THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or the action you should take, you should consult with a person authorised for the purposes of the Financial Services and Markets Act 2000 (or if you are a person outside the UK, a person otherwise duly qualified in your jurisdiction) who specialises in advising on the acquisition of shares and other securities.

This document, which constitutes an admission document relating to BlueStar SecuTech, Inc. (the "Company"), has been prepared in accordance with the AIM Rules for Companies and has been issued in connection with the proposed placing and subsequent admission to trading of the Company's entire issued and to be issued Ordinary Shares on AIM. This document does not constitute and the Company is not making an offer of transferrable securities to the public within the meaning of section 102B of the Financial Services and Markets Act 2000 ("FSMA"). This document is not an approved prospectus for the purposes of section 85(1) of FSMA. A copy of this document has been delivered to the London Stock Exchange as an admission document in respect of the Ordinary Shares but has not and will not be delivered to the Financial Services Authority for filing or approval.

This document and the Ordinary Shares offered here have not been, and will not be registered under the laws and regulations of the British Virgin Islands, nor has any regulatory authority in the British Virgin Islands passed comment upon or approved the accuracy or adequacy of this Document. **Application has been made for all of the Ordinary Shares, issued and to be issued, to be admitted to trading on AIM. It is expected that Admission will become effective and dealings for normal settlement in the Ordinary Shares will commence on 18 June 2007.**

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the potential risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

BlueStar SecuTech, Inc.

(Incorporated in the British Virgin Islands with registration number 1032245)

Placing of 22,808,000 new Ordinary Shares and 400,000 existing Ordinary Shares at 48 pence per share and Admission to trading on AIM

Nominated Adviser
Evolution Securities Limited

Financial Adviser and Broker
Evolution Securities China Limited

Ordinary Shares immediately following the Placing and Admission

Authorised		*Issued and fully paid*
Number		*Number*
100,000,000	Ordinary Shares of no par value	72,808,000

The directors of the Company, whose names appear on page 5 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules for Companies. To the best of the knowledge of the directors of the Company, having taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information. The Ordinary Shares being placed will, following allotment, rank pari passu in all respects with the existing issued ordinary shares of the Company on Admission including the right to receive all dividends and other distributions declared on the Ordinary Shares after Admission.

Evolution Securities Limited is acting exclusively as nominated adviser to the Company in connection with the proposed admission of the Ordinary Shares to trading on AIM. Evolution Securities Limited, which is authorised and regulated in the UK by the Financial Services Authority, will not be responsible to anyone other than the Company for providing the protections afforded to clients of Evolution Securities Limited, or for providing advice in relation to the contents of this document or any other matter. No representation or warranty express or implied is made by Evolution Securities Limited as to the contents of this document and Evolution Securities Limited disclaims any liability whatsoever for the accuracy of the information contained in this document or for the omission of any information from this document. Evolution Securities Limited has not authorised the contents of any part of this document.

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The Ordinary Shares are being offered to certain institutional investors in the United Kingdom and certain other jurisdictions. The Ordinary Shares have not and will not be registered under the US Securities Act 1933, as amended, or under the applicable state securities laws of any state of the US, or under the applicable securities laws of Australia, Canada, Republic of South Africa, Republic of Ireland or Japan. Subject to certain exceptions, the Ordinary Shares may not be offered or sold within the US, Australia, Canada, Republic of South Africa, Republic of Ireland or Japan or to or for the account of or benefit of any national, resident or citizen of the US, or any person resident in Australia, Canada, Republic of South Africa, Republic of Ireland or Japan. This document does not constitute an offer to sell or a solicitation of an offer to purchase or subscribe for Ordinary Shares in any jurisdiction where it is unlawful to make such offer or solicitation. In particular, this document should not be distributed, published, reproduced or otherwise made available in whole or in part, or disclosed by recipients to any other person and, in particular, should not be distributed to persons with addresses in the United States of America, Australia, Canada, Japan, the Republic of Ireland or the Republic of South Africa or in any other country outside the United Kingdom where such distribution may lead to a breach of any law or regulatory requirements save pursuant to an exemption from the registration or prospectus or other regulatory requirements of any such jurisdiction.

WARNING

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to any offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This material must not be sent to any member of the public in Hong Kong.

In relation to Germany this document is for the intended recipient only and only for distribution to (i) qualified investors as defined in the German Securities Prospectus Act (*Wertpapierprospektgesetz* – WpPG), (ii) to less than 100 individuals and companies in Germany or (iii) pursuant to or in accordance with the conditions of any other applicable provision of the German Securities Prospectus Act exempting an offer of securities from the requirement to have a prospectus approved by the competent regulatory authority and published in Germany.

This document and its contents do not constitute under French law an issuance of financial instruments to the public as defined in Article L.411-1 and following of the French Financial and Monetary Code and in Article 211-1 and following of the General Regulation of the *Autorités des Marchés Financiers* ("AMF"). As a consequence, (i) this planned transaction does not require a prospectus to be submitted for approval to the AMF, (ii) qualified investors ("*investisseurs qualifiés*") and/or a restricted circle of investors ("*cercle restreint d'investisseurs*") may take part in the transaction solely for their own account, all as defined in and in accordance with Articles L. 411-2, D.411-1, D.411-1 to D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Financial and Monetary Code and/or services providers authorized to engage in portfolio management on a discretionary basis on behalf of third parties and (iii) the financial instruments thus acquired cannot be distributed directly or indirectly to the public otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Financial and Monetary Code.

In relation to Switzerland, this document does neither constitute an offering prospectus within the meaning of articles 652a and 1156 of the Swiss Code of Obligations nor has it been prepared for the listing of the shares of the Company offered hereby at any Swiss stock exchange. The Company is not registered as a foreign collective investment scheme in Switzerland (Article 120 of the Swiss Collective Investment Schemes Act of June 23, 2006). The shares of the Company offered hereby will not be offered publicly, directly or indirectly, to investors in Switzerland but are only being offered to qualified investors within the meaning of Article 10 of the Swiss Collective Investment Schemes Act. By subscribing for shares, the investor confirms that it meets the criteria for such a qualified investor. This document is personal to each prospective investor and does not constitute an offer to any other person.

In relation to Belgium, this material is for the intended recipients only and may only be subscribed by, consulted by, distributed to, issued to, or directed at, (i) qualified investors (gekwalificeerde beleggers/investisseurs qualifiés) , pursuant to Article 3, 2° of the Belgian Law of 16 June 2006, and as defined in Article 10 of the Act of 16 June 2006 relating to public offering of financial instruments ("instruments de placement") and to the admission to trading of financial instruments on a regulated market ("La Loi du 16 juin 2006 relative aux offres publiques d'instruments de placement et aux admissions d'instruments de placement à la négociation sur les marchées réglementés/ de Wet van 16 Juni 2006 op de openbare aanbieding van beleggingsintrumenten en de toelating van beleggingsintrumenten tot verhandeling op een gereglementeerde markt"), as implemented by the Royal Decree of September 26, 2006, (ii) to less than 100 non-qualified investors in Belgium or (iii) pursuant to, and in accordance with, the conditions of any other applicable exemption from having a prospectus approved by the Belgian Banking, Finance and Insurance Commission and published as set out under the above Law of 16 June 2006, and this does therefore not constitute an offer of securities to the public (openbare aanbieding/offre public). It does not constitute an offer to sell or a solicitation of any offer to buy any securities in Belgium to other persons than the ones listed above. Accordingly this document is not intended for, and should not be consulted by, distributed to, issued to, or directed at Belgian residents other than the categories listed above. Belgian residents other than the ones listed above should not take any action in relation to this document, but should return it immediately to the Company. Pursuant to this document, securities will only be offered to, and subscriptions will only be accepted from, the investors as defined above.

In relation to Singapore, this document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Ordinary Shares may not be circulated or distributed, nor may the Ordinary Shares be offered or sold, or be made the subject of an invitation for subscription or purchase whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Ordinary Shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Ordinary Shares pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(2) where no consideration is or will be given for the transfer; or

(3) where the transfer is by operation of law.

Prospective investors should read the whole text of this document. An investment in the Company involves a significant degree of risk, may result in the loss of the entire investment and may not be suitable for all recipients of this document. Your attention is drawn to the risk factors set out in Part II of this document that should be taken into account in considering whether to invest in the Ordinary Shares.

Copies of this document will be available free of charge during normal business hours on any day (except Saturdays, Sundays and public holidays) at the offices of Evolution Securities China Limited for a period of one month from the date of Admission.

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PLACING STATISTICS

Placing price per Placing Share	48 pence
Number of existing Ordinary Shares in issue before Admission	50,000,000
Number of new Ordinary Shares being issued pursuant to the Placing	22,808,000
Number of existing Ordinary Shares included in the Placing	400,000
Gross proceeds of the Placing	£11.1 million
Estimated net proceeds receivable by the Group*	£8.0 million
Proceeds from the sale of existing Ordinary Shares included in the Placing	£0.2 million
Number of Ordinary Shares in issue immediately following the Placing and Admission	72,808,000
Placing Shares as a percentage of the Enlarged Issued Shares on Admission	31.33 per cent.
Market capitalisation of the Company at the Placing Price upon Admission	£35.1 million
AIM Symbol	BSST
ISIN Code	VGG1195V1076

*after paying off US$3 million restructuring loans, described in Part I.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2007
Admission becomes effective and dealings in the Ordinary Shares commence on AIM	18 June
Expected date for CREST accounts to be credited	18 June
Despatch of definitive share certificates by no later than	6 July

DIRECTORS, REGISTERED AGENT AND ADVISERS

Directors	Liu Xiaochuan	(*Non-Executive Chairman*)
	Xiao Gang	(*Chief Executive Officer*)
	(Marine) Zheng Yunsheng	(*Chief Financial Officer*)
	Wang Chong	(*Chief Operating Officer*)
	He Caiguang	(*Chief Technological Officer*)
	Teo Kean Eek	(*Non-Executive Director*)
	David Champion Mace	(*Non-Executive Director*)
Registered office	Offshore Incorporations Centre P.O. Box 957 Road Town Tortola British Virgin Islands Tel: +1 284 494 5132	
Head office	BlueStar SecuTech, Inc. 24th Floor Tower A Chengjian Plaza 18 Beitaipingzhuang Avenue Haidian District Beijing 100088 People's Republic of China Tel: +86 10 8225 5899	
Registered agent	Offshore Incorporations Limited	
Website	www.bstar.com.cn	
Nominated adviser	Evolution Securities Limited 100 Wood Street London EC2V 7AN	
Financial adviser and broker	Evolution Securities China Limited 29-30 Cornhill London EC3V 3ND 3606 Jin Mao Tower 88 Century Boulevard Pudong New Area Shanghai 200121 People's Republic of China 5/F 8 Queens Road Central Hong Kong	

Legal advisers to the Company as to English law	Pinsent Masons CityPoint One Ropemaker Street London EC2Y 9AH
Legal advisers to the Company as to British Virgin Islands law	Harney Westwood & Riegels Craigmuir Chambers PO Box 71 Road Town Tortola British Virgin Islands
Legal advisers to the Company as to PRC law	Jingtian & Gongcheng Law Firm 15th Floor The Union Plaza 20 Chaoyangmenwai Dajie Beijing 100020 People's Republic of China
Legal advisers to the nominated adviser and broker	Taylor Wessing LLP Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0DX
Reporting accountants	Mazars LLP 3 Sheldon Square London W2 6PS
Auditors to the Group	BDO Reanda Room 2008 20th Floor ZhuBang 2000 Tower Chaoyang District Beijing 100025 People's Republic of China
Registrars	Capita Registrars (Jersey) Limited Victoria Chambers Liberation Square The Esplanade St Helier Jersey JE4 0FF Channel Islands
Depositary interest registrars	Capita IRG Trustees Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

KEY INFORMATION

The following is derived from, and should be read in conjunction with, the full text of this document and prospective investors should read the whole document and not just rely on key information set out below. In particular, attention is drawn to Part II of this document, which is entitled “Risk Factors”.

Business overview

- BlueStar and its subsidiaries provide digital video surveillance solutions to corporate clients who are located mainly in the People’s Republic of China. These solutions are based upon a range of Digital Video Recorders (“DVRs”) designed, built and marketed by the Group.
- To date BlueStar’s principal sector focus has been to target large corporate customers and systems integrators in the banking sector in the PRC.
- The Group’s largest end-user customers comprise 18 of the largest 25 banking groups in China including the four largest banks (by assets): China Construction Bank, Industrial and Commercial Bank of China, Bank of China and Agricultural Bank of China.
- The BlueStar Group is headquartered in Beijing and has sales and marketing offices in Shanghai and Guangzhou.

