

Blue Star Capital plc

("Blue Star Capital" or "the Company")

Interim Results for the six months ended 31 March 2011

Chairman's Statement

I am pleased to report Blue Star Capital plc's ("Blue Star", "the Company"), interim results for the period ended 31 March 2011.

The Board welcomed two new non executive directors, Mr Noel Lyons and Mr Anthony Fabrizi.

The Company continues to address fund-raising opportunities, particularly originating in the US, however the market remains challenging. It is conducting an ongoing review over the next few months, of its strategy including board composition, investing policy, supplementary revenue streams and realisation of its assets, in the most advantageous way and all avenues will be explored by the Board.

Financials

Blue Star Capital reported a loss for the period of £228,195 compared with losses of £389,917 for the six months to 31 March 2010.

Net assets were reduced by £200,092 to £2.431m (30 September 2010 £2.631m)

Blue Star Capital's cash position at the end of the six months to 31 March 2011 was overdrawn by £13,367 compared to credit balance of £27,065 at the end of September 2010.

Post Balance Sheet Events

- Shareholder Loan Agreement

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 immediately 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 shareholder loan, together with the accrued 10% interest, is repayable in full by the Company on 30 May 2012. The shareholder 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. In addition, two new non-executive directors, Mr Noel Lyons and Mr Anthony Fabrizi, joined the Board. The Board has agreed that Mr Lyons and Mr Fabrizi will receive remuneration from 22 June 2011 of £15,000 per annum each, to be paid in the Company's shares. Furthermore, the Board is in favour of the other non executive directors taking a proportion of their existing remuneration from 1 July 2011 in the Company's shares although it remains up to individual Board members to agree their position.

- Zimiti Limited

The Company announced on 20 June 2011 that Zimiti Limited (“Zimiti”) had been acquired by Digital Barriers plc (AIM:DGB) for a maximum consideration of £10.0m comprising cash and Digital Barriers shares (the “Acquisition”) on a cash-free, debt-free basis for an initial consideration of £1.5 million 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 may be paid up to a maximum total consideration of £10.0m. This deferred consideration would 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 of 26.01% is valued under the Company’s accounting policies, at £721,024 in these Interim Accounts and this value will continue to be carried until the various earnout criteria are achieved and recognised. The initial cash consideration to Blue Star Capital will be approximately £250,000, having been reduced pro-rata by Zimiti discharging its debts at completion. The subsequent Digital Barriers shares to be received (where the number of shares to be issued is calculated from their prior five day average close price at that time) will be locked-in for twelve months from the time of each issue. The cash received will be utilised to progress the Company and no profits are attributable to the Zimiti stake.

- Pedagog Limited

The Company announced on 25 February 2011, that the value of its investment in Pedagog Limited should be impaired to zero following Pedagog's ongoing severe difficulties in raising finance in the current climate and concerns about its viability.

It had developed cost effective SIM-enabled camera technology using mobile phone networks to create real-time video interaction via a middleware platform with simple setup.

Pedagog was placed in liquidation on 7 June 2011. Whilst all efforts are being made to retrieve some value from the disposal of its Intellectual Property and other remaining assets, Blue Star Capital currently does not expect to make any material recovery and no value in respect of this investment is currently held on Blue Star Capital’s balance sheet.

Portfolio Review

We would like to highlight the following companies’ progress since the publication of our last Annual Report on 28 April 2011, not including the recent divestments of Zimiti and Pedagog mentioned above:

1 OMNIPERCEPTION LIMITED (www.omniperception.com)

Omniperception has developed unique biometric and computer vision technology for 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. This fulfils our dual-use criteria in a total addressable market of over \$4bn with face recognition representing some \$500m.

OmniPerception has successfully commercialised world leading research from the University of Surrey's Centre for Vision, Speech and Signal Processing led by Professor Josef Kittler and the intellectual property rights are 100% owned in-house by the company. The company enjoys preferential access to a pipeline of innovation from the University of Surrey which continues to maintain its shareholding in the company. OmniPerception's products and solutions address its four current main active markets – Law Enforcement, Gaming & Leisure, Banking and the Airport sector.

Its products are in use by the UK Police Forces as well as chosen by certain high value installations for critical secure access applications. The Police sector will continue to be an important market sector for the company, although with the well known financial constraints within this sector, the company has shifted its commercial focus on other sectors. Despite this, during 2011, the company was able to further boost the installed base of its world leading large scale facial recognition search engine called Colossus. Consequently, the company now reports approximately one third of the English UK police forces are using its facial recognition and imaging products. Outside this sector, the company reports further progress in high profile, niche high security, mission critical applications within the airport sector. The company has more than trebled the number of UK airports using its biometric facial recognition products and with security continuing to be a growing and significant threat in this sector, the company remains optimistic about further success in this area.

