Blue Star Capital Plc

Annual Report and Financial Statements

for the year ended 30 September 2012

Annual report and financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

Contents

Directors and Advisors

FOR THE YEAR ENDED 30 SEPTEMBER 2012

Blue Star Capital Plc is a public company domiciled in England and Wales and incorporated in the United Kingdom under the Companies Act 1985. Its registered office is Griffin House, 135 High Street, Crawley, West Sussex RH10 1DQ

Directors

The Lord Dear Kt QPM DL LLB
Non Executive Chairman

Dr. Richard Leaver
Chief Executive Officer (resigned 18/07/2012)

Anthony Fabrizi
Chief Executive Officer (w.e.f. 18/07/12)

Noel Lyons
Non Executive Director

Peter Varnish OBE
Non Executive Director

General Sir Michael Wilkes KCB CBE KStJ
Non Executive Director

Company Secretary and Registered Office

Rawlison & Butler Nominees Limited
Griffin House
135 High Street
Crawley RH10 1DQ

Company Number

05174441

Nominated Adviser and Broker

Daniel Stewart & Company Plc
Beckett House
39 Old Jewry
London EC2R 8DD

Auditors

Adler Shine LLP
Aston House
Cornwall Avenue
London N3 1LF

Solicitors

Rawlison Butler LLP
Griffin House
135 High Street
Crawley RH10 1DQ

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Chairman's Statement

I am pleased to report Blue Star Capital Plc's ("Blue Star Capital" or "the Company") results for the year ended 30 September 2012.

On 1 February 2012 the Company announced that it has conditionally raised £245,000 before expenses (approximately £232,000 net of expenses) via the issue of 12,250,000 new Ordinary Shares at a price of 2 pence per share to new and existing investors. The proceeds were to be used to make a secured loan of £150,000 to Overtis Limited ("Overtis"). The purpose of the loan was to provide Overtis with working capital and to secure a period of exclusivity as part of a process which the Company expected, subject to due diligence, further fund raising and shareholder approvals, to lead to the full acquisition of the issued share capital of Overtis in line with the Company's stated investment policy. Overtis specialised in information protection and compliance which the Company believed had significant potential in the cybersecurity and data security space. The balance of funds raised of £100,000 was to be used by the Company for general working capital purposes.

Unfortunately in the period post drawdown of the loan, Overtis encountered a number of unforeseen difficulties which culminated in the decision being taken by its Board to seek the appointment of an Administrator on 31 May 2012. Having entered Administration, the assets and business of Overtis were subsequently acquired by Vigilant Applications Limited. In relation to this transaction, £116,998 of the £150,000 secured loan held in Overtis was rolled-over into Vigilant Applications Limited and is secured against the assets of that company. The remaining £33,002 of the loan remains in Overtis and while it may be repaid in whole or in part depending on any subsequent realisations by its Administrator, the Company has fully provided against this debt.

Post the year end, on 7 January 2013 the Company announced the acquisition of one of its investee companies, Visimetrics (UK) Limited ("Visimetrics"), including its subsidiary OmniPerception Limited ("OmniPerception") by Digital Barriers plc, ("Digital Barriers").

Under the terms of the Acquisition, Digital Barriers has acquired the entire issued and to be issued share capital of Visimetrics, including OmniPerception, for an initial cash consideration of £3,300,000 (on a debt free, cash free basis), paid to the vendors of Visimetrics upon completion of the Acquisition ("Completion"). Completion took place on 4 January 2013. Dependent upon the successful satisfaction by Visimetrics of certain financial and operational targets in the period from completion of the Acquisition to 31 December 2014, deferred consideration of a further £4,700,000 may be paid by Digital Barriers to the vendors of Visimetrics; the majority of any such deferred consideration will be satisfied through the issue of new ordinary shares in Digital Barriers, with the remainder paid in cash, although the Digital Barriers Board can, at its discretion, elect to pay deferred consideration fully in cash.

Blue Star Capital's fully diluted holding in Visimetrics was valued at £113,336 in its Interim Accounts at 31 March 2012. The initial cash consideration payable to Blue Star Capital before certain retentions by Digital Barriers in relation to working capital adjustments, was approximately £47,000. The maximum effective consideration payable to Blue Star Capital including any deferred consideration payable in shares in Digital Barriers, will be approximately £137,000.

On 4 February 2013, the Company announced that further to the announcement dated 3 January 2013, it had agreed a further extension to the shareholder loan agreement (the "Loan") entered into on 28 April 2011. The original amount of the Loan was £400,000 which, with the accrued interest at 10% per annum, had been due for repayment by 30 September 2012.

Pursuant to the terms of the Loan extension, the terms of the Loan remain unchanged, except that repayment, which had been extended to 31 January 2013, has now been deferred until 31 March 2013 (the "Final Redemption Date"). In addition, with effect from 1 February 2013 and until 28 February 2013,

Chairman's Statement

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the full amount (including interest and repayment premium) to redeem the Loan became £564,916 (the "Revised Principal") and from 1 March 2013, the Revised Principal will accrue interest on a compound basis at a rate of 2.0% per month, or part month.

As consideration for agreeing to extend the repayment date of the loan as set out above, the Company has further agreed that the warrants issued to the providers of the Loan at the time of the original loan agreement (the "Warrants") will be amended such that the exercise price of the Warrants was to be reduced from 2 pence per ordinary share to 0.6 per ordinary share.

Shareholders will recall that in June 2011, the Company announced the acquisition of one of its investee companies, Zimiti Limited ("Zimiti") by Digital Barriers. Under the terms of that acquisition, Digital Barriers acquired the entire issued share capital of Zimiti on a cash-free, debt-free basis for an initial consideration of £1,500,000 in cash. Dependent on the successful satisfaction by Zimiti of certain financial and operational targets in the period from completion of the acquisition to 30 September 2013, further deferred consideration up to a maximum total consideration of £10,000,000 was potentially available. This deferred consideration was to be satisfied by the payment of a maximum of £4,250,000 in cash, with the balance satisfied through the issue of new Ordinary Shares in Digital Barriers.

Blue Star Capital's fully diluted holding in Zimiti totalled 22.85% and the Company's holding was shown in last years' accounts at a value of £800,436 based on a 50% expectation of the NPV of the various earn out criteria being achieved and using a 10% discount rate. The initial deferred consideration targets were not met by Zimiti and as a result the carrying value has been reduced to £436,050 using the same basis as applied above.