Market background

- According to Frost & Sullivan[1], the video surveillance DVR market segment, in which BlueStar operates was projected to be worth approximately $1.0 billion worldwide in 2005 and is expected to exceed $3.0 billion by 2010, representing a projected average annualised growth rate of 21.8 per cent.
- Currently the banking and other commercial and transport segments constitute 80 per cent. of the video surveillance market in the PRC. The Directors believe the banking segment is particularly stringent in terms of DVR-based video surveillance technology requirements due to the legislative and security requirements imposed by the People’s Bank of China (“PBC”), China’s central bank and the Public Security Bureau (“PSB”), a department of the Ministry of Public Security (“MPS”).
- 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.
- The banking segment includes, in total, 270,000 bank branches and ATMs spread throughout 30 provinces in China.

Financial summary

The following summary of historical financial information has been extracted or calculated using the financial information on Bluesky and its subsidiaries set out in Part IV of this document, prepared on the basis described therein.

Combined income statements

	Years ended 31 December		
RMB’000	*2004*	*2005*	*2006*
Revenue	46,934	72,801	101,999
Gross profit	25,857	43,093	57,247
Gross profit margin %	*55%*	*59%*	*56%*
Operating profit and profit before tax	16,400	31,686	44,950
Growth in profit from operations %	*72%*	*93%*	*42%*
Net profit for the year	15,812	30,776	42,133

[1] *Frost & Sullivan: “World video surveillance equipment market”, 2005*

Combined net assets

		As at 31 December	
RMB'000	*2004*	*2005*	*2006*
Non-current assets	4,360	8,885	13,977
Current assets	37,999	25,180	76,241
Total liabilities	(12,422)	(11,490)	(30,104)
Net assets*	29,937	22,575	60,114

* defined as total assets less total liabilities.

Historical financial information on the Company is set out in Part III of this document.

Current trading and prospects

Trading and financial performance of the Group since 31 December 2006 has been in line with the Board's expectations, albeit at a lower level than the corresponding period of the 2006 financial year. Close to half of the Group's 31 December 2006 trade receivables were settled by the end of April 2007.

A feature of the Group's operational trends is that in each of the financial years 2004, 2005 and 2006 close to 70 per cent. of annual revenues arose in the second half year, with a substantial proportion of those arising in the fourth financial quarter. This is principally due to the Group's major customers (which contributed the majority of the Group's revenues during the above financial years) tending to encourage expenditure towards the third and fourth quarters of each calendar year. Whilst the Group seeks where possible to schedule its production accordingly, its research and development and sales operations tend to operate on a less seasonal basis. The Directors are confident that trading for the full year should be satisfactory.

The Directors believe the Group's trading will continue to be seasonally biased for the foreseeable future.

Reasons for Admission

The Company is seeking Admission to AIM at the current time for the following reasons:

- to promote the expansion of the Group's business, facilitated by an appropriate capital raising;
- to raise the Group's profile both in PRC and internationally; and
- to incentivise key employees of the Group through the intended adoption after Admission of a share option scheme.

The Directors believe the Placing and admission of the Company's Ordinary Shares to trading on AIM enables all three of the above objectives to be satisfied.

The Placing

The Placing comprises:

- the issue of 22,808,000 new Ordinary Shares to raise £8.0 million net of expenses; and
- the sale of 400,000 existing Ordinary Shares on behalf of Agile.

On Admission, the Company will have 72,808,000 Ordinary Shares in issue and a market capitalisation of approximately £35.1 million at the Placing Price.

Use of net proceeds of the Placing

The net proceeds of the Placing due to the Company, after deduction of the expenses of the Placing and repayment of the US$3 million restructuring loans, are expected to amount to approximately £8.0 million. The Directors intend to apply these net proceeds as follows:

- approximately £2.4 million on expanding the Group's network of regional sales and service centres, with regional centres to be opened in the cities of Shenyang, Xi'an, Changsha, Chengdu, Wuhan and Shenzen during 2007;
- approximately £2.4 million on extending the Group's Beijing research and development activities, with the objective of launching further generations of the Group's networked DVR and associated software products in 2007 and 2008;
- approximately £0.8 million on expanding the Group's production capacity by the establishment of a second production line located close to its first line at its Beijing factory; and
- approximately £2.4 million for working capital purposes, to support the anticipated growth in the Group's business.

Dividend Policy

The first dividend that the Company expects to pay will be a final dividend for the year ending 31 December 2007. In future years, the Directors intend to follow a progressive dividend policy.

PART I

Information on the Group

BACKGROUND

Introduction

BlueStar and its subsidiaries provide digital video surveillance solutions to corporate clients who are located mainly in the People's Republic of China. These solutions are based upon a range of Digital Video Recorders ("DVRs") designed, built and marketed by the Group to suit the needs of its specialised customer base. The Group's purpose-built standalone (or "embedded") DVRs incorporate a variety of features and capabilities developed in part from feedback from customers. Embedded DVRs are standalone hard disk drive units designed to record, store and transmit digitised video data via the internet for monitoring and replay.

To date BlueStar's principal sector focus has been to target large corporate customers and systems integrators in the banking sector in the PRC.

History

The BlueStar Group was founded in 2000 by Mr Xiao and Mr He to focus on the design, manufacture and sale of embedded DVRs primarily to the leading banks in China.

In 2001, following the certification of BlueStar's Trendline standalone DVR system by the Public Security Bureau ("PSB"), the Trendline range was launched in the PRC. To date the majority of BlueStar's DVR systems have been sold under the trademark "Trendline". The Group commenced marketing Trendline to the banking segment throughout the PRC, using a sales network of resellers and systems integrators and its own sales team. In 2001, the first order for the Trendline 2000 standalone embedded DVR was placed by The Agricultural Bank of China through a systems integrator. This was followed by the launch of the Trendline 3000 product, BlueStar's first high-resolution standalone DVR, in January 2002 and Trendline 4000, the Group's first high compression standalone DVR, in July 2002. In May 2003 the Group centralised its production activities in Beijing.

In April 2003 the Group's research and development division was established with the objective of developing future generations of the Group's products. During the same month, The China Construction Bank's Beijing headquarters announced Trendline DVR as its exclusive digital recording device supplier for all of its Beijing branches. In July 2003, the first BlueStar PRC copyright was approved for the Group's single channel DVR hard disk management software.

The Group was certified ISO9000 compliant in November 2004, the same month the Trendline 6000 H.264 high compression range was launched at the International Security and Safety Show in Beijing.

Immediately prior to Admission, Mr Xiao, the Company's CEO, and his wife Ms JinQing Liu were interested in 30,870,000 Ordinary Shares, representing approximately 61.7 per cent. of the Existing Issued Shares.

THE MARKET

History of video surveillance systems

Video surveillance systems for security applications typically comprise three components – camera, recorder/storage and monitors. Analogue video surveillance systems, introduced in the 1970s, consisted of closed circuit television ("CCTV") cameras connected to VCRs, which archived video images on magnetic tape. VCRs used in these systems were typically similar to VCRs used for domestic mass market purposes. By today's standards, VCRs are unreliable and costly to operate, due to the poor quality of the stored images and the necessity for human intervention to load tapes and manage physically large data archives. Furthermore, relative to more modern products VCRs offer limited remote viewing capabilities and provide relatively poor picture quality, which often deteriorates over time. In addition, specific images must be accessed sequentially, requiring significant time and resources.

Developments in video surveillance equipment can be attributed in part to improvements in:

- video compression standards; and
- data storage capacity of the hard disk drive unit.

Video compression denotes the capability of the software to compress the digital information (image) received, facilitating its storage, transmission and retrieval. Moving Picture Experts Group ("MPEG") developed the MPEG range of programmes, to compress digital video which has further facilitated transmission, storage efficiency and download speeds. Since 1993, MPEG have launched a number of updated programmes, the final being the MPEG-4. MPEG-4 was developed in 1999 and complies with ISO/IEC standards. The new H.264 video compression standard, introduced in 2003, is the first to be ratified by both the ISO/IEC and ITU-T. The H.264 standard is currently regarded across the video surveillance industry as offering the best compression bit rates for network transmission.

DVR systems were first introduced in the mid-1990s. DVR systems use hard disks as data storage units. Initially, DVRs were PC-based (integrated inside PCs), using Microsoft operating systems. PC-based DVRs provided substantial improvements in ease of use and storage efficiency over analogue VCR systems and eliminated the need for tape management. As a result, PC-based DVRs progressively gained a major share of new video surveillance installations worldwide. However, PC-based digital video surveillance systems are vulnerable to operating system failures and computer viruses. In 2000, embedded DVRs became more widely available.

Networked DVRs ("NVRs") were introduced shortly thereafter. NVRs are capable of transferring digital data stored on DVR units via a secure internet connection. NVRs enable individual DVRs to be networked together, across an organisation, facilitating centralised monitoring. The usefulness of these NVRs can be further enhanced by software that facilitates storage, organisation, retrieval and analysis of video content.

According to Frost & Sullivan[1] the video surveillance DVR market segment, in which BlueStar operates, was projected to be worth approximately $1.0 billion worldwide in 2005 and is expected to exceed $3.0 billion by 2010, representing a projected average annualised growth rate of 21.8 per cent.

PRC sector focus

End-user markets for video surveillance equipment include the commercial (including banks and retail), government (including civic, road, rail, air and sea transport centres) and residential sectors.

Currently the banking and other commercial and transport segments constitute 80 per cent. of the video surveillance market in the PRC. The Directors believe the banking segment is particularly stringent in terms of DVR-based video surveillance technology requirements due to the legislative and security requirements imposed by the PBC and the PSB, a department of the Ministry of Public Security ("MPS"). 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 by centralising their video surveillance activities.

PRC market drivers

The Directors believe the DVR-based video surveillance market in the PRC is experiencing significant growth, which is in part attributable to the following factors:

Legislative pressures – regulations introduced by the PBC and 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;

[1] *Frost & Sullivan: "World video surveillance equipment market", 2005.*

- video surveillance images to be recorded at a rate of at least 25 frames per second, 24 hours a day, 7 days a week and the video data must be stored for no less than 30 days; and
- all new systems must be DVR systems that may be connected electronically into a network.

As a result, the standards required for storage and image quality for these video archives are high.

Technological innovation – investment in DVR systems has been spurred by two replacement trends. The first is the replacement of the analogue VCR generation with the first generation PC-based DVR systems. The second cycle involves the replacement of the VCR and first generation, PC-based, DVR systems with the second generation, embedded DVR systems. The Directors believe the second substitution cycle is likely to gather momentum, assisted by the impact of the PBC's 5-year mandatory replacement regulations in the banking sector. In addition, the Directors believe that improvements in functionality and reliability coupled with the reduced costs of installing and operating modern DVR systems, will help increase the rate of replacement of legacy video surveillance systems that is already underway.

Extensive opportunities in tier 2 and tier 3 cities – to date, the current replacement cycle for VCR-based systems in the financial segment has mainly focused on the tier 1 cities, such as Beijing and Shanghai. The Directors believe that whilst increases in penetration of DVRs into these cities will continue, tier 2 and tier 3 cities will follow suit and install DVR systems.

Global security concerns – the recent upsurge in terrorist activity has led the PRC Government to push for the deployment of new digital video surveillance systems in public areas, ports, border crossings and on public transport. Furthermore, security concerns for the Beijing 2008 Olympics should, the Directors believe, stimulate demand as the PRC Government wants to showcase Beijing and the PRC as a secure and safe society.

Competitive landscape

The relatively uncustomised VCR-based data recording equipment prevalent in video surveillance systems worldwide during the 1970s, 1980s and early 1990s were predominantly supplied by large conglomerates including Sony, Panasonic and Sanyo and other large multinational companies.

Since then, the developments in compression standards and hard disk storage capacities described above have led to the emergence of DVR-based recording equipment. In the PRC, these factors, coupled with increased levels of regulation specifying tough performance standards for video surveillance DVR equipment have assisted the establishment and growth of a large number of Chinese DVR manufacturers, including the Group.

The Group has focused since its incorporation on producing and selling embedded DVRs primarily to the banking segment.

THE GROUP

Key activities

The BlueStar Group is headquartered in Beijing, with its manufacturing centres located on a high-technology business park close to the city. BlueStar currently has sales and marketing offices in Shanghai and Guangzhou (a major city in the Pearl River delta, in the south of the country, close to Hong Kong).

Research and development

The Group places significant importance on the technological development of its products. BlueStar's research team has partnered with corporations in China and South East Asia such as Samsung Alogics, Altera and NXP semiconductor. Domestically, BlueStar has partnered with the Institute of Remote Sensing Applications which is affiliated with the Chinese Academy of Sciences.

Since the Group commenced manufacturing DVR systems in 2001, it has developed and launched six generations of video surveillance DVR systems comprising over 30 different product models.

As at 31 March 2007, the Group employed 70 staff at its Beijing research and development centre.

