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Annual Report 2007- 08

BlueStar SecuTech Inc Report and
Financial Statements for the Period Ended 31 March 2008

BlueStar SecuTech, Inc.

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CONTENTS

About BlueStar

BlueStar SecuTech Inc is the leading video network surveillance solution provider in China. We design, develop, market and manufacture our proprietary video network solutions. With our core products: Network Platform, Network Video Recorders (NVRs) and Digital Video Recorders (DVRs), we are the major supplier of video network technology solutions to the banks in China, we provide the best surveillance solutions that are vital for our customers, fulfilling their need of video surveillance security.

BlueStar SecuTech Inc was incorporated on 7 June 2006 under the laws of the British Virgin Islands and was quoted on the AIM market of the London Stock Exchange on 18 June 2007. Its head office is in Beijing and has branch offices in Shanghai, Guangzhou, Shenyang, Xi'an, Chengdu and Tianjin of China.

At BlueStar we provide our clients with the highest standards in technology, performance products, and service. This includes our video network solutions, software optimising and upgrading services, NVR & DVR sales and replacement. When it comes to data storage, we are very proud to be using a "network surveillance management platform" to achieve integration and centralisation management. This in turn simplifies the management of video data, by making it easily accessible for any time and date, on or off site. We also provide direct solutions for special applications of businesses such as banks, stock brokers and public security organisations. All of which can be achieved based on the development, production and sales of large-sized central management software, NVRs, DVRs and peripheral devices.

In recent years, BlueStar has experienced rapid growth and obtained a number of awards including 2007's Deloitte's Technology Fast 500 Asia Pacific and 2007's Deloitte's Technology Fast 50 China awards for growing companies.

Financial and Operational Highlights

Revenues of RMB175 million/£12.5m (2006: RMB102 million/£7.3m)

Revenue from high margin software of RMB22 million/£1.6m (2006: RMB13 million/£0.93m)

Revenue from two new sales & service centres of RMB17 million/£1.2m since opening in Q3 2007

Gross profit increased to RMB96 million/£6.9m (2006: RMB57 million/£4.1m)

Net profit of RMB52 million/£3.7m (2006: RMB42 million/£3m)

Strong cash position of RMB115 million/£8.2m (2006: RMB23 million/£1.6)

Maiden dividend of 0.96p per share

Annual production capacity doubled to 60,000 units with increased investment on capital expenditure

Please note, the comparisons made are for the 12 month period ended 31 December 2006 and the 15 month period ended 31 March 2008

The fifteen months under review represent a period in which BlueStar achieved its financial targets and operational objectives. These are achievements which the Company is proud of and demonstrated the quality and commitment of the BlueStar Group.

Despite the delay in the translation of the funds from the IPO proceeds into Chinese Yuan, the Company was proud to announce that it exceeded its financial targets, doubled its production capacity in 2007 and has also invested in product research and development. In February 2008, with all the IPO proceeds translated, the company continues to expand its presence across China, moving into new sectors and positioning itself to address the opportunities that international markets offer.

The Group plans to remain focused on our banking clients. With the growing trend of inter-networking in the banking sector, BlueStar's network solution and central control platform will create customer loyalty and increase the entry barrier to our competitors. This will in turn drive sales of BlueStar's other software and surveillance products and will be in a strong position to offer clients new products in the 5 year replacement cycle.

Going forward, the Group plans to expand its product offering. The joint development with JVC to develop an IP-based surveillance camera will be launched by the end of 2008. The Group continues to look for partnership or strategic investment opportunities to integrate other key surveillance products into BlueStar's network.

The Company's solution has been well recognized in the industry. The Company is one of the two companies in China awarded the certification of "high-definition" DVR by the Ministry of Public Security of the People's Republic of China.

I would like to thank the members of the board for their strategic suggestions and help, and to thank all the employees for their highly valuable contributions to the Group's development.

Liu Xiaochuan

Chairman, Non-Executive Director

Key Financial Information

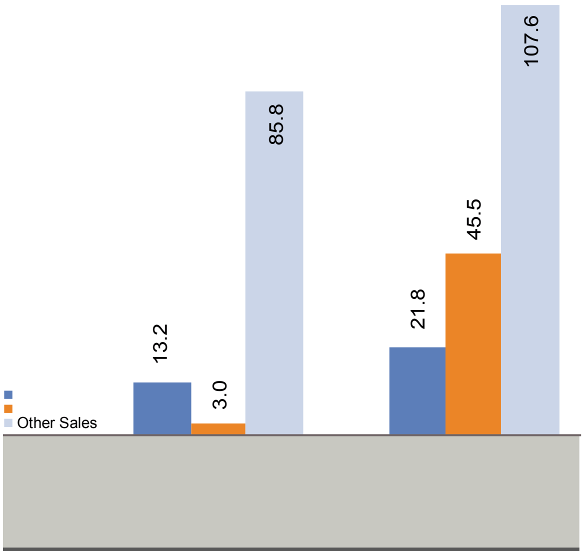
	15 months ended 31March 2008		12 months ended 31 December 2006	
	RMB'm	GPB'm	RMB'm	GPB'm
Revenue	174.9	12.5	102.0	7.3
Profit from operations	52.2	3.7	45.0	3.2
Profit before tax	52.2	3.7	45.0	3.2
Net profit for the period	51.7	3.7	42.1	3.0
Total assets	253.0	18.1	98.6	7.0
Total liabilities	(24.8)	(1.8)	(38.1)	(2.7)
Net assets	228.2	16.3	60.5	4.3

Trading results for the 15 month period ended 31 March 2008 showed revenue of RMB175 million/ £12.5m (2006: RMB102 million/ £7.3m), which was in line with management's expectations. Profit before tax for the period was RMB52 million/ £3.7m (2006: RMB45 million/ £3.2m), and ahead of management's expectations due to increased revenue from networking projects and software sales. This growth continued into early 2008, which is especially pleasing as the first quarter of the calendar year is not traditionally a strong trading period for the Group.

As announced in September 2007, due to PRC government regulations relating to the conversion of IPO proceeds, only US$6.8 million was converted into RMB before 31 December 2007. The remaining balance converted into RMB on 4 February 2008. Notwithstanding this, the Company's management team was able to maintain the Group's operational momentum and exceed their own financial performance expectations for the period. This is testament to the hard work of everyone involved.

Gross profit for the period was RMB96 million/ £6.9m (2006: RMB57 million/ £4.1m) and average gross profit margins for the 15 month period were 55% (2006: 56%), down slightly as a result of a small change in the Company's DVR product mix and a temporary increase in hard disk drive prices in late 2007. However, gross profit margins on software sales remained at 98%.

During the 15 month period, the proportion of projects requiring DVRs to be networked increased substantially, with such projects accounting for 26% of total revenue, compared with just 3% in 2006. Additionally, revenues from high margin software sales increased to RMB22 million/ £1.6m (2006: RMB13 million/ £0.9m), representing 12.6% of total revenue (2006: 13%). Both of these developments represent a conscious move by the Company to increase its focus in these high-margin, value adding areas, which complement its manufacturing capabilities and re-affirms it as being more than a "box seller".



Revenue breakdown in RMB'm

In line with plans announced at the time of floating on AIM in June 2007, the Group increased its investment in Research and Development during the period to RMB16 million/ £1.1m (2006: RMB5 million/ £0.4m), with, amongst other projects, five copyrights being obtained in respect of its new software solutions for advanced networking management functions. The Group also established new sales and service centres in Shenyang and Xi'an in July and September 2007 respectively, and these contributed RMB17million/ £1.2m of revenue in the 15 months ended 31 March 2008.

During the period, to facilitate expansion plans in the Company's Sales and R&D functions, the Company also invested RMB6.6 million/ £0.5m in software development and RMB8.2 million/ £0.6 m on the purchase of equipment (2006: RMB3.2 million/ £0.2m), which included a new surface mounted technology ("SMT") line for RMB 4.3 million/£0.3m, enabling the Company to take greater control over product quality and save third party costs.

Trade debtors and other receivables increased to RMB89 million/ £6.4m at 31 March 2008 (2006: RMB53 million/ £3.8m), which reflects the increase in sales during the period. With the development of non-banking markets and a move into the lower specification end of the market, the Company continues to focus its attention on effective credit management of its trade debtors.

Inventory also increased during the period to RMB20 million/ £1.4m (2006: RMB8.7 million/ £0.6m), which is consistent with the increase in revenues during the period. However, the increase in inventories had the benefit of shortening delivery lead times and improving overall client satisfaction.

Net cash inflow from operating activities was RMB3.6 million/ £0.3m for the period (2006: RMB8.8 million/ £0.6m). The reduction was as a result of the increased working capital demands during the period, in particular the increased Research and Development costs of RMB10.3 million/ £0.7m. Taking into account the net receipts from the Company's IPO on AIM in June 2007, the Group had cash and cash equivalents of RMB115.4 million/ £8.2m at 31 March 2008 (2006: RMB23.1 million/ £1.7m).

BlueStar is a leading provider of digital video surveillance solutions and utilises hardware and software, usually across a network, to capture, process, analyse and store digital video data for its clients.

BlueStar's revenue comes from selling and replacing video network solutions with software optimisation and upgrades, as well as the sale of hardware: including NVRs (Network Video Recorders), DVRs (Digital Video Recorders) and NVSs (Network Video Servers).

