2012 Annual Report

BlueStar SecuTech, Inc.

Report and Financial Statements for the 12 Months Ended 31 March 2012

BlueStar SecuTech, Inc.
www.bstar.com.cn

Contents

About BlueStar

BlueStar SecuTech, Inc. ("BlueStar" or the "Company") is a leading provider of surveillance network solutions in China, using hardware and software across a network platform to capture, process, analyse and store digital video.

BlueStar was incorporated in the British Virgin Islands on 9 June 2006 and its shares were admitted to trading on the AIM market of London Stock Exchange on 18 June 2007. With headquarters in Beijing, BlueStar 's target market is mainland China, with 7 subsidiaries in Tier-I and Tier II cities and 26 sales offices in Tier-II and Tier-III cities in China.

BlueStar's products are sold under its brand name of TRENDLINE® and the customers range from the financial sector to civil public security and legal services sectors as well as large state-owned enterprises and the defense department. Renowned companies such as Bank of China, the Shanghai Stock Exchange, Tangshan Iron & Steel Co., Ltd, and China Construction Bank are using BlueStar's surveillance solutions. The consistent demand for BlueStar's products and services is driven by the replacement cycle of surveillance facilities in the banking sector and the increasing security concerns and requirements in today society.

Highlights
for the year

- Revenues down 17% to RMB 176 million
  (31 March 2011: RMB 213 million)

- Gross profit down 20% to RMB 90 million
  (31 March 2011: RMB 113 million)

- Gross margin down 2% to 51%
  (31 March 2011: 53%)

- Fully diluted earnings per share 2.79 fen
  (31 March 2011: 45.31 fen) (100 fen = 1 RMB)

- Profit before tax down 87% to RMB 5 million
  (31 March 2011: RMB 37 million excluding negative goodwill)

- Cash position of RMB 51 million at year end
  (31 March 2011: RMB 55 million)

- No dividend will be declared in respect of financial year ended
  31 March 2012

Chairman's Statement

The general recent financial downturn that affected business confidence has had a negative effect on the surveillance industry and we have suffered a disappointing year.

Our revenue and profits were less than the previous year. We continue to focus our business in the banking, police, and government security agency sector and continue to provide high quality software, products and services to our quality customers.

Despite the general downturn we have been able to win some major contracts throughout China and achieve new orders.

During the year, BlueStar was awarded eight copyrights in respect of its new software solutions for advanced networking platforms and intelligent management functions.

In November 2011 Blue Star was named in the China Public Security Magazine as one of the "10 most influential DVR brands in China 2011."

We will continue to streamline our management practices and improve operational efficiency aiming at being even more responsive to our customer's needs.

We are sincerely grateful to our customers and stakeholders for their continued long term support and trust. We would particular like to thank our workforce for their commitment and for their dedication to customer service.

Liu Xiaochuan
Chairman, Non-Executive Director

Financial Review

For the year ended 31 March 2012, revenue fell by 17% to RMB 176 million (2011: RMB 213 million) and profit after tax fell by 94% to RMB 2 million (2011: RMB 33 million). The poor results reflect our customers' general delay with their projects that resulted in a decrease in orders of DVR and surveillance solutions.

Gross profit for the year ended 31 March 2012 was RMB 90 million (2011: RMB 113 million) and average gross profit margins for the period decreased from 53% in 2011 to 51%.

BlueStar maintained its expenditure on research and development and, as planned, during the year, the Company's investment in R&D amounted to RMB 19 million (2011: RMB 20 million) of which RMB 10 million was capitalised (2011: RMB 12 million).

BlueStar also invested RMB 1.0 million in production and office equipment (2011: RMB 4.3 million).

Finance costs for the financial year ended 31 March 2012 were RMB 1.7 million (2011: RMB 0.2 million). This was due to an increase in bank loans during the period for working capital.

Profit before tax

In view of the above, the group recorded a profit before tax of RMB 4.6 million for the year 2012 as compared with profit before tax of RMB 41 million for the corresponding period in 2011.

The fall in profits is mainly due to the fall in revenue and rise in administrative expenses of RMB 5 million, largely due to the following:

1. An increase in amortisation of intangible assets. In the financial year ended 31 March 2011, RMB 12 million of R&D expenses were capitalised, which began to be amortised during the financial year ended 31 March 2012.
2. Increased bad debt provision. The company treats all outstanding debt older than two years and non-banking debtors as a bad debt provision and so the increased amount of debtors led to an increase in bad debts.

The Company also capitalised a lower amount for R&D expenditure (RMB 3 million less).

For the year ended 31 March 2012 there was no other gains in the accounts compared to the year ended 31 March 2011 when there was a RMB 4 million gain from the acquisition of Beijing Kean Yuanjing Technologies Development Co., Ltd.

Earnings per share for the period was 2.79 fen (2011: 45.31 fen).

Trade receivables increased to RMB 63 million at 31 March 2012 (2011: RMB 61 million) and accrued income increased by 13% to RMB 166 million at 31 March 2012 (2011: RMB 147 million). RMB 184 million outstanding debtors have been received during last year. Our rise in accrued income is directly related to the Group working with banks, government security agencies projects and contracts which results in a lengthened working capital cycle. In addition, 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 outstanding debtors which the Company has issued an invoice to the customer, the debtor days are 131 days (FY 2011: 104 days); For total outstanding debtors including accrued income, the debtor days are 475 days (FY 2011: 357 days). The company has requested that banking clients change their payment policies by paying us in installments instead of paying only when the project is finished as before.

Inventories at the year end were RMB 35 million (2011: RMB 30 million), which represents an increase in inventories to meet the demand of an increased volume of network projects. This has led to shorter delivery lead time and therefore improved customer satisfaction.

At the end of the financial year, the Company's cash position was RMB 51 million (2011: RMB 55 million).

Total liabilities of RMB 91 million include RMB 2 million of deferred consideration relating to KeAn which will be paid over three years and RMB 30 million short-term bank loan (2011: RMB 3 million) of which RMB 15 million obtained from Huaxia Bank (HXB), RMB 10 million obtained from China Minsheng Banking Corporation (CMBC) and RMB 5 million obtained from Bank of Beijing Trust.

