



# 2013 Annual Report

BlueStar SecuTech, Inc.

Report and Financial Statements for the 12 Months Ended 31 March 2013

BlueStar SecuTech, Inc.  
[www.bstar.com.cn](http://www.bstar.com.cn)

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# 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 its 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 across China.

BlueStar’s products are sold under its brand name of TRENDLINE® and its customers include organizations from the financial sector, 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. Demand for BlueStar’s products and services is driven by the replacement cycle of surveillance facilities in the banking sector together with increasing security concerns and requirements in today’s society.



# Highlights for the year

- Revenues up 5% to RMB 186 million  
(31 March 2012: RMB 176 million)
- Gross profit down 4% to RMB 86 million  
(31 March 2012: RMB 90 million)
- Gross margin down 5% to 46%  
(31 March 2012: 51%)
- Fully diluted earnings per share 4.47 fen  
(31 March 2012: 2.79 fen) (100 fen = 1 RMB)
- Profit before tax up 51% to RMB 7 million  
(31 March 2012: RMB 5 million)
- Cash position of RMB 27 million at year end  
(31 March 2012: RMB 51 million)
- No dividend will be declared in respect of financial year ended  
31 March 2013

# Chairman's Statement

The financial year 2013 has been another challenging year for our business, although we continue to win new contracts and new clients. Throughout the year, the Company has intended to increase its revenue in two ways: one is to continue to win more banking clients; the other is to grow the group's channel sales business. During the last year, the channel sales team has increased from 18 to 54 members and the team has stepped up its marketing activities with Exhibition activities and trade fairs conducted in around 30 cities to actively expand the recognition of BlueStar's brand. The group's target customers for its channel sales services are the utility and power industries, police and intelligent services.

After a whole year preparation work on channel sales, we are confident that FY2014 will see reasonable growth in channel sales. In the meantime, the group has also actively looked to control costs and tighten its cost control systems. We hope that these initiatives will create a firm foundation for the year ahead.

Our revenue and profit before tax were slightly higher 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 customers. During the year, BlueStar was awarded ten copyrights in respect of its new software solutions for advanced networking platforms and intelligent management functions. In November 2012, BlueStar was named in the China Public Security Magazine as one of the "Ten most influential DVR brands in China 2012."

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

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



Liu Xiaochuan  
Chairman, Non-Executive Director







# Financial Review

For the year ended 31 March 2013, revenue was up on the previous year by 5% to RMB 186 million (2012: RMB 176 million) and profit after tax up by 60% to RMB 3.3 million (2012: RMB 2.0 million).

Gross profit for the year ended 31 March 2013 was RMB 86 million (2012: RMB 90 million) and average gross profit margins for the period decreased from 51% in 2012 to 46%.

The declined gross profit margin is mainly driven by rising costs which we were unable to pass through to our customers. The principal increase in input costs is expected to be short term as it was a result of devastating floods in Thailand during 2011, which have adversely impacted the technology sector across the world as it has led to higher hard disk costs. The new channel sales of equipment and IPC also contributed to lower profit margin. However it will improve the Company's cash flow in the future.

The overall operating expense has reduced by 8% as the Company has been undertaking a series of cost reductions including reducing the executive directors' salaries by 30% and the non-executive directors' salaries by 50%.

BlueStar maintained its expenditure on research and development and, as planned, during the year, the Company's investment in R&D amounted to RMB 18 million (2012: RMB 19 million) of which RMB 11 million was capitalised (2012: RMB 10 million).

During the year, BlueStar has invested RMB 1.5 million (2012: RMB 1.0 million) mainly in conjunction with our cooperation with the Kaiyuan Company ("Kaiyuan"), a partner that has been appointed by the Beijing Municipal Public Security Bureau as its sole security service provider for the financial sector in Beijing. The investment has principally been in the setting up of Kaiyuan hubs and the replacement of old office equipment and renovation of part of our production facilities.

Finance costs for the financial year ended 31 March 2013 were RMB 2.5 million (2012: RMB 1.7 million). This was largely attributable to an increase in payments of interest on bank loans during the current period.

The Company has a total of RMB 40 million short term bank loans (March 2012: 30 million) of which RMB 20 million from Bank of Beijing, RMB 10 million from China Minsheng Banking Corporation (CMBC) and RMB 5 million from each of Bank of Beijing Trust and China Merchants Bank.

## Profit before tax

In view of the above, the group recorded a profit before tax of RMB 7.0 million for the year 2013 as compared with profit before tax of RMB 4.6 million for the corresponding period in 2012.

Earnings per share for the period was 4.47 fen (2012: 2.79 fen).

Trade receivables increased to RMB 77 million at 31 March 2013 (2012: RMB 63 million) and accrued income increased by 7% to RMB 177 million at 31 March 2013 (2012: RMB 166 million). During last year, RMB 185 million outstanding debtors have been received. Our rise in accrued income is directly related to the Group working with banks, government security agencies projects and contracts which result 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 a longer period to collect the receivables.