Outside the two key sectors outlined above, OmniPerception made considerable progress during the first half of 2011 in the development of its next generation of covert, non-cooperative facial recognition product called CheckPoint.S. This product utilises many of the advances made as part of a substantial development contract with BAE Systems that operated from January 2009 to September 2010 and provides unparalleled performance for covert and overt, long-range face recognition. OmniPerception expects global revenue prospects for this product and the company is reporting that demand outstripped supply for the first production batch with the most significant interest coming from existing partners in the Middle East.

Aside from the OmniPerception's activities in the biometric and security sectors, the company provides valuable logo and brand exposure data for rights holders, advertising agencies and some of the world's major brand owners through its two subsidiary organisations AIR and Margaux Matrix. In 2011, the company secured key new licensees for its video analysis software and is reporting that with the release of a major upgrade of its software during early 2011 revenues will have increased by around 15% compared to 2010.

2 ESEEKERS LIMITED (www.sharenow.com)

Blue Star Capital has a minority holding in eSeekers Limited, which is a private limited company that has equity holdings in three independent but synergistic Internet businesses. The core element of the holdings is Xen Inc. (www.xen.com), which operates from an office base in Los Angeles and is developing a set of tools and applications that are relevant to consumers who are actively involved in the online world of social media. Xen builds tools to integrate social connections, interests, messages and conversations to create a new class of personalisation.

Xen Inc which is wholly owned by eSeekers, launched its first consumer application into an invite-only environment in May which allowed a subset of consumers to trial the software. There are just over 140 discrete developments in the company's technical roadmap that will be released in the latter part of 2011 and early 2012, as individual applications or grouped to form more complex applications. Most of the more complex groupings will be targeted more at the corporate market than the general consumer.

Blue Star Capital plc
Statement of Comprehensive Income
for the six months ended 31 March 2011

	Notes	Unaudited 6 months ended 31 March 2011 £	Unaudited 6 months ended 31 March 2010 £	Year ended 30 September 2010 £
Profit/(losses) arising from investments held at fair value through profit or loss:				
Other Investments		42,499	(74,626)	(1,288,110)
Investments held for trading		-	(39,440)	(336,720)
Administrative expenses		(270,694)	(277,130)	(615,439)
Operating loss		<u>(228,195)</u>	<u>(391,196)</u>	<u>(2,240,269)</u>
Finance income		-	1,279	65,799
Loss before taxation		<u><u>(228,195)</u></u>	<u><u>(389,917)</u></u>	<u><u>(2,174,470)</u></u>
Loss per ordinary share				
Basic and diluted loss per share	4	<u><u>(0.15p)</u></u>	<u><u>(0.26p)</u></u>	<u><u>(1.45p)</u></u>

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

Blue Star Capital plc
Balance Sheet
at 31 March 2011

	Notes	Unaudited 6 months ended 31 March 2011 £	Unaudited 6 months ended 31 March 2010 £	Year ended 30 September 2010 £
<i>Non-current assets</i>				
Property, plant & equipment		1,787	8,879	7,432
Other investments		2,704,782	3,885,916	2,662,283
		<u>2,706,569</u>	<u>3,894,795</u>	<u>2,669,715</u>
<i>Current assets</i>				
Investments held for trading	5	-	474,241	-
Trade and other receivables	2	46,856	53,295	67,247
Cash and cash equivalents		-	15,008	27,065
		<u>46,856</u>	<u>542,544</u>	<u>94,312</u>
<i>Total current assets</i>		<u>46,856</u>	<u>542,544</u>	<u>94,312</u>
<i>Total assets</i>		<u><u>2,753,425</u></u>	<u><u>4,437,339</u></u>	<u><u>2,764,027</u></u>
<i>Current liabilities</i>				
Trade and other payables	2	(322,074)	(78,320)	(132,584)
		<u>(322,074)</u>	<u>(78,320)</u>	<u>(132,584)</u>
<i>Net Assets</i>		<u><u>2,431,351</u></u>	<u><u>4,359,019</u></u>	<u><u>2,631,443</u></u>
<i>Shareholder Equity</i>				
Called up Share capital		150,261	150,261	150,261
Share premium account		6,464,876	6,464,876	6,464,876
Retained earnings		(4,183,786)	(2,256,118)	(3,983,694)
		<u>2,431,351</u>	<u>4,359,019</u>	<u>2,631,443</u>
<i>Shareholder's funds</i>		<u><u>2,431,351</u></u>	<u><u>4,359,019</u></u>	<u><u>2,631,443</u></u>