Production

BlueStar produces all 30 of its Trendline DVR models at its Beijing manufacturing centre. In order to produce these models the Group retains the principal manufacturing and assembly operations in-house whilst outsourcing the supply of components, such as fans, battery chargers and SMT production. The Group currently has an annual capacity to produce up to 30,000 DVRs.

As at 31 March 2007, the Group employed 43 staff at its Beijing production centre.

Products

The Group's embedded DVR product ranges comprise in-house designed motherboards, hard disks, along with customised software and drivers and a processor chip-set sourced from external suppliers.

The successful launch of BlueStar's DVR Trendline range has been a result of continuous research and development. Built with its compression technology, the Trendline series is designed to support various industries with a particular focus on banking.

BlueStar's product portfolio comprises the following major product categories:

(a) ***Digital video recorders*** – these are the Group's main DVR products. Four generations are currently in production. The most sophisticated operates to the H.264 global standard, whilst earlier generations comply with MPEG 4 (DVD quality), MPEG 2 and MPEG 1 standards. Each embedded DVR is capable of operating between 1 and 16 CCTV cameras.

(b) ***ATM-dedicated digital video recorders*** – these are miniaturised two to four channel DVR products engineered to fit into a limited space, such as inside an ATM. Uses include recording monitored transactions at that ATM or, when mounted inside a bank branch, monitoring transactions handled by bank counter tellers.

(c) ***Network Video Recorder*** – DVRs that have been equipped with network connectivity functions also require the software driver to be network enabled. The Group provides a network monitoring platform for central control centres and for the police should they be connected to the network.

(d) ***Remote control systems*** – these enable cameras to be controlled and DVR data to be accessed remotely. They are based on the Group's sophisticated digital web streaming and controlling software.

The Group's selling prices for DVR products vary from approximately RMB 2,000 to RMB 8,000 per unit.

Channels to market

BlueStar's products are sold to end-users through the following sales channels:

- ***BlueStar's direct sales force*** – as at 31 March 2007 this numbered 55 staff, located in Beijing, Shanghai and Guangzhou. Direct sales are made to a number of banks, representing 53 per cent. of the Group's revenues in 2006. The Group plans to apply part of the net proceeds of the Placing to increase the size and geographic coverage of its direct sales force in the PRC;
- ***Third party intermediaries*** – BlueStar sells its products to over 400 systems integrators and regional agents who combine the Group's products with CCTV cameras and monitors and sell the resulting video surveillance systems to end-users. The use of this channel has enabled the Group to sell its products to a wider base of end-user customers across China than the Directors believe would have been possible using its own direct sales force alone.

Customers

BlueStar's primary customer focus is on the banking segment. The Group's largest end-user customers comprise 18 of the largest 25 banking groups in China (by assets) which include the four largest banks:

China Construction Bank, Industrial and Commercial Bank of China, Bank of China and Agricultural Bank of China. In 2006, BlueStar's top five customers by revenues constituted approximately 38 per cent. of total revenues.

Financial Information

The following summary of historical financial information has been extracted or calculated using the financial information on Bluesky and its subsidiaries set out in Part IV of this document prepared on the basis described therein. Potential investors should read the whole of this document and not rely solely on the following summary information.

Combined income statements

	Years ended 31 December		
RMB'000	*2004*	*2005*	*2006*
Revenue	46,934	72,801	101,999
Gross profit	25,857	43,093	57,247
Gross profit %	*55%*	*59%*	*56%*
Operating profit and profit before tax	16,400	31,686	44,950
Growth in profit from operations %	*72%*	*93%*	*42%*
Net profit for the year	15,812	30,776	42,133

Combined net assets

	As at 31 December		
RMB'000	*2004*	*2005*	*2006*
Non-current assets	4,360	8,885	13,977
Current assets	37,999	25,180	76,241
Total liabilities	(12,422)	(11,490)	(30,104)
Net assets*	29,937	22,575	60,114

** Defined as total assets less total liabilities*

Historical financial information on the Company is set out in Part III of this document.

Group restructuring

The Group performs its business through four operating companies encompassing research and development, manufacturing and two sales and service companies addressing the regional markets of Shanghai and Guangzhou.

To enable the Group to seek overseas (i.e. outside the PRC) investors, the Group was restructured and certain of the assets and liabilities of the Subsidiaries and the majority shareholding interests in them were acquired by a specially authorised Chinese holding company, Bluesky. Further details of the acquisition of the Subsidiaries are set out in paragraph 8.7 in Part VI of this document.

Due to Chinese legal requirements, this acquisition was structured as a cash transaction, with consideration of approximately RMB 22.6 million passing from the Company to BBST. It is intended that this consideration together with the net value of certain other assets of BBST not so acquired (the "Excluded Assets"), be distributed on Admission to the shareholders of BBST, the former holding company of the Subsidiaries, who are the same individuals who currently control the Company through the Holding Companies. The consideration for this acquisition was previously financed by loans totalling $3 million from Agile Partners Pte Ltd and AFG Trust Finance Limited and those loans are being repaid out of the net proceeds of the Placing by the Company.

Only those assets required for the ongoing business of the Group were acquired pursuant to this acquisition, with the Excluded Assets remaining with BBST. Details of the Excluded Assets are set out in the Accountants' Report on Bluesky in Part IV of this document.

Current trading and prospects

The trading and financial performance of the Group since 31 December 2006 has been in line with the Board's expectations albeit at a lower level than for the corresponding period for the 2006 financial year. Close to half of the Group's trade receivables as at 31 December 2006 were settled by the end of April 2007.

A feature of the Group's operational trends is that in each of the financial years 2004, 2005 and 2006 close to 70 per cent. of annual revenues arose in the second half year, with a substantial proportion of those arising in the fourth financial quarter. This is principally due to the Group's major customers (which contributed the majority of the Group's revenues during the above financial years) tending to place more orders towards the third and fourth quarters of each calendar year. Whilst the Group seeks where possible to schedule its production accordingly, its research and development and sales operations tend to operate on a less seasonal basis. The Directors are confident that trading for the full year should be satisfactory.

The Directors believe the Group's trading will continue to be seasonally biased for the foreseeable future.

Reasons for Admission and use of proceeds

The Group is seeking Admission to AIM at the current time for the following reasons:

- to promote the expansion of the Group's business, facilitated by an appropriate capital raising;
- to raise the Group's profile both in the PRC and internationally; and
- to incentivise key employees of the Group through the intended adoption after Admission of a share option scheme.

The Directors believe the Placing and admission of the Company's Ordinary Shares to trading on AIM enables all three of the above objectives to be satisfied.

The net proceeds of the Placing due to the Company, after deduction of the expenses of the Placing and repayment of the US$3 million restructuring loans (as set out above in the paragraph headed "Group restructuring") are expected to amount to approximately £8.0 million. The Directors intend to apply these net proceeds as follows:

- approximately £2.4 million on expanding the Group's network of regional sales and service centres, with regional centres to be opened in the cities of Shenyang, Xi'an, Changsha, Chengdu, Wuhan and Shenzen during 2007;
- approximately £2.4 million on extending the Group's Beijing research and development activities, with the objective of launching further generations of the Group's networked DVR and associated software products in 2007 and 2008;
- approximately £0.8 million on expanding the Group's production capacity by the establishment of a second production line located close to its first line at its Beijing factory; and
- approximately £2.4 million for working capital purposes, to support the anticipated growth in the Group's business.

Directors

Brief biographies of the Directors are set out below. Paragraph 6.1 of Part VI of this document contains further details of current and past directorships and certain other information regarding the Directors.

Executive Directors

Xiao Gang, Chief Executive Officer, age 42

Mr. Xiao holds a BA degree in Robotic Instruments and has over 14 years of experience in marketing, sales and manufacturing security and surveillance solutions. He is a member of the China Security and Protection Industry Association. 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.

(Marine) Zheng Yunsheng, Chief Financial Officer, age 34

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

Wang Chong, Chief Operating Officer, age 34

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

He Caiguang, Chief Technological Officer, age 37

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

Non-Executive Directors

Liu Xiaochuan, Non-Executive Chairman, age 65

Mr. Liu is the chairman of China Security and Protection Industry Association, the vice-director and superintendent of the Ministry of Public Security Science and Technology commission. He is also a senior member of the Chinese Institute of Electronics, and the Chairman of the Chinese Society for sustainable Development. Mr. Liu was the vice-chairman and research director of the Public Security Research Institutions. He was the vice-chairman and chairman of the Ministry of Public Security Computer Communication Bureau, headmaster of the Chinese People's Public Security University, chairman of the Ministry of Public Security Technology Bureau, chairman of the Ministry of Public Security Deputy Secretary for Finance, and headmaster of the Chinese People's Armed Police Force Academy. Mr. Liu has been awarded the National Science and Technology Conference Award, the second and the third National Science and Technological Process Award and the first, second and the third Ministry of the Public Security Science and Technology Award.

Teo Kean Eek, Non-executive Director, age 39

Mr. Teo has over 13 years of strategic planning and venture capital experience in the US, the PRC and Singapore. Prior to founding Agile, a financial advisory company in the PRC, he was the principal of Shanghai NewMargin Ventures in charge of investment, divestment and portfolio monitoring. Mr. Teo has established strong relationships with Chinese entrepreneurs, international and domestic venture capital firms, professional service firms and government agencies. Prior to Shanghai NewMargin Ventures, Mr. Teo was with Strategic Alliance Capital (Singapore), Household International Limited (USA) and Lattice Semiconductor Corporation (USA). Mr. Teo became a Chartered Financial Analyst (CFA) in 2000. Mr. Teo holds a Master's Degree in Engineering Economics System from Stanford University and a Bachelor's Degree in Electrical Engineering from Arizona State University. He is on the board of directors and a member of the audit committee of Pharmesis International Ltd (listed on the Singapore Stock Exchange) and Sinosoft Technology Plc (quoted on AIM).

David Mace, Non-Executive Director, age 52

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

Employees

As at 31 March 2007, BlueStar employed 238 full time employees, whose roles can be analysed into the following departments:

	Number
Sales	55
Production	43
Research & Development	70
Administration	70
Total	238

Share option arrangements

The Directors recognise the need to attract, incentivise and retain employees and the importance of ensuring that all employees are well motivated and able to identify closely with the profitability of the Group. The Company intends, following Admission, for the remuneration committee to consider the most appropriate method of achieving this objective and its recommendations will in due course be implemented by the Company.

The Company intends to grant an option over 36,404 new Ordinary Shares, corresponding to 0.05 per cent. of the Enlarged Issued Shares, to David Mace, a non-executive Director with effect from Admission. This option is to vest in four equal instalments on the first, second, third and fourth anniversaries of Admission and is to be exercisable at the Placing Price for a period of ten days from Admission. Further details are set out in paragraph 8.4.2 of Part VI of this document.

Corporate governance

The Directors intend to 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.

Upon Admission, the Board will consist of seven members, three of whom will be non-executive Directors, including the non-executive Chairman. The Board considers Liu Xiaochuan and David Mace to be independent in character and judgment and accordingly considers each of them to be independent for corporate governance purposes. Teo Kean Eek is a director of Agile and further details of Agile's relationship with the Company are set out in paragraphs 8.6 and 8.9 of Part VI of this document.

The Company will hold regular board meetings. The Directors will be responsible for formulating, reviewing and approving the Group's strategy, budget and major items of capital expenditure. The Directors have established an audit committee, remuneration committee and a nomination committee with formally delegated rules and responsibilities. Each of these committees will comprise of only non-executive Directors who will meet as and when appropriate save in the case of the audit committee which will meet at least twice each year.

On Admission the audit committee will comprise David Mace, Liu Xiaochuan and Teo Kean Eek and will be chaired by David Mace. The audit committee will, *inter alia*, determine and examine 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 will receive and review reports from management and the Company's auditors relating to the half yearly and annual accounts and the accounting and the internal control systems in use throughout the Group, in addition to ensuring that the Company complies with the AIM Rules for Companies.

On Admission the remuneration committee will comprise Liu Xiaochuan, David Mace and Teo Kean Eek and will be chaired by Liu Xiaochuan. The remuneration committee will review and make recommendations in respect of the Directors' remuneration and benefits packages, including staff incentivisation and the terms of their appointment. The remuneration committee will also make recommendations to the Board concerning the allocation of incentivisation payments to employees and the grant of options to directors and employees.

On Admission the nomination committee will comprise Teo Kean Eek, Liu Xiaochuan and David Mace and will be chaired by Teo Kean Eek. The nomination committee will lead the process for Board appointments and make recommendations to the Board taking into account the balance of skills, knowledge and experience on the Board.

The Company has adopted, with effect from Admission, an appropriate share dealing code in order to comply with Rule 21 of the AIM Rules for Companies relating to Directors and applicable employees dealing in the Company's securities. The Company will take all reasonable steps to ensure compliance by the Directors and any relevant employees.

