

Blackstar Investors PLC

("Blackstar" or the "Company")

Preliminary results for the financial year ended 31 December 2007

Advisor's statement

Highlights

- Net asset value ("NAV") up to 133 pence per share.
- Investment portfolio performed strongly in the period under review.
- In the 24 months since inception, Blackstar has generated total gross returns of 51%.
- Repurchased 2.8 million shares at an average price of 106 pence per share.
- Blackstar has now invested the majority of the net capital it raised in 2006.

Introduction

The 2007 financial year was, in many ways, a watershed year for Blackstar Investors PLC. Despite the turbulent market in the second half of 2007, Blackstar has managed to deliver an excellent set of results increasing its NAV per share from 101p at 31 December 2006 to 133p at year end. The underlying investments performed well over the period under review showing, that despite world market weakness, the infrastructure story in South Africa remains strong. In addition to partially exiting two investments, Blackstar also made its first full realisation through the sale of its Eurosteel interest to our Black Economic Empowerment ("BEE") partner, which was concluded in early 2008. The realisation demonstrated the Blackstar investment thesis of identifying attractive opportunities and generating strong returns for shareholders through participation in the BEE process.

Financial results and operating review

Blackstar has a track record of generating substantial returns and has achieved a 51% per cent return up to 31 December 2007 (equivalent to an IRR of 81%), on invested funds of £67 million for the year ended 31 December 2007, significantly outperforming the FTSE/JSE Africa All Share Index the same period.

Since inception, Blackstar has increased its net assets from £75.4 million (net capital raised) to £100.3 million thereby increasing its NAV to 133p per share after taking into account the performance fee accrual and the share buyback of 2.8 million shares.

During the year Blackstar made strong inroads into developing the fees and income side of the business, generating fee income and dividend receipts of £1.1million during the financial year. Blackstar Managers generates fees through providing advisory and corporate finance services around the transactions Blackstar has concluded and these fees are passed to Blackstar.

In line with its strategy to enhance shareholder value, Blackstar bought back 2.8 million shares at an average price of 106p per share measured against its NAV of 133p per share. The funding for this share buyback came from revenue and profits generated by Blackstar's underlying portfolio. Blackstar will continue its share buy back programme as further profits are realised.

Notable transaction highlights during the financial year under review include:

- The acquisition of York Timbers and subsequent take over of Global Forest Products;
- The funding of Lazarus Zim into Mvela Resources;
- The leverage buy out of Kulungile Metals Group;
- The realisation of our interest in Eurosteel;
- The partial realisation of our interest in Myriad Medical Holdings at more than two times our cost; and
- The partial realisation of our funding BEE instrument in York Timbers.

South Africa's good economic performance continued during the financial year, despite a rise in interest rates and inflation. In the fourth quarter of 2007, the South African economy grew by 5.3% annualised. The government's fixed investment programme assisted corporate profitability and attracted foreign portfolio inflows into the equity market.

2008 is unlikely to match the economic performance of 2007 due to rising interest rates and inflation, in the short term and the global credit crunch, which will have an impact on South Africa and the JSE. South Africa is an important market within the emerging market spectrum, given its strong resources and capital investment programme.

The investment environment features a growing demand for goods and services, corporate restructurings, increased government and private sector spending on infrastructure and capital projects which will further drive economic growth and consequently deal flow. South Africa is the logical platform into Africa with almost three quarters of the total African Market Capitalisation and concentrated corporate sector comprising the bulk of African corporate activity. The last ten years have seen renewed growth and improved governance across a number of African states.

South Africa's recent power shortages are a concern and an opportunity. South Africa's economic growth has outpaced the country's ability to meet the demand for power. These power outages are affecting all facets of the economy especially the mining sector. The government has stepped up its construction of new power plants. Over seven have been commissioned and construction has already begun. Through our investments Blackstar expects to benefit from this spend.