For outstanding debtors which the Company has issued an invoice to the customer, the debtor days are 152 days (FY 2012: 131 days); for total outstanding debtors including accrued income, the debtor days are 500 days (FY 2012: 475 days). Despite the increase in debtor days, the cash receipts in the first quarter after the reporting period is RMB34.5 million compare to same period in previous year of RMB19.7 million. 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. Working capital management continues to be a challenge and this is an area where management are looking at ways in which improvements – specifically in collection of receivables can be made.

Inventories at the year end were RMB 41 million (2012: RMB 35 million), representing an increase in inventories to meet the demand of an increased volume of equipment & IPC sales. 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 27 million (2012: RMB 51 million).

The Company's total liabilities of RMB 104 million include RMB 2 million of deferred consideration relating to acquisition of KeAn in year 2010 where the performance criteria has been extended for another two years and RMB 40 million short-term bank loan (2012: RMB 30 million).

Intangible assets increased from RMB 39 million at 31 March 2012 to RMB 43 million at 31 March 2013. The increase was mainly due to the development of new software to be embedded within our equipment.

Net cash used in operating activities was RMB 22 million for the year (2012: RMB 14 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 18 million, of which RMB 11 million was capitalised. This compares to RMB 19 million being invested in the prior year, of which RMB 10 million was capitalised.

Within the year, the second-generation intelligent video analysis technology has been full-scale applied by our Company across a range of existing products within our range.

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 April 2013, BlueStar was awarded ten copyrights in respect of its new software solutions for advanced networking platforms and intelligent management functions. The copyrights included Tulip-HD Network Video Recorder; Dave-Network Dome Camera; TulipB-HD Hybrid Video Recorder; Video Quality Diagnostics System; Device Auto Finder System; BPlayer4.0-Video Surveillance System; Daniel-Network Dome Camera; Victor-IR Bullet HD Network Camera; Mobile Surveillance Software based on Android System and IP Camera Simulator.

Reflecting on 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 "Ten Most Influential Brands of DVR in China 2012".

## 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 9.60 million and RMB 18.14 million for installing surveillance equipment for ATM machines in 2012;
- A contract with the China Construction Bank-Liao Ning Branch, worth RMB 4.87 million;
- A contract with Shanghai Pudong Development Bank -Chengdu Branch worth RMB 1.67 million;
- A major contract with Bank of Beijing, Beijing Branch, worth RMB 4.96 million for approximately 165 sub-branches in Beijing, in order to build up a network between the sub-branches and the head office command center;
- A contract with China Construction Bank-Guangxi Branch, worth RMB 1.99 million;
- A contract with Bank of China-Hainan Branch, worth RMB 2.48 million to provide DVR equipment for its branch network command center; and
- New framework contracts with several Chinese banks, including Industrial and Commercial Bank of China-Fujian Branch, China Everbright Bank, China Merchants Bank, and Ping An Bank, to provide and install our leading edge surveillance equipments.

These important contracts win 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-II and Tier-III 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 and that this presents an ongoing opportunity to the Group. 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.

The Company has also expanded its channel sales team throughout the year. The sales person increased from 18 in 2012 to 54 in 2013. It has generated RMB 11 million for the Company in FY 2013 on channel sales section.

# 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. BlueStar and Kaiyuan have established a new surveillance command centre in Beijing using BlueStar's existing technology in conjunction with Kaiyuan's mobile security staff. BlueStar's equipments will enable Kaiyuan to provide a range of round-the-clock operational services including remote video monitoring, intercom, alarm handling and the automatic inspection of cash ATM surveillance systems to new banking outlets. In returns, BlueStar will receive a monthly fee for each financial outlet subscribing to the service.

The surveillance command center which has been established by BlueStar and Kaiyuan in Beijing has been fully operational since July 2009. To date, approximately one thousand financial outlets have been linked to the centre's services and have been charged the service fee, generating recurring service fees for the Company of RMB 2.41 million (FY2012: RMB 1.67 million) over the period.

## Awards

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

- November 2012: BlueStar was named as one of the "Ten most influential surveillance DVR brands in China" for the third year, in a list sponsored by China Public Security Magazine. The final list of ten companies is made up of the best performing, most innovative and highest quality products;
- November 2012: Awarded "A quality-trusted surveillance product enterprise in China" & "Famous Surveillance Product Brand in China" by Security & Protection Market Magazine;
- November 2012: Awarded the "2012 China Safe City Construction Recommendation Brand Status" by China Security & Protection Industry Association; and
- June 2012: Awarded the "AAA-level Credit Enterprise" by Beijing Security & Protection Industry Association.



## Outlook

Despite the revenue and net profit of the Group in this financial year being better than the same period last year, the result did not meet management's expectation. The main reason is due to the decline in gross profit caused by rising costs, as well as an increase in interest payments on the Company's bank debts. Management of the group's receivables continues to be a challenge and working capital management is aided by the continued commitment of our banks.