Blue Star Capital reported a loss for the year of £1,439,325 (2011: £485,423) principally reflecting the write down in investments and deferred consideration of £633,699 and £444,430 respectively . During the year, administration costs fell to £361,508 (2011: £640,134) reflecting the steps taken by the board to reduce costs.

There have been a number of changes to the Company's portfolio during the year and details are set out below. The investment holdings are set out in note 14.

1 OMNIPERCEPTION LIMITED

OmniPerception merged with Visimetrics Limited (a UK developer of high performance digital CCTV and Video Surveillance systems), in May 2012 which resulted in the Company's investment in the merged entity being valued at £113,368. Prior to this merger, OmniPerception had sought shareholder support and had undertaken an internal fund raise in which Blue Star Capital invested a further £7,282 in December 2011. However, due to the Company's limited cash resources the Board felt it prudent to preserve its cash and decided therefore not to invest the funds required to maintain its original equity percentage and the Company's holding.

As referred to above, Visimetrics was acquired by Digital Barriers on 7 January 2013.

2 ESEEKERS LIMITED

eSeekers Limited is a private company, registered in England and Wales, in which Blue Star has a minority shareholding. eSeekers is a holding company, with equity holdings in three independent but synergistic Internet businesses: Xen Inc. (www.xen.com), Nektan Limited (www.nektan.com) and VNU Capital LLC (trading through www.venue.com and www.emporium.com).

Blue Star Capital's investment of £300,000 was made in 2007 and its holding is valued at £1.121m, based on a £50m pre-money valuation for eSeekers set at the time of the last external investment.

Chairman's Statement

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3 VIGILANT APPLICATIONS LIMITED
(formerly Overtis Group Limited)

Vigilant Applications is a software development company specialising in security solutions for monitoring and shaping user behaviour at a PC or 'end point'. Its VigilancePro agent software is deployed in the enterprise space in both the public and private sector for monitoring professional standards, securing data and compliance. VigilancePro Retail applies the products unique capabilities to the monitoring of all activity at an Electronic Point of Sale – EPOS. Through its patented technology it is able to integrate with existing security infrastructure (CCTV) to provide irrefutable real-time remote reporting of all transaction activity within a retail environment.

Financials

Blue Star Capital has continued to reduce costs wherever possible, both in its cost base and ongoing investment operations. The Company's cash position at the end of the year was £36,936 (2011: £276,764). and the Company's net assets totalled £1,155,087.

Outlook

The Directors of the Company are continuing to review various strategic options available to the Company and are in discussions with a number of parties regarding opportunities to improve the Company's cash position and provide it with sufficient funds in order to repay the Shareholder Loan; and provide general working capital for the Company. However, the outcome of these discussions is dependent on a number of factors, including the actions of a number of third parties, and are therefore outside of the control of the Company or its Directors and there can be no guarantee as to their success.

The Lord Dear
Chairman

27 February 2013

Directors' Report

FOR THE YEAR ENDED 30 SEPTEMBER 2012

Results and dividends

The directors present their report together with the audited financial statements for the year ended 30 September 2012.

The trading results for the year ended 30 September 2012 and the Company's financial position at that date are shown in the attached financial statements.

The directors do not recommend the payment of a dividend for the year (2011: £nil).

Principal activities and review of the business

The principal activity of the Company is to invest in Homeland Security Industry based companies which have dual use products and applications (those inclusive of both defence and civilian markets). A review of the business is included within the Chairman's Statement.

Directors serving during the year

The Directors who served during the year are shown on page 2.

Directors' interests

The Directors at the date of these financial statements who served and their interest in the ordinary shares of the Company are as follows:

	Number of Ordinary Shares
Lord Dear	3,048,652
Anthony Fabrizi	3,226,203
Noel Lyons	2,054,328
Peter Varnish	1,913,480
General Sir Michael Wilkes	2,410,824

Investing policy

Assets or Companies in which the Company can invest

The principal activity of the Company is to invest in Homeland Security Industry based companies which have dual use products and applications (those inclusive of both defence and civilian markets). These include:

- Security & Surveillance – including overt/covert autonomous face and voice recognition;
- Explosives Detection Systems;
- Surveillance, Border & Perimeter Security Systems;
- Bio-Terror: Detection, Diagnostics and Treatment;
- Training & Simulation Systems;
- Access Control/Biometrics;
- People Screening;
- Cyber Security and Data Security;
- Container Screening;
- Emergency Planning and Integrated Response Systems.

The Company also holds a small number of investments in investee companies in other sectors.

The Company's geographical range is mainly UK companies but considers opportunities in the mainland EU and will actively co-invest in larger deals.

The Company can take positions in investee companies by way of equity, debt or convertible or hybrid securities.

Whether investments will be active or passive investments

The Company's investments are passive in nature, but may be actively managed. The Company may be represented on, or observe, the boards of its investee companies.

Holding period for investments

The Company's investments are likely to be illiquid and consequently are to be held for the medium to long term.

Spread of investments and maximum exposure limits, Policy in relation to cross-holdings and Investing Restrictions

The Company does not have any maximum exposure limits, limits on cross-holdings or other investing restrictions. It is the Directors intention not to invest more than 10% of the Company's gross assets in any individual company (calculated at the time of investment).

Directors' Report

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Policy in relation to gearing

The Directors may exercise the powers of the Company to borrow money and to give security over its assets. The Company may also be indirectly exposed to the effects of gearing to the extent that investee companies have outstanding borrowings.

Returns and Distribution Policy

It is anticipated that returns from the Company's investment portfolio will arise upon realisation or sale of its investee companies, rather than from dividends received. Whilst it is not possible to determine the timing of exits, the Board will seek to return capital to shareholders when appropriate.

Life of the Company

The Company has an indefinite life dependent on obtaining sufficient funding.

Future developments

The Company is continuing to develop an investment portfolio in the Homeland Security sector with a focus on prevention, protection, reaction and recovery.

Principal risks and uncertainties

The Company is focussed in Homeland Security, which embraces a number of application sectors rather than being a vertical and undifferentiated narrow sector of itself. It seeks investments in late stage dual usage opportunities, which by their very nature allow a diverse portfolio of investments with different application sectors and geographic locations whilst maintaining the overarching Homeland Security focus. The risk is loss or impairment of investments.

This is mitigated by careful management of the investment and in particular, only continuing to support those investments which demonstrate potential to achieve a positive exit and decisively determining those which do not. Portfolio and capital management techniques are fully applied according to industry standard practice.