The Rand remains volatile and since year end has weakened. However more than 50% of Blackstar's portfolio has Rand hedge qualities and therefore benefits from Rand weakness

Inherent net asset value

Blackstar's inherent value per share increased from 102p at 31 December 2006 to 144p at year end. The inherent value is the net asset value adjusted to reflect recently made unlisted investments at fair value, rather than at cost.

Post balance sheet events and prospects

Blackstar recently announced a transaction which will give investors exposure to the micro lending industry in the South African financial services sector. The transaction is structured whereby Blackstar will provide Credit U Holdings Limited (formerly Kagisano Group Holdings Limited) a R100 million convertible loan facility, which will give Blackstar some optionality on the performance of Kagisano. Blackstar has made use of its own debt facilities to finance the transaction. We believe there are many opportunities in the micro lending sector both in terms of growth and consolidation amongst the various industry players.

We continue to believe that attractive opportunities exist in South Africa where investors can earn above average returns. We predict 2008 will be a difficult year given the power shortages in South Africa and the upheaval in the world markets. In South Africa, the government's fixed investment spend continues, reaching 21.2% of GDP in the third quarter of 2007. Real fixed investment spending should grow another 13% to 16% this year. This growth will benefit many of Blackstar's investments.

Blackstar has invested the majority of the capital it raised in 2006. The company will continue to grow its portfolio using a combination of third party debt and income generated from its underlying portfolios. In addition Blackstar will look at either partial or full realisations of certain investments where the Company has made attractive returns.

Andrew Bonamour
Luxembourg
18 March 2008

Consolidated income statement
for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Continuing Operations			
Net increase in fair value of investments		21,763	3,701
Fees, dividends and interest from investments		3,813	114
Realised gain on disposal/redemption of investments		695	285
Net investment income		<u>26,271</u>	<u>4,100</u>
Administrative expenses - Performance fee		(5,767)	—
Administrative expenses - Other		(2,438)	(1,565)
Administrative expenses		<u>(8,205)</u>	<u>(1,565)</u>
Profit from operations	3	<u>18,066</u>	<u>2,535</u>
Interest received		1,806	1,663
Profit before taxation		<u>19,872</u>	<u>4,198</u>
Taxation	4	(37)	—
Profit for the year from continuing operations		<u>19,835</u>	<u>4,198</u>
Discontinued Operations			
Profit for the year from discontinued operations	5	2,629	—
Profit for the year		<u>22,464</u>	<u>4,198</u>
Attributable to:			
Equity holders		22,264	4,198
Minority interest		200	—
		<u>22,464</u>	<u>4,198</u>
Basic and diluted earnings per ordinary share attributable to equity holders from continuing operations in pence			
	6	25.49	9.14
Basic and diluted earnings per ordinary share attributable to equity holders from continuing and discontinued operations in pence			
	6	28.62	9.14

Consolidated statement of changes in equity
for the year ended 31 December 2007

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Treasury shares £'000	Retained earnings £'000	Minority interest £'000	Total equity £'000
Balance at 31 December 2005	121	—	1,262	—	11,754	—	(12,874)	—	263
Currency exchange losses on investments	—	—	—	(839)	—	—	—	—	(839)
Amount recognised directly in equity	121	—	1,262	(839)	11,754	—	(12,874)	—	(576)

Profit for the year	—	—	—	—	—	—	4,198	—	4,198
Total recognised income and expense for the year	121	—	1,262	(839)	11,754	—	(8,676)	—	3,622
Consolidation and issue of new shares	78,344	2,143	(487)	—	—	—	—	—	80,000
Capital raising expenses	—	(2,143)	—	—	—	—	(2,467)	—	(4,610)
Balance at 31 December 2006	78,465	—	775	(839)	11,754	—	(11,143)	—	79,012
Currency exchange gains on investments	—	—	—	2,053	—	—	—	—	2,053
Amount recognised directly in equity	78,465	—	775	1,214	11,754	—	(11,143)	—	81,065
Profit for the year	—	—	—	—	—	—	22,264	200	22,464
Total recognised income and expense for the year	78,465	—	775	1,214	11,754	—	11,121	200	103,529
Minority interest arising on acquisition	—	—	—	—	—	—	—	3,272	3,272
Minority interest eliminated on disposal of subsidiary held with a view to dispose	—	—	—	—	—	—	—	(3,472)	(3,472)
Buy back of ordinary shares	—	—	—	—	—	(2,980)	—	—	(2,980)
Balance at 31 December 2007	78,465	—	775	1,214	11,754	(2,980)	11,121	—	100,349