To date, the Company's main focus has been in the banking, securities, brokerage and legal sectors within the People's Republic of China as these sectors require high quality video monitoring solutions. This factor, coupled with Government regulation requiring a five years replacement cycle, drives the continued development of the surveillance requirements in these sectors and has provided BlueStar with a solid market foundation and high-margin revenue.

By providing video network solutions, as opposed to hardware alone, BlueStar is able to benefit from high-margin software sales and also develop closer business relationships with clients. BlueStar's high market share in the high-end surveillance market of the banking sector also positions it to benefit from the sale of networking systems and software upgrades which follow on surveillance network projects.

BlueStar is now looking at leveraging its experience to work with distributors and partners to drive sales in other areas of the surveillance market, including overseas, which it expects to become of increasing importance.

importance.

Investment and its achievements

Research and development

BlueStar continued its investment in Research and Development through 2007, despite the conversion of net IPO receipts into Chinese currency not being completed during that year. For the 15 months ended 31 March 2008, the Group invested RMB16 million/ GBP1.1 million of which RMB4.5 million/GBP0.32 million was capitalised, compared to RMB 4.9 million /GBP0.35 million during the 2006 financial year.

As part of its R&D programme during the period, BlueStar obtained five copyrights in respect of its new software solutions, including a Central Monitoring /Management Software (CMS) platform. The CMS platform enables the management and monitoring of video to be standardised and centralised along with the client's alarm and access control systems. This helps our clients to simplify the management of video data and ensures efficient monitoring. This powerful management software has been successfully used in more than 10 networking projects and has generated approximately RMB 45.5 million/GBP3.2 million in revenue for the Group during the period.

A lower cost NVR (Network Video Recorder) series is also in development and has now commenced laboratory testing. This product has been specifically designed for the lower end of the surveillance market and we anticipate the production of these products to commence from the middle of 2008. We also expect these new products to play an important role in the Company's development of new sales channels and to provide BlueStar with the ability to participate in projects such as “China Safe Cities” as well as original equipment manufacturer (“OEM”) markets.

On 29 June 2007 the Company signed an agreement with JVC to focus on the technical development of new high-definition CCTV camera for use by the banking sector in China. The newly joint-developed HD camera is expected to be launched at the end of 2008.

Factory expansion

With part of the IPO proceeds, the expansion of the Group’s factory in Beijing was completed as planned in October 2007, increasing the production and assembly capacity of the factory to 60,000 DVR units per year compared to the previous maximum capacity of 30,000. This production capability meets the development plan of the coming three years. The Group invested approximately RMB4.3 million/GBP0.31 million for the new SMT production line, which enables the Group to assemble DVR circuit boards itself. This is essential for flexibility, cost savings and better quality control. The SMT line is now fully operational.

Business Development

Business expansion

In accordance with the Group’s strategic plans previously outlined, BlueStar has opened regional sales and service centres in Shenyang and Xi’an in 2007 as well as in Chengdu and Tianjin in February and March of 2008. The establishment of these centres will strengthen BlueStar’s local sales and service capability across China and, even during their few months of operation, the centres in Shenyang and Xi’an have contributed 9.7% of 2007 total Group revenues, which gives the Company confidence as to the prospects and potential in China’s regional markets.

Bluestar is looking to continually increase its sales capability within the tier 2 and 3 cities across China. The four new sales and service centres based in Shenyang, Xi’an, Chengdu and Tianjin have helped ensure that the Company is achieving this across the northeast, northwest, southwest of China and Tianjin municipality.

In addition to the provinces where the Company has set up its sales and service centres, the Group has also established business offices in major cities in almost all provinces, ensuring that it has a foothold across the whole of China. The Board believes that, by strengthening BlueStar’s relationships with clients and partners across China, it will be better positioned to grow, consolidate the high-end markets it currently operates in, and expand into new business sectors in the future.

Marketing expansion strategy

During the period ended 31 March 2008, the Company worked with Seagate, a leading global provider of hard-disks, and NXP (PHILIPS), a global provider of semiconductors and software, to demonstrate its network solutions, CMS platform, NVRs and DVRs to existing customers and potential clients in ten major cities across China. Those invited to attend the roadshow were from a variety of targeted business sectors with varied system requirements. In 2008, the Group plans to extend the roadshow to 15 cities across China. To date, four have taken place. The roadshow programme helps promote the Group's products, software and solutions, as well as reinforcing its sales and expansion strategy.

Contracts Wins

During the period ended 31 March 2008, BlueStar signed a number of significant network project contracts with large banking groups in the People's Republic of China. These included contracts with the headquarters of the Bank of China, the China Construction Bank of Inner-Mongolia and the China Construction Bank of Liao Ning province. The Company also signed a contract to provide its software to a systems integrator carrying out an ongoing programme of upgrading the existing BlueStar system for the Agricultural Bank of China.

The company won one significant contract for the headquarters of the Bank of China in December 2007. Our network solutions used to link all of the Bank of China's branches across 13 different provinces. This video surveillance network represents one of the most technically advanced networks of its type in the world.

In addition, the Group won contracts with Shanghai Stock Communication and the forestry protection project as well as undertaking projects in tier 2 and 3 cities with projects in Guizhou province and Inner-Mongolia. This demonstrates BlueStar's capability in developing business in new sectors. The Board sees this as a vital part of increasing sales and look forward to building on this momentum as BlueStar continues its expansion beyond the banking sector.

Finally, the Group continues to win additional contracts and larger orders from its primary clients including the Beijing branch of the China Construction Bank and the Beijing branch of the Industrial and Commercial Bank of China, which demonstrates the recurring nature of sales of BlueStar's solutions and products.

Acquisition strategy

With a view to the long-term development of BlueStar, based upon the Group's requirements to accelerate its ability for non-banking sectors, the Group is currently looking at a number of potential acquisition opportunities. However, BlueStar intends to adopt a very cautious approach and will only undertake an acquisition if it will provide strategic, technical and financial benefits to the Company. The Company expects to strengthen the Research and Development capability and develop the non-banking sectors further by applying the IPO receipts efficiently for any acquisition.

Awards

As a fast-developing company in China, BlueStar is one of the Deloitte Technology Fast 50 China 2007 programme and was named in the Deloitte Technology Fast 500 Asia Pacific 2007 programme.

On 5 May 2008, BlueStar's DVRs were tested and certified as high-definition DVRs by the Ministry of Public Security of the People's Republic of China (Report No: GongHuJian 081245). Based on these inaugural national DVR standards, published on 1 January 2008, BlueStar became one of the two companies in the People's Republic of China to be awarded the Certificate of High-Definition DVR manufacturers.

Summary

These results represent a promising start for BlueStar as an AIM listed company and provide a good platform for the future. Despite the delay in the conversion of the IPO proceeds into RMB during the year, the Group still achieved all of its targets for the period and the Board believes that the Group is now well placed to capitalise on its position going forward.

Outlook and Current Trading

Domestic market

The current financial year has started well with trading in line with management's expectations. The targets and objectives set for the coming year include high levels of growth which the Company is confident of achieving through the careful execution of its expansion strategy.

During the coming year, the Group aims to remain at the forefront of the surveillance industry in China by maintaining its R&D activities with regards to both its software and hardware offerings, as well as strengthening its position within the Chinese banking sector. Additionally, the Group has launched two product lines, namely: "TRENDLINE" (which is aimed at high-end market segments) and "SECULINE" (which has been developed specifically for lower end market segments) which will enable BlueStar to develop other sales channels and market sectors requiring both high and low surveillance technology rapidly. BlueStar will begin commercialising SECULINE in June 2008 and SECULINE is seen by the Company as being a key factor in its ability to provide less sophisticated solutions, to projects like China Safe City, forestry protection project etc. The Group will establish additional sales and service centres in Changsha and Wuhan within the next 3 months.

As mentioned earlier, the Group also considers the potential for selective acquisitions during the coming year, with the intention of assisting it in developing non-banking sectors with its surveillance network solutions and products.

International market

Accessing the global market is an important part of BlueStar's long term growth strategy. In the past, the Company has developed its understanding of overseas market requirements by attending various exhibitions around the world. Based upon this understanding, the Group is now forming a dedicated department to develop its overseas market sales opportunities by leveraging the expertise and experience it has built in China.

This new department consists of a regional sales team, an OEM (Original Equipment Manufacturer) /ODM (Original Design Manufacturer) team, a translator team and a customer service and technical support team, as well as a dedicated R & D team. This department is led by the recently appointed Senior Vice-President, Mr. Romeo Kwok, who has more than 30 years of experience in the security industry.

BlueStar will be attending worldwide exhibitions this year to facilitate its overseas presence and growth of sales. The company is attending exhibitions in Asia, Eastern Europe, Central and South America, Africa and the Middle East increasing the potential for growth overseas during the 2008/9 financial year.

The Directors are pleased to submit their report and the audited financial statements for the year ended.

PRINCIPAL ACTIVITY

The Company is incorporated in The British Virgin Islands on 9 June 2006. The registered Number is 1032245. The principal activity of the Company is to design, develop, manufacture, market, and supply our own video network solutions.