The Company is incorporated in the British Virgin Islands and, although the Ordinary Shares will be admitted to trading on AIM, the Company is not subject to the provisions of the UK City Code on Takeovers and Mergers (the "City Code") as the Takeover Panel does not regard the Company as resident in the UK, Channel Islands or the Isle of Man. Accordingly, the Company will not be subject to the City Code in the UK and a takeover of the Company would not be regulated by the UK authorities. Investors should therefore be aware that the protections afforded to Shareholders by the City Code, which are designed to regulate the way in which takeovers are conducted will not be available. It is therefore possible that an offeror may gain control of the Company in circumstances in which the non-selling Shareholders do not receive, or are not given the opportunity to receive, the benefit of any control premium paid to the selling Shareholder(s). However, recognising this issue, the Company has introduced certain provisions in the Articles which will provide some of the protections to Shareholders otherwise available under the City Code. Similarly, whilst the Company is not required by BVI law to offer pre-emption rights to Shareholders, it has amended its Articles to provide Shareholders with such rights, save that for the period from Admission until the Company's next annual general meeting, pre-emption rights have been disapplied up to an amount corresponding to 7,280,800 Ordinary Shares (representing 10 per cent. of the Enlarged Issued Shares). Further details of the Articles are set out in paragraph 4 of Part VI.

THE PLACING

Details of the Placing

The Placing comprises:

- The issue of 22,808,000 new Ordinary Shares to raise £8.0 million net of expenses; and
- The sale of 400,000 existing Ordinary Shares on behalf of Agile.

On Admission, the Company will have 72,808,000 Ordinary Shares in issue and a market capitalisation of approximately £35.1 million at the Placing Price.

Evolution China is using reasonable endeavours to place the Ordinary Shares being offered in the Placing with institutional and other investors.

The new Ordinary Shares the subject of the Placing will represent 31.33 per cent. of the Enlarged Issued Shares and will rank *pari passu* in all respects with the existing Ordinary Shares, on Admission.

The existing Ordinary Shares shall account for 68.7 per cent. of the Enlarged Issued Shares following the Placing and the dilution of existing Shareholders will represent 31.3 per cent.

The Company, the Directors, Evolution Securities, Evolution China and Agile have entered into a Placing Agreement dated 13 June 2007 under which Evolution China has agreed, conditional upon, *inter alia*, Admission taking place on or before 8.00 a.m. on 18 June 2007 (or such later time and date as the Company and Evolution Securities and Evolution China shall agree being not later than 8.00 a.m. on 30 September 2007) and the Placing Agreement becoming unconditional save for Admission and not having been terminated in accordance with its terms prior to Admission to use its reasonable endeavours, as agent for the Company to arrange for placees to acquire the newly issued Placing Shares and to use reasonable endeavours as agent for Agile to arrange for placees to acquire the Agile Shares.

The Placing Agreement contains certain customary warranties from the Company and the Directors in favour of Evolution Securities and Evolution China and, in addition, the Company and the Directors have agreed to give certain indemnities to Evolution Securities and Evolution China. If Evolution Securities' and Evolution China's right to terminate the Placing Agreement prior to Admission is exercised the Placing will lapse. The liability of the Directors under the Placing Agreement is subject to certain limitations as to amount and time.

Further details of the Placing Agreement are set out in paragraph 8.1 of Part VI of this document.

Lock-in and orderly trading arrangements

The Directors (and entities controlled by them) and certain other shareholders who, following Admission, will, in aggregate, have an interest in approximately 68.1 per cent. of the Enlarged Issued Shares, have given undertakings not to sell, charge or grant any interests over any Ordinary Shares (or Depositary Interests) held by them (subject to certain exceptions) during the period commencing on Admission up to the first anniversary of Admission. In addition, the Directors and certain other major shareholders have undertaken to consult Evolution China prior to any disposal and to make any disposal through Evolution China for a further period of one year thereafter in order to maintain an orderly market in the Company's Ordinary Shares.

Dividend policy

The first dividend that the Company expects to pay will be a final dividend for the year ending 31 December 2007. In future years, the Directors intend to follow a progressive dividend policy, with dividends being paid annually.

CREST

The Company has established a depositary arrangement in relation to which depositary interests ("DIs") established pursuant to a deed of trust (the "DI Deed Poll") executed by the Depositary and representing Ordinary Shares, will be issued to investors who wish to hold their Ordinary Shares in electronic form within the CREST system. The Company has applied for the DIs representing Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares, represented by DIs, following Admission may take place within the CREST system if the relevant investors so wish. CREST is a UK electronic paperless share transfer and settlement system, which allows shares and other securities, (including DIs), to be held in electronic rather than paper form. DIs have been constituted because the Company is registered in the British Virgin Islands and electronic settlement of securities in CREST is only permitted in respect of securities issued by companies incorporated in the UK. The Ordinary Shares may be traded using this system. Please note that CREST is a voluntary system and holders of shares who wish to receive and retain share certificates will also be able to do so.

The DIs will have the same ISIN number as the underlying Ordinary Shares. For more information regarding CREST, shareholders should contact their broker or CRESTCo Limited at 33 Cannon Street, London EC4M 55B. Trading in DIs requires shareholders to deal through a stockbroker or other intermediary who is a member of CREST. Shareholders should ensure that their stockbroker is a member of London Stock Exchange.

Further details of the depositary arrangements are set out in paragraphs 8.8 and 13 of Part VI of this document.

Further information regarding the depositary arrangement and the holding of Ordinary Shares in the form of DIs is available from the Depositary Interest Registrars. The Depositary Interest Registrars may be contacted at Capita IRG Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Admission, settlement and dealings

Application has been made to London Stock Exchange plc for the Ordinary Shares that have been issued and for those that are proposed to be issued pursuant to the Placing to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on 18 June 2007.

No temporary documents of title will be issued. All documents sent by or to a placee, or at his direction, will be sent through the post at the placee's risk. Pending the despatch of definitive share certificates, instruments of transfer will be certified against the register of members of the Company.

Application has been made for DIs for all of the issued and to be issued Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the DIs may take place in CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the Ordinary Shares (or DIs) will be registered in the names of the placees subscribing for them and issued either:

(a) in certificated form, where the placee so elects, with the relevant share certificate in respect of the Placing Shares expected to be despatched by post, at the placees' risk by 6 July 2007; and

(b) in CREST, where the placee so elects, and only if the placee is a "system member" (as defined in the CREST regulations) in relation to CREST, with delivery (to the designated CREST account) of the Placing Shares subscribed for to take place on 18 June 2007.

Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk.

Pending the dispatch of definitive share certificates (as applicable), instruments of transfer will be certified against the register.

Taxation

The attention of investors is drawn to the information regarding taxation which is set out at paragraph 12 in Part VI of this document. These details are, however, intended only as a general guide to the current tax position under UK taxation law for certain types of investor. Investors who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional advisers.

Additional information

Investors should read the whole of this document which provides additional information on the Company and the Placing and not rely on summaries or individual parts only. Investors' attention is drawn, in particular, to the risk factors set out in Part II of this document and the additional information set out in Parts III to VI of this document.

PART II

Risk Factors

In addition to the other relevant information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. Before making an investment decision, prospective investors are advised to consult an independent financial adviser authorised under the FSMA who specialises in advising on investments of this kind. A prospective investor should carefully consider whether an investment in the Company is suitable in the light of personal circumstances and the financial resources available.

If any of the following risks were to materialise, the Group's business, financial position, results, prospects and/or future operations may be materially adversely affected. In such case, the market price of the Ordinary Shares may decline and an investor may lose all or part of his investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon the Group.

Risks relating to the PRC

Risks generally associated with business in emerging markets

The PRC has a long history of a planned economy and is subject to five-year plans formulated by the Chinese Government. In recent years, the Chinese Government has introduced economic reforms aimed at transforming its economy from a planned economy into a market economy with socialist characteristics. These economic reforms allow greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations. However, many rules and regulations implemented by the Chinese Government are still at an early stage of development, and further refinements and amendments are necessary to enable the economic system to develop into a more sophisticated form. It is unclear how future economic reforms and macroeconomic measures to be adopted by the Chinese Government will affect the economic development of or the tax regime in the PRC. Further, there can be no assurance that such measures will be applied consistently and effectively or that the Group will benefit from or will be able to capitalise on such reforms.

Economic issues

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government intervention, level of development, control of foreign exchange and allocation of resources. Since 1949, the economy of the PRC has been a planned economy subject to one and five-year state plans adopted by the Chinese Government authorities implemented, to a large extent, by provincial and local authorities, which set production and development targets.

Although the Chinese Government has implemented measures since the late 1970's emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in the PRC is still owned by the Chinese Government. In addition, the Chinese Government continues to play a significant role in the regulation of industry via the imposition of industrial policies. The Chinese Government also exercises significant control over PRC economic growth through the allocation of resources, the controlling of payment of foreign currency denominated obligations, the setting of monetary policy and the provision of preferential treatment to particular industries or companies.

While the PRC economy has grown significantly in the past twenty years, growth has been uneven, both geographically and among the various business sectors of the economy. Many of the reforms and measures implemented by the Chinese Government are unprecedented or experimental and are expected to be refined and improved over time. Some of these reforms or measures benefit the overall PRC economy but the Group's business may be affected by such reforms. For example, the financial condition and results of operations of the Group in the PRC may be adversely affected by government control over capital investments, changes in tax regulations or tougher measures taken against environmental pollution that are applicable to the Group.

It is unclear how future economic reforms and macroeconomic measures adopted by the Chinese Government will affect the economic development of the PRC. Furthermore, there can be no assurance that such measures will be applied consistently and/or effectively, or that the Group will benefit from such reforms.

Political issues

The PRC has been undergoing a series of political reforms, particularly since 1978. The Directors expect that such reforms will continue. Such reforms have in the past resulted in significant economic growth and social progress. However, there can be no assurance that any future reform policy of the Chinese Government will be effective. The Group's business may be adversely affected by such future reforms.

Judicial, administrative and regulatory issues

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The PRC legal system is relatively new, and the Chinese Government is still in the process of developing a comprehensive system of laws.

The overall effect of legislation over the past 25 years has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. However, foreign investors may be adversely affected by new laws, frequent changes to existing laws (or interpretations thereof) and pre-emption of provincial or local regulations by national laws or regulations. Moreover, the administrative and judicial interpretation, implementation and resolution of commercial disputes may be subject to the exercise of considerable discretion by both administrative and judicial organs and may be influenced by external forces unrelated to the legal merits of a particular matter or dispute.

At present, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments with major economies such as the USA, the UK and Japan. Therefore, it would be difficult for the Company to enforce in the PRC any judgments it obtained in a foreign court.

These uncertainties could limit the legal protections available to the Group in the PRC and foreign investors. In addition, it is difficult to predict the effect of future developments in the PRC legal system, particularly with regard to equity and equity-related investments by foreign investors, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Even where adequate laws exist and contractual terms are clearly stated, there can be no assurance of swift and equitable enforcement of rights.

The PRC has adopted a broad range of laws, administrative rules and regulations that govern the conduct and operations of companies in the PRC which receive capital from foreign investors (known as foreign investment enterprises), such as the Company in this instance. These laws, rules and regulations provide some incentives to encourage the flow of investment into the PRC but they also subject foreign invested enterprises ("FIEs"), which will include the PRC subsidiaries of the Company, to a set of restrictions that may not always apply to domestic companies in PRC. For example, FIEs are prohibited from participating in certain industries. While the PRC has committed to loosening the restrictions on foreign investors in many industries after its entry into the World Trade Organisation, many investment restrictions may still place the PRC subsidiaries of the Company at a disadvantage in relation to PRC domestic companies and may adversely affect the Group's competitive position.

Further, as a result of political changes, the interpretations of statutes and regulations may be subject to government policies. Such uncertainties may affect the Group's operations and, accordingly, its profitability.

Preferential tax treatments enjoyed by foreign invested enterprises

Certain members of the Group, being FIEs, currently enjoy preferential tax rates and tax holidays in the PRC that are not available for domestic enterprises. The Chinese Government is currently in the process of reforming its enterprise income tax system, with plans to complete the process in the near future. It plans to replace the existing system with a unified enterprise income tax rate for both domestic Chinese companies and FIEs. There have also been reports that the existing preferential tax policy and many of the other tax incentives currently enjoyed by FIEs will be abolished. Although it is possible that any preferential tax policy may be grandfathered in respect of existing FIEs, there can be no assurance that the Chinese entities within the Group will be able to continue to enjoy the preferential tax treatments currently afforded to FIEs in the PRC. While the timing and scope of the reforms remain uncertain, the Group's operating results, financial condition, results of operations and prospects will be significantly and adversely affected if its overall tax rate is significantly increased.

Foreign exchange risk

The external value of the RMB is subject to changes in policies of the Chinese Government and to international, economic and political developments. From 1994, the conversion of the RMB into foreign currencies was based on rates set by the People's Bank of China, which were set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The rate of exchange between the RMB and the US dollar experienced volatility prior to 1994, including periods of sharp devaluation and the Chinese Government was under international pressure to allow this rate to float.