Intangible assets increased from RMB 35 million at 31 March 2011 to RMB 39 million at 31 March 2012. The increase was mainly due to the development new software to be embedded within our equipment.

Net cash used in operating activities was RMB 14 million for the year (2011: RMB 2 million).

Operating Review

Research and Development

As a leading surveillance network solutions provider, 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 19 million, of which RMB 10 million was capitalised. This compares to RMB 20 million being invested in the prior year, of which RMB 12 million was capitalised.

Within the year, the second-generation intelligent video analysis technology has been full-scale applied by our company to our products, such as DVR, DVS, HD IPC etc.

In August 2011, we released a series of HD IP cameras including a gun-type HD IP camera, mispheric and spherical HD IP camera, all of which support the 1080P HD real-time video. Making use of the digital storage technology, we have released HDVR which is compatible with analog and HD IP cameras, We have also released NVR for HD IP cameras.

In May 2012, BlueStar was awarded eight copyrights in respect of its new software solutions for advanced networking platforms and intelligent management functions. The copyrights included RenderConfig-TV Wall Management system; Intelligent playback platform for BCenter; Video Surveillance System for Embeded NVR; Viloa-Intelligence Digital Video Recorder; Peony-HD IP Camera; Digital Map System for BCenter; TR01B-HD Video Decoder; and Carnation B-Intelligence Digital Video Server.

Reflecting the success of the Company's efforts in product research and development, BlueStar was named in the China Public Security Magazine as one of the "10 Most Influential Brands of DVR in China 2011".

Business Development

During the year the Company won several crucial contracts with state-owned banking giants throughout China as follow:

-Two contracts signed with The Bank of China worth RMB 8.54 million and RMB 15.29 million for installing surveillance equipment for ATM machines in 2011;

-A contract with the Bank of China-Hebei Branch, worth RMB 6.86 million;

-A major contract with Bank of Beijing, Beijing Branch, worth RMB 7.43million;

-New framework contracts with several Chinese banks, including Industrial and Commercial Bank of China-Beijing Branch (RMB 8.3million); China Construction Bank-Hebei Branch (RMB 3 million); Industrial and Commercial Bank of China-Ningxia Branch (RMB 1.88million); and China Construction Bank- Hunan Branch (RMB 4 million), to serve as the general contractor and systems integrator of the surveillance network in China.

These important contract wins highlight and reinforce BlueStar's market leading position in the provision of surveillance solutions to the Chinese banking sectors.

Strategy

In the past financial year, the Group's core strategy remained focused on growth in the banking sector and government security agencies sector within China, through expansion in Tier 2 & 3 cities.

The regulations introduced by the Ministry of Public Security ("MPS") currently require continuous video coverage of certain transactions, especially cash transactions. In particular these requirements include:

- The mandatory replacement of existing video surveillance systems by systems employing embedded DVRs after every five years to prevent systems becoming obsolete;
- A one-to-one policy, whereby every cash counter and ATM must have one exclusive camera, which must be connected to one dedicated DVR unit;
- All new systems must be DVR systems that may be connected electronically into a network.

The Directors believe that the technical demands of the banking segment are particularly stringent in terms of DVR-based video surveillance technology due to the legislative and security requirements imposed by the government. The banking segment includes in total 270,000 bank branches and ATMs spread throughout 30 provinces in China. The Directors believe this geographic dispersion provides good opportunities for the sale of networked DVRs as banks focus on the effectiveness and cost-efficiency of centralising their video surveillance activities. BlueStar continuously enhanced the software further by tailoring them for industry specific solutions.

Working with the Chinese government security agency department has also been a significant achievement for BlueStar as it has generated revenue of RMB 22 million for the Company during the year. As a leader in this rapidly growing market, the Company believes that this area will offer the Company considerable opportunities in the future.

Operating Review

Surveillance Command Centre

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. To date, 927 (807 in operation) financial outlets have so far been linked to the centre's services, generating recurring service fees for the Company of RMB 1.67 million (FY2011: RMB 1.05 million) over the period for the connected financial outlets currently subscribing to the service. In future, the Company plans to replicate this model in other top tier cities across China including Shanghai and Guangzhou.

Acquisitions

In May 2010, the Company acquired Beijing KeAn Yuanjing Technologies Development Co., Ltd ("KeAn") which generated RMB 5 million in revenue during the reporting period.

Awards

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

- November 2011: BlueStar was named as one of the 10 most influential surveillance DVR brands in China for the second year, 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 2011: Awarded "A quality-trusted surveillance product enterprise in China" & "Famous Surveillance Product Brand in China" by Security & Protection Market Magazine.

- November 2011: Awarded the "2011 China Safe City Construction Recommendation Brand Status" by China Security & Protection Industry Association.

Board Changes

In May 2012, Mr. Romeo Edward Sze-Lam Kwok, the Vice President and Chief Financial Officer of BlueStar left the Company and stepped down as a director due to personal reason. We would like to thank him for his significant contribution to the Company during his time with us.

Ms. Antonia Ping has been appointed to the position of Chief Financial Officer of the company effective on 1 June 2012. Antonia joined BlueStar in July 2009 as Company Secretary and CFO assistant and has over 10 years' experience in accounting and financial management. Whilst she was the assistant to CFO, she provided oversight on audits, financial reports and reported directly to the Company's CEO on matters of internal management and was also responsible for investor relations.

Outlook

The Company believes the financial year 2013 will still be another challenging year for its business, although we continue to win new contracts and new clients. The Company intends to increase its revenue in two ways: one is to develop the sales channel by expanding the sales team; the other is to continue to win more banking clients. We hope to create a firm foundation for the year through with this hard work.

Directors' Report

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;
- 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;
- make judgment and estimates that are reasonable and prudent; and
- Make an assessment of the Group's ability to continue as a going concern and to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

In the opinion of the directors, the financial statements set out on pages 27 to 30 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 2012, 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.
The Directors do not recommend a payment of dividend for the year ended 31 March 2012.