REVIEW OF BUSINESS

The enhanced business review for the Company is provided in the Chairman's Statement section of this annual report.

RESULTS AND DIVIDENDS

In line with the dividend policy set out in the Company's AIM admission document, the board is proposing a maiden final dividend of 0.96p per share (2006: Nil) to be paid from the net profit attributable to ordinary shareholders for the 15 months period ended 31 March 2008, which amounted to RMB 51.7 million. Subject to shareholder consent at the Annual General Meeting, this dividend will be paid on 17 July 2008 to shareholders on the register on 30 May 2008. The Company's ordinary shares will be marked "ex-dividend" on 28 May 2008.

Mr. Liu Xiaochuan
Chairman, Non-Executive Director

Mr. Liu is the Chairman of China Security and Protection Industry Association, the Vice-Director and Superintendent of the Science and Technology Commission of Ministry of Public Security. Mr. Liu was the Vice-Chairman and Research Director of the First Institution of Ministry of Public Security. He was the Chairman of the Computer Communication Bureau of the Ministry of Public Security, Headmaster of the Chinese People's Public Security University. Mr. Liu has been awarded the National Science and Technology Conference Award, and the First, Second and Third Ministry of the Public Security Science and Technology Award.

Mr. Xiao Gang
Chief Executive Officer

Mr. Xiao holds a BA degree in Robotic Instruments and has over 14 years of experience in marketing, sales and manufacturing security and surveillance solutions. Mr. Xiao entered into the security systems industry in 1993, being a foremost distributor for Sanyo CCTV security products through the Guangzhou JingLun Technology Development Co. Ltd. and Guangzhou Mainline Technology Development Co. Ltd. of which he was the Founder and CEO. Between 1999 and 2000, Mr. Xiao was Deputy General Manager of Beijing Century Milestone, a video networking equipment group. In 2000 he founded Beijing BlueStar Software Technology Development Co. Ltd and its subsidiary companies in Guangzhou and Shanghai.

Mr. Romeo Edward Sze-Lam Kwok
Senior Vice President

Romeo Edward Sze-Lam Kwok was appointed as Senior Vice President and Executive Director of BlueStar on 15 February 2008. Mr. Romeo Kwok has over 30 years experience in the strategic marketing and sales of products & project integration, research & manufacturing within the security and surveillance industries both in Greater China and international markets. Prior to working for BlueStar, Mr. Romeo Kwok held senior management positions at a number of leading global security companies. He worked as Executive Director and Vice President of Asia operations at Bosch Security Ltd between 1995 and 2003. He was appointed as Senior Consultant by United Technologies Corp. USA (UTC) and Nixon Technologies Co. Ltd. between 2004 and 2008.

Mr. (Marine) Zheng Yunsheng
Chief Financial Officer

Mr. Zheng is a CPA qualified accountant and joined the Group in 2006. Prior to becoming the CFO he was a Senior Manager of BDO Reanda in Beijing. Prior to joining BDO Reanda, Mr. Zheng was employed as the Senior Consultant at LehmanBrown Financial Management Consultancy, managing the business evaluation and finalisation procedures for foreign corporates looking for opportunities in the PRC.

Ms. Wang Chong
Chief Operating Officer

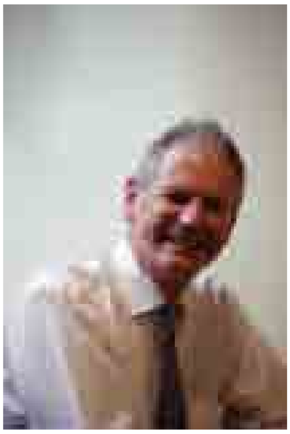
Ms. Wang holds a B.S. Degree in Computer Application Science at the Beijing University of Industry. Ms. Wang has many years of corporate marketing and operating experience having previously worked for Legendmaker Software Development Co. Ltd, which she joined in 1997 as the company's Marketing Manager. In 1999 Ms. Wang joined the Beijing Office of Summedia Communication Technology, where she was responsible for marketing strategy, sales and marketing controls and management. Ms. Wang joined Bluestar in December 2000.

Mr. He Caiguang
Chief Technology Officer

Mr. He Caiguang holds a B.S. Degree in Geo Science at Zhejiang University. He has spent more than 15 years in research, development and implementation of software technology development. He has been with the Group since 2000. Prior to joining the Group, from 1999-2000, he was the software Department Manager of Beijing Century Milestone Technology Co. Ltd., heading up the application of software research and development. Prior to Century Milestone, during 1994-1999, he was employed at Guangdong Provincial Post Bureau as Project Manager and Systems Engineer.

Mr. Teo Kean Eek
Non-Executive Director

Mr. Teo has over 13 years of strategic planning and venture capital experience in the US, the PRC and Singapore. Prior to founding Agile, a financial advisory company in the PRC, he was the principal of Shanghai NewMargin Ventures in charge of investment, divestment and portfolio monitoring. Mr. Teo holds a Master's Degree in Engineering Economics System from Stanford University and a Bachelor's Degree in Electrical Engineering from Arizona State University. He is on the Board of Directors and a member of the audit committee of Pharmesis International Ltd (listed on the Singapore Stock Exchange) and Sinosoft Technology Plc (quoted on AIM).



Mr. David Mace
Non-Executive Director

Mr. David Mace was appointed as Non-Executive Director on 14 May 2007. Mr. Mace has been involved in developing businesses internationally over the last 25 years. In 1987, he led the management buy-out of Sea Life Centre (Holdings) Limited, through to its subsequent flotation in 1992 as Vardon Plc, the leisure group. Mr. Mace has served as a Non-Executive Director of private and venture capital backed companies in France and the UK and has also acted as Management Consultant to businesses in Europe, the Far East and New Zealand. He is a Non-Executive Director of Inspired Gaming Group Plc and Lookers Plc.

DIRECTORS' INTERESTS

Name	Number of shares	%
Xiao Gang (1)	30,870,000	42.40%
He Caiguang (2)	2,940,000	4.04%
Wang Chong (3)	2,450,000	3.37%
Teo Kean Eek (4)	600,000	0.82%

(1) This represents the interests of Mr Xiao and his wife through their shareholdings respectively in SecuLine Technologies, Inc and Sunshine Holdings (Private) Limited

(2) Held through Video Sources Communication Limited

(3) Held through Balance Partners Limited

(4) Held through Agile Partners Limited

SUBSTANTIAL SHAREHOLDINGS

As of 31 March 2008 the company has been notified of the following interests in its ordinary shares which represent 3% or more of the issued share capital of the company.

Name	Number of shares	%
SecuLine Technologies Inc.	17,150,000	23.56%
Sunshine Holdings (Private) Limited	13,720,000	18.84%
Mackenzie Cundill Investment Management	10,340,000	14.20%
CIM Investment Management	5,935,000	8.15%
Balance Partners Limited	5,390,000	7.40%
Video Sources Communication Limited	5,390,000	7.40%
NewTech Capital Management Limited	4,410,000	6.05%
KaiQi Holdings (Private) Limited	2,940,000	4.04%
Wessex Asia Pacific Fund	2,300,000	3.16%

No other person has reported an interest of more than 3% in the ordinary shares.

FINANCIAL INSTRUMENTS

The Company's principal financial instruments comprise inventories, trade and other receivables, cash and bank balances, and trade and other payables. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's instruments are liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarized as below. The Company also monitors the market price risk arising from all financial instruments.

The Company does not trade in any derivatives, has no hedging activities and has no financial assets or liabilities measured at fair value through profit and loss.

a. Credit risk

Receivable balances and cash and cash equivalents are monitored on an ongoing basis with the result that no major credit risk is currently considered to exist. The Company's exposure to credit risk arises from any default of the counterparty, with a maximum exposure equal to the sum of the carrying amount of these instruments. There are no significant concentrations of credit risk within the Company.

b. Foreign currency exchange risks

The Company does not hedge its foreign currencies. Transactions with customers and vendors are mainly denominated in RMB. Management considered that no significant foreign currency exposure will arise in the course of the business operation of the Company.

c. Liquidity risk

The Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The Company takes liquidity risk into consideration when deciding its sources of funds. At the period end there are no borrowings due after more than one year.

d. Interest rate risk

The Company doesn't have material interest rate risk.

AUDITORS

Resolutions to re-appoint Mazars LLP as the company's auditors will be put to the forthcoming annual general meeting.

Xiao Gang
CEO
12 June 2008

COMMITTEE MEMBERS

The Remuneration Committee ("the Committee") comprises Mr. Liu Xiaochuan, Mr. David Mace and Mr. Teo Kean Eek with Mr. Liu Xiaochuan being its Chairman. The Committee shall review and make recommendations in respect of the Directors' remuneration and benefits packages, including staff incentive and the appointment. The Committee also shall make recommendations to the Directors' Board on the allocation of incentive payments to employees and the grant of options to directors and employees.

REMUNERATION POLICY

The Committee aims to provide a remuneration policy consistent with the Company's overall business objectives and thereby attract and retain high-calibre executives, align executives' rewards with the creation of shareholder value and motivate executives to achieve and maintain challenging levels of the company and individual performance.

