheet date. Income, expenditure and cash flow items are translated into Pounds Sterling at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity as a foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

Acquisition and disposals of foreign operations are accounted for at the rate ruling on the date of the transaction.

1.20 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker has been identified as the board of directors. This committee reviews the Group's internal reporting in order to assess performance. Management has determined the operating segments based on these reports.

1.21 Significant judgements and areas of estimation

The preparation of the financial statements requires the use of estimates, assumptions and judgements that affect the amounts reported in the balance sheet and income statement of the Group. Estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although the estimates are based on management's best knowledge and judgements of current facts as at the balance sheet date, the actual outcome may differ from those estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

During the period, the areas involving higher degree of judgement or complexity, or areas where assumptions and estimates were significant to the financial statements are as follows:

1.21.1 Investments

(Refer note 16 and 17).

The most critical estimates, assumptions and judgements relate to the determination of carrying value of investments at fair value through profit and loss and investments classified as loans and receivables.

In determining the carrying value of investments at fair value through profit and loss, the Group follows the International Private Equity and Venture Capital Valuation Guidelines, applying the overriding concept that fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. The nature, facts and circumstance of the investment drives the valuation methodology.

In determining the carrying value of investments classified as loans and receivables, the Group considers whether there have been any events or changes in circumstances which indicate that impairment may have occurred and reduces the carrying value by the estimated extent of the impairment.

1.21.2 Asset lives and residual values

(Refer note 12).

Property, plant and equipment are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

1. Accounting policies (continued)

1.21 Significant judgements and areas of estimation (continued)

1.21.3 Impairment of assets

(Refer note 12, 13 and 14).

Property, plant and equipment, and intangible assets are considered for impairment if there is reason to believe that impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset and where it is a component of a larger economic unit, the viability of that unit itself.

Future cash flows expected to be generated by the asset are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using appropriate discount rates, is compared to the current net asset value and if lower, the assets are impaired to the present value.

Goodwill impairment tests are required to be performed on an annual basis. On acquisition, the goodwill is allocated to cash-generating units. A fair value is determined for each of these cash generating units using a discounted cash flow model using the budgets and forecasts set by management for each cash generating unit and an appropriate discount rate. Actual outcomes may vary.

2. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

2.1 Determination of fair values arising on business combinations

2.1.1 Property, plant and equipment

Business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate.

2.1.2 Intangible assets

The relief from royalty methodology was utilised to value marketing related intangibles (including brands) and technology related intangible assets. The basis for this method is that the value of an intangible asset is what the owner would have to pay to licence the asset if he did not own it. In other words, the value equates to the avoided cost of not having to pay a royalty.

2.1.3 Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

2.1.4 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For trade and other receivables with a relatively short life span, the carrying value would approximate the fair value.

2. Determination of fair values (continued)

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

2.2.1 Investments

The specific methodologies applied in valuing unrealised investments are described below:

The valuation approach follows the international Private Equity and Venture Capital Guidelines, applying the overriding concept that fair value is the amount for which an asset can be exchanged between knowledgeable and willing parties in an arm's length transaction. The nature, facts and circumstances of the investment drive the valuation methodology.

Investments at fair value through profit and loss include listed and unlisted investments:

Listed Equity Investments: All investments listed in recognised stock exchanges have been valued using quoted bid prices at year end.

Unlisted Equity investments: All unlisted equity investments have been valued as follows:

(a) Where applicable, on the basis of a similar recent investment transaction by an independent third-party in the equity of the portfolio of the company. Where the investment being valued was itself made fairly recently (within a period of one year), its costs provide a good indication of fair value; or

(b) Using the discounted cash flow methodology, in which case:

- Enterprise value is apportioned to the enterprise's financial The enterprise value is derived, using reasonable assumptions and estimations of expected cash flows and the terminal value and discounting to the present value by applying the appropriate risk-adjusted discount rate that quantifies the risk inherent in the investment.
- Instruments in order of ranking. Given the subjective nature of valuations, the Group is cautious and conservative in determining the valuations.

2.2.2 Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

2.2.3 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

3. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. These are to be applied to financial statements with periods commencing on or after the following dates:

Standards and Interpretations	Effective date
Improvements to IFRSs (2010)*	1 January 2011
Revised IAS 24 Related Party Disclosures	1 January 2011
Amendments to IFRIC 14 IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
IFRS 9 Financial Instruments*	1 January 2013

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

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

3. New standards and interpretations not yet adopted (continued)

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

IFRS 9 Financial Instruments will eventually replace IAS 39 in its entirety. IFRS 9 as issued on 12 November 2009 addresses the classification and measurement of financial assets only. The requirements for the classification and measurement of financial liabilities will be finalised and added to IFRS 9 once issues related to the recognition of changes in an entity's own credit risk have been addressed. The effect on the Group of adoption of IFRS 9 has yet to be determined.

4. Revenue

	2010 £'000	2009 £'000
Sale of goods	**207,947**	154,206
Rendering of services	**154**	—
	208,101	154,206

5. Net gains on investments

	2010 £'000	2009 £'000
Net gains on investments classified as loans and receivables	**3,488**	1,590
(Impairments)/reversal of impairments on investments classified as loans and receivables	**(56)**	4,069
Net gains/(losses) on investments held at fair value through profit and loss	**2,477**	(2,792)
Net gains on trading financial instruments at fair value through profit and loss	**2**	—
Loss on derivative in a designated hedge relationship	**(245)**	(208)
Net gains on investments	**5,666**	2,659

6. Fees, dividends and interest from loans, receivables and investments

	2010 £'000	2009 £'000
Dividends from unimpaired investments classified as loans and receivables	**576**	2,312
Dividends from impaired investments classified as loans and receivables	**—**	466
Dividends from investments at fair value through profit and loss	**8**	—
Interest income from unimpaired investments classified as loans and receivables	**116**	1,009
Fee income	**547**	136
	1,247	3,923

7. Loss from operations

	2010 £'000	2009 £'000
This has been arrived at after charging/(crediting):		
Auditor's remuneration		
Paid to Group auditors		
– Audit fees of the Group and Company annual accounts	**70**	75
– Other services pursuant to legislation	**—**	—
– Other services	**—**	12
Paid to Associates of BDO LLP for audit of subsidiaries	**68**	55
	138	142
Staff costs		
Wages and salaries	**17,843**	15,612
Social security costs	**142**	403
Pension costs	**1,822**	1,176
	19,807	17,191

7. Loss from operations (continued)

Impairment losses/(reversal of impairment losses) arising on financial assets:

	2010 £'000	2009 £'000
Trade receivables	**369**	89
Investments	**56**	(4,069)
	425	(3,980)
Foreign exchange losses/(gains)		
Realised		
– On forward exchange contracts	**533**	204
– Other	**(514)**	(5,119)
	19	(4,915)
Unrealised	**—**	
– On forward exchange contracts	**—**	(4)
	19	(4,919)
Operating lease expense	**3,935**	2,131

8. Employees

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

	2010	2009
Managerial	**79**	79
Administrative	**271**	242
Operational	**1,015**	919
	1,365	1,240

9. Net finance charges

	2010 £'000	2009 £'000
Finance income		
Interest income on bank balances	**355**	443
Interest income on trade receivables	**13**	5
Interest income on other receivables	**14**	—
Gain on cashflow hedge of interest rate risk	**—**	22
	382	470
Finance costs		
Interest expense on bank overdrafts	**(144)**	(249)
Interest expense on borrowings from banks	**(2,228)**	(2,804)
Interest expense on non controlling shareholder loans	**(306)**	(343)
Interest expense on capitalised financial leases and instalment sale agreements	**(101)**	(30)
Interest expense on inventory financing facilities	**(1,434)**	(837)
Interest expense on invoice discounting agreement	**(1,128)**	(807)
Interest expense on other financial liabilities	**(34)**	(20)
Interest expense on trade payables	**(22)**	—
Loss on cashflow hedge of interest rate risk	**(367)**	(166)
	(5,764)	(5,256)
	(5,382)	(4,786)

10. Taxation

	2010 £'000	2009 £'000
Current taxation		
Current year	**1,755**	987
Prior years under/(over) provision	**215**	(76)
	1,970	911
Deferred taxation		
Current year	**(697)**	(2,679)
Prior years over provision	**(25)**	—
Prior years deferred tax asset derecognised	**1,369**	—
	647	(2,679)
Net wealth tax and secondary tax on companies	**7**	46
	2,624	(1,722)

The reason for the difference between the actual tax charge for the year and the standard rate of corporate tax in Luxembourg applied to profits of 28.59% (2009: 28.59%) are as follows:

	2010 £'000	2009 £'000
Loss before taxation	**(10,545)**	(5,456)
Add back share of profits of associates	**(1,539)**	—
Loss before taxation and share of profit from associates	**(12,084)**	(5,456)
Tax at standard rate of corporate tax in Luxembourg	**(3,455)**	(1,560)
Differing foreign tax rates	**(200)**	—
Income and expenses not subject to tax	**1,274**	(2,248)
Tax losses unutilised	**3,439**	2,116
Over/(under) provision from prior years	**1,559**	(76)
Net wealth tax and secondary tax on companies	**7**	46
Current tax charge for the year	**2,624**	(1,722)

11. Basic and diluted loss per share

	2010 £'000	2009 £'000
Net loss attributable to equity holders of the parent	**(11,121)**	(2,547)
Weighted average number of shares in issue (thousands)	**77,275**	76,454
Basic and diluted loss per share (in pence)	**(14.39)**	(3.33)

12. Property, plant and equipment

	2010 £'000	2009 £'000
Cost		
Land and buildings	**4,933**	3,698
Plant and machinery	**22,021**	16,544
Vehicles	**881**	519
Office furniture, fixtures and equipment	**2,030**	1,515
Capital work in progress	**912**	1,074
	30,777	23,350
Accumulated depreciation		
Land and buildings	**(98)**	(28)
Plant and machinery	**(7,687)**	(3,524)
Vehicles	**(337)**	(177)
Office furniture, fixtures and equipment	**(989)**	(362)
Capital work in progress	**—**	—
	(9,111)	(4,091)
Carrying amount	**21,666**	19,259

12. Property, plant and equipment (continued)

2010	Land and buildings £'000	Plant and machinery £'000	Vehicles £'000	Office furniture, fixtures and equipment £'000	Capital work in progress £'000	Total £'000
Carrying amount at the beginning of the year	**3,670**	**13,020**	**342**	**1,153**	**1,074**	**19,259**
Additions	**229**	**1,586**	**381**	**200**	**352**	**2,748**
Disposals	**—**	**(9)**	**(79)**	**(14)**	**—**	**(102)**
Depreciation	**(57)**	**(2,436)**	**(165)**	**(448)**	**—**	**(3,106)**
Transfers between categories	**386**	**262**	**—**	**1**	**(649)**	**—**
Currency exchange gains during the year	**607**	**1,911**	**65**	**149**	**135**	**2,867**
Carrying amount at the end of the year	**4,835**	**14,334**	**544**	**1,041**	**912**	**21,666**

2009	Land and buildings £'000	Plant and machinery £'000	Vehicles £'000	Office furniture, fixtures and equipment £'000	Capital work in progress £'000	Total £'000
Carrying amount at the beginning of the year	—	—	—	—	—	—
Additions	—	405	83	48	1,192	1,728
Disposals	—	(12)	(16)	—	—	(28)
On acquisition of subsidiaries and businesses	3,110	11,708	338	531	777	16,464
Depreciation	(19)	(1,847)	(110)	(194)	—	(2,170)
Transfers between categories	35	395	—	639	(1,069)	—
Currency exchange gains during the year	544	2,371	47	129	174	3,265
Carrying amount at the end of the year	3,670	13,020	342	1,153	1,074	19,259

For details of property, plant and equipment pledged as security refer note 22 Borrowings and note 23 Other financial liabilities.

There were no impairments recognised on property, plant and equipment during the year ended 31 December 2010 (2009: nil).

13. Goodwill

	2010 £'000	2009 £'000
Cost	**33,304**	30,655
Accumulated impairment losses	**(14,469)**	(3,883)
Carrying amount	**18,835**	26,772

	2010 £'000	2009 £'000
Ferro Industrial Products (Pty) Limited ("Ferro")	**4,075**	3,540
KMG Steel Service Centres (Pty) Limited ("KMG"), previously Kulungile Metals Group (Pty) Limited (net of impairment)	**2,241**	7,650
Blackstar Group (Pty) Limited ("Blackstar SA") and internalisation of investment advisory arrangements (net of impairment)	**11,382**	14,882
Arising on acquisitions made by KMG	**1,137**	700
Carrying amount at the end of the year	**18,835**	26,772

13. Goodwill (continued)

	2010 £'000	2009 £'000
Carrying amount at the beginning of the year	**26,772**	—
Arising on acquisition of subsidiaries KMG, Ferro and Blackstar SA and internalisation of investment advisory arrangements	**—**	27,184
Arising on acquisitions made by KMG	**247**	700
Impairment arising on goodwill in respect of KMG	**(6,503)**	(3,883)
Impairment arising on goodwill in respect of internalisation of investment advisory arrangements	**(3,500)**	—
Currency exchange gains during the year	**1,819**	2,771
Carrying amount at the end of the year	**18,835**	26,772

13.1 Impairment testing

For the purpose of impairment testing, goodwill is allocated to operating divisions within each of the Group's segments, which represent the lowest level, within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 40.

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

2010	Carrying amount at year end prior to impairment £'000	Impairment raised £'000	Carrying amount at 31 December 2010 net of impairment £'000
Investment activities segment			
CGU 1	14,882	(3,500)	11,382
Industrial chemicals segment (Ferro)			
CGU 1	1,076	—	1,076
CGU 2	817	—	817
CGU 3	2,182	—	2,182
	4,075	—	4,075
Industrial metals segment (KMG)			
CGU 1	—	—	—
CGU 2	3,702	(3,702)	—
CGU 3	2,387	(2,307)	80
CGU 4	1,772	(494)	1,278
CGU 5	965	—	965
CGU 6	786	—	786
CGU 7	269	—	269
	9,881	(6,503)	3,378
	28,838	(10,003)	18,835

13. Goodwill (continued)

13.1 Impairment testing (continued)

2009	Carrying amount prior to impairment £'000	Impairment raised £'000	Carrying amount at 31 December 2009 net of impairment £'000
Investment activities segment			
CGU 1	14,882	–	14,882
Industrial chemicals segment (Ferro)			
CGU 1	935	–	935
CGU 2	710	–	710
CGU 3	1,895	–	1,895
	3,540	–	3,540
Industrial metals segment (KMG)			
CGU 1	1,787	(1,787)	–
CGU 2	4,791	(1,575)	3,216
CGU 3	2,594	(520)	2,074
CGU 4	1,539	–	1,539
CGU 5	838	–	838
CGU 6	683	–	683
	12,232	(3,882)	8,350
	30,654	(3,882)	26,772

Impairment testing for Investment activities segment

As part of the internalisation of Blackstar's investment advisory arrangements, in 2009 the Group acquired 100% of the ordinary shares of Blackstar SA. In addition, Blackstar and Blackstar SA ended all of their respective investment advisory agreements and as a result, on acquisition of the company, Blackstar also assumed the liability for termination of the investment advisory agreements.