It will be necessary to raise additional funds in the future by a further issue of new Ordinary Shares or by other means. However the ability to fund future investments and overheads in Blue Star Capital Plc as well as the ability of investments to return suitable profit cannot be guaranteed, particularly in the current economic climate.

The Company may not be able to identify suitable investment opportunities and there is no guarantee that investment opportunities will be available and the Company may incur costs in conducting due diligence into potential investment opportunities that may not result in an investment being made.

The value of publicly traded companies similar to those in Blue Star Capital's portfolio and in particular those at an early stage of development, can be highly volatile. The price at which investments are made, and the price which the Company may realise for its investment, will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect the sector.

Significant shareholders

As at 21 February 2012 so far as the directors are aware, the parties (other than the interests held by Directors) who are directly or indirectly interested in 3% or more of the nominal value of the Company's share capital is as follows:

	Number of Ordinary Shares	Percentage of issued share capital
Blue Square Equity Investments Limited	49,700,409	28.33%
Nigel Robertson	33,788,886	19.26%
Cloverleaf Holdings Ltd	8,653,046	4.93%
Highland Fund Management Ltd	7,409,696	4.22%
SPDV Holdings Ltd	6,166,346	3.51%

General

The Company has third party Directors and Officers indemnity insurance in place.

Directors' Report

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Related party transactions

The Company has entered into certain related party transactions and these are disclosed in note 22.

Events after the reporting date

Events subsequent to the balance sheet date are detailed in note 20 to the financial statements.

Policy and practice on the payment of creditors

The Company has no formal code or standard, which deals specifically with the payment of suppliers. However, the Company's policy on the payment of all creditors is to ensure that the terms of payment, as specified and agreed with the supplier, are not exceeded. At the year end, trade creditors represented 241 days purchases (2011: 77 days).

Donations

There were no charitable or political donations during the current or prior year.

Auditors

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Adler Shine LLP has indicated their willingness to continue in office and a resolution to re appoint them will be proposed at the Annual General Meeting.

On behalf of the Board of Directors

Anthony Fabrizi
Chief Executive Officer

27 February 2013

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 30 SEPTEMBER 2012

Directors' responsibilities

The directors are responsible for preparing the Directors' 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. The directors have chosen to prepare the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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.

Independent Auditor's Report

TO THE MEMBERS OF BLUE STAR CAPITAL PLC

We have audited the financial statements of Blue Star Capital Plc for the year ended 30 September 2012, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement 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.

This report is made solely to the Company's members, 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 members 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 set out on page 9, 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 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2012 and of the company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditor's Report

TO THE MEMBERS OF BLUE STAR CAPITAL PLC
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Emphasis of matter – Going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The going concern assumption is predicated on one of two scenarios, either the receipt of funds from the sale of certain investments in order to fund working capital and the repayment of the shareholder loan or a restructuring and subsequent equity investment to fund working capital and the repayment of the shareholder loan. The receipt of these funds is not yet certain. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Adler Shine LLP

Christopher Taylor (Senior Statutory Auditor)
For and on behalf of Adler Shine LLP,
statutory auditor
Aston House
Cornwall Avenue
London N3 1LF

27 February 2013

Adler Shine LLP is a limited liability partnership registered in England and Wales (with registered number OC301724).

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Notes	2012 £	2011 £
Profit/(loss) arising from investments held at fair value through profit or loss:			
Other Investments	14	(633,699)	(152,688)
Deferred consideration	15	(444,430)	–
Profit on disposal of other investments		–	314,064
		(1,078,129)	161,376
Investments held for trading		–	–
Other income		3,128	9,572
Administrative expenses		(361,508)	(640,134)
Operating loss	5	(1,436,509)	(469,186)
Finance income	6	80,137	90
Finance costs	7	(82,953)	(16,327)
Loss before and after taxation and total comprehensive loss for the year		(1,439,325)	(485,423)
Loss per ordinary share:			
Basic and diluted loss per share on loss for the year	12	(0.90p)	(0.32p)

The notes on pages 16 to 32 form part of these financial statements.

Statement of Financial Position

AS AT 30 SEPTEMBER 2012

	Notes	2012 £	2011 £
Non-current assets			
Property, plant and equipment	13	–	–
Other investments	14	1,188,607	1,822,306
Trade and other receivables	15	–	540,777
		1,188,607	2,363,083
Current assets			
Trade and other receivables	15	564,863	345,606
Cash and cash equivalents	16	36,936	276,764
Total current assets		601,799	622,370
Total assets		1,790,406	2,985,453
Current liabilities			
Trade and other payables	17	151,590	318,579
Borrowings	18	483,729	–
Total current liabilities		635,319	318,579
Non-current liabilities			
Borrowings	18	–	413,714
Total non-current liabilities		–	413,714
Total liabilities		635,319	732,293
Net assets		1,155,087	2,253,160
Shareholders equity			
Share capital	19	168,020	150,261
Share premium account		6,772,770	6,464,876
Retained earnings		(5,785,703)	(4,361,977)
Total shareholders' equity		1,155,087	2,253,160

The financial statements were approved by the board and authorised for issue on 27 February 2013 and were signed on its behalf by:

Anthony Fabrizi
Chief Executive Officer

Registered number: 05174441

The notes on pages 16 to 32 form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Share capital £	Share premium £	Retained earnings £	Total £
Year ended 30 September 2011				
At 1 October 2010	150,261	6,464,876	(3,983,694)	2,631,443
Loss for the year and total comprehensive income and expense	–	–	(485,423)	(485,423)
Share based payment	–	–	107,140	107,140
At 30 September 2011	150,261	6,464,876	(4,361,977)	2,253,160
Year ended 30 September 2012				
At 1 October 2011	150,261	6,464,876	(4,361,977)	2,253,160
Loss for the year and total comprehensive income and expense	–	–	(1,439,325)	(1,439,325)
Shares issued in year	17,759	320,144	–	337,903
Share issue costs	–	(12,250)	–	(12,250)
Share based payment	–	–	15,599	15,599
At 30 September 2012	168,020	6,772,770	(5,785,703)	1,155,087

Share capital
Share capital represents the nominal value on the issue of the Company's equity share capital, comprising £0.001 ordinary shares.

Share premium
Share premium represents the amount subscribed for the Company's equity share capital in excess of nominal value.

Retained earnings
Retained earnings represent the cumulative net income and losses of the Company recognised through the statement of comprehensive income along with the fair value of the equity settled share based payments.

