# Blue Star Capital plc

## Annual Report and Financial Statements

for the year ended 30 September 2008

# Annual report and financial statements

FOR THE PERIOD ENDED 30 SEPTEMBER 2008

## Contents

# Directors and Advisors

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

**Peter Varnish OBE**
Non Executive Director

## Company Secretary and Registered Office

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

## Company Number

5174441

## Nominated Adviser

**Dowgate Capital Advisers Limited**
46 Worship Street
London EC2A 2EA

## Broker

**Alexander David Securities Limited**
10 Finsbury Square
London EC2A 1AD

## Auditors

**BDO Stoy Hayward LLP**
55 Baker Street
London W1U 7EU

## Solicitors

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

## Registrars

**Capita Registrars**
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

## Public Relations Adviser

**Square 1 Consulting limited**
22 Eastcheap
London EC3M 1EU

# Chairman's Statement

I am pleased to report Blue Star Capital plc's results for the year ended 30 September 2008.

These results are the first that Blue Star Capital (the "Company") has prepared under International Financial Reporting Standards ('IFRS') and include reconciliations to the previously reported numbers prepared under United Kingdom Generally Accepted Accounting Principles ('UK GAAP').

This has been a year of considerable activity and change both within the portfolio and our corporate strategy. In July we announced, following a strategic review and in the light of the changed regulatory environment, that Blue Star Capital would shift its investment objectives to investing in predominantly unquoted companies within the Homeland Securities Industry ("HSI") sector. As you are aware, Blue Star Capital was incorporated to invest in a diverse portfolio of companies across a variety of sectors, which exhibited similar characteristics of potential capital growth. The strategic review identified the HSI as a sector with the best opportunity for capital growth. We currently have one investment in this sector, The PegasusBridge Defence & Security Fund Limited, (the "Fund"). To this end, the Board is now working extensively with Guernsey-based PegasusBridge Fund Management Limited ("PegasusBridge", the "Fund Manager"), a specialist in the HSI market which manages the Fund.

An agreement was put in place for PegasusBridge to manage the assets of Blue Star Capital, and in connection with this, Dr Richard Leaver, the CEO of PegasusBridge, was appointed as a director on 17 July 2008 and became CEO of Blue Star Capital following the retirement of Haresh Kanabar on 23 September 2008. At the same time, I joined the Board as Non Executive Chairman together with Peter Varnish OBE, a noted international defence expert.

My predecessor, Nigel Robertson, retired as Chairman on 3 December 2008 and I would like to thank both Nigel and Haresh for their substantial contributions to Blue Star Capital.

This has been a challenging year driven by the turmoil in the world economy which has impacted many of our quoted investments; however, we believe that much of their value will recover.

Blue Star Capital reported a loss for the year of £1,542,974 (2007: £728,752). This loss is largely attributable to the quoted legacy investments. Administration costs remained constant at £486,939. Net assets were reduced by £1,542,974 to £3,838,159 (2007: £5,381,133).

Blue Star Capital is now positioned to enter a new phase of growth. 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 a fast growing sector with significant business opportunities for focused investment companies such as Blue Star Capital.

Our intention is to gradually unwind the existing investments of Blue Star Capital and invest in the HSI sector, in particular, in those companies with clear capital growth capability. We will also put in place long term management incentives including options to further the creation of shareholder value. In pursuit of our redeployment strategy, there has been significant activity within our portfolio which I set out below. The percentage shareholdings are set out in note 12.

### 1 THE PEGASUSBRIDGE DEFENCE & SECURITY FUND LIMITED

PegasusBridge (www.pegasusbridgefund.com) manages The PegasusBridge Defence & Security Fund Limited ("the Fund"), Europe's first HSI fund, in which Blue Star Capital has invested a total of £800,000 in this financial year. This investment represents a significant shareholding at the balance sheet date, giving 30.77% of the total voting rights. The Fund is able to invest in both unquoted and quoted investments. The Fund has a strong management team, board of directors 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

# Chairman's Statement

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on the PegasusBridge website. The Fund is effectively positioned to exploit significant opportunities in the HSI sector, not least because of the considerably 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, focused management and products with proven potential and revenues; and
- drawing upon the diversified skills and experience of the board of directors of the Fund Manager.

The Fund has increased in value, after management fees and set-up costs. The total increase attributable to Blue Star Capital for the period to the end of September 2008 is £35,764.

The Fund continues to evaluate and progress a strong range of incoming deal flow. However it is clear that further fund raising in the current climate will be difficult and Blue Star is currently reviewing opportunities.

The Fund has made four unquoted UK company investments since October 2007 which are summarised below:

**Zimiti Limited** (www.zimiti.com) is developing portable and robust wireless access control solutions for monitoring and control of security systems including electronic locks based upon its patented wireless technology platform. The company was rebranded as Zimiti from award-winning product company, Boardbug, which developed and brought to market a wristwatch child-monitoring device in 2004/5. The company is making strong advances in both its product development and sales to customers in access control and electronic locks. Dr Richard Leaver, CEO of both PegasusBridge and Blue Star Capital is also a Non Executive Director of Zimiti.

**OmniPerception Limited** (www.omniperception.com) has successfully commercialised world leading research from the University of Surrey's Centre for Vision, Speech and Signal Processing led by Professor Josef Kittler. It has developed unique face biometrics technology for computer vision including applications such as secure access, machine-readable travel documents, identification and personalisation. This software is unique in that it can be deployed not just in security applications including the Police services but also in civilian areas including social networking and broadcast, as well as variants which allow automatic logo brand recognition and quantification in video imagery for high value advertising tracking.

The company has confirmed in January 2009, a non-dilutionary development funding of £1.5 million including contribution in kind by BAE Systems.

The company is chaired by me, and Dr Richard Leaver is a Non Executive Director.

**Pedagog Limited** (www.pedagog.com) has developed cost effective SIM-enabled camera technology using mobile phone networks to create real-time video interaction via a middleware platform with simple setup. It offers both security solutions for commercial and private users at all levels including videoconference as well as the opportunity to establish a social network platform with live video. The company is growing rapidly and we anticipate continuing valuation uplift during 2009. Dr Richard Leaver is a Non Executive Director.

# Chairman's Statement

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**Radiation Watch Limited**
(www.radiation-watch.com) failed to achieve a £750,000-£1 million fund raising in the difficult economic climate of late 2008 and was liquidated in November 2008 with a maximum loss to the Fund of £250,000 plus rolled up interest. There is no residual value remaining due to the Fund.