The internalisation gave rise to goodwill of £14,882,000. The recoverable amount has been determined using a discounted cash flow model using the net asset value of the Group at the end of the year, a growth rate of 11.7% and discount rate of 15% for a four year period (being the remaining term of the investment advisory agreement which was terminated following the internalisation). In 2010, the recoverable amount was less than the carrying amount and an impairment of £3,500,000 was recognised. This impairment arose as the net asset value of the Group declined in 2010.

Impairment testing for Industrial chemicals and Industrial metals segments

The recoverable amounts of all of the cash generating units within both the Industrial chemicals and Industrial metals segments have been determined by discounting the estimated future cash flows generated from the use of each cash generating unit. The cash flow projections were based on formally approved budgets for the year ended 31 December 2011. Cash flows for a further four years ending 31 December 2015 were determined by applying revenue and expense growth rates and margins to the 31 December 2011 approved budgets. These rates, which differed for each cash generating unit, were determined based on management's past experience and future expectations in the light of anticipated economic and market conditions.

The weighted average cost of capital, used to determine the recoverable amounts for each cash generating units within the Industrial chemicals and Industrial metals segments ranged between 15% and 17% and were determined using a South African Government Bond risk free rate, appropriate risk premiums, Betas of industry comparable companies, South African debt rates and tax rates and the debt ratios of industry comparable companies.

An impairment loss of £6,503,000 was recognised at 31 December 2010 as the carrying amount of goodwill for CGU's 2,3 and 4 within the Industrial metals segment exceeded their recoverable amounts. These cash generating units process and distribute carbon steel, aluminium, stainless steel and manufacture steel roofing and cladding. These units were negatively impacted by difficult market conditions including a decline in demand and weaker steel prices. This resulted in a lower recoverable amount for these particular cash generating units and the recognition of an impairment of goodwill.

13. Goodwill (continued)

13.1 Impairment testing (continued)

Impairment testing for Industrial chemicals and Industrial metals segments (continued)

The Group has one cash generating unit, where the carrying amount of goodwill is significant in comparison to the Group's total carrying amount of goodwill, namely CGU 1 in the Investing activities segment. Since the goodwill for this segment has been impaired, the recoverable amount is equal to the carrying amount.

14. Intangible assets

	2010 £'000	2009 £'000
Cost		
Marketing related intangibles (brands)	**6,847**	5,948
Customer related intangibles	**8,470**	7,358
Technology related intangibles	**1,424**	1,237
Registered trademarks	**1,462**	1,272
	18,203	15,815
Accumulated amortisation and impairments		
Marketing related intangibles (brands)	**(1,811)**	(416)
Customer related intangibles	**(2,881)**	(707)
Technology related intangibles	**(142)**	(62)
Registered trademarks	**(88)**	(64)
	(4,922)	(1,249)
Carrying amount	**13,281**	14,566

2010	**Marketing related intangibles (brands) £'000**	**Customer related intangibles £'000**	**Technology related intangibles £'000**	**Registered trademarks £'000**	**Total £'000**
Carrying amount at the beginning of the year	**5,532**	**6,651**	**1,175**	**1,208**	**14,566**
Amortisation	**(577)**	**(809)**	**(65)**	**(14)**	**(1,465)**
Impairments	**(644)**	**(1,085)**	**—**	**—**	**(1,729)**
Currency exchange gains during the year	**725**	**832**	**172**	**180**	**1,909**
Carrying amount at the end of the year	**5,036**	**5,589**	**1,282**	**1,374**	**13,281**

2009	Marketing related intangibles (brands) £'000	Customer related intangibles £'000	Technology related intangibles £'000	Registered trademarks £'000	Total £'000
Carrying amount at the beginning of the year	—	—	—	—	—
On acquisition of subsidiaries and businesses	4,857	6,194	1,056	1,086	13,193
Amortisation	(386)	(650)	(56)	(58)	(1,150)
Currency exchange gains during the year	1,061	1,107	175	180	2,523
Carrying amount at the end of the year	5,532	6,651	1,175	1,208	14,566

The amortisation and impairment charges are included in the line item "Administrative expenses – Trading businesses" in the income statement.

14. Intangible assets (continued)

KMG has experienced difficult trading conditions which has negatively impacted its profitability and resulted in intangible assets within the Industrial metals segment being impaired by an amount of £1,729,000 during the current financial year. Of the total impairment expense, £989,000 arose as the recoverable amounts of the intangible assets were less than the carrying values as at 31 December 2010. The recoverable amounts were calculated based on the value in use using a discounted cash flow model. Discount rates utilised ranged from between 19.5% to 21.3%. The remaining impairment of £740,000 arose as the recoverable amounts of the cash generating units to which these intangible assets were allocated were less than their carrying values and subsequent to impairment of the goodwill, this deficit was allocated to the intangible assets within each cash generating unit (refer note 13 for details of the impairment testing performed on the individual cash generating units within the Industrial metals segment).

There are no individually material assets requiring separate disclosure and there were no impairments recorded during the prior reporting year.

15. 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 Investment in Associates which allows investments held by venture capital organisations are to be excluded from the scope of IAS 28 Investment in Associates.

Two of the associates of the Group which have previously been held within the investment portfolio are no longer believed to meet the requirements for inclusion in the investment portfolio In April 2010, Blackstar re-assessed their view of the investments in Litha Healthcare Group Limited ("Litha"), previously Myriad Medical Holdings Limited ("Myriad") 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's and Navigare's earnings for the period since being classified as associates, have been equity accounted.

	Principal Activity	**31 December 2010**	31 December 2009
Litha Healthcare Group Limited*	**Healthcare company**	45%	19%
Navigare Securities (Pty) Limited*	**Stock broker**	25%	25%

* Incorporated in South Africa.

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

	31 December 2010 £'000	31 December 2009 £'000
Total assets	**121,013**	—
Total liabilities	**(70,958)**	—
Net assets	**50,055**	—
Group's share of associates	**14,637**	—

At 31 December 2010, Litha's listed share price closed at R2.76 and the Group's share of Litha at this market price amounted to R402,900,000 (£38,896,000).

Total revenue	**105,332**	—
Total profit for the period	**3,574**	—
Group's share of associates	**1,539**	—

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 investment in associates.

16. Investments classified as loans and receivables

	2010 £'000	2009 £'000
Book cost at the beginning of the year	**14,388**	43,821
Additions during the year at cost	**746**	1,363
Disposals during the year at cost	**(13,985)**	(11,901)
Other movements	**—**	(18,895)
Book cost at the end of the year	**1,149**	14,388

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

	2010 £'000	2009 £'000
Carrying value at the beginning of the year	**23,101**	50,183
Additions during the year at cost	**746**	1,363
Disposals during the year at cost	**(13,985)**	(11,901)
Unrealised losses on disposals recognised in prior years	**167**	—
Net dividends (received)/accrued during the year	**(6,090)**	2,104
Net interest accrued/(received) during the year	**37**	(1,345)
(Impairments)/reversal of impairments during the year	**(56)**	4,069
Currency exchange (losses)/gains during the year	**(2,545)**	37
Other movements	**—**	(21,409)
Carrying value at the end of the year	**1,375**	23,101

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

	2010 £'000	2009 £'000
Non-current portion	**873**	975
Current portion	**502**	22,126
	1,375	23,101

Analysis of gains/(losses) on investments

	2010 £'000	2009 £'000
Proceeds on disposals during the year	**17,306**	13,491
Investments at cost	**(13,985)**	(11,901)
Realised gains/(losses) on disposals based on historical cost	**3,321**	1,590
Add unrealised losses on disposals recognised in prior years	**167**	—
Realised gains recognised in the income statement on disposals based on carrying value at prior year balance sheet date	**3,488**	1,590
(Impairments)/reversal of impairments during the year	**(56)**	4,069
Net gains on investments	**3,432**	5,659

16. Investments classified as loans and receivables (continued)

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

	Carrying value 2010 £'000	Carrying value 2009 £'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	**564**	–
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	**244**	212
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	**318**	270
Loan to O_2 Capital (Pty) Limited. The loan bears interest at South African Prime rate plus 300 basis points nominal annual compounded monthly and is repayable on demand	**249**	–
Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha Healthcare Group Limited. Dividends are payable at South African Prime rate plus 150 basis points nominal annual compounded monthly and the shares have been redeemed	**–**	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	**–**	18,721
Loan to Navigare Securities (Pty) Limited. The loan bears interest at 75% of South African Prime rate nominal annual compounded monthly and has been repaid	**–**	495
Carrying value at the end of the year	**1,375**	23,101

Refer note 31 Financial instruments for further disclosure.

17. Investments at fair value through profit and loss

	2010 £'000	2009 £'000
Book cost at the beginning of the year	**11,856**	22,900
Other movements*	**(1,170)**	–
Book cost at the beginning of the year restated	**10,686**	22,900
Additions during the year at cost	**5,019**	542
On acquisition of subsidiaries (note 30)	**–**	707
Disposals during the year at cost	**(6,485)**	(12,293)
Other movements#	**(1,292)**	–
Book cost at the end of the year	**7,928**	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.

	2010 £'000	2009 £'000
Fair value at the beginning of the year	**13,482**	33,167
Additions during the year at cost	**5,019**	542
On acquisition of subsidiaries (note 30)	**–**	707
Disposals during the year at cost	**(6,485)**	(12,293)
Unrealised gains recognised in prior years on disposals	**(1,138)**	(8,205)
Unrealised gains during the year	**2,992**	3,982
Currency exchange gains during the year	**1,253**	725
Other movements^	**(2,522)**	(5,143)
Fair value at the end of the year	**12,601**	13,482

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

	2010 £'000	2009 £'000
Non-current portion	**12,056**	10,802
Current portion	**545**	2,680
	12,601	13,482

Analysis of gains/(losses) on investments

	2010 £'000	2009 £'000
Proceeds on disposals during the year	**7,108**	13,724
Investments at cost	**(6,485)**	(12,293)
Realised gains on disposals based on historical cost	**623**	1,431
Less unrealised gains on disposals recognised in prior years	**(1,138)**	(8,205)
Realised losses recognised in the income statement on disposals based on carrying value at prior year balance sheet date	**(515)**	(6,774)
Unrealised gains during the year	**2,992**	3,982
Net (losses)/gains on investments	**2,477**	(2,792)

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

The Group does not have a controlling interest in any of the investments at fair value through profit and loss. These investments are monitored on a fair value basis and comprise the following:

	Fair value 2010 £'000	Fair value 2009 £'000
Derivative investment in a services company, which gives the Group exposure to a minority interest in the underlying services company	**9,768**	5,744
Ordinary shares in Adreach (Pty) Limited	**2,027**	1,846
Ordinary shares in Wonderdeals 38 (Pty) Limited	**261**	–
Other listed shares	**545**	98
Derivative investment in a telecom company, which gives the Group exposure to a minority interest in the underlying telecom company	**–**	1,002
Ordinary shares in Litha Healthcare Group Limited*	**–**	2,294
Ordinary shares in Navigare Securities (Pty) Limited*	**–**	134
Convertible, non-redeemable, cumulative preference shares in York Timber Holdings Limited	**–**	686
Option to subscribe for "N" preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited	**–**	1,678
Fair value at the end of the year	**12,601**	13,482

* These investments are now accounted for as investments in associates (refer note 15).

Refer note 31 Financial instruments for further disclosure.

18. Other financial assets

	2010 £'000	2009 £'000
Derivatives designated and effective as hedging instruments carried at fair value		
Forward exchange contracts	**78**	62
Currency option accounted for as a derivative in an effective hedging relationship	**–**	245
	78	307
Non-current portion	**52**	–
Current portion	**26**	307
	78	307

Refer note 31 Financial instruments for further disclosure.

19. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	**24,698**	23,079
Impairment allowance	**(652)**	(630)
	24,046	22,449
Prepayments and accrued income	**405**	446
Other receivables	**654**	1,479
	25,105	24,374

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

Refer note 31 Financial instruments for further disclosure.

20. Inventories

	2010 £'000	2009 £'000
Finished goods	**19,733**	24,451
Work in progress	**177**	311
Raw materials	**7,094**	7,163
Consumables	**2**	3
	27,006	31,928

The cost of inventories recognised as an expense amounts to £177,528,000 (2009:£128,859,000) and has been reflected as cost of sales on the face of the income statement. This amount excludes £291,000 (2009: £3,742,000) in respect of write-downs of inventory to net realisable value. The write-down in both years arose on KMG's inventories as a result of the difficult conditions in the steel market in South Africa and weaker steel prices. There have been no reversals of inventory write-downs (2009: nil). A provision for obsolescence is raised for specific items identified as slow moving.

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

21. Cash and cash equivalents

	2010 £'000	2009 £'000
Deposits and cash at bank	**19,196**	17,521
Bank overdrafts	**(1)**	(202)
Cash and cash equivalents per the cash flow statement	**19,195**	17,319

South African subsidiaries' cash and cash equivalents of £5,911,000 (2009: £4,134,000) are ring-fenced and are not available to other entities within the Group. Transfers of cash are subject to South African exchange control regulations. Cash and cash equivalents held at the centre amounted to £13,285,000 at year end (2009: £13,387,000).

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

22. Borrowings

Borrowings comprise the following:

	2010 £'000	2009 £'000
Unsecured		
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.	**2,702**	2,434
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.	**169**	135
Loan which bears interest at a fixed rate of 10% per annum and is repayable in monthly instalments ending in 2013.	**150**	–
Secured		
Loans which bear interest at variable rates ranging from Johannesburg Interbank Agreed rate plus 350 to 500 basis points to South African Prime rate plus 300 basis points to. The loans have been repaid. *	**–**	12,982
Loan which bears at a fixed rate of 12.07% per annum, repayable in quarterly instalments with the final instalment payable in May 2014.#	**9,399**	9,123
Mortgage loans 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.^	**1,413**	–
	13,833	24,674

* KMG has one agreement with a bank which covers the various facilities available to KMG and related securities provided. The long terms loans amounting to £nil (2009: £2,434,000) (included in the borrowings note 22) and the revolving inventory financing facility amounting to £15,929,000 (2009: £14,257,000) (included in the other financial liabilities note 23) are included as part of the facilities utilised by KMG. Details of the security provided for both of the afore-mentioned liabilities have been provided in note 31.4.4.

Ferro has provided the following security for this loan:

- first rank cession of all of Ferro's book debts amounting to £4.4 million at year end (2009: £3.5 million),
- first rank cession of all insurance policies held by Ferro,
- first rank mortgage bond over Ferro's property for a fixed amount of R23 million (£2.2 million),
- first rank notarial bond over Ferro's moveable assets for a fixed sum R70 million (£6.8 million),
- first rank cession of all cash balances and deposits held by Ferro (amounting to £3.2 million),
- first rank cession cession and pledge on all shareholders loan accounts and all shares held in Ferro

^ Blackstar Real Estate (Pty) Limited ("BRE") has provided the following security for this mortgage loan:

- First covering mortgage bonds to be registered over the properties in favour of the lender for an aggregate amount of R14.6 million (£1.4 million), plus costs,
- an unconditional, irrevocable guarantee from Blackstar Group Plc for the full obligations of the BRE,
- an unconditional and irrevocable rental guarantee from Blackstar Group Plc for the full rental obligations of KMG,
- cession in securitatem debiti of rental income in respect of any lease agreement concluded or to be concluded in respect of the properties,
- cession of all right, title and interest in and to the insurance policies over the properties to be mortgaged including the SASRIA coupon and noting of the bank's interest as mortgagee,
- shareholder loans in BRE to be subordinated in favour of the bank.

