



2010 Annual Report

BlueStar SecuTech, Inc.

Report and Financial Statements for the 12 Months Ended 31 March 2010

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A large, dark blue, stylized graphic element resembling a thick, curved line or a swoosh, starting from the bottom left and curving upwards and to the right, ending near the top right. It has a smooth, flowing appearance.

BlueStar SecuTech, Inc.

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About BlueStar

BlueStar SecuTech, Inc.(LSE AIM: BSST) is a leading provider of “next generation” surveillance network solutions in China, using hardware and software across a network platform to capture, process, analyze and store digital video. BlueStar is one of the major suppliers of security technology, products and services to the banks in China under its brand name of TRENDLINE®.

BlueStar was incorporated in British Virgin Islands on 9 June 2006 and was quoted on the AIM market of London Stock Exchange on 18 June 2007. With its headquarter in Beijing, BlueStar has expanded to the whole mainland China as well as overseas markets, including 6 subsidiaries in Tier-I cities and 27 sales offices in Tier-II and Tier-III cities in China.

The customers range from the banking/financial sector to civil public security services, legal departments, large state-owned enterprises and the defence department. Renowned companies such as Bank of China, Shanghai Stock Exchange, Tangshan Iron & Steel Co. Ltd., and China Construction Bank all use BlueStar for their surveillance requirement. The sustainable domestic demand for products and services is driven by the regulatory replacement cycle of surveillance facilities in the banking sector and the increasing security concerns and requirements in modern society.

In 2009, BlueStar was named in the China Public Security Magazine for one of the “10 Most Influential Brands DVR in China 2009” and was included in Deloitte’s “Technology Fast 500 Asia-Pacific Award” for the third successive year.



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Highlights for the year

- Revenues up 22% to RMB 192 million (31 March 2009: RMB 157 million)

- Gross profit up 28% to RMB 99 million (31 March 2009: RMB 77 million)

- Net profit up 53% to RMB 31 million (31 March 2009: RMB 20 million)

- Revenue from high margin software of RMB 17 million
(31 March 2009: RMB 14 million)

- Cash position of RMB 73 million at year end (31 March 2009: RMB 85 million)

- Dividend of 0.84p per share (31 March 2009: 0.50p per share)



Chairman's Statement

I am pleased to report BlueStar's results for the year ended 31 March 2010 which are in line with management expectations.

Despite the well documented global economic slowdown, the trend towards the adoption of digital networked surveillance systems in China has continued. As a result, the Group has experienced an increased level of demand for networking projects and DVR devices both in the financial sector and in other areas. The Group expects this trend to continue in 2010.

BlueStar has expanded its marketing focus and strategy to strengthen its position in this challenging time. These include the penetration into new sectors and co-operation with government security agencies. Under the first of these co-operation agreements (which was announced in July 2009), the surveillance center developed with Kaiyuan Company is now fully operational. This center provides surveillance monitoring and mobile security guard services to banks and ATMs in Beijing. Under this agreement, BlueStar received the first recurring monthly service fee in January 2010 for the initial outlets which are utilising the command centre's services. The Company believes this is a model that can be replicated in other areas of China in the future and generate stable recurring monthly income going forward.

The Board is encouraged with the Company's progress and believes that it can build upon the success in China. The 2011 has started well and the Board remains confident about the Company's future prospects.

We could not have achieved the success enjoyed in 2009-2010 without the commitment of our highly motivated employees. We owe them our sincere thanks for their devotion to the company. We would also like to thank our customers, business partners and our shareholders for their loyalty to our group. We will continue to do all in our power to further boost the value of BlueStar in future.



Liu Xiaochuan
Chairman, Non-Executive Director

Financial Review

For the year ended 31 March 2010, revenue increased by 22% to RMB 192 million (2009: RMB 157 million) and profit before tax was up by 47% to RMB 31 million (2009: RMB 21 million). At the end of the fiscal year, the Company's cash position is RMB 73 million (2009: RMB 85 million).

Gross profit for the year ended 31 March 2010 was RMB 99 million (2009: RMB 77 million) and average gross profit margins for the period increased from 49% in 2009 to 51%. This was mainly due to reduced raw material costs which came about as a result of tighter cost control practices implemented in 2009, and an increase in higher margin technological service sales.

BlueStar increased its expenditure on Research and Development during the year to RMB 20 million (2009: RMB 17 million) and also invested RMB 4.6 million in production and office equipment (2009: RMB 5.3 million). This allowed the Company to expand its sales and R&D functions and has resulted in improved response times in supplying the Group's products and increased customer satisfaction.

Trade debtors and other receivables increased to RMB 176 million at 31 March 2010 (2009: RMB 125 million), which is in proportion to the revenue increase. During the year, the Company continued to implement effective credit management processes to ensure that customers were all credit worthy. However, customers in the banking sector have been slow payers historically, and as such, it normally takes the Company several months to collect the receivables. For example, 74% of outstanding debtors at 30th September 2009 (RMB 110 million) have been received during the period of October 2009 to March 2010.

Inventories at the year end were RMB 24 million (2009: RMB 23 million), which represents inventories to meet the demand of increased volume of network projects. This has led to shorter delivery lead time and therefore improved customer satisfaction.

Net cash generated from operating activities was RMB 6 million for the year (2009: RMB 8 million, negative).

The Management believes that BlueStar is well placed to ride out the global economic crisis and grow stronger as the world economy recovers. The management remains confident about the long-term health and prospects of the Group.



Operational Review

Research and Development

BlueStar has continued to win customers through its proven TRENDLINE[®] series of products and comprehensive networking solutions, which are primarily supported by the Company's continued investment in R&D. During the year, the Company's investment in R&D amounted to RMB 20 million, of which RMB 8 million was capitalised. This compares to RMB 17 million being invested in the prior year, of which RMB 7 million was capitalised.

BlueStar launched the first ATM- specific intelligent DVRs on 11 December 2008, which has been regarded as an innovative breakthrough within the Chinese security industry. The DVR combines intelligent analysis and video processing technologies efficiently to produce high-resolution and accurate videos. The new DVR product was designed specifically for the banking sector, which includes functions relevant to ensure the safety of ATM users, e.g. perimeter protection and face recognition. BlueStar remains focused on the development of DVR product ranges and networking platforms. These include Central Management Systems (CMS) and Intelligent Analytics which the Company designed for the Defence Department.