"Looking at our current contracts and order book, the Company believes the business for the next financial year will benefit from an investment in expanding the group's channel sales business. The Company will keep on working hard to expand its market share, to tighten the cost control and to address working capital management."

# 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 2013, 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 2013.

## Directors

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

## Mr. Liu Xiaochuan, Non-Executive Chairman

Mr. Liu was 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 20 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 21 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. 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 BlueStar 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.





## Ms. Ping Dan (Antonia).

### Chief Financial Officer and Company Secretary

Ms. Ping FCCA, joined BlueStar in July 2009 as Company Secretary and has over 10 years' experience in accounting and financial management. She was appointed to the Board in July 2012. Having started her career as an accountant with the Spencer Hyde Audit firm in London. Antonia qualified as an ACCA senior accountant in UK. Prior to joining BlueStar, she served as Financial Controller in Beijing Longsheng Advertising Co Ltd in China. She has worked in a number of senior management positions and has a good knowledge of IFRS, Chinese GAAP, AIM regulations, financial systems and the AIM market.



## Mr. Teo Kean Eek.

### Non-Executive Director

Mr. Teo has over 19 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.



## 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
Ping Dan	-	-	40,000	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 8 April 2013 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%
HSBC Global custody nominee (UK) Limited	4,172,734	5.73%
Heartland Capital Management Limited	3,990,540	5.48%
CIM Investment Management	3,750,000	5.15%
Balance Partners Limited	3,207,050	4.40%
NewTech Capital Management Limited	2,923,410	4.02%

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  
30 July 2013

# 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 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
Ping Dan	2012	3 years	6 months notice by either side	RMB 300,000

#### Non-Executive

Liu Xiaochuan	May 2013	3 years	3 months notice by either side	RMB 108,000
Teo Kean Eek	April 2013	3 years	3 months notice by either side	GBP 12,500
Derrick Woolf	Feb 2013	3 years	3 months notice by either side	GBP 15,000

# Remuneration Committee Report

## Directors Remuneration

Directors' remuneration for the 12 months period ended 31 March 2013 was as follows:

Executive	Salary and bonus RMB'000	Pension Contributions RMB'000	Other Benefits RMB'000	Total RMB'000
Xiao Gang	360	74	-	434
He Caiguang	280	75	-	355
Xing Huidong	294	75	-	369
Liu Jinqing	280	74	-	354
Ping Dan	144	36	-	180
	1,358	334	-	1,692

### Non-Executive

Liu Xiaochuan	207	-	-	207
Teo Kean Eek	188	-	-	188
Derrick Woolf	225	-	-	225
	1,978	334	-	2,312



Mr. Liu Xiaochuan

Chairman of the Remuneration Committee

30 July 2013

# 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  
30 July 2013



# Independent Auditors' Report

We have audited the financial statements of BlueStar SecuTech, Inc. for the year ended 31 March 2013 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](http://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 2013 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.

A handwritten signature in dark ink, appearing to read "UHY Hacker Young".

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

30 July 2013

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 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Revenue	5	185,756	176,424	-	-
Cost of sales		(99,909)	(86,596)	-	-
<b>Gross profit</b>		<b>85,847</b>	<b>89,828</b>	-	-
Other income	6	4,427	3,505	-	-
Distribution costs		(48,131)	(51,001)	-	-
Administrative expenses		(33,173)	(37,092)	(1,301)	(2,630)
Other expenses		(51)	(44)	(20)	5
<b>Profit/(loss) from operations</b>	8	<b>8,919</b>	<b>5,196</b>	<b>(1,321)</b>	<b>(2,625)</b>
Finance cost	9	(2,509)	(1,662)	(12)	(25)
Investment income	10	611	1,111	-	-
<b>Profit/(loss) before tax</b>		<b>7,021</b>	<b>4,645</b>	<b>(1,333)</b>	<b>(2,650)</b>
Income tax expense	11	(3,767)	(2,611)	-	-
<b>Profit/(loss) for the year</b>		<b>3,254</b>	<b>2,034</b>	<b>(1,333)</b>	<b>(2,650)</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>3,254</b>	<b>2,034</b>	<b>(1,333)</b>	<b>(2,650)</b>
<b>Earnings per ordinary share (fen)</b>	12				
Basic		4.47	2.79		
Diluted		4.47	2.79		

All operations are continuing.