22. Borrowings (continued)

	2010 £'000	2009 £'000
Non-current portion	**12,538**	17,412
Current portion	**1,295**	7,262
	13,833	24,674

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

Refer note 31 Financial instruments for further disclosure

23. Other financial liabilities

Other financial liabilities comprise the following:

	2010 £'000	2009 £'000
Revolving inventory financing 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.*	**15,929**	14,257
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.#	**9,117**	8,192
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.	**2,957**	2,394
Asset finance loan, which is free of interest and has been repaid.	**–**	639
Asset finance loan, which bears interest at a fixed rate of 10% per annum and is repayable in monthly instalments ending in 2013. ^	**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 of between 12% and 13.5%. The loans are repayable in monthly instalments. +	**771**	783
Derivatives designated and effective as hedging instruments carried at fair value		
Forward exchange contracts ("FECs")	**79**	69
Interest rate swaps	**–**	338
	29,477	26,672

* KMG has one agreement with a bank which covers the various facilities available to KMG and related securities provided. The long terms loans amounting to £nil (2009: £2,434,000) (included in the borrowings note 22) and the revolving inventory financing facility amounting to £15,929,000 (2009: £14,257,000) (included in the other financial liabilities note 23) are included as part of the facilities utilised by KMG. Details of the security provided for both of the afore-mentioned liabilities have been provided in note 31.4.4.

KMG has provided the following security for these facilities:

- First cession of KMG's receivables amounting to £13.1 million at year end (2009: £13.1 million),
- Cession of Credit Guarantee Insurance Company policies held by KMG,
- Discounting of KMG's invoices, with recourse, with 25% retention margin,
- Cession of KMG's bank accounts utilised for debtor receipts which had a nil balance as at 31 December 2010 (2009: nil)

^ Assets with a carrying value of £0.7 million, included in property, plant and equipment have been provided as security.

+ Assets with a carrying value of £0.9 million, (2009: £1.2 million), included in property, plant and equipment have been provided as security.

23. Other financial liabilities (continued)

	2010 £'000	2009 £'000
Non-current portion	**3,937**	3,726
Current portion	**25,540**	22,946
	29,477	26,672

At 31 December 2010, the revolving inventory financing facillities held by KMG amounting to £15,929,000 was in breach due to the fact that the carrying value of inventory on hand was not at the required level as per the agreement. This breach was remedied subsequent to year end by repaying sufficient amounts of the liability in January and February 2011 so as to reduce the liability to an acceptable level in relation to the value of inventory held. By the end of February 2011, there was no breach of the terms of the facility.

None of the remaining other financial liabilities at 31 December 2010 were in default or breach and there were no defaults or breaches recorded in the prior year.

Refer note 31 Financial instruments for further disclosure.

24. Provisions

	2010 £'000	2009 £'000
Non-current portion	197	54
Current portion	288	84
	485	138

Provisions comprise the following:

Provision for performance fees

In prior years, a provision was raised for the performance fee payable by Blackstar Group Plc under the terms of the investment advisory agreement. The total performance fee was equal to 20% of the increase in the fair value of investments of the Company subject to a 10% hurdle and making good any investment write-downs and general expenses. The provision was released in the prior year on the acquisition of Blackstar SA and the resulting internalisation of Blackstar's investment advisory arrangements on 26 June 2009.

Provision for rectification

A provision for rectification has been raised, where customers have been provided with a guarantee for certain products. This provision is based on the specific problematic products identified at year end.

Provision for redundancies

A provision for redundancies has been raised by the Group and is based on the staff identified to be retrenched and their average wages, working hours and length of service of employment.

Provision for onerous contracts

A provision for onerous contracts has been raised for operating leases for land and buildings which are considered by management to be onerous. The provision is calculated as the present value of the future cashflows identified as onerous net of any cash inflows from sub-letting and discounted using market-related rates.

Provision for contingent consideration

A provision has been raised for the consideration payable by KMG in respect of the acquisition of a subsidiary, which is dependent on the free cash flows generated by the entity over the next two and a half years. The provision is based on the formula per the purchase agreement.

24. Provisions (continued)

	Provision for performance fees £'000	Provision for rectification £'000	Provision for redundancies £'000	Provision for onerous contracts £'000	Provision for contingent consideration £'000	Total £'000
Balance at 1 January 2009	404	–	–	–	–	404
Acquisition of businesses	–	34	451	–	–	485
Created	–	11	47	–	–	58
Utilised	(404)	–	(483)	–	–	(887)
Currency exchange losses	–	9	69	–	–	78
Balance at 31 December 2009	**–**	**54**	**84**	**–**	**–**	**138**
Acquisition of business	**–**	**–**	**–**	**–**	**102**	**102**
Created	**–**	**34**	**401**	**213**	**–**	**648**
Utilised	**–**	**(12)**	**(439)**	**–**	**–**	**(451)**
Currency exchange losses	**–**	**10**	**9**	**20**	**9**	**48**
Balance at 31 December 2010	**–**	**86**	**55**	**233**	**111**	**485**

25. Deferred taxation

Movement in net deferred taxation

	2010 £'000	2009 £'000
Net deferred tax liability at the beginning of the year	**(3,390)**	–
On acquisition of subsidiaries	**–**	(5,206)
Recognised in income statement	**(647)**	2,679
Currency exchange losses during the year	**(571)**	(863)
Net deferred tax liability at the end of the year	**(4,608)**	(3,390)

Recognised deferred tax assets and liabilities

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

2010	**Assets £'000**	**Liabilities £'000**	**Net £'000**
Property, plant and equipment	**–**	**(3,513)**	**(3,513)**
Intangible assets	**–**	**(2,729)**	**(2,729)**
Inventories	**124**	**–**	**124**
Trade and other receivables	**151**	**(92)**	**59**
Other financial liabilities	**828**	**–**	**828**
Trade and other payables	**320**	**–**	**320**
Assessed losses	**303**	**–**	**303**
	1,726	**(6,334)**	**(4,608)**
Set-off of assets and liabilities	**(1,601)**	**1,601**	**–**
Deferred tax assets/(liabilities) per balance sheet	**125**	**(4,733)**	**(4,608)**

2009	Assets £'000	Liabilities £'000	Net £'000
Property, plant and equipment	–	(3,603)	(3,603)
Intangible assets	–	(3,172)	(3,172)
Inventories	25	–	25
Trade and other receivables	151	(99)	52
Other financial liabilities	670	–	670
Trade and other payables	519	–	519
Assessed losses	2,119	–	2,119
	3,484	(6,874)	(3,390)
Set-off of assets and liabilities	(2,602)	2,602	–
Deferred tax assets/(liabilities) per balance sheet	882	(4,272)	(3,390)

25. Deferred taxation (continued)

Unrecognised deferred tax assets

Blackstar Group Plc has unutilised cumulative losses and capitalised expenses of £6,387,000 (2009: £7,403,000) that are deductible for tax purposes. Deferred tax assets have not been recognised due to the degree of uncertainty over both the amount and utilisation of the underlying tax losses and deductions.

The Group's subsidiary KMG has tax losses of £19,342,000 on which a deferred tax asset has not been recognised in the current year as it is not probable that future taxable profit will be available against which these tax losses can be utilised. The tax losses do not expire. In 2009, a deferred tax asset of £1,369,000 was recognised as it was believed by management at that point in time that future taxable profits would be available in the near future against which they could be utilised. After further losses being incurred during the current year, management revised their estimates resulting in the derecognition of the deferred tax asset.

26. Trade and other payables

	2010 £'000	2009 £'000
Trade payables	**11,566**	11,718
Salary related accruals	**1,988**	1,655
Other payables and accrued expenses	**4,081**	2,441
	17,635	15,814

Refer note 31 Financial instruments for further disclosure.

27. Share capital and reserves

	2010 £'000	2009 £'000
Authorised		
150,000,000 ordinary shares of £0.67 each	**100,500**	100,500
Issued and fully paid		
74,821,193 ordinary shares of £0.67 each	**50,130**	–
79,138,688 ordinary shares of £1.00 each	**–**	79,139

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

Movement of the ordinary shares of £0.67 each for the year	**Number of shares**	Number of shares
Total number of shares in issue at the beginning of the year	**79,138,688**	–
Buy-back and cancellation of shares	**(4,317,495)**	–
Capital re-organisation	**–**	73,259,510
Issue of new shares	**–**	13,341,851
Tender offer and cancellation of shares	**–**	(7,462,673)
Total number of shares in issue at the end of the year	**74,821,193**	79,138,688

Buy-back and cancellation of shares

Further to the authority granted to the Company at the annual general meeting of the Company held on 10 May 2010, the Company purchased the following ordinary shares of nominal value of £0.67 each in the share capital of the Company: 2,477,495 shares on 11 May 2010 at a price of £0.69 per share, 840,000 shares on 26 October 2010 at a price of £0.75 per share and 1,000,000 shares on 16 November 2010 at a price of £0.74 per share. All of these shares were subsequently cancelled.

27. Share capital and reserves (continued)

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.

28. Net asset value per share

	2010 £'000	2009 £'000
Total net assets attributable to equity holders	**90,196**	101,749
Number of shares in issue (thousands)	**74,821**	79,139
Net asset value per share (pence)	**121**	129

29. Cash generated by operations

	2010 £'000	2009 £'000
Loss before taxation	**(10,545)**	(5,456)
Adjustments for:		
Profit on disposal property, plant and equipment	**(25)**	(10)
Depreciation of property, plant and equipment	**3,106**	2,170
Amortisation of intangible assets	**1,465**	1,150
Impairment of intangible assets	**1,729**	—
Impairment of goodwill	**10,003**	3,883
Unrealised (gains)/losses on investments	**(1,965)**	154
Realised gains on disposal of investments	**(3,944)**	(3,021)
Dividends and interest from loans and investments	**(700)**	(3,787)
Gain on deemed disposal of a subsidiary (refer note 30.1.1)	**(870)**	—
Release of foreign currency translation reserve on deemed disposal of a subsidiary (refer note 30.1.1)	**105**	—
Finance income	**(382)**	(470)
Finance costs	**5,764**	5,256
Share of profit of associates	**(1,539)**	—
Share based payment expense	**30**	133
Decrease in provisions	**198**	(829)
Changes in working capital		
Decrease in trade and other receivables	**2,851**	6,089
Decrease in inventory	**9,131**	14,242
Decrease in trade and other payables	**(684)**	(7,904)
Increase in lease accrual	**185**	267
Movement in other financial liabilities in respect of FECs and derivatives in hedging relationships	**(118)**	(260)
	13,795	11,607

30. Acquisition of subsidiaries

During the year ended 31 December 2010, the Group made acquisitions as detailed below. These aquisitions are in line with its strategy of investing in a portfolio of industrial businesses in South Africa with the underlying themes of strategic market postions, strong cash flows and the ability to exploit the wider African markets from its South African base. These investments may be in the form of either debt or equity (controlling or Non controlling equity stakes).

For all of the acquisitions in both the prior year end and current financial year, the Group has elected to measure non controlling interests at its proportionate interest in the identifiable net assets of the acquiree.

30.1 Acquisitions made during the current reporting year

The following acquisitions were made during the current reporting year:

30.1.1 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 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 in 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 aquisition 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 investment 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 15).

30. Acquisition of subsidiaries (continued)

30.1 Acquisitions made during the current reporting year (continued)

30.1.2 Other acquisitions

On 1 July 2010, KMG acquired 100% of the shares in Helm Engineering (Pty) Limited ("Helm"). This was not a material acquisition from a Group perspective.

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Trade and other receivables	196	—	196
Inventories	200	—	200
Cash and cash equivalents	—	—	—
Borrowings	(214)	—	(214)
Provision for contingent consideration	—	(102)	(102)
Trade and other payables	(151)	—	(151)
Bank overdrafts	(31)	—	(31)
Total net identifiable assets	—	(102)	(102)
Cash consideration paid for shares			145
Goodwill arising on acquisition			247

During the year from date of acquisition, Helm contributed £1.1 million to revenue and a loss of £24,000 to profit after taxation. Had the acquisition taken place on 1 January 2010, Helm would have contributed £2.0 million to revenue and a loss of £51,000 to profit before taxation.

The consideration paid for Helm is dependent on the free cash flows generated by the entity over the next two and a half years. A provision for the contingent consideration has been raised based on the formula per the agreement and takes into account the budgeted free cash flows for the entity, approved by management, discounted at market related rates. The fair value for all trade receivables acquired is disclosed in the tables above. These fair values include an impairment allowance and as trade receivables have a short contractual maturity the fair values as disclosed would be equal to the contractual cashflows.

30.2 Acquisitions made during the current reporting year

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

On 21 January 2009, the Group acquired a controlling interest in Ferro, comprising 56% of the ordinary shares for a cash consideration of £3.2 million. As part of the acquisition, certain shareholders loans were acquired at their fair value £2.7 million. Ferro is a South African manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits, glass coatings and glaze coatings used on ceramic products.

30. Acquisition of subsidiaries (continued)

30.2 Acquisitions made during the current reporting year (continued)

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

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Property, plant and equipment	5,630	(143)	5,487
Intangible assets	2,905	3,757	6,662
Trade and other receivables	3,480	—	3,480
Inventories	4,151	—	4,151
Cash and cash equivalents	1	—	1
Borrowings	(10,081)	—	(10,081)
Other financial liabilities	(836)	—	(836)
Deferred taxation	(990)	(944)	(1,934)
Trade and other payables	(3,501)	—	(3,501)
Bank overdrafts	(251)	—	(251)
Total net identifiable assets	508	2,670	3,178
Non controlling interest's at proportionate share of the acquiree's identifiable net assets			(216)
Total net identifiable assets at fair value attributable to equity holders of the parent			2,962
Cash consideration paid for shares in Ferro			3,223
Loan payable by Ferro, assumed as part of the acquisition			2,688
Goodwill arising on acquisition			2,949

Acquisition and disposal of non controlling interest in Ferro

On 19 August 2009, the Group acquired an additional 2% for £113,000 and sold 4% to Ferro staff for an amount of £261,000 thereby decreasing its ownership from 56% to 54%. The additional 2% were paid for in cash and the proceeds on disposal were included in investments classified as loans and receivables.

As a result of the purchase of 2%, an amount of £19,000 (being the proportionate share of the carrying amount of the net assets of Ferro) was transferred to non controlling interests and the difference of £94,000 between the aforementioned amount and the purchase price was credited to retained earnings. On sale of the 4%, the proportionate share of the carrying amount of the net assets of Ferro amounting to £38,000 was transferred to non controlling interests and the loss on disposal of £222,000 was included in retained earnings.

30.2.2 Acquisition of a controlling interest in KMG Steel Service Centres (Pty) Limited ("KMG")

On 9 March 2009, the Group acquired a further 25.5% of the ordinary shares for a cash consideration of £3.3 million, bringing its shareholding in KMG to 73%. The shares were initially acquired by the Group in 2008 as an agent on behalf of Claim Your Share Investments (Pty) Limited, a wholly owned subsidiary of Metier Investment and Advisory Services (Pty) Limited, which exercised its right to sell the beneficial ownership of the shares to the Group on an arm's length basis. KMG is a processor, distributor and stockist of carbon steel, stainless steel and aluminium in the form of high quality sheet, plate and coil as well as structural and other long product profiles. KMG also owns 100% of Global Roofing Solutions (Pty) Limited ("GRS"), a steel roofing and cladding company.