During the year, BlueStar was awarded five copyrights in respect of its new software solutions for advanced networking platforms and intelligent management functions. These included Intelligent Video Analytics Software for NXP1700, DVR Platform for Linux OS, BPlayer (DVR Client Software for Windows PC), BCenter (Video Surveillance Networking Studio), and BStar Video Codec Converter Software.

BlueStar has also carried out a considerable amount of research work on intelligent surveillance and high-definition outputs, which are currently being tested.

Two new DVR products targeting different market sectors are to be released by the Company before the end of July 2010. The first is a lower cost product intended to enable BlueStar to enter markets requiring lower technical capabilities and price points; the other is an intelligent video server with price compatible and user friendly features.

Business Development

During the year the Group won several crucial contracts with state-owned banking giants and their branches throughout China. This includes contracts worth RMB 42 million with the Bank of China's head office and its subsidiaries; new framework contracts with the Agriculture Bank of China's head office, as well as new contracts in tier 2 & 3 regions, such as the Inner Mongolia and Langfang Rural Credit Cooperatives (RCCs) in the Heibei Province of China. These important contracts wins highlight and reinforces BlueStar's market leading position in the provision of surveillance solutions to the Chinese banking sector.

In the past financial year, the Group's core strategy remained focused on growth in the financial market within China, through expansion in Tier 2 & 3 cities. The signing of the aforementioned contracts marks a shift in BlueStar's business with large state-owned banks from a regional to national basis.

Working with the Chinese Defence department and in rural financial sectors has also been a significant achievement for BlueStar. Management believes that these areas will offer the Company considerable opportunities in future.

During the year, BlueStar also signed a strategic partnership agreement with WinHi Technology Electronic Co. Ltd based in Guangzhou (WinHi), a sole agent for Samsung Electronics' surveillance products in China. This agreement will allow BlueStar's products to offer a more comprehensive solution to its growing financial customer base, and better serve its long-standing customers.

In April 2009, the Company established a new logistics center in the Beijing high-tech park which was proven very successful. The center undertakes the storage, processing, packaging, classification and dispatching of products to all of BlueStar's subsidiaries and service centers across the country and has resulted in a strengthening of quality control levels and an improvement in service support. The all in one control model adopted at the logistics centre has enhanced packing and transportation efficiency, thus reducing the likelihood of errors occurring.

The Company's cooperation agreement with Kaiyuan marks the expansion of its business from product-driven into providing surveillance services. The surveillance command center which has been established by BlueStar and Kaiyuan in Beijing has been fully operational since July 2009, and BlueStar has received an initial payment of RMB 390,000 from Kaiyuan for the connected financial outlets currently subscribing to the service. The Company plans to replicate this model in other top tier cities across China including Shanghai, Guangzhou in future.

In the 2010 financial year, 3 new BlueStar sales and service centers were opened in Shenzhen, Yunnan and Xinjiang. This has helped the Company's market reach to cover all provinces in China. BlueStar now has six wholly-owned subsidiaries in Tier 1 cities across China, including Guangzhou, Shanghai, Shenyang, Xi'an, Chengdu and Tianjin; and 27 regional sales and service centers in Tier 2 & 3 cities, such as Changsha, Wuhan, Guiyang and Xiamen. In addition, it has established a sales network of over 400 cooperation partners.

Awards

During the year, BlueStar won a number of awards, commendations and accreditations. These include:

- December 2009: BlueStar was named in Deloitte's "Technology Fast 500 Asia Pacific Awards" for the third successive year. The survey features the fastest 500 growing technology companies in the Asia Pacific region which includes Australia, China, India, Japan, South Korea and Taiwan. The companies featured in the list are those with the highest revenue growth over the previous three years.
- December 2009: BlueStar was named as one of the "10 most influential surveillance DVR brands in China 2009", in a list sponsored by China Public Security Magazine. The final list of 10 companies is made up of the best performing, most innovative and highest quality products.
- November 2009: BlueStar was awarded "Golden Excellence Award" by the China Public Security Expo (CPES) 2009 for the unique, market-leading, intelligent features of its high-definition ATM digital video recorders.

Board Changes

Mr. Zheng Yunsheng resigned as Chief Financial Officer and left the Company in August 2009 to pursue other business interests. Romeo Kwok, Senior Vice President of BlueStar, was appointed as the Interim CFO until a permanent replacement is found.

Outlook

BlueStar has experienced strong revenue growth in the last year. Our compelling brand products and strong innovation, combined with excellent sales strategy and execution, has been instrumental in our success to date. As a company with market leadership, excellent R&D and efficient operations, BlueStar is very well placed to ride out the global economic crisis and grow even stronger as the global economy eventually recovers. The Board is confident about the Company's prospects and long term opportunities.



Directors' Report

The Directors are pleased to submit their report and the audited financial statements for the year ended 31 March 2010.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the Group and Company in accordance with International Financial Reporting Standards ("IFRS").

International Accounting Standard 1 required that financial statements present fairly for each financial year the Group and Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair representation will be achieved by compliance with all IFRS. Directors are also required to

- Select suitable accounting policies and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the opinion of the directors, the financial statements set out on pages 23 to 28 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 March 2010, and of the results, the changes in equity and cash flows of the Group and the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Group and the Company will be able to pay their debts as and when they fall due.

Principal Activity

The Company was 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 own brand security 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

The results of the year are set out in the Statement of Comprehensive Income.

In line with the dividend policy set out in the Company's AIM admission document, the board is proposing a final dividend of 0.84p (2009: 0.50p) to be paid from the profits generated in the year. Subject to shareholder consent at the Annual General Meeting, this dividend will be paid on 20 August 2010 to shareholders on the register on 6 August 2010. The Company's ordinary shares will be marked "ex-dividend" on 11 August 2010.



Mr. Liu Xiaochuan
Non-Executive Chairman

Mr. Liu is the Chairman of the 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 also the Chairman of the Computer Communication Bureau of the Ministry of Public Security and the 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 15 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 and Chief Financial Officer

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. With a good knowledge of AIM regulations and financial systems, Mr. Romeo Kwok was also appointed as Chief Financial Officer of BlueStar on 05th August 2009.



