Blue Star Capital Plc

Annual Report and Financial Statements

for the year ended 30 September 2010

Annual report and financial statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

Contents

Directors and Advisors

FOR THE YEAR ENDED 30 SEPTEMBER 2010

Blue Star Capital Plc is a public company domiciled in England and Wales and incorporated in the United Kingdom under the Companies Act 2006. 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

General Sir Michael Wilkes
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 and Broker

Panmure Gordon & Co
Moorgate Hall
155 Moorgate
London EC2M 6XB

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Solicitors

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

Registrars

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

Chairman's Statement

I am pleased to report Blue Star Capital Plc's ("Blue Star Capital" or "the Company") results for the year ended 30 September 2010.

The Company has experienced a poor year in the financial markets which have resulted in a dearth of funding opportunities for both itself and its investees. Blue Star Capital has investments in three Homeland Security Industry (HSI) companies, Zimiti Limited, Pedagog Limited and OmniPerception Limited. The Company currently retains its investment in two unquoted non core holdings: eSeekers and Medcenter Inc. We expect to see good exits for both Zimiti and OmniPerception during 2011 but unfortunately we had to impair fully the value of Pedagog which has been unable to raise necessary finance.

During the year, the Company took the decision to fully divest itself of its holding in Zenergy Power plc and has been seeking to raise funding, particularly from the US. This process is expected to continue with the support of the Company's existing investors during 2011.

Blue Star Capital reported a loss for the year of £2,240,269 (2009: £566,335). Operating Loss was £2,240,269 (2009: Profit of £117,411).

Administration costs were in line with expectations at £615,439 (2009: £583,624).

Blue Star Capital, whilst delayed by the financial events of 2010, plans to take advantage of the fast growing major multi-billion dollar markets based on products and technologies in homeland security. We continue to see robust and quality HSI related deal-flow in detection, identification, screening and location, materials, sensors, communications, electronics and computing.

There has been significant activity within our portfolio, which I set out below. The investment holdings are set out in note 13.

1 OMNIPERCEPTION LIMITED
(www.omniperception.com)

OmniPerception Limited 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 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 it intends to reduce its reliance on this sector in light of public sector spending constraints over the next couple of years. Despite this, during 2010, the company continued to strengthen its position in the Police sector by securing further deployments of its novel, advanced facial recognition technologies into a number of UK regional Police forces. Another key market sector for the company, that of secure access control, has developed considerably since its early successes in 2009. During 2010, the company has secured further installations of its biometric facial recognition products into high profile, niche high security, mission critical applications. The company reports new applications within the airport sector. Clearly, in light of the continued threat to such locations, the sector represents an important and significant opportunity to the company.

OmniPerception made considerable progress during 2010 and one of the major highlights was the completion and delivery of a substantial development contract with BAE Systems. This contract, confirmed in February

Chairman's Statement

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2009, provided non-dilutionary development funding of over £1.6 million. The aim was to create next generation advanced biometric products and the advances achieved under that contract have enabled the company to embark upon a substantial programme that will see a new generation of its facial recognition products ready for commercial launch in 2011. The company has agreed global distribution rights in the casino sector for its flagship product, CheckPoint.S, designed specifically for covert surveillance applications.

Aside from the company's activities in the biometric and security sectors, OmniPerception provides valuable logo and brand exposure data for rights holders, advertising agencies and all of the world's major brand owners through its two subsidiary organisations AIR and Margaux Matrix. In 2010, the company secured key new licencees for its video analysis software with the most notable being a new five year contract secured with a major media monitoring organisation in India.

The next year will see the company focus on bringing its new CheckPoint.S facial recognition surveillance camera to market before then strengthening the commercial team to deliver the growth and results that can be achieved in this dynamic, high growth market.

The company is chaired by me, and Dr Richard Leaver was a Non Executive Director by virtue of Blue Star Capital's investment in the company until 22 March 2011. Subsequently Dr Richard Leaver has moved to become a board observer, following a £730,000 funding round at that point in which Blue Star Capital was not in a position to participate.

2 **PEDAGOG LIMITED** (www.pedagog.com)

Pedagog Limited 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 had been following a strategy of continuing to make progress in increasing its licensees internationally and extending its middleware for both the security and social networking sectors, in line with Blue Star Capital's dual-usage criteria for investee companies. However it was clear by the end of February 2011 that the company's funding options to progress its development were proving particularly challenging during the harsh financial climate in which it had sought to raise finance during the previous 12 months.

Blue Star Capital consequently decided that the prudent course of action was to impair fully the value of its investment to zero. The company continues to trade pending further financing.

Dr Richard Leaver was a Non Executive Director by virtue of Blue Star Capital's investment in the company during the year and resigned on 25 February 2011.