Directors

The Directors who served during the year, and subsequently, were as follows

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 19 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. He Caiguang.
Chief Technological Officer

Mr. He holds a B.S. Degree in Geo Science at Zhejiang University. He has spent more than 20 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. Xing Huidong.
Vice President and Director of Sales

Mr. Xing graduated from The People's Information Engineering University in China with a degree in computer science. Mr. Xing joined BlueStar in 2007 and is currently a senior vice president and director in charge of the Sales department in the company. Prior to joining BlueStar, Mr. Xing worked as a manager in the security department of the China Construction Bank in Beijing.

Ms. Liu Jinqing.
Vice President and Director of Production Department

Ms Liu joined BlueStar in 2000 as the general manager of Guangzhou Blue Star Technologies Development Ltd. Following the company's factory moved to Beijing, she has been transferred to Beijing and act as the Senior Vice President and in charge of BlueStar's production department as well. Prior to joining BlueStar, Ms. Liu entered into the security systems industry in 1993, and she is one of the founder of Guangzhou JingLun Technology Development Co., Ltd.

Mr. Teo Kean Eek,
Non-Executive Director

Mr. Teo has over 18 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. Currently Mr. Woolf served as executive director in RSM Tenon organization. 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.

Directors' Report

Directors' Interests

Name	Number of Shares	%	Number of shares under option	Exercise price
Xiao Gang(1)	32,170,000	44.18%	-	-
He Caiguang(2)	2,940,000	4.04%	-	-
Teo Kean Eek(3)	600,000	0.82%	-	-
Xing Huidong	-	-	280,000	23 pence
Romeo Kwok(resigned 31May 2012)	-	-	145,616	23 pence

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

(2) Held through Video Sources Communication Limited

(3) Held through Agile Partners Limited

Substantial Shareholdings

As of 4 July 2012 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.	18,450,000	25.34%
Sunshine Holdings (Private) Limited	13,720,000	18.84%
Mackenzie Cundill Investment Management	9,740,000	13.38%
Video Sources Communication Limited	5,370,000	7.37%
Heartland Capital Management Limited	3,990,540	5.48%
NewTech Capital Management Limited	3,923,410	5.39%
Balance Partners Limited	3,207,050	4.40%
CIM Investment Management	2,960,000	4.07%

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

Financial Instruments

The Group financial instruments and risk profile are set out in notes 3, 4 and 29.

Auditors

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
19 July 2012

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 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:

a.basic salary;
b.pensions;
c.other benefits; and
d.share option incentives

a.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.

b.Pensions

Pensions for current China domiciled Executive Directors are in line with Chinese Government salary cap provided for under the Company's Chinese state contributory pension scheme.

c.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.

d.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 17 of Directors' Report.

Service Contracts

Main information of service contract is as follows:

Executive	Contract Date	Contract period	Termination Notice	Annual salary include bonus
Xiao Gang	2010	indefinite	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
He Caiguang	2010	indefinite	6 months notice by either side	RMB 400,000
Xing Huidong	2010	indefinite	6 months notice by either side	RMB 420,000
Liu Jinqing	2010	indefinite	6 months notice by either side	RMB 400,000

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

Remuneration Committee Report

Directors Remuneration

Directors' remuneration for the 12 months period ended 31 March 2012 was as follows:

Executive	Salary and bonus RMB'000	Pension Contributions RMB'000	Other Benefits RMB'000	Total RMB'000
Xiao Gang	720	18	-	738
Romeo Edward Sze-Lam Kwok	612	36	18	666
He Caiguang	280	18	-	298
Xing Huidong	294	29	-	323
Liu Jinqing	280	14	-	294
	2,186	115	18	2,319
Non-Executive				
Liu Xiaochuan	216	-	-	216
Teo Kean Eek	251	-	-	251
Derrick Woolf	330	-	-	330
	2,983	115	18	3,116

Mr. Liu Xiaochuan

Chairman of the Remuneration Committee

19 July 2012

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 eight 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 recommendation 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.

Corporate Governance

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 five 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 five 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 authorisation 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
19 July 2012

Independent Auditors' Report

We have audited the financial statements of BlueStar SecuTech, Inc. for the year ended 31 March 2012 which comprise the Consolidated and Company Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Cash Flows, the Consolidated and Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2012 and of the group's and the parent company's profit and loss for the year then ended;

- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union.

UHY Hacker Young.

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

19 July 2012

The maintenance and integrity of the 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 responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website; and legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

Consolidated and Company Statement of Comprehensive Income

	Note	Group		Company	
		Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Revenue	5	176,424	212,671	-	-
Cost of sales		(86,596)	(99,733)	-	-
Gross profit		**89,828**	**112,938**	-	-
Other income	6	3,505	4,289	-	-
Distribution costs		(51,001)	(50,374)	-	-
Administrative expenses		(37,092)	(29,866)	(2,630)	(3,714)
Other expenses		(44)	(109)	5	(34)
Other gains/ (losses)		-	3,926	-	-
Profit/(loss) from operations	8	**5,196**	**40,804**	**(2,625)**	**(3,748)**
Finance cost	9	(1,662)	(193)	(25)	(33)
Investment income	10	1,111	390	-	-
Profit/(loss) before tax		**4,645**	**41,001**	**(2,650)**	**(3,781)**
Income tax expense	11	(2,611)	(8,011)	-	-
Profit/(loss) for the year		**2,034**	**32,990**	**(2,650)**	**(3,781)**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**2,034**	**32,990**	**(2,650)**	**(3,781)**
Earnings per ordinary share (fen)	12				
Basic		**2.79**	**45.31**		
Diluted		**2.79**	**45.31**		

All operations are continuing.