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 Technological Officer

Mr. He Caiguang holds a B.S. Degree in Geo Science at Zhejiang University. He has spent more than 16 years in research, development and implementation of software technology. 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 14 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. Derrick Woolf
Non-Executive Director

Mr. Woolf, FCA FCCA, is an Accountant who has been in public practice for over 40 years and has extensive experience of dealing with growing companies. He qualified as a chartered accountant with Levy Gee in 1971 and was made a partner in 1974. He was senior partner when the accounting firm Levy Gee was sold to AIM listed Numerica Group plc and subsequently joining the board of Numerica Group plc as an executive director. In 2005, Numerica Group plc was acquired by Vantis plc and the two businesses merged their activities into Vantis Group Limited. Mr. Woolf also has experience of AIM quoted Chinese companies through his directorships with China Biodiesel International Holdings Co. Ltd and previously with Natsun Holdings Ltd. He advises Chinese Companies with their development and acquisition plans and helps overseas companies set up in China.



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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 2010 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%
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%
CIM Investment Management	2,864,600	3.93%
Wessex Asia Pacific Fund	2,200,000	3.02%

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

Financial Instruments

The Company's principal financial instruments comprise 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

During the year, Mazars LLP resigned and UHY Hacker Young LLP were appointed in their place.

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



Mr. Xiao Gang
CEO
22 June 2010

Remuneration Committee Report

Committee Members

The Remuneration Committee ("the Committee") comprises Mr. Liu Xiaochuan, Mr. Derrick Woolf and Mr. Teo Kean Eek chaired by Mr. Liu Xiaochuan. The Committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages, including staff incentivisation and the terms of their appointment. The Committee also makes recommendations to the Directors' Board concerning the allocation of incentivisation 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 to 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 company and individual performance.

These packages are reviewed regularly and independent advice is taken when appropriate. They are structured to include both short and longer term incentives. None of the Committee has any personal financial interest (other than as shareholders), conflicts of interest or day-to-day involvement in running the business. No director plays a part in deciding their own remuneration.

There are four main elements of the remuneration package for executive directors:

- basic salary;
- pensions;
- other benefits; and
- share option incentives



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Basic salary

It is the policy of the Committee to set basic salaries at levels which it believes are competitive given 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 executives are reviewed annually and are determined by taking into account the responsibilities and performance of the individual, having regard to current market practice.

Pensions

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

Other benefits

The executive directors are provided with full medical benefits and accident insurances, and the Company reimburses all medical expenses incurred by the executive directors.

Directors and their interests

The Directors who served during the period, and their beneficial interests in the share capital of the company are shown in Page 14 of Directors' Report.

Service Contracts

Main information of service contract is as follows:

	Contract Date	Contract Period	Termination Notice	Annual Salary/Fee
Executive				
Xiao Gang	30 April 2010	3 years	6 months notice by either side	RMB 960,000
Romeo Edward Sze-Lam Kwok	1 April 2008	4 years	6 months notice by either side	RMB 720,000
Zheng Yunsheng	30 April 2007	Aug 2009	6 months notice by either side	RMB 360,000
Wang Chong	30 April 2010	3 years	6 months notice by either side	RMB 360,000
He Caiguang	30 April 2010	3 years	6 months notice by either side	RMB 360,000
Non-Executive				
Liu Xiaochuan	7 May 2010	3 years	3 months notice by either side	RMB 216,000
Teo Kean Eek	30 April 2010	3 years	3 months notice by either side	GBP 25,000
Derrick Woolf	14 July 2008	3 years	3 months notice by either side	GBP 30,000

*The service contract of Zheng Yunsheng was terminated on 1st August 2009.

Directors Remuneration

Director's remuneration for the 12 months period ended 31 March 2010 was as follows:

	Basic salary and fees	Pension Contributions	Other Benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive				
Xiao Gang	960	21	-	981
Romeo Edward Sze-Lam Kwok	720	36	18	774
Zheng Yunsheng	360	21	-	381
Wang Chong	360	21	-	381
He Caiguang	360	21	-	381
	2,760	120	18	2,898
Non-Executive				
Liu Xiaochuan	216	-	-	216
Teo Kean Eek	250	-	-	250
Derrick Woolf	300	-	-	300
	3,526	120	18	3,664



Mr. Liu Xiaochuan

Chairman of the Remuneration Committee

22 June 2010

Corporate Governance

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.

The Board

The Board has seven members for the year, three of whom are non-executive Directors, including the non-executive Chairman. The non-executive Directors are Mr. Liu Xiaochuan, Mr. Derrick Woolf and Mr. Teo Kean Eek. The Board considers Mr. Liu Xiaochuan and Mr. Derrick Woolf to be independent in character and judgment and accordingly considers each of them to be independent for corporate governance purposes.

The Company holds regular board meetings. The Directors are responsible for formulating, reviewing and approving the Company's strategy, budget and major items of capital expenditure. The Audit Committee, Remuneration Committee and Nomination Committee comprise of only non-executive directors with formally delegated rules and responsibilities. The Audit Committee meets twice annually. The Remuneration Committee and Nomination Committee meet at least once a year.

Audit Committee

The Audit Committee currently comprises Mr. Liu Xiaochuan and Mr. Teo Kean Eek as committee member and is chaired by Mr. Derrick Woolf. The Audit Committee inter alia, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the half year and annual accounts and the accounting and internal control systems in use throughout the Company, in addition to ensuring that the Company complies with the AIM Rules for Companies.

Remuneration Committee

The Remuneration Committee currently comprises Mr. Derrick Woolf and Mr. Teo Kean Eek as committee member and chaired by Mr. Liu Xiaochuan. The Remuneration Committee reviews and makes recommendations in respect of the Directors' remuneration and benefits packages, including staff incentivisation and the terms of their appointment. The Remuneration Committee also makes recommendations to the Board concerning the allocation of incentivisation payments to employees and the grant of options to directors and employees.

Nomination Committee

The Nomination Committee currently comprises Mr. Liu Xiaochuan and Mr. Derrick Woolf as committee member and chaired by Mr. Teo Kean Eek. The Nomination Committee leads the process for Board appointments and makes recommendations of 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.