3 **ZIMITI LIMITED** (www.zimiti.com)

Zimiti Limited is a Cambridge company, developing secure, very low power medium- to long-range wireless communications networks using its proprietary protocols, data modules, know-how and intellectual property applied to critical infrastructure security; access control and border monitoring. It is currently working on technology for pipeline monitoring with BP as the principal customer and has developed a long linear network that is capable of monitoring long sections of pipeline or other perimeters in remote areas whilst remaining on task for months or years at a time.

The company is making strong advances in both its product development and sales to business customers in access control and perimeter and infrastructure monitoring where the technology is unique in solving problems that off-the-shelf wireless technologies such as ZigBee, Wi-Fi and Bluetooth cannot. Its key strengths include very low power, reliable long-term medium- to long-range secure communication of data from sensors to devices, other networks and wired infrastructure for periods in excess of one year or more; regular and accurate monitoring of the network itself and integration with existing radio standards.

The company has made significant developments during 2010, increasing its customer base and revenues. In particular, its wireless technology for perimeter security and access control is the subject of a recent key

Chairman's Statement

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development. Zimiti technology will allow multiple small communicating units, each no bigger than a coffee mug, to stay in the ground with tens of metres separation for more than a year whilst alerting ingress into a defined area measured in hundreds of square kilometres. Sales of Z-485, Zimiti's wireless connection for access control systems, continue to grow with sales to a number of companies including most recently ACT, Ireland's biggest access control manufacturer.

Whilst the applications are clear for perimeter and area security and extendable to borders, the technology is particularly exciting as a way of protecting a large unstructured area, for instance in Iraq or Afghanistan which has been swept for mines or Improvised Explosive Devices ("IEDs") by leaving these Zimiti units to "seed" the area and alert if there is subsequent intrusion eg to replace IEDs in what is recorded as a clean area.

Zimiti is nearing the end of a £100,000 research grant funded project from the East of England Development Agency (EEDA) and is starting to attract attention from the US and mainland Europe for its solutions. The company has commenced what is expected to be its final funding round in order to progress further the development and sales of its products. With this funding, 2011 will see development of a prototype monitoring network for a major multi-national customer, a programme that is already underway, as well as sales of a technically very similar system to defence and homeland security customers. Both of these are expected to translate into substantial revenue growth in late 2011 with volume sales coming on-stream in Q4 2011 and continuing to grow in 2012 and 2013.

Dr Richard Leaver is also a Non Executive Director of Zimiti by virtue of Blue Star Capital's investment in the company.

4 ESEEKERS LIMITED (www.sharenow.com)

eSeekers Limited 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.

During the period ending August 2010, eSeekers Limited transformed itself into a group with the core element being a technology project focussed on the rapidly evolving world of social networks and social applications. Xen is the market-facing brand of eSeekers Limited and its initial launch of consumer tools and applications is scheduled for March 2011.

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.

To prove its core technology, Xen is investing into two commercial ventures, one in lottery gaming and one in online retail; which both aim to prove the capability of Xen's applications and help seed the development of the world's largest database of consumers and their interests.

5 MEDCENTER HOLDINGS INC (www.medcentersolutions.com www.medcenter.com)

Medcenter Holdings Inc 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.

Due to the weak and delayed take up of the 2010 Convertible Notes Offering by its shareholders, the Company had a funding gap in mid 2010, which had a detrimental impact on the second half 2010 commercial prospects for the business. As a result, unaudited revenue for 2010 was only $5 million – circa 20% below the budget of $6.1 million. In addition, the Company was forced to raise an additional $1.5 million under a Senior Convertible Notes Offering to fund the operating shortfall.

Medcenter's core business of providing Medical Education and Marketing Services to the pharmaceutical industry in Latin America and Iberia, was significantly impacted by the mid 2010 funding crisis at the Company and disappointingly revenue fell by circa 20% versus 2009.

Chairman's Statement

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The WebMD/Medcenter Physician portal combines Medscape's content with Medcenter's relationships with physicians and medical societies in Latin America in order to provide news feeds, disease resource centres, the latest medical conference coverage and CME on a specialty-specific basis. Portal revenue grew by circa 36% in 2010 and Medcenter is expecting a similar level of growth in 2011.

The outlook for Medcenter in 2011 is positive. Revenue is expected to continue growing by circa 20% and, most importantly, the business is now cash flow positive (from an operating perspective) and expected to generate a modest profit in 2011. This achievement is due largely in, our view, to the continued discipline by management in containing costs and headcount.

6 OTHERS

During the year Blue Star Capital concluded the disposal of its investments in Zenergy Power plc, Gasol plc and India Restaurants Group plc at a combined loss of £336,720.

Financials

Blue Star Capital has continued to examine and reduce unnecessary costs wherever possible, both in its cost base and ongoing investment operations. The Company's cash position at the end of the year was £27,065 (2009: £118,593). The Company has been in discussions with its major shareholders with a view to securing further finance. I am pleased to report that Blue Star Capital has today entered into a shareholder loan agreement with certain existing shareholders. These shareholders have agreed to lend the Company £400,000 immediately with a commitment to lend a further £350,000 if required by the Company.