Blue Star Capital plc
Statement of changes in equity
at 31 March 2011

	Share capital - equity £	Share premium £	Retained earnings £	Total £
Year ended 30 September 2010				
At 1 October 2009	150,261	6,464,876	(1,866,201)	4,748,936
Loss for the year and total recognised income and expense	-	-	(2,174,470)	(2,174,470)
Share based payment	-	-	56,977	56,977
At 30 September 2010	<u>150,261</u>	<u>6,464,876</u>	<u>(3,983,694)</u>	<u>2,631,443</u>
Six months ended 31 March 2010 (unaudited)				
At 1 October 2009	150,261	6,464,876	(1,866,201)	4,748,936
Loss for the period and total recognised income and expense	-	-	(389,817)	(389,817)
At 31 March 2010	<u>150,261</u>	<u>6,464,876</u>	<u>(2,256,118)</u>	<u>4,359,019</u>
Six months ended 31 March 2011 (unaudited)				
At 30 September 2010	150,261	6,464,876	(3,983,694)	2,631,443
Loss for the period and total recognised income and expense	-	-	(228,195)	(228,195)
Share based payment	-	-	28,103	28,103
At 31 March 2011	<u>150,261</u>	<u>6,464,876</u>	<u>(4,183,786)</u>	<u>2,431,351</u>

Blue Star Capital plc
Cash Flow Statement
for the six months ended 31 March 2011

	Unaudited 6 months ended 31 March 2011 £	Unaudited 6 months ended 31 March 2010 £	Year ended 30 September 2010 £
Cash flow from operating activities			
Loss before taxation	(228,195)	(389,917)	(2,174,470)
Adjustments for:			
Finance income	-	(1,279)	(65,799)
Fair value (gains)/losses	(42,499)	114,546	1,624,830
Depreciation	4,992	5,319	10,807
Share based payment	28,103	-	56,977
	<hr/>	<hr/>	<hr/>
Operating cash flows before movements in working capital	(237,599)	(271,331)	(547,655)
Decrease in trade and other receivables	20,391	60,380	46,428
Increase/(decrease) in trade and other payables	176,123	(41,282)	12,981
	<hr/>	<hr/>	<hr/>
Net cash used in operating activities	(41,085)	(252,233)	(488,246)
	<hr/>	<hr/>	<hr/>
Investing activities			
Interest received	-	1,279	1,322
Payments to acquire investments	-	(45,000)	(45,000)
Proceeds from sale of investments	-	199,476	451,544
Proceeds from sale of property, plant and equipment	653	-	-
Acquisition of property, plant and equipment	-	(7,107)	(11,148)
	<hr/>	<hr/>	<hr/>
Cash flows redeemed from investing activities	653	148,648	396,718
	<hr/>	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(40,432)	(103,585)	(91,528)
Cash and cash equivalents at beginning of period	27,065	118,593	118,593
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at end of period	<u>(13,367)</u>	<u>15,008</u>	<u>27,065</u>

Blue Star Capital plc

Notes to the Interim Financial Statements

for the six months ended 31 March 2011

1. Basis of preparation

The principal accounting policies used for preparing the Interim Accounts are those the Company expects to apply in its financial statements for the year ending 30 September 2011 and are unchanged from those disclosed in the Company's Report and Financial Statements for the year ending 30 September 2010.

The financial information for the six months ended 31 March 2011 and for the six months ended 31 March 2010 has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The comparative financial information for the full year ended 30 September 2010 does not constitute the Company's statutory financial statement for that period although it has been derived from the statutory financial statements for the year then ended. A copy of those statutory financial statements has been delivered to the Registrar of Companies. The financial statements for the full year ending September 2010 included an emphasis of matter in the Audit Report in relation to the going concern of the Company.

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 immediately 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 shareholder loan, together with the accrued 10% interest, is repayable in full by the Company on 30 May 2012. The shareholder 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. In addition, two new non-executive directors, Mr Noel Lyons and Mr Anthony Fabrizi, joined the Board. The Board has agreed that Mr Lyons and Mr Fabrizi will receive remuneration from 22 June 2011 of £15,000 per annum each, to be paid in the Company's shares. Furthermore, the Board is in favour of the other non executive directors taking a proportion of their existing remuneration from 1 July 2011 in the Company's shares although it remains up to individual Board members to agree their position.

The Company is near to completion on the sale of certain investments. However, this is not yet finalised and the amount realised may or may not provide sufficient funds to cover the repayment of the above shareholder loan on 30 May 2012 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. The Directors are confident that they will be able to achieve this, although it has not yet been explored.

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

2. Significant accounting policies

Basis of accounting

The significant accounting policies that the Company has applied to its financial statements for the six months ended 31 March 2011 and which it expects to apply in its full financial statements for the year ending 30 September 2011 are set out 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.

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'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 in profit or loss as fair value gains/(losses) on investments held for trading. This includes Blue Star Capital's investments that are classified as non current assets on the balance sheet.

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 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.

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 profit or loss.

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.

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).

3 Critical accounting judgements and key sources of estimation uncertainty

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 non current assets. 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.

4 Loss per ordinary share

The calculation of a basic loss per share is based on the loss for the period attributable to equity holders of Blue Star Capital and on the weighted average number of shares in issue during the period.

5 Investments - held for trading

The held for trading investments relate to investments in companies listed on the AIM market of the London Stock Exchange plc. The investments are classified as current assets and are measured at their fair value at each reporting date. Changes in fair value are recorded in profit or loss.

6 Post Balance Sheet Events

- Shareholder Loan Agreement

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 immediately 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

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