Consolidated balance sheet
as at 31 December 2007

	Notes	2007 £'000	2006 £'000
Non-current assets			
Investments held to maturity	7	41,998	2,816
Investments at fair value through profit and loss	8	54,706	9,722
		<u>96,704</u>	<u>12,538</u>
Current assets			
Trade and other receivables		469	435
Cash and cash equivalents		10,295	66,197
		<u>10,764</u>	<u>66,632</u>
Total assets		<u>107,468</u>	<u>79,170</u>
Non-current liabilities			
Provisions		(5,767)	—
Tax payable		(37)	—
		<u>(5,804)</u>	<u>—</u>

Current liabilities

Trade and other accounts payable		(1,315)	(158)
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Total liabilities		(7,119)	(158)
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Total net assets		100,349	79,012
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Equity

Share capital	9	78,465	78,465
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Capital redemption reserve	9	775	775
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Foreign currency translation reserve	9	1,214	(839)
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Special reserve	9	11,754	11,754
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Treasury shares	9	(2,980)	—
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Retained earnings	9	11,121	(11,143)
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Total equity attributable to equity holders		100,349	79,012
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Net asset value per share in pence	10	133	101
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Consolidated cash flow statement*for the year ended 31 December 2007*

		2007	2006
	Notes	£'000	£'000

Cash flow from operating activities

Cash absorbed by operations	11	(413)	(1,627)
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Interest received		1,817	1,663
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Dividends received		138	—
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Cash generated by operating activities		1,542	36
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Cash flow from investing activities

Purchase of investments		(52,889)	(9,799)
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Purchase of subsidiary held with the view to dispose		(4,231)	—
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Proceeds from disposal of investments		592	522
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Proceeds from disposal of rights arising in respect of subsidiary held with a view to dispose		867	—
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Proceeds from the redemption of preference share investments		1,197	—
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Cash absorbed by investing activities		(54,464)	(9,277)
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Cash flow from financing activities

Issue of ordinary shares		—	80,000
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Capital raising expenses		—	(4,610)
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Buy back of ordinary shares		(2,980)	—
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Cash (absorbed)/generated by financing activities		(2,980)	75,390
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Net (decrease)/increase in cash and cash equivalents		(55,902)	66,149
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Cash and cash equivalents at beginning of year		66,197	48
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Cash and cash equivalents at the end of the year		10,295	66,197
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Notes to the consolidated financial statements

for the year ended 31 December 2007

1. Financial information

The financial information set out above does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement have been extracted from the Group's 2007 statutory financial statements.

The statutory accounts for the years ended 31 December 2006 and 31st December 2007 received audit reports which were unqualified and did not contain statements under Section 237(2) or Section 237(3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2006 have been delivered to the Registrar of Companies, but the 31 December 2007 accounts have not yet been filed.

2. Selected Accounting Policies

Revenue recognition

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.

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.

Translation of foreign currencies

The Group's functional currency is Rands. Items included in the financial statements are reported in Sterling, being the presentational currency in which the issued capital shares are denominated.

Transactions denominated in currencies other than 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.

Financial instruments

Financial instruments disclosed 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:

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 the income statement in the period in which they arise.

Investments held-to-maturity - Investments held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. These assets are subsequently carried at amortised cost, using the effective interest rate method. If there is objective evidence that an impairment loss on held-to-maturity investments has been incurred, the amount of

the loss is measured and the carrying amount of the asset shall be reduced. The amount of the loss shall be recognised in the income statement in the period in which it arises.