The shareholder loan is repayable by the Company on 30 May 2012 and will incur interest at 10% per annum, which will be rolled up into the loan and repayable alongside the capital. The shareholder loan is secured by an all assets debenture granted by the Company and 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 two years. The loan is also conditional on the appointment of Anthony Fabrizi and Noel Lyons to the Board of the Company. The Company's forecast, approved by the Directors, shows this funding, along with expended investment realisations, to be adequate to cover a period of at least twelve months.

Outlook

The intention of entering into the shareholder loan agreement is to allow the Company sufficient time to conduct a full review of its strategy, including board composition, investing policy, supplementary revenue streams and realisation of its assets in the most advantageous way.

Our remaining key HSI investments, OmniPerception and Zimiti continue to exhibit potential and are well positioned to deliver significant returns to the Blue Star Capital portfolio during 2011 and beyond. Furthermore, the remaining two non-core investments of Medcenter and eSeekers are performing well and we expect good growth from these without requiring further cash outlay.

The Lord Dear
Chairman

28 April 2011

Directors' Report

FOR THE YEAR ENDED 30 SEPTEMBER 2010

Results and dividends

The directors present their report together with the audited financial statements for the year ended 30 September 2010.

The statement of comprehensive income is set out on page 13 and shows the result for the year. The directors do not recommend the payment of a dividend (2009: £nil).

Directors serving during the year

General Sir Michael Wilkes, Lord Dear, Dr Richard Leaver and Peter Varnish OBE all served as directors during the year.

Principal activities and review of the business

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

A review of the business is included within the Chairman's Statement.

Investing policy

Assets or companies in which the Company can invest

These 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;
- Cyber Security & Data Security;
- Container Screening;
- Emergency Planning and Integrated Response Systems.

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

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

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

Whether investments will be active or passive investments

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

Holding period for investments

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

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

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

Policy in relation to gearing

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

Returns and Distribution Policy

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

Directors' Report

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Future developments

The Company is continuing to develop an investment portfolio in the Homeland Security sector with a focus on prevention, protection, reaction and recovery. However the financial climate continues to place unforeseen pressures on the ability of our portfolio companies and ourselves to raise funds. This has been seen with the recent impairment of Pedagog and the Company's strategy is to balance its investment activities with development of sustainable advisory revenues, which will both mitigate its burn rate and free up funds for supporting and extending the portfolio. We are actively working to exit some of our companies for potentially significant returns, as the normal investment cycle progresses.

Principal risks and uncertainties

The Company is focussed in Homeland Security, which embraces a number of application sectors rather than being a vertical and undifferentiated narrow sector of itself. It seeks investments in late stage dual usage opportunities, which by their very nature allow a diverse portfolio of investments with different application sectors and geographic locations whilst maintaining the overarching Homeland Security focus. The risk is loss or impairment of investments. This is mitigated by careful management of the investment and in particular, only continuing to support those investments which demonstrate potential to achieve a positive exit and decisively determining those which do not. Portfolio and capital management techniques are fully applied according to industry standard practice.

It may be necessary to raise additional funds in the future by a further issue of new Ordinary Shares or by other means. However the ability to fund future investments and overheads in Blue Star Capital plc as well as the ability of investments to return suitable profit cannot be guaranteed, particularly in the current economic climate. Blue Star Capital plc is dependent on a small key manager team, however this is mitigated by a very active and experienced group of non-executive directors which complement the management.

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

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

Significant shareholders

As at 21 March 2011 so far as the directors are aware, the parties (other than the interests held by Directors) who are directly or indirectly interested in 3% or more of the nominal value of the Company's share capital are as follows:

	Number of Ordinary Shares held	Ordinary Shares as percentage of issued share capital
Blue Square Equity Investments Limited	50,006,839	33.28%
Nigel Robertson	34,004,049	22.63%
Cloverleaf Holdings Ltd	8,700,108	5.79%
Highland Fund Management Ltd	7,452,942	4.96%
SPDV Holdings Ltd	6,220,803	4.14%
Afristar Limited	4,973,637	3.31%
Thesaurus Limited	4,973,637	3.31%
David Sebire	4,597,985	3.06%

Charitable and political contributions

No charitable or political donations were made during the year (2009: £nil).

General

The Company has third party Directors and Officers indemnity insurance in place and Key Man Insurance on the Chief Executive Officer, Dr Richard Leaver.

Directors' Report

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Related party transactions

The Company has entered into certain related party transactions and these are disclosed in note 21.

Post balance sheet events

Events subsequent to the balance sheet date are detailed in note 19 to the financial statements.