The notes on pages 16 to 32 form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2012

	Notes	2012 £	2011 £
Operating activities			
Loss for the year		(1,439,325)	(485,423)
Adjustments for:			
Finance income		(80,137)	(90)
Finance costs		82,953	16,327
Fair value losses/(gains)		633,699	(161,376)
Depreciation		–	6,779
Shares issued in lieu of salary		92,904	–
Share based payment	8	5,599	107,140
Working capital adjustments			
Increase in trade and other receivables		401,563	(18,701)
(Decrease)/increase in trade and other payables		(179,927)	134,610
Net cash used in operating activities		(472,671)	(400,734)
Investing activities			
Interest received		93	90
Proceeds from sale of property, plant and equipment		–	653
Proceeds from sale of investments		–	249,690
Proceeds from long term loan notes		–	400,000
Net cash generated from investing activities		93	650,433
Financing activities			
Proceeds from issue of equity shares		245,000	–
Share issue costs		(12,250)	–
Net cash generated from financing activities		232,750	–
Net (decrease)/increase in cash and cash equivalents		(239,828)	249,699
Cash and cash equivalents at start of the year	16	276,764	27,065
Cash and cash equivalents at end of the year	16	36,936	276,764

The notes on pages 16 to 32 form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies

General information

Blue Star Capital Plc (the Company) invests principally in Homeland Security Industry based companies which have products and applications in both the defence industry and civilian markets.

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is Griffin House, 135 High Street, Crawley RH10 1DQ.

The Company is listed on the London Stock Exchange's AIM.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The historical cost convention has been applied as modified by the revaluation of assets and liabilities held at fair value.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the company will be able to meet its liabilities as they fall due.

As at 4 February 2013, the Company has agreed a further extension to the shareholder loan agreement (the "Loan") entered into on 28 April 2011, and thereafter extended on 1 June 2012, 12 October 2012 and 3 January 2013. The original amount of the Loan was £400,000 which, with the accrued interest at 10% per annum, had been due for repayment by 30 September 2012.

The terms of the Loan remain unchanged, except that repayment, which had been extended to 31 January 2013, has now been deferred until 31 March 2013 (the "Final Redemption Date"). With effect from 1 February 2013 and until 28 February 2013, the full amount (including interest and repayment premium) to redeem the Loan is £564,916 (the "Revised Principal"). From 1 March 2013, the Revised Principal will accrue interest on a compound basis at a rate of 2.0% per month, or part month.

The Company is seeking to progress the sale of certain investments or a restructuring and subsequent equity issue. However, this is not certain and the amount realised may or may not provide sufficient funds to cover the repayment of the Loan and the on-going working capital needs of the Company. Should these expected transactions not take place, the Company would need to obtain alternative finance. There can be no certainty that further financing will be available.

These conditions constitute a material uncertainty that may cast doubt about the Company's ability to continue as a going concern. The financial statements do not contain the adjustments that would result if the Company were unable to continue as a going concern.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies continued

Property, plant and equipment

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

Depreciation is calculated to write off the cost of property, plant and equipment less estimated residual values over their expected useful lives as follows:

Plant and machinery	25% per annum, straight line
Fixture and fittings	25% per annum, straight line
Motor vehicles	25% per annum, straight line

Impairment provisions are made if the carrying value of an asset exceeds the recoverable amount.

Financial assets

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Company has not classified any of its financial assets as held to maturity or available for sale.

The Company's accounting policy for each category is as follows:

Fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets held for trading or other investments that have been designated at fair value through profit or loss on initial recognition.

Financial assets at fair value through profit or loss are initially recognised at fair value and any gains or losses arising from subsequent changes in fair value are presented in the statement of comprehensive income in the period in which they arise.

The fair value of unlisted securities is established using International Private Equity and Venture Capital ("IPEVC") guidelines. The valuation methodology used most commonly by the Company is the 'price of recent investment' contained in the IPEVC valuation guidelines. The following considerations are used when calculating the fair value using the 'price of recent investment' guidelines:

- Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value;
- Where there has been any recent investment by third parties, the price of that investment will provide a basis of the valuation;
- If there is no readily ascertainable value from following the 'price of recent investment' methodology, the company considers alternative methodologies in the IPEVC guidelines, being principally discounted cash flows and price earnings multiples requiring management to make assumptions over the timing and nature of future earnings and cash flows when calculating fair value;
- Where a fair value cannot be readily estimated the investment is reported at the carrying value at the previous reporting date unless there is evidence that the investment has been impaired.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies continued

Loans and receivables

The Company's loans and receivables comprise cash and cash investment in the balance sheet and loans receivable from third parties.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Loans receivable from third parties are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities

The Company classifies its financial liabilities in the category of financial liabilities measured at amortised cost. The Company does not have any financial liabilities at fair value through profit or loss.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include:

Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Finance income

Finance income relates to interest income arising on cash and cash equivalents held on deposit and interest accrued on loans receivable. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the group (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Pension costs

Company contributions to defined contribution pension schemes are charged to the statement of comprehensive income in the period in which they become payable.

Operating loss

Operating loss is stated after crediting all items of operating income and charging all items of operating expense, but before recognising the Company's share of the results of associated undertakings.

Foreign currency

The functional and presentational currency of the Company is Sterling, which is the currency of the primary economic environment in which the entity operates.

Foreign currency transactions are translated into sterling at the rate of exchange at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency monetary assets and liabilities at the yearend rate are recognised in the statement of comprehensive income.

Foreign currency gains or losses arising on financial assets at fair value through profit or loss are included in the statement of comprehensive income in fair value gains or losses.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies continued

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of the cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations under onerous leases are recognised and measured as provisions. An onerous contract is considered to exist where the company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Standards, Amendments and Interpretations in issue not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

		Effective date
IAS 12	Amendment to IAS 12 Deferred Tax – Recovery of Underlying Assets	1 January 2012
	Annual improvements to IFRSs 2009 – 2011 (issued May 2012)	1 January 2013
IAS 19	Amendments to IAS 19 Employee Benefits	1 January 2013
IFRS 1	Amendment to IFRS 1 Government Loans	1 January 2013
IFRS 7	Amendment to IFRS 7 Disclosures – Offsetting of Financial Assets and Financial Liabilities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27R	Separate Financial Statements	1 January 2014
IAS 28R	Investments in Associates and Joint Ventures	1 January 2014
IAS 32	Amendment of IAS 32 Offsetting of Financial Assets and Financial Liabilities	1 January 2014
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	1 January 2014
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2015

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements other than in terms of presentation.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

1 Accounting policies continued

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period.