Consolidated and Company Statement of Financial Position as at 31 March 2012

	Note	Group		Company	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
ASSETS					
Non-current assets					
Intangible assets	13	39,031	35,498	-	-
Property, plant and equipment	14	9,786	12,990	-	-
Investment in subsidiaries	15	-	-	128,021	128,021
Deferred tax assets	21	1,393	1,249	-	-
Total non-current assets		**50,210**	**49,737**	**128,021**	**128,021**
Current assets					
Inventories	16	34,581	30,448	-	-
Trade and other receivables	17	242,955	217,216	1,794	9,007
Cash and cash equivalents	18	51,246	55,212	1,076	1,798
Total current assets		**328,782**	**302,876**	**2,870**	**10,805**
Total assets		**378,992**	**352,613**	**130,891**	**138,826**
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	22	134,861	134,861	134,861	134,861
Merger reserve	24	(7,575)	(7,575)	-	-
Retained earnings	24	119,110	127,868	(10,711)	(1,464)
Option reserve	22, 23	4,408	4,520	4,408	4,520
Other reserves	24	36,817	32,622	-	-
Total equity		**287,621**	**292,296**	**128,558**	**137,917**
Current liabilities					
Trade and other payables	19	29,949	28,661	1,622	479
Short-term borrowings	20	30,000	3,000	-	-
Income tax payable		5,974	6,274	-	-
Other tax payable		18,283	16,292	711	430
Total current liabilities		**84,206**	**54,227**	**2,333**	**909**
Non-current liabilities					
Deferred tax liabilities	21	5,104	4,029	-	-
Deferred consideration	25	2,061	2,061	-	-
Total non-current liabilities		**7,165**	**6,090**	-	-
Total liabilities		**91,371**	**60,317**	**2,333**	**909**
Total equity and liabilities		**378,992**	**352,613**	**130,891**	**138,826**

The financial statements were approved by the board of directors and authorised for issue on 19 July 2012 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 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Cash flows from operating activities				
Profit/(loss) before interest and tax	**5,410**	**40,670**	**(2,650)**	**(3,781)**
Adjustments for:				
Allowance for doubtful debts	1,149	440	-	-
Depreciation of property, plant and equipment	4,195	3,834	-	-
Amortisation of intangible assets	6,276	4,823	-	-
Loss on disposal of property, plant and equipment	14	33	-	-
Other gains/ (losses)	-	(3,926)	-	-
Share-based payment	(112)	437	(112)	437
Operating cash flows before movement in working capital	**16,932**	**46,311**	**(2,762)**	**(3,344)**
Increase in inventories	(4,133)	(5,631)	-	-
(Increase)/decrease in trade and other receivables	(26,886)	(36,104)	7,213	8,424
Increase/(decrease) in trade and other payables	3,279	(4,878)	1,424	909
Cash (used in)/generated from operations	**(10,808)**	**(302)**	**5,875**	**5,989**
Interest paid	(1,558)	(59)	-	-
Income tax paid	(1,982)	(1,630)	-	-
Net cash (used in)/generated from operating activities	**(14,348)**	**(1,991)**	**5,875**	**5,989**
Cash flow from investing activities				
Interest received	793	390	-	-
Proceeds of disposal of property, plant and equipment	-	1	-	-
Purchase of property, plant and equipment	(1,005)	(4,289)	-	-
Expenditure on intangible assets	(9,809)	(12,721)	-	-
Net cash flow arising from acquisition	-	3,881	-	-
Net cash used in investing activities	**(10,021)**	**(12,738)**	-	-
Cash flow from financing activities				
Cash received from borrowing	27,000	3,000	-	-
Dividends paid	(6,597)	(6,508)	(6,597)	(6,508)
Net cash generated from/(used in) financing activities	**20,403**	**(3,508)**	**(6,597)**	**(6,508)**
Net decrease in cash and cash equivalents	(3,966)	(18,237)	(722)	(519)
Cash and cash equivalents at the beginning of the year	55,212	73,449	1,798	2,317
Cash and cash equivalents at the end of the year	**51,246**	**55,212**	**1,076**	**1,798**

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 at 31 March 2010	**134,861**	**(7,575)**	**104,685**	**29,323**	**4,083**	**265,377**
Total comprehensive income for the year	-	-	32,990	-	-	32,990
Dividends distribution	-	-	(6,508)	-	-	(6,508)
Transfer to statutory reserve	-	-	(3,299)	3,299	-	-
Share-based payment	-	-	-	-	437	437
Balance as at 31 March 2011	**134,861**	**(7,575)**	**127,868**	**32,622**	**4,520**	**292,296**
Total comprehensive income for the year	-	-	2,034	-	-	2,034
Dividends distribution	-	-	(6,597)	-	-	(6,597)
Transfer to statutory reserve	-	-	(4,195)	4,195	-	-
Share-based payment	-	-	-	-	(112)	(112)
Balance as at 31 March 2012	**134,861**	**(7,575)**	**119,110**	**36,817**	**4,408**	**287,621**

STATEMENT OF CHANGES IN EQUITY-COMPANY

	Share capital RMB'000	Retained earnings RMB'000	Option reserve RMB'000	Total RMB'000
Balance at 31 March 2010	**134,861**	**8,825**	**4,083**	**147,769**
Total comprehensive income for the year	-	(3,781)	-	(3,781)
Dividends distribution	-	(6,508)	-	(6,508)
Share-based payment	-	-	437	437
Balance as at 31 March 2011	**134,861**	**(1,464)**	**4,520**	**137,917**
Total comprehensive income for the year	-	(2,650)	-	(2,650)
Dividends distribution	-	(6,597)	-	(6,597)
Share-based payment	-	-	(112)	(112)
Balance as at 31 March 2012	**134,861**	**(10,711)**	**4,408**	**128,558**

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 and its 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 place of business of the Group's operation is at 14th Floor Tower A, Chengjian Plaza, 18 Beitaipingzhuang Avenue, Haidian District, Beijing.

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.

These financial statements are presented in the nearest thousands.

1.2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations ("IFRSs"), as adopted by European Union 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 2012.

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.

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 39 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.

d. Share-based payment charge

The Group has share option scheme for certain eligible employees and directors. Judgements and estimates are required in determining the share-based payment charge as an expense in the income statement. The directors have used Black-Scholes model as recommended under IFRS 2 in valuing the share-based payment charge. The directors are in the opinion that the model used has been adjusted to their best estimate in arriving at the charge.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Standards, amendments and interpretation to existing standards that are not yet effective and have not been early adopted by the Group

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 2012 or not applicable to the Group's business.

Issued and endorsed by European Union

Amendment to IFRS 7 – Enhanced Derecognition Disclosure Requirements – effective 1 July 2011

The IASB introduced enhanced disclosure requirements to IFRS 7 Financial Instruments as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transactions involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. As the change only results in additional disclosures, there is no impact on the Group's financial statement.