Policy and practice on the payment of creditors

The Company has no formal code or standard, which deals specifically with the payment of suppliers. However, the Company's policy on the payment of all creditors is to ensure that the terms of payment, as specified and agreed with the supplier, are not exceeded. At the year end, trade creditors represented 39 days purchases (2009: 27 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 the company'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 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

28 April 2011

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 30 SEPTEMBER 2010

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent Auditor's Report

TO THE MEMBERS OF BLUE STAR CAPITAL PLC

We have audited the financial statements of Blue Star Capital Plc for the year ended 30 September 2010, which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2010 and of the company's result for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report

TO THE MEMBERS OF BLUE STAR CAPITAL PLC

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Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Scott McNaughton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

28 April 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	Year ended 30 September 2010 £	Year ended 30 September 2009 £
(Losses)/Profits arising from investments held at fair value through profit or loss:			
Other Investments	13	(1,288,110)	1,193,579
Investments held for trading	14	(336,720)	(508,668)
Other income		–	16,124
Administrative expenses		(615,439)	(583,624)
Operating (loss)/profit		(2,240,269)	117,411
Finance income	5	65,799	152,018
Share of loss from associate	12	–	(835,764)
Loss before and after taxation		(2,174,470)	(566,335)
Loss per ordinary share:			
Basic and diluted loss per share on loss for the year	10	(1.45p)	(0.51p)

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

The notes on pages 17 to 34 form part of these financial statements.

Balance Sheet

AS AT 30 SEPTEMBER 2010

	Notes	30 September 2010 £	30 September 2009 £
Non-current assets			
Property, plant and equipment	11	7,432	7,091
Other investments	13	2,662,283	3,840,916
		2,669,715	3,848,007
Current assets			
Investments held for trading	14	–	788,264
Trade and other receivables	15	67,247	113,675
Cash and cash equivalents	16	27,065	118,593
Total current assets		94,312	1,020,532
Total assets		2,764,027	4,868,539
Current liabilities			
Trade and other payables	17	132,584	119,603
Net assets		2,631,443	4,748,936
Shareholders equity			
Called up share capital	18	150,261	150,261
Share premium account		6,464,876	6,464,876
Retained earnings		(3,983,694)	(1,866,201)
Total shareholders equity		2,631,443	4,748,936

The financial statements were approved by the board and authorised for issue on 28 April 2011 and were signed on its behalf by:

Dr Richard Leaver
Chief Executive Officer

Registered number: 5174441

The notes on pages 17 to 34 form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Share capital £	Share premium £	Retained earnings £	Total £
Year ended 30 September 2009				
At 1 October 2008	105,500	5,032,525	(1,299,866)	3,838,159
Issue of share capital	44,761	1,432,351	–	1,477,112
Loss for the year and total recognised income and expense	–	–	(566,335)	(566,335)
At 30 September 2009	150,261	6,464,876	(1,866,201)	4,748,936
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	150,261	6,464,876	(3,983,694)	2,631,443

Share capital

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

Share premium

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

Retained earnings

Retained earnings represent the cumulative net income and losses of the Company recognised through the statement of comprehensive income.

The notes on pages 17 to 34 form part of these financial statements.

Cash Flow Statement

FOR THE YEAR ENDED 30 SEPTEMBER 2010

	Notes	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Cash flow from operating activities			
Loss for the year		(2,174,470)	(566,335)
Adjustments for:			
Share of loss from associate		–	835,764
Finance income		(65,799)	(155,895)
Fair value losses/(gains)		1,624,830	(684,911)
Depreciation		10,807	7,091
Share based payment	6	56,977	–
Operating cash flows before movements in working capital		(547,655)	(564,286)
Decrease in trade and other receivables		46,428	85,296
Increase/(decrease) in trade and other payables		12,981	(75,870)
Net cash used in operating activities		(488,246)	(554,860)
Investing activities			
Interest received		1,322	–
Payments to acquire investments		(45,000)	(166,187)
Proceeds from sale of investments		451,544	577,179
Acquisition of property, plant and equipment		(11,148)	(14,181)
Cash flows redeemed from investing activities		396,718	396,811
Net decrease in cash and cash equivalents		(91,528)	(158,049)
Cash and cash equivalents at beginning of the year	16	118,593	276,642
Cash and cash equivalents at end of the year	16	27,065	118,593

The notes on pages 17 to 34 form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

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").

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

The Company has entered into a shareholder loan agreement on 28 April 2011 with certain existing shareholders. These shareholders have 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, will join the Board on an unpaid basis.

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 financial statements do not contain the adjustments that would result if the Company were unable to continue as a going concern.

Associates

Where the Company 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 statement of comprehensive income, 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 the Company 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

1 Accounting policies (continued)

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, the Company may choose to designate the entire hybrid contract as a financial asset at fair value through profit or loss.