Internal Control

The Board is 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 four executive Directors 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 four executive Directors and three non-executive Directors, has 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 have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority;
- The Company's management has a clear responsibility for identifying risks facing the business and for putting in place procedures to mitigate and monitor those risks; and
- There are clearly defined control policies and procedures for all transactions including appropriate authorization levels.

Relations With Shareholders

The executive Directors 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 meeting ("AGM") are invited to ask questions. The directors attend the AGM and are available to answer questions relating to the Annual Report and Accounts at the AGM. The Company maintains a website and expects this to continue to be a growing medium for communication to individual shareholders.

Going Concern

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the group has adequate resources to continue for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing its financial statements.



Mr. Liu Xiaochuan

Chairman, Non-Executive Director

22 June, 2010

Independent Auditors' Report

We have audited the financial statements of BlueStar SecuTech, Inc. for the year ended 31 March 2010 which comprises the consolidated and company statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of cash flows, the consolidated and company statements of changes in equity and the related notes. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, and whether the financial statements have been properly prepared in accordance with the relevant financial reporting framework. In addition, we 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 the AIM Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read other information contained within the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the chairman's statements, financial review, operational review, directors' report, remuneration committee report and corporate governance. 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.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 of the state of the group and company's affairs as at 31 March 2010 and of the group and company's comprehensive income for the year then ended; and
- the group and company's financial statements have been properly prepared in accordance with IFRSs.

A handwritten signature in black ink, appearing to be "UHY Hacker Young".

UHY Hacker Young LLP
Chartered Accountants
Quadrant House
4 Thomas More Square
London
E1W 1YW

22 June 2010

Note: The maintenance and integrity of BlueStar SecuTech Inc. Website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibilities for any changes that may have occurred to the financial statements since they were originally presented on the website. Legislations in the United Kingdom governing the presentation and dissemination of financial statements may differ from legislations in other jurisdictions.

Consolidated and Company Statement of Comprehensive Income

	Note	Group		Company	
		Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2010	Year ended 31 March 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Revenue	5	191,771	157,231	-	-
Cost of sales		(92,830)	(80,097)	-	-
Gross profit		98,941	77,134	-	-
Other income	6	4,380	5,908	-	-
Distribution costs		(37,020)	(32,095)		
Administrative expenses		(35,635)	(30,129)	(2,597)	(4,723)
Other operating expenses		(392)	(1,294)		(703)
Profit/(loss) from operations	8	30,274	19,524	(2,597)	(5,426)
Finance cost	9	(106)	(52)	(283)	(9)
Finance income	10	532	1,424	1	226
Profit/(loss) before tax		30,700	20,896	(2,879)	(5,209)
Income tax expenses	11	32	(842)	-	-
Profit/(loss) for the year		30,732	20,054	(2,879)	(5,209)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		30,732	20,054	(2,879)	(5,209)
Earnings per ordinary share (fen)					
Basic	12	42.21	27.54		
Diluted	12	42.21	26.99		

All operations are continuing.

Consolidated and Company Statement of Changes in Equity

STATEMENT OF CHANGES IN EQUITY - GROUP

	Share capital RMB'000	Merger reserve RMB'000	Retained earnings RMB'000	Other reserves RMB'000	Option reserve RMB'000	Total RMB'000
Balance as at 31 March 2008	134,861	(7,575)	73,096	23,750	4,083	228,215
Total comprehensive income for the year	-	-	20,054	-	-	20,054
Dividend distribution	-	-	(9,550)	-	-	(9,550)
Transfer to statutory reserve	-	-	(2,500)	2,500	-	-
Balance as at 31 March 2009	134,861	(7,575)	81,100	26,250	4,083	238,719
Total comprehensive income for the year	-	-	30,732	-	-	30,732
Dividend distribution	-	-	(4,074)	-	-	(4,074)
Transfer to statutory reserve	-	-	(3,073)	3,073	-	-
Balance as at 31 March 2010	134,861	(7,575)	104,685	29,323	4,083	265,377

STATEMENT OF CHANGES IN EQUITY - COMPANY

	Share capital RMB'000	Merger reserve RMB'000	Retained earnings RMB'000	Statutory reserves RMB'000	Option reserve RMB'000	Total RMB'000
Balance as at 31 March 2008	134,861	-	30,537	-	4,083	169,481
Total comprehensive loss for the year	-	-	(5,209)	-	-	(5,209)
Dividend distribution	-	-	(9,550)	-	-	(9,550)
Balance as at 31 March 2009	134,861	-	15,778	-	4,083	154,722
Total comprehensive loss for the year	-	-	(2,879)	-	-	(2,879)
Dividend distribution	-	-	(4,074)	-	-	(4,074)
Balance as at 31 March 2010	134,861	-	8,825	-	4,083	147,769

Consolidated and Company Statement of Financial Position

	Note	Group		Company	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Intangible assets	13	27,600	22,181	-	-
Property, plant and equipment	14	12,542	11,735	-	-
Investment in subsidiaries	15	-	-	128,021	128,021
Deferred tax assets	20	2,782	-	-	-
Total non-current assets		42,924	33,916	128,021	128,021
Current assets					
Inventories	16	24,324	23,490	-	-
Trade and other receivables	17	175,524	125,437	17,431	28,293
Cash and cash equivalents	18	73,449	85,245	2,317	269
Total current assets		273,297	234,172	19,748	28,562
Total assets		316,221	268,088	147,769	156,583

Consolidated and Company Statement of Financial Position

	Note	Group		Company	
		2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	21	134,861	134,861	134,861	134,861
Merger reserve	23	(7,575)	(7,575)	-	-
Retained earnings	23	104,685	81,100	8,825	15,778
Option reserve	23	4,083	4,083	4,083	4,083
Other reserves	23	29,323	26,250	-	-
Total equity		265,377	238,719	147,769	154,722
Current liabilities					
Trade and other payables	19	26,920	14,688	-	1,861
Income tax payable		3,050	2,420	-	-
Other tax payable		18,469	10,951	-	-
Total current liabilities		48,439	28,059	-	1,861
Non-current liabilities					
Deferred tax liabilities	20	2,405	1,310		
Total non-current liabilities		2,405	1,310		
Total liabilities		50,844	29,369		1,861
Total equity and liabilities		316,221	268,088	147,769	156,583