The initial investments of 47.5%, classified as an investment in associate and designated as an investment at fair value through profit and loss, had a fair value at 8 March 2009 of £3.7 million. No gain or loss arose as a result of re-measuring the interest to fair value prior to the business combination as there had been no significant change in the fair value to what was previously reported at 31 December 2008.

30. Acquisition of subsidiaries (continued)

30.2 Acquisitions made during the current reporting year (continued)

30.2.2 Acquisition of a controlling interest in KMG Steel Service Centres (Pty) Limited ("KMG") (continued)

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Property, plant and equipment	10,140	–	10,140
Intangible assets	5,019	1,511	6,530
Investments at fair value through profit and loss	16	–	16
Trade and other receivables	20,323	–	20,323
Inventories	34,367	–	34,367
Cash and cash equivalents	1,105	–	1,105
Borrowings	(34,841)	–	(34,841)
Other financial liabilities	(21,402)	–	(21,402)
Deferred taxation	(2,839)	(423)	(3,262)
Trade and other payables and provisions	(16,070)	–	(16,070)
Total net identifiable liabilities	(4,182)	1,088	(3,094)
Non controlling interest's proportionate share of the acquiree's identifiable net liabilities			835
Total net identifiable liabilities at fair value attributable to equity holders of the parent			(2,259)
Consideration paid to obtain control (25.5%)			3,348
Fair value of previously held interest (47.5%)			3,746
Goodwill arising on acquisition			9,353

30.2.3 Acquisition of Blackstar Group (Pty) Limited ("Blackstar SA")

As part of the internalisation of Blackstar's investment advisory arrangements, on 26 June 2009 the Group acquired 100% of the ordinary shares of Blackstar SA for a cash consideration of £2.8 million. In addition, Blackstar and Blackstar SA ended all their respective investment advisory agreements and as a result, on acquisition of the company, Blackstar also assumed Blackstar SA's liability for termination of the investment advisory agreements amounting to £12.1 million.

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Property, plant and equipment	144	–	144
Intangible assets	1	–	1
Investments at fair value through profit and loss	4	–	4
Trade and other receivables	27	–	27
Cash and cash equivalents	18	–	18
Borrowings	(73)	–	(73)
Deferred taxation	(10)	–	(10)
Trade and other payables	(47)	–	(47)
Bank overdrafts	(47)	–	(47)
Total net identifiable assets	17	–	17
Consideration paid for the shares of Blackstar SA			2,765
Liabilities of Blackstar SA assumed on acquisition			12,134
Goodwill arising on acquisition			14,882

30. Acquisition of subsidiaries (continued)

30.2 Acquisitions made during the current reporting year (continued)

30.2.4 Other acquisitions

A total of four less material acquisitions were made by the Group.

The Group's subsidiary, KMG, made two acquisitions during July 2009, the first being the acquisition of Hulamin Engineering Solutions, a stockist and distributor of flat and rolled aluminum products with branches throughout South Africa, for a cash consideration of £234,000. As a result of this acquisition, KMG became the largest stockist and distributor of aluminum products in Southern Africa. The second was the acquisition of 100% of the shares in Country Roofing (Pty) Ltd, (now GRS Namibia), a roofing and steel stockist located in Namibia for a cash consideration of £634,000. GRS Namibia services Namibia, Angola, Southern DRC and Botswana and thereby assists KMG with achieving its objective of increasing export sales.

In the prior year, the Group's subsidiary, Blackstar (Cyprus) Investors Limited ("Blackstar Cyprus") held preference shares in two special purpose vehicles established to facilitate a staff trust and community trust to acquire an interest in York Timber Holdings Limited. In December 2009, Blackstar Cyprus called and acquired 100% of the ordinary shares and shareholder loans in both of these special purpose vehicles. No consideration was paid for these shares.

The net assets acquired were as follows:

	Book value £'000	Fair value adjustments £'000	Fair value on acquisition £'000
Property, plant and equipment	693	–	693
Investments at fair value through profit and loss	687	–	687
Trade and other receivables	2,075	–	2,075
Inventories	238	–	238
Cash and cash equivalents	244	–	244
Preference share issued to Blackstar Cyprus	(1,396)	–	(1,396)
Trade and other payables	(2,373)	–	(2,373)
Total net identifiable assets	168	–	168
Cash consideration paid for shares			868
Goodwill arising on acquisition			700

The fair value for all trade receivables acquired is disclosed in the tables above. These fair values include an impairment allowance and as trade receivables have a short contractual maturity, the fair values as disclosed would be equal to the contractual cash flows.

None of the goodwill arising on the acquisitions is deductible for tax purposes.

30.3 Net cash outflow on acquisition of subsidiaries

	2010 £'000	2009 £'000
Consideration paid		
Ferro – initial purchase of 56%	**–**	(3,223)
Ferro – purchase of loan	**–**	(2,688)
Ferro – acquisition of a further 2%	**–**	(113)
KMG	**–**	(3,348)
Blackstar SA	**–**	(2,765)
Blackstar SA – internalisation of investment advisory arrangements	**–**	(12,134)
Other acquisitions	**(145)**	(868)
Net cash and cash equivalents acquired		
Ferro	**–**	(250)
KMG	**–**	1,105
Blackstar SA	**–**	(29)
Other acquisitions	**(31)**	244
Net cash outflow on acquisition of subsidiaries	**(176)**	(24,069)

31. Financial instruments and financial risk management

31.1 Categories of financial instruments

	2010 £'000	2009 £'000
Financial assets		
Financial assets at fair value through profit and loss (classified as held for trading in accordance with IAS 39)		
Investments at fair value through profit and loss	**12,601**	13,482
Currency option accounted for as a derivative in an effective hedging relationship	**—**	245
FECs in designated hedge accounting relationships	**78**	62
	12,679	13,789
Loans and receivables		
Investments classified as loans and receivables	**1,375**	23,101
Trade receivables	**24,698**	23,079
Cash and cash equivalents	**19,196**	17,521
	45,269	63,701
	57,948	77,490
Financial liabilities		
Financial liabilities at fair value through profit and loss (classified as held for trading in accordance with IAS 39)		
FECs in designated hedge accounting relationships	**(79)**	(69)
Interest rate swaps accounted for as derivatives in designated hedge accounting relationships	**—**	(338)
	(79)	(407)
Financial liabilities measured at amortised cost		
Borrowings at amortised cost	**(13,833)**	(24,674)
Other financial liabilities at amortised cost excluding lease accrual	**(26,441)**	(23,871)
Trade payables	**(11,566)**	(11,718)
Bank overdrafts	**(1)**	(202)
	(51,841)	(60,465)
	(51,920)	(60,872)

31.2 Financial risk management overview

The Group has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; and market risk (which comprises currency risk, interest rate risk and market price risk).

The Group has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; and market risk (which comprises currency risk, interest rate risk and market price risk).

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

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

31. Financial instruments and financial risk management (continued)

31.2 Financial risk management overview (continued)

Due to the diverse structure and decentralised management of the Group, there is no formal Group policy regarding the management of financial risks. Each subsidiary's Board of Directors is responsible for identifying and managing financial risk. Each of the subsidiaries' Board of Directors includes a Blackstar Group Plc Board director. Any key issues relating to financial risk are then reported to the Blackstar Board of directors. The Blackstar Group Board of directors are responsible for agreeing and reviewing the objectives, policies and processes for managing risks specifically relating to the investment portfolio. The information provided below for each financial risk has been collated for disclosure based on the manner in which the business is managed and what is believed to be useful information for shareholders.

This note presents information about the Group's exposure to each of the aforementioned risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. IFRS 7 requires certain disclosures by class of instrument. Due to the decentralised and diverse nature of the Group, the classes of instruments would be the segments as disclosed in the segmental report being Industrial metals (which includes the subsidiary KMG), Industrial chemicals (which includes the subsidiary Ferro) and Investment activities (which includes the Group's minority investments included in its investment portfolio as well as its subsidiary Blackstar SA).

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

31.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, investments, cash and cash equivalents and guarantees.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained. The carrying values, net of impairment allowances, amount to £24,046,000 (2009: £22,449,000), for trade receivables (refer note 19), £1,375,000 (2009: £23,101,000) for investments classified as loans and receivables (refer note 16), and £12,601,000 (2009: £13,482,000) for investments at fair value through profit and loss (refer note 17).

The impairment allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point, the amount which is considered irrecoverable is written off against the financial assets directly.

Similarly, an impairment allowance account is utilised to record impairments of investments classified as loans and receivables and at fair value through profit and loss.

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.1 Trade receivables

Refer note 19 Trade and other receivables.

Trade receivables by class

	2010 £'000	2009 £'000
Gross trade receivables		
Industrial chemicals	**4,387**	3,571
Industrial metals	**20,311**	19,508
	24,698	23,079
Impairment allowance		
Industrial chemicals	**(229)**	(127)
Industrial metals	**(423)**	(503)
	(652)	(630)
Net trade receivables		
Industrial chemicals	**4,158**	3,444
Industrial metals	**19,888**	19,005
	24,046	22,449

As illustrated by the table above of trade receivables by class, trade receivables comprise debtors arising from the trading subsidiaries included in the Industrial chemicals and Industrial metals segments. These trade receivables consist of a large number of customers, spread across diverse industries. The subsidiaries' operational management perform ongoing credit evaluation on the financial condition of the customers.

The Group has a general credit policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. As a result of the decentralised structure of the Group, operational management, under the guidance of the management in charge of each segment/subsidiary, are responsible for implementation of policies to meet the above objective. This includes credit policies under which new customers are analysed for credit worthiness before the operation's standard payment and delivery terms and conditions are offered, determining whether collateral is required, and if so the type of collateral to be obtained, and setting of credit limits for individual customers based on their references and credit ratings. Operational management are also held responsible for monitoring the operations' credit exposure. Both the Industrial chemical and Industrial metals segments have a policy of obtaining credit insurance for all debtors. The credit insurance company will set limits for each creditor. Transactions with customers for whom the company was unable to obtain credit insurance or transactions which result in the credit limits being exceeded have to be authorised by the financial director and/or managing director of the relevant company (being Ferro or KMG). These directors will only provide their approval once other forms of security, such as suretyship, have been obtained. One of the divisions within Ferro has a key customer for whom credit insurance has not been obtained. The customer is a reputable, listed company and thus Ferro management assessed the debtor to be low risk.

The companies' credit controller together with the financial directors are responsible for monitoring credit risk which includes detail reviews of the age analysis and the flagging of problematic debtors whose accounts are then placed on hold.

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.1 Trade receivables (continued)

One of the Group's subsidiaries, KMG, has significant credit risk exposure to one single customer. Sales to the customer contributed 5% of KMG's total revenue for the reported period since date of acquisition and 4% to Group revenue. Another subsidiary, Ferro, also has significant credit exposure to a single customer for which sales to the customer contributed 12% towards Ferro's total revenue (2% to the Group's revenue). Amounts due by these two customers and included in the Group trade receivables as at 31 December 2010 amounted to £0.2 million. No impairments were raised for these debtors. As previously mentioned, exposure to credit risk is reduced as a result of the credit insurance taken our by both subsidiaries.

Each operation establishes an impairment allowance that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Groups of similar assets in respect of losses that have been incurred but not yet identified.

As a result of the decentralised structure, subsidiary management has the responsibility of determining the impairment allowance in respect of trade receivables. The operations' average credit period depend on the type of industry in which they operate as well as the credit worthiness of their customers. The majority of the customers are given credit terms ranging from cash on delivery to 60 days from statement. The largest impairment raised for a specific trade receivable was obtained for each reporting operation and calculated as a percentage of the Group's total impairment allowance at year end, and it was determined that the percentage did not exceed 11% (2009: 8%) of the total allowance raised.

Movement in impairment allowance in respect of trade receivables

	2010 **£'000**	2009 £'000
Balance at the beginning of the year	**630**	–
Allowance raised during the year		
Industrial chemicals	**125**	56
Industrial metals	**244**	33
	369	89
Allowance utilised during the year		
Industrial chemicals	**–**	(124)
Net acquisition of businesses		
Industrial chemicals	**–**	503
Industrial metals	**–**	79
	–	582
Impairment written off against trade receivables		
Industrial chemicals	**(49)**	(38)
Industrial metals	**(385)**	(2)
	(434)	(40)
Currency exchange losses during the year	**87**	123
Balance at the end of the year	**652**	630

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.1 Trade receivables (continued)

Ageing of gross trade receivables

2010	Gross trade receivables £'000	Impairment allowance £'000	Net trade receivables £'000
Not past due			
Industrial chemicals	2,226	–	2,226
Industrial metals	11,467	–	11,467
	13,693	–	13,693
Past due			
0–30 days			
Industrial chemicals	1,727	–	1,727
Industrial metals	4,648	(5)	4,643
	6,375	(5)	6,370
31–60 days			
Industrial chemicals	434	(229)	205
Industrial metals	1,521	(54)	1,467
	1,955	(283)	1,672
61–90 days			
Industrial metals	879	(187)	692
91 + days			
Industrial metals	1,796	(177)	1,619
	11,005	(652)	10,353
Total	24,698	(652)	24,046

2009	Gross trade receivables £'000	Impairment allowance £'000	Net trade receivables £'000
Not past due			
Industrial chemicals	2,012	–	2,012
Industrial metals	11,550	–	11,550
	13,562	–	13,562
Past due			
0–30 days			
Industrial chemicals	1,315	–	1,315
Industrial metals	4,897	(62)	4,835
	6,212	(62)	6,150
31–60 days			
Industrial chemicals	244	(127)	117
Industrial metals	1,161	–	1,161
	1,405	(127)	1,278
61–90 days			
Industrial metals	544	(81)	463
91 + days			
Industrial metals	1,356	(360)	996
	9,517	(630)	8,887
Total	23,079	(630)	22,449

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

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.1 Trade receivables (continued)

Collateral held on past due amounts

The Industrial metals segment has personal surety for past due trade receivables (net of impairment allowance) amounting to £523,000 as at 31 December 2010 (2009: £444,000). An accurate fair value cannot be attached to personal surety.

As previously mentioned, both trading segments have a general policy of taking out credit insurance on their outstanding debtors balances to limit their exposure to credit risk. At year end, the Industrial chemicals and Industrial metals segments had taken out credit insurance cover for net trade receivables which are past due with carrying amounts of £1,803,000 (2009: £1,004,000) and £5,513,000 (2009: £5,745,000) respectively. No other collateral was held in respect of past due trade receivables.

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

31.3.2 Investments

With the exception of the loan to O_2 Capital (Pty) Limited amounting to £244,000 (2009: nil) all of the investments classified as loans and receivables fall under the Investments activities segment (refer note 16). All of the investments at 31 December, as disclosed in note 17 Investments at fair value through profit and loss, fall under the Investment activities segment. An integral part of the Group's credit risk management process is the approval of all investment and financing transactions by the Board of Directors. The Group manages its credit risk by setting acceptable exposure limits to companies and industry segments. The Group provides financing to companies in which it has invested or to special purpose vehicles established to acquire an equity interest in portfolio companies. This financing is provided on the strength of the underlying companies in which the Group has invested.