Property, plant and equipment

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

The charge for depreciation is calculated to write down the cost of tangible fixed assets to their estimated residual values over their expected useful lives as follows:

Leasehold premises	over the term of lease
Plant and machinery	25 % straight line
Fixture and fittings	25 % straight line
Motor vehicles	25 % straight line

Impairment provisions are made where carrying value of tangible fixed assets exceeds the recoverable amount.

Financial assets

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

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

Fair value through profit or loss

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

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

1 Accounting policies (continued)

Financial assets (continued)

Loans and receivables

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

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

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

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

Financial liabilities

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

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost include:

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

Finance income

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

Leased assets

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

Pension costs

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

Operating loss

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

1 Accounting policies (continued)

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 statement of comprehensive income.

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

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).

Share-based payments

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

Standards, Amendments and Interpretations in issue not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 October 2010 or later periods and which the Company has decided not to apply early. The directors do not expect the adoption of these standards to have a significant effect on the reported position and results of the Company. These are:

- **Improvements to IFRSs (2009) (Issued 16 April 2009) Effective generally 1 January 2010**

  The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards.

  The changes include the clarification that: The disclosure requirements of other IFRSs do not generally apply to non-current assets (or disposal groups) classified as held for sale; total assets for each reportable segment need only to be disclosed when such information is regularly provided to the chief operating decision maker; that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification; and, that only expenditures which result in a recognised asset can be classified as a cash flow from investing activities. It also confirms that the combination of entities or businesses under common control and the contribution of a business on the formation of a joint venture are outside the scope of IFRS 2 and that IFRIC 9 also does not apply to embedded derivatives in contracts acquired in such transactions.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

1 Accounting policies (continued)

Standards, Amendments and Interpretations in issue not yet effective (continued)

The Amendment changes IAS 38 to bring the guidance on the treatment of intangible assets acquired as part of a business combination in line with the requirements of IFRS 3 (R) and to clarify the description of valuation techniques used in the absence of an active market. It removes the restriction in IFRIC 16 on the entity that can hold a hedging instrument used in the hedge of a net investment in a foreign operation and also introduces changes to IAS 17 that eliminate the inconsistencies between the general lease classification and the guidance applicable to the classification of the land element in long-term leases of land and buildings. The later changes may lead to an increased number of instances when the land element of a lease of land and buildings is classified as a finance lease. Finally, improvements to IFRSs (2010) introduce a number of changes to IAS 39. These changes restrict the scope exemption in IAS 39.2(g) to forward contracts between an acquirer and a selling shareholder to buy or sell an acquire in a business combination at a future acquisition date (i.e. removing the scope exemption for option contract whether or not currently exercisable, that on exercise will result in control of an entity. It also clarifies when embedded prepayment options can be considered closely related to a host contract, the timing of reclassification adjustments in designated cash flow hedging relationships and, the use of internal contracts in hedging relationships.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (Issued 26 November 2009) effective 1 April 2010**

  This Interpretation addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability. Broadly, it applies to transactions where the two parties are only acting in their capacity as lender and borrower. It does not address the appropriate treatment for the creditor and does not apply to arrangement in which liabilities are extinguished in return for equity instruments in accordance with the original terms of the financial liability.

  For transactions within its scope, where the whole liability is extinguished, the interpretation requires the equity instruments issued to be measured at their fair value and the difference between that fair value and the carrying value if the financial liability extinguished to be recognised in a profit or loss. Where only part of the financial liability is extinguished, some allocation of the consideration between the extinguished portion of the liability and the part of the liability that remains outstanding may be required.

- **Revised IAS 24 Related Party Disclosures (Issued 4 November 2009) effective 1 January 2011**

  The revision to IAS 24 is in response to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns by:

  - Providing a partial exemption for government-related entities – Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised Standard requires such entities to disclose information about individually and collectively significant related party transactions only.
  - Providing a revised definition of a related party – The structure of definition of a related party has been simplified and inconsistencies eliminated. Illustrative examples have also been added. The revised definition will mean that some entities will have more related parties for which disclosures will be required. The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates, and entities with shareholders that are involved with other entities.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

1 Accounting policies (continued)

Standards, Amendments and Interpretations in issue not yet effective (continued)

- **IFRS 9 Financial Instruments (Issued 12 November 2009) effective 1 January 2013**

  IFRS 9 will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: Classification and measurement; impairment; and, hedge accounting. As each phase is completed it will delete the relevant portions of IAS 39 and create new chapters on IFRS 9.

  IFRS 9 as issued on 12 November 2009 address the classification and measurements of financial assets only. The requirements for the classification and measurement of financial liabilities will be finalised and added to IFRS 9 once issues related to the recognition of changes in an entity's own credit risk have been addressed.

  The main features IFRS 9 as issued on 12 November 2009 are:

  A financial asset should be:

  - Classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset;
  - measured at amortised cost if it meets two conditions: (a) The entity's business model is to hold the financial asset in order to collect the contractual cash flows; and, (b) the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding; and
  - subsequently measured at amortised cost or fair value depending on the business model of the entity and the terms of the instrument.