The financial statements were approved by the board of directors and authorised for issue on 22 June 2010 and were signed on its behalf by:

Mr. Xiao Gang
Chief Executive Officer



Consolidated and Company Statement of Cash Flows

	Group		Company	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Cash flows from operating activities				
Profit/(loss) before tax	30,700	20,896	(2,879)	(5,209)
Adjustments for:				
Interest expense	106	52	283	9
Interest income	(532)	(1,424)	(1)	(226)
Allowance for doubtful debts	1,737	2,076	-	-
Depreciation of property, plant and equipment	3,682	3,260	-	-
Amortisation of intangible assets	3,975	3,307	-	-
Loss on disposal of property, plant and equipment	70	568	-	-
Operating cash flows before movement in working capital	39,738	28,735	(2,597)	(5,426)
Increase in inventories	(834)	(3,498)	-	-
(Increase)/decrease in trade and other receivables	(51,824)	(38,546)	10,862	4,130
Increase/(decrease) in trade and other payables	19,748	3,765	(1,861)	311
Cash generated/(used in) by operations	6,828	(9,544)	6,404	(985)
Interest paid	(106)	(52)	(283)	(9)
Interest received	532	1,424	1	226
Income Tax paid	(1,025)	-	-	-
Net cash generated from/(used in) operating activities	6,229	(8,172)	6,122	(768)

Consolidated and Company Statement of Cash Flows

	Group		Company	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Cash flow from investing activities				
Proceeds of disposal of property, plant and equipment	38	3	-	-
Purchase of property, plant and equipment	(4,595)	(5,310)	-	-
Purchase of intangible assets	(1,123)	(69)	-	-
Expenditure on product development	(8,271)	(7,019)	-	-
Net cash used in investing activities	(13,951)	(12,395)	-	-
Cash flow from financing activities				
Dividends paid	(4,074)	(9,550)	(4,074)	(9,550)
Net cash used in financing activities	(4,074)	(9,550)	(4,074)	(9,550)
Net (decrease)/increase in cash and cash equivalents	(11,796)	(30,117)	2,048	(10,318)
Cash and cash equivalents at the beginning of the year	85,245	115,362	269	10,587
Cash and cash equivalents at the end of the year	73,449	85,245	2,317	269

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 15.

1.2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations and the AIM Rules.

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 statements include the accounts of the Company and its wholly owned subsidiaries, made up to 31 March 2010.

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 transactions, 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 Company was incorporated on 9 June 2006 and established a wholly foreign-owned enterprise, Beijing BlueSky Software Development Co. Ltd ("BlueSky"), on 22 August 2006. BlueSky purchased all the assets 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.

Notes to the Financial Statements

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:

a) 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.

b) Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of intangible assets at the balance sheet date was RMB 28 million. There were no impairment adjustments made during the year.

c) Impairment of inventory

Determining whether inventory is impaired requires an estimation of net realisable value, which represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Management specifically analyses the latest selling price of products, and the related costs when making judgement to evaluate the adequacy of the impairment of inventory. Where expectation is different from the original estimation, such difference will impact the carrying value of inventory.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. IFRSs 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 2010 or not applicable to the Group's business.

	Interpretations:	Effective for:
IFRS 3	Business Combinations — Comprehensive revision on applying the acquisition method Revised 2008	Annual periods beginning on or after 1 July 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
IFRS 9	Replace IAS 39, IFRS 9 introduces new requirements for classifying and measuring financial assets. 2009	Annual periods beginning on or after 1 January 2013
IFRS 19	Extinguishing Financial Liabilities with Equity Instruments. 2009	Annual periods beginning on or after 1 July 2010

The group is still evaluating the impact that these standards will have on the Group's financial statements, if any, but expect that there will be no material impact to the income statement and balance sheet when implemented, although further disclosure may be required.

Notes to the Financial Statements

2.2. New and amended standards adopted by the group

- IAS 1 (revised), 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRS 8 Operating Segments – effective 1 January 2009. This is a disclosure standard that has resulted in a re-designation of the group's reportable segments. This has had no impact on the reported results or financial position of the group.
- IFRS 2 (amendment), 'Share-based payment' – effective 1 January 2009. This deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar service, they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties should receive the same accounting treatment. The group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the group's financial statements

2.3. 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 presentational currency.

2.4. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts 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 recognised on a time proportion basis using the effective interest method.

2.5. Government grants

The government of the PRC 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.

2.6. Retirement benefit costs

Payments to state 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 plans where the obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Notes to the Financial Statements

2.7. 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.

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 income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

2.8. 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 location 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. This expenditure is 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
Vehicles	19%
Fixtures and equipment	19%
Renovation costs	20%
"Kaiyuan"	20%

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 the income statement.

Notes to the Financial Statements

2.9 . 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. 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.

2.10 . Intangible assets

Software Licence

Software licences 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 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 asset 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;
- 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 asset; 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.

Notes to the Financial Statements

2.11. 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.

2.12. Inventories

Inventories are stated 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.

2.13. 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.

2.14. 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.

Notes to the Financial Statements

2.15. 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 payables 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.

2.16. 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.

2.17. 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.

2.18. 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.

2.19. 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.

Notes to the Financial Statements

2.20 . Dividends

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

2.21 . 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.

2.22 . Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.



BlueStar SecuTech Inc.

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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.

Notes to the Financial Statements

4 CAPITAL MANAGEMENT RISK

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.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio and also debts to equity ratio.

The gearing ratio is defined and calculated by the group as the total of interest-bearing borrowings to the owner's equity. Total equity includes mainly equity attributable to equity holders of the company.

Given the strong cash and cash equivalents, the Group's gearing ratio is zero as at 31 March 2010 and 31 March 2009.

The Debt to Equity ratio is defined and calculated by the Group as total debt (total liabilities) to the owner's equity. At 31 March 2010 this was 19.2% compared to 12.3% at 31 March 2009.