2 Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in note 3 below.

3 Fair value of financial instruments

The Company holds other investments that have been designated at fair value through profit or loss on initial recognition. The Company determines the fair value of these financial instruments that are not quoted, using valuation techniques such as Black Scholes option pricing. These techniques are significantly affected by certain key assumptions, such as discount rates. Other valuation methodologies such as discounted cash flow analysis assess estimates of future cash flows and it is important to recognise that in that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

In certain circumstances, where fair value cannot be readily established, the Company is required to make judgements over carrying value impairment, and evaluate the size of any impairment required.

The methods and assumptions applied, and the valuation techniques used, are disclosed in note 14.

4 Estimate of the fair value of contingent consideration

The Company has contingent consideration receivable on the disposal of certain unquoted investments. This has been designated at fair value based upon the discounted cash flows of the expected receivable using a post-tax discount rate.

The methods and assumptions applied, and the valuation techniques used, are disclosed in note 15.

5 Operating loss

	2012 £	2011 £
This is stated after charging:		
Operating lease rentals – land and buildings	–	35,385
Depreciation	–	6,778
Auditor's remuneration – statutory audit fees – current auditor	16,000	16,000
Non-audit services – other services – previous auditor	–	1,882
Share based payments	15,599	107,140

6 Finance income

	2012 £	2011 £
Unwinding of discount on deferred consideration	80,044	–
Interest received on short term loan	93	90
	80,137	90

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

7 Finance costs	2012 £	2011 £
Interest on shareholder loans	40,453	13,714
Repayment premium on shareholders loans	42,500	–
Interest on loans	–	2,613
	82,953	16,327

8 Share based payments

The Company operates an unapproved scheme for executive directors and employees, and a corresponding unapproved scheme for non executive directors. Under both unapproved schemes, one third of the options vest if the average share price of the Company exceeds 6p for three consecutive months; similarly one third vest if its average share price exceeds 9p for three consecutive months and the final third vest if the average share price exceeds 12p for three consecutive months.

	2012		2011	
	Weighted average exercise price (p)	Number	Weighted average exercise price (p)	Number
Outstanding at the beginning of the year	4.5	9,199,282	4.5	9,621,666
Granted during the year	–	–	–	–
Forfeited during the year	–	–	4.5	(422,384)
Exercised during the year	–	–	–	–
Lapsed during the year	4.5	(6,067,236)	–	–
	4.5	3,132,046	4.5	9,199,282

The exercise price of options outstanding at the end of the year was 4.5p (2011: 4.5p) and their weighted average contractual life was 3 years (2011: 4 years).

Of the total number of options outstanding at the end of the year, nil (2011: nil) had vested and were exercisable at the end of the year.

The following information is relevant in the determination of the fair value of options granted during the year under the equity share based remuneration schemes operated by the Company.

	2012	2011
Equity-settled		
Option pricing model used	Black-Scholes	Black-Scholes
Share price at date of grant (in pence)	4.5p	4.5p
Exercise price (in pence)	4.5p	4.5p
Contractual life (days)	1,460	1,460
Expected volatility	78%	78%
Risk free interest rate	5%	5%
Fair value per option	3p	3p

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over the Company's life.

The Black-Scholes valuation technique was adopted because, in the opinion of the directors, the market based vesting conditions were not materially sensitive to the valuation.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

8 Share based payment continued

Share warrants

The Company entered into a shareholder loan agreement on 28 April 2011 with certain existing shareholders. The arrangement also included the issue of 15,000,000 warrants to subscribe for ordinary shares at £0.02 pence per share, exercisable at any time within the next two years. The charge to the profit and loss account for the current year is £70,559.

	2012		2011	
	Weighted average exercise price (p)	**Number**	**Weighted average exercise price (p)**	**Number**
Outstanding at the beginning of the year	2	15,000,000	–	–
Granted during the year	–	–	2	15,000,000
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	–	–	–	–
	2	15,000,000	2	15,000,000

The exercise price of warrants outstanding at the end of the year was 2p (2011: 2p) and their weighted average contractual life was 2 years (2011: 3 years).

Of the total number of warrants outstanding at the end of the year, all had vested and were exercisable at the end of the year.

The following information is relevant in the determination of the fair value of warrants granted during the year under the equity share based remuneration schemes operated by the Company.

	2012
Equity-settled	
Option pricing model used	Black-Scholes
Share price at date of grant (in pence)	3p
Exercise price (in pence)	2p
Contractual life (days)	1,095
Expected volatility	28%
Risk free interest rate	1.24%
Fair value per warrant	1p

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices over a three year period.

The Black-Scholes valuation technique was adopted because, in the opinion of the directors, the market based vesting conditions were not materially sensitive to the valuation.

The share-based expense (note 5) comprises:

	2012 £'000	**2011 £'000**
Equity-settled schemes	(54,960)	54,475
Share warrants	70,559	52,665
	15,599	107,140

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

9 Staff costs, including directors	2012 £	2011 £
Wages and salaries	212,970	174,984
Social security costs	17,211	15,496
Other pension costs	10,000	12,000
	240,181	202,480

During the year the company had an average of 1 employee who was administrative (2011: 2). The employee was both a director and the key management personnel of the company.

10 Directors' and key management personnel		2012 £	2011 £
Director			
Lord Dear	Emoluments	28,000	20,000
	Pension	–	–
	Share Options	7,419	7,419
Dr Richard Leaver	Emoluments	95,720	109,678
	Pension	10,000	12,000
	Share Options	(73,506)	35,928
Anthony Fabrizi	Emoluments	26,250	3,750
	Pension	–	–
	Share Options	–	–
Noel Lyons	Emoluments	21,000	3,750
	Pension	–	–
	Share Options	–	–
General Sir Michael Wilkes	Emoluments	21,000	15,000
	Pension	–	–
	Share Options	5,564	5,564
Peter Varnish	Emoluments	21,000	15,000
	Pension	–	–
	Share Options	5,564	5,564
		168,011	233,653

There was one director in the Company's defined contribution pension scheme during the year (2011: 1).