## Consolidated and Company Statement of Financial Position as at 31 March 2013

	Note	Group		Company	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	13	43,289	39,031	-	-
Property, plant and equipment	14	7,264	9,786	-	-
Investment in subsidiaries	15	-	-	128,021	128,021
Deferred tax assets	21	1,234	1,393	-	-
<b>Total non-current assets</b>		<b>51,787</b>	<b>50,210</b>	<b>128,021</b>	<b>128,021</b>
<b>Current assets</b>					
Inventories	16	41,144	34,581	-	-
Trade and other receivables	17	275,063	242,955	1,869	1,794
Cash and cash equivalents	18	26,819	51,246	349	1,076
<b>Total current assets</b>		<b>343,026</b>	<b>328,782</b>	<b>2,218</b>	<b>2,870</b>
<b>Total assets</b>		<b>394,813</b>	<b>378,992</b>	<b>130,239</b>	<b>130,891</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	22	134,861	134,861	134,861	134,861
Merger reserve	24	(7,575)	(7,575)	-	-
Retained earnings	24	126,347	119,110	(8,061)	(10,711)
Option reserve	24	294	4,408	294	4,408
Other reserves	24	36,817	36,817	-	-
<b>Total equity</b>		<b>290,744</b>	<b>287,621</b>	<b>127,094</b>	<b>128,558</b>
<b>Current liabilities</b>					
Trade and other payables	19	31,280	29,949	2,434	1,622
Short-term borrowings	20	40,000	30,000	-	-
Income tax payable		6,671	5,974	-	-
Other tax payable		18,119	18,283	711	711
<b>Total current liabilities</b>		<b>96,070</b>	<b>84,206</b>	<b>3,145</b>	<b>2,333</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	21	5,938	5,104	-	-
Deferred consideration	25	2,061	2,061	-	-
<b>Total non-current liabilities</b>		<b>7,999</b>	<b>7,165</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>104,069</b>	<b>91,371</b>	<b>3,145</b>	<b>2,333</b>
<b>Total equity and liabilities</b>		<b>394,813</b>	<b>378,992</b>	<b>130,239</b>	<b>130,891</b>

The financial statements were approved by the Board of Directors and authorised for issue on 30 July 2013 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 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
<b>Cash flows from operating activities</b>				
Profit/(loss) before interest and tax	8,851	5,410	(1,333)	(2,650)
<b>Adjustments for:</b>				
Allowance for doubtful debts	5,010	1,149	-	-
Allowance for inventories	698	2,512	-	-
Depreciation of property, plant and equipment	3,966	4,195	-	-
Amortisation of intangible assets	6,727	6,276	-	-
(Profit)/loss on disposal of property, plant and equipment	(10)	14	-	-
Share-based payment	(131)	(112)	(131)	(112)
Operating cash flows before movement in working capital	25,111	19,444	(1,464)	(2,762)
Increase in inventories	(7,261)	(6,645)	-	-
Increase/(decrease) in trade and other receivables	(37,118)	(26,886)	(75)	7,213
Increase in trade and other payables	1,598	3,279	812	1,424
Cash (used in)/generated from operations	(17,670)	(10,808)	(727)	5,875
Interest paid	(2,441)	(1,558)	-	-
Income tax paid net of refund	(2,508)	(1,982)	-	-
<b>Net cash (used in)/generated from operating activities</b>	<b>(22,619)</b>	<b>(14,348)</b>	<b>(727)</b>	<b>5,875</b>
<b>Cash flow from investing activities</b>				
Interest received	611	793	-	-
Proceeds of disposal of property, plant and equipment	12	-	-	-
Purchase of property, plant and equipment	(1,446)	(1,005)	-	-
Expenditure on intangible assets	(10,497)	(9,809)	-	-
Purchase of intangible assets	(488)	-	-	-
<b>Net cash used in investing activities</b>	<b>(11,808)</b>	<b>(10,021)</b>	<b>-</b>	<b>-</b>
<b>Cash flow from financing activities</b>				
Cash received from bank borrowings	40,000	27,000	-	-
Repayment of bank borrowings	(30,000)	-	-	-
Dividends paid	-	(6,597)	-	(6,597)
<b>Net cash generated from/(used in) financing activities</b>	<b>10,000</b>	<b>20,403</b>	<b>-</b>	<b>(6,597)</b>
Net decrease in cash and cash equivalents	(24,427)	(3,966)	(727)	(722)
Cash and cash equivalents at the beginning of the year	51,246	55,212	1,076	1,798
<b>Cash and cash equivalents at the end of the year</b>	<b>26,819</b>	<b>51,246</b>	<b>349</b>	<b>1,076</b>

## Consolidated and Company Statement of Changes In Equity

### STATEMENT OF CHANGES IN EQUITY-GROUP

	Share capital RMB'000	Merger reserve RMB'000	Retained earnings RMB'000	Other reserves RMB'000	Option reserve RMB'000	Total RMB'000
<b>Balance as at 31 March 2011</b>	<b>134,861</b>	<b>(7,575)</b>	<b>127,868</b>	<b>32,622</b>	<b>4,520</b>	<b>292,296</b>
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)
<b>Balance as at 31 March 2012</b>	<b>134,861</b>	<b>(7,575)</b>	<b>119,110</b>	<b>36,817</b>	<b>4,408</b>	<b>287,621</b>
Total comprehensive income for the year	-	-	3,254	-	-	3,254
Share-based payment	-	-	3,983	-	(4,114)	(131)
<b>Balance as at 31 March 2013</b>	<b>134,861</b>	<b>(7,575)</b>	<b>126,347</b>	<b>36,817</b>	<b>294</b>	<b>290,744</b>