These packages shall be reviewed regularly and independent advices shall be taken appropriately. They are structured to include both short and longer term incentives. None of the Committeemen has any personal financial interest (other than as shareholders), conflicts of interest or day-to-day involvement in the business operating. The directors or their associates shall not participate in deciding and distributing their own remuneration.

There are four main elements of the remuneration package for executive directors:
- basic salary;
- pensions;
- other benefits; and
- share option incentives

Basic salary

It is the policy of the Committee to set basic salaries at levels which are deemed as the competitive according with the size and complexity of the Company, as well as the broad business sectors in which it operates. The base salaries for Executive Directors and senior managers shall be reviewed annually and resolved by reference to the responsibility and performance of the individual, with a view to the current market practice.

Pensions

Pensions for current Chinese domiciled Executive Directors are provided under the Company's Chinese contributory final salary pension scheme, up to the Chinese Government's salary cap.

Other benefits

The executive directors shall be provided with full medical benefits, and the Company shall reimburse all the medical expenses incurred by the executive directors.

DIRECTORS AND THEIR INTERESTS

The information about the Directors serving the Company for the period and their beneficial interests of the share capital of the Company is disclosed in Page 18 of the Directors' Report.

SERVICE CONTRACTS

Main information of service contracts is as follows:

	Contract Date	Contract Period	Termination Notice	Annual salary/fee
Executive				
Xiao Gang	30 April 2007	3 years	6 months notice by either side	RMB 960,000
Romeo Edward Sze-Lam Kwok	15 Feb 2008	4 years	6 months notice by either side	RMB 720,000
Zheng Yunsheng	30 April 2007	3 years	6 months notice by either side	RMB 360,000
Wang Chong	30 April 2007	3 years	6 months notice by either side	RMB 360,000
He Caiguang	30 April 2007	3 years	6 months notice by either side	RMB 360,000
Non-Executive				
Liu Xiaochuan	7 May 2007	3 years	3 months notice by either side	RMB 216,000
Teo Kean Eek	30 April 2007	3 years	3 months notice by either side	GBP 25,000
David Mace	14 May 2007	3 years	3 months notice by either side	GBP 30,000

DIRECTORS' REMUNERATION

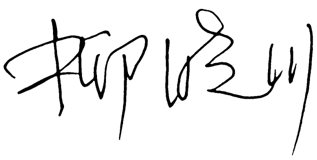
Directors' remuneration for the 15 months-period as of 31 March 2008 is as follows:

	Basic Salary and Fees	Pension Contribut	Other Benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive				
Xiao Gang	1200	25	-	1,225
Romeo Edward Sze-Lam Kwok	-	-	-	-
Zheng Yunsheng	450	25	-	475
Wang Chong	450	25	-	475
He Caiguang	450	25	-	475
Non-Executive				
Liu Xiaochuan	198	-	-	198
Teo Kean Eek	363	-	-	363
David Mace	436	-	-	436
	3,547	100	-	3,647

DIRECTORS' SHARE OPTIONS

The interests of the directors in share options of the Company as of 31 March 2008 is as follows:

Director	Granted Options	Forfeited Options	Executed Options	Expired Options	Exercise Price
					£
David Mace	36,404	-	-	-	0.48



Liu Xiaochuan
Chairman of the Remuneration Committee
12 June 2008

The Directors take account of the requirements of the Corporate Governance Guidelines of the Quoted Companies Alliance to the extent that they consider it appropriate and having regard to the Company's size, stage of development and financial resources.

These governance policies are memorialized in these guidelines to assure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations and to make decisions that are independent of the Company's management.

The guidelines are subject to future refinement or changes as the Board may find necessary or advisable for the Company in order to achieve these objectives.

THE BOARD

The Board currently consists of eight members, three of whom, Mr. Liu Xiaochuan, Mr. David Mace and Mr. Teo Kean Eek are non-executive Directors, including the non-executive Chairman. The Board considers Mr. Liu Xiaochuan and Mr. David Mace to be independent in character and judgment, and accordingly considers each of them to be independent for corporate governance purposes.

The Company shall hold regular board meetings. The Directors shall be responsible for formulating, reviewing and approving the Company's strategy, budget and major items of capital expenditure. The Company currently has three Committees: Audit Committee, Remuneration Committee and Nomination Committee, which shall be only composed of non-executive directors with formally delegated rules and responsibilities. The Audit Committee shall meet twice annually. The Remuneration Committee and Nomination Committee shall meet at least once a year.

AUDIT COMMITTEE

The Audit Committee, chaired by Mr. David Mace, currently comprises Mr. Liu Xiaochuan and Mr. Teo Kean Eek as committee members. The Audit Committee shall determine and examine matters relating to the financial affairs of the Company, including the terms of engagement of the Company's auditors, consultation with the auditors, and the scope of the audit. It shall receive and review the reports from management and the Company's auditors relating to the half year and annual accounts, as well as the accounting and internal control systems in use throughout the Company, in addition, to ensure that the Company complies with the AIM Rules for Companies.

REMUNERATION COMMITTEE

The Remuneration Committee comprises Mr. Liu Xiaochuan, Mr. David Mace and Mr. Teo Kean Eek with Mr. Liu Xiaochuan being its Chairman. The Committee shall review and make recommendations in respect of the Directors' remuneration and benefits packages, including staff incentive and the appointment of them. The Committee also shall make recommendations to the Directors' Board on the allocation of incentive payments to employees and the grant of options to directors and employees.

NOMINATION COMMITTEE

The Nomination Committee, chaired by Mr. Teo Kean Eek, currently comprises Mr. Liu Xiaochuan and Mr. David Mace as committee members. The Nomination Committee shall lead the process of Board appointments and make recommendations for new Board appointments. The purpose of the Nomination Committee is to establish a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

INTERNEL CONTROL

The Board shall be responsible for ensuring that the Company maintains a sound system of internal control to safeguard the Company's assets and take reasonable, but not absolute assurance to detect and prevent any material misstatement or loss. The five executive Directors shall hold key operational positions in the company and daily operational decisions. The Company's system of internal control includes, but is not limited to:

- the Board, which now includes five executive Directors and three non-executive Directors, shall have overall responsibility for the decision making in the Company;

- an annual budgeting process with regular re-forecasting of results, identifying key risks and opportunities;

- the Directors shall have put in place an organizational structure with clearly defined lines of responsibility and delegation of authority;

- the Company's management shall have a clear responsibility for identifying risks facing the business and for putting in place procedures to mitigate and monitor those risks; and

- there shall be clearly defined control policies and procedures for all transactions including appropriate authorization levels.

In view of the company's specific factors including the scale, diversity, complexity, the number of employees as well as cost/benefit considerations, the Board intends to establish the internal audit department in the second half of 2008.

RELATIONS WITH SHAREHOLDERS

The executive Directors shall meet the Company's institutional investors after the announcement of interim and final results and at other times as appropriate. Shareholders who attend the Annual General Meeting ("AGM") shall be invited to query, and the directors attend the AGM shall be available to answer questions relating to the Annual Report and Financial Accounts at the AGM. The Company maintains a website and expects it to grow into a medium for communication with individual shareholders.

GOING CONCERN

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the Group will have adequate resources to operate in the foreseeable future and thereby they consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Liu Xiaochuan
Chairman, Non-Executive Director
12 June, 2008

Independent Auditors' Report

To the shareholders of BlueStar SecuTech, Inc.

We have audited the financial statements of BlueStar SecuTech, Inc. for the period ended 31 March 2008 which comprises the consolidated and parent company income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flows statement, the consolidated and parent company statement of changes in equity and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body. 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 auditors' 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 described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS").

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with BVI Business Companies Act, 2004. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed

We read the other information contained within the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information

Independent Auditors' Report

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of affairs of the Company and of the Group as at 31 March 2008, and of the Group's results for the period then ended; and
- the financial statements have been properly prepared in accordance with the BVI Business Companies Act, 2004.

Mazars LLP

Mazars LLP
Chartered Accountants
Tower Bridge House
St Katharine's Way
London
E1W 1DD
30 May 2008

Income Statements

	Note	Group 15 months ended 31 March 2008 RMB'000	Group 12 months ended 31 December 2006 Proforma RMB'000	Company Period ended 31 March 2008 RMB'000
Revenue	4	174,940	101,999	-
Cost of sales		(78,643)	(44,752)	-
Gross profit		**96,297**	**57,247**	-
Other income	5	5,824	5,770	-
Selling and distribution expenses		(24,157)	(11,132)	-
Administrative expenses		(22,246)	(6,996)	(3,859)
Other operating expenses		(5,769)	(317)	(2,558)
Finance cost		(4)	(3)	-
Finance income		2,255	381	954
Profit from operations	**7**	**52,200**	**44,950**	**(5,463)**
Investment income	8	-	-	36,000
Profit before tax		**52,200**	**44,950**	**30,537**
Taxation	9	(468)	(2,817)	-
Profit for the period attributable to the equity shareholders of the parent		**51,732**	**42,133**	**30,537**
Earnings per ordinary share (fen)				
Basic	**10**	**80.32**	**84.27**	-
Diluted	**10**	**79.17**	**84.27**	-

All operations are continuing.