The value of the share options were computed using the Black Scholes option pricing methodology, with a 5 year volatility of 78% and evenly divided over the five year period from issue (6 October 2009).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

11 Taxation

The tax assessed on loss before tax for the year differs to the applicable rate of corporation tax in the UK for small companies of 20% (2011: 20.5%). The differences are explained below:

	2012 £	2011 £
Loss before tax	(1,439,325)	(485,423)
Loss before tax multiplied by effective rate of corporation tax of 20% (2011: standard rate of 20.5%)	(287,865)	(99,511)
Effect of:		
Expenses not deductible for tax purposes	139,880	5,863
Timing differences on fixed assets	–	–
Capital losses utilised	72,877	(64,383)
Losses carried forward	75,108	158,031
Tax charge in the income statement	–	–

The Company has incurred tax losses for the year and a corporation tax expense is not anticipated. The amount of the unutilised tax losses has not been recognised in the financial statements as the recovery of this benefit is dependent on future profitability, the timing of which cannot be reasonably foreseen. The unrecognised deferred tax asset at 30 September 2012 is £474,023 (2011: £459,452).

It has been announced that the UK tax rate will be reduced to 21% for the tax year commencing 1 April 2014. The impact of these adjustments will be reflected when the relevant legislation is fully enacted.

12 Loss per ordinary share

The earnings and number of shares used in the calculation of loss/earnings per ordinary share are set out below.

	2012	2011
Basic:		
Loss for the financial period	£(1,439,325)	£(485,423)
Weighted average number of shares	160,731,542	150,260,935
Loss per share	(0.90p)	(0.32p)

The share options in issue do not have any dilutive effect at the year-end date.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

13 Property, plant and equipment	Office equipment £
Cost	
At 1 October 2010	45,423
Disposals	(15,488)
At 30 September 2011 and 30 September 2012	29,935
Depreciation	
At 1 October 2010	37,991
Charge for the year	6,778
Disposals	(14,834)
At 30 September 2011 and 30 September 2012	29,935
Net book value	
At 30 September 2012	–
At 30 September 2011	–
At 30 September 2010	7,432

14 Other investments	2012 £	2011 £
At start of year	1,822,306	2,662,283
Disposals	–	(687,289)
Fair value loss for the year	(633,699)	(152,688)
At end of year	1,188,607	1,822,306

Unquoted investments	Class of shares/investment	Book value and fair value £
OmniPerception Limited	Ordinary 0.8p	68,092
eSeekers Ltd (ShareNow)	Ordinary 1p	1,120,515
Medcenter Holdings Inc	Common shares US$0.01	–
	US$12 strike price warrants	–
	US$18 strike price warrants	–
		1,188,607

All of the above investments are incorporated in the United Kingdom barring Medcenter Holdings Inc, which is a company incorporated in the Cayman Islands. The methods used to value these unquoted investments are described below.

Fair value

The fair value of unquoted investments is established using valuation techniques. These include the use of recent arm's length transactions, the Black-Scholes option pricing model and discounted cash flow analysis. Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date in accordance with International Private Equity and Venture Capital ("IPEVC") guidelines.

The Company holds convertible loan notes that have been designated at fair value through profit or loss on initial recognition. Any changes in fair value are recognised through the fair value gains/(losses) line in the statement of comprehensive income.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

14 Other investments continued

The Company also holds convertible loan notes where at inception, the option to convert to equity at a future point in time is valued using the Black-Scholes option pricing model. The residual amount represents a loan receivable.

The option is then fair valued at each reporting date, with any fair value gains/(losses) recognised through the fair value gains/(losses) line in the statement of comprehensive income. The loan receivable is measured at amortised cost, with any interest income recognised as finance income through the statement of comprehensive income using the effective interest rate method.

In the case of convertible loan notes where the fair value of the option cannot be separated and measured in a reliable manner, the instrument is recognised as a single financial asset at fair value through profit or loss.

The Company assesses at each balance sheet date whether there is any objective evidence that the unquoted investments are impaired. The unquoted investments are deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future fair value of the investments that can be reliably measured.

15 Trade and other receivables

	2012 £	2011 £
Trade receivables	–	11,520
Prepayments	–	20,647
Other receivables	562,393	837,866
Social security and other taxes	2,470	16,350
	564,863	886,383
Current	564,863	345,606
Non-current	–	540,777
	564,863	886,383

The directors consider that the carrying value of trade and other receivables approximates to their fair value. Included within other receivables is an amount of £436,050 (2011: £800,436) relating to contingent consideration receivable on the disposal of Zimiti Limited. The fair value of the contingent consideration is based upon the discounted cash flows of the expected receivable using a post-tax discount rate of 10%. The Directors have assessed the fair value of the deferred consideration receivable to be £484,500 (2011: £970,000) and consequently this figure has been used in the calculation of discounted fair value. An amount of £444,430 has been expensed to statement of comprehensive income along with £80,044, being the unwinding of the discount presented in finance income.

16 Cash and cash equivalents

	2012 £	2011 £
Cash at bank and in hand	7,031	10,000
Treasury reserve deposit	29,905	266,764
	36,936	276,764

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with an original maturity of three months or less. The directors consider that the carrying value of cash and cash equivalents approximates to their fair value.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

17 Trade and other payables

	2012 £	2011 £
Trade payables	51,958	109,990
Accruals	54,512	61,691
Other payables	3,245	135,501
Social security and other taxes	41,875	11,397
	151,590	318,579

All trade and other payables fall due for payment within one year. The directors consider that the carrying value of trade and other payables approximates to their fair value.

18 Borrowings

	2012 £	2011 £
Secured loan	483,729	413,714
Current	483,729	–
Non-current	–	413,714

The Company entered into a shareholder loan agreement on 28 April 2011 with certain existing shareholders. These shareholders agreed to lend the Company £400,000 (the Loan) with a commitment to lend a further £350,000 if required by the Company, reduced on a pound for pound basis by the amount of any realisation made by the Company on the sale of any of the Company's investment assets.

The Loan, together with the accrued 10% interest, was repayable in full by the Company on 30 May 2012. The Loan is secured by an all assets debenture granted by the Company and the arrangement also provides for the issue of 15,000,000 warrants to subscribe for ordinary shares at £0.02 pence per share, exercisable at any time within the next three years.

On 1 June 2012, the Company completed an extension to the Loan. The original amount of the Loan was £400,000 which, with the accrued interest at 10% per annum. It was agreed that the Loan be extended by four months to 1 October 2012.

£15,000 of the interest accrued to 30 May 2012 was paid and the remaining £25,000 of accrued interest was added to the original Loan, such that the new principal amount is £425,000. Interest at 10% continues to accrue on the new principal sum.