The Debt to Equity ratio as at the balance sheet dates were as follows:

	Group	
	31 March 2010	31 March 2009
	RMB'000	RMB'000
Total debt	50,844	29,369
Total shareholders' equity	265,377	238,719
Debt to Equity ratio	19.2%	12.3%

Notes to the Financial Statements

5 REVENUE AND SEGMENTAL ANALYSIS

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

	Revenue Year ended 31 March 2010 RMB'000	Revenue Year ended 31 March 2009 RMB'000	Segment profit Year ended 31 March 2010 RMB'000	Segment profit Year ended 31 March 2009 RMB'000
Sales of digital video devices	173,874	142,481	40,446	29,811
Sales of software	16,964	14,436	12,776	10,864
Revenue from technological service	933	314	727	245
Total for continuing operations	191,771	157,231	53,949	40,920
Central administration and director's salaries			(23,143)	19,972
Finance cost			(106)	(52)
Profit before tax (continuing operations)			30,700	20,896

Analysis of the Group's assets by operating segment:

	Assets At 31 March 2010 RMB'000	Assets At 31 March 2009 RMB'000
Continuing Operations		
Sales of digital video devices	302,362	242,938
Sales of software	9,675	24,614
Revenue from technological service	4,184	535
Total for continuing operations	316,221	268,087

The Group's revenue and profit before taxation were all derived from its principal activity. All revenue and results originates in the PRC and assets and liabilities are mainly held in the PRC. All of the segment revenue reported above is from external customers.

Segment profit represents the profit earned by each segment without allocation of central administration costs and director's salaries, share of profits of associates, investment revenue and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the Financial Statements

6 OTHER INCOME

	Year ended 31 March 2010 RMB'000	Group Year ended 31 March 2009 RMB'000
Government subsidy income		
Value added tax refund	4,287	5,697
Others	93	211
	4,380	5,908

7 STAFF COSTS

	Group		Company	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Wages and salaries (including directors)	33,755	27,982	2,441	2,292
Pension expense	5,005	4,325	-	-
	38,760	32,307	2,441	2,292

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

	Group		Company	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Salaries	4,379	3,636	1,988	2,292
Pension expense	162	100	-	-
	4,541	3,736	1,988	2,292

	Group	
	Year ended 31 March 2010 Number	Year ended 31 March 2009 RMB'000
Average number of employees	486	443

Notes to the Financial Statements

8 PROFIT/(LOSS) FROM OPERATIONS

The profit/(loss) from operations is stated after charging the following:

	Group		Company	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Allowance for doubtful debts (trade)	1,737	2,076	-	-
Allowance for impairment of inventories	1,292	2,119	-	-
Cost of sales (excluding labour cost included within cost of sales)	90,255	76,591	-	-
Research & development costs	12,492	10,157	-	-
Depreciation of property, plant and equipment	3,682	3,260	-	-
Amortisation of intangible assets (included within administrative expenses)	3,975	3,307	-	-
Loss on disposal of property, plant and equipment	70	568	-	-
Auditors' remuneration	430	600	430	600
Loss on foreign exchange	255	754	253	703

9 FINANCE COST

	Group		Company	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Bank charge	106	52	30	9
	106	52	30	9

10 FINANCE INCOME

	Group		Company	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Interest income	532	1,424	1	226
	532	1,424	1	226

Notes to the Financial Statements

11 INCOME TAX EXPENSES

	Group	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Current tax:		
Current tax for profit for the year	3,821	-
Income tax prior year adjustment	(2,166)	-
Total current tax	1,655	-
Deferred tax (Note 20)		
Temporary differences	1,095	842
Tax losses carry-forward	(2,782)	-
Total deferred tax	(1,687)	842
Income tax expense	(32)	842
Reconciliation of tax charge:		

	Group	
	Year ended 31 March 2010 RMB'000	Year ended 31 March 2009 RMB'000
Profit before tax	30,700	20,896
Tax at PRC tax rate of 25% (2009: 25%)	7,675	5,224
Factors affecting income tax charge:		
Expenses not deductible	1,278	3,570
Timing differences	1,095	842
Unrelieved tax losses carry-forward	(2,782)	-
Preferential rate	(4,225)	-
Exempt from income tax	(2,495)	(8,794)
Prior year adjustments	(578)	-
Tax expense for the year	(32)	842

The Company is not regarded as resident for the tax purposes in BVI. Therefore, it will not be liable to BVI income tax in this respect other than on BVI source income.

The Company's operating subsidiaries in P. R. China are subject to income tax rate at 25% (2009: 25%) except certain operating subsidiaries are exempt from income tax for the first three years, followed by three years at half of domestic rate subject to the approval of the tax authorities if the operating subsidiaries are qualified for high technology enterprise status.

Notes to the Financial Statements

12 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	31 March 2010 RMB'000	31 March 2009 RMB'000
Profit attributable to equity holders of the company	30,732	20,054
Weighted average number of shares in issue (thousands)	72,808	72,808

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares in the Company are share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary rights attached to outstanding share options. The number of shares calculated above is compared with the number of shares that would have issued assuming the exercise of the share options.

	31 March 2010	31 March 2009
Weighted average number of shares in issue (thousands) for the purpose of diluted earnings per share	72,808	74,301

Notes to the Financial Statements

13 INTANGIBLE ASSETS - GROUP

	Copyrights	Development cost	Purchased software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 31 March 2008	9,530	1,663	10,736	21,929
Additions	7,019	-	69	7,088
Transfer	1,663	(1,663)	-	-
At 31 March 2009	18,212	-	10,805	29,017
Additions	8,271	-	1,123	9,394
Transfer	-	-	-	-
At 31 March 2010	26,483	-	11,928	38,411
Accumulated amortisation and impairment				
At 31 March 2008	1,367	208	1,954	3,529
Charge for the year	1,193	-	2,114	3,307
Transfer	319	(208)	(111)	-
At 31 March 2009	2,879	-	3,957	6,836
Charge for the year	1,748	-	2,227	3,975
Transfer	-	-	-	-
At 31 March 2010	4,627	-	6,184	10,811
Carrying amount				
At 31 March 2010	21,856	-	5,744	27,600
At 31 March 2009	15,333	-	6,848	22,181

The remaining amortisation period of intangible assets is approximately 65 months.