On 21 July 2005, the People's Bank of China reformed the RMB exchange rate regime by moving to a managed floating exchange rate based on market supply and demand with reference to a basket of currencies. From that date, the RMB was no longer tied to the US dollar.

The People's Bank of China will periodically adjust the RMB exchange rate band as necessary and as a consequence, the RMB exchange rate will be more flexible than before. There is therefore a risk that the fluctuations in the RMB exchange rate may be greater than were previously experienced and any large appreciation or devaluation of the RMB against the US dollar or other currencies could have an adverse effect on the Group's business and operating results.

In addition, financial markets in many Asian countries have in the past experienced severe volatility. As a result, some Asian currencies have been subject to significant devaluation from time to time.

Under the current regulations on foreign exchange control in the PRC, foreign investment enterprises are allowed to distribute their profits or dividends in foreign currencies to foreign investors through designated foreign exchange banks without the prior approval of the State Administration for Foreign Exchange of the PRC. However, the exchange of the RMB into foreign currencies for capital items such as direct investment, loans and security investment, is under strict control and requires the approval of the State Administration for Foreign Exchange of the PRC. The distribution of the Group's profits and dividends may be adversely affected if the Chinese Government imposes greater control on the ability of the RMB to be exchanged into foreign currencies. There can be no assurance that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy other foreign exchange requirements in the future.

Industry restrictions

Foreign investment in the PRC is subject to industry-specific restrictions and/or prohibitions set forth in a Catalogue Guiding Foreign Investment in Industry (the "Catalogue"). Local governments in the PRC may maintain further industry-specific restrictions or prohibitions. The Catalogue distinguishes between different industries in terms of whether foreign investment is "encouraged", "restricted", "prohibited" or "permitted" in such industries. The different categories generally indicate the disposition of PRC Ministry of Commerce ("MOFCOM") and other regulatory authorities to approve foreign investment in a given industry, as well as having certain tax and other implications. Investments in the encouraged and permitted categories are generally eligible for approval with relatively few restrictions. Investment in the "restricted" category is often subject to limitations on the amount of equity that a foreign investor can hold and to other restrictions. Moreover, government approval of investments in the "restricted" category is generally perceived to be harder to secure. Foreign investment in the "prohibited" category is barred altogether. Such restrictions on the nature and terms of the Company's potential investments in the PRC may limit the opportunities available to the Company in the PRC. Further, in the case of any of the PRC subsidiaries of the Company being subject to the "restricted" category, the Company may be exposed to additional incremental costs to secure necessary approvals (such as time required to obtain such approvals, legal fees and other related expenses) and these costs could have an adverse impact on the results of the Group.

New PRC legislation

On 8 August 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission (the "CSRC"), promulgated a regulation that became effective on 8 September 2006 ("Effective Date"). This regulation, amongst other things, has a number of provisions that purport to require that an offshore special purpose vehicle ("SPV") formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. On 21 September 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listing. The new regulations are unclear as to whether or not a SPV using cash to acquire a PRC domestic enterprise is required to obtain approval from the CSRC for its overseas listing, and it is silent on if and how the new regulations are applicable to an overseas listing of a SPV which has completed the acquisitions of relevant PRC domestic enterprises prior to the Effective Date.

The Company's PRC lawyers have advised that it is not necessary for the Company to obtain CSRC's approval for its Admission given the following facts: (i) Bluesky had legally completed the acquisitions of the equity interests in the PRC operating subsidiaries of Bluesky before the Effective Date, (ii) such acquisitions were based on cash consideration and did not involve a share swap among offshore companies.

In the event that the CSRC determines that the Company is required to obtain its written approval prior to Admission and such approval is not obtained prior to Admission, the Group may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on the Group's operations in the PRC, limit its operating privileges in the PRC, delay or restrict the repatriation of proceeds from the Placing into the PRC, or take other actions that could have a material adverse effect on the Group's business, financial conditions, results of operations, reputation and prospects, as well as the trading price of the Ordinary Shares. The CSRC or other PRC regulatory agencies also may take actions requiring the Company, or making it advisable for the Company, to cease and desist in pursuing the Placing before settlement and delivery of the Placing Shares. Consequently, prospective investors who engage in market trading or other activities in anticipation of and prior to settlement and delivery do so at the risk that settlement and delivery may not occur.

If the CSRC determines that Admission requires its approval, the Group may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of the Ordinary Shares.

Recent PRC regulations relating to the establishment of offshore special purpose companies by PRC residents

The State Administration of Foreign Exchange ("SAFE") issued a public notice (the "SAFE Notice") in October 2005 requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of the PRC for the purpose of capital financing with assets or equities of PRC companies, referred to in the SAFE Notice as an "offshore special purpose company". PRC residents that are shareholders of offshore special purpose companies established before 1 November 2005 were required to register with the local SAFE branch before 31 March 2006. The failure of PRC resident shareholders to register with the local SAFE branch or to amend their SAFE registrations pursuant to the SAFE Notice or the failure of future shareholders of the Company who are PRC residents to comply with the registration procedures set forth in the SAFE Notice, may subject such beneficial owners to fines and legal sanctions and may also limit the Group's ability to contribute additional capital into the Group's PRC subsidiaries, limit the ability of the Group's PRC subsidiaries to distribute dividends to the Company or otherwise adversely affect the business.

Risks relating to the business and operations of the Group

Operating risks

The Group is subject to a range of operating risks to which all manufacturers are exposed, including industrial accidents; technical failures; labour disputes; supply issues; fire; explosions and other industrial plant issues all of which may include aspects that may be beyond the Group's control.

Technological risks

The Group operates in an industry where competitive advantage is heavily dependent on technology. It is possible that technological development may reduce the importance of the Group's function in the market. Staying abreast of technological changes may require substantial investment. The Group's existing software may become obsolete or may be superseded by new technologies or changes in customer or end-user requirements.

Dependence on a limited number of customers

The Group has been, and for the foreseeable future will continue to be, dependent on a limited number of customers. Such a concentrated customer base places considerable dependence on each contract in respect of the Group's financial performance. If a major customer or a number of customers terminate their contracts or significantly reduce or modify their business relationships with the Group, the Company may not be able to replace the shortfall in revenues. Consequently, investors should not predict or anticipate the Company's future revenues based upon customers it has currently, the size of its target customer base or the number and size of its existing and prospective projects.

Limited operating history

The Group has a limited operating history which offers little basis upon which an evaluation of the Group and its long term prospects can be based. The Group's business must be considered in light of the risks, expenses and difficulties frequently encountered by a business in the early stages of its development, particularly where it is operating in new and rapidly evolving commercial environments. The Group only commenced operations in 2001 and has grown since then. In order to implement and manage its expansion plan, the Group will be required to improve its operational and financial reporting systems, procedures and controls, increase manufacturing capacity and output, and to expand, train and manage its rapidly growing employee base.

Furthermore, its management will be required to maintain and expand its relationships with its customers, suppliers and other third parties.

Competition

New competitive products, designs or solutions may enter the market with different benefits or using different technologies, making them equally or more attractive than the Group's products.

Competitors may also be able to devote greater resources to the promotion and sale of their products, designs or solutions than the Group, which would give them a competitive advantage.

In order to be successful in the future, the Group must continue to respond promptly and effectively to the challenges of technological change and competitor's innovations.

Business licences

Certain of the Subsidiaries and Bluesky are required to maintain business licences which tend to be of limited duration and subject to annual inspections by SAIC. There can be no guarantee that Bluesky and the Subsidiaries will pass such inspections or be able to renew their business licences at the appropriate times.

If Bluesky or a Subsidiary loses its business licence or fails to renew it upon expiry the operations and results of the Group could be materially adversely affected.

Reliance on key executives and personnel

The Group's development and prospects are dependent upon the continued services and performance of its directors, senior management and other key personnel. The loss of the services of any of the directors, senior management or key personnel may have a material adverse impact on the Group.

Uninsured risks

Some forms of insurance protection used in western countries may be unavailable in the PRC. Furthermore, projects in which the Group may invest may become subject to liability for hazards that cannot be insured against or against which the Group may elect not to become so insured because of high premium costs. The Group may incur a liability to third parties (in excess of any insurance cover) arising from product liability or other damage or injury.

Retention of key business relationships

The Group relies significantly on relationships with other entities (including customers and suppliers) and also on good relationships with Chinese regulatory and government departments. The Group also relies on third parties to provide essential services on a contractual basis.

There can be no assurance that the Group's existing relationships will continue or that new ones will be successfully formed and the Group could be adversely affected by changes to such relationships or difficulties in forming new ones. Any circumstance which causes the early termination or non-renewal of one of these key business relationships could adversely impact upon the Group, its business, operating results or prospects.

Intellectual property protection

Failure to protect the Group's intellectual properly rights may result in another party copying or otherwise obtaining and using its proprietary technology without authorisation. There may not be adequate protection for intellectual property rights in every country in which the Group's products are made available and policing unauthorised use of proprietary information is difficult and expensive.

Due to the Group's size and limited cash resources, it may not be able to detect and prevent infringement of its intellectual property rights.

Furthermore, the Group may need to take legal action to enforce its intellectual property rights, to protect trade secrets or to determine the validity or scope of the proprietary rights of others. Litigation relating to the Group's intellectual property, whether instigated by the Group to protect its rights or arising out of alleged infringement of third party rights, may result in substantial costs and the diversion of resources and management attention and there can be no guarantees as to the outcome of such litigation.

Intellectual property infringement risk

There is a risk that the Group's intellectual property rights may be challenged, which may have a material adverse impact on the Group.

Potential requirement for further investment

The Group may require additional capital in the future for expansion activities and/or business development, whether from equity or debt sources. There can be no guarantee that the necessary funds will be available on a timely basis, on favourable terms, or at all or that such funds if raised, would be sufficient. If additional funds are raised by issuing equity securities, dilution to the then existing shareholdings may result. The level and timing of future expenditure will depend on a number of factors, many of which are outside the Group's control. If the Group is not able to obtain additional capital on acceptable terms, or at all, it may be forced to curtail or abandon such expansion, activities and/or business development.

Risks relating to the Ordinary Shares

Investment risk and AIM

Prior to Admission, there has been no public market in the Ordinary Shares. Whilst the Company is applying for admission to AIM, there can be no assurance that an active trading market for the Ordinary Shares will develop, or if developed, that it will be maintained. AIM is a market for emerging or smaller companies and may not provide the liquidity normally associated with the Official List or other exchanges.

The future success of AIM and the liquidity in the market for Ordinary Shares cannot be guaranteed. In particular, the market for Ordinary Shares may be, or may become, relatively illiquid particularly given the lock-in arrangements described in paragraph 8.3 of Part VI of this document and therefore the Ordinary Shares may be or may become difficult to sell.

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in investor sentiment regarding the Ordinary Shares or in response to various factors and events, including variations in the Group's interim or full year operating results and business developments of the Group and/or its competitors.

Potential investors should be aware that the value of securities and the income from them can go down as well as up and that investment in a security which is traded on AIM might be less realisable and generally carries a higher risk than a security quoted on the Official List.

The price which investors may realise for their holding of Ordinary Shares, and when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Group and others of which are extraneous.

Concentration of ownership

Immediately following Admission, Xiao Gang and Liu JinQing will hold (through entities controlled by them) approximately 23.55 per cent. and 18.84 per cent. of the Enlarged Issued Shares respectively. As a result of these shareholdings, either Xiao Gang or Liu JinQing may have a significant influence on matters requiring Shareholder approval, including the approval of certain corporate transactions. Such concentration of ownership may have the effect of delaying or deterring a change in control of the Company (and so deprive other Shareholders in the Company of an opportunity to receive a premium for the Ordinary Shares as part of a sale of the Company) or affect the market price of the Ordinary Shares.

Dividends

There can be no assurance as to the level and frequency of future dividends. The declaration, payment and amount of any future dividends of the Company is subject to the discretion of the Directors and will depend, amongst other things, upon the Company's earnings, financial position, cash requirements and availability of profits as well as the provisions of relevant laws.

According to PRC company law, companies are required to transfer 10 per cent. of their profit after tax into a statutory surplus fund until the balance of the statutory surplus fund reaches 50 per cent. of the registered capital. The transfer must be made before a distribution of dividends to Shareholders can be made. As a number of the trading subsidiaries of the Company are such companies, the amount of profit available to be distributed to the Company by those subsidiaries may be limited by this provision.

In addition, there are other procedural and legislative requirements which have to be satisfied for foreign investors to draw profits, in the form of dividends, generated by companies in the PRC and if the relevant companies in the Group are unable to satisfy these requirements the ability for investors to receive dividends will be impeded.