Investments in associates - An associate is an entity over which the Group has significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates that are held as part of the Group's investment portfolio are carried at fair value even though the Group may have significant influence over those companies. Realised and unrealised gains and losses arising from changes in the fair value of these investments are recognised in the income statement 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.

De-recognition occurs when the contractual rights to the financial asset expire, or when a financial liability is extinguished

New standards and interpretations

The Group has adopted IFRS 7 Financial Instruments: Disclosures. This replaces the disclosure requirements of IAS 32 Financial Instruments Disclosure and Presentation. IFRS 7 introduces new requirements aimed at improving disclosure of qualitative and quantitative information about the exposure and risks arising from financial instruments.

The Group has also adopted a complementary amendment to IAS 1: Presentation of financials statements – capital disclosures which requires disclosure about the level and the management of capital.

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations that were not applied. These are to be applied to financial statements with periods commencing on or after the following dates:

Standards and Interpretations	Effective Date
IAS 1 (Revised 2007)*: Presentation of financial statements	01/01/2009
Amendments to IAS 23*: Borrowing Costs (Revised)	01/01/2009
Amendments IAS 1 and IAS 32: Financial Instruments: Presentation (Puttable instruments and obligations arising on a liquidation).	01/01/2009
IFRS 3 (Revised 2008)*: Business Combinations and complementary amendments to IAS 27*: Consolidated and Separate Financial Statements	01/07/2009
Amendments to IFRS 2*: Share-based Payment (Vesting conditions and cancellations)	01/01/2009
IFRS 8: Operating Segments	01/01/2009
IFRIC 11: IFRS 2 - Group and Treasury Share Transactions	01/03/2007
IFRIC 12*: Service Concession Arrangements	01/01/2008
IFRIC 13*: Customer Loyalty Programmes	01/07/2008
IFRIC 14*: IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01/01/2008

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

The amendment to IAS1 will require a change to how the Group Income Statement is presented by the inclusion of a Statement of Comprehensive Income which includes items taken directly to equity (with the exception of transactions with the shareholders of the Group). This new presentation will either be in terms of one single Statement of Comprehensive Income, or as two separate statements comprising a Group Income Statement, which is currently presented, and a further Statement of Comprehensive Income which incorporates only those items to be taken directly to equity.

The Directors do not anticipate that the adoption of the other standards and interpretations listed above will have a material impact on the Group's financial statements in the period of initial application on the basis that they do not impact upon the Group's current activities.

3. Profit from operations

This has been arrived at after charging/(crediting):

2007	2006
£'000	£'000

Foreign exchange differences	(284)	(112)
Auditors' remuneration		
– audit services: audit of the Company's annual accounts	38	20
– audit services: audit of the 30 September 2007 special purpose accounts	29	—
– audit services: audit of the Company's subsidiaries	3	—
– other services relating to corporate finance transactions	47	—
– other services pursuant to legislation	34	19

4. Taxation

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in Luxembourg applied to profits of 29.63% (2006: 29.63%) are as follows:

	2007	2006
	£'000	£'000
Profit before tax from continuing operations	19,872	4,198
Tax at standard rate of corporation tax in Luxembourg	5,888	1,244
Income and expenses not subject to tax	(6,270)	(1,153)
Capitalised expenses deductible for tax purposes	—	(96)
Tax losses unutilised	491	5
Effect of lower tax rates in Cyprus	(72)	—
Current tax charge for the year	37	—

The Group has unutilised cumulative losses of £1,514,000 (2006 - nil) and additional capitalised expenses amounting to £4,512,000 (2006 - £4,512,000) 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.

5. Profit from discontinued operations

Acquisition of York Timber Organisation Limited ("York")

On 14 March 2007, the Group acquired a 56.3% interest in the voting rights of York. York was acquired with the intention to dispose of part of the holding and it has been accounted for as such in these financial statements, with its results from acquisition to deemed disposal (see below) being treated as a discontinued operation.