Notes to the Financial Statements

14 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Vehicle	Fixture and equipment	Renovation	"Kaiyuan"	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
At 31 March 2008	4,587	9,286	2,262	-	16,135
Additions	787	2,052	1,980	491	5,310
Disposals	-	(223)	(643)	-	(866)
At 31 March 2009	5,374	11,115	3,599	491	20,579
Additions	409	470	382	3,335	4,596
Disposals	(336)	(237)	-	-	(573)
At 31 March 2010	5,447	11,348	3,981	3,826	24,602
Accumulated depreciation and impairment					
At 31 March 2008	3,130	1,990	762	-	5,882
Depreciation charge for the year	631	1,904	725	-	3,260
Disposals	-	(124)	(174)	-	(298)
At 31 March 2009	3,761	3,770	1,313	-	8,844
Depreciation charge for the year	576	2,026	914	166	3,682
Disposals	(313)	(152)	-	-	(465)
At 31 March 2010	4,024	5,644	2,227	166	12,061
Carrying amount					
At 31 March 2010	1,423	5,704	1,754	3,660	12,541
At 31 March 2009	1,613	7,345	2,286	-	11,735

"Kaiyuan" represents cost of command centre in Beijing and hubs located across P. R. China.

Notes to the Financial Statements

15 INVESTMENT IN SUBSIDIARIES - COMPANY

	2010	2009
	RMB'000	RMB'000
Unquoted equity, at cost	128,021	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	PRC	100%
Held by BlueSky: Beijing BlueStar River Software Technology Development Co. Ltd	Research and development	PRC	100%
Guangzhou BlueStar Science and Technology Co. Ltd ("GZ BlueStar")	Sales centre	PRC	100%
Shanghai BlueStar Science and Technology Co. Ltd ("SH BlueStar")	Sales centre	PRC	100%
Shenyang BlueStar Science and Technology Co. Ltd	Sales centre	PRC	100%
Tianjin BlueStar Science and Technology Co. Ltd	Sales centre	PRC	100%
Xi'an BlueStar Science and Technology Co. Ltd	Sales centre	PRC	100%
Chengdu BlueStar Science and Technology Co. Ltd	Sales centre	PRC	100%

Notes to the Financial Statements

16 INVENTORIES

	Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	8,434	7,003
Work-in-progress	694	785
Finished goods	19,351	18,565
Gross amount before provision for impairment	28,479	26,353
Provision for impairment	(4,155)	(2,863)
Net amount	24,324	23,490

Movement of provision for impairment is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Balance at beginning of year	2,863	744
Provision made during the year	1,292	2,119
Balance at end of year	4,155	2,863

17 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	42,440	42,828	-	-
Accrued income	128,509	74,424	-	-
Less: Provision for doubtful debts				
Balance at beginning of year	(3,803)	(1,727)	-	-
Provision made during the year	(1,737)	(2,076)	-	-
Balance at end of year	(5,540)	(3,803)	-	-
	165,409	113,449	-	-
Amount due from subsidiary undertakings	-	-	16,307	28,293
Other receivables	9,601	4,260	1,124	-
Prepayments	514	7,728	-	-
	175,524	125,437	17,431	28,293

Notes to the Financial Statements

Included in other receivables amount of RMB 447,000 (2009: Nil) and RMB15,033 (2009: Nil) due from Xiao Gang and Wang Chong respectively. Both are directors of the Company.

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

18 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Petty cash	247	361	-	-
Bank balances	73,202	84,884	2,317	269
	73,449	85,245	2,317	269

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	15,938	10,272	-	-
Accrued payroll	6,576	3,537	-	1,261
Other payables	343	167	-	-
Advance from customers	3,453	-	-	-
Accruals	610	712	-	600
	26,920	14,688	-	1,861

Notes to the Financial Statements

20 DEFERRED TAXATION - GROUP

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting within the same tax jurisdiction, is as follow:

	Arising on Intangible Assets RMB'000	Tax losses RMB'000	Gross movement RMB'000
At 31 March 2008	468	-	468
Charge to income statement	842	-	842
At 31 March 2009	1,310	-	1,310
Charge to income statement	1,095	(2,782)	(1,687)
At 31 March 2010	2,405	(2,782)	(377)

Deferred income tax assets are recognized for tax losses carry-forward in the operating subsidiaries to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The analysis of deferred tax assets and liabilities is as follow:

	Group 2010 RMB'000	2009 RMB'000
Deferred tax assets	(2,782)	-
Deferred tax liabilities	2,405	1,310

21 SHARE CAPITAL

The total authorised number of ordinary shares is 72,808,000 shares (2009: 72,808,000 shares) with a nil par value per share (2009: nil par value per share). All issued shares are fully paid.

	2010 RMB'000	2009 RMB'000
Issued and paid up:		
72,808,000 ordinary shares of nil par value	134,861	134,861

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 2010, 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

Notes to the Financial Statements

22 SHARE OPTIONS

At 31 March 2010, the Company had granted and conditionally awarded 1,492,564 unissued ordinary shares with an exercise price 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 2010, none of the options had been exercised.

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.

Issued and paid up:	2010		2009	
	Average exercise price in £ per shares	Options	Average exercise price in £ per shares	Options
At beginning of year	0.48	1,492,564	0.48	1,492,564
Granted	-	-	-	-
Forfeited	-	-	-	-
Executed	-	-	-	-
Expired	-	-	-	-
At end of year	0.48	1,492,564	0.48	1,492,564

Notes to the Financial Statements

23 RESERVES

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Statutory reserves	23,165	20,092	-	-
Capital surplus	6,158	6,158	-	-
Option reserves	4,083	4,083	4,083	4,083
Retained earnings	104,685	81,100	8,825	15,778
Merger reserve	(7,575)	(7,575)	-	-
	130,516	103,858	12,908	19,861

(a) Statutory reserve

The statutory reserve is required for 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 and 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.

(b) 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.

(c) 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.

(d) Merger reserve

The merger reserve represents the difference between the share capital and premium of the subsidiaries acquired as a result of restructuring exercises and the consideration paid thereof.