Forward-looking statements

Certain statements contained in this document may constitute forward-looking statements. Forward-looking statements include statements concerning the plans, objectives, goals, strategies and future operations and performance of the Group and the assumptions underlying these forward-looking statements. The Group uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should”, and any similar expressions to identify forward-looking statements. Any such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by any such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this document. The Group expressly disclaims any obligation or undertakings to release publicly any updates or revisions to any forward-looking statement contained herein, save as required to comply with any legal or regulatory obligations, to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. All subsequent written or oral forward-looking statements attributable to the Group, or persons acting on behalf of the Group, are expressly qualified in their entirety by the cautionary statements contained throughout this document. As a result of these risks, uncertainties and assumptions, a prospective investor should not place undue reliance on these forward-looking statements.

City Code on Takeovers and Mergers

The City Code on Takeovers and Mergers may not apply to the Company (as further described in Part VI of this document) and therefore any takeover of the Company will be unregulated by UK takeover authorities. Whilst the Articles contain certain takeover protections, these will not provide the full protections afforded by the City Code on Takeovers and Mergers. The relevant provisions of the Articles are summarised in paragraph 4 of Part VI of this document.

British Virgin Islands company law

The Company is a company incorporated in the British Virgin Islands. As a result, the rights of the Shareholders will be governed by the laws of the British Virgin Islands and the memorandum and articles of association of the Company. The laws of the British Virgin Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in England. Such differences may mean that the Company’s minority Shareholders may have less protection than they would have under the laws of England.

Investors should therefore consider carefully whether investment in the Company is suitable for them, in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.

PART III

Accountants' Report on the Company

MAZARS

The Directors
BlueStar SecuTech, Inc.
Offshore Incorporations Centre
P.O. Box 957
Road Town
Tortola
British Virgin Islands

The Directors
Evolution Securities Limited
100 Wood Street
London EC2V 7AN

The Directors
Evolution Securities China Limited
5th Floor
29-30 Cornhill
London EC3V 3ND

13 June 2007

Dear Sirs

Introduction

We report on the audited financial information set out below which has been prepared for inclusion in the AIM Document (the "Document") dated 13 June 2007 of BlueStar SecuTech, Inc. (the "Company") on the basis of the principal accounting policies set out in Note 2 to the financial information. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that schedule and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the Company on the basis set out below and in accordance with applicable International Financial Reporting Standards.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives for the purposes of the Document dated 13 June 2007 a true and fair view of the state of affairs of the Company at 23 December 2006 in accordance with the basis of preparation set out below and in accordance with applicable International Financial Reporting Standards and has been prepared in a form that is consistent with the accounting policies to be adopted by the Company in its first published consolidated financial statements.

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

Mazars LLP
Chartered Accountants

BALANCE SHEET

The consolidated balance sheet of the Company as at 23 December 2006 is set out below:

		23 December 2006
		RMB'000
Current assets		
Other receivables	5	516
Cash and cash equivalents		7,864
Total assets		8,380
Equity and liabilities		
Issued share capital		391
Total equity	3	391
Current liabilities		
Other payables	6	7,989
Total liabilities		7,989
Total equity and liabilities		8,380

STATEMENT OF CASH FLOWS

The consolidated statement of cash flows of the Company for the period ended 23 December 2006 is as follows:

	23 December 2006
	RMB'000
Financing activities	
Issue of shares	391
Increase in other receivables	(516)
Increase in other payables	7,989
Net cash provided by financing activities	7,864
Net increase in cash and cash equivalents	7,864
Cash and cash equivalents, beginning of period	–
Cash and cash equivalents, end of period	7,864

NOTES TO THE FINANCIAL INFORMATION

1. Business of the Company

The Company was incorporated under the laws of the British Virgin Islands on 9 June 2006 with the name Trendline Security Solution Co., Ltd and did not trade in the period ended 23 December 2006. The Company changed its name to BlueStar SecuTech, Inc on 7 June 2007. The Company's registered address is:

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

2. Accounting policies

Basis of preparation

The financial information has been prepared in accordance with the historical cost convention and in accordance with applicable International Financial Reporting Standards.

Basis of consolidation

The consolidated financial information includes the accounts of the Company and its wholly owned subsidiary.

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. They are de-consolidated from the date that control ceases.

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.

Foreign currency translation

The reporting and measurement currency of the Company is the Chinese Renminbi (RMB).

For the purpose of this financial information all amounts denominated in United States Dollars (US$) have been translated into RMB at the exchange rate of RMB 7.816 to US$1.

Gains and losses that arise from the effect of exchange rate changes on balances denominated in currencies other than the measurement currency are included in the income statements as incurred.

Comparative figures

No comparative figures have been presented as the period from incorporation on 9 June 2006 to 23 December 2006 was the Company's first non statutory accounting period.

3. Reconciliation of movement in shareholders' equity

	RMB
Authorised share capital	
50,000 Ordinary shares of US$1 per share	391,000
Issued during the period	
50,000 Ordinary shares of US$1 per share	391,000
Balance on incorporation	–
Ordinary shares issued during the period	391,000
Balance at 23 December 2006	391,000

On the 9 June 2006 the company issued 50,000 shares for a consideration of US$1.00 each.

On 7 June 2007 the shareholders resolved that the ordinary shares of US$1.00 be redesignated as ordinary shares of no par value, and each of the issued shares be then subdivided into 1,000 ordinary shares.

4. Subsidiary company

Details of the Company's subsidiary as at 23 December 2006 are as follows:

Name	*Place of Incorporation*	*Ownership interest*	*Proportion of voting power held*	*Principal activity*
Beijing Bluesky Software Development Co. Ltd	PRC	100%	100%	Investment holding

Beijing Bluesky Software Development Co. Ltd is a Wholly Foreign Owned Enterprise (WFOE) with limited liability established by the Company on 22 August 2006 under the laws of the PRC. The total investment amount and registered capital of the WFOE are both US$3,000,000. As of 23 December 2006, the Company had contributed US$1,000,000 towards the registered capital. On 17 January 2007, the Company completed its US$3,000,000 contribution to the registered capital by payment in cash.

5. Other receivables

	RMB'000
Amounts due from related party	82
Other receivables	434
	516

The related party balance relates to SecuLine Technologies Inc., a company incorporated in the British Virgin Islands in which Xiao Gang, a director of the Company, is the 100 per cent. shareholder.

6. Other payables

	RMB'000
Loan payable	7,816
Amount due to related party	134
Other payables	39
	7,989

The loan payable was made under an agreement dated 31 October 2006 between the Company and AFG Finance Limited ("AFG") whereby AFG agreed to lend the Company the sum of up to

US$2,500,000, repayable within 12 months of the first drawdown with interest payable at 5.75 per cent. per annum on each drawdown. As at 23 December 2006, the Company has drawndown amounts totalling US$1,000,000 (RMB 7,816,000).

The related party balance relates to a short term loan from Beijing BlueStar Software Technology Development Co., Ltd. ("BBST"). The loan is interest free and repayable on demand.

7. Events after the balance sheet date

Pursuant to an Asset Transfer Agreement between the Company and BBST dated 12 July 2006, the Company acquired certain assets and assumed various liabilities of BBST and its subsidiaries on 30 December 2006, following confirmation of the validity and enforceability of the agreement received from the Approval Authority, being Zhongguancum Technology Park Haidan Management Commission in the PRC.

On 7 June 2007 the authorised share capital of the Company was increased from 50,000 shares to 100,000,000 shares, the unissued shares and the shares in issue were re-designated as shares of no par value.

8. Nature of financial information

The financial information presented above does not constitute statutory accounts for the Company for the period ended 23 December 2006.

PART IV

Accountants' Report on Bluesky

MAZARS

The Directors
BlueStar SecuTech, Inc.
Offshore Incorporations Centre
P.O. Box 957
Road Town
Tortola
British Virgin Islands

The Directors
Evolution Securities Limited
100 Wood Street
London EC2V 7AN

The Directors
Evolution Securities China Limited
5th Floor
29-30 Cornhill
London EC3V 3ND

13 June 2007

Dear Sirs

Introduction

We report on the audited financial information set out below on Beijing BlueSky Software Development Co., Ltd ("Bluesky") which has been prepared for inclusion in the AIM Document to be dated 13 June 2007 of BlueStar SecuTech, Inc. ("BlueStar" or the "Company") (the "Document"), on the basis of the Company's accounting policies set out in note 3 below. This report is required by Schedule Two of the AIM Rules for Nominated Advisers and is given for the purpose of complying with that Schedule and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the combined financial information on the basis of preparation set out in note 1(ii) to the financial information and in accordance with applicable International Financial Reporting Standards.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Document, and to report our opinion to you.

Basis of Opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the combined financial information gives, for the purposes of the Document, a true and fair view of the state of affairs of Bluesky as at the date stated in accordance with the basis of preparation set out in Note 1(ii) below and in accordance with applicable International Financial Reporting Standards and has been prepared applying accounting policies consistent with those to be adopted by the Company in its first published consolidated financial statements.

Declaration

For the purposes of paragraph a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules for Nominated Advisers.

Yours faithfully

Mazars LLP
Chartered Accountants

Combined Income Statements

The pro forma income statements of the Bluesky Group for each of the three years ended 31 December 2006 are set out below.

		Years ended 31 December		
		2004	*2005*	*2006*
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	4	46,934	72,801	101,999
Cost of sales		(21,077)	(29,708)	(44,752)
Gross profit		25,857	43,093	57,247
Distribution expenses		(5,866)	(8,463)	(11,132)
Administrative expenses		(5,504)	(6,571)	(6,996)
Other income		2,316	3,753	6,151
Other expenses		(403)	(126)	(320)
Operating profit and profit before tax	5	16,400	31,686	44,950
Income tax expense	6	(588)	(910)	(2,817)
Net profit for the year		15,812	30,776	42,133

Combined Balance Sheets

The pro forma balance sheets of the Bluesky Group as at 31 December 2004, 2005 and 2006 are set out below.

		At 31 December		
		2004	*2005*	*2006*
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	8	2,415	4,331	4,233
Intangible assets	9	1,945	4,554	9,744
		4,360	8,885	13,977
Current assets				
Inventories	11	6,343	7,215	8,702
Trade and other receivables	12	17,154	15,662	52,349
Cash and cash equivalents	13	14,502	2,303	15,190
		37,999	25,180	76,241
Total assets		42,359	34,065	90,218
Equity and liabilities				
Capital and reserves				
Share capital	14	3,000	15,000	15,000
Capital surplus	15	6,158	6,158	6,158
Statutory surplus reserve	16	2,066	5,313	9,832
Retained earnings		18,713	29,180	55,874
Restructuring reserve	1(v)	–	(33,076)	(26,750)
Total equity		29,937	22,575	60,114
Non-current liabilities				
Deferred tax liabilities	17 (a)	193	–	–
		193	–	–
Current liabilities				
Trade and other payables	18	7,420	8,743	22,584
Income tax liabilities		1,178	–	–
Other tax liabilities		3,631	2,747	7,520
		12,229	11,490	30,104
Total liabilities		12,422	11,490	30,104
Total equity and liabilities		42,359	34,065	90,218

Combined Statement of Changes in Equity

The pro forma statements of changes in shareholders' equity for the Bluesky Group for each of the three years ended 31 December 2006 are set out below.

	Share Capital RMB'000	*Capital surplus RMB'000*	*Statutory Surplus reserve RMB'000*	*Retained Earnings RMB'000*	*Restructuring reserve RMB'000*	*Total RMB'000*
Balance at 1 January 2004	3,000	6,158	1559	8,592	–	19,309
Profit for the year	–	–	–	15,812	–	15,812
Transfer to statutory reserve	–	–	507	(507)	–	–
Dividends	–	–	–	(5,184)	–	(5,184)
Balance at 31 December 2004	3,000	6,158	2,066	18,713	–	29,937
Transfer of retained earnings to share capital	12,000	–	–	(12,000)	–	–
Profit for the year	–	–	–	30,776	–	30,776
Transfer to statutory reserve	–	–	3,247	(3,247)	–	–
Transfer to restructuring reserve (note 1(vi))	–	–	–	–	(33,076)	(33,076)
Dividends	–	–	–	(5,062)	–	(5,062)
Balance at 31 December 2005	15,000	6,158	5,313	29,180	(33,076)	22,575
Profit for the year	–	–	–	42,133	–	42,133
Transfer to statutory reserve	–	–	4,519	(4,519)	–	–
Transfer to restructuring reserve (note 1(vi))	–	–	–	–	6,326	6,326
Dividends	–	–	–	(10,920)	–	(10,920)
Balance at 31 December 2006	15,000	6,158	9,832	55,874	(26,750)	60,114

Combined Cash Flow Statements

The pro forma statements of cash flows of the Bluesky Group for each of the three years ended 31 December 2006 are set out below.