The assets and liabilities acquired were as follows:

	£'000
Total assets	18,378
Total liabilities	10,892
Total net assets acquired	7,486
Group share of net assets acquired (including goodwill of £17,000)	4,231
Consideration paid in cash	4,231

Deemed disposal of York

On 12 July 2007, York acquired 100% of the shares in and claims against Global Forest Products (Pty) Limited ("GFP") and South African Plywood (Pty) Limited ("Plywood"), which was funded by York through raising additional equity including a rights issue by York, with the balance through debt facilities.

Whilst the Group exercised its rights to 10 million additional shares in York, it did not exercise all of its available rights and following the acquisition by York of GFP and Plywood on 12 July 2007, the Group's share of voting rights reduced from 56.3% to 19.9%.

Results shown as part of discontinued operations

The profit for the year from discontinued operations of £2,629,000 in the consolidated income statement reflects the post acquisition profits of York for the period 14 March 2007 to 12 July 2007 of £458,000 and the post tax gain on the deemed disposal arising on 12 July 2007 of £2,171,000 which includes net proceeds from the sale of rights that were not taken up of £867,000.

Consequential accounting since 12 July 2007

Since 12 July 2007, the Group has accounted for its retained interest in York at fair value through profit and loss in accordance with the accounting policies set out in the consolidated financial statements

6. Basic and diluted earnings per share

Continuing operations	2007	2006
	£'000	£'000
Net profit attributable to shareholders	19,834	4,198
Weighted average number of shares in issue (thousands)	77,801	45,907
Basic and diluted earnings per share (in pence)	25.49	9.14
Continuing and discontinued operations		
	2007	2006
	£'000	£'000
Net profit attributable to shareholders	22,264	4,198
Weighted average number of shares in issue (thousands)	77,801	45,907
Basic and diluted earnings per share (in pence)	28.62	9.14

Earnings per ordinary share have been calculated by using the weighted average number of shares in issue being 77,801,162 (2006 - 45,907,268).

7. Investments held to maturity

	2007	2006
	£'000	£'000
Book cost at the beginning of the year	2,796	—
Additions during the year at cost	35,415	2,796
Redemption during the year at cost	(11)	—
Book cost at the end of the year	38,200	2,796
Carrying value at the beginning of the year	2,816	—
Additions during the year at cost	35,415	2,796
Redemption during the year at cost	(11)	—
Dividends from investments accrued during the year	1,753	114
Interest from investments accrued during the year	1,009	—
Currency exchange gains/(losses) on investments during the year	1,016	(94)
Carrying value at the end of the year	41,998	2,816

The Group does not have a controlling interest in any of the investments held to maturity. These investments comprise the following:

Details	Carrying value	Carrying value
	2007	2006
	£'000	£'000
Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Euro Steel Holdings (Pty) Limited. Dividends are payable at the South African Prime rate plus 5.5% nominal annual compounded monthly and the shares are redeemable in 2013 or earlier at the consent of the Company and other shareholders.	588	524
Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Myriad Medical Holdings Limited. Dividends are payable at South African Prime rate plus 1.5% nominal annual compounded monthly and the shares are redeemable in 2009 or earlier at the consent of the Company and other shareholders.	2,675	2,292
Cumulative redeemable preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited. Dividends are payable at 91% of South African Prime rate nominal annual compounded monthly and the shares are redeemable in 2010 or earlier at the consent of the Company and other shareholders.	12,843	—
Loan to a special purpose vehicle established to acquire an interest in DCD-Dorbyl (Pty) Limited. The loan bears interest at South African Prime rate less 25 basis points per annum, nominal annual compounded semi-annually and is repayable in a bullet		—

payment in 2014 or earlier.

