

Blue Star Capital plc

22 Soho Square
London W1D 4NS

(Registered in England & Wales, company number 517 4441, Registered office 8-10 New Fetter Lane, London EC4A 1RS)

16 June 2008

Dear Shareholder

Notice of General Meeting on 3 July 2008

As Chairman of Blue Star Capital plc (“Blue Star Capital” or “the Company”), I have pleasure in enclosing a notice of general meeting to be held on Thursday 3 July 2008 (“the GM”).

The purpose of the GM is to consider and, if thought fit, approve a shift in the Company’s strategic emphasis.

Introduction

Blue Star Capital listed on the Alternative Investment Market of the London Stock Exchange (“AIM”) in October 2004 and was created to provide seed capital to early stage companies. The Company currently has two principal investment channels:

1. To form and fund shell companies at the founder stage, upon IPO and subsequently (if required); and
2. To fund operating businesses prior to IPO (or alternative exit) that offer strong growth prospects and significant opportunities for capital appreciation.

Blue Star Capital has so far made a number of investments in both quoted and unquoted companies across a range of industries.

New regulations introduced by AIM mean that any new cash shell created has to have a minimum size. The directors of the Company (“the Directors” or “the Board”) believe that this, combined with changed market conditions, has the effect of encouraging larger deals which do not meet the Company’s objectives.

Following a strategic review and in light of the changed regulatory environment, the Board has proposed that Blue Star Capital shifts its strategic emphasis to investing in predominantly unquoted companies within the Homeland Security Industry (“HSI”) sector in which it currently has one investment, in The PegasusBridge Defence & Security Fund Limited, the “Fund”. To this end, the Board proposes that it works closely with Guernsey-based PegasusBridge Fund Management Limited (“PegasusBridge”, “the Fund Manager”), a specialist in the HSI market which manages the Fund.

The HSI Sector

The HSI sector encompasses major multi-billion dollar markets based on products and technologies derived from the defence industry and applied to homeland security. Areas in which such technologies are utilised include: detection; identification; screening and location; materials; sensors; communications; electronics; and computing. It is one of the fastest growing sectors and the HSI market is predicted by Washington based market research organisation, Homeland Security Research Corporation, to grow to \$120bn by 2011 in the USA alone with \$28.5bn cumulatively being procured by the US Private Sector during 2007-2011. This is expected to lead to significant business opportunities for those companies addressing this sector as well as for funds investing therein.

About PegasusBridge

PegasusBridge manages The PegasusBridge Defence & Security Fund Limited (“the Fund”), Europe’s first HSI fund, in which Blue Star Capital invested £300,000 in late 2007.

The Fund is able to invest in both unquoted and quoted investments. The Fund has a strong management team, board of directors (see Appendix) and advisory board as well as a network of prominent industry advisers and specialists delivering an unparalleled level of experience in HSI, industrial, investment and fund management. Further information can be found on the PegasusBridge website (www.pegasusbridgefund.com).

The Fund is effectively positioned to exploit significant opportunities in the HSI sector, not least because of the significantly increased spending in this area by key Government agencies in the USA, UK and other countries but also because it is the first and only current fund specifically to target the UK and mainland Europe.

A key part of the Fund’s strategy is to invest in those companies whose technology offerings are particularly attractive to the civilian sector and which therefore offer a wider and more mainstream set of exit opportunities.

In summary, the Fund has been established to enable its investors to achieve significant capital growth by:

- investing in a portfolio of unquoted and some quoted high growth-oriented companies exploiting HSI technologies primarily in the UK, but also mainland Europe, Scandinavia, USA and elsewhere in the developed world;
- targeting companies and business propositions that have good prospects of achieving significantly enhanced valuations through acquisitions or initial public offerings;
- targeting technologies that have an HSI focus but with significant cross-sectoral civilian applications as well as attractive valuations, strong, focussed management and products with proven potential and revenues; and
- drawing upon the diversified skills and experience of the board of directors of PegasusBridge.

When it first invested in the Fund, Blue Star Capital stated that: *“The Fund meets all the Company’s strategic investment objectives, both with its potential for significant capital growth and a strong management team.”* Since that initial investment six months ago, the Fund now has a portfolio of three companies in such areas as radiation detection, advanced facial biometrics and innovative access control. A fourth holding is shortly due to be added to the portfolio. These companies operate in strong markets and have good revenues, valuable intellectual property and experienced management teams.