	Years ended 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Operating Activities			
Profit before tax	16,400	31,686	44,950
Adjustments for:			
Allowance for doubtful debts	145	169	1,233
Depreciation of property, plant and equipment	833	1,116	1,231
Amortisation of intangible assets	181	264	582
Losses/(gains) on disposal of property, plant and equipment	3	(14)	90
Operating cash flows before movement in working capital	17,562	33,221	48,086
Decrease/(increase) in inventories	(216)	(872)	(1,487)
Decrease/(increase) in trade and other receivables	(9,119)	(10,185)	(48,112)
Increase/(decrease) in trade and other payables	5,433	7,935	10,866
Cash generated from operations	13,660	30,099	9,353
Income taxes paid	(25)	(50)	(41)
Net cash from operating activities	13,635	30,049	9,312
Investing Activities			
Proceeds of disposal of property, plant and equipment	240	73	3
Purchase of property, plant and equipment	(1,982)	(3,091)	(1,226)
Purchase of intangible assets	–	(2,162)	(1,937)
Expenditure on product development	(543)	(712)	(3,834)
Net cash used in investing activities	(2,285)	(5,892)	(6,954)
Financing activities			
Dividends paid	(4,998)	(4,000)	(7,216)
Cash transferred on restructuring (note 1 (vi))	–	(32,356)	17,785
Net cash used in financing activities	(4,998)	(36,356)	10,569
Net increase/(decrease) in cash and cash equivalents	6,352	(12,199)	12,887
Cash and cash equivalents at the beginning of the year	8,150	14,502	2,303
Cash and cash equivalents at the end of the year	14,502	2,303	15,190

Notes to the Financial Information

1. General information

(i) *Group structure:*

The financial information comprises the financial information of the following companies:

(a) Beijing Bluesky Software Development Co., Ltd ("Bluesky");

(b) Beijing BlueStar Software Technology Development Co., Ltd ("BBST");

(c) Beijing BlueStar Science & Technology Co., Ltd ("BJBS");

(d) Shanghai BlueStar Science & Technology Co., Ltd ("SBST");

(e) Guangzhou BlueStar Science & Technology Co., Ltd ("GBSTD");

(f) Beijing BlueStar River Software Technology Development Co., Ltd ("BRST");

In the following notes to the financial information, the six companies mentioned above are jointly referred to as "the Bluesky Group".

The principal activities of the Bluesky Group are video processing digitalisation and networking and security monitoring technology, with a comprehensive combination of technological research, product development, application system integration and product marketing.

(ii) *Basis of preparation*

The financial information presents the combined results of the Bluesky Group of companies as if the companies had always been combined. Consequently the financial information reflects the combined companies' results for the three years ended 31 December 2006 even though Bluesky was not established until 22 August 2006 and the consideration payable under the Asset Transfer Agreement ("ATA") described in note 1 (iv) below was not completed until 17 January 2007.

For the purposes of the preparation of the combined balance sheets, certain assets and liabilities including cash not required for the ongoing business of the Bluesky Group (the "Excluded Assets"), described in note 1 (v) below, which were not acquired by the Bluesky Group, have been removed from the combined balance sheet with effect from 31 December 2005 with a consequent transfer to a restructuring reserve.

(iii) *Background of each company:*

Bluesky

Bluesky was established as a wholly foreign-owned enterprise ("WFOE") by the Company on 22 August 2006 through the following steps.

- On 20 July 2006, the Company executed the "Articles of Beijing Bluesky Software Development Co., Ltd for the establishment of a wholly foreign-owned enterprise" the approval of which (together with an Asset Transfer Agreement or "ATA") was issued by the Zhongguancun Technology Park Haidian Management Commission ("the Approval Authority") on 26 July 2006.

- On 3 August 2006, the Beijing Government issued the "Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People's Republic of China."

- On 22 August 2006, the Beijing Industrial and Commercial Administration ("BICA") issued a Business Licence to Bluesky. As a result, Bluesky was legally established in compliance with the applicable laws and regulations in the People's Republic of China ("PRC").

1. General information (continued)

- The Approval Authority confirmed the validity and enforceability of the ATA on 30 December 2006.
- Bluesky acquired its majority interests in its subsidiaries as follows:
  - (a) On 27 December 2006, Bluesky acquired a 90% interest in BlueStar River;
  - (b) On 16 January 2007, Bluesky acquired a 90% interest in BlueStar Technology;
  - (c) On 5 February 2007, Bluesky acquired a 90% interest in Guangzhou BlueStar;
  - (d) On 6 March 2007, Bluesky acquired a 90% interest in Shanghai BluStar.

In accordance with the Entrust Agreement dated 28 April 2007 between Bluesky and each of the minority shareholders of the subsidiary companies, Bluesky is the beneficial owner of the minority equity interests in the subsidiaries.

The transfer of each of the remaining minority equity interests to Bluesky was completed on 6 June 2007.

Beijing BlueStar

BBST was established on 14 April 2003 in Beijing, PRC and the legal representative was Wang Shuhu.

The principal activities of BBST are the sale of products for video processing digitalisation and networking and security monitoring technology, technological research, product development, and application systems integration.

On 26 October 2003, the shareholders of BBST conducted a reorganisation in which the shareholders of BJBS, SBST and GBSTD transferred all their equity interests to BBST and BBST held 100 per cent. of the equity interests of BJBS, SBST and GBSTD. BBST established BRST on 5 August 2005 as a wholly owned subsidiary.

On 7 June 2004, BBST changed its legal representative from Wang Shuhu to Xiao Gang.

Beijing BlueStar Science & Technology

BJBS was incorporated on 22 December 2000 and until September 2003 the principal activities were the sale of video processing digitalisation products. Since October 2003, BJBS has been functioning as a production centre of the Bluesky Group. The legal representative of BJBS is Xiao Gang.

Shanghai BlueStar

SBST was incorporated on 5 March 2001, and the principal activities since its incorporation have been the sale of video processing digitalisation products. The legal representative of SBST is Xiao Gang.

Guangzhou BlueStar

GBSTD was incorporated on 27 December 2000, and until September 2003 the principal activities were production and sales of video processing digitalisation products. Since October 2003, GBSTD has been functioning as a sales centre of the Bluesky Group, when all the production was moved to BJBS. The legal representative of GBSTD is Xiao Gang.

1. General information (continued)

BlueStar River

BRST was incorporated on 5 August 2005, and the principal activities are research and development of video processing digitalised software, and production and sales of such software. The legal representative of BRST is He Caiguang.

(iv) *Acquisition of the Business and Assets of Beijing BlueStar*

Pursuant to the establishment of Bluesky described above, BBST entered into an Asset Transfer Agreement with the Company and Bluesky dated 12 July 2006, pursuant to which Bluesky agreed to purchase all the assets and liabilities of the BBST group related to the normal course of business (the "Restricted Business"). The consideration of RMB 22,575,000 was based on the consolidated balance sheet of BBST as at 31 December 2005, determined by reference to a valuation conducted by an independent valuer – Beijing Huade Asset Appraisal Co., Ltd as set out below in note 1 (v). On completion of the transfer, BBST ceased to have any business activity save for the holding of the net assets not acquired by Bluesky ("the Excluded Assets").

1. General information (continued)

(v) *Net Assets acquired by Bluesky*

The net assets acquired by Bluesky pursuant to the ATA, based on the consolidated balance sheet of BBST as at 31 December 2005, are set out below:

	31 December 2005
	RMB'000
Property, plant and equipment	4,331
Intangible assets	4,554
Inventories	7,215
Trade and other receivables	15,662
Cash and cash equivalents	2,303
Total assets	34,065
Trade and other payables	(8,743)
Taxes payable	(2,747)
Total liabilities	(11,490)
Net assets of the Restricted Business	22,575

The payment of the consideration under the ATA was completed on 17 January 2007 and the net assets acquired as of 31 December 2006 were as follows:

	31 December 2006
	RMB'000
Property, plant and equipment	4,233
Intangible assets	9,744
Inventories	8,702
Trade and other receivables	52,349
Cash and cash equivalents	15,190
Total assets	90,218
Trade and other payables	(22,584)
Taxes payable	(7,520)
Total liabilities	(30,104)
Net assets of the Restricted Business	60,114

1. General information (continued)

(vi) *Excluded Assets*

Following completion of the Asset Transfer Agreement referred to above, certain assets and liabilities not required for the ongoing business of the Group, including cash (the "Excluded Assets"), remained in BBST. These amounts are summarised (with comparatives as at 31 December 2005) below.

	31 December 2005	*31 December 2006*
	RMB'000	*RMB'000*
Other receivables	11,509	34,807
Cash and cash equivalents	32,356	14,571
Total assets	43,865	49,378
Deferred tax liabilities	(280)	(755)
Accruals and other payables	(4,763)	(9,274)
Unpaid dividends	(1,247)	(4,951)
Taxes payable	(4,499)	(7,648)
Total liabilities	(10,789)	(22,628)
Excluded Assets	33,076	26,750

For the purposes of the preparation of the financial information, the Excluded Assets have been removed from the combined balance sheets with effect from 31 December 2005 with a consequent transfer to the restructuring reserve.

2. Adoption of new and revised International Financial Reporting Standards

At the date of the preparation of this financial information, the following standards and interpretations, were in issue but were not effective:

IFRS6 Exploration for and Evaluation of Mineral Resources

IFRS7 Financial Instruments: Disclosure

IFRIC7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC8 Scope of IFRS2

IFRIC9 Reassessment of Embedded Derivatives – Endorsement

IFRIC10 Interim Financial Reporting and Impairment

The Directors of Bluesky do not anticipate that the adoption of these standards and interpretations in future periods would have a material effect on the financial information.

3. Significant accounting policies

The financial information has been prepared in accordance with applicable International Financial Reporting Standards.

The financial information has been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

(i) *Basis of combination*

The combined financial information incorporates the financial statements of Bluesky and those entities under its control and has been presented on the basis described in note 1(ii) above. Control is achieved where Bluesky has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(ii) *Business combinations*

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

(iii) *Revenue recognition*

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(iv) *Research and development*

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:

- the technical feasibility exists to complete the intangible asset so that it will be available for use or sale;
- the intention exists to complete the intangible asset and use or sell it;
- the Bluesky Group has the ability to use or sell the intangible asset;
- the intangible asset is expected to generate probable future economic benefits;
- adequate technical, financial and other resources exist to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset can be measured reliably during its development. Internally generated intangible assets are amortised on a straight-line basis over their estimated useful lives, from the commencement of commercial production.

Any development costs that are capitalised as intangible assets are amortised on a straight-line basis over their expected useful lives, which normally does not exceed 10 years.

3. Significant accounting policies (continued)

(v) *Foreign currencies*

The functional currency of the Bluesky Group is the RMB.

Transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

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

(vi) *Government grants*

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

(vii) *Retirement benefit costs*

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

(viii) *Taxation*

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profits for the year. Taxable profits differ 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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit not the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bluesky Group intends to settle its current tax assets and liabilities on a net basis.

3. Significant accounting policies (continued)

(ix) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses, to their estimated residual value, over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

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.

(x) *Impairment of tangible and intangible assets excluding goodwill*

At each balance sheet date, the Bluesky Group reviews the carrying amounts of its tangible and intangible 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 in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bluesky Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its estimated recoverable amount. An impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

(xi) *Inventories*

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

3. Significant accounting policies (continued)

(xii) *Financial instruments*

Financial assets and financial liabilities are recognised on the balance sheet when the Bluesky Group becomes a party to the contractual provisions of the instrument as follows:

Trade receivables

Trade receivables are recorded at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits 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.

Trade payables

Trade payables are initially measured at their normal value at trade date.

Equity instruments

Equity instruments issued by the Bluesky Group are recorded at the proceeds received, net of direct issue costs.

(xiii) *Provisions*

Provisions are recognised when the Bluesky Group has a present obligation as a result of a past event, and it is probable that the Bluesky Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. Revenue

An analysis of the Bluesky Group's revenue for each year is as follows:

	Years ended 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Sales of digital video devices	40,654	66,584	88,122
Sales of software	6,264	5,910	13,213
Revenue from technological services	16	307	664
Total	46,934	72,801	101,999

5. **Operating profit for the period**

Operating profit for each year has been arrived after charging/(crediting):

	Years ended 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Value added tax refunds	(2,147)	(3,619)	(5,683)
Research & development costs	1,839	1,768	1,098
Depreciation of property, plant and equipment	833	1,116	1,231
Amortisation of intangible assets	181	264	582
(Gain)/loss on disposal of property, plant and equipment	3	(14)	90
Allowance for bad debts	145	169	1,233
Staff costs	3,351	5,952	7,943

6. **Income tax expense**

BBST enjoyed an income tax-free period for the three years to 31 December 2005. From 1 January 2006, income tax was payable calculated at 7.5 per cent. of the taxable profit.

The applicable tax rates for BJBS, SBST and GBSTD have been 33 per cent., 15 per cent., 15 per cent., respectively.