	5,436	
Cumulative redeemable class A preference shares Kulungile Metals Group (Pty) Limited. Dividends are payable at 90% of South African Prime rate nominal annual compounded semi-annually and the shares are redeemable in 2013 or earlier at the consent of the Company and other shareholders.*	3,057	—
Cumulative redeemable class B preference shares Kulungile Metals Group (Pty) Limited. Dividends are payable at 90% of South African Prime rate nominal annual compounded semi-annually and the shares are redeemable in 2010 or earlier at the consent of the Company and other shareholders.*	8,228	—
Loan to Kulungile Metals Group (Pty) Limited. The loan bears interest at 90% of South African Prime rate nominal annual compounded semi-annually and is repayable in a bullet payment in 2013 or earlier.*	9,171	—
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Carrying value at the end of the year	41,998	2,816
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* The Group has provided security to ABSA Bank Limited over its class A preference shares and class B preference shares in and loan to Kulungile Metals Group (Pty) Limited

8. Investments at fair value through profit and loss

	2007 £'000	2006 £'000
Book cost at the beginning of the year	6,766	—
Additions during the year at cost	21,705	7,003
Disposals during the year at cost	(1,084)	(237)
Book cost at the end of the year	<hr/> 27,387	<hr/> 6,766
Fair value at the beginning of the year	9,722	—
Additions during the year at cost	21,705	7,003
Disposals during the year at cost	(1,084)	(237)
Net increase in the fair value of investments during the year	21,763	3,701
Currency exchange gains/(losses) on investments during the year	1,038	(745)
Gain on the deemed disposal from discontinued operations	1,304	—
Share of post acquisition profits from discontinued operations	258	—
Fair value at the end of the year	<hr/> 54,706	<hr/> 9,722

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:

<i>Details</i>	<i>Fair value</i> 2007 £'000	<i>Fair value</i> 2006 £'000
Derivative investment in a telecom company, which gives the Company exposure to a minority interest in the underlying telecom company.	1,589	846
Derivative investment in a services company, which gives the Company exposure to a minority interest in the underlying services company.	5,557	6,369
Ordinary shares in a special purpose vehicle established to acquire an interest in Euro Steel Holdings (Pty) Limited. The special purpose vehicle unwinds in 2013 or earlier at the consent of the Company and other shareholders.	327	188
Ordinary shares in Myriad Medical Holdings Limited.	1,901	2,196
Preference shares in a special purpose vehicle established to facilitate an empowered Group to acquire an interest in Myriad Medical Holdings Limited, in which the Company participates. The shares are redeemable in 2009 or earlier at the consent of the Company and other shareholders.	83	123
Ordinary shares in York Timber Organisation Limited.	29,592	—

Preference shares in a special purpose vehicle established to facilitate a York staff trust to acquire an interest in York Timber Organisation Limited in which the Company participates. The shares are redeemable in 2011 or earlier at the consent the Company and other shareholders.	721	—
Preference shares in a special purpose vehicle established to facilitate a community trust to acquire an interest in York Timber Organisation Limited, in which the Company participates. The shares are redeemable in 2011 or earlier at the consent the Company and other shareholders.	1,155	—
Option to subscribe, for “N” preference shares in a special purpose vehicle established to acquire an interest in Mvelaphanda Resources Limited. The “N” preference shares will have an economic interest in the special purpose vehicle and are redeemable in 2014 or earlier at the consent of the Company and other shareholders.	6,940	—
Ordinary shares in a special purpose vehicle established to acquire an interest in DCD-Dorbyl (Pty) Limited. The special purpose vehicle unwinds in 2014 or earlier at the consent of the Company and other shareholders.	86	—
Ordinary shares in Kulungile Metals Group (Pty) Limited.*	2,481	—
Ordinary shares in Spescom Limited.	491	—
Ordinary shares in Adreach Group (Pty) Limited.	2,776	—
Ordinary shares in Mvelaphanda Resources Limited.	1,007	—
Carrying value at the end of the year	54,706	9,722

* The Group has provided security to ABSA Bank Limited over its ordinary shares in Kulungile Metals Group (Pty) Limited.