The Board meets on a quarterly basis to review the investment portfolio, in particular the underlying performance of the companies in which it has invested and consequently monitors credit risk on an ongoing basis. At balance sheet date, the Group had no financial assets that were past due. Details of impairments are detailed below. An industry analysis of the investment portfolio, including investments at fair value through profit and loss and investments classified as loans and receivables, is set out in the table below. No single industry is considered to be materially more risky than another.

	2010		2009	
	Exposure £'000	**Exposure Percentage**	Exposure £'000	Exposure Percentage
Support Services	**9,768**	**70%**	5,744	16%
Media	**2,271**	**16%**	2,058	6%
Financial services	**1,131**	**8%**	899	2%
Other	**806**	**6%**	–	0%
Resources	**–**	**0%**	20,399	56%
Health Care	**–**	**0%**	5,697	15%
Telecommunications	**–**	**0%**	1,002	3%
Forestry	**–**	**0%**	686	2%
Industrial (Steel)	**–**	**0%**	98	0%
	13,976	**100%**	36,583	100%

For investments classified as loans and receivables, the Group has obtained security in the form of guarantees and in some cases the pledges of shares owned by the borrower. For investments held at fair value through profit and loss, no such securities are held by the Group.

31. Financial instruments and financial risk management (continued)

31.3 Credit risk (continued)

31.3.2 Investments (continued)

Analysis of impairments in respect of financial instruments classified as loans and receivables

The following investments classified as loans and receivables were impaired during the year:

	2010 £'000	2009 £'000
Balance at the beginning of the year	**711**	4,152
Impairment/(reversal of impairment) of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha Healthcare Group Limited	**56**	(684)
Reversal of impairment of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Mvelephanda Resources Limited	**–**	(3,385)
Currency exchange losses during the year	**53**	628
Release of impairment on redemption of cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha Healthcare Group Limited	**(820)**	–
Balance at the end of the year	**–**	711

Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha Healthcare Group Limited

The carrying value of the Group's cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Litha Healthcare Group Limited was based on the value of the underlying assets in the special purpose vehicle less any external debt and potential liabilities. The realisable value of the investment was calculated taking into account current market conditions and expected future cash flows to be derived from the investment. It was determined that a further impairment of £56,000 was required during the financial year. The carrying value of the impairment raised was released as a result of the redemption of the cumulative redeemable preference shares.

31.3.3 Cash and cash equivalents

Any excess cash and cash equivalents are held in current accounts, money market funds, and term deposits. At year end, overdrafts amounted to £1,000 (2009: £202,000) and cash and cash equivalents amounted to £19,196,000 (2009: £17,521,000). Refer note 22 and 23 for details of cash and cash equivalents provided as securities for borrowings and other financial liabilities respectively. Of the carrying value of cash and cash equivalents amounting to £19,196,000, •% was held in AAA rated money market funds, •% with an AA rated financial institution and the balance with a BBB+ or lower rated financial institutions. In 2009, of the value of cash and cash equivalents amounting to £17,521,000, 66% was held in AAA rated money market funds, 8% with an AA rated financial institution and the balance with BBB+ or lower rated financial institutions. The credit risk on cash and cash equivalents is limited because the high credit ratings assigned to the funds and financial institutions by international credit-rating agencies.

31.3.4 Guarantees

Refer note 36 Contingents for further details of guarantees issued by the Group. The Group's maximum exposure to credit risk, without taking into account collateral or any other credit enhancements held, in respect of gurantees would be equal to the amounts disclosed in note 36.

31. Financial instruments and financial risk management (continued)

31.4 Liquidity risk

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

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

Cash inflows from trade receivables amounting to £24,069,000 at 31 December 2010 (2009: £23,079,000) are also utilised to meet cash outflows on financial liablilities. Cash inflows arising from trade receivables balances are expected within 6 months or less.

Blackstar Group Plc, Blackstar Cyprus and Blackstar (Gibraltar) Limited ("Blackstar Gibraltar") all included within the Investing activities segment have access to cash resources (cash on hand of £13.3 million) and each of the entities do not have borrowings or material liabilities. Furthermore Blackstar Group Plc has a facility of R20 million (£1.9 million) with a South African bank which is unutilised. This facility of R20 million (£1.7 million) was also available and unutilised in the prior year. The Investment activities segment has sufficient funds to meet its operational requirements and financial obligations. All surplus cash within this segment is invested in liquid cash and money market instruments. The type of instrument and its maturity date depends on the Group's forecast cash requirements.

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

The table below details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at a floating rate, the undiscounted amount is derived utilising the interest rate at 31 December. The contractual maturity is based on the earliest date on which the Group may be required to pay. Where there are no fixed terms of repayment, the undiscounted amount has been included in the 6 months or less column.

			Undiscounted contractual cash flows				
2010	Carrying amount £'000	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Borrowings (refer note 22)							
Unsecured borrowings	**3,021**	**3,160**	**34**	**29**	**58**	**844**	**2,195**
Secured borrowings	**10,812**	**11,976**	**1,225**	**1,232**	**4,761**	**3,223**	**1,535**
	13,833	**15,136**	**1,259**	**1,261**	**4,819**	**4,067**	**3,730**
Other financial liabilities (refer note 23)							
Revolving inventory financing facility agreement	**15,929**	**15,929**	**7,965**	**7,964**	**—**	**—**	**—**
Invoice discounting agreement	**9,117**	**9,117**	**4,558**	**4,559**	**—**	**—**	**—**
Plant and equipment purchase agreement	**624**	**690**	**113**	**113**	**226**	**238**	**—**
Financial leases and instalment sale agreements	**771**	**889**	**145**	**137**	**221**	**386**	**—**
	26,441	**26,625**	**12,781**	**12,773**	**447**	**624**	**—**
Trade and other payables (refer note 26)	**17,635**	**17,635**	**17,635**	**—**	**—**	**—**	**—**
Bank overdrafts	**(1)**	**(1)**	**(1)**	**—**	**—**	**—**	**—**

The expected maturity of financial liabilities is not expected to differ from the contractual maturities as disclosed above.

Notes to the consolidated financial statements continued
for the year ended 31 December 2010

31. Financial instruments and financial risk management (continued)
31.4 Liquidity risk (continued)
31.4.1 Contractual maturities of non-derivative financial liabilities, including interest payments and excluding the impact of netting agreements (continued)

2009	Carrying amount £'000	Total £'000	Undiscounted contractual cash flows 6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Borrowings (refer note 22)							
Unsecured, non controlling shareholder loans and preference shares	2,569	2,763	—	—	—	733	2,030
Secured, interest bearing loans expected to be settled according to contractual maturities	17,525	19,443	2,292	2,292	6,573	8,286	—
Secured, interest bearing loans for which expected maturity is expected to differ from the contractual maturities (refer note below *)	4,580	5,839	225	272	1,788	3,554	—
	24,674	28,045	2,517	2,564	8,361	12,573	2,030
Other financial liabilities (refer note 23)							
Revolving inventory financing facility agreement	14,257	14,258	8,387	5,871	—	—	—
Invoice discounting agreement	8,192	8,192	4,096	4,096	—	—	—
Financial leases and instalment sale agreements	639	681	210	95	170	206	—
Asset purchase agreement	783	783	—	—	783	—	—
	23,871	23,914	12,693	10,062	953	206	—
Trade and other payables (refer note 26)	15,814	15,814	15,814	—	—	—	—
Bank overdrafts	202	202	202				

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

2009	Carrying amount £'000	Total £'000	Undiscounted contractual cash flows 6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Secured, interest bearing loans for which expected maturity is expected to differ from the contractual maturities	4,580	4,830	3,137	1,693	—	—	—

31. Financial instruments and financial risk management (continued)

31.4 Liquidity risk (continued)

31.4.2 Contractual maturities of derivative financial liabilities

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

The following table details the Group's liquidity analysis for its derivatives. The table has been drawn up based on the undiscounted net cash inflows and outflows on derivatives that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is dependent on future exchange rates, the current rate on 31 December has been utilised to calculate the net amount settled.

			Undiscounted contractual cash inflows/(outflows)				
2010	**Carrying amount £'000**	**Total £'000**	**6 months or less £'000**	**6-12 months £'000**	**1-2 years £'000**	**2-5 years £'000**	**More than 5 years £'000**
FEC's	**(1)**	**(1)**	**(1)**	**—**	**—**	**—**	**—**

			Undiscounted contractual cash inflows/(outflows)				
2009	Carrying amount £'000	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
FEC's	(7)	(7)	(7)	—	—	—	—
Interest rate swaps accounted for as derivatives in effective hedging relationships	(338)	(338)	—	—	—	(338)	—
Currency option accounted for as a derivative in an effective hedging relationship	245	245	245	—	—	—	—
	(100)	(100)	238	—	—	(338)	—

31.4.3 Trade and other payables by class

Refer note 26 Trade and other payables.

	2010 £'000	2009 £'000
Trade payables		
Industrial chemicals	**2,786**	3,459
Industrial metals	**8,691**	8,175
Investment activities	**89**	84
	11,566	11,718

31.4.4 Undrawn facilities and securities provided

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

	2010 £'000	2009 £'000
Unsecured bank overdraft facility, reviewed annually and payable on call		
Utilised	**—**	1,266
Unutilised	**145**	1,170
	145	2,436
Secured bank overdraft facility, reviewed annually and payable on call		
Utilised	**—**	—
Unutilised	**4,827**	3,156
	4,827	3,156
Secured debtors financing facilities held by subsidiary companies		
Utilised (refer note 23)	**9,117**	8,192
Unutilised	**22,259**	19,903
	31,376	28,095

31. Financial instruments and financial risk management (continued)

31.4 Liquidity risk (continued)

31.4.4 Undrawn facilities and securities provided (continued)

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

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

2010	Utilised £'000	Unutilised £'000	Total £'000
Revolving inventory financing facilities (refer note 23)	15,929	3,379	19,308
Foreign exchange contract facility	161	7,273	7,434
Other facilities	3,856	594	4,450
	19,946	11,246	31,192

The securities that ABSA Bank Limited ("Bank") require for the aforesaid facilities for both KMG and GRS are

- Cession and pledge of all shares in, and claims against GRS, Helm and Domel Investments (Pty) Limited ("Domel") to the Bank;
- Subordination of all existing and future shareholders loans and claims between KMG, GRS, Helm and Domel to the Bank;
- Special notarial bond to the value of £4.8 million (R50 million) over specified identifiable moveable property of GRS, registered in favour of the Bank;
- General notarial bond to the value of £8.7 million (R90 million) over all moveable assets of GRS, registered in favour of the Bank;
- General notarial bond to the value of £33.8 million (R350 million) over all moveable assets of KMG, registered in favour of the Bank;
- First cession by GRS of all accounts receivable and CGIC insurance policies, in favour of the Bank;
- Cession by GRS of any other securities held by it in respect of security provided to GRS for any other receivables, in favour of the Bank;
- Cession by GRS and KMG of all bank accounts, deposits and cash, with set-off balances to apply and be agreed to, in favour of the Bank;
- Cession and pledge by GRS and KMG of all insurance policies, with the Bank's interest therein specifically noted, in favour of the Bank.
- Confirmation to be that the Bank's interest has been noted and acknowledged by the Landlord;
- Cession by GRS and KMG, where possible, of any customer contracts, sale agreements or distribution agreements, in favour of the Bank;
- Cession of all franchise agreements;
- Cession by GRS and KMG of any existing and future licenses, trademarks, trade names, copyright and patent rights, in favour of the Bank;
- Registered hypothecs over all the identifiable trademarks held by GRS and KMG;
- Irrevocable and unlimited guarantees from KMG, Helm and Domel for the obligations of GRS, in favour of the Bank;
- Irrevocable and unlimited guarantees from GRS, Helm and Domel for the obligations of KMG, in favour of the Bank;
- Cesssion of all existing and future intercompany loans between KMG, GRS, Helm and Domel, in favour of the Bank;
- Cession and pledge by the Shareholders of KMG of all the shares held in KMG, in favour of the Bank;

31. Financial instruments and financial risk management (continued)

31.4 Liquidity risk (continued)

31.4.4 Undrawn facilities and securities provided (continued)

- A suretyship from the Shareholders of KMG, limited to the value of the shares held in KMG, in favour of the Bank;
- Securities for ABSA Commercial Asset Finance facility, as per ABSA Commercial Asset Finance's agreement;
- Securities for ABSA Working Capital Solutions finance facility, as per ABSA Working Capital Solutions finance's agreement;
- Securities for ABSA CAF and AVMS Fuel Maintenance Leases facility, as per ABSA CAF and AVMS Fuel Maintenance Leases' agreement;

Utilised and unutilised portions of the facilities provided by the bank under the agreement in the prior year were as follows:

2009	Utilised £'000	Unutilised £'000	Total £'000
Revolving inventory financing facilities (refer note 23)	14,257	—	14,257
Other secured borrowings (refer note 22)	12,982	618	13,600
Secured bank overdraft facility	1,247	1,090	2,337
Foreign exchange contract facility	—	5,200	5,200
Other facilities	1,114	3,240	4,354
	29,600	10,148	39,748

Details of the security provided under the agreements for these facilities for the prior year are as follows:

- General Notorial Bond for £29.4 million (R350 million) over all moveable assets;
- Limited guarantee by Blackstar Group Plc limited to £10.5 million (R125 million)) plus ceded rights;
- Limited guarantee by Blackstar Cyprus (limited to its ceded rights);
- Limited guarantee by Blackstar Gibraltar (limited to its ceded rights);
- Cession and pledge of KMG shares by Blackstar Group Plc and all other shareholders;
- Cession and pledge of KMG preference shares by Blackstar Cyprus;
- Cession and pledge of all shareholder loan accounts and claims against KMG by Blackstar Group Plc, Blackstar Cyprus, Blackstar Gibraltar and all other shareholders;
- Key man policies to be taken out on the KMG CEO and any other key management of KMG to the value of £839,000 (R10 million) and £168,000 (R2 million) each respectively in favour of the bank;
- Cession of any other securities held by the borrower in respect of security provided to the borrower for any other receivables or loan account;

31.5 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

31.5.1 Currency risk

The Group's activities expose it to financial risks of changes in foreign currency. The exposure to currency risk has been discussed in further detail by class. The Industrial chemicals and Industrial metals segments have been Grouped together due to the fact that the nature of their exposure to currency risk as well as their management thereof is similar.

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.1 Currency risk (continued)

Investment activities

Currency risk arises because the Group makes investments in South Africa in Rands, which differs to the Group's reporting currency (Sterling). The value of these assets is exposed to currency risk giving rise to gains or losses on translation into Sterling. Currency risk also arises because operations within this segment, incur costs from service providers in various parts of the world whose currency is not the same as the Group's reporting currency (Sterling). The Blackstar Group Board of Directors meet on a quarterly basis to review the investment portfolio and consequently monitors currency risk on an ongoing basis. To mitigate this risk, the Group may hedge its currency exposure from time to time.

In the prior year, a currency option was taken out by one of the subsidiaries within the Investment activities segment to hedge against fluctuations in currency arising on the settlement of one of the investments classified as loans and receivables and which was settled during the 2010 financial year. There were no other currency options taken out during the current financial year nor any outstanding at 31 December 2010.