  Hybrid contracts with a host that is within the scope of IFRS 9 (i.e. a financial host) must be classified in its entirety in accordance with the classification approach stated above. This eliminates the existing IAS 39 requirements to separately account for an embedded derivate and a host contract. The embedded derivative requirements under IAS 39 continue to apply where the host contract is a non-financial asset and for financial liabilities.

  IFRS 9 includes an accounting policy choice allowing investments in equity instruments to be measured at fair value through other comprehensive income. This is an irreversible election made, on an instrument by instrument basis, at the date of initial recognition. Where this option is not taken, all equity instruments with the scope of IFRS 9 will be classified as fair value through profit or loss. Irrespective of the policy choice made, dividends received on equity instruments will always be recognised in profit or loss.

  Subsequent reclassification of financial assets between the amortised cost and fair value categories is permitted only when an entity changes its business model for managing its financial assets.

  The held to maturity and available for sale classifications have been eliminated.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

2 Critical accounting estimates and judgements

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

3 Fair value of financial instruments

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

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

The methods and assumptions applied, and the valuation techniques used, are disclosed in note 13.

4 Operating loss	Year ended 30 September 2010 £	Year ended 30 September 2009 £
This is stated after charging:		
Operating lease rentals – land and buildings	35,237	38,740
Depreciation	10,807	7,091
Auditors remuneration – statutory audit fees	34,000	30,000
Non-audit services – tax compliance	3,000	5,000
Non-audit services – other services	2,000	–
Share based payment	56,977	–

5 Finance income	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Interest received on other investments classified as loans and receivables	64,477	152,018
Interest received on short term loan	1,322	–
	65,799	152,018

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

6 Share based payment

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

	2010		2009	
	Weighted average exercise price (p)	Number	Weighted average exercise price (p)	Number
Outstanding at the beginning of the year	–	–	–	–
Granted during the year	4.5	9,621,666	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	–	–	–	–
	65,799	9,621,666	–	–

The exercise price of options outstanding at the end of the year was 4.5p (2009: n/a) and their weighted average contractual life was 5 years (2009: n/a).

Of the total number of options outstanding at the end of the year, nil (2009: n/a) had vested and were exercisable at the end of the year.

The weighted average fair value of each option granted during the year was 3p (2009: n/a).

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

	2010 Weighted average exercise price (p)	2009 Weighted average exercise price (p)
Equity-settled		
Option pricing model used	Black-Scholes	–
Share price at date of grant (in pence)	4.5p	–
Exercise price (in pence)	4.5p	–
Contractual life (days)	1,825	–
Expected volatility	78%	–
Risk free interest rate	5%	–

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

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

The share-based remuneration expense (note 4) comprises:

	2010 £'000	2009 £'000
Equity-settled schemes	56,977	–

The Company did not enter into any share-based payment transactions with parties other than directors and employees during the current or previous period.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

7 Staff costs including directors	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Wages and salaries	184,640	162,478
Social security costs	15,238	9,075
Other pension costs	12,000	5,000
Compensation for loss of office	–	45,840
	211,878	222,393

During the year the company had an average of 2 employees who were both administrative (2009: 2). One of the employees was both the director and the key management personnel of the Company.

8 Directors' and key management personnel		Year ended 30 September 2010 £	Year ended 30 September 2009 £
Director			
Lord Dear	Emoluments	23,000	19,173
	Pension	–	–
	Share Options	7,419	–
Dr Richard Leaver	Emoluments	113,440	63,127
	Pension	12,000	5,000
	Share Options	35,928	–
General Sir Michael Wilkes	Emoluments	15,000	4,083
	Pension	–	–
	Share Options	5,564	–
Peter Varnish OBE	Emoluments	21,200	20,033
	Pension	–	–
	Share Options	5,564	–
Nigel Robertson	Emoluments	–	12,500
	Pension	–	–
	Share Options	–	–
	Compensation for loss of office	–	45,840
		84,640	165,673

There was one director in the Company's defined contribution pension scheme during the year (2009: 1).

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

9 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 21% (2009: 21%). The differences are explained below:

	2010 £	2009 £
Loss before tax	(2,174,470)	(566,335)
Loss before tax multiplied by standard rate of corporation tax of 21% (2009: 21%)	(456,639)	(118,930)
Effect of:		
Expenses not deductible for tax purposes	282,468	175,123
Timing differences on fixed assets	464	9,427
Deferred tax asset on brought forward losses not previously recognised	–	(65,620)
Losses carried forward	173,707	–
Tax for the year	–	–

The Company 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 2010 is £311,349 (2009: £137,642).

10 Loss per ordinary share

The calculation of basic loss per share of £1.45p (2009: loss per share of 0.51p) is based on the loss for the year after tax of £2,174,470 (2009: loss of £566,335) and on the weighted average number of shares in issue during the period of 150,260,935 (2009:111,342,594).