9. Share capital and reserves

	2007 £'000	2006 £'000
<i>Authorised</i>		
90,000,000 ordinary shares of £1.00 each	90,000	90,000
<i>Issued and fully paid</i>		
78,464,998 ordinary shares of £1.00 each	78,465	78,465
	<i>Number of shares</i>	<i>Number of shares</i>
<i>Movement of the ordinary shares of £1.00 each for the year</i>		
Total number of shares in issue at the beginning of the year	78,464,998	12,060,632
Initial bonus issue	—	96,468
100 for 1 share consolidation	—	(12,035,529)
4 for 1 bonus issue	—	486,284
Issue of new shares	—	35,000,000
Issue of new shares	—	42,857,143
Total number of shares in issue at the end of the year	78,464,998	78,464,998

Consolidation of ordinary share capital

As a consequence of the transfer of the principal place of business to Luxembourg, following the Extraordinary General Meeting (“EGM”) held on 25 January 2006, the Company implemented (i) an initial bonus issue, issuing 96,468 1p ordinary shares to existing shareholders; (ii) a 100 for 1 consolidation; and (iii) a 4 for 1 bonus issue resulting in 607,855 ordinary shares of £1.00 each in issue.

Issue of new shares in relation to the capital raising

Following the EGM held on 25 January 2006, the Company increased the authorised share capital of the Company from £2 million to £75 million by the creation of 7,300,000,000 1p ordinary shares; implemented a 100 for 1 consolidation (as noted above); and raised £35 million, before expenses, by the issue of 35,000,000 new ordinary shares at £1.00 per share on 22 February 2006.

Following the EGM held on 16 August 2006, the Company increased the authorised share capital of the Company from £75 million to £90 million by the creation of 15,000,000 ordinary shares of £1.00 each and raised an additional £45 million, before expenses by the issue of 42,857,143 new ordinary shares at £1.05 per share on 22 August 2006.

Shares held in treasury

On 12 September 2007, the Company purchased 500,000 ordinary shares of nominal value £1.00 each in the share capital of the Company, further to the authority granted to the Company at the annual general meeting of the Company held on 29 June 2007. The price paid for these ordinary shares was £1.05 per share.

On 21 September 2007, the Company purchased 500,000 ordinary shares of nominal value £1.00 each in the share capital of the Company, further to the authority granted to the Company at the annual general meeting of the Company held on 29 June 2007. The price paid for these ordinary shares was £1.13 per share.

On 16 October 2007, the Company purchased 1,800,000 ordinary shares of nominal value £1.00 each in the share capital of the Company, further to the authority granted to the Company at the annual general meeting of the Company held on 29 June 2007. The price paid for these ordinary shares was £1.05 per share.

These shares have been cancelled in accordance with the Companies Act 1985. However in accordance with Luxembourg law, the ordinary shares bought back are held in treasury until they are cancelled through an amendment to the memorandum and articles of association of the Company and were held as treasury shares at 31 December 2007. A resolution to authorize the cancellation of these shares was passed by shareholders of the Company at a general meeting of the Company held in February 2008

Capital redemption reserve

The capital redemption reserve arose due to transfers from retained earnings in accordance with relevant legislation and is not distributable.

Foreign currency translation reserve

The foreign currency translation reserve arose as exchange differences on translation of assets and liabilities denominated in the functional currency (Rands) are recognised in equity.

Special reserve

The special reserve arose due to merger accounting in the consolidation of Illuminator Holdings Limited.

10. Net asset value per share

	2007	2006
	£'000	£'000
Total net assets	100,349	79,012
Number of shares in issue (thousands)	75,665	78,465
Net asset value per share (in pence)	133	101

Net asset value per share has been calculated by using the actual number of shares in issue at the end of the financial year. At 31 December 2007, the actual number of shares in issue has been reduced to take into account the 2,800,000 shares that were bought back by the Company. These shares were held as treasury shares at 31 December 2007 and have since been cancelled.