It had developed patented technologies to enable the efficient solid-state measurement of radiation detection, dose measurement and isotope identification both for its family of stand-alone portable devices and networked devices. PegasusBridge did not follow its initial investment although other investors subsequently invested further in the company in a bid to help it survive.

## 2 ZENERGY POWER PLC

Zenergy Power plc (AIM:ZEN), (www.zenergypower.com) is a global specialist manufacturer and developer of commercial applications for superconductive materials. Comprising three operating subsidiaries located in Germany (Trithor GmbH), USA (SC Power Systems Inc) and Australia (Australian Superconductors Pty Limited), Zenergy is developing a number of energy efficient applications to be adopted in renewable energy power generation, energy distribution and large scale, energy intensive industrial processes.

Zenergy owns and employs a portfolio of proprietary patents for high temperature semiconductor ("HTS") materials and is poised to commercialise a number of ground-breaking energy products into a variety of global markets. HTS materials are particularly good at energy saving efficiencies.

In October 2007, Blue Star Capital sold 40,000 Zenergy shares for £97,492 yielding a gain of £79,328 on the original cost of £18,065.

Zenergy announced on 16 January 2009 that it had been awarded a core patent in Germany relating to its ground-breaking HTS induction heater. This patent covers a key operating process governing the exceptional heating control, performance and overall productivity of the HTS induction heater. Therefore Zenergy now has protection over a key design specification that enables the HTS induction heater to deliver significant increases in industrial output as evidenced by the recent performance data released by Zenergy's first industrial customer, Weseralu GmbH.

On 2 February 2009, Zenergy announced that the U.S Department of Energy ('DOE') is to provide additional funding to extend its existing research and development agreement with Sandia National Laboratories ('Sandia'). The additional funding will be used to further the research work being conducted on Zenergy's ground breaking mass production techniques for its 2nd generation low-cost superconducting wires ('2G').

Since 2003, Zenergy has been developing its own proprietary low-cost 2G production techniques in anticipation and support of its range of high efficiency renewable energy generators, and initially received funding from the DOE in 2006. Subsequently, Zenergy has successfully leveraged Sandia's world renowned research capabilities and demonstrated the potential cost advantages of its patented 'all-chemical' production techniques. Building on these initial successes, the total value of Zenergy's research project with Sandia will now be expanded from a base of approximately US$800,000 to approximately US$1,800,000 and will be in place until the end of 2010.

Zenergy believes that it will have significant cost advantages over alternative methods being developed by other industry participants and that the wide availability of low-cost superconductive materials has significant implications for the production and distribution of renewable energy, as recognised by DOE's involvement. Furthermore, Zenergy considers that the continued successful development of these processes will place it at the forefront of delivering the cost competitive superconductive materials driving the commercialisation of superconductor technologies across the variety of power applications associated with the generation, distribution and use of electrical energy. In particular, Zenergy is focussing on applications that will significantly improve the financial return of renewable energy production and help prepare electricity grids for its contribution.

# Chairman's Statement

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## 3 ESEEKERS LIMITED

eSeekers is a private company which launched the www.sharenow.com portal. It previously had a software file-sharing application, developed in Oxford, called Izimi for file-sharing. The name Izimi was changed to ShareNow in mid-2007 and the service was relaunched in April 2008.

ShareNow enables a registered user to instantly share any files and of any size on their computer with anyone else on the web – without the need to have to upload them to anyone's servers, in essence, the user remains in control and ownership of their media. This is a key differential advantage in establishing ShareNow as a leading social networking site in a sector that is rapidly growing.

eSeekers has had a challenging year in seeking to raise finance. We are pleased to note however that on 3 February 2009, Nigel Robertson, Chairman of eSeekers signed a joint venture contract with a 'Christian group', whose name remains confidential. This group intends to build its own social networking site using sharenow.com domain to enable it to interact more with its members. The contract is for eSeekers to build the web presence, using the existing software.

eSeekers is to be paid $3m in one payment on April 24th 2009 (once the site has been delivered) and will then have 50% interest in the joint venture, sharing revenues and profits accordingly. The money will provide the holding company with working capital and pay off existing loans including a £100,000 outstanding loan from Blue Star Capital. No shares are being issued for this $3m and therefore there is no dilution in Blue Star Capital's equity investment. Overheads have been reduced dramatically at eSeekers as has the head count. The development money is expected to take eSeekers through to break-even and the project is also expected to generate significant media interest.

eSeekers is now talking to other groups about constructing similar deals and raising further investment.

## 4 MEDCENTER HOLDINGS INC

Medcenter (www.medcentersolutions.com, www.medcenter.com) is a multinational pharmaceutical marketing company specialising in innovative solutions to increase drug sales and business effectiveness. Blue Star Capital owns a minority stake in this private company.

Operating for over 10 years with offices in Europe and the Americas, Medcenter works with 50 of the most important international laboratories which together own 80 of the most sold pharmaceutical products in the global market. Medcenter has a team of highly qualified pharmaceutical marketing professionals with specific expertise in the areas of medical education, promotion, market research and marketing. These solutions are designed to strengthen the relationship between the pharmaceutical industry, physicians and patients in order to increase product prescription, market share and sales.

Medcenter is looking to both expand its nascent operations initially in Spain and then in Iberia more broadly; use the strong demand for access to both the Latin American and North American Hispanic markets as leverage with which to establish strategic partnerships or other relationships with leading online health sector companies and/or international advertising and marketing groups.

Medcenter announced a strategic collaboration with Web MD ('Web MD,' NASDAQ: WBMD) to create and launch a new portal in conjunction with its subsidiary, Medscape. Although it operates only from within the United States and enjoys a 90% share of the online continuing medical education market in the US, Web MD is the leading provider of healthcare information services around the globe. Medcenter was identified by Web MD as the group with whom it wanted to collaborate for its first overseas expansion. Accordingly, Medcenter was appointed to act as Web MD's exclusive partner with respect to Latin America and Iberia.

# Chairman's Statement

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## 5 GASOL PLC

Gasol plc (AIM:GAS) (www.gasol.co.uk), has a mission to become the premier independent integrated liquefied natural gas (LNG) company in West and Central Africa. Its strategy is to identify and secure appropriate acquisition, investment and strategic alliance opportunities for the successful delivery of its corporate objectives. Haresh Kanabar is a Non Executive Director of Gasol.

