

PART E: RISK FACTORS

38. RISKS RELATED TO THE BLUE LABEL GROUP

38.1 The Blue Label Group's business is dependent on general economic conditions, especially in the retail sector.

The Blue Label Group's diverse mix of products, services and distribution channels are designed to limit its exposure to economic downturns. However, downturns in the retail sector as a result of a reduction in consumer spending could reduce demand for the Groups products and services and negatively impact its revenues and profitability. In addition, the Blue Label Group is, at present, unable to predict what long-term effect, if any, political events and other global economic events will have on its business.

38.2 Inability to attract and retain key personnel and qualified employees, in whom intellectual capital resides, in the long term, could impede the Blue Label Group's ability to execute its strategic business objectives and growth strategy.

The Blue Label Group's future performance will depend largely on the efforts and abilities of its key personnel and employees. The existing executive management at the Group and subsidiary level was instrumental in developing the prepaid market and establishing Blue Label Group's business model. This management team is the force driving the entrepreneurial spirit of the Group.

The Blue Label Group's future success will depend, in part, upon its ability to continue to attract, retain and motivate the necessary personnel, including executive officers and certain other key employees. These executives, along with other key personnel, have a knowledge and understanding of the Blue Label Group and its industry that cannot be readily duplicated in the short-term. The competition for qualified personnel in the industry is strong and there can be no assurance that the Blue Label Group will be successful in retaining such personnel or attracting replacement personnel. Failure to attract and retain such personnel, including any member of the Blue Label Group's senior management team, could have a material adverse effect on the business by impairing its ability to execute its business plan and growth strategy, causing it to lose customers and reduce its revenues.

In order to mitigate this risk, senior management and key personnel, who are Blue Label Telecoms Shareholders, will be restrained from any sale of Blue Label Telecoms Shares for a phased out period of two years from the Listing Date. Furthermore, key members of the senior management team have signed three year service agreements.

38.3 Non-exclusivity of various supply, distribution and WASP agreements

Certain of the Blue Label Group's supply, distribution and WASP agreements are non-exclusive and can be terminated at short notice. This type of agreement is standard in the industry. This presents the risk that the network providers could potentially choose to distribute their airtime through other distribution channels or use other service providers to perform value added services.

38.4 Blue Label Telecoms is a high volume business with profitability that is very sensitive to variation in margins.

Network operators determine the margins available to the prepaid airtime distribution channel. The Blue Label Group may not always be able to pass on to the retailer or customer any margin compression enforced by the network operators. A reduction by the network operators in the margin available to the wholesalers could result in a reduction in the profitability of the Blue Label Group. Management is confident that based on the terms of the Blue Label Group customer agreements it should be able to pass on any margin compression to the customer.

38.5 The Blue Label Group conducts the majority of its existing business in South Africa and is subject to certain political, social and economic conditions in South Africa.

The Blue Label Group has its head office and the majority of its operations, customers and investors in South Africa. The country's political, social and economic conditions are relevant to investors in assessing a proposed investment in the Blue Label Group. In general, South Africa faces many challenges in overcoming substantial inequalities in levels of social and economic development among its people. The South African Government has taken a number of significant steps towards addressing the political tensions and social and economic problems in South Africa, although certain problems still exist. While South Africa features a highly developed financial and

legal infrastructure at the core of its economy, it has high levels of unemployment, poverty and crime. Particular considerations include how the South African Government will ultimately address such tensions and problems, to what extent its efforts will be successful, the political, social and economic consequences of such efforts and the effect on South African businesses of the continuing integration of the South African economy with the economies of the rest of the world. The economic direction of South Africa may be influenced by the extent to which the South African Government, organised labour and business are able to agree upon common goals and the means of achieving them. While the Blue Label Group believes that the economic sentiment is positive for the future, these political, social and economic problems may have a negative impact on the South African economy and in turn may have an adverse effect on the Blue Label Group's South African operations and on its business and financial performance as a whole.

39. RISKS RELATED TO THE PRIVATE PLACING

39.1 The absence of an existing market for the Blue Label Telecoms Shares may limit their liquidity.

Although the Blue Label Telecoms Shares are expected to be listed on the JSE, there is no guarantee that an active trading market for the Blue Label Telecoms Shares will develop and continue after the Private Placing. If no active trading in the Blue Label Telecoms Shares develops or continues after the Private Placing, this could have a material adverse effect on the liquidity and the market price of the Blue Label Telecoms Shares. There is currently no active market for the Blue Label Telecoms Shares. The Private Placing Price of the Private Placing Shares will be determined by the Bookrunner, and the Directors of Blue Label Telecoms and may not be indicative of the market price of the Private Placing Shares after the Private Placing.

39.2 The market price of the Blue Label Telecoms Shares may prove to be volatile and is subject to fluctuations, including significant decreases.

The market price of the Blue Label Telecoms Shares could be volatile and subject to significant fluctuations due to a variety of factors, some of which do not relate to the Blue Label Group's financial performance. These include changes in general market conditions, the general performance of the JSE, changes in sentiment in the market regarding the Blue Label Telecoms Shares (or securities similar to them), regulatory changes affecting the Blue Label Group's operations, variations in the Blue Label group's operating results, business developments for the Blue Label Group or its competitors, the operating and share price performance of other companies in the industries and markets in which the Blue Label Group operates, or speculation about the Blue Label Group's business in the press, media or the investment community. Furthermore, the Blue Label Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Blue Label Telecoms Shares.

39.3 Blue Label Telecoms may not be able to declare and make dividend payments now and in the future.

Blue Label Telecoms' ability to pay dividends on the Blue Label Telecoms Shares is dependent upon the availability of distributable reserves and upon the receipt by it of dividends and other distributions from the Blue Label Group. Blue Label Telecoms subsidiaries' distributable reserves and the dividends they may declare may be restricted to protect the security of those subsidiaries, as applicable legislation does not allow for the payment of dividends unless capital adequacy requirements are met.