Balance Sheets

	Note	Group		Company
		31 March 2008	31 December 2006 Proforma	31 March 2008
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	11	10,253	4,233	-
Intangible assets	12	18,400	9,744	-
Investment in subsidiaries	13	-	-	128,021
Total non-current assets		**28,653**	**13,977**	**128,021**
Current assets				
Inventories	14	19,992	8,702	-
Trade and other receivables	15	88,967	52,865	32,423
Cash and cash equivalents	16	115,362	23,054	10,587
Total current assets		**224,321**	**84,621**	**43,010**
Total assets		**252,974**	**98,598**	**171,031**
LIABILITIES & EQUITY				
Current liabilities				
Trade and other payables	17	11,095	22,550	1,550
Short term loans (unsecured)	18	-	7,816	-
Income tax liability		2,420	2,420	-
Other tax liability		10,776	5,307	-
Total current liabilities		**24,291**	**38,093**	**1,550**
Non-current liabilities				
Deferred taxation	19	468	-	-
Total non-current liabilities		**468**	-	-
Total liabilities		**24,759**	**38,093**	**1,550**
Capital and reserves				
Share capital	20	134,861	391	134,861
Merger reserves	22	(7,575)	15,000	-
Retained earnings	22	73,096	29,124	30,537
Option reserve	22	4,083	-	4,083
Other reserves	22	23,750	15,990	-
Total shareholders' equity		**228,215**	**60,505**	**169,481**
Total liabilities & equity		**252,974**	**98,598**	**171,031**

Approved by the Board on 30 May 2008 and signed on its behalf by:

Mr. Xiao Gang

Chief Executive Officer

Cash Flow Statements

	Group		Company
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma	Period ended 31 March 2008
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities			
Profit before tax	52,200	44,950	30,537
Adjustments for:			
Allowance for doubtful debts	-	1,233	-
Depreciation of property, plant and equipment	2,056	1,231	-
Amortisation of intangible assets	2,437	582	-
Loss on disposal of property, plant and equipment	123	90	-
Share based payment	143	-	143
Operating cash flows before movement in working capital	56,959	48,086	30,680
Increase in inventories	(11,290)	(1,487)	-
Increase in trade and other receivables	(36,102)	(48,628)	(32,423)
(Decrease)/increase in trade and other payables	(5,986)	11,039	1,550
Cash generated from operations	3,581	9,010	(193)
Income taxes paid	-	(41)	-
Net cash generated from /(used in) operating activities	3,581	8,969	(193)
Cash flow from investing activities			
Proceeds of disposal of property, plant and equipment	2	3	-
Purchase of property, plant and equipment	(8,201)	(1,226)	-
Purchase of intangible assets	(6,637)	(1,937)	-
Expenditure on product development	(4,456)	(3,834)	-
Cash paid for restructuring (Note 23)	(22,575)	-	(128,021)
Net cash used in investing activities	(41,867)	(6,994)	(128,021)
Cash flow from financing activities			
Proceeds from issue of shares	164,909	391	165,300
Proceeds from borrowings	15,357	7,816	23,173
Dividends paid	-	(7,216)	-
Repayment of borrowing loan	(23,173)	-	(23,173)
Share issue costs	(26,499)	-	(26,499)
Cash transferred on restructuring	-	17,785	-
Net cash generated from financing activities	130,594	18,776	138,801
Net increase in cash and cash equivalents	92,308	20,751	10,587
Cash and cash equivalents at the beginning of the period	23,054	2,303	-
Cash and cash equivalents at the end of the period	**115,362**	**23,054**	**10,587**

Statements of Recognised Income and Expense

	Group		Company
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma	Period ended 31 March 2008
	RMB'000	RMB'000	RMB'000
Profit for the period	51,732	42,133	30,537
Total recognised income and expenses for the period	**51,732**	**42,133**	**30,537**

Statement of Changes in Equity - Group

	Share Capital RMB'000	Merger Reserves RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000	Option Reserve RMB'000	Total RMB'000
Balance as at 1 January 2006	**-**	**15,000**	**(3,896)**	**11,471**	**-**	**22,575**
Net profit for the period	-	-	42,133	-	-	42,133
Dividends distribution	-	-	(4,594)	-	-	(4,594)
Transfer to statubry reserve	-	-	(4,519)	4,519	-	-
Issue of shares	391	-	-	-	-	391
Balance as at 31 December 2006	**391**	**15,000**	**29,124**	**15,990**	**-**	**60,505**
Net profit for the period	-	-	51,732	-	143	51,875
Transfer to merger reserve	-	(22,575)	-	-	-	(22,575)
Issue of shares	164,909	-	-	-	-	164,909
Share issue costs	(30,439)	-	-	-	3,940	(26,499)
Transfer to statutory reserve	-	-	(7,760)	7,760	-	-
Balance as at 31 March 2008	**34,861**	**(7,575)**	**73,096**	**23,750**	**4,083**	**228,215**

Statement of Changes in Equity - Company

	Share Capital RMB'000	Merger Reserves RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000	Option Reserve RMB'000	Total RMB'000
Issue of shares	391	-	-	-	-	391
Net profit for the period	-	-	30,537	-	143	30,680
Issue of shares	164,909	-	-	-	-	164,909
Share issue costs	(30,439)	-	-	-	3,940	(26,499)
Balance as at 31 March 2008	**134,861**	**-**	**30,537**	**-**	**4,083**	**169,481**

Notes to the Financial Statements

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1.1. General information

The Company was incorporated in British Virgin Islands on 9 June 2006 with the name Trendline Security Solution Co., Ltd. The Company changed its name to BlueStar SecuTech, Inc. on 7 June 2007 and was admitted to the AIM Market ("AIM") on 18 June 2007.

The Company's registered office is Offshore Incorporations Centre P.O.Box 957 Road Town Tortola British Virgin Islands. The Company is domiciled in British Virgin Islands.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are set out in Note 13.

This is the Company's first set of consolidated financial statements since its incorporation.

1.2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations and those parts of the BVI Business Companies Act, 2004 applicable to companies reporting under IFRS.

The Company has adopted IFRS since the date of its registration. These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

1.3. Basis of consolidation

The consolidated financial information includes the accounts of the Company and its wholly owned subsidiaries, made up to 31 March 2008.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company.

Inter-company transaction, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the net asset transferred.

1.4. Merger accounting

The Comp

Notes to the Financial Statements

and liabilities of BlueStar Software Technology Development Co., Ltd and its subsidiaries in cash. The transaction has been accounted for as a common control transaction under UK standard FRS 6 (Acquisition and Mergers) as the directors believe that this is not a business combination in the scope of IFRS 3 (Business Combinations) and there is no international accounting standard dealing with business combinations outside the scope of IFRS 3.

Therefore, the comparative information has been provided on a proforma basis, as if the Group had been in existence throughout the year ended 31 December 2006.

1.5.Management estimates

The presentation of financial information under IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information preparation and the reported amounts of revenue and expenses during the reporting year. Estimates have been made principally in respect of the following areas:

(i) Allowance for doubtful accounts

The Group makes allowance for doubtful accounts based on the assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amount of the receivables may not be recoverable. Management specifically analyses historical bad debts, customer concentrations, customer worthiness, current economical trends and changes in customer payment terms when making judgement to evaluate the adequacy of the allowance for doubtful accounts. Where expectation is different from the original estimate, such difference will impact the carrying value of receivables.

Notes to the Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. The IFRS issued but not yet effective

The Group has not adopted the following standards in the preparation of the financial statements as they are either not effective as at 31 March 2008 or not applicable to the Group's business.

		Effective for:
IFRS 2	Share-based Payment — Amendment relating to vesting conditions and cancellations Revised 2008	Annual periods beginning on or after 1 January 2009
IFRS 3	Business Combinations — Comprehensive revision on applying the acquisition method Revised 2008	Annual periods beginning on or after 1 July 2009
IFRS 8	Operating Segments Original issuance 2006	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements — Comprehensive revision including requiring a statement of comprehensive income 2007	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements — Amendments relating to disclosure of puttable instruments and obligations arising on liquidation 2008	Annual periods beginning on or after 1 January 2009

Notes to the Financial Statements

IAS 23	Borrowing Costs — Comprehensive revision to prohibit immediate expensing 2005	Borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements — Consequential amendments arising from amendments to IFRS 3 2008	Annual periods beginning on or after 1 July 2009
IAS 27	Investments in Associates — Consequential amendments arising from amendments to IFRS 3 2008	Annual periods beginning on or after 1 July 2009
IAS 31	Interests in Joint Ventures — Consequential amendments arising from amendments to IFRS 3 2008	Annual periods beginning on or after 1 July 2009
IAS 32	Financial Instruments: Presentation — Amendments relating to puttable instruments and obligations arising on liquidation 2008	Annual periods beginning on or after 1 January 2009

Interpretations

		Effective for:
IFRIC 11	IFRS 2: Group and Treasury Share Transactions	Annual periods beginning on or after 1 March 2007
IFRIC 12	Service Concession Arrangements	Annual periods beginning on or after 1 January 2008
IFRIC 13	Customer Loyalty Programmes	Annual periods beginning on or after 1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Requirements and their Interaction Annual periods beginning on or after 1 January 2008

2.2. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Chinese Renminbi, which is the Group's functional and presentation currency.