Issued but not yet endorsed by European Union as at 4 June 2012

IFRS 9 – Financial Instruments – Classification and Measurement of Financial Assets – effective 1 January 2015

This has been introduced to replace IAS 39 – Recognition and Measurement. The requirements were issued in 2009 as part of the gradual development and phase-in of the new financial instruments guidance. New requirements for classification and measurement of financial liabilities were also added in year 2010. Impairment and hedge accounting are expected to be added to IFRS 9 in 2011. As a result, IFRS 9 will eventually be a complete replacement for IAS 39. The company plans to apply this when it has such transactions.

IFRS 9 – Incorporation of requirements on the accounting for financial liabilities – effective 1 January 2015

The 2010 revision to IFRS 9 also include guidance on the classification and measurement of financial liabilities. The guidance included in IFRS 9 retains the classification criteria for financial liabilities currently contained in IAS 39. However, there are two key differences, relating to presentation and measurement, compared to IAS 39:

- the presentation of the effects of changes in fair value attributable to a liability's credit risk; and
- the elimination of the cost exemption for derivative liabilities to be settled by delivery of unquoted equity instruments.

IFRS 10 – Consolidated Financial Statements – effective 1 January 2013

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, thus eliminating the risks and rewards approach included in SIC-12. IFRS 10 identifies the following three elements of control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

An investor must possess all three elements to conclude it controls an investee.

IFRS 11 – Joint Arrangements – effective 1 January 2013

IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. In a joint operation, the parties to the joint arrangement have rights to the actual assets and obligations for the liabilities of the arrangement. In contrast, in a joint venture, the parties to the arrangement have rights to the net assets of the arrangement.

A joint operator recognises its share of the assets, liabilities, revenues and expenses in accordance with applicable IFRSs, while a joint venture would account for its interest using the equity method of the accounting under IAS 28 (revised 2011), thus eliminating the option of proportionate consolidation for interest in joint ventures.

IFRS 12 – Disclosure of interests in Other Entities – effective 1 January 2013

IFRS 12 combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. Many of the disclosure requirements were previously included in IAS 27, IAS 31 or IAS 28, whilst others are new.

IFRS 13 – Fair value measurement – effective 1 January 2013

IFRS 13 was issued in May 2011 and established a single framework for measuring fair value and is applicable for both financial and non-financial items. The standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if required by another standard.

It is considered that this does not apply to the Group and that this standard is not expected to result in changes in accounting policies, changes to the carrying amounts of assets or liabilities or the published results. If any, but expect there will be no material impact to the income statement and balance sheet when implemented, although further disclosure may be required.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have material effect on the reported income or net assets of the Group.

2.2. Functional and presentation currency

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

2.3. 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 and after eliminating sales within the Group.

• Sales of goods

The Group assembles and sells video surveillance system. Sales of goods are recognised when a group entity has delivered the products to the customers and the title has passed.

• Sales of services

The Group sells installation services to customers. These services are provided on a fixed-price contract, with contract terms less than one year. Revenue is recognised when services rendered and completion report obtained.

The Group sells processing services to other suppliers. These services are provided on a fixed-price contract, with contract terms generally less than a month. Revenue is generally recognised in the period the services are provided.

The Group sells maintenance services to ''Kaiyuan" hubs which linked to the command centre in Beijing. Revenue is recognised in the period the services are provided, using a straight-line basis over the term of the contract.

• Interest income

Inrerest income is recognised on a time proportion basis using the effective interest method.

Notes to the Financial Statements

2.4. 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.

2.5. 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.

2.6. Taxation

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

Current taxation

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

Deferred taxation

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

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.

2.7. Property, plant and equipment

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

Property in the course of construction for production or administrative purposes is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. The cost of plant and equipment comprises its purchase price and any attributable costs of bringing the asset to its working condition and 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:

Vehicles	5 years
Fixtures and equipment	1 – 5 years
Renovation costs	5 years
'Kaiyuan' command centre	10 years
'Kaiyuan' hubs	5 years

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

2.8. Subsidiaries

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

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

2.9. Intangible assets

Software Licences

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

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

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

2.10. Impairment of tangible and intangible assets

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

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

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

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

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

2.11. Inventories

Inventories are 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.

2.12. Cash and cash equivalents

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

2.13. Financial assets

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

Notes to the Financial Statements

2.14. Financial liabilities and equity

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

2.15. Borrowings and borrowing costs

Borrowings are recognised initially at the proceeds received, 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.

2.16. Foreign currency transactions

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

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

2.17. Provisions

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

2.18. Leases

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

2.19. Dividends

Equity dividends are recognised when they become legally payable. In respect of interim dividends to equity shareholders, this is when they are declared and paid. In respect of final dividends to equity shareholders, this is when they are approved by the members at the Annual General Meeting.

2.20. Related parties

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

2.21. Segment reporting

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.

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.

a. 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.

b. 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.

c. 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.

d. Liquidity risk

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

e. Fair values of financial assets and financial liabilities

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

4. 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.

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 2012 this was 31.7% compared to 20.6% at 31 March 2011.

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

	Group	
	31 March 2012 RMB'000	**31 March 2011 RMB'000**
Total debt	91,371	60,317
Total shareholders' equity	287,621	292,296
Debt to Equity ratio	31.7%	20.6%

5. REVENUE AND SEGMENTAL ANALYSIS

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

	Revenue	Revenue	Segment profit	Segment profit
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Sales of digital video devices	172,317	206,859	30,668	56,217
Sales of software	926	43	629	32
Revenue from technological service	3,181	5,769	2,149	4,236
Total for continuing operations	**176,424**	**212,671**	**33,446**	**60,485**
Central administration and director's salaries			(28,250)	(23,607)
Finance income			1,111	390
Finance cost			(1,662)	(193)
Other gains and losses			-	3,926
Profit before tax (continuing operations)			**4,645**	**41,001**

Analysis of the Group's assets by operating segment:

	Assets	Assets
	At 31 March 2012 RMB'000	At 31 March 2011 RMB'000
Continuing Operations		
Sales of digital video devices	371,204	343,611
Sales of software	1,797	65
Revenue from technological service	5,991	8,937
Total for continuing operations	378,992	352,613

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.