Industrial metals and Industrial chemicals

The Group's subsidiaries within the Industrial metals and Industrial chemical segments (which are both South African based) incur currency risk as a result of purchases and sales which are denominated in a currency other than their functional reporting currency (being the South African Rand). Both subsidiaries have a policy of hedging purchases denominated in foreign currency by taking out forward exchange contracts (FECs). Hedges may be taken out for sales in foreign currencies; this decision is taken by the financial director depending on the materiality of the sale. It is the Group's policy not to trade in derivavtive financial instruments for speculative purposes.

The periods in which the cash flows associated with the forward exchange contracts are expected to occur are detailed below under the heading 'Settlement'. The periods in which the cash flows are expected to impact the income statement are believed to be in the same time frame as when the actual cash flows occur.

	Settlement		Contract value	
2010			**Foreign amount 000's**	**Rand amount 000's**
In respect of forward exchange contracts relating to foreign liabilities as at 31 December 2010				
– US Dollars	**January 2011**	**February 2011**	**244**	**1,716**
– Euro	**January 2011**	**April 2011**	**858**	**8,316**
– Australian Dollars	**January 2011**	**March 2010**	**69**	**473**
In respect of forward exchange contracts relating to goods and services ordered not accounted for as at 31 December 2009				
– US Dollars	**May 2009**	**April 2010**	**612**	**4,435**

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.1 Currency risk (continued)

Investment activities (continued)

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

The net gain under forward foreign exchange contracts recognised in profit and loss amounted to £4,000 (2009: £4,000).

Exposure to currency risk

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

2010	**Industrial chemicals**	**Industrial metals**	**Investment activities**	**Total**
Functional currency	South African Rand **£'000**	South African Rand **£'000**	Sterling and South African Rand **£'000**	**£'000**
Trade receivables (gross)				**–**
South African Rand	**4,071**	**20,175**	**–**	**24,246**
US Dollars	**316**	**136**	**–**	**452**
	4,387	**20,311**	**–**	**24,698**
Trade payables	**–**	**–**		**–**
South African Rand	**2,004**	**8,453**	**9**	**10,466**
US Dollars	**166**	**–**	**–**	**166**
Sterling	**–**	**–**	**19**	**19**
Euro	**570**	**233**	**61**	**864**
Australian Dollars	**46**	**–**	**–**	**46**
Namibian Dollars	**–**	**5**	**–**	**5**
	2,786	**8,691**	**89**	**11,566**
Borrowings	**–**	**–**	**–**	**–**
South African Rand	**11,594**	**826**	**1,413**	**13,833**
Other financial liabilities (excluding forward exchange contracts and derivatives)				
South African Rand	**–**	**29,390**	**8**	**29,398**
Cash and cash equivalents (including overdrafts)				
South African Rand	**3,245**	**1,734**	**828**	**5,807**
US dollars	**–**	**25**	**1**	**26**
Sterling	**–**	**–**	**12,805**	**12,805**
Euro	**–**	**–**	**423**	**423**
Namibian Dollars	**–**	**134**	**–**	**134**
	3,245	**1,893**	**14,057**	**19,195**

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.1 Currency risk (continued)

Investment activities (continued)

2009	Industrial chemicals	Industrial metals	Investment activities	Total
Functional currency	South African Rand	South African Rand	Sterling and South African Rand	
	£'000	£'000	£'000	£'000
Trade receivables (gross)				
South African Rand	3,542	19,219	—	22,761
US Dollars	29	213	—	242
Namibian Dollars	—	76	—	76
	3,571	19,508	—	23,079
Trade payables				
South African Rand	1,965	7,541	41	9,547
US Dollars	654	634	—	1,288
Sterling	28	—	—	28
Euro	661	—	43	704
Australian Dollars	151	—	—	151
	3,459	8,175	84	11,718
Borrowings				
South African Rand	11,153	13,521	—	24,674
Other financial liabilities (excluding forward exchange contracts and derivatives)				
South African Rand	—	25,414	68	25,482
Euro	783	—	—	783
	783	25,414	68	26,265
Cash and cash equivalents (including overdrafts)				
South African Rand	3,340	(181)	885	4,044
Sterling	—	—	13,014	13,014
Namibian Dollars	—	261	—	261
	3,340	80	13,899	17,319

Sensitivity analyses

A 10% strengthening of the Rand against the Sterling at the balance sheet date, all other variables held constant, would have resulted in an increase of • (2009: £8,643,000) in the reported net asset value of the Group. A 10% weakening of the Rand against Sterling at the balance sheet date, on the same basis, would have resulted in a decrease of • (2009: £7,064,000) in the reported net asset value of the Group.

The following significant exchange rate applied during the year:

	2010	2009
Rand/Sterling		
Opening rate	**11.924**	13.719
Closing rate	**10.358**	11.924

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.2 Interest rate risk

Fair value interest rate risk is the risk that the fair value of financial instruments will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows associated with financial instruments will fluctuate because of changes in market interest rates. The following financial instruments are exposed to interest rate risk: investments, borrowings, other financial liabilities and cash and cash equivalents.

At the reporting date the interest rate profile of the Group's interest bearing financial instruments were as follows:

	2010 £'000	2009 £'000
Fixed rate instruments		
Financial assets		
Investments classified as loans and receivables (refer note 16)	**–**	–
Investments at fair value through profit and loss (refer note 17)	**12,601**	13,482
Financial liabilities		
Borrowings (refer note 22)	**(10,962)**	(9,123)
Other financial liabilities excluding lease accruals and derivatives (refer note 23)	**(837)**	(1,016)
	802	3,343
Variable rate instruments		
Financial assets		
Investments classified as loans and receivables (refer note 16)	**1,375**	23,101
Investments at fair value through profit and loss (refer note 17)	**–**	–
Cash and cash equivalents (refer note 21)	**19,196**	17,521
Financial liabilities		
Borrowings (refer note 22)	**(2,871)**	(15,551)
Other financial liabilities excluding lease accruals and derivatives (refer note 23)	**(25,604)**	(22,855)
Overdrafts	**(1)**	(202)
	(7,905)	2,014

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

	2010 £'000	2009 £'000
Total interest income on financial assets (including interest income on investments reflected in note 6 and interest income on cash and cash equivalents reflected in note 9)	**498**	1,479
Total interest expense on financial liabilities (refer note 9)	**(5,764)**	(5,256)
	(5,266)	(3,777)

Investments

The Group's exposure to interest rates on investments is detailed in note 16 Investments classified as loans and receivables and note 17 Investments at fair value through profit and loss within the financial statements. Interest rate risk in respect of investments falling within the Investment activities segment is managed by the Blackstar Group Plc Board of Directors, who meet meet on a quarterly basis to review the investment portfolio and consequently monitors interest rate risk on an ongoing basis.

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

31. Financial instruments and financial risk management (continued)

31.5 Market risk (continued)

31.5.2 Interest rate risk (continued)

Borrowings and other financial liabilities

The Group adopts a policy of ensuring that its borrowings are at market-related rates to address its interest rate risk. Each of the segment's board of directors are responsible for monitoring borrowing levels and exposure to interest rate risk on an on-going basis. The variable rates are influenced by movements in the South African Prime borrowing rates. Further details on the interest rate terms on borrowings and other financial liabilities are provided in note 22 and 23 respectively.

Cash and cash equivalents

Any excess cash and cash equivalents are invested with banks at short term market interest rates. Overdrafts which arise in the Industrial chemical and Industrial metals segments are linked to the South African Prime rate.

Sensitivity analyses

The sensitivity analyses below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting year. For floating rate assets and liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting year was outstanding for the whole year. A 1% change has been used as this is what could reasonably be expected as a change in interest rates based on historical movements in interest rates within South Africa.

A 1% decrease in the South African Prime rate effective from the beginning of the year, all other variables held constant, would have resulted in an increase of • (2009: £374,000) in the reported net asset value of the Group. A 1% increase in the South African Prime rate effective from the beginning of the year, on the same basis, would have resulted in a decrease of £• (2009: £376,000) in the reported net asset value of the Group.

31.5.3 Market price risk

Investments

The Group is exposed to market price risk in its listed and unlisted investments (which fall within the Investment activities segment) as well as country risk as all the investments are in companies operating in South Africa. This is in line with the Group's investment strategy. Listed and unlisted investments are susceptible to market price risk arising from the performance of the underlying companies and uncertainties about future prices in the case of listed investments. The Blackstar Group Board of Directors meet on a quarterly basis to review the investment portfolio, in particular the underlying performance of the companies in which it has invested and consequently monitors the value of its investments on an ongoing basis.

Assuming that the investment portfolio is directly correlated to the FTSE/JSE Africa All Share Index, an increase of 10% in the FTSE/JSE Africa All Share Index at the balance sheet date, all other variables held constant, would have resulted in an increase of £• (2009: £6,768,000) in the reported net asset value of the Group. A decrease of 10% in the FTSE/JSE Africa All Share Index at the balance sheet date, on the same basis, would have resulted in a decrease of £• (2009: £3,973,000 in the reported net asset value of the Group.

31.6 Fair values

The carrying amount of all financial assets and liabilities as is reflected in the balance sheet approximate fair value with the exception of investments classified as loans and receiveables, borrowings and other financial liabilities all of which have been accounted for at amortised cost using the effective interest rate method.

31.6.1 Fair value of financial instruments carried at amortised cost

A discounted cashflow basis was utilised to calculate the fair values of financial instruments accounted for at amortised cost. On performance of the calculation, the existing terms and conditions were reviewed for each financial instrument and were found to be reasonable estimates of the terms and conditions that would be offered on such a financial instrument as at 31 December 2010 and 31 December 2009 (refer respective notes for details of the terms). Investments classified as loans and receivables bear interest at rates linked to the South African Prime rate and these rates are believed to approximate the market related discount rates used in the fair value calculations. The fair values were therefore calculated to approximate the carrying values.

31. Financial instruments and financial risk management (continued)

31.6 Fair values (continued)

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value adjustments are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market date (unobservable inputs).

2010	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Investments at fair value through profit and loss (refer note 17)	**10,313**	**2,288**	**—**	**12,601**
Derivative financial assets (refer note 18)	**78**	**—**	**—**	**78**
	10,391	**2,288**	**—**	**12,679**
Financial liabilities at fair value through profit and loss				
Derivative financial liabilities (refer note 23)	**79**	**—**	**—**	**79**
	79	**—**	**—**	**79**

2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
Investments at fair value through profit and loss (refer note 17)	3,078	10,404	—	13,482
Derivative financial assets (refer note 18)	62	245	—	307
	3,140	10,649	—	13,789
Financial liabilities at fair value through profit and loss				
Derivative financial liabilities (refer note 23)	(407)	—	—	(407)
	(407)	—	—	(407)

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

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

Investments held at fair value through profit and loss

Investments held at fair value through profit and loss include unlisted shares which are measured at fair value (refer note 17). Details of the valuation methodologies utilised to calculate fair values have been provided in note 2.

Derivative financial assets

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

31. Financial instruments and financial risk management (continued)

31.7 Hedge accounting

Cashflow hedges

A subsidiary of the Group entered into two interest rate swap agreements to hedge against the risk of fluctuations in interest rates arising as a result of two of its liabilities. These hedging instruments were marked to market at year end and has a credit carrying value of £338 000 as at 31 December 2009 which has been included in Other financial liabilities (refer note 23). The underlying items being hedged would be the two loans amounting to £7,814,000 and are included in note 22 under the category Secured, Rand denominated loans with a carrying amount of £12,982,000. The loans were settled during the current financial year end and the interest rate swaps were settled on the same date. Thus there is no balance as at 31 December 2010 in respect of these interest rate swaps.

A total loss of £367,000 arose on the interest rate swaps during the current financial year (2009: total gains of £22,000 and a loss of £166,000). These gains and losses have been included in finance income and finance costs respectively as this is where the interest expense arising on the underlying hedged item (the loans) is disclosed (refer note 9). None of the gains and losses arising on the hedging instruments are considered to be ineffective.

In the prior year, a subsidiary within the Group entered into a currency option to hedge against risk changes in the Sterling/Rand exchange rate with respect to a portion of one of its investments with a carrying value of £18,721,000 at 31 December 2009 and included in investments classified as loans and receivables (refer note 16). The investment was realised during the current financial year and thus there was no outstanding currency option at 31 December 2010. In the prior year, the currency option outstanding was marked at year end and had a debit carrying value of £245,000 which was included in Other financial assets (refer note 18). A loss of £245,000 (2009: loss of £208,000) was recognised on the option and is included in note 5 Net gains on investments as this is where the gains and losses arising on the investment were disclosed.

32. Capital management

Through two capital raisings the Company raised £80 million (£75.4 million after capital raising expenses) in 2006, which it manages in accordance with its investment strategy.

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

The Board of Directors meets on a quarterly basis and is responsible for reviewing the capital structure of the Group. The Board seeks to maintain a balance between return on capital, gearing within the Group and usage of the Group's equity capital.

From time to time the Company acquires its own ordinary shares in the market. Such buy-backs depend on market prices and available cash resources and reserves. During the year, the Company bought back 4,317,495 ordinary shares in the market.

The Company has no externally imposed capital requirements and there have been no other changes in the capital that it manages.

33. Subsidiary companies

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

Name	Country of incorporation and operation	Principal activity	Proportion of ownership 31 December 2010	31 December 2009
Blackstar (Cyprus) Investors Limited	Cyprus	Investment company	100%	100%
Blackstar (Gibraltar) Limited	Gibraltar	Investment company	100%	100%
Ferro Industrial Products (Pty) Limited	South Africa	Industrial chemicals company	54%	54%
KMG Steel Service Centres (Pty) Limited	South Africa	Industrial metals company	87%	73%
Blackstar Group (Pty) Limited	South Africa	Investment advisory company	100%	100%
Blackstar Real Estate (Pty) Limited	South Africa	Investment property company	100%	–

On 31 May 2010, the B preference shares held by 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) has been transferred to non controlling interests (refer Consolidated statement of changes in equity).

During the year, Blackstar Real Estate (Pty) Limited was formed by Blackstar with the objective of acquiring properties held by its subsidiaries and portfolio investments on a sale and lease back basis, as well as exploring other opportunities in the South African real estate sector that may arise as a result of the prevailing economic conditions and where attractive deals can be structured.

34. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2010 £'000	2009 £'000
Land and buildings		
Less than one year	**4,183**	3,306
Due between one and five years	**13,006**	11,453
More than five years	**4,916**	6,640
	22,105	21,399
Equipment and vehicles		
Less than one year	**574**	574
Due between one and five years	**910**	984
More than five years	**–**	7
	1,484	1,565
	23,589	22,964

35. Capital commitments

Contracted capital expenditure of £68,000 (2009: £452,000) and non contracted capital expenditure of £751,000 (2009: £1,098,000) on property, plant and equipment had been approved at year end.

36. Contingents

Guarantees

Blackstar Group Plc has provided suretyship, by binding itself jointly and severally as surety for and co-principal debtor in solidium with KMG to and in favour of one of KMG's suppliers for an amount not exceeding R150 million (£14.6 million), (2009: R150 million (£12.6 million)). The suretyship expires on 31 October 2011.

Blackstar Group Plc has bound itself jointly and severally liable to a landlord as surety in respect of a lease agreement entered into by Blackstar SA.

36. Contingents (continued)

Guarantees (continued)

Blackstar Group Plc has provided guarantees to a bank in respect of the mortgage bond taken out by BRE to acquire properties. Details of these guarantees is provided in note 22.

Contingent liabilities and contingent assets

There are no contingent liabilities or assets to report as at 31 December 2010 (2009: nil).