Gasol, through its investment in African LNG ("AFLNG"), is seeking to access substantial gas reserves and flared gas to underpin development of multiple LNG trains in the region. It is increasingly accepted that West Africa will become a major supply point for LNG for countries throughout the Atlantic Basin including the key markets of Europe and North America.

On 23 September 2008, Gasol announced a Memorandum of Understanding between itself, EDF (France) and Afren PLC ("Afren") to establish a gas aggregation joint venture to identify and develop onshore and offshore stranded gas assets.

On 28 November 2008, Gasol announced its interim results, in particular that it continues to progress strategic plans to build a substantial business across the gas value chain, by focusing on aggregating stranded gas in West Africa. Gasol is continuing to explore various gas monetisation solutions with a primary focus on developing Liquefied Natural Gas (LNG) projects for supply into high-value markets worldwide, while aligning with domestic priorities of host nations and communities.

On 22 December 2008, Gasol announced the appointment of Jean Vermeire as a member of its International Advisory Board. Jean is currently the Non-Executive Chairman of Distrigas NV ("Distrigas"), the €4.5 billon Belgian-based natural gas company, and one of the largest in Europe.

Gasol raised £1m in February 2009 for additional working capital at a 10% discounted placing to the 0.55p mid closing price on 10 February 2009.

## 6 INDIAN RESTAURANTS GROUP PLC

Indian Restaurants Group, (AIM:IRGP) (www.indianrestaurantsgroup.com), formerly India Outsourcing Services plc, has been set up to create a chain of restaurants providing authentic, home style Indian food on a consistent basis across the Indian Restaurants Group Plc. The Group is initially targeting the mid market, sporting and event catering and lunchtime takeaway.

During 2008, IRGP acquired Mela Group and subsequently its focus has been to review the strategic positioning of both Mela Restaurant and Chowki Restaurant. The goal of this review is to better understand how to establish a leadership position in a very large but highly fragmented sector. IRGP is also developing a range of promotional campaigns that drive additional revenue into the existing units.

A short-list of potential sites for IRGP's expansion has been finalised focussing on the London/M25 area. As the economic climate has rapidly deteriorated since the acquisition, further rigour is being applied to the financial aspects to potential site expansion.

The Non Executive Chairman is Haresh Kanabar and the CEO, Amit Pau (both working out of Blue Star Capital's offices in 22 Soho Square). Nigel Robertson, ex-Chairman of Blue Star Capital, is a Non Executive Director.

## 7 VENTECO PLC

Venteco plc (AIM:VTO), (www.venteco.co.uk), is a UK-incorporated investment company focussing on the strategic acquisition of non-toxic pest control activities and operations. Its principal operations are presently in Switzerland and Sweden.

Venteco's Cryonite patented technology is said to provide a new and unique solution for control of crawling pests and infestation. The technology uses a nozzled carbon dioxide "snow" to freeze insects to death. The global market opportunity for Cryonite, ranges from professional applications within 'clean' commercial and industrial environs such as hospitals, food producers, pharmaceutical companies, hotels and restaurants, through to more general kitchen locations and the retail market.

# Chairman's Statement

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Venteco announced on 10 October 2008 that Stefan Hansson had resigned as Chief Executive Officer and will left the Board with immediate effect. Haresh Kanabar, Chairman, then assumed the responsibilities of Chief Executive Officer in the interim period while the business searches for a replacement alongside his current role as Chairman.

## 8 BLACK RAVEN PROPERTIES PLC

Black Raven Properties plc (AIM: BRP), (www.blackravenproperties.com), joined AIM in February 2005 with the strategy of identifying investment opportunities in the property sector. Since flotation, Black Raven has pursued its strategy of seeking and making some acquisitions in the commercial, residential and leisure sectors largely in Portugal.

Black Raven announced on 19 November 2008 that it was in administration and that shares of Black Raven had been suspended from trading on AIM. The directors of Black Raven wrote to shareholders outlining their concerns that the company affairs had not been run appropriately and a number of board resignations have taken place. On 26 November 2008, Black Raven announced that its Nomad, Arden Partners, had been reappointed with immediate effect. The Black Raven investment accounts for a £487,795 loss to Blue Star Capital during the period with a further loss of £51,205 expected in this coming year.

## Financials

Blue Star Capital has maintained a prudent approach to both its cost base and ongoing investment operations. Blue Star Capital's cash position at the end of the year was £276,642 compared with £1.13 million at the start of the year, primarily due to the £800,000 investment made in The PegasusBridge Defence & Security Fund Limited during the year. Blue Star Capital had net assets of £3.84 million at the year end. Under the new IFRS reporting, Blue Star Capital now shows a loss for the year of £1.543m compared to a loss of £728,752 the previous year with the difference being primarily due to the fall in the value of quoted shares held by Blue Star Capital.

## Outlook

Blue Star Capital's investments in Zenergy and Medcenter are expected to perform well during 2009. Since the year end, Gasol has performed less well but with the additional fund raising we expect a recovery in its fortunes during 2009. We do not anticipate significant residual value from either Black Raven Properties or Venteco, both of which have fallen in value since the year end.

The performance of the three investments in the PegasusBridge Fund, namely OmniPerception (of which I am Chairman), Pedagog and Zimiti all exhibit major future potential and each is well positioned to deliver significant returns to the Blue Star Capital portfolio as we further implement our Homeland Security investment strategy.

As existing investments are divested, we are committed to Blue Star Capital's forward strategy to invest in highly potential profitable, diversified and robust late-stage businesses in the Homeland Security sector to deliver growth and value to shareholders.

**The Lord Dear**
Chairman

30 March 2009

# Directors' Report

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## Results and dividends

The directors present their report together with the audited financial statements for the year ended 30 September 2008.

The income statement is set out on page 13 and shows the loss for the year. The directors do not recommend the payment of a dividend.

## Principal activities, review of business and future development

The principal activity of Blue Star Capital plc ("the Company") is to invest in Homeland Security Industry based companies diversified with dual use products and applications (those inclusive of both defence and civilian markets). These can include:

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

Blue Star Capital addresses new investment opportunities in Security and Defence based industries including divestment by the larger defence companies of smaller, profitable non-core subsidiaries and independent companies with robust business, management, revenues and cashflow.

Blue Star Capital's geographical range is mainly UK companies but will consider opportunities in the mainland EC and will actively co-invest in larger deals.

A review of Blue Star Capital's operations is included in the Chairman's statement on pages 3 to 8.

## Future developments

Blue Star Capital is constantly looking at its portfolio with a view to divesting shares where a profit can be realised and re-investing in other opportunities within the Homeland Security area.