PegasusBridge continues to generate increasing and exciting deal-flow which far exceeds the funds it has available. Its opportunities arise from its unique access and contact base in commerce, defence, HSI and academia.

Proposal to Shareholders

The Board proposes to further the Company’s investment in the high capital growth area of HSI to the benefit of its shareholders by investing in the Fund as and when capital is realised via the unwinding of Blue Star Capital’s current portfolio of investments (“the Proposal”). Under the Proposal, PegasusBridge would ultimately effectively manage the Company’s assets.

Provided that the Proposal is approved at the GM, Dr Richard Leaver, CEO of PegasusBridge will be appointed as a director of Blue Star Capital and Haresh Kanabar, the current CEO of Blue Star Capital, will stand down on 30 July 2008. I will remain on the Board as Chairman.

In due course, an investment management agreement (“the Agreement”) will be concluded between the Company and PegasusBridge. As I will remain on the Board, independent of PegasusBridge, I will lead negotiations of the Agreement to ensure that its terms are fair and reasonable and in the interests of shareholders. Under the Agreement, it is probable that PegasusBridge will receive an annual management fee equal to 2 per cent. of the net asset value of the Company together with the right to a performance fee based on 20 per cent. of the capital growth in future. This fee structure will not apply to existing investments made by the Company.

Recommendation

The Board believes that by shifting the emphasis of the Company’s investing strategy in conjunction with PegasusBridge and the Fund and by achieving significant capital growth in the dynamic and expanding area of HSI, the Proposal will greatly benefit the shareholders of Blue Star Capital.

It is the present intention of the Board, who between them own approximately 39.81 per cent. of the issued share capital of the Company, to vote in favour of the proposed shift in strategic emphasis of the Company.

I hope that I will have the chance to meet many of you at the GM. If you are unable to attend, please would you sign and return the Form of Proxy enclosed with this letter. Completing and returning the Form of Proxy will not prevent you from attending the GM.

Yours faithfully

Nigel Robertson
Chairman

Appendix

The Board of the Fund Manager includes:

David Sebire Chairman

David was a founder of PTS Group Plc which he chaired from a £600,000 start-up to a turnover of approximately £100 million and presided over two funding rounds: an IPO to the Official List of the London Stock Exchange and an offer for the company which valued it at £56 million. He was also Chairman of Bridport PLC during its transformation from predominately a manufacturer of ropes and netting into a focused aviation supplies company. He is the major shareholder and Chairman of Securefast Plc, a distributor of security products.

David Sebire is also a Principal of PegasusBridge Fund Management LLP, the Investment Adviser to the Fund Manager.

Dr Richard Leaver Chief Executive

Richard has been on the board of a number of companies in the security biometrics, semiconductors and electronics fields. He spent eleven years in the defence industry with BAE Systems. Richard attained the level of Principal Scientist within BAE System's research centre.

From 1994 he was with the international technology consulting and investment organisation, The Generics Group (now known as The Sagentia Group) in Cambridge. As a fund manager with Generics Asset Management Limited (now Chord Capital), one of his investments, Oxonica Limited, a nanotechnology company, won "Deal of the Year" in 2003 at the UK Technology Partnering and Investment Forum Awards. Another, Imerge Limited, a leader in home media server technology and sold in 2005 to a US company, was in 2004 one of only a small number of companies listed for two years in succession by The Sunday Times Tech Track 100. Richard Leaver is also a Principal and the Chief Executive Officer of PegasusBridge Fund Management LLP the Investment Adviser to the Fund Manager and also of the Fund.

The board also includes three non-executive directors from the Administrators to the Fund Manager, Carey Group in Guernsey.

The Advisory Board of the Fund Manager includes:

General Sir Michael Wilkes KCB CBE

A recent lieutenant governor of Jersey (appointed 1995), Sir Michael has had a very distinguished military career, including serving as Commanding Officer 22 SAS, Director of Special Forces. Sir Michael worked with the US Delta Force to train all their early officer entrants at Hereford.

Sir Michael Wilkes was educated at the Kings School Rochester and The Royal Military Academy, Sandhurst. He was commissioned into the Royal Horse Artillery in 1960 joining 7th Regiment RHA (then in the parachute role). In an extensive military career he commanded at every level from Captain to 4 Star General and was closely involved with the development of the UK Special Forces counter terrorist reaction force (UKSF). He was responsible for the integration of UKSF into one element comprising both land and sea capabilities (SAS and SBS). He knows the Middle East well and was Military Advisor to MOD from 1990 to 1994 in addition to his formal appointments.