### STATEMENT OF CHANGES IN EQUITY-COMPANY

	Share capital RMB'000	Retained earnings RMB'000	Option reserve RMB'000	Total RMB'000
<b>Balance as at 31 March 2011</b>	<b>134,861</b>	<b>(1,464)</b>	<b>4,520</b>	<b>137,917</b>
Total comprehensive income for the year	-	(2,650)	-	(2,650)
Dividends distribution	-	(6,597)	-	(6,597)
Share-based payment	-	-	(112)	(112)
<b>Balance as at 31 March 2012</b>	<b>134,861</b>	<b>(10,711)</b>	<b>4,408</b>	<b>128,558</b>
Total comprehensive income for the year	-	(1,333)	-	(1,333)
Share-based payment	-	3,983	(4,114)	(131)
<b>Balance as at 31 March 2013</b>	<b>134,861</b>	<b>(8,061)</b>	<b>294</b>	<b>127,094</b>

# 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 2013.

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 judgment 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 have 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 43 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 judgment 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 a share option scheme for certain eligible employees and directors. Judgments 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.

### e. Impairment of investment in subsidiary

Determining whether the investment in subsidiary is impaired requires an estimation of the value in use of the cash-generating unit ("CGU"). The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

The recoverable amount of this CGU is determined based on VIU calculation which uses cash flow projections based on financial budgets approved by the directors covering a three-year period and a discount rate of 10.5% per annum.

Cash flows projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budgeted period. The cash flows beyond that three-year period have been extrapolated using a steady 10% per annum growth rate which is the projected long term average growth rate for the PRC market. The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed the recoverable amount of the CGU. Therefore no impairment is provided.

# Notes to the Financial Statements

## 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 2013 or not applicable to the Group's business.

#### Issued and endorsed by European Union

##### IAS 27 Separate Financial Statements (2011) - effective 1 January 2013

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements; Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

##### IFRS 10 Consolidated Financial Statements - effective 1 January 2013

This requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirement previously contained in IAS27 and SIC12.

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

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

- 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.

##### IFRS 13 Fair Value Measurement - effective 1 January 2013

Establishes 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.

##### Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) – effective 1 July 2012

The amendment revises the way other comprehensive income ("OCI") is presented:

- it preserves the amendments made to IAS 1 in 2007 to require profit and loss and OCI to be presented together;
- require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently; and
- require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

#### Issued but not yet endorsed by European Union as at 5 July 2013

##### IFRS 9 Financial Instrument – Classification and Measurement of Financial Assets - effective 1 January 2015

IFRS 9 introduces new requirements for classifying and measuring financial assets as follow:

- debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances);
- investments in equity instruments can be designed as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss; and
- all other instruments (including all derivatives) are measured at fair value with changes recognised in the profit and loss.

The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.



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

The guidance 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:

- 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.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) – effective date 1 January 2014

- to provide “investment entities” an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 or IAS 39;
- require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries; and
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) – effective 1 January 2014

- The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognised or reverses.
- They also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal.

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

Interest 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 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 non-current 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 material, 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 transaction costs incurred. 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.

# Notes to the Financial Statements

## 3 FINANCIAL RISKS AND MANAGEMENT

### Financial risk factors

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

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

#### 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's 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 2013, this was 35.8% compared to 31.7% at 31 March 2012.

The debt to equity ratio as at the balance sheet dates were as follows:

Group		
	31 March 2013 RMB'000	31 March 2012 RMB'000
Total debt	104,069	91,371
Total shareholders' equity	290,744	287,621
Debt to equity ratio	35.8%	31.7%

# Notes to the Financial Statements

## 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 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Sales of digital video devices	180,233	172,317	31,157	30,668
Sales of software	541	926	393	629
Revenue from technological service	4,982	3,181	3,534	2,149
<b>Total for continuing operations</b>	<b>185,756</b>	<b>176,424</b>	<b>35,084</b>	<b>33,446</b>
Central administration and director's salaries			(26,165)	(28,250)
Finance income			611	1,111
Finance cost			(2,509)	(1,662)
<b>Profit before tax (continuing operations)</b>			<b>7,021</b>	<b>4,645</b>

Analysis of the Group's assets by operating segment:

	Assets	Assets
	At 31 March 2013 RMB'000	At 31 March 2012 RMB'000
Continuing operations		
Sales of digital video devices	384,794	371,204
Sales of software	1,019	1,797
Revenue from technological service	9,000	5,991
<b>Total for continuing operations</b>	<b>394,813</b>	<b>378,992</b>

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 180 million are revenue of approximate RMB 32 million and RMB 31 million which arose from sales to the Group's two largest customers.