In the long term, it will have developed a balanced portfolio with a focus on prevention, detection, reaction and recovery; compliance with legislation and setting of new standards; threat reduction and mitigation as well as cost/resource reduction benefits and maintaining a diverse set of dual-usage (anti-terror, anti-crime and/or multiple commercial application sectors) capabilities throughout.

## Principal risks and uncertainties

The share price of publicly traded companies, in particular those at an early stage of development, can be highly volatile. The price at which the shares will be quoted and the price which investors may realise for their shares will be influenced by a large number of factors, some specific to the investee company and its operations and some which may affect quoted companies generally.

These factors could include the performance of the investee company's operations, large purchases or sales of their shares, liquidity (or the absence of liquidity) in the shares, and general economic conditions. The value of the shares may go down as well as up. It may be more difficult for Blue Star Capital to realise its unquoted and AIM investments than to realise an investment in a company whose shares are quoted on the Official List.

It may be necessary to raise additional funds in the future by a further issue of new shares or by other means

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

Whilst Blue Star Capital is focussed in Homeland Security, it seeks dual usage opportunities. These, by their very nature, allow a diverse portfolio of investments in different application sectors and geographic locations whilst maintaining the overarching Homeland Security focus.

# Directors' Report

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## Significant shareholders

As at 26 February 2009 so far as the directors are aware, the only parties who are directly or indirectly interested in 3% or more of the nominal value of Blue Star Capital's share capital is:

| | Number of Ordinary Shares held | Ordinary Shares as percentage of issued share capital |
|---|---|---|
| Blue Square Equity Investments Limited | 50,000,000 | 47.4% |
| Nigel Robertson | 34,000,000 | 32.2% |
| Haresh Kanabar | 8,000,000 | 7.6% |

## Charitable and political contributions

No charitable or political donations were made during the year.

## General

Blue Star Capital has third party Directors and Officers indemnity insurance in place.

## Related party transactions

Blue Star Capital has entered into certain related party transactions and these are disclosed in note 19.

## Post balance sheet events

Events subsequent to the balance sheet date are detailed in note 17 to the financial statements.

## Policy and practice on the payment of creditors

Blue Star Capital has no formal code or standard, which deals specifically with the payment of suppliers. However, Blue Star Capital'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 85 days purchases (2007: 22 days).

## Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by Blue Star Capital's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP has expressed its willingness to continue in office and a resolution to re appoint it will be proposed at the Annual General Meeting.

On behalf of the Board of Directors

**Dr Richard Leaver**
Chief Executive Officer

30 March 2009

# Statement of Directors' Responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, 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 Accounting 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 to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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 SHAREHOLDERS OF BLUE STAR CAPITAL PLC

We have audited the financial statements of Blue Star Capital plc for the year ended 30 September 2008 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the chairman's statement, the directors' report and the statement of directors' responsibilities and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 30 September 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

**BDO Stoy Hayward LLP**
Chartered Accountants
and Registered Auditors
London

30 March 2009

# Income Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2008

| | Notes | Year ended 30 September 2008 £ | Year ended 30 September 2007 £ |
|---|---|---|---|
| Fair value losses arising from investments held for trading | 12 | (1,488,451) | (488,744) |
| Other income | 5 | 15,000 | – |
| Administrative expenses | | (486,939) | (463,894) |
| **Operating loss** | | (1,960,390) | (952,638) |
| Share of profit from associate | 11 | 35,764 | – |
| Finance income | 4 | 75,453 | 57,109 |
| **Loss before taxation** | | (1,849,173) | (895,529) |
| Taxation | 8 | 306,199 | 166,777 |
| **Loss for the year** | | (1,542,974) | (728,752) |
| **Loss per ordinary share:** | | | |
| Basic and diluted loss per share | 9 | (1.46p) | (0.69p) |

The loss for the year was derived from continuing operations and is attributable to equity shareholdings.

The notes on pages 17 to 31 form part of these financial statements.

# Balance Sheet

AS AT 30 SEPTEMBER 2008

| | Notes | 30 September 2008 £ | 30 September 2007 £ |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in associate | 11 | 835,764 | – |
| **Current assets** | | | |
| Investments held for trading | 12 | 2,722,255 | 4,248,123 |
| Trade and other receivables | 13 | 198,971 | 423,009 |
| Cash and cash equivalents | 14 | 276,642 | 1,135,479 |
| **Total current assets** | | 3,197,868 | 5,806,611 |
| **Total assets** | | 4,033,632 | 5,806,611 |
| **Non-current liabilities** | | | |
| Deferred tax | 8 | – | 306,199 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 195,473 | 119,279 |
| **Total liabilities** | | 195,473 | 425,478 |
| **Net assets** | | 3,838,159 | 5,381,133 |
| **Equity** | | | |
| Share capital | 16 | 105,500 | 105,500 |
| Share premium account | | 5,032,525 | 5,032,525 |
| (Accumulated losses)/retained earnings | | (1,299,866) | 243,108 |
| **Total equity** | | 3,838,159 | 5,381,133 |

The financial statements were approved by the board and authorised for issue on 30 March 2009 and were signed on its behalf by:

**Dr Richard Leaver**
Chief Executive Officer

The notes on pages 17 to 31 form part of these financial statements.

# Statement of Changes in Equity

FOR THE YEAR ENDED 30 SEPTEMBER 2008

| | Share capital £ | Share premium £ | Retained earnings £ | Total £ |
|---|---|---|---|---|
| **Year ended 30 September 2007** | | | | |
| At 1 October 2006 | 105,500 | 5,032,525 | 971,860 | 6,109,885 |
| Loss for the year and total recognised income and expense | – | – | (728,752) | (728,752) |
| At 30 September 2007 | 105,500 | 5,032,525 | 243,108 | 5,381,133 |
| **Year ended 30 September 2008** | | | | |
| At 1 October 2007 | 105,500 | 5,032,525 | 243,108 | 5,400,909 |
| Loss for the year and total recognised income and expense | – | – | (1,542,974) | (1,542,974) |
| At 30 September 2008 | 105,500 | 5,032,525 | (1,299,866) | 3,857,935 |

**Share Capital**
Share capital represents the nominal value on the issue of Blue Star Capital's equity share capital, comprising £1 ordinary shares.

**Share Premium**
Share premium represents the amount subscribed for Blue Star Capital's equity share capital in excess of nominal value.