37. Directors' remuneration

2010	Non executive directors fees £'000	Fees payable under terms of investment advisory agreement £'000	Salary earned as employee of a subsidiary of the Group Salary £'000	Other benefits £'000	Performance bonus £'000	Total £'000
Non-executive directors fees						
John Broadhurst Mills	**46**	**–**	**–**	**–**	**–**	**46**
Andrew David Bonamour	**40**	**–**	**312**	**38**	**471***	**861**
Wolfgang Andreas Baertz	**35**	**–**	**–**	**–**	**–**	**35**
Marcel Ernzer	**35**	**–**	**–**	**–**	**–**	**35**
Charles Taberer	**15**	**–**	**–**	**–**	**–**	**15**
Julian Andre Treger	**45**	**–**	**–**	**–**	**–**	**45**
	216	**–**	**312**	**38**	**471**	**1,037**

* Includes incentive bonus earned of £226,000 on closure of the investment in Mvelephanda Resources Limited.

2009	Non executive directors fees £'000	Fees payable under terms of investment advisory agreement £'000	Salary earned as employee of a subsidiary of the Group# Salary £'000	Other benefits £'000	Performance bonus £'000	Total £'000
Non-executive directors fees						
John Broadhurst Mills	40	–	–	–	–	40
Andrew David Bonamour	30	–	106	30	105	271
Wolfgang Andreas Baertz	30	–	–	–	–	30
Marcel Ernzer	30	–	–	–	–	30
Julian Andre Treger	35	76	–	–	–	111
	165	76	106	30	105	482

Salary earned is from 1 July 2009, being the date Blackstar SA was acquired by the Blackstar Group, to 31 December 2009.

The highest paid director earned fees of £861,000 (2009: £271,000).

The Company does not operate a pension scheme for its Directors.

All Directors' fees payable to John Mills are payable to the Maitland Group.

No Directors of Blackstar Group Plc held any share options and no options were granted or exercised during the year (2009: nil)

Details of the Director's beneficial interest in the ordinary share capital of the Company at year end is provided in the Directors' Report.

38. Related parties

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The Group's associates, Litha and Navigare, are considered to be related parties. During the current financial year the Company and Blackstar SA earned fees totalling R3,750,000 (£332,000) from transaction arranging, underwriting and capital raising in respect of the Litha transaction. Blackstar SA also earned additional fees amounting to R784,000 (£69,000) from Litha in the form of directors and monitoring fees. As at 31 December 2010, Blackstar SA reflected a prepayment of fees amounting to R58,000 (£6,000). As at 31 December 2009, Blackstar Gibraltar held a loan to Navigare amounting to £495,000 and accounted for as an investment classified as loans and receivables. The loan was repaid in 2010 and Blackstar Gibraltar earned interest of £28,000 on the loan during the current financial year and the loan was repaid prior to year end.

John Mills is deemed to be a related party, as in addition to being a Director, funds associated with John Mills are interested in •% of the issued share capital of the Company. In addition John is a Director of Maitland Luxembourg S.A. Maitland provided a variety of services to the Company, on a commercial, arm's length basis. In 2009, fees to Maitland for advisory and administrative services amounted to £204,000 (2009: £317,000). At the balance sheet date £58,000 (2009: £41,000) was owing to Maitland.

Andrew Bonamour is deemed to be a related party as in addition to being a Director, funds associated with Andrew Bonamour are interested in •% of the issued share capital of the Company. Andrew is a potential beneficiary of family trusts that own shares in BML Limited ("BML"). Prior to the internalisation of investment advisory arrangements in June 2009, BML provided investment advisory services to the Company under the investment advisory agreement, and was also entitled to share in any performance fees payable by the Company under the terms of the investment advsiory agreement. BML is interested in •% of the issued shares in the Company. In 2009 advisory fees to BML amounted to £884,000 and there were no amounts were outstanding at 31 December 2009. No such advisory fees were paid during the current financial year.

Julian Treger is deemed to be a related party, as in addition to being a Director, he is a potential beneficiary of discretionary trusts that are interested in •% of the issued share capital of the Company. Prior to the internalisation of investment advisory arrangements in June 2009, funds associated with Julian Treger were entitled to share in the fees payable by the Company under the terms of the investment advisory agreement. In 2009, advisory fees amounted to £76,000 and no amounts were outstanding at 31 December 2009. Julian Treger resigned as director during the current financial year and no advisory fees were paid during the year ended 31 December 2010.

Charles Taberer was appointed as a director during the current financial year. A loan amounting to £564,000 was provided by Blackstar Gibraltar to Tanmac Trading (Pty) Limited in which Charles Taberer has an indirect exposure. The terms and conditions of the loan are considered to be at arms length.

Details of Directors' remuneration are provided in note 37 to the consolidated financial statements. There are no other related parties transactions to disclose.

39. Post balance sheet events

•

40. Segmental information

The Group has four reporting segments, as described below. Each segment operates in a separate industry and is managed by the individual segment's management team. For each of the segments, the Board of Directors review internal management reports to assess performance.

The operating segments have been identified as follows:

Industrial chemicals segment includes the subsidiary Ferro. Ferro is a South African manufacturer and supplier of a specialised range of powder coatings, black and white plastic master batches as well as high quality porcelain enamels, glaze frits, glass coatings and glaze coatings used on ceramic products;

Industrial metals segment includes the subsidiary KMG and its subsidiaries. KMG is a processor, distributor and stockist of carbon steel, stainless steel and aluminium in the form of high quality sheet, plate and coil as well as structural and other long product profiles. KMG also owns 100% of GRS, a steel roofing and cladding company; and

Investment activities includes the holding company Blackstar Group Plc as well as the subsidiaries Blackstar Gibraltar and Blackstar Cyprus (through which all of the investments are made) and the Group's associate Navigare. The subsidiary, Blackstar SA is included in this segment and is the entity through which the management team who assist in identifying investments and management thereof are employed. The wholly-owned subsidiary, BRE, an investment property company which was formed during the current financial year is also included in this segment.

Healthcare includes the associate Litha. Litha is a diversified healthcare business with the following divisions operating in Biotech, Medical and Pharmaceuticals. The Biotech division is currently in the process of developing its own vaccine manufacturing plant in Africa and is the controlling shareholder in a Public Private Partnership with the South African government to provide vaccines under the government's Expanded Program of Immunisation which targets a suite of free vaccines to government clinics and hospitals to all chidlren in South Africa. Litha's medical division provides consumable devices to private and government hospitals predominantly in the critical and ICU areas. The pharmaceuticals division has a variety of branded and generic products currently being marketed as well products awaiting registration with the Medical Control Council.

The board of directors assess the performance of the operating segments based primarily on the measures of revenue and EBITDA. Other information provided, except as noted below, is measured in a manner consistent with that in the financial statements.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies with the following exception: the subsidiary Ferro included in the Industrial chemicals segment has an accounting policy to revalue property, plant and equipment. This revaluation is reversed on consolidation as it is the Group policy to account for property, plant and equipment at cost. No adjustment was required to the property, plant and equipment during the current or prior financial year as Ferro have not revalued its property, plant and equipment since becoming a subsidiary of Blackstar.

Transactions between reportable segments are included in the segmental information below and are then eliminated on consolidation (refer to the reconciliation below).

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. For comparability, the comparatives for December 2009 have been adjusted to include inter-Group transactions.

40. Segmental information (continued)

40.1 Information about reportable segments

External revenue	2010 £'000	2009 £'000
As reported by segment		
Industrial chemicals	**36,064**	29,465
Industrial metals	**172,037**	124,741
Consolidated total reported by the Group	**208,101**	154,206

EBITDA	2010 £'000	2009 £'000
As reported by segment:		
Industrial chemicals	**7,042**	5,045
Industrial metals	**(3,501)**	(1,948)
Investment activities	**225**	3,466
Healthcare	**1,460**	—
Total EBITDA reported by segments	**5,226**	6,563
Consolidation adjustments		
Inter-Group transactions	**19,126**	(23)
On acquisition fair value adjustments and consolidation of subsidiaries	**11,803**	19
Equity account associates	**(27,020)**	—
Other	**2,005**	(26)
Consolidated total reported by the Group	**11,140**	6,533
Depreciation and amortisation	**(4,571)**	(3,320)
Impairment of goodwill and intangible assets	**(11,732)**	(3,883)
Finance income and finance costs	**(5,382)**	(4,786)
Loss before taxation reported by the Group	**(10,545)**	(5,456)

Share of profit of associates	2010 £'000	2009 £'000
Healthcare	**1,460**	—
Investment activities	**79**	—
Consolidated total reported by the Group	**1,539**	—

Total assets	2010 £'000	2009 £'000
As reported by segment:		
Industrial chemicals	**33,799**	29,468
Industrial metals	**64,095**	77,580
Investment activities	**107,134**	105,478
Total assets reported by segments	**205,028**	212,526
Consolidation adjustments		
Inter-Group transactions	**(22,672)**	(32,219)
On acquisition fair value adjustments and consolidation of subsidiaries	**(3,165)**	(7,646)
Equity account associates	**(24,863)**	—
Consolidated total reported by the Group	**154,328**	172,661

Investments in associates	2010 £'000	2009 £'000
Healthcare	**14,397**	—
Investment activities	**240**	—
Consolidated total reported by the Group	**14,637**	—

40. Segmental information (continued)

40.1 Information about reportable segments (continued)

Total liabilities

	2010 £'000	2009 £'000
As reported by segment:		
Industrial chemicals	**(20,343)**	(20,873)
Industrial metals	**(81,568)**	(81,652)
Investment activities	**(2,379)**	(1,591)
Total liabilities reported by segments	**(104,290)**	(104,116)
Consolidation adjustments		
Inter-Group transactions	**22,672**	32,219
On acquisition fair value adjustments	**15,689**	(996)
Other	**(677)**	(13)
Consolidated total reported by the Group	**(66,606)**	(72,906)

40.2 Geographical information

Both the Industrial chemicals and Industrial metals segments have their operations in South Africa and the Industrial metals business has a less significant operation in Namibia (Southern Africa). The Investment activities segment operates and holds investments located in the South Africa. Thus for all segments, non-current assets are located in the Southern Africa region.

Below segment revenue is presented on the basis of the geographical location of the customers:

2010	**Industrial chemicals £'000**	**Industrial metals £'000**	**Investment activities £'000**	**Total £'000**
South Africa	**33,286**	**158,775**	**—**	**192,061**
Other countries	**2,778**	**13,262**	**—**	**16,040**
Net revenue	**36,064**	**172,037**	**—**	**208,101**

2009	Industrial chemicals £'000	Industrial metals £'000	Investment activities £'000	Total £'000
South Africa	27,999	119,059	—	147,058
Other countries	1,466	5,682	—	7,148
Net revenue	29,465	124,741	—	154,206

40.3 Major customers

As has been disclosed in note 31.3, the Group does not rely on any one major customer (i.e. revenues from any one single customer do not exceed 10% of the Group's total revenue).

40.4 Analysis of revenue by product

	2010 £'000	2009 £'000
Industrial chemicals		
Sale of specialised range of powder coatings	**11,943**	10,148
Sale of black and white plastic master batches	**6,309**	5,275
Sale of glass coating and glass decorating products	**2,972**	3,069
Sale of ceramic glazes and enamel products	**14,840**	10,973
	36,064	29,465
Industrial metals		
Sale of manufactured roofing sheets	**41,934**	33,530
Sale of stainless steel	**20,759**	38,789
Sale of carbon and aluminium steel	**109,344**	52,422
	172,037	124,741
	208,101	154,206

Company statement of changes in equity

for the year ended 31 December 2010

	Share capital £'000	Capital redemption reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2008	75,665	3,575	(20)	4,639	83,859
Total comprehensive income/(loss) for the year					
Loss for the year	—	—	—	(12,633)	(12,633)
Other comprehensive income for the year	—	—	203	—	203
	—	—	203	(12,633)	(12,430)
Buy-back of ordinary shares	(7,405)	2,405	—	(770)	(5,770)
Capital re-organisation	(24,176)	24,176	—	—	—
Issue of ordinary shares	8,939	—	—	—	8,939
Balance as at 31 December 2009	53,023	30,156	183	(8,764)	74,598
Total comprehensive income for the year					
Profit for the year	—	—	—	1,149	1,149
Other comprehensive income for the year	—	—	3,599	—	3,599
	—	—	3,599	1,149	4,748
Capital reduction	—	(30,156)	—	30,156	—
Buy-back of ordinary shares	(2,893)	2,893	—	(3,079)	(3,079)
Dividends declared	—	—	—	(493)	(493)
Balance at 31 December 2010	**50,130**	**2,893**	**3,782**	**18,969**	**75,774**

An interim dividend of 0.65 pence per ordinary share was declared on 29 October 2010.

A final dividend of 0.90 pence per ordinary share will be paid to shareholders registered on • May 2011.

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

Company Balance Sheet

as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Non-current assets			
Investments in subsidiary companies	3	**54,913**	68,694
Investment classified as loans and receivables	5	**318**	270
Investments at fair value through profit and loss	6	**18,718**	4,352
		73,949	73,316
Current assets			
Investments at fair value through profit and loss	6	**509**	1,022
Trade and other receivables	7	**517**	217
Cash and cash equivalents	8	**982**	586
		2,008	1,825
Total assets		**75,957**	75,141
Non-current liabilities		**—**	—
Current liabilities			
Current tax liability		**(46)**	(46)
Trade and other payables	9	**(137)**	(497)
		(183)	(543)
Total liabilities		**(183)**	(543)
Total net assets		**75,774**	74,598
Equity			
Share capital	10	**50,130**	53,023
Capital redemption reserve	10	**2,893**	30,156
Foreign currency translation reserve	10	**3,782**	183
Retained earnings	10	**18,969**	(8,764)
Total equity attributable to equity holders		**75,774**	74,598

The Company financial statements were approved by the Board and authorised for issue on • April 2011.

Andrew Bonamour
Director

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

Company cash flow statement
for the year ended 31 December 2010

	Notes	**2010 £'000**	2009 £'000
Cash flow from operating activities			
Cash absorbed by operations	11	**(2,623)**	(3,588)
Interest received		**30**	130
Interest paid		**(39)**	(3)
Dividends and interest received from investments		**28**	13
Dividends paid		**(493)**	—
Cash absorbed by operating activities		**(3,097)**	(3,448)
Cash flow from investing activities			
Additions to investments classified as loans and receivables		**—**	(235)
Acquisition of investments at fair value through profit or loss		**(5,374)**	(542)
Acquisition of subsidiaries	3	**(11,341)**	(37,612)
Increase in loans to subsidiaries		**(191)**	
Proceeds from disposal of investments		**4,828**	13,491
Proceeds on disposal/redemption of shares in subsidiary		**18,616**	25,619
Cash generated by investing activities		**6,538**	721
Cash flow from financing activities			
Repayment of borrowings		**—**	(7,561)
Buy-back of ordinary shares		**(3,079)**	(5,770)
Issue of shares		**—**	8,939
Cash absorbed by financing activities		**(3,079)**	(4,392)
Net increase/(decrease) in cash and cash equivalents		**362**	(7,119)
Cash and cash equivalents at the beginning of the year		**586**	8,143
Exchange gains/(losses) on cash and cash equivalents		**34**	(438)
Cash and cash equivalents at the end of the year	8	**982**	586

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

Notes to the Company financial statements

for the year ended 31 December 2010

1. Accounting policies

The financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") published by the International Accounting Standards Board ("IASB") as endorsed for use by the European Union and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. Investments in subsidiary companies are stated at cost less provisions where in the opinion of the Directors, there has been an impairment in the value of the investment.