A repayment premium of 10% has been added to the Loan as it was not repaid prior to 1 October 2012.

As at 1 October 2012, the amount outstanding under the loan (including accrued interest and repayment premium) was £483,729 ("Revised Principal"). The Revised Principal will continue to accrue interest at 10% per annum until the redeemed. In addition a further repayment premium will be payable as follows; 5% of the Revised Principal if the Loan is repaid on or before 31 October 2012; or 10% of the Revised Principal if repaid after 1 November 2012.

The Company has further agreed that the warrants issued to the providers of the Loan at the time of the original loan agreement will be amended by no later than 31 December 2012, such that the exercise date of the warrants will be extended from the date currently specified to a date 24 months thereafter, being 31 March 2016.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

19 Share capital

	2012 Number	2012 £	2011 Number	2011 £
Issued and fully paid				
At 1 October	150,260,935	150,261	150,260,935	150,261
Shares issued in the year	17,759,381	17,759	–	–
At 30 September	168,020,316	168,020	150,260,935	150,261

During the year the following shares were issued:

	Number	£	Issue price per share
1 November 2011	491,511	492	2.80p
20 January 2012	1,088,505	1,088	2.41p
1 February 2012	12,250,000	12,250	2.00p
18 April 2012	958,614	958	2.74p
5 July 2012	2,970,751	2,971	0.90p
	17,759,381	17,759	

20 Events after the reporting date

The following shares were issued on 15 October 2012 in respect of announced share based payments due to the directors as at September 2012:

	Number of Ordinary Shares
Lord Dear	1,562,500
Anthony Fabrizi	2,343,750
Noel Lyons	1,171,875
Peter Varnish	1,171,875
General Sir Michael Wilkes	1,171,875

A total number of shares of 7,421,875.

As at 4 February 2013, the Company has agreed a further extension to the shareholder loan agreement (the "Loan") entered into on 28 April 2011, and thereafter extended on 1 June 2012, 12 October 2012 and 3 January 2013. The original amount of the Loan was £400,000 which, with the accrued interest at 10% per annum, had been due for repayment by 30 September 2012.

The terms of the Loan remain unchanged, except that repayment, which had been extended to 31 January 2013, has now been deferred until 31 March 2013 (the "Final Redemption Date"). With effect from 1 February 2013 and until 28 February 2013, the full amount (including interest and repayment premium) to redeem the Loan is £564,916 (the "Revised Principal"). From 1 March 2013, the Revised Principal will accrue interest on a compound basis at a rate of 2.0% per month, or part month.

The Company has further agreed that the warrants issued to the providers of the Loan at the time of the original loan agreement will be amended such that the exercise price of the warrants will be reduced from 2 pence per ordinary share to 0.6 per ordinary share.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

20 Events after the reporting date continued

On 4 January 2013, Digital Barriers plc acquired Visimetrics (UK) Limited, including its subsidiary OmniPerception Limited ("OmniPerception"). Under the terms of the Acquisition, Digital Barriers has acquired the entire issued and to be issued share capital of Visimetrics, including OmniPerception, for an initial cash consideration of £3,300,000 (on a debt free, cash free basis), paid to the vendors of Visimetrics upon completion.

Dependent upon the successful satisfaction by Visimetrics of certain financial and operational targets in the period from completion of the Acquisition to 31 December 2014, deferred consideration of a further £4,700,000 may be paid by Digital Barriers to the vendors of Visimetrics; the majority of any such deferred consideration will satisfied through the issue of new ordinary shares in Digital Barriers, with the remainder paid in cash, although the Digital Barriers Board can at its discretion elect to pay deferred consideration fully in cash.

The initial cash consideration payable to Blue Star following certain retentions by Digital Barriers in relation to working capital adjustments is approximately £47,000. The maximum effective consideration payable to Blue Star Capital including any deferred consideration payable in Digital Barrier shares will be approximately £137,000.

21 Financial instruments

Categories of financial assets and liabilities

The following tables set out the categories of financial instruments held by the company:

Financial assets	Notes	Loans and receivables 2012 £	Loans and receivables 2011 £
Loans receivable	14	–	–
Trade and other receivables	15	564,863	593,269
Cash and cash equivalents	16	36,937	276,764
		601,800	870,033

	Notes	Fair value through profit or loss: Held for trading £	Designated upon initial recognition £	Total £
Other investments	14			
At 30 September 2012		–	1,188,607	1,188,607
At 30 September 2011		–	1,822,306	1,822,306

	Notes	Fair value measurement: Level 1 £	Level 2 £	Level 3 £
Other investments	14			
At 30 September 2012		–	1,188,607	436,050
At 30 September 2011		–	1,822,306	800,436

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

21 Financial instruments continued

Financial liabilities	Notes	Financial liabilities measured at amortised cost 2012 £	2011 £
Trade payables	17	51,958	211,376
Accruals	17	113,241	78,019
		165,199	289,395

The Company's financial instruments comprise other investments held for trading, cash and cash equivalents and trade payables that arise directly from the company's operations. The main purpose of these instruments is to invest in these companies. Investments held for trading and other investments have been held at fair value through profit and loss. The main risks arising from holding these financial instruments is market risk and credit risk. Market risk is also examined in events after the reporting date (note 20).

Interest rate risk

The Company's exposure to changes in interest rates relate primarily to cash and cash equivalents. Cash and cash equivalents is held either on current or on short term deposits at floating rates of interest determined by the relevant bank's prevailing base rate. The Company seeks to obtain a favourable interest rate on its cash balances through the use of bank treasury deposits. Any reasonable change in interest rate would not have a material impact on finance income that the Company could receive in the course of a year, based on the current level of cash and cash equivalents either held in current accounts or short term deposits.

Market risk

All trading instruments are subject to market risk, the potential that future changes in market conditions may make an instrument less valuable, due to fluctuations in security prices, as well as interest and foreign exchange rates. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying assets are traded.

Sensitivity analysis

The following table looks at the impact on net result and net assets based on a given movement in the fair value of all the investments:

10% movement either way will result in £118,860 profit or (loss)
20% movement either way will result in £237,720 profit or (loss)
30% movement either way will result in £356,580 profit or (loss)

Borrowing facilities

The operations to date have been financed through the placing of shares and investor loans. It is Board policy to keep borrowing to a minimum, where possible.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

21 **Financial instruments** continued

Liquidity risks

The Company seeks to manage liquidity risk by ensuring sufficient liquid assets are available to meet foreseeable needs and to invest liquid funds safely and profitably. All cash balances are immediately accessible and the Company holds no trades payable that mature in greater than 3 months, hence a contractual maturity analysis of financial liabilities has not been presented. Since these financial liabilities all mature within 3 months, the directors believe that their carrying value reasonably equates to fair value.