**Retained Earnings**
Retained earnings represent the cumulative net income and losses of Blue Star Capital recognised through the income statement.

The notes on pages 17 to 31 form part of these financial statements.

# Cash Flow Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2008

| | Notes | Year ended 30 September 2008 £ | Year ended 30 September 2007 £ |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| (Loss) before taxation | | (1,849,173) | (895,529) |
| Adjustments for: | | | |
| Share of profit from associate | | (35,765) | – |
| Finance income | | (75,453) | (57,109) |
| Fair value losses | | 1,488,451 | 488,744 |
| Depreciation | | – | 7,605 |
| Operating cash flows before movements in working capital | | (471,940) | (456,289) |
| Decrease/(increase) in receivables | | 224,038 | (369,861) |
| Increase/(decrease) in payables | | 76,193 | (8,856) |
| Net cash (used in) operating activities | | (171,709) | (835,006) |
| **Investing activities** | | | |
| Interest received | | 75,453 | 57,109 |
| Payments to acquire investments | | (860,073) | (209,115) |
| Proceeds from sale of investments | | 97,492 | 1,000,325 |
| Cash flows (used in)/from investing activities | | (687,128) | 848,319 |
| **Net increase in cash and cash equivalents** | | (858,837) | 13,313 |
| Cash and cash equivalents at beginning of the year | 14 | 1,135,479 | 1,122,166 |
| **Cash and cash equivalents at end of the year** | 14 | 276,642 | 1,135,479 |

The notes on pages 17 to 31 form part of these financial statements.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 1 Accounting policies

### 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").

This is the first time the Company has prepared its financial statements in accordance with IFRSs, having previously prepared its financial statements in accordance with UK GAAP accounting standards. Details of how the transition from UK accounting standards to EU adopted IFRS has affected the Company's reported financial position, financial performance and cash flows are given in note 21.

### Associates

Where Blue Star Capital has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the balance sheet at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Company's share of post-acquisition profits and losses is recognised in the income statement, except that losses in excess of the Company's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between Blue Star Capital and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. The carrying amount of investment in associate is subject to impairment as described below.

### Derivatives

Embedded derivatives are separated from the host contract and recognised at fair value using generally accepted valuation techniques. If there is an active market for the derivatives, they are recognised at the quoted market price.

Where a contract contains one or more embedded derivatives, Blue Star Capital may choose to designate the entire hybrid contract as a financial asset at fair value through profit or loss.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 1 Accounting policies (continued)

### Financial assets

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

Blue Star Capital's accounting policy for each category is as follows:

### Fair value through profit or loss

Financial assets are initially recognised in the balance sheet at fair value with changes in fair value recognised through the income statement as fair value gains/(losses) on investments held for trading. This includes Blue Star Capital's investments that are classified as held for trading within current assets on the balance sheet.

The fair value of unlisted securities is established using British Venture Capital Association ('BVCA') guidelines. The valuation methodology used most commonly by the Company is the 'price of recent investment' contained in the BVCA 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 BVCA 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.

### Loans and receivables

Blue Star Capital'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, excluding convertible loan notes from third parties, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 1 Accounting policies (continued)

**Financial liabilities**

Blue Star Capital 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 income statement 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 income statement 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 year end rate are recognised in the income statement.

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

**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).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 2 Critical accounting estimates and judgements

Blue Star Capital 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 below:

**Fair Value of financial instruments**

Blue Star Capital holds a number of investments classified as held for trading. Blue Star Capital determines the fair value of these financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by certain key assumptions, such as discount rates and estimates of future cash flows. 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.

The methods and assumptions applied, and the valuation techniques used, are disclosed in note 12.

| 3 Operating loss | Year ended 30 September 2008 £ | Year ended 30 September 2007 £ |
|---|---|---|
| This is stated after charging: | | |
| Operating lease rentals – land and buildings | 39,500 | 39,500 |
| Depreciation | – | 7,605 |
| Auditors remuneration – audit | 33,142 | 15,850 |
| – non-audit services | 19,840 | – |

| 4 Finance income | Year ended 30 September 2008 £ | Year ended 30 September 2007 £ |
|---|---|---|
| Interest received on short term deposits classified as loans and receivables | 75,453 | 57,109 |

## 5 Other operating income

During the year Blue Star Capital received rental income of £15,000 (2007: £Nil) for part let of its office. Income is recognised on a straight line basis over the period of the rental agreement.

| 6 Staff costs including directors | Year ended 30 September 2008 £ | Year ended 30 September 2007 £ |
|---|---|---|
| Wages and Salaries | 92,267 | 270,000 |
| Social security costs | 5,163 | 12,144 |
| Other pension costs | 27,500 | 30,000 |
| Compensation for loss of office | 100,000 | – |
| | 224,930 | 312,144 |

During the year the Company had an average of 2 employees who were both administrative (2007: 2). These 2 employees were both the directors and the key management personnel of the Company.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

| 7 **Directors' and key management personnel** | **Year ended 30 September 2008 £** | **Year ended 30 September 2007 £** |
|---|---|---|
| Directors emoluments | 92,267 | 270,000 |
| Compensation for loss of office | 100,000 | – |
| Pension costs | 27,500 | 30,000 |
| | 219,767 | 300,000 |

There were two directors in Blue Star Capital's defined contribution pension scheme during the year (2007: 2).

| 8 **Taxation** | **2008 £** | **2007 £** |
|---|---|---|
| Tax credit – deferred tax | (306,199) | (166,777) |

**Factors affecting the tax charge**

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 20.5% (2007: 19.5%). The differences are explained below:

| | **2008 £** | **2007 £** |
|---|---|---|
| Loss before tax | (1,849,173) | (895,529) |
| Loss before tax multiplied by standard rate of corporation tax of 20.5% (2007: 19.5%) | (379,080) | (174,628) |
| Effect of: | | |
| Expenses not deductible for tax purposes | – | 202 |
| Other differences | (309) | 993 |
| Unrecognised deferred tax in relation to losses | 73,190 | – |
| Use of brought forward losses unrecognised in deferred tax – | (27,662) | |
| Change in rate for deferred tax | – | 34,318 |
| Tax (credit) for the year | (306,199) | (166,777) |

Deferred tax liability recognised in the balance sheet as at 30 September 2008 was £Nil (2007: £306,199).

Blue Star Capital has incurred tax losses for the period 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 2008 is £574,845 (2007: £186,202).

