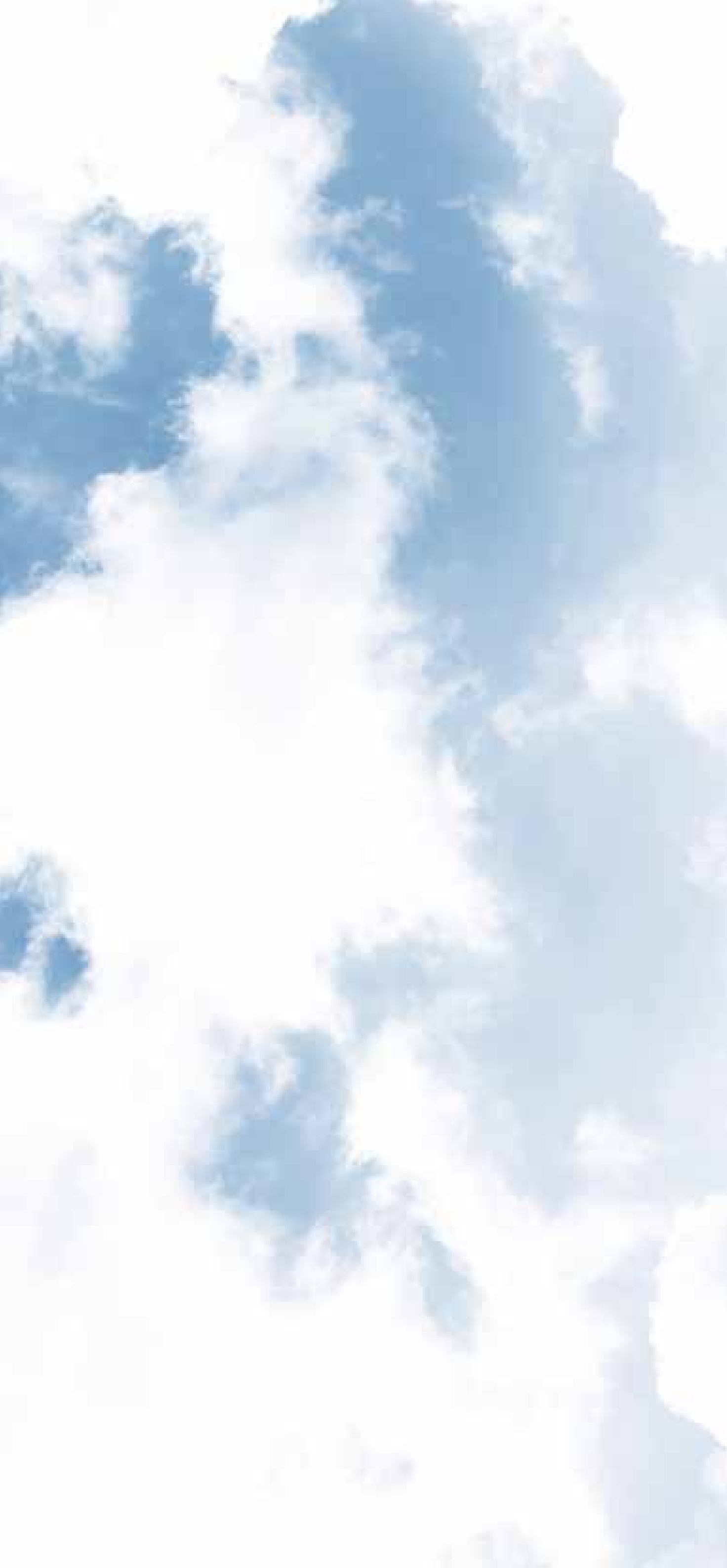

CFO's review

Building a foundation based on core fundamentals and financial discipline to drive sustainable profitability.

The 2011 financial year will be remembered as a year in which Blue was challenged on numerous fronts. With new strategic direction we have begun a recovery process which is evidenced in the results for the year.

The Group entered the period on shaky financial foundations, with the results for the previous financial year reflecting a loss of liquidity and a significant decline in the company's financial performance. Liabilities exceeded assets by R2.9 million and a loss of R1.03 billion was incurred for 2010 which brought into question the Group's ability to continue as a going concern.