Where the Company has the power to participate in the financial and operating policy decisions of an entity, it is classified as an associate. Investments in associates are accounted for at fair value in the Company's financial statements 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. These investments are included in the line item investments at fair value through profit and loss.

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

Note 1.7 Impairment
Note 1.10 Financial instruments
Note 1.12 Provisions and contingent liabilities
Note 1.15 Revenue and investment income
Note 1.16 Finance income and finance costs
Note 1.17 Tax
Note 1.18 Translation of foreign currencies
Note 1.21 Significant judgements and areas of estimation
Note 2 Determination of fair values

2. Profit/(loss) for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss in these financial statements. The Group's profit for the year includes a profit after taxation of £1,149,000 (2009 — loss after taxation of £12,633,000) for the Company.

3. Investments in subsidiary companies

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

2010

Name	Country of incorporation	Method used to account for investment	Proportion of ownership	Cost less impairment
Blackstar (Cyprus) Investors Limited ("Blackstar Cyprus")	Cyprus	Consolidation	100%	**30,948**
Blackstar (Gibraltar) Limited ("Blackstar Gibraltar")	Gibraltar	Consolidation	100%	**9,255**
Blackstar Group (Pty) Limited ("Blackstar SA")	South Africa	Consolidation	100%	**11,399**
Ferro Industrial Products (Pty) Limited ("Ferro")*	South Africa	Consolidation	54%	**3,106**
KMG Steel Service Centres (Pty) Limited ("KMG"), previously Kulungile Metals Group (Pty) Limited#	South Africa	Consolidation	87%^	**—**
Total cost of investment in subsidiary companies				**54,708**

3. Investments in subsidiary companies (continued)

2009

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

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

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

^ On 31 May 2010, KMG issued fresh shares to Blackstar Cyprus as a result of the B preference shares held by Blackstar Cyprus in KMG being converted into ordinary shares. As a result of this issue of ordinary shares, as at 31 December 2010, Blackstar Group Plc held 36% of the ordinary shares in KMG and Blackstar Cyprus held 51% thereby increasing Blackstar's effective shareholding from 73% to 87%.

During the period Blackstar held a controlling interest in Litha Healthcare Group Limited ("Litha"), previously Myriad Medical Holdings Limited ("Myriad"), for a number of days, refer to note 30 of the consolidated financial statements for further details.

	2010 £'000	2009 £'000
Cost		
Balance at the beginning of the year	**72,577**	56,807
Additions during the year at cost	**11,341**	37,612
Disposals and redemptions during the year at cost	**(18,616)**	(25,588)
Other movements	**—**	3,746
	65,302	72,577
Accumulated impairment		
Balance at the beginning of the year	**(3,883)**	—
Impairments of investments in subsidiaries	**(6,711)**	(3,883)
	(10,594)	(3,883)
Carrying amount at the end of the year	**54,708**	68,694

2010	**Cost £'000**	**Accumulated impairment £'000**	**Carrying value £'000**
Carrying amount at the beginning of the year	**72,577**	**(3,883)**	**68,694**
Additions during the year at cost	**11,341**	**—**	**11,341**
Disposals and redemptions during the year at cost	**(18,616)**	**—**	**(18,616)**
Impairments of investments in subsidiaries	**—**	**(6,711)**	**(6,711)**
Carrying amount at the end of the year	**65,302**	**(10,594)**	**54,708**

3. Investments in subsidiary companies (continued)

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

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

An impairment of the investment in KMG has been recognised in both the current and prior years. For further details refer to note 13 of the consolidated financial statements.

	2010 £'000	2009 £'000
Shares in subsidiary companies at cost less impairment	**54,708**	68,694
Amounts due by subsidiary companies	**205**	—
Amounts due to subsidiary companies	**—**	—
Total investments in subsidiary companies	**54,913**	68,694

Amounts due by subsidiaries comprises a loan to KMG to finance the acquisition of vehicles. The loan is secured by the underlying vehicles, bears interest at the South African Prime rate plus 1% nominal annual compounded monthly and is repayable in monthly instalments by December 2011.

4. Investments in associates

The principal associates of the Group at 31 December are as follows:

Name	Country of incorporation	Method used to account for investment	**2010 Proportion of ownership**	2009 Proportion of ownership
Litha Healthcare Group Limited ("Litha")	South Africa	Equity accounted	45%#	19%
Navigare Securities (Pty) Limited ("Navigare")	South Africa	Equity accounted	25%	25%

At 31 December 2010, the Company held 19% of the shares in Litha. Blackstar Cyprus held a further 26% in Litha and as a result, the Group's effective shareholding in Litha amounted to 45%. Both investments in associates have been equity accounted in the consolidated financial statements of the Group for the year ended 31 December 2010 (refer to note 15 of the consolidated financial statements).

Included in investments at fair value through profit and loss (refer note 6) are two of the associates of the Group, namely Litha and Navigare. In accordance with the Company's accounting policy, investments in associates are accounted for at fair value 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.

5. Investment classified as loans and receivables

	2010 £'000	2009 £'000
Book cost at the beginning of the year	**235**	70
Additions during the year at cost	**—**	235
Disposals during the year at cost	**(12)**	(70)
Book cost at the end of the year	**223**	235

	2010 £'000	2009 £'000
Carrying value at the beginning of the year	**270**	73
Additions during the year at cost	**—**	235
Disposals during the year at cost	**(12)**	(70)
Interest accrued during the year	**22**	9
Currency exchange gains during the year	**38**	23
Carrying value at the end of the year	**318**	270

	2010 £'000	2009 £'000
Non-current portion	**318**	270
Current portion	**—**	—
	318	270

Analysis of gains/(losses) on investments

	2010 £'000	2009 £'000
Proceeds on disposals during the year	**14**	77
Investments at cost	**(12)**	(70)
Realised gains on disposals based on historical cost/carrying value at prior year balance sheet date	**2**	7
Net gains on investments	**2**	7

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

	Carrying value 2010 £'000	Carrying value 2009 £'000
Loan to staff of Ferro. The loan bears interest at 90% of South African Prime rate nominal annual compounded semi-annually and is repayable in 2015	**318**	270
Carrying value at the end of the year	**318**	270

6. Investments at fair value through profit and loss

	2010 £'000	2009 £'000
Book cost at the beginning of the year	**5,468**	17,197
Additions during the year at cost	**5,374**	542
Disposals during the year at cost	**(4,347)**	(12,271)
Other movements	**–**	–
Book cost at the end of the year	**6,495**	5,468

	2010 £'000	2009 £'000
Fair value at the beginning of the year	**5,374**	26,853
Additions during the year at cost	**5,374**	542
Disposals during the year at cost	**(4,347)**	(12,271)
Unrealised losses/(gains) recognised in prior years on disposals	**384**	(8,204)
Unrealised gains during the year	**11,268**	2,431
Currency exchange gains/(losses) during the year	**1,174**	(231)
Other movements^	**–**	(3,746)
Fair value at the end of the year	**19,227**	5,374

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

	2010 £'000	2009 £'000
Non-current portion	**18,718**	4,352
Current portion	**509**	1,022
	19,227	5,374

Analysis of gains/(losses) on investments

	2010 £'000	2009 £'000
Proceeds on disposals during the year	**4,814**	13,414
Investments at cost	**(4,347)**	(12,271)
Realised (losses)/gains on disposals based on historical cost	**467**	1,143
Less unrealised losses/(gains) on disposals recognised in prior years	**384**	(8,204)
Realised gains/(losses) recognised in the income statement on disposals based on carrying value at prior year balance sheet date	**851**	(7,061)
Unrealised gains during the year	**11,268**	2,431
Net gains/(losses) on investments	**12,119**	(4,630)

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

The Group does not have a controlling interest in any of the investments at fair value through profit and loss. These investments are monitored on a fair value basis and comprise the following:

	Fair value 2010 £'000	Fair value 2009 £'000
Derivative investment in a telecom company, which gives the Group exposure to a minority interest in the underlying telecom company	**—**	1,002
Ordinary shares in Litha Healthcare Group Limited *#	**16,088**	2,294
Ordinary shares in Adreach (Pty) Limited	**2,027**	1,846
Ordinary shares in Navigare Securities (Pty) Limited#	**603**	134
Ordinary shares in Mvela Resources Limited	**255**	—
Ordinary shares in Sacoil Limited	**135**	—
Other listed shares	**119**	98
Fair value at the end of the year	**19,227**	5,374

* The Company has provided security to Investec Bank Limited over 30,045,958 shares in Litha.

\# Included in investments at fair value through profit and loss above are two of the associates of the Group, namely Litha and Navigare (refer note 4).

7. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables due by subsidiaries	**—**	192
Trade receivables due by external parties	**—**	—
Impairment allowance	**—**	—
Total trade receivables net of impairment allowance	**—**	192
Directors fees paid in advance	**—**	17
Prepayments and accrued income	**18**	7
Other receivables	**499**	1
	517	217

8. Cash and cash equivalents

	2010 £'000	2009 £'000
Deposits and cash at bank	**982**	586
Cash and cash equivalents per the cash flow statement	**982**	586

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

9. Trade and other payables

	2010 £'000	2009 £'000
Trade payables due to subsidiaries	**26**	387
Trade payables due to external parties	**—**	—
Total trade payables	**26**	387
Accrued expenses	**65**	77
Other payables	**46**	33
	137	497

10. Share capital and reserves

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

11. Cash absorbed by operations

	2010 £'000	2009 £'000
Profit/(loss) before taxation	**1,149**	(12,587)
Adjustments for:		
Profit on disposal of investments in subsidiaries	**–**	(31)
Impairment of investments in subsidiaries	**9,051**	3,883
Unrealised gains on investments	**(11,268)**	(2,431)
Realised (gains)/losses on disposal of investments	**(853§)**	7,054
Dividends and interest from loans and investments	**(51)**	(22)
Finance income	**(30)**	(130)
Finance costs	**39**	364
Decrease in provision for performance fee	**–**	(404)
Changes in working capital		
(Increase)/decrease in trade and other receivables	**(300)**	407
(Decrease)/increase in trade and other payables	**(360)**	309
	(2,623)	(3,588)

12. Financial instruments

The Company is exposed to one or more of the following risks from its use of financial instruments: credit risk; liquidity risk; and market risk (which comprises currency risk, interest rate risk and market price risk).

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

12.1 Financial instruments by category

	2010 £'000	2009 £'000
Financial assets		
Financial assets at fair value through profit and loss (classified as held for trading in accordance with IAS 39)		
Investments at fair value through profit and loss	**19,227**	5,374
Loans and receivables	**1,300**	1,048
Investments classified as loans and receivables	**318**	270
Trade receivables	**–**	192
Cash and cash equivalents	**982**	586
	20,527	6,422
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade payables	**(26)**	(387)
	(26)	(387)

12.2 Credit risk

At balance sheet date, the Company had no financial assets that were past due or impaired. The Company's maximum exposure to credit risk is equal to the carrying amount of the financial assets recorded in the financial statements (as detailed in note 12.1 above). The credit quality of financial instruments that are not past due or impaired is considered to be good.

12.3 Liquidity risk

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

The Company has facilities amounting to R20 million (£1.9 million) with a South African bank which have not been utilised. 30,045,958 shares held by the Company in Litha have been provided as security for this facility. The same facility was available and unutilised at 31 December 2009.

12. Financial instruments (continued)

12.4 Market risk

12.4.1 Currency risk

A 10% strengthening of the Rand against Pounds Sterling at the balance sheet date, all other variables held constant, would have resulted in an estimated increase of £• (2009: £624,000) in the reported net asset value of the Company. A 10% weakening of the Rand against Pounds Sterling at the balance sheet date, on the same basis, would have resulted in an estimated decrease of £• (2009: £511,000) in the reported net asset value of the Company.

12.4.2 Interest rate risk

A 1% increase in the South African Prime rate, all other variables held constant, would have resulted in an estimated decrease of £• (2009: £12,000) in the reported net asset value of the Company. A 1% decrease in the South African Prime Rate, on the same basis, would have resulted in an estimated increase of £• (2009: £12,000), in the reported net asset value of the Company.

12.4.3 Market price risk

Assuming that the investment portfolio is directly correlated to the FTSE/JSE Africa All Share Index, an increase of 10% in the FTSE/JSE Africa All Share Index at the balance sheet date, all other variables held constant, would have resulted in an estimated increase of £• (2009: £942,000) in the reported net asset value of the Company. A decrease of 10% in the FTSE/JSE Africa All Share Index at the balance sheet date, on the same basis, would have resulted in an estimated decrease of £• (2009: £942,000) in the reported net asset value of the Company.

12.5 Fair value

12.5.1 Fair value of financial instruments carried at amortised cost

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

12.5.2 Fair value of financial instruments carried at fair value in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, Grouped into Levels 1 to 3 (as defined in note 31.6.2 of the consolidated financial statements) based on the degree to which the fair value is observable:

2010	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Investments at fair value through profit and loss (refer note 6)	**16,597**	**2,630**	**—**	**19,227**

2009	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments at fair value through profit and loss (refer note 6)	2,392	2,982	—	5,374

There were no transfers between levels during the current year (2009: nil).

13. Capital under management

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

14. Contingent liabilities and guarantees

The Company has provided suretyship, by binding itself jointly and severally as surety for and co-principal debtor in solidium with KMG to and in favour of one of KMG's suppliers for an amount not exceeding R150 million (£14.5 million). The suretyship expires on 31 October 2011.

15. Related party transactions

Details of related parties are set out in note • to the consolidated financial statements. In addition the subsidiaries and associates set out in note 3 and 4 respectively to the Company financial statements are related parties to the Company.

On 26 June 2009, the Company acquired 100% of the shares in Blackstar SA. Consistent with prior years, the Company continues to pay an advisory fee, paid quarterly in advance, to its subsidiary. The advisory fee for the year ending 31 December 2010 amounted to £1.8 million (2009:£1.6 million). In the prior year a portion of the advisory fee for the 2010 financial year had been paid in advance (amounting to £170,000), no such payment in advance was made during the current reporting period. Blackstar SA may incur expenses on behalf of the Company and vice versa. These amounts are invoiced and re-imbursed on a monthly basis.

During the current financial year, the Company earned a fee of R1 million (£88,000) from Litha in respect of transaction arranging, underwriting and capital raising in respect of the Litha transaction. No amounts were outstanding at year end.

16. Post balance sheet events

•

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)

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

Registered Office
Blackstar Group Plc
2nd Floor
Ibex House
The Minories
London
EC3N 1DX

Solicitors to the Company (as to South African law)
Edward Nathan Sonnenbergs Inc
150 West Street
Sandton 2196
South Africa

Solicitors to the Company (as to English law)
Macfarlanes LLP
20 Cursitor Street
London EC4A 1LT

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

Registrars and Receiving Agents
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Nominated Advisor and Broker
Collins Stewart Europe Limited
88 Wood Street
London EC2V 7QR

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

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

sterling 144115

Blackstar Group Plc
58 rue Charles Martel
L-2134 Luxembourg
www.blackstar.lu