### 9 Loss per ordinary share

The calculation of basic loss per share of 1.46p (2007: loss per share of 0.69p) is based on the loss for the year after tax of £1,542,974 (2007: loss of £728,752) and on the weighted average number of shares in issue during the period of 105,500,000 (2007: 105,500,000).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 10 Property, plant and equipment

| | Office equipment £ |
|---|---|
| **Cost** | |
| At 1 October 2006 and 2007 | 20,093 |
| **Depreciation** | |
| At 1 October 2006 | 12,488 |
| Charge for the year ended 30 September 2007 | 7,605 |
| At 30 September 2007 and 2008 | 20,093 |
| **Net book value** | |
| At 30 September 2007 and 2008 | – |
| At 30 September 2006 | 7,605 |

## 11 Investment in associate

Blue Star Capital acquired a 30.77% interest in The PegasusBridge Defence & Security Fund Limited on 14 July 2008, a private company, incorporated in Guernsey. The fund invests in both unquoted and quoted shares in defence and security related companies, with a strong focus on homeland security.

The carrying value of the associate in the balance sheet of Blue Star Capital comprises £800,000, being the cost of investment, together with Blue Star Capital's share of the associate's post acquisition profit of £35,764. This gives an aggregate carrying value at the balance sheet date of £835,764.

The following tables illustrate summarised financial information for the associate at 30 September 2008. The summarised table showing financial performance of the associate relates to the period from the date of incorporation (6 September 2007) to 30 September 2008.

| Associate's balance sheet | 30 September 2008 £ |
|---|---|
| Total assets | 2,258,144 |
| Total liabilities | 47,324 |
| Net assets | 2,210,820 |

| Associate's result | Period ending 30 September 2008 £ |
|---|---|
| Profit for the period | 60,820 |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

| 12 Investments – held for trading | 2008 £ | 2007 £ |
|---|---|---|
| At 1 October | 4,248,123 | 5,528,079 |
| Additions | 60,074 | 209,115 |
| Disposals | (97,491) | (1,000,327) |
| Fair value (loss) for the year | (1,488,451) | (488,744) |
| At 30 September | 2,722,255 | 4,248,123 |

These trade investments are classified as financial assets at fair value through profit and loss.

| Investments | Class of shares/ investment | Holding as % of issued share capital | Book value £ | Fair value £ |
|---|---|---|---|---|
| **Quoted on the Alternative Investment Market of the London Stock Exchange:** | | | | |
| Black Raven Properties plc | Ordinary 1p | 10.6% | 51,205 | 51,205 |
| Gasol plc | Ordinary 0.5p | 13.9% | 975,000 | 975,000 |
| Indian Restaurants Group plc | Ordinary 1p | 16.0% | 94,792 | 94,792 |
| Venteco plc | Ordinary 1p | 3.06% | 21,250 | 21,250 |
| Zenergy Power plc | Ordinary 1p | 1.34% | 731,864 | 731,864 |
| **Unquoted:** | | | | |
| Medcentre Holdings Inc | Preferred US$0.01 | | 383,515 | 383,515 |
| Medcenter Holdings Inc | Convertible loan notes | | 164,629 | 164,629 |
| eSeekers Ltd (ShareNow) | Ordinary 1p | | 300,000 | 300,000 |

All of the above investments are incorporated in the United Kingdom barring Medcenter Holdings Inc, which is a company incorporated in the Cayman Islands.

### Fair Value

Investments held for trading consist of investment in ordinary shares, preferred shares and convertible loan notes, which have been valued as financial assets at fair value through profit or loss.

### Quoted investments

(a) The Fair value of quoted investments is determined by reference to the mid market bid prices at the balance sheet date.

### Unquoted investments

(b) The fair values of unquoted investments are initially measured at cost, reflecting the 'price of recent investment' methodology set out in the BVCA guidelines. Where there is no recent investment against which to subsequently value unquoted investments, fair values are determined using the Black-Scholes pricing model. Where a fair value cannot be estimated reliably the investment is reported at the carrying value at the previous reporting date.

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 estimated.

Using the fair value method the following change in fair value was recognised in the income statement during the period.

Blue Star Capital holds convertible loan notes and have chosen to designate the entire contract as a single financial asset at fair value through profit or loss.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

| 13 **Trade and other receivables** | **2008 £** | **2007 £** |
|---|---|---|
| Trade receivables | – | 310,215 |
| Prepayments | 62,160 | 48,231 |
| Loan receivable | 120,761 | 49,900 |
| Social security and other taxes | 16,050 | 13,075 |
| Other receivables | – | 1,588 |
| | 198,971 | 423,009 |

All trade and other receivables are due within one year. The directors consider that the carrying value of trade and other receivables approximates to their fair value.

| 14 **Cash and cash equivalents** | **2008 £** | **2007 £** |
|---|---|---|
| Cash at bank and in hand | 46,710 | 200,432 |
| Treasury reserve deposit | 229,932 | 935,047 |
| | 276,642 | 1,135,479 |

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.

| 15 **Trade and other payables** | **2008 £** | **2007 £** |
|---|---|---|
| Trade payables | 86,497 | 29,530 |
| Accruals | 108,208 | 86,580 |
| Social security and other taxes | 768 | 3,170 |
| | 195,473 | 119,280 |

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.

| 16 **Share capital** | **2008 £** | **2007 £** |
|---|---|---|
| **Authorised** | | |
| 500,000,000 Ordinary shares of £0.001p each | 500,000 | 500,000 |
| **Issued and fully paid** | | |
| 105,500,000 Ordinary shares of £0.001p each | 105,500 | 105,500 |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 17 Post balance sheet events

Blue Star Capital invests in a number of AIM listed companies and the share prices of these companies can be volatile and move up or down on small volumes traded. The market value at 25 March 2009 of some of its investments are less than the carrying value at September 2008.

| Investments | Class of shares | Fair value at 30 September 2008 £ | Fair value at 25 March 2009 £ |
|---|---|---|---|
| **Quoted on the Alternative Investment Market of the London Stock Exchange:** | | | |
| Gasol plc | Ordinary 0.5p | 975,000 | 342,333 |
| Indian Restaurants Group plc | Ordinary 1p | 94,792 | 77,805 |
| Venteco plc | Ordinary 1p | 21,250 | 9,917 |
| Zenergy Power plc | Ordinary 1p | 731,864 | 521,328 |
| Black Raven Properties plc | Ordinary 1p | 51,205 | – |

Black Raven Properties plc an AIM listed company, in which Blue Star Capital held 13,475,000 ordinary shares (equivalent to 8% of Black Raven Properties plc's issued ordinary share capital), announced the appointment of Administrators on 19 November 2008. As a consequence the fair value of this investment has been written down to zero.