Notes to the Financial Statements

24 OPERATING LEASE ARRANGEMENTS

	Group	
	2010 RMB'000	2009 RMB'000
Minimum lease payments under operating leases included in the income statement	5,301	4,723

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	
	2010 RMB'000	2009 RMB'000
Future minimum lease payments payable:		
Within one year	4,984	6,710
In two to five years	2,320	9,115
	7,304	15,825

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 SUBSEQUENT EVENT

On 22 June 2010, the directors proposed a dividend of 0.84 pence per ordinary share in respect of the financial year ended 31 March 2010.

27 POST BALANCE SHEET EVENTS

(a) Acquisitions

On 17 May 2010, the Company signed a Purchase Agreement to acquire Beijing KeAn Yuanjing Technologies Development Co. Limited for a total purchase consideration of RMB 6.87 millions (GBP 0.69 million).

(b) Share Option

On 16 March 2010, the Company established a share option scheme for eligible employees to subscribe ordinary shares of the Company up to 10% of the shares in issued.

On 14 April 2010, the Company granted share options to subscribe for 4,035,616 ordinary shares at GBP 23 pence per share of the Company under its share option scheme adopted on 16 March 2010 to certain eligible persons under the rule of the scheme.

Notes to the Financial Statements

28 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments

The Group's principal financial instruments comprise 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.

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.

The following table details the carrying amounts and fair values of financial assets and financial liabilities:

	Carrying amount Group		Fair value Group		Carrying amount Company		Fair value Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Financial assets								
Cash and cash equivalents	73,449	85,245	73,449	85,245	2,317	269	2,317	269
Trade and other receivables	175,524	125,437	175,524	125,437	17,431	28,293	17,431	28,293
	248,973	210,682	248,973	210,682	19,748	28,562	19,748	28,562
Financial liabilities								
Trade and other payables	26,920	14,688	26,920	14,688	-	1,861	-	1,861

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 have written credit risk management policies or guidelines. The Group has limited the amount of credit exposure to customers.

All financial assets are subject to credit risk at the year 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.

Notes to the Financial Statements

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.

The carrying amount of financial assets subject to credit risk at the reporting date was:

	Carrying amount			
	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	36,900	39,025	-	-
Accrued income	128,509	74,424	-	-
Other receivables	9,601	4,260	1,124	-
Prepayments	514	7,728	-	-
Amount due from subsidiary	-	-	16,307	28,293
Cash and cash equivalents	73,449	85,245	2,317	269
	248,973	210,682	19,748	28,562

Impairment losses

Based on past experience, the management believes that an impairment allowance as stated in note 17 is necessary in respect of the balance of trade receivables.

The aging of trade receivables at the reporting date was:

	Group			
	Gross	Impairment	Gross	Impairment
	2010	2010	2009	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Past due 0 to 3 months	46,736	-	28,468	-
Past due 4 to 6 months	32,152	-	20,296	-
Past due 7 to 9 months	31,678	-	21,287	-
Past due 10 to 12 months	7,295	-	8,940	1,883
More than 12 months	53,088	5,540	38,262	1,920
	170,949	5,540	117,253	3,803

Notes to the Financial Statements

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.

Sensitivity analysis

A 10% strengthening of RMB against the following currencies at the reporting date would increase/(decrease) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Company	
	Equity RMB'000	Effect in Profit or loss RMB'000	Equity RMB'000	Effect in Profit or loss RMB'000
31 March 2010				
USD	(45)	(45)	(45)	(45)
GBP	(187)	(187)	(187)	(187)
31 March 2009				
USD	(6)	(6)	(6)	(6)
GBP	(21)	(21)	(21)	(21)

A 10% weakening of RMB against the above currencies would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk and currency risk.

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 year end there are no borrowings due after more than one year.

Interest rate risk

The Group does not 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 third Annual General Meeting of BlueStar SecuTech, Inc. (the “Company”) will be held at the conference room, 14th floor, tower A, Chengjian Plaza, No.18 Beitaipingzhuang Road, Haidian District, Beijing (100088), PRC, at 4 pm (Beijing time)/9 am (London time) on Friday 30 July 2010, for the following purposes:

1. To receive the audited financial statements of the Company for the 12 months ended 31 March 2010, together with the reports of the directors and auditors thereon.
2. To approve the remuneration committee report of the Company for the 12 months ended 31 March 2010.
3. To re-appoint UHY Hacker Young 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 Mr. Romeo Edward Sze-Lam Kwok, who retires by rotation, as executive director of the Company.
7. To re-elect Mr. He Caiguang, who retires by rotation, as executive director of the Company.
8. To re-elect Mr. Liu Xiaochuan, who retires by rotation, as non-executive director of the Company.
9. To re-elect Ms. Wang Chong, who retires by rotation, as executive director of the Company.
10. To elect Ms. Liu Jinqing as executive director of the Company.
11. To elect Mr. Xing Huidong as executive director of the Company.

Notice of Annual General Meeting

12. To consider and, if thought fit, pass the following resolution as a 75% Resolution of Shareholders of the Company:
“THAT the provisions of Sub-Regulation 2.2 of the Articles of Association of the Company shall not apply to any issue of Shares by the Company pursuant or in relation to the exercise of options granted (whether before or after the time at which this resolution is passed) pursuant to the Unapproved Share Option Scheme of the Company or to the issue of Shares by the Company (whether on the exercise of options or otherwise) pursuant or in relation to any share scheme operated for the benefit of employees, directors, officers and/or consultants of the Company and/or any subsidiary or associated company of the Company and/or any other person, or to (a) trustee(s) to be utilised for the purposes of funding payments under any phantom share option scheme operated for the benefit of employees, directors, officers and/or consultants of the Company and/or any subsidiary or associated company of the Company and/or any other person.”

13. To approve the dividend of 0.84 p per share.

By order of the Board



Antonia Ping
Company Secretary
09 July 2010

Notes

(1) A form of proxy is enclosed for use by shareholders and a form of direction is enclosed for use by Depository Interest holders. The form of proxy must be deposited with the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the Annual General Meeting ("AGM") and the form of direction must be deposited with the Company's registrars not less than 72 hours before the time of AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.

(2) In respect of ordinary shareholders, a member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.

(3) To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

(4) Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6.00pm (London time) on the 28 July 2010. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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www.bstar.com.cn

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Registered Number

1032245

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FPR

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Registrars

Capita Registrars (Jersey) Limited

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Depository interest registrars

Capita IRG Trustees Limited

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