Credit risk

The Company's credit risk is attributable to cash held on deposit at financial institutions.

Cash is deposited with reputable financial institutions with a high credit rating. The maximum credit risk relating to cash and cash equivalents is equal to their carrying value of £36,937 (2011: £276,764).

The maximum credit risk relating to a loan receivable is equal to its carrying value of £nil (2011: £nil).

Trade receivables arise as a result of day to day operations and at year end the company's maximum exposure to credit risk on trade receivables is £nil (2011: £11,520).

Capital disclosure

As in previous years, the Company defines capital as issued capital, reserves and retained earnings as disclosed in statement of changes in equity. The Company does not have any borrowings and manages its capital to ensure that the Company will be able to continue to pursue strategic investments and continue as a going concern. The Company does not have any externally imposed financial requirements.

22 Related party transactions

Lord Dear, chairman of Blue Star Capital, was a director of OmniPerception Limited.

Dr Richard Leaver is a partner in PegasusBridge Fund Management LLP. As part of the Asset Purchase Agreement between Blue Star Capital and PegasusBridge Fund Management Limited, PegasusBridge Fund Management LLP invoiced monthly monitoring fees from Zimiti Limited of £nil per month (2011: £1,500 per month), OmniPerception Limited £nil per month (2011: £700 per month) and Pedagog Limited £nil per month (2011: £1,500 per month).

Dr Richard Leaver, Noel Lyons, Anthony Fabrizi, Lord Dear, Peter Varnish and General Sir Michael Wilkes were issued 1,272,457, 882,453, 882,453, 988,808, 741,605 and 741,605 shares in the Company respectively for announced share based payments accruing during the year.

Peter Varnish (as Closed Solutions Limited), was paid a total of £nil during the year in respect of director's fees and expenses (2011: £20,295).

General Sir Michael Wilkes (as Marbral Limited) was paid a total of £nil during the year in respect of director's fees and expenses. (2011: £15,090).

At the year end, **Anthony Fabrizi** was owed £39,116 in current borrowings and accrued interest.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2012

23 Operating lease commitments

At the balance sheet date the company has outstanding commitments under operating leases of which the total future minimum lease payments were due as follows:

	Land and buildings 2012 £	2011 £
Due within one year	–	35,385

24 Ultimate controlling party

The Company considers that there is no ultimate controlling party.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of **Blue Star Capital Plc** (the "Company") will be held the offices of Daniel Stewart & Company Plc, Becket House, 35 Old Jewry, London EC2R 8DD on 27 March 2013 at 2.00pm for the following purposes:

ORDINARY RESOLUTIONS

1 To receive and adopt the accounts, together with the directors' and auditors' reports for the period ended 30 September 2012.

2 To re-elect Peter Varnish OBE as a director of the Company who being eligible offers himself for re-election.

3 To re-appoint Adler Shine LLP as auditors of the Company until the conclusion of the next AGM and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions of which Resolution 4 will be proposed as an ordinary resolution and Resolutions 5 and 6 will be proposed as special resolutions.

Ordinary Resolution

4 That the directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all or any part of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate amount of £17,544 such authority (unless previously revoked or varied) to expire at the conclusion of the annual general meeting of the Company to be held in 2014 save that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

Special Resolutions

5 That, subject to the passing of the previous resolution, the directors be and are hereby granted power pursuant to section 570(1) of the Act to allot equity securities (as defined in section 560(1) of the Act) for cash pursuant to the authority conferred on them by Resolution 4 above as if section 561 of the Act did not apply to such allotment, provided that such power be limited to:

(i) The allotment of equity securities which are offered to all the holders of equity securities of the Company (at a date specified by the directors) where the equity securities respectively attributable to the interests of such holders are as nearly practicable in proportion to the respective number of equity securities held by them, but subject to such exclusions and other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical problems under any laws or requirements of any regulatory body or stock exchange in any territory or otherwise; and

(ii) The allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £17,544 and provided that this power shall expire on the conclusion of the next annual general meeting of the Company after the passing of this Resolution, save that the Company may make an offer or enter into an agreement before the expiry of that date which would or might require equity securities to be allotted after that date and the directors may allot equity securities in pursuance of such an offer as if the power conferred hereby had not expired.

Notice of Annual General Meeting

CONTINUED

6 That, the Company be and is hereby generally and unconditionally authorised pursuant to section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of its Ordinary Shares of 0.1p each in the capital of the Company provided that:

(i) The maximum number of Ordinary Shares hereby authorised to be purchased is 17,544,219;

(ii) The minimum price which may be paid for Ordinary Shares if 0.1p per share;

(iii) The maximum price at which Ordinary Shares may be purchased is an amount equal to 105% of the average of the middle market prices shown in the quotations for an Ordinary Share according to the AIM Appendix of the Daily Official List of the London Stock Exchange plc for the five business fays immediately preceding the date of purchase; and

(iv) The authority to purchase hereby conferred shall unless renewed prior to such time expire at the date of the next AGM of the Company save that the Company may before such expiry enter into a contract of purchase under which such purchase may be completed or executed wholly or partly after the expiration of this authority.

BY ORDER OF THE BOARD

Rawlison & Butler Nominees Limited
Company Secretary

Registered Office:
Griffin House
135 High Street
Crawley
West Sussex RH10 1DQ

Dated 2 March 2013

Notice of Annual General Meeting

CONTINUED

Notes:

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those members registered on the Company's register of members at 6.00 pm on **25 March 2013** or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of the 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 6.00pm on **25 March 2013** 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 on or more persons as proxies to exercise all of any or all 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 the meeting provided that each proxy is appointed to exercise 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). Failure to specify the number of shares each proxy appointment relate 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 being Capita Registrars, PXS, 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 2.00pm on **25 March 2013** 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 by utilising the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available from https://www.euroclear.com/site/public/EUI). 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 by means of CREST 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) (**EUI**) 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 Capita Registrars (ID **RA10**) by no later than 2.00pm on **25 March 2013**. 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 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 EUI 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 providers 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.

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