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

11 Property, plant and equipment

	Office equipment £
Cost	
At 1 October 2009	34,275
Additions	11,148
At 30 September 2010	45,423
Depreciation	
At 1 October 2009	27,184
Charge for the year ended 30 September 2010	10,807
At 30 September 2010	37,991
Net book value	
At 30 September 2009	7,091
At 30 September 2010	7,432

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

12 Share of loss from associate

The Associate referred to is the Company's previous investment in The PegasusBridge Defence & Security Fund Limited, whose investment assets were acquired by the Company and reported in the 2009 Annual Report. The Associate subsequently underwent a voluntary solvent liquidation.

The following tables illustrate summarised financial information for the Associate at 30 September 2010 (£nil) and the comparative period.

Associate's balance sheet	2010 £	2009 £
Total assets	–	–
Total liabilities	–	–
Net assets	–	–

Associate's result	2010 £	2009 £
Loss for the period	–	(2,210,820)

	2010 £	2009 £
Share of loss from associate	–	(835,764)

13 Other investments

	2010 £	2009 £
At 1 October	3,840,916	–
Transfer from investments held for trading	–	848,144
Additions	45,000	1,643,304
Disposals	–	–
Fair value (loss)/gain for the year	(1,288,110)	1,193,573
Finance income	64,477	155,895
At 30 September	2,662,283	3,840,916

The above investments were split as follows:

	2010 £	2009 £
Loans receivables	1,091,747	917,697
Other investments	1,570,536	2,923,219
At 30 September	2,662,283	3,840,916

Unquoted investments	Class of shares/investment	Book value and Fair value £
OmniPerception Limited	Convertible loan notes	572,649
Pedagog Limited	B Ordinary 1p	0
Pedagog Limited	Convertible loan notes	0
Zimiti Limited	Convertible loan notes	687,289
eSeekers Ltd (ShareNow)	Ordinary 1p	1,074,900
Medcenter Holdings Inc	Preferred US$0.01	131,446
Medcenter Holdings Inc	Convertible loan notes	195,999
At 30 September		2,662,283

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

13 Other investments (continued)

Fair value

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

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

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

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

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

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

14 Investments – held for trading

	2010 £	2009 £
At 1 October	788,264	2,722,255
Transfer to other investments	–	(848,144)
Additions	–	–
Disposals	(451,544)	(577,179)
Fair value (loss) for the year	(336,720)	(508,668)
At 30 September	–	788,264

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

15 Trade and other receivables	2010 £	2009 £
Trade receivables	8,791	–
Prepayments	48,714	31,899
Loan receivable	–	75,679
Social security and other taxes	9,742	6,097
	67,247	113,675

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.

16 Cash and cash equivalents	2010 £	2009 £
Cash at bank and in hand	10,000	23,934
Treasury reserve deposit	17,065	94,659
	27,065	118,593

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.

17 Trade and other payables	2010 £	2009 £
Trade payables	49,574	40,547
Accruals	78,295	74,514
Social security and other taxes	4,715	4,542
	132,584	119,603

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

18 Share capital	2010 Number	2010 £	2009 Number	2009 £
Issued and fully paid				
At 1 October	150,260,935	150,261	105,500,000	105,500
Issue of ordinary shares	–	–	44,760,935	44,761
At 30 September	150,260,935	150,261	150,260,935	150,261

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

19 Post balance sheet events

On 25 February 2011, the Board of the Company announced that the value of its investment in Pedagog should be impaired to zero following Pedagog's ongoing severe difficulties in raising finance and concerns about its viability. As a consequence the fair value of this investment has been written down to zero. Given this is considered to be reflective of the situation that existed at 30 September 2010, these financial statements reflect this adjustment.

On 16 March 2011, OmniPerception completed a further funding round in which the Company was not able to participate, resulting in its shareholding diminishing to 5.58% but the book value unchanged.

The Company has entered into a shareholder loan agreement on 28 April 2011 with certain existing shareholders and other lenders. These lenders have 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, will join the Board on an unpaid basis.

20 Financial instruments

Categories of financial assets and liabilities

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

		Loans and receivables	
Financial assets	**Notes**	**2010 £**	**2009 £**
Loans receivable	13	1,091,747	917,697
Trade and other receivables	15	67,247	113,675
Cash and cash equivalents	16	27,065	118,593
		1,186,059	1,149,965

		Fair value through profit or loss		
Financial assets	**Notes**	**Held for trading £**	**Designated upon initial recognition £**	**Total £**
At 30 September 2010				
Other investments	20	–	1,570,536	1,796,666
At 30 September 2009				
Investments held for trading	20	788,264	–	788,264
Other investments	20	–	2,923,219	2,923,219

	Fair value measurements at 30 September 2010 using		
Financial assets	**Level 1 £**	**Level 2 £**	**Level 3 £**
Other investments	–	1,402,345	168,191

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

20 **Financial instruments** continued

Level 3 fair value measurements at 30 September 2010

Financial assets	Unlisted available-for-sale investments £'000
Opening balance	220,441
Net gains and losses recognised in other comprehensive income	(52,250)
Closing Balance	168,191

The fair value of the unlisted securities is based on the Black Scholes valuation technique using a commercial interest rate of 15% and expected volatility in the range of 32-42%.