One of the key factors which had impacted the Group most dramatically was rapid expansion. This expansion happened without committed wholesale funding lines being in place, and without adequate operational capacity to respond to challenges and elements of organisational risk. Cost structures were not fit-for-purpose, and the Group did not have robust credit or collections processes. Furthermore, Blue had not developed strategies to mitigate the Group's exposure to foreign exchange movements.

The second major influencing factor was the ill-timing of key acquisitions, which did not meet expectations. These factors negatively impacted the quality and performance of the loan portfolio, the funds available to grow loan advances and the company's ability to recover other assets.

During the later part of 2009 we took strategic action to address these issues. Our short-term strategy has been to restore Blue's liquidity through a recapitalisation plan and the introduction of a strategic shareholder in Mayibuye. We focused on restructuring debt facilities and converting a large portion of debt into equity, to be held by institutional shareholders. We also implemented aggressive cost-reduction initiatives and have generally enhanced operational processes and related efficiencies.

2011 financial highlights

Comparing the results from the 2010 financial year with results for the 2011 year reflects a marked improvement which is a clear indication of the effectiveness of the strategic turnaround actions taken.

The R1.03 billion loss Blue reported in 2010 has been significantly reduced to a R284.9 million loss for 2011. Within this figure it should be noted that the loss of R116.7 million for the second half of the year includes once-off costs and write-offs in excess of R100 million.

The company has restored its net asset value to R46.6 million, up from the negative R19.4 million as at February 2010, and the negative R205.8 million reported at 31 August 2010. This has largely been the result of an injection of R163 million through the recapitalisation deal, as well as the successful conversion of R274 million of debt into equity. In addition, shareholders have approved the future conversion of a further R50 million of debt into equity.

The Group's operating expenses have been reduced by a substantial R193.2 million (27 per cent) from the 2010 year. By February 2011 operational cash costs had dropped to R22 million per month, whereas cash costs per month in August 2009 were as high as R53 million per month. Operating expenses for the year include once-off costs in excess of R75 million, associated mainly with the recapitalisation of the Group and its turnaround strategy.

The Debt Restructuring Agreement has allowed for a stay on the Group's principal repayments for the next three years. This encompasses 86.5 per cent of Blue's total external funding obligations. Blue also has access to a R300 million claims purchase agreement that will assist with growth in loan advances.

Focused collection efforts have led to a reduction in the overall impairment charges on non-performing loan advances by the amount of R49.6 million, compared with the six months ended 31 August 2010. The reduction was achieved despite the writing off of R36.4 million interest on loan advances during this period. Furthermore, Blue reduced the cash flow shortfall between the income from collections and the amount required to meet the Group's normal operating expenses and interest obligations. The elimination of this shortfall is essential to ensuring that capital collected from customers is applied to new loans.

As part of the turnaround strategy, the company had to concentrate on enhancing controls and utilising funds to meet operating requirements during the year. This restricted our ability to advance new loans to customers, and loan advances have decreased by 30.4 per cent from R783.0 million in 2010, to R544.6 million at 28 February 2011. The impact of a prudent approach to new lending is expected to be more evident in subsequent financial periods.

Key challenges

The settlement of Blue's taxation obligations and legacy creditors are both major challenges to our financial performance.

We continue to work towards achieving solvency among Blue's underlying subsidiaries, and the Group is currently considering converting inter-group loan accounts to equity and injecting equity capital into our subsidiaries where required.

We have also suffered from exposure to foreign currencies, which resulted in losses of R49.9 million during the year. The Group is now in the process of decentralising operations as far as possible, in order to reduce undue exposure to foreign currencies as well as tax leakages going forward.

Looking ahead

Having built a solid foundation for growth, the financial outlook for Blue will depend on building on the fundamentals put in place by the turnaround strategy in the 2011 year. The process of restoring the Group to sustainable profitability is firmly underway, and our imperatives for the next year are to maintain cost control, increase production and grow loan advances, while ensuring the collection of the non-performing legacy portfolio and actively securing future funding.

Our key financial targets for Blue's medium- to long-term growth are to achieve a return on assets of greater than 5 per cent, while creating a cost-to-income ratio of less than 40 per cent and keeping credit impairments below 10 per cent. These goals can be achieved through financial discipline and our ongoing adherence to the core fundamentals established in 2011. It should be noted that any forward-looking statements contained in this Annual Report have not been reviewed or reported on by the company's independent auditors.

Shaun Strydom
Chief Financial Officer