## 6. OTHER INCOME

Group		
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Government subsidy income	4,412	3,488
Others	15	17
	4,427	3,505

## 7. STAFF COSTS

	Group		Company	
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Wages and salaries (including directors)	25,156	24,198	529	1,359
Social insurances expense	7,631	6,123	-	36
	32,787	30,321	529	1,395

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

Group			Company	
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Salaries	2,067	3,191	529	1,359
Social insurances expense	414	352	-	36
	2,481	3,543	529	1,395

Group		
	Year ended 31 March 2013 Number	Year ended 31 March 2012 Number
Average number of employees	505	510

# Notes to the Financial Statements

## 8. PROFIT/(LOSS) FROM OPERATIONS

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

	Group		Company	
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Allowance for doubtful debts (trade)	5,010	1,149	-	-
Allowance for impairment of inventories	698	2,512	-	-
Cost of sales (excluding labour cost included within cost of sales)	95,402	82,828	-	-
Research & development costs	7,008	8,842	-	-
Operating lease rental	4,894	4,485	-	-
Depreciation of property, plant and equipment	3,966	4,195	-	-
Amortisation of intangible assets (included within administrative expenses)	6,727	6,276	-	-
(Gain)/loss on disposal of property, plant and equipment	(10)	14	-	-
Auditors' remuneration	433	458	304	340
Loss on foreign exchange	27	19	20	5
Share-based payment	(131)	(112)	(131)	(112)



## 9. FINANCE COST

	Group		Company	
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Bank interest	2,441	1,558	-	-
Bank charge	68	104	12	25
	2,509	1,662	12	25

## 10. INVESTMENT INCOME

	Group		Company	
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Interest income	611	793	-	-
Investment income	-	318	-	-
	611	1,111	-	-

# Notes to the Financial Statements

## 11. INCOME TAX EXPENSE

Group		
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Current tax:		
Current tax for profit for the year	4,060	1,680
Income tax prior year adjustment	(1,286)	-
Total current tax	2,774	1,680
Deferred tax (Note 21)		
Temporary differences	834	1,075
Tax losses carry-forward	159	(144)
Total deferred tax	993	931
Income tax expense	3,767	2,611

### Reconciliation of tax charge:

Group		
	Year ended 31 March 2013 RMB'000	Year ended 31 March 2012 RMB'000
Profit before tax	7,021	4,645
Tax at PRC tax rate of 25% (2012: 25%)	1,755	1,161
Factors affecting income tax charge:		
Expenses not deductible	534	579
Allowance for research and development	(634)	(1,550)
Timing differences	993	931
Unrelieved tax losses carry-forward	426	325
Utilisation of tax losses	(58)	(181)
Preferential rate	(1,405)	(1,729)
Exempt from income tax	333	663
Prior year adjustments	(1,286)	-
Other adjustments	3,109	2,412
Tax expense for the year	3,767	2,611

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% (2012: 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 2013 RMB'000	31 March 2012 RMB'000
Profit attributable to equity holders of the company	3,254	2,034
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.

# Notes to the Financial Statements

## 13. INTANGIBLE ASSETS-GROUP

	Copyrights RMB'000	Development cost RMB'000	Purchased software RMB'000	Total RMB'000
<b>Cost</b>				
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
Additions	-	10,497	488	10,985
Transfer	9,767	(9,767)	-	-
At 31 March 2013	47,384	12,126	12,416	71,926
<b>Accumulated amortisation and impairment</b>				
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
Charge for the year	5,588	-	1,139	6,727
At 31 March 2013	17,102	-	11,535	28,637
<b>Carrying amount</b>				
At 31 March 2013	30,282	12,126	881	43,289
At 31 March 2012	26,103	11,396	1,532	39,031

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
<b>Cost</b>					
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
Additions	127	387	279	653	1,446
Disposals	(82)	(542)	-	-	(624)
At 31 March 2013	5,771	13,186	4,485	6,013	29,455
<b>Accumulated depreciation and impairment</b>					
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
Adjustment	-	-	-	-	-
Depreciation charge for the year	357	2,100	775	734	3,966
Disposals	(80)	(542)	-	-	(622)
At 31 March 2013	5,279	11,133	3,997	1,782	22,191
<b>Carrying amount</b>					
At 31 March 2013	492	2,053	488	4,231	7,264
At 31 March 2012	724	3,766	984	4,312	9,786

### “Kaiyuan”

This represents the cost of command centre in Beijing and hubs located across PRC. Included in “Kaiyuan” are hubs in the course of construction of RMB 845,353 (2012: RMB 558,886).

### Assets pledged as security

Equipment with carrying value of RMB 623,090 has been pledged to secure the borrowings facility of the Group.