Information about major customers

Included in revenue arising from sales of digital video devices of RMB 172 million are revenue of approximate RMB 38 million, RMB 27 million and RMB 21 million which arose from sales to the Group's three largest customers.

6. OTHER INCOME

	Group	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Government subsidy income	3,488	4,274
Others	17	15
	3,505	4,289

7. STAFF COSTS

	Group		Company	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Wages and salaries (including directors)	24,198	31,688	1,359	2,569
Social insurances expense	6,123	6,540	36	-
	30,321	38,228	1,395	2,569

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

	Group		Company	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Salaries	3,191	4,300	1,359	2,247
Social insurances expense	352	159	36	-
	3,543	4,459	1,395	2,247

	Group	
	Year ended 31 March 2012 Number	Year ended 31 March 2011 Number
Average number of employees	510	596

8. PROFIT/(LOSS) FROM OPERATIONS

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

	Group		Company	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Allowance for doubtful debts (trade)	1,149	440	-	-
Allowance for impairment of inventories	2,512	(80)	-	-
Cost of sales (excluding labour cost included within cost of sales)	82,828	96,373	-	-
Research & development costs	8,842	6,588	-	-
Operating lease rental	4,485	5,822	-	-
Depreciation of property, plant and equipment	4,195	3,834	-	-
Amortisation of intangible assets (included within administrative expenses)	6,276	4,823	-	-
Loss on disposal of property, plant and equipment	14	33	-	-
Auditors' remuneration	458	440	340	50
Loss on foreign exchange	19	74	5	34
Share-based payment	(112)	437	(112)	437

9. FINANCE COST

	Group		Company	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Bank interest	1,558	59	-	-
Bank charge	104	134	25	33
	1,662	193	25	33

10. INVESTMENT INCOME

	Group		Company	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Interest income	793	390	-	-
Investment income	318	-	-	-
	1,111	390	-	-

11. INCOME TAX EXPENSE

	Group	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Current tax:		
Current tax for profit for the year	1,680	4,819
Income tax prior year adjustment	-	36
Total current tax	1,680	4,855
Deferred tax (Note 21)		
Temporary differences	1,075	1,624
Tax losses carry-forward	(144)	1,532
Total deferred tax	931	3,156
Income tax expense	2,611	8,011

Reconciliation of tax charge:

	Group	
	Year ended 31 March 2012 RMB'000	Year ended 31 March 2011 RMB'000
Profit before tax	4,645	41,001
Tax at PRC tax rate of 25% (2011: 25%)	1,161	10,250
Factors affecting income tax charge:		
Expenses not deductible	579	951
Timing differences	931	1,457
Unrelieved tax losses carry-forward	325	(1,249)
Utilisation of tax losses	(181)	2,782
Preferential rate	(1,729)	(6,336)
Exempt from income tax	663	945
Prior year adjustments	-	36
Other adjustments	862	(825)
Tax expense for the year	2,611	8,011

A company is deemed to be resident in PRC if it is established in PRC or its effective management is in PRC. Residents are taxed on their worldwide income. Non residents are taxed on PRC source income and income effectively connected with their establishments in PRC.

The Company is regarded as resident for the tax purposes in BVI. There are no applicable taxes in the BVI for the Company.

The Company's operating subsidiaries in PRC are subject to income tax rate at 25% (2011: 25%) except certain operating subsidiaries are:

i) exempt from income tax for the first three years, followed by two or 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;

ii) Tax at a fixed income tax rate based on turnover.

A 10% withholding tax on dividends payable to non tax resident companies in PRC was introduced on 1 January 2008. The 10% withholding tax may be reduced under an applicable tax treaty.

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 2012 RMB'000	31 March 2012 RMB'000
Profit attributable to equity holders of the company	2,034	32,990
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. The exercise prices for the options granted are above the average share price of the company. As a result of this there is no diluted effect. The weighted average number of shares in issue is the number of shares issued.

13. INTANGIBLE ASSETS-GROUP

	Copyrights RMB'000	Development cost RMB'000	Purchased software RMB'000	Total RMB'000
Cost				
At 31 March 2010	26,483	-	11,928	38,411
Additions	11,134	1,587	-	12,721
At 31 March 2011	37,617	1,587	11,928	51,132
Additions	-	9,809	-	9,809
At 31 March 2012	**37,617**	**11,396**	**11,928**	**60,941**
Accumulated amortisation and impairment				
At 31 March 2010	4,627	-	6,184	10,811
Charge for the year	2,648	-	2,175	4,823
At 31 March 2011	7,275	-	8,359	15,634
Charge for the year	4,239	-	2,037	6,276
At 31 March 2012	**11,514**	-	**10,396**	**21,910**
Carrying amount				
At 31 March 2012	**26,103**	**11,396**	**1,532**	**39,031**
At 31 March 2011	30,342	1,587	3,569	35,498

Copyrights represent internally-generated software in which rights to sell obtained from relevant authority.

14. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Vehicle RMB'000	Fixture and equipment RMB'000	Renovation RMB'000	"Kaiyuan"" RMB'000	Total RMB'000
Cost					
At 31 March 2010	5,447	11,348	3,981	3,826	24,602
Adjustment	29	(29)	-	-	-
On acquisition	-	28	-	-	28
Additions	279	2,497	472	1,041	4,289
Disposals	-	(556)	(60)	-	(616)
At 31 March 2011	5,755	13,288	4,393	4,867	28,303
Adjustment	-	33	-	-	33
Additions	53	416	43	493	1,005
Disposals	(82)	(396)	(230)	-	(708)
At 31 March 2012	**5,726**	**13,341**	**4,206**	**5,360**	**28,633**
Accumulated depreciation and impairment					
At 31 March 2010	4,024	5,644	2,227	166	12,061
Adjustment	19	(19)	-	-	-
Depreciation charge for the year	551	2,233	721	329	3,834
Disposals	-	(522)	(60)	-	(582)
At 31 March 2011	4,594	7,336	2,888	495	15,313
Adjustment	-	33	-	-	33
Depreciation charge for the year	482	2,596	564	553	4,195
Disposals	(74)	(390)	(230)	-	(694)
At 31 March 2012	**5,002**	**9,575**	**3,222**	**1,048**	**18,847**
Carrying amount					
At 31 March 2012	**724**	**3,766**	**984**	**4,312**	**9,786**
At 31 March 2011	1,161	5,952	1,505	4,372	12,990

''Kaiyuan''

This represents cost of command centre in Beijing and hubs located across PRC. Included in ''Kaiyuan'', hubs in the course of construction of RMB 558,886 (2011: RMB 1,249,270).