		Financial liabilities measured at amortised cost	
Financial liabilities	Notes	2010 £	2009 £
Trade payables	17	49,574	40,547
Accruals	17	78,295	74,514
		127,869	115,061

The Company's financial instruments comprise other investments held for trading, cash and cash equivalents and trade payables that arise directly from the company's operations. The main purpose of these instruments is to invest in these companies. Investments held for trading and other investments have been held at fair value through profit and loss. The main risks arising from holding these financial instruments is market risk and credit risk. Market risk is also examined in post balance sheet events (note 19).

Interest rate risk

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

Market risk

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

Sensitivity analysis

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

10% movement either way will result in £288,841 profit or (loss)
20% movement either way will result in £577,682 profit or (loss)
30% movement either way will result in £866,524 profit or (loss)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

20 Financial instruments continued

Currency risk

The Company'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 $860,255 (2009: $788,094). A 10% increase or decrease in the $/£ exchange rate would have a £55,917 (2009: £50,164) impact on net result for the year and net assets, based on the rate prevailing at 30 September 2010.

Liquidity risks

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

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.

Credit risk

The Company'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 £27,065 (2009: £118,593).

The maximum credit risk relating to a loan receivable is equal to its carrying value of £1,010,336 (2009: £917,697).

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 (2009: $294,555).

Trade receivables arise as a result of share trading and at year end the company's maximum exposure to credit risk on trade receivables is £8,791 (2009: £nil).

Capital disclosure

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

21 Related party transactions

Dr Richard Leaver is a director of Zimiti Limited, a director of OmniPerception Limited (until 22 March 2011) and Pedagog Limited in order to represent the interests of the investors.

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

Dr Richard Leaver is a partner in PegasusBridge Fund Management LLP. As part of the Asset Purchase Agreement between Blue Star Capital and PegasusBridge Fund Management Limited, PegasusBridge Fund Management LLP invoiced monthly monitoring fees from Zimiti Limited of £1,500 per month (2009: £1,500 per month), OmniPerception Limited £700 per month (2009: £1,000 per month) and Pedagog Limited £1,500 per month (2009: £1,500 per month).

During the year, Blue Star Capital made further investments as convertible loans in Zimiti Limited (£15,000) and OmniPerception Limited (£30,000), which included invoicing a 2% arrangement fee of £1,124.

Also during the year, Blue Star Capital gave a short term loan to Pedagog of £17,000 at an interest rate of 10% per annum. The loan was due to be paid by 31 January 2011 but our current view since the impairment of Pedagog, is that it is unlikely to be repaid.

Peter Varnish OBE (as Closed Solutions Limited), was paid a total of £21,545 during the year in respect of directors fees and expenses (2009: £20,314).

General Sir Michael Wilkes KCB CBE (as Marbral Limited) was paid a total of £15,000 during the year in respect of directors fees and expenses (2009: £4,258).

During the previous year Blue Star Capital acquired the assets of The PegasusBridge Defence & Security Fund Limited for a consideration of £1,487,111 satisfied by the issue of 45,063,965 ordinary Blue Star shares at 3.3p per share. This was subsequently reduced, as allowed under the Asset Purchase Agreement, by £10,000, representing the costs of the transaction to The PegasusBridge Defence & Security Fund Limited that it was not able to meet itself. This corresponding to a reduction of 303,030 shares at 3.3p per share.

The PegasusBridge Defence & Security Fund Limited was then placed in solvent liquidation and its Blue Star Capital shares distributed in specie to its shareholders. Dr Richard Leaver was a director and shareholder in The PegasusBridge Defence & Security Fund Limited. Lord Dear and General Sir Michael Wilkes were shareholders in The PegasusBridge Defence & Security Fund Limited.

Blue Star Capital also invoiced £11,000 to PegasusBridge Fund Management Limited in respect of 50% share of valuation and tax advice fees due to BDO Stoy Hayward, its Auditors.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 SEPTEMBER 2010

22 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	
	2010	**2009**
	£	**£**
Due within one year	35,385	35,385
Due after one year and within five years	35,385	70,770
	70,770	106,155

The Company has entered into a lease agreement with The Portman Estate, which is due to expire on 8 September 2014 with a three year breakpoint (8 September 2012) inclusive of a rent deposit of £20,346, at an annual rent of £35,385 for the rental of office premises.

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