11. Cash absorbed by operations

	2007	2006
	£'000	£'000
Profit before taxation	19,872	4,198
Adjustments for:		
Increase in market value of investments	(21,763)	(3,701)

Dividends and interest from investments	(2,911)	(114)
Interest received	(1,806)	(1,663)
Realised gain on disposal of investments	(695)	(285)
Performance fee payable	5,767	—
Changes in working capital		
Increase in trade and other receivables	(34)	(154)
Increase in trade and other accounts payable	1,157	92
Cash absorbed by operations	(413)	(1,627)

12. Post balance sheet events

Disposal of shares in Myriad Medical Holdings Limited (“Myriad”)

The Group disposed of 2,350,000 shares in Myriad for R2.1 million (£156,000).

Disposal of investment in Euro Steel Holdings (Pty) Limited (“Eurosteel”)

The Group disposed of its entire investment in Eurosteel (including its preference shares in a special purpose vehicle established to acquire an interest in Eurosteel) for an aggregate of R12.4 million (£0.9 million). Blackstar initially acquired its interest in Eurosteel in July 2006 for an aggregate cost of R6.7 million (£0.6 million).

Disposal of investment in Kulungile Metals Group (Pty) Limited (“KMG”)

The Group has agreed to dispose of 3.05% of its ordinary shares in KMG, 3.05% of its preference shares in KMG and 3.05% of its loan against KMG for an aggregate of R7 million (£0.5 million). Completion of the disposal is expected to take place in January 2008.

Loan facility from Investec Bank Limited (“Investec”)

The Group has arranged a loan facility from Investec for up to R100 million (£6.7 million). The Group has until 31 December 2008, to drawdown on these facilities, which must be repaid by 31 January 2012. The transaction is subject to the fulfilment of certain conditions precedent, which are expected to be fulfilled during April 2008. As part of the transaction, the Group has provided security to Investec over its ordinary shares in York Timber Organisation Limited, its ordinary shares in Myriad Medical Holdings Limited and any of its shares in and claims against Credit U Holdings Limited, acquired using the capital advanced by Investec in terms of the loan facility.

Credit U Holdings Limited (“Credit U”)

The Group has agreed to provide Credit U (formerly Kagisano Group Holdings Limited) with a R100 million (£6.7 million) loan facility, to be drawn down by 31 December 2008 and repaid by no later than 31 December 2011. As part of the transaction, the Group will have the right and option at any stage up to 31 December 2011 to subscribe for a maximum of 16,666,667 Credit U ordinary shares for cash at an issue price of R3.00 per share and thereafter Credit U will repay the Group’s loan in an amount equal to the subscription price of the shares. The transaction is subject to the fulfilment of certain conditions precedent, which are expected to be fulfilled during April 2008. Credit U is a financial services group that targets the financial needs of clients in the lower income groups of South Africa with a broad range of financial services products. These include credit products, cellular products, insurance products, employee benefits and other financial solutions.

Amendment to investment advisory fees

As the assets of the Company grow in size and the number of investments increase the Company’s investment advisor requires more resources and a larger team. In addition, the widened investing strategy and the increased private equity nature of the portfolio require a larger coverage team with additional operational skills. To ensure that the investment advisor can meet these requirements, the Board of Directors has resolved to increase the investment advisory fees, in line with the standard practice in the investment sector, from 2% of £80,000,000 (aggregate funds raised by the Company and available for investment) to the greater of:

- 2% of £80,000,000 (aggregate funds raised by the Company and available for investment); or
- 2% of the total net assets of the Group as per the latest audited annual financial statements.

The Board of Directors considers, having consulted with Shore Capital and Corporate Limited, that the change in investment advisory fees is fair and reasonable insofar as its shareholders are concerned.

13. Distribution of the annual report and accounts to shareholders

Copies of the group's audited statutory accounts for the year ended 31 December 2007 will be despatched to shareholders and the AIM team shortly. Copies will also be available to the public at 7th Floor, Phoenix House, 18 King William Street London EC4N 7HE.