Assets pledged as security

Equipment with carrying value of RMB 1,276,151 has been pledged to secure the borrowings facility of the Group.

15. INVESTMENT IN SUBSIDIARIES – COMPANY

	2012 RMB'000	2011 RMB'000
Unquoted equity, at cost	128,021	128,021

Investment in subsidiaries consists of:

Name of subsidiary	Principal activities interest	Place of Incorporation	Equity
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	Sales centre	PRC	100%
Shanghai BlueStar Science and Technology Co. Ltd	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%
Beijing KeAn Yuanjing Technologies Development Co. Ltd	Sales centre	PRC	100%

16. INVENTORIES

	Group	
	2012 RMB'000	2011 RMB'000
Raw materials	12,481	9,781
Work-in-progress	3,397	1,665
Finished goods	25,290	23,077
Gross amount before provision for impairment	41,168	34,523
Provision for impairment	(6,587)	(4,075)
Net amount	34,581	30,448

Movement of provision for impairment is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Balance at beginning of year	4,075	4,155
Provision made during the year	2,512	(80)
Balance at end of year	6,587	4,075

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade receivables	63,338	60,617	-	-
Accrued income	173,494	153,614	-	-
Less:Provision for doubtful debts				
Balance at beginning of year	(5,980)	(5,540)	-	-
Provision made during the year	(1,149)	(440)	-	-
Balance at end of year	(7,129)	(5,980)	-	-
	229,703	208,251	-	-
Amount due from subsidiary undertakings	-	-	-	9,007
Other receivables	11,098	8,214	1,794	-
Prepayments	2,154	751	-	-
	242,955	217,216	1,794	9,007

Included in other receivables amount of RMB 1,822,893 and RMB 1,086,157 (2011: RMB 264,142 and RMB 850,000) due from Xiao Gang and Xing Huidong respectively. Both are directors of the Company.

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

The directors consider that the carrying value of the trade and other receivables approximate their fair value.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash at bank and on hand	18,546	27,212	-	-
Short-term bank deposits	32,700	28,000	1,076	1,798
	51,246	55,212	1,076	1,798

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade payables	17,887	14,427	-	-
Notes payables	368	5,107	-	-
Amount due to subsidiary undertakings	-	-	1,109	-
Accrued payroll	1,957	2,670	173	429
Other payables	1,331	1,242	-	-
Advance from customers	6,471	2,923	-	-
Accruals	1,935	470	340	50
Deferred consideration	-	1,822	-	-
	29,949	28,661	1,622	479

The Directors consider that the carrying value of trade and other payables approximates their fair value.

20. SHORT-TERM BORROWINGS

The amount is due within one year and is secured by:

- guarantee provided by Beijing International Trust Co;
- guarantee provided by Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd; and
- personal guarantee by Mr Xiao Gang, a director of the Company.

The average interest rate is 7.54% annually. The borrowings are arranged at fixed rate and the directors consider that the carrying amount of the borrowing approximate to their fair value.

21. DEFERRED TAXATION –GROUP

The movement 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 2010	2,405	(2,782)	(377)
Charge to income statement	1,624	1,533	3,157
At 31 March 2011	4,029	(1,249)	2,780
Charge to income statement	1,075	(144)	931
At 31 March 2012	5,104	(1,393)	(3,711)

Deferred income tax assets are recognised 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	
	2012 RMB'000	**2011 RMB'000**
Deferred tax assets	**(1,393)**	(1,249)
Deferred tax liabilities	**5,104**	4,029

22. SHARE CAPITAL

The total authorised number of ordinary shares is 72,808,000 shares (2011: 72,808,000 shares) with a nil par value per share (2011: nil par value per share). All issued shares are fully paid.

	Group	
Issued and paid up:	**2012 RMB'000**	**2011 RMB'000**
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 2012, 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
1,008,904	0.23	14.04.2010	15.07.2013 - 31.08.2013 and 25.11.2013 - 31.03.2014
1,008,904	0.23	14.04.2010	15.07.2014 - 31.08.2014 and 25.11.2014 - 31.03.2015

23. SHARE OPTIONS

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 installments 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.

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.

As at 31 March 2012, none of the above options had been exercised.

On 14 April 2010, the company granted Share Option to subscribe 4,035,616 ordinary shares at 23 pence per share under its Share Option Scheme adopted on 16 March 2010 to certain eligible persons.

Vesting periods subject to the achievement of the performance target, as determined by the Board of Directors as follow:

- 25% of the Options shall be exercise during the two periods from the 3rd working day after the annual report has been announced until 31 August 2011 (both day inclusive) and from the 3rd working day after the interim report has been announced until 31 March 2012;

- 25% of the Options shall be exercise during the two periods from the 3rd working day after the annual report has been announced until 31 August 2012 (both day inclusive) and from the 3rd working day after the interim report has been announced until 31 March 2013;

- 25% of the Options shall be exercise during the two periods from the 3rd working day after the annual report has been announced until 31 August 2013 (both day inclusive) and from the 3rd working day after the interim report has been announced until 31 March 2014;

- 25% of the Options shall be exercise during the two periods from the 3rd working day after the annual report has been announced until 31 August 2014 (both day inclusive) and from the 3rd working day after the interim report has been announced until 31 March 2015;

50% of the Options have been forfeited due to performance target not achieved and no Option may be granted more than 10 years after the adoption date.

Details of the share options outstanding during the year are as follows:

	2012		2011	
Issued and paid up:	**Average exercise price in £ per shares**	**Options**	**Average exercise price in £ per shares**	**Options**
At beginning of year	0.30	5,528,180	0.48	1,492,564
Granted	-	-	0.23	4,035,616
Forfeited	0.23	(2,017,808)	-	-
Executed	-	-	-	-
Expired	-	-	-	-
At end of year	0.34	3,510,372	0.30	5,528,180

The weighted average estimated fair value of each share option granted in the share option agreement dated 13 June 2007 and 16 March 2010 are 18 pence and 4.73 pence respectively.