Notes to the Financial Statements

2.3. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

2.4. Government grants

The government provides assistance to software companies by rebating amounts of sales taxes (value-added tax). All sales from software with copyrights authorised by relevant authorities are eligible for value-added tax refunds. The subsidy is recognised as income when the rights to collect the tax refund are established and classified as other income in the income statement.

2.5. Retirement benefit costs

Payment to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plan where the obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

2.6. Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current taxation

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the relevant balance sheet date.

Deferred taxation

Deferred tax is determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except that the potential tax savings relating to a tax loss carry forward is not recorded as an asset unless there is a reasonable expectation of realisation in the foreseeable future.

Notes to the Financial Statements

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit or loss statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority.

2.7. Property, plant and equipment

Property, plant and equipment are recorded at historical cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Property in the course of construction for production or administrative purposes is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. The cost of plant and equipment comprises its purchase price and any attributable costs of bringing the asset to its working condition and loion for its intended use. Expenditure such as repairs and maintenance are normally charged to the income statement in the period the costs are incurred unless it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected from the use of the assets, such expenditure are capitalised. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, using the straight-line method, as follows:

	Annual Depreciation Rate	Residual Value
Vehicles	19%	5%
Fixtures and equipment	19%	5%
Renovation costs	20%	0%

The residual value represents the percentage of the original costs of the assets.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income statement.

2.8. Subsidiaries

A subsidiary is defined as a company in which the investing company has a long-term equity interest of more than 50% or over whose financial and operating policy decisions the group controls.

Shares in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of minority interest.

2.9. Intangible assets

Software licence

Software license is stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the licence over 5 years.

Copyrights

Copyrights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the over 10 years.

Internally generated intangible assets - Research and development expenditure

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects are recognised as internally generated intangible assets only if all of the following conditions are met by the Group:

- the technical feasibility of completing the intangible assets so that it will be available for use or sales;

- its intention to complete the intangible asset and use or sell it;

Notes to the Financial Statements

- its ability to use or sell the intangible assets;

- it is probable that the intangible asset created will generate future economic benefits;

- the availability of adequate technical financial and other resources to complete the development and use or sell the intangible assets; and

- its ability to measure reliably the expenditure attributable to the intangible assets during its development.

Internally generated intangible assets are amortised on a straight-line basis over their estimated useful lives, from the date the intangible is ready for use. Amortisation charge is recognised in the income statement within "Administrative Expenses".

Development costs that have been capitalised as intangible assets are amortised on a straight-line basis over the period of its expected benefits, which normally does not exceed 10 years.

2.10. Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

2.11. Inventories

Inventories are state d at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.12. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash held on demand with banks, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2.13. Financial assets

The principal financial assets are cash, trade receivables, other receivables and other investments. Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. The accounting policy of other investments is outlined above.

Regular way purchases and sales of financial assets are accounted for at trade date, ie, the date that the Group commits itself to purchase or sell the asset.

2.14. Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include interest-bearing short-term bank loans, trade and other payables.

Interest-bearing short-term bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Finance costs are accounted for on an accruals basis (effective yield method) and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables are stated at their nominal value.

Equity instruments are recorded at the fair value of consideration received, net of direct issue costs.

2.15. Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

All borrowing costs are taken to the income

Notes to the Financial Statements

statement over the period of borrowing using the effective interest method.

2.16. Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currencies are recorded at rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary balances denominated in foreign currencies are retranslated at the rates ruling at the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the year.

2.17. Provisions

Provisions are recognised when the combined entity has a present legal or constructive obligation as a result of a past event where it is probable that the obligation will result in an outflow of economic benefits that can be reasonably estimated.

2.18. Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.19. Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

2.20. Related parties

For purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2.21. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Business segment

The Group comprises mainly the sales of digital video devices, software and technological services.

Geographical segment

No geographical segment analysis of the Group is presented as the Group's business operates mainly in the People's Republic of China ("PRC").

2.22. Statutory reserve

Statutory reserve is in respect of the PRC companies and has been set aside in accordance with the legislation in the country.

Notes to the Financial Statements

3. FINANCIAL RISKS AND MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group's Board of Directors. The Board identifies and evaluates financial risks in close co-ordination with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas such as credit risk, interest rate risk, foreign currency risk and liquidity risk.

(i) Credit risk

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history.

(ii) Interest rate risk

The Group obtains additional financing through borrowings. The Group's policy is to obtain the most favourable interest rates available. The terms and interest rates payable are disclosed in relevant notes to the Group financial information.

Surplus funds are placed with reputable banks.

(iii) Foreign currency risk

The Group's sales and purchases are mainly denominated in Chinese Renminbi (RMB). The residual risk after the natural hedging effects of any foreign currencies' denominated assets and liabilities are not expected to have a significant impact on the Group's financial position and future cash flows.

(iv) Liquidity risk

The Group has sufficient cash and cash equivalents to meet its operational requirements.

(v) Fair values of financial assets and financial liabilities

The carrying amounts of financial assets and financial liabilities reported in the balance sheet approximate their fair values.

4. REVENUE AND SEGMENTAL ANALYSIS

The Group's revenue for continuing operations is as follows:

	Group	
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma
	RMB'000	RMB'000
Sales of digital video devices	152,818	88,122
Sales of software	21,752	13,213
Revenue from technological service	370	664
Total	174,940	101,999

The Group's revenue and profit before taxation were all derived from its principal activity. All revenue and results originate in the PRC and assets and liabilities are mainly held in the PRC.

5. OTHER INCOME

	Group	
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma
	RMB'000	RMB'000
Government subsidy income	2,000	-
Value added tax refund	3,733	5,683
Others	91	87
Total	5,824	5,770

Notes to the Financial Statements

6. STAFF COSTS

	Group		Company
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma	Period ended 31 March 2008
	RMB'000	RMB'000	RMB'000
Wages and salaries (including directors)	19,262	7,943	2,009
Pension expense	2,575	-	-
Share based payments (Note 21)	143	-	143
	21,980	7,943	2,152

Included in staff costs are key management personnel compensation analysed as follows:

	Group		Company
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma	Period ended 31 March 2008
	RMB'000	RMB'000	RMB'000
Salaries	3,547	402	2,009
Pension expense	100	35	-
Share based payment (Note 21)	143	-	143
	3,790	437	2,152

7. PROFIT FROM OPERATIONS

The profit from operations is stated after charging the following:

	Group		Company
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma	Period ended 31 March 2008
	RMB'000	RMB'000	RMB'000
Allowance for doubtful debts (trade)	-	1,233	-
Allowance for impairment of inventories	146	26	-
Cost of sales(excluding labour cost included within cost of sales)	77,093	43,294	-
Research & development costs	11,425	1,098	-
Depreciation of property, plant and equipment	2,056	1,231	-
Amortisation of intangible assets (included within administrative expenses)	2,437	582	-
Loss on disposal of property, plant and equipment	123	90	-
Auditors' remuneration	600	-	600
Loss on foreign exchange	4,046	-	2,558

8. INVESTMENT INCOME

	Group		Company
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma	Period ended 31 March 2008
	RMB'000	RMB'000	RMB'000
Investment income	-	-	36,000
	-	-	36,000

Investment income in the Company represents a dividend declared by BlueSky. On 31 December 2007, BlueSky declared a dividend of RMB 36,000,000 to the Company.

Notes to the Financial Statements

9. TAXATION

	Group	
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma
	RMB'000	RMB'000
Current year:		
Current tax	-	2,817
Deferred tax expenses (Note 19)	468	-
	468	2,817

Reconciliation of tax charge:

	Group	
	15 months ended 31 March 2008	12 months ended 31 December 2006 Proforma
	RMB'000	RMB'000
Profit before tax	52,200	44,950
Tax at PRC tax rate of 33% (2006: 33%)	17,226	14,834
Effect of different tax rates of subsidiaries	-	(12,133)
Expenses not deductible in determining taxable profit	8,265	390
Effect of capitalisation of development costs	468	-
Tax effect of income not taxable	(25,491)	(274)
Tax expense for theperiod	468	2,817

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 31 March 2008 is based on the profit attributable to equity shareholders of the Company of RMB 51,732k (2006: RMB 42,133k) and a weighted average number of ordinary shares outstanding during the period ended 31 March 2008 of 64,405,053 (2006: 50,000,000), calculated as follows:

Weighted average number of ordinary shares

	31 March 2008	31 December 2006
At beginning of the period	50,000,000	-
Issued ordinary shares at incorporation	-	50,000,000
Effect of shares issued in June 2007	14,405,053	-
At end of period	64,405,053	50,000,000

In calculating the weighted average number of shares issue, 50,000,000 has been assumed to be issued throughout the year ended 31 December 2006 for comparative purpose.