# Notes to the Financial Statements

## 15 . INVESTMENT IN SUBSIDIARIES – COMPANY

	2013 RMB'000	2012 RMB'000
Unquoted equity, at cost	128,021	128,021

Investment in subsidiaries consists of:

Name of subsidiary	Principal activities	Place of Incorporation	Equity interest
Beijing BlueSky Software Development Co. Ltd (“BlueSky”)	Investment holding, production and sales of digital video surveillance solutions	PRC	100%
Held by BlueSky:			
Beijing BlueStar River Software Technology Development Co. Ltd	Research and development	PRC	100%
Guangzhou BlueStar Science and Technology Co. Ltd	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		
	2013 RMB'000	2012 RMB'000
Raw materials	14,439	12,481
Work-in-progress	4,290	3,397
Finished goods	29,700	25,290
Gross amount before provision for impairment	48,429	41,168
Provision for impairment	(7,285)	(6,587)
Net amount	41,144	34,581

Movement of provision for impairment is as follows:

Group		
	2013 RMB'000	2012 RMB'000
Balance at beginning of year	6,587	4,075
Provision made during the year	698	2,512
Balance at end of year	7,285	6,587

## 17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade receivables	77,364	63,338	-	-
Accrued income	189,415	173,494	-	-
Less: Provision for doubtful debts				
Balance at beginning of year	(7,129)	(5,980)	-	-
Provision made during the year	(5,010)	(1,149)	-	-
Balance at end of year	(12,139)	(7,129)	-	-
	254,640	229,703	-	-
Advance to suppliers	3,782	1,747	-	-
Other receivables	16,179	11,098	1,794	1,794
Prepayments	462	407	75	-
	275,063	242,955	1,869	1,794

Included in other receivables amount of RMB 2,046,330, RMB 800,000 and RMB 80,000 (2012: RMB 1,822,893, RMB 1,086,157 and Nil) due from Xiao Gang, Xing Huidong and Ping Dan respectively. All 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	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Cash at bank and on hand	13,519	18,546	349	1,076
Short-term bank deposits	13,300	32,700	-	-
	26,819	51,246	349	1,076

## 19. TRADE AND OTHER PAYABLES

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade payables	20,257	17,887	-	-
Notes payables	-	368	-	-
Amount due to subsidiary undertakings	-	-	2,090	1,109
Accrued payroll	1,911	1,957	32	173
Other payables	1,442	1,331	-	-
Advance from customers	7,110	6,471	-	-
Accruals	560	1,935	312	340
	31,280	29,949	2,434	1,622

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

## 20. SHORT-TERM BORROWINGS

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

- guarantee provided by Beijing Zhongguancun Sci-Tech Guaranty Co., Ltd;
- personal guarantees provided by Mr Xiao Gang, Mr He Caiguang and Ms Liu Jinqing. All are directors of the Company;
- certain plant and machinery of Beijing BlueSky;
- two patents of Beijing BlueSky; and
- certain trade receivables of Beijing BlueSky; and
- two personal vehicles of Mr. Xiao Gang

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

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 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
Charge to income statement	834	159	993
At 31 March 2013	5,938	(1,234)	4,704

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	
	2013 RMB'000	2012 RMB'000
Deferred tax assets	(1,234)	(1,393)
Deferred tax liabilities	5,938	5,104

## 22. SHARE CAPITAL

The total authorised number of ordinary shares is 72,808,000 shares (2012: 72,808,000 shares) with a nil par value per share (2012: nil par value per share). All issued shares are fully paid.

	Group	
	2013 RMB'000	2012 RMB'000
Issued and paid up:		
72,808,000 ordinary shares of nil par value	134,861	134,861

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

At 31 March 2013, the Company had the following outstanding share options:

Number	Exercise price (£)	Date of grant	Exercise period
36,404	0.48	18.06.2007	18.06.2008 – 17.06.2017
1,008,904	0.23	14.04.2010	15.07.2014 - 31.08.2014 and 25.11.2014 - 31.03.2015

# Notes to the Financial Statements

## 23. SHARE OPTIONS

The Company had granted and conditionally awarded 1,492,564 unissued ordinary shares with an exercise price of 48 pence 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 years 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 2013, none of the above options had been exercised and the second option has expired.

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 are as follow:

- 25% of the options shall be exercised 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 exercised 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 exercised 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 exercised 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;

75% of the Options have been forfeited due to the performance target not being 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:

	2013		2012	
	Average exercise price in £ per shares	Options	Average exercise price in £ per shares	Options
At beginning of year	0.34	3,510,372	0.30	5,528,180
Granted	-	-	-	-
Forfeited	0.23	(1,008,904)	0.23	(2,017,808)
Executed	-	-	-	-
Expired	0.48	(1,456,160)	-	-
At end of year	0.24	1,045,308	0.34	3,510,372

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 (2007)	Option 2 (2010)
Bid price	£0.48	£0.245
Exercise price	£0.48	£0.23
Expected volatility	30%	40%
Expected dividend yield	-	1.4%
Risk-free interest rate	5.75%	2.7%

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 15% of the eligible staffs will not meet the performance target and the leaver's rate is approximate 6% based on historical data.