Lord Dear Kt QPM DL LLB

Formerly Sir Geoffrey Dear, he received a Life Peerage in 2006. Lord Dear was HM Inspector of Constabulary from 1990-97, responsible to the Home Secretary for the 10 north-western police forces (a total complement of 40,000 and a combined budget of £1.2 billion). His national functional responsibilities were the police interface with the Criminal Justice system, drugs, crime prevention and detection, Regional Crime Squads and criminal intelligence.

From 1985-90 Lord Dear was Chief Constable West Midlands Police (the largest police force in the UK, outside of London, with 10,000 employees and a budget of over £650 million). He served in the Metropolitan Police between 1980 and 1985, responsible for Operations throughout London as Assistant Commissioner. Lord Dear was awarded the Queen's Commendation for Bravery in 1979, the Queen's Police Medal for Distinguished Service in 1981 and was invested Knight Bachelor in 1997. Lord Dear is Chairman of four companies and a director of two more. He graduated with an honours degree in law from University College, London and has since been elected a Fellow of his College.

The Board of the Fund:

Richard Excell Chairman

Richard Excell initially spent 13 years with Procter and Gamble and then 15 years as an international Managing Director and Chief Executive Officer across a wide range of sectors with significant M&A experience and the use of new technologies.

He is Chairman of the SETSquared Partnership, the UK's largest and most successful University/Business technology exploitation partnership (with relationships with universities such as Bristol, Southampton, Bath and Surrey). SETSquared has an annual research budget of over £300 million, incubator units and seed corn funds and a successful track record of IPOs, technology spin outs and trade sales. SETSquared is strongly networked with other global leading research and technology institutions and companies.

Since 1995, Richard has been a senior political industrial advisor to both the UK and other International Governments on innovation policy, new technologies and exploitation. He has a wide level network across Whitehall including the MOD and issues relating to emerging Public Procurement. He chaired the Feasibility study for the down selection of the recent UK Aircraft Carrier Contract.

He has 14 years experience as a non executive director in both public and private companies with involvement in mergers, acquisitions and disposals and has served as a Chairman of a public company Audit Committee.

Richard is a forthcoming equity partner of PegasusBridge Fund Management LLP, the Investment Adviser to the Fund Manager.

Notice of General Meeting

NOTICE IS HEREBY GIVEN THAT A GENERAL MEETING of BLUE STAR CAPITAL PLC (the “Company”) will be held at the offices of Landsbanki Securities (UK) Limited, Beaufort House, 15 St Botolph Street, London EC3A 7QR at 10.00 a.m. on 3 July 2008, to consider the following resolution:

Ordinary Resolution

- 1 That the shift in the Company’s strategic emphasis as detailed in the Chairman’s letter to shareholders dated 16 June 2008 is hereby approved by the Company.

By Order of the Board

H Kanabar
Company Secretary

Registered Office:
8-10 New Fetter Lane
London EC4A 1RS

Dated 16 June 2008

Notes

- 1 Only those members entered in the register of members of the Company as at **10.00 am on 1 July 2008** or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries in the register of members after **10.00 am on 1 July 2008** or, in the event that the meeting is adjourned, after 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at a meeting.
- 2 A member is entitled to appoint one or more persons as proxies to exercise all or any of his rights to attend, speak and vote at the meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder’s name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of those held by the member may result in the proxy appointment being invalid. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

Appointment of a proxy does not preclude a member from attending the meeting and voting in person.
- 3 A form of proxy is enclosed. To be valid, it must be completed, signed and sent to the offices of the Company’s Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The form of proxy must be signed by the shareholder appointing Capita Registrars, so as to arrive no later than **10.00 am on 1 July 2008** or, in the event that the meeting is adjourned, by no later than 48 hours before the time of any adjourned meeting.
- 4 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (formerly CRESTCo's) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Capita Registrars (ID **RA10**) by no later than **10.00 am on 1 July 2008**. No such message received through the CREST network after this time will be accepted. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Capita Registrars Limited is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change in instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:
 - (a) If a corporate member has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
 - (b) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (<http://www.icsa.org.uk/>) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (a) above.