Diluted earnings per share

The calculation of diluted earnings per share at 31 March 2008 is based on profit attributable to equity shareholders of the Company of RMB 51,732k (2006: RMB 42,133k) and a weighted average number of ordinary shares outstanding during the period ended 31 March 2008 of 65,347,725 (2006: 50,000,000), calculated as follows:

Weighted average number of ordinary shares (diluted)

	31 March 2008	31 December 2006
Weighted average number of ordinary shares at end of period	64,405,053	50,000,000
Effect of conversion of share options	942,672	-
At end of period	65,347,725	50,000,000

Notes to the Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Vehicle RMB'000	Fixture and Equipment RMB'000	Renovation RMB'000	Total RMB'000
Cost				
At 1 January 2006	4,287	2,691	1,587	8,565
Additions	-	933	293	1,226
Disposals	-	(254)	(551)	(805)
At 1 January 2007	4,287	3,370	1,329	8,986
Additions	579	6,478	1,144	8,201
Disposals	(279)	(562)	(211)	(1,052)
At 31 March 2008	4,587	9,286	2,262	16,135
Accumulated depreciation and impairment				
At 1 January 2006	2,327	1,203	704	4,234
Depreciation charge for the period	448	479	304	1,231
Disposals	-	(161)	(551)	(712)
At 1 January 2007	2,775	1,521	457	4,753
Depreciation charge for the period	617	1,005	434	2,056
Disposals	(262)	(536)	(129)	(927)
At 31 March 2008	3,130	1,990	762	5,882
Carrying amount				
At 31 March 2008	1,457	7,296	1,500	10,253
At 31 December 2006	1,512	1,849	872	4,233

Notes to the Financial Statements

12. INTANGIBLE ASSETS – GROUP

	Copyrights RMB'000	Development Cost RMB'000	Purchased Software RMB'000	Total RMB'000
Cost				
At 1 January 2006	2,681	222	2,162	5,065
Additions	-	3,834	1,937	5,771
Transfer in / (transfer out)	222	(222)	-	-
At 1 January 2007	2,903	3,834	4,099	10,836
Additions	4,456	-	6,637	11,093
Transfer in / (transfer out)	2,171	(2,171)	-	-
At 31 March 2008	9,530	1,663	10,736	21,929
Accumulated amortisation and impairment				
At 1 January 2006	465	-	45	510
Charge for the period	268	-	314	582
Transfer in / (transfer out)	-	-	-	-
At 1 January 2007	733	-	359	1,092
Charge for the period	363	479	1,595	2,437
Transfer in / (transfer out)	271	(271)	-	-
At 31 March 2008	1,367	208	1,954	3,529
Carrying amount				
At 31 March 2008	8,163	1,455	8,782	18,400
At 31 December 2006	2,170	3,834	3,740	9,744

Notes to the Financial Statements

13. INVESTMENT IN SUBSIDIARIES – COMPANY

	31 March 2008
	RMB'000
Unquoted equity, at cost	128,021

Investment in subsidiaries consists of:

Name of subsidiary	Principal activities	Place of incorporation	Equity interest
Beijing BlueSky Software Development Co. Ltd ("BlueSky")	Investment holding, production and sales of digital video surveillance solutions	Peoples' Republic of China	100%
Held by BlueSky: Beijing Bluestar River Software Technology Development Co. Ltd	Research and development	Peoples' Republic of China	100%
Guangzhou Bluestar Science and Technology Co. Ltd (GZ Bluestar)	Sales centre	Peoples' Republic of China	100%
Shanghai Bluestar Science and Technology Co. Ltd (SH Bluestar)	Sales centre	Peoples' Republic of China	100%
Shenyang Bluestar Science and Technology Co. Ltd	Sales centre	Peoples' Republic of China	100%
Tianjin Bluestar Science and Technology Co. Ltd	Sales centre	Peoples' Republic of China	100%
Xi'an Bluestar Science and Technology Co. Ltd	Sales centre	Peoples' Republic of China	100%
Chengdu Bluestar Science and Technology Co. Ltd	Sales centre	Peoples' Republic of China	100%

14. INVENTORIES

	Group	
	31 March 2008	31 December 2006
		Proforma
	RMB'000	RMB'000
Raw materials	5,582	1,790
Work-in-progress	1,996	2,587
Finished goods	13,158	4,923
Gross amount before provision for impairment	20,736	9,300
Provision for impairment	(744)	(598)
Net amount	19,992	8,702

Movement of provision for impairment are as follows:

	Group	
	31 March2008	31 December 2006
		Proforma
	RMB'000	RMB'000
Balance at beginning of period	598	572
Provision made during the period	146	26
Balance at end of period	744	598

Notes to the Financial Statements

15. TRADE AND OTHER RECEIVABLES

	Group		Company
	31 March 2008	31 December 2006	31 March 2008
		Proforma	
	RMB'000	RMB'000	RMB'000
Trade receivables	77,040	50,966	-
Less: Provision for doubtful debts			
Balance at beginning of period	(1,727)	(494)	-
Provision made during the period	-	(1,233)	-
Balance at end of period	(1,727)	(1,727)	-
	75,313	49,239	-
Other receivables	4,878	1,638	11
Subsidy receivables	-	1,982	-
Prepayments	8,551	-	-
Prepaid expense	225	6	-
Amount due from subsidiary	-	-	32,412
	88,967	52,865	32,423

The amount due from related party and subsidiary are non-trade, unsecured, and have no fixed term of repayments.

16. CASH AND CASH EQUIVALENTS

	Group		Company
	31 March 2008	31 December 2006 Proforma	31 March 2008
	RMB'000	RMB'000	RMB'000
Petty cash	506	474	-
Bank balances	114,856	22,580	10,587
	115,362	23,054	10,587

17. TRADE AND OTHER PAYABLES

	Group		Company
	31 March 2008	31 December 2006 Proforma	31 March 2008
	RMB'000	RMB'000	RMB'000
Trade creditors	9,260	7,050	-
Advance from customers	-	114	-
Accrued payroll	582	279	473
Other payable	387	1,231	196
Amount due to shareholders	-	13,107	-
Amount due to director	-	-	15
Accruals	866	769	866
	11,095	22,550	1,550

Amounts due to shareholders and directors are unsecured, and have no fixed terms of repayment.

Notes to the Financial Statements

18. SHORT TERM LOAN (UNSECURED)

The short term loan has been repaid during the period. Interest is payable at 5.75% (2006: 5.75%) per annum.

19. DEFERRED TAXATION

Movements in deferred taxation during the period are as follows:

	Group	
	31 March 2008	31 December 2006
		Proforma
	RMB'000	RMB'000
Charged to income statement		
- taxable temporary differences on accelerated amortisation of intangible assets	468	-

20. SHARE CAPITAL

The total authorised number of ordinary shares is 72,808,000 shares (2006: 50,000 shares) with a nil par value per share (2006: nil par value per share). All issued shares are fully paid.

	31 March 2008		31 December 2006	
Issued and paid up:	No. of ordinary shares	RMB'000	No. of ordinary shares	RMB'000
At beginning of period/ allotted on incorporation	50,000	391	50,000	391
Subdivided each shares into 1,000 ordinary shares	49,950,000	-	-	-
Allotted on placing on AIM	22,808,000	164,909	-	-
Share issue costs	-	(26,499)	-	-
Share options granted	-	(3,940)	-	-
At end of period	72,808,000	134,861	50,000	391

On 7 June 2007, the shareholders resolved that ordinary shares of US$1 be redesignated as ordinary shares of no par value, and each of the issued shares be then subdivided into 1,000 ordinary shares.

On 18 June 2007, the Company's shares were listed on AIM. The Company issued and allotted 22,808,000 new ordinary shares at £0.48 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At 31 March 2008, the Company had the following outstanding share options:

Number	Exercise price (£)	Date of grant	Exercise period
1,456,160	0.48	18.06.2007	18.06.2007 – 17.06.2012
36,404	0.48	18.06.2007	18.06.2008 – 17.06.2017

21. SHARE BASED PAYMENTS

At 31 March 2008, the Company had granted and conditionally awarded 1,492,564 unissued ordinary shares of £0.48 under the equity compensation plan to eligible executives and entities involved in the admission to AIM.

Under the first option agreement dated 13 June 2007, 36,404 share options were granted. The options are to vest in four equal instalments on the first, second, third and fourth anniversaries of admission to AIM and are to be exercisable at the Placing Price for a period of ten days from Admission. As at 31 March 2008, none of the options had been exercised.

Notes to the Financial Statements

Under the second option agreement dated 13 June 2007, 1,456,160 share options were granted. The option is exercisable at the Placing Price at any time following Admission and lapses on the fifth anniversary thereof.

The weighted average estimated fair value of each share option granted in the share option agreement is 18 pence. This estimated fair value was calculated by applying a Black-Scholes model. The model inputs were:

- share price at grant date of 48 pence
- exercise price of 48 pence
- expected volatility of 30 %
- no expected dividends
- contractual life of 5-10 years, and
- a risk-free interest rate of 5.75 %

The expected volatility is based on the historical volatility of companies in a similar market and industry.

	31 March 2008		31 December 2006	
Issued and paid up:	**Average exercise price in £ per shares**	**Options**	**Average exercise price in £ per shares**	**Options**
At beginning of period	-	-	-	-
Granted	0.48	1,492,564	-	-
Forfeited	-	-	-	-
Executed	-	-	-	-
Expired	-	-	-	-
At end of period	0.48	1,492,564	-	-

22. RESERVES

	Group		Company
	31 March 2008	31 December 2006 Proforma	31 March 2008
	RMB'000	RMB'000	RMB'000
Statutory reserves	17,592	9,832	-
Capital surplus	6,158	6,158	-
Option reserves	4,083	-	4,083
Retained earnings	73,096	29,124	30,537
Merger reserves	(7,575)	15,000	-
	93,354	60,114	34,620

(i) Statutory reserve

Statutory reserve-enterprises established in the PRC

Subsidiaries of the Group in the PRC, which are wholly-owned foreign enterprises, follow the accounting principles and relevant financial regulations of PRC applicable to wholly-owned foreign enterprises ("PRC GAAP-WOFE"), in the preparation of its accounting records and financial statements. The subsidiaries are required to appropriate no less than 10% of the profit arrived at in accordance with PRC GAAP-WOFE for each year to a statutory reserve. Profit must be used initially to set off against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital. The Group opts to appropriate 10% of the net profit.