These estimated fair values were calculated using the Black-Scholes option pricing model. The model inputs were as follow:

	Option 1	Option 2			
		T1	**T2**	**T3**	**T4**
Bid price	0.48p	0.245p	0.245p	0.245p	0.245p
Exercise price	0.48p	0.23p	0.23p	0.23p	0.23p
Expected volatility	30%	40%	40%	40%	40%
Expected dividend yield	-	4.3%	4.7%	5.5%	5.2%
Risk-free interest rate	5.75%	2.2%	3.5%	3.5%	3.5%

The expected volatility is based on the historical share prices to the management's best estimate. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restriction and behavioural considerations.

The management has discounted the bid price by 20% in the calculation as the management estimated that in order to place substantial block of shares in the market a discount in the region of 20% to 25% of bid price would be needed.

The management has estimated that approximate 20% of the eligible staffs will not meet the performance target and the leaver's rate is approximate 6% based on historical data.

24. RESERVES

	Group		Company	
	2012 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000
Statutory reserve	30,659	26,464	-	-
Capital surplus	6,158	6,158	-	-
Option reserve	4,408	4,520	4,408	4,520
Retained earnings	119,110	127,868	(10,711)	(1,464)
Merger reserve	(7,575)	(7,575)	-	-
	152,760	157,435	(6,303)	3,056

Statutory reserve

In accordance with the relevant regulations applicable in the PRC, companies now comprising the Group established in the PRC are required to transfer at least 10% of their statutory annual profits after tax to the statutory reserve until the balance of the reserve reaches 50% of their respective registered share capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses of the respective PRC companies.

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.

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 staffs.

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.

25. DEFERRED CONSIDERATION

Deferred consideration relates to the final payment for the acquisition of Beijing KeAn Yuanjing Technologies Development Co. Ltd in May 2010. The timing of the payment is subject to the satisfaction of specific performance criteria.

26. OPERATING LEASE ARRANGEMENTS

	Group	
	2012 RMB'000	2011 RMB'000
Minimum lease payments under operating leases included in the income statement	4,485	5,822

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	
	2012 RMB'000	2011 RMB'000
Within one year	6,406	3,496
In two to five years	5,403	1,213
	11,809	4,709

27. 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.

Mr. Xiao Gang, Mr. He Caiguang, and Ms. Liu Jinqing, directors of the Company have provided personal guarantee up to RMB30 million issuance of notes facility. In addition to this, two personal vehicles of Mr Xiao Gang have been used as security for this credit facility.

During the year, the group made sales to Beijing BlueStar Software Technology Development Co., Ltd ("BBST") for the amount of RMB 22.5 million (2011: RMB: 24.1 million) which acts as an agent to the Company; merely signed contracts on behalf of BlueStar due to legal restriction of BlueStar establishment in PRC. Mr Xiao, a director and majority shareholder of BBST is also a director and majority shareholder of BlueStar.

Key management compensation

Key management includes directors of the company and its subsidiaries. The compensation paid or payable to key management for the employee services is shown on page 21 of the Remuneration Committee Report and note 7 to the financial statements.

28. SUBSEQUENT EVENT

No dividend will be declared in respect of financial year ended 31 March 2012.

29. 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		Fair value		Carrying amount		Fair value	
	Group		Group		Company		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Financial assets								
Cash and cash equivalents	51,246	55,212	51,246	55,212	1,076	1,798	1,076	1,798
Trade and other receivables	242,955	217,216	242,955	217,216	1,794	9,007	1,794	9,007
	294,201	272,428	294,201	272,428	2,870	10,805	2,870	10,805
Financial liabilities								
Trade and other payables	29,949	28,661	29,949	28,661	1,622	479	1,622	479

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 has written credit risk management policies and 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.

The Group continuously monitors defaults of customers and counterparties, identified either individually or by group, and incorporate 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.

Trade receivable of BlueSky is secured on the issuance of notes facility. The management considered that there are no significant concentration of credit risks within the Group a result of this collateral.

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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade receivables	63,338	60,617	-	-
Accrued income	166,365	147,634	-	-
Other receivables	11,098	8,214	1,794	-
Prepayments	2,154	751	-	-
Amount due from subsidiary	-	-	-	9,007
Cash and cash equivalents	51,246	55,212	1,076	1,798
	294,201	272,428	2,870	10,805

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 2012 RMB'000	Impairment 2012 RMB'000	Gross 2011 RMB'000	Impairment 2011 RMB'000
Past due 0 to 3 months	57,851	-	77,252	-
Past due 4 to 6 months	26,368	-	30,503	-
Past due 7 to 9 months	37,072	-	21,482	-
Past due 10 to 12 months	5,663	-	7,224	-
More than 12 months	109,878	7,129	77,770	5,980
	236,832	7,129	214,231	5,980

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.

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 fifth 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 7 September 2012, for the following purposes:

1. To receive the audited financial statements of the Company for the 12 months ended 31 March 2012, 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 2012.
3. To re-appoint UHY Hacker Young LLP as the Company's auditors.
4. To authorise 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. He Caiguang, who retires by rotation, as executive director of the Company.
7. To re-elect Mr. Xing Huidong as executive director of the Company.
8. To re-elect Ms. Liu Jinqing as executive director of the Company.
9. To re-elect Mr. Liu Xiaochuan, who retires by rotation, as non-executive director of the Company.
10. To re-elect Mr. Jeff Teo, who retires by rotation, as non-executive director of the Company.
11. To re-elect Mr. Derrick Woolf, who retires by rotation, as non-executive director of the Company.

By order of the Board

Antonia Ping
Company Secretary
19 July 2012

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 5 September 2012. 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.

Registered office

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P.O. Box 957
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British Virgin Islands

Registered Number
1032245

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Registrars

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Depositary interest registrars Capita IRG Trustees Limited
The Registry, 34 Beckenham Road, Beckenham,
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