Other investments, such as Gasol plc and Zenergy plc have seen significant falls in their share price since the balance sheet date resulting in a material decline in the value of Blue Star Capital's holding.

## 18 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 2008 £ | 2007 £ |
|---|---|---|---|
| Trade receivables | 12 | – | 310,215 |
| Loan receivable | 12 | 120,761 | 49,900 |
| Cash and cash equivalents | 13 | 276,642 | 1,135,479 |
| | | 397,403 | 1,495,594 |

| Financial assets | Notes | Fair value through profit or loss 2008 £ | 2007 £ |
|---|---|---|---|
| Investments held for trading | 11 | 2,722,255 | 4,248,123 |

| Financial liabilities | Notes | Financial liabilities measured at amortised cost 2008 £ | 2007 £ |
|---|---|---|---|
| Trade payables | 14 | 86,497 | 29,530 |
| Accruals | 14 | 108,208 | 86,580 |
| | | 194,705 | 116,110 |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 18 Financial instruments continued

Blue Star Capital's financial instruments comprise 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 raise finance for operations. Included within investments held for trading are convertible loan notes that 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 post balance sheet events (note 17).

### Interest rate risk

Blue Star Capital'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. Blue Star Capital 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 Blue Star Capital 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 investments held for trading:

| | |
|---|---|
| 10% | movement either way will result in £272,226 profit or (loss) |
| 20% | movement either way will result in £544,451 profit or (loss) |
| 30% | movement either way will result in £816,677 profit or (loss) |

### Currency risk

Blue Star Capital's foreign currency risk is limited to two convertible loan notes and two equity investments denominated in US Dollars. The total value of these investments in US Dollars at the balance sheet date was $788,094 (2007: $670,094). A 10% increase or decrease in the $/£ exchange rate would have a £49,127 (2007: £41,770) impact on net result for the year and net assets, based on the rate prevailing at 30 September 2008.

### Liquidity risks

Blue Star Capital 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 Blue Star Capital 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.

### Borrowing facilities

The operations to date have been financed through the placing of shares and it is Board policy to keep borrowing to a minimum.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 18 **Financial instruments** continued

### Credit risk

Blue Star Capital's credit risk is attributable to cash held on deposit at financial institutions, a loan receivable and convertible loan notes.

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 £276,642 (2007: £1,135,479).

The maximum credit risk relating to a loan receivable is equal to its carrying value of £120,761 (2007: £49,900).

The maximum credit risk relating to convertible loan notes is equal to 125% of the face value of the loan, being the amount that would be received on redemption of $295,869 (2007: $148,369).

Trade receivables arise as a result of share trading and are usually settled within 3 days. Due to trade receivables being settled so quickly and because there are no trade receivables held at year end the Company's maximum exposure to credit risk on trade receivables is £Nil (2007: £310,215).

### Capital disclosure

As in previous years, Blue Star Capital defines capital as issued capital, reserves and retained earnings as disclosed in note 15. Blue Star Capital does not have any borrowings and manages its capital to ensure that Blue Star Capital will be able to continue to pursue strategic investments and continue as a going concern. Blue Star Capital does not have any externally imposed financial requirements.

## 19 Related party transactions

Blue Star Capital plc's former chairman Nigel Robertson (resigned 03.12.2008) is a director and a shareholder of eSeekers Limited. An equity investment of £300,000 is made in eSeekers Limited which owns ShareNow.com, a social networking domain. Blue Star Capital made a loan of £100,000 (2007: £49,600) to eSeekers Limited. This loan carries an annual interest rate of 7.5% and is repayable by 24 December 2008. The loan is expected to be repaid on 24 April 2009.

During the year Blue Star Capital and its quoted investments held for trading had the following directors in common.

| | |
|---|---|
| Indian Restaurants Group plc | Nigel Robertson and Haresh Kanabar |
| Gasol plc | Haresh Kanabar |
| Venteco plc | Haresh Kanabar |

Both directors have now resigned from Blue Star Capital plc.

During the year Blue Star Capital was involved in transactions with Indian Restaurants Group plc, a company with common directors. Blue Star shares office space with Indian Restaurants Group plc, to whom it charged a share of office rent & communication expenses totalling £15,000 (2007: £Nil)

There were no outstanding amounts due from Indian Restaurants Group plc at 30 September 2008 (2007: £31,362).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 19 Related party transactions continued

Dr Richard Leaver, director of Blue Star Capital plc is partner in PegasusBridge Fund Management LLP, a director of PegasusBridge Fund Management Limited and became a director of Zimiti Limited, OmniPerception Limited and Pedagog Limited on completion of these investments in order to represent the interests of the investors.

Lord Dear, chairman of Blue Star Capital plc is also a director of OmniPerception Limited.

During the year Blue Star Capital has also made an investment of £800,000 in The PegasusBridge Defence & Security Fund Limited.

PegasusBridge Fund Management Limited charged Blue Star Capital a sum of £18,576 for asset management, which forms part of administrative expenses. Trade creditors include an amount due to PegasusBridge Fund Management Limited of £23,350 at 30 September 2008.

The PegasusBridge Defence & Security Fund Limited made the following investments during the year as advised by its Investment Adviser, PegasusBridge Fund Management LLP, of which Dr Richard Leaver is a partner:

(1) £380,000 tranched investment in Zimiti Limited as a convertible loan for which PegasusBridge Fund Management LLP received a 2% one off arrangement fee (£7,600) and will receive a £1,500 monthly monitoring fee from Zimiti Limited.

(2) £500,000 investment in OmniPerception Limited as a convertible loan for which PegasusBridge Fund Management LLP received a 2% one off arrangement fee (£10,000) and will receive a £1,000 monthly monitoring fee from OmniPerception Limited.

(3) £333,608 tranched investment in Pedagog Limited as a convertible loan for which PegasusBridge Fund Management LLP received a 2.5% one off arrangement fee (£8,965) and will receive a £1,500 monthly monitoring fee from Pedagog Limited.

The above investments are secured against debentures and were warranted by investee management at the point of investment only.