Notes to the Financial Statements

(ii) Capital surplus

The Capital Surplus represents the amount by which the capital contributed by the original shareholders of the Group before restructuring exceeded the authorised share capital. In 2000 and 2001, Mr. Xiao Gang contributed physical assets (including equipment and inventory) into GZ BlueStar and SH BlueStar, amounting to RMB 6,158,000. Since this amount represented the excess over the authorised share capital, Mr. Xiao Gang acknowledged that the investment over-contributed by him belonged to all the shareholders of the Group, and therefore, the amount has been treated as a Capital Surplus.

(iii) Option reserve

This comprises the cumulative value of services rendered by personnel assisting in the process of admission to AIM in June 2007 for the issue of share options and share option scheme granted to existing staff.

(iv) Merger reserve

The merger reserve represents the difference between the fair value of the assets and liabilities of the subsidiaries acquired as a result of restructuring exercises and the cash consideration paid thereof.

23. NET ASSETS ACQUIRED

	RMB'000
Property, plant and equipment	4,331
Intangible assets	4,554
Inventories	7,215
Trade and other receivables	15,662
Cash and cash equivalents	2,303
Total assets	34,065
Trade and other payables	(8,743)
Taxes payable	(2,747)
Total liabilities	(11,490)
Cash paid for restructuring	22,575

Pursuant to the establishment of BlueSky, Beijing BlueStar Software Technology Development Co., Ltd entered into an Asset Transfer Agreement with Trendline Security Solution Co., Ltd ("Trendline") and BlueSky dated 12 July 2006, pursuant to which Bluesky agreed to purchase all the assets and liabilities of the BSST group related to the normal course of business (the "Restricted Business"). The consideration of RMB 22,575,000 was based on the consolidated balance sheet of Beijing BlueStar as at 31 December 2005, determined by reference to a valuation conducted by an independent valuer - Beijing Huade Asset Appraisal Co., Ltd. On completion of the transfer, Beijing BlueStar ceased to have any business activity save for the holding of the net assets not acquired by BlueSky ("the Excluded Assets").

Notes to the Financial Statements

24. OPERATING LEASE ARRANGEMENTS

	Group	
	31 March 2008	31 December 2006 Proforma
	RMB'000	RMB'000
Minimum lease payments under operating leases included in the income statement	3,629	2,691

At the balance sheet date, the commitments in respect of non-cancellable operating leases for office buildings with a term of more than one year were as follows:

	Group	
	31 March 2008	31 December 2006 Proforma
	RMB'000	RMB'000
Future minimum lease payments payable:		
Within one year	2,244	2,950
In two to five years	156	1,871
	2,400	4,821

Notes to the Financial Statements

25. RELATED PARTY TRANSACTIONS

Transactions within the Group have been eliminated in the preparation of the financial information set out in this report and are not disclosed in this note. Balances with other related parties have been disclosed under the relevant notes.

26. CHANGE OF FINANCIAL YEAR

The Company's financial year end was changed from 31 December to 31 March, resulting in the preparation of financial statements for the 15 months ended 31 March 2008.

27. COMPARATIVE FIGURES

Consequent to the change in the financial year end, the financial statements for the financial period ended 31 March 2008 cover the financial period from 1 January 2007 to 31 March 2008 whereas those for the financial year ended 31 December 2006 cover the financial period from 1 January 2006 to 31 December 2006 and as a result of which comparative figures are not comparable to the current figures.

28. SUBSEQUENT EVENT

On 20 May 2008, the directors proposed a dividend of 0.96 pence per ordinary share in respect of the financial period ended 31 March 2008.

29. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Financial instruments

The Group's principal financial instruments comprise inventories, trade and other receivables, cash and bank balances, and trade and other payables. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's instruments are liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

Notes to the Financial Statements

The Group does not trade in any derivatives, has no hedging activities and has no financial assets or liabilities measured at fair value through profit and loss.

(i) Credit risk

Receivable balances and cash and cash equivalents are monitored on an ongoing basis with the result that no major credit risk is currently considered to exist. The Group's exposure to credit risk arises from any default of the counterparty, with a maximum exposure equal to the sum of the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group.

The Group does not have written credit risk management policies or guidelines. However, the management generally adopts conservative strategies and tight control on credit policy. The Group has limited the amount of credit exposure to customers.

All financial assets are subject to credit risk at the period end.

All of the Group's financial assets are classified as loans and receivables and all of the Group's financial liabilities are measured at amortised cost.

The Group continuously monitors defaults of customers and counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(ii) Impairment losses

Based on past experience, the management believes that an impairment allowance as stated in note 15 is necessary in respect of the balance of trade receivables.

(iii) Foreign currency exchange risks

The Group does not hedge its foreign currencies. Transactions with customers and vendors are mainly denominated in RMB. Management considered that no significant foreign currency exposure will arise in the course of the business operation of the Group.

Notes to the Financial Statements

(iv) Liquidity risk

The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The Group takes liquidity risk into consideration when deciding its sources of funds. At the period end there are no borrowings due after more than one year.

(v) Interest rate risk

The Group doesn't have material interest rate risk.

Finance income and finance costs

All interest income and interest expense originate from financial assets classified as loans and receivables.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the first Annual General Meeting of BlueStar SecuTech, Inc. (the "Company") will be held at the conference room, 24th floor, Tower A, Chengjian plaza, No.18 Beitaipingzhuang road, Haidian district, Beijing (100088), PRC, at 4 pm (Beijing time)/9 am (London time) on Tuesday 15 July 2008, for th following purposes:

1. To receive the audited financial statements of the Company for the 15 months ended 31 March 2008, together with the reports of the directors and auditors thereon.

2. To approve the remuneration committee report of the Company for the 15 months ended 31 March 2008.

3. To re-appoint Mazars LLP as the Company's auditors.

4. To authorize the Directors to fix the remuneration of the auditors.

5. To re-elect Mr. Xiao Gang, who retires by rotation, as executive director of the Company.

6. To re-elect Ms. Wang Chong, who retires by rotation, as executive director of the Company.

7. To re-elect Mr. Teo Kean Eek, who retires by rotation, as non-executive director of the Company.

8. To approve the maiden dividend of 0.96p per share.

By order of the Board

Chi Xia
Company Secretary
13 June 2008

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BlueStar SecuTech, Inc.

FORM OF PROXY

(for use by ordinary shareholder for the Annual General Meeting to be held on 15 July 2008)

I/We (full name) _

of _

being (a) holder(s) of ordinary shares in the Company, hereby appoint the Chairman of the meeting or (*Note 1*)

_ _

_ _

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 15 July 2008 and at any adjournment thereof.

I/We direct my/our proxy to votes as indicated by an × in the appropriate column. (*Note 2*)

	RESOLUTIONS	FOR	AGAINST
1	Ordinary Resolution. To receive the accounts and reports of the directors and auditors for the 15 months ended 31 March 2008		
2	Ordinary Resolution. To approve the remuneration committee report of the Company for the 15 months ended 31 March 2008.		
3	Ordinary Resolution. To re-appoint Mazars LLP as the Company's auditors		
4	Ordinary Resolution. To authorize the Directors to fix the remuneration of the auditors.		
5	Ordinary Resolution. To re-elect Mr. Xiao Gang, who retires by rotation, as executive director of the Company.		
6	Ordinary Resolution. To re-elect Ms. Wang Chong, who retires by rotation, as executive director of the Company.		
7	Ordinary Resolution. To re-elect Mr. Teo Kean Eek, who retires by rotation, as non-executive director of the Company.		
8	Ordinary Resolution. To approve maiden dividend of 0.96p per share.		

Signature _ (*Note 3*)

Date _ 2008

NOTES

1. If you wish to appoint a proxy other than the Chairman of the meeting, cross out the words "the Chairman of the meeting" and write the full name and address of your proxy on the dotted line. The change should be initialed. A proxy need not be a member of the Company.

2. In the absence of instructions, the person appointed proxy may vote or abstain from voting as he/she thinks fit on the specified resolutions and, unless otherwise instructed, may also vote or abstain from voting as he/she thinks fit on any other matter (including amendments to resolutions) which may properly come before the meeting.

3. This form must be signed and dated by the shareholder or his/her attorney duly authorized in writing. In the case of a corporation this form must be given under its common seal or signed on its behalf by a duly authorized officer or an attorney. In the case of joint holders the signature of any one holder will be sufficient but the names of all the joint holders should be stated. The vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the register of members in respect of the joint holding.

4. To be effective at the meeting this form must be lodged at the address of the Company's Registrars, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of the meeting together, if appropriate, with the power of attorney or other authority under which it is signed or a duly certified copy of that power or authority.