# Notes to the Financial Statements

## 24. RESERVES

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Statutory reserve	30,659	30,659	-	-
Capital surplus	6,158	6,158	-	-
Option reserve	294	4,408	294	4,408
Retained earnings	126,347	119,110	(8,061)	(10,711)
Merger reserve	(7,575)	(7,575)	-	-
	<b>155,883</b>	<b>152,760</b>	<b>(7,767)</b>	<b>(6,303)</b>

### 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 Guangzhou BlueStar and Shanghai 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 the share option scheme granted to existing staffs in April 2010.

### 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. Due to slow down of the Chinese economy in the last two years, the Company could not meet the performance target. As a result, a two-year extension was granted until the end of 2014.

## 26. OPERATING LEASE ARRANGEMENTS

Group		
	2013 RMB'000	2012 RMB'000
Minimum lease payments under operating leases included in the income statement	4,894	4,485

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		
	2013 RMB'000	2012 RMB'000
Within one year	5,235	6,406
In two to five years	2,575	5,403
	7,810	11,809

## 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.

During the year, the Group made sales to and obtained services from Beijing BlueStar Software Technology Development Co., Ltd ("BBST") for the amount of RMB 13.7 million (2012: RMB: 22.5 million) and RMB 2.8 million (2012: nil) respectively. BBST acts as an agent to the Group; merely signed contracts on behalf of BlueStar due to legal restriction of BlueStar establishment in PRC. Mr Xiao Gang, a director and majority shareholder of BBST is also a director and majority shareholder of BlueStar. As at 31 March 2013, the balance due from BBST is RMB 2.8 million (2012: RMB 0.5 million due to).

### 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 2013.



## 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	
	2013	2012	2013	2012	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets								
Cash and cash equivalents	26,819	51,246	26,819	51,246	349	1,076	349	1,076
Trade and other receivables	275,063	242,955	275,063	242,955	1,869	1,794	1,869	1,794
	301,882	294,201	301,882	294,201	2,218	2,870	2,218	2,870
Financial liabilities								
Trade and other payables	31,280	29,949	31,280	29,949	2,434	1,622	2,434	1,622

### 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 receivables 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	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade receivables	77,364	63,338	-	-
Accrued income	177,276	166,365	-	-
Other receivables	16,179	11,098	1,869	1,794
Prepayments	4,244	2,154	-	-
Cash and cash equivalents	26,819	51,246	349	1,076
	301,882	294,201	2,218	2,870

#### 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 2013 RMB'000	Impairment 2013 RMB'000	Gross 2012 RMB'000	Impairment 2012 RMB'000
Past due 0 to 3 months	51,887	-	57,851	-
Past due 4 to 6 months	32,661	-	26,368	-
Past due 7 to 9 months	20,871	-	37,072	-
Past due 10 to 12 months	13,091	-	5,663	-
More than 12 months	148,269	12,139	109,878	7,129
	266,779	12,139	236,832	7,129

#### Currency risk

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.

#### 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

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group in the current reporting period and future years.

The Group does not expose to material interest rate risk because entities in the Group borrow fund at fixed interest rates.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the sixth 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 Monday 16 September 2013, for the following purposes:

1. To receive the audited financial statements of the Company for the 12 months ended 31 March 2013, 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 2013.
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.

By order of the Board



Antonia Ping  
Company Secretary  
30 July 2013

## 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 later than 4pm (Beijing time)/9am (London time) on the 12 September 2013 and the form of direction must be deposited with the Company's registrars not later than 4pm (Beijing time)/9am (London time) on the 11 September 2013. 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 Form of Proxy. 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 12 September 2013. 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

Offshore Incorporations Centre  
P.O. Box 957  
Road Town  
Tortola  
British Virgin Islands

Registered Number  
1032245

## Head office

14th Floor, Tower A, Chengjian Plaza,  
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Haidian District, Beijing (100088),  
People's Republic of China

## Nominated adviser and Broker

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Heron Tower,  
110 Bishopsgate, London, EC2N 4AY  
Tel: +44 (0)20 7601 6100

## Auditors

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Quadrant House,  
4 Thomas More Square,  
London, E1W 1YW  
Tel: +44 (0)20 7216 4600  
Fax: +44 (0)20 7767 2600

## Registrars

Capita Registrars (Jersey) Limited  
The Registry, 34 Beckenham Road, Beckenham,  
Kent, BR3 4TU

Depositary interest registrars Capita IRG Trustees Limited  
The Registry, 34 Beckenham Road, Beckenham,  
Kent, BR3 4TU

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## KeAn Office

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