## 20 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 | |
|---|---|---|
| | 2008 £ | 2007 £ |
| Due within one year | 39,500 | 39,500 |
| Due after one year and within five years | – | 39,500 |
| | 39,500 | 79,000 |

Blue Star Capital has entered into a lease agreement with Westbury Properties Limited, now part of Stobart Group Limited, which is due to expire at the end of September 2009 at an annual rent of £39,500 for the rental of office premises.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 21 Explanation of transition to IFRS

This is the first year that Blue Star Capital has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last audited financial statements under UK GAAP were for the year ended 30 September 2007 and the date of transition to IFRSs was therefore 1 October 2006.

### (a) Reconciliation of balance sheet at 1 October 2006 from UK GAAP to IFRS

| | Notes | UK GAAP £ | Effect of transition to IFRS £ | IFRS £ |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Tangible assets | | 7,605 | – | 7,605 |
| Investments | (i) | 3,038,731 | (3,038,731) | – |
| | | 3,046,336 | (3,038,731) | 7,605 |
| **Current assets** | | | | |
| Investments held for trading | (i) | – | 5,528,079 | 5,528,079 |
| Trade and other receivables | | 53,148 | – | 53,148 |
| Cash and cash equivalents | | 1,122,166 | – | 1,122,166 |
| **Total current assets** | | 1,175,314 | 5,528,079 | 6,703,393 |
| **Total assets** | | 4,221,650 | 2,489,348 | 6,710,998 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Deferred Tax | (ii) | – | 472,976 | 472,976 |
| **Current liabilities** | | | | |
| Trade and other payables | | 128,137 | – | 128,137 |
| **Total liabilities** | | 128,137 | 472,976 | 601,113 |
| **Net assets** | | 4,093,513 | 2,016,372 | 6,109,885 |
| **Equity** | | | | |
| Share capital | | 105,500 | – | 105,500 |
| Share premium account | | 5,032,525 | – | 5,032,525 |
| (Accumulated losses)/retained earnings | | (1,044,512) | 2,016,372 | 971,860 |
| **Total equity** | | 4,093,513 | 2,016,372 | 6,109,885 |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 21 Explanation of transition to IFRS (continued)

### (b) Reconciliation of balance sheet at 30 September 2007 from UK GAAP to IFRS

| | Notes | UK GAAP £ | Effect of transition to IFRS £ | IFRS £ |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Investments | (i) | 2,790,036 | (2,790,036) | – |
| | | 2,790,036 | (2,790,036) | – |
| **Current assets** | | | | |
| Investments held for trading | (i) | – | 4,248,123 | 4,248,123 |
| Trade and other receivables | | 423,009 | – | 423,009 |
| Cash and cash equivalents | | 1,135,479 | – | 1,135,479 |
| **Total current assets** | | 1,558,488 | 4,248,123 | 5,806,611 |
| **Total assets** | | 4,348,524 | 1,458,087 | 5,806,611 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Deferred Tax | (ii) | – | 306,199 | 306,199 |
| **Current liabilities** | | | | |
| Trade and other payables | | 119,279 | – | 119,279 |
| **Total liabilities** | | 119,279 | 306,199 | 425,478 |
| **Net assets** | | 4,229,245 | 1,151,888 | 5,381,133 |
| **Equity** | | | | |
| Share capital | | 105,500 | – | 105,500 |
| Share premium account | | 5,032,525 | – | 5,032,525 |
| (Accumulated losses)/retained earnings | | (908,780) | 1,151,888 | 243,108 |
| **Total equity** | | 4,229,245 | 1,151,888 | 5,381,133 |

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2008

## 21 Explanation of transition to IFRS (continued)

(c) **Reconciliation of the UK GAAP statement of profit and loss to the IFRS income statement for the year ended 30 September 2007**

| | Notes | UK GAAP £ | Effect of transition to IFRS £ | IFRS £ |
|---|---|---|---|---|
| Fair value losses arising from investments held for trading | | 542,515 | (1,031,259) | (488,744) |
| Administrative expenses | | (463,894) | – | (463,894) |
| **Operating profit/(loss)** | | 78,621 | (1,031,259) | (952,638) |
| Finance income | | 57,109 | – | 57,109 |
| **Profit/(loss) before taxation** | | 135,730 | (1,031,259) | (895,529) |
| Taxation | (ii) | – | 166,777 | 166,777 |
| **Profit/(loss) for the year** | | 135,730 | (864,482) | (728,752) |

(d) **Notes to reconciliations explaining the transition to IFRS**

(i) Equity investments were previously recognised under UK GAAP at cost on acquisition, less any provision for impairment. Under IFRS, these investments are classified as held for trading and are recognised initially at cost and subsequently at fair value. Any gains or losses arising due to movements in the fair values of these investments are recorded directly in Income Statement

(ii) Deferred taxation arises on the adjustment to investments held for trading, previously stated at cost under UK GAAP but revalued to fair value under IFRS. Any fair value gains give rise to a deferred tax liability, whilst any fair value losses give rise to a deferred tax asset.

(iii) There have been no material changes in the cash flow statement as a result the transition to IFRS.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING of BLUE STAR CAPITAL PLC (the "Company") will be held at 23 Berkeley Square, London at 2.30 p.m. on 19 May 2009, 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 2008.

2 To re-elect Dr Richard Leaver as a director of the Company who being eligible offers himself for re-election.

3 To re-elect Lord Dear as a director of the Company who being eligible offers himself for re-election.

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

5 To re-appoint BDO Stoy Hayward LLP as auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the directors to fix their remuneration.

## SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions of which Resolution 6 will be proposed as an ordinary resolution and Resolutions 7 and 8 will be proposed as special resolutions.

### Ordinary Resolution

6 That the directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the **"Act"**) to exercise all 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 £10,550 such authority (unless previously revoked or varied) to expire five years from the date of the passing of this resolution save that the Company may 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

7 That, subject to the passing of the previous resolution, the directors be and they are hereby granted power pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred on them by Resolution 6 above as if section 89(1) 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 as 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 £10,550 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 or, if earlier, until close of business on 31 March 2010, 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

8 THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) 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 10,550,000

(ii) the minimum price which may be paid for ordinary shares is 0.1p per ordinary share;

(ii) 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 as derived from the London Stock Exchange Daily Official List for the five business days 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 annual general meeting 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 30 March 2009

**Notes:**

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered in the register of members of the Company as at **6.00 p.m. on 17 May 2009** 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 **6.00 p.m. on 17 May 2009** 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 **2.30 p.m. on 17 May 2009** or, in the event that the meeting is adjourned, by no later than 48 hours before the time of any adjourned meeting.

# Notice of Annual General 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 **2.30 p.m. on 17 May 2009**. 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.

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