BBST enjoys a three-year income tax exemption from incorporation and thereafter a three-year half deduction income tax policy.

The total charge for the each year can be reconciled to the accounting profit as follows:

	Years ended 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax:	16,400	31,686	44,950
Expected tax at PRC tax rate of 33%	5,412	10,456	14,834
Effect of different tax rates of subsidiaries	(5,076)	(9,771)	(12,133)
Expenses not deductible in determining taxable profit	252	225	390
Revenue not subject to tax	–	–	(274)
Tax expense for the year	588	910	2,817
Effective tax rate for the year	3.6%	2.8%	6.3%

7. **Dividends**

On 6 February 2006, a dividend for the financial year 2005 totalling RMB 10,920,000 was declared to shareholders. In 2005, the dividend for the financial year 2004 declared amounted to RMB 5,062,183. In 2004, the declared dividend for the financial year 2003 was RMB 5,183,520. Actual dividends paid in the years ended 31 December 2004, 31 December 2005 and 31 December 2006 were RMB 4,998,000, RMB 4,000,000 and RMB 7,216,000 respectively.

8. Property, plant and equipment

	Vehicles	*Fixtures & Equipment*	*Renovation costs*	*Total*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
At 1 January 2004	2,132	1,327	999	4,458
Additions	860	715	407	1,982
Disposals	(220)	(36)	(436)	(692)
At 31 December 2004	2,772	2,006	970	5,748
Additions	1,649	825	617	3,091
Disposals	(134)	(140)	–	(274)
At 31 December 2005	4,287	2,691	1,587	8,565
Additions	–	933	293	1,226
Disposals	–	(254)	(551)	(805)
At 31 December 2006	4,287	3,370	1,329	8,986
Accumulated depreciation and impairment				
At 1 January 2004	1,741	612	596	2,949
Depreciation charge for the year	289	311	233	833
Eliminated on disposal	–	(13)	(436)	(449)
At 31 December 2004	2,030	910	393	3,333
Depreciation charge for the year	422	383	311	1,116
Eliminated on disposals	(125)	(90)	–	(215)
At 31 December 2005	2,327	1,203	704	4,234
Depreciation charge for the year	448	479	304	1,231
Eliminated on disposals	–	(161)	(551)	(712)
At 31 December 2006	2,775	1,521	457	4,753
Carrying amounts				
At 31 December 2006	1,512	1,849	872	4,233
At 31 December 2005	1,960	1,488	883	4,331
At 31 December 2004	742	1,096	577	2,415

9. Intangible assets

	Copyrights RMB'000	Development Costs RMB'000	Purchased Software RMB'000	Total RMB'000
Cost				
At 1 January 2004	1,293	355	–	1,648
Additions	–	543	–	543
Transfers	898	(898)	–	–
At 31 December 2004	2,191	–	–	2,191
Additions	–	712	2,161	2,873
Transfers	490	(490)	–	–
At 31 December 2005	2,681	222	2,161	5,064
Additions	–	3,834	1,938	5,772
Transfers	222	(222)	–	–
At 31 December 2006	2,903	3,834	4,099	10,836
Accumulated amortisation and impairment				
At 1 January 2004	65	–	–	65
Charge for the year	181	–	–	181
At 31 December 2004	246	–	–	246
Charge for the year	219	–	45	264
At 31 December 2005	465	–	45	510
Charge for the year	268	–	314	582
At 31 December 2006	733	–	359	1,092
Carrying amounts				
At 31 December 2006	2,170	3,834	3,740	9,744
At 31 December 2005	2,216	222	2,116	4,554
At 31 December 2004	1,945	–	–	1,945

The intangible assets include development costs and copyrights. The development costs are not subject to amortisation until the Bluesky Group receives the copyrights from the relevant authorities. The copyrights protect the application programme of its electronic goods produced in the PRC. Copyrights have finite useful lives, over which the assets are amortised.

Copyrights are amortised over their estimated useful lives, which is on average ten years. The average remaining amortisation period for these patents is six and a half years.

10. Subsidiaries

Details of the subsidiaries of Bluesky following completion of the Asset Transfer Agreement described above are as follows:

Subsidiary	*Place of incorporation*	*Ownership interest*	*Proportion of voting power held*	*Principal activity*
Beijing Bluestar Science and Technology Co. Ltd	PRC	100%	100%	Dormant [(1)]
Beijing Bluestar River Software Technology Development Co. Ltd	PRC	100%	100%	Research and development
Guangzhou Bluestar Science and Technology Development Co. Ltd	PRC	100%	100%	Sales centre
Shanghai Bluestar Science and Technology Co. Ltd	PRC	100%	100%	Sales centre

(1). To be wound up post Admission.

11. Inventories

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,724	1,679	1,790
Work in progress	1,698	950	2,587
Finished goods	3,493	5,158	4,923
Gross amount before provision for impairment	6,915	7,787	9,300
Provision for impairment	(572)	(572)	(598)
Net amount	6,343	7,215	8,702

12. Trade and other receivables

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	10,516	13,287	49,239
Advances to suppliers	–	1,223	–
Prepaid expenses	88	9	6
Other receivables	6,550	1,143	3,104
	17,154	15,662	52,349

The trade receivables are presented net of allowances for doubtful amounts of RMB 1,727,000 (2005: RMB 494,000, 2004: RMB 325,000).

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

13. Cash and cash equivalents

Bank balances and cash comprise cash held and short-term deposits with an original maturity of seven days or less. The carrying amount of these assets approximates their fair value.

14. Share capital

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Paid in capital	3,000	15,000	15,000

BBST was established on 14 April 2003 with registered capital of RMB 1,500,000. The shareholders are Xiao Gang, Liu JinQing, He Caiguang, Xu Zhibin, Zhang Shiqiang, Xiao Qiang, Wang Chong, Yang Yunfei and Wang Shuhu, with shareholdings of 36 per cent., 30 per cent., 6 per cent., 6 per cent., 6 per cent., 6 per cent., 5 per cent., 3 per cent. and 2 per cent. respectively.

On 21 July 2003, BBST increased its registered capital by RMB 1,500,000, from all shareholders with the same proportion as above.

On 20 August 2004, Xiao Gang transferred 1 per cent. of BBST's shares to Wang Shuhu. Liu JinQing transferred 2 per cent. of the Company's shares to He Xin.

Since 20 August 2004, the shareholdings of Xiao Gang, Liu JinQing, He Caiguang, Xu Zhibin, Zhang Shiqiang, Xiao Qiang, Wang Chong, Yang Yunfei, Wang Shuhu and He Xin have been of 35 per cent., 28 per cent., 6 per cent., 6 per cent., 6 per cent., 6 per cent., 5 per cent., 3 per cent., 3 per cent. and 2 per cent. respectively.

On 20 June 2005, BBST increased its registered capital by RMB 12,000,000 to RMB 15,000,000 by way of a capitalisation of retained profits.

Bluesky was established as a wholly foreign-owned enterprise by the Company on 22 August 2006 with a registered capital of US$3,000,000, payment for which was completed by the Company on 17 January 2007.

15. Capital Surplus

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Capital Surplus	6,158	6,158	6,158

The Capital Surplus represents the amount by which the capital contributed by the shareholders of BBST exceeded the authorised share capital. In 2000 and 2001, Mr. Xiao Gang contributed physical assets (including equipment and inventory) into GBSTD and SBST, 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.

16. Statutory reserves

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Statutory surplus reserve	2,066	5,313	9,832

According to PRC company law, companies are required to transfer 10 per cent. of their profit after tax into a statutory surplus reserve until the balance of the statutory surplus reserve reaches 50 per cent. of the registered capital. The transfer must be made before a distribution of dividends to shareholders can be made.

The statutory surplus reserve can be used to mitigate previous years' losses, if any, and transferred to share capital in cases where the balance of the statutory surplus reserve after the transfer is no less than 25 per cent. of the registered capital.

17 (a) Deferred tax liabilities

	Deferred tax liabilities RMB'000
At 1 January 2004	141
Charge to income statement	52
At 31 December 2004	193
Charge to income statement	87
Transfer on restructuring (note 1 (v))	(280)
At 31 December 2005	–
Charge to income statement	475
Transfer on restructuring (note 1 (v))	(475)
At 31 December 2006	–

(b) Deferred tax assets

At 31 December 2006, the deferred tax effect arising from allowances for doubtful accounts and stock impairment amounted to RMB 349,000. A deferred tax asset has not been recognised due to the uncertainty of the timing of future taxable profits.

18. Trade and other payables

		At 31 December	
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Trade creditors and accruals	5,115	3,686	8,098
Advances from customers	–	4,002	114
Unpaid dividends	186	–	–
Dividends payable	–	–	13,107
Amount due to shareholders (note 21)	1,533	–	–
Other payables	586	1,055	1,265
	7,420	8,743	22,584

Trade creditors and accruals principally comprise amounts outstanding during the normal course of business.

The amount due to shareholders represented payments made by the shareholders on behalf of the Bluesky Group, the amounts were interest free, and were transferred pursuant to the asset transfer agreement described above.

The directors consider that the carrying amount of trade and other payables approximated their fair value.

19. Financial Instruments

Financial assets include bank balances and cash, trade and other receivables. Financial liabilities include trade and other payables.

Credit risk

Credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables estimated by the Bluesky Group's management based on prior experience and the current economic environment.

Since most of the customers of the Bluesky Group are banks, and the likelihood of these customers having liquidity problems is considered low by the directors, the Bluesky Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Interest rate risk

The Bluesky Group is not exposed to interest rate risks as it has no bank borrowings.

Foreign currency risk

Exposure to foreign currency risks is considered minimal since most of the operations are conducted in RMB in the PRC.

Fair value

The directors consider that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables are not materially different from their carrying amounts.

20. Operating lease arrangements

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Minimum lease payments under operating leases recognised as an expense in the period	1,452	2,138	2,691

The Bluesky Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,069	2,266	2,950
Between two to five years inclusive	6,678	4,413	1,871
More than five years	–	–	–
	7,747	6,679	4,821

Operating lease payments represent rentals payable by the Bluesky Group for certain of its office properties.

21. Related party transactions

Transactions between subsidiaries, which are related parties of the Bluesky Group, have been eliminated on combination and are not disclosed in this note.

Related party	*Relationship*	*Shareholding*
Mr. Xiao Gang	President and shareholder	35%
Ms. Liu JinQing	Shareholder	28%
Mr. Zhang Shiqiang	Shareholder	6%
Mr. Xiang Qiang	Shareholder	6%
Mr. He Caiguang	Shareholder	6%
Mr. Xu Zhibin	Shareholder	6%
Ms. Wang Chong	Shareholder	5%
Mr. Wang Shuhu	Shareholder	3%
Mr. Yang Yunfei	Shareholder	3%
Ms. He Xin	Shareholder	2%

Account balances

As at the balance sheet date, the Bluesky Group has the following balances with related parties:

(i) *Amounts due to shareholders*

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Mr Xiao Gang	1,194	–	–
Ms Liu JinQing	339	–	–
Total	1,533	–	–

(ii) *Unpaid dividends*

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Mr Xiao Gang	–	–	–
Mr. Zhang Shiqiang	–	–	–
Mr. Xiao Qiang	3	–	–
Mr. He Caiguang	8	–	–
Mr. Xu Zhibin	(4)	–	–
Ms. Liu JinQing	8	–	–
Mr. Yang Yunfei	2	–	–
Mr. Wang Shuhu	(4)	–	–
Mr. He Xin	–	–	–
Ms. Wang Chong	–	–	–
Total	13	–	–

21. Related party transactions (continued)

(iii) *Dividends payable*

	At 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Dividends payable (Note 7)	5,184	5,062	10,920

Compensation of key management personnel

The remuneration of directors and other members of key management during each year was as follows:

	Years ended 31 December		
	2004	*2005*	*2006*
	RMB'000	*RMB'000*	*RMB'000*
Short term benefits	840	840	900

22. Ultimate controlling party

The directors regard Mr. Xiao Gang as the ultimate controlling party of the Bluesky Group.

23. Events after the balence sheet date

Pursuant to an Asset Transfer Agreement between the Company and BBST dated 12 July 2006, the Company acquired certain assets and assumed various liabilities of BBST and its subsidiaries on 30 December 2006, following confirmation of the validity and enforceability of the agreement received from the Approval Authority, being Zhongguancum Technology Park Haidan Management Commission in the PRC.

24. Nature of the financial information

The financial information presented on the Bluesky Group in this report does not constitute statutory accounts as defined by Section 240 of the Companies Act 1985.

PART V

Unaudited Pro Forma Financial Information on the Bluestar Group

Set out below is a pro forma statement of shareholders' equity of the BlueStar Group, which has been prepared on the basis of the financial information on the Company and the Bluesky Group as adjusted for the Asset Transfer Agreement, the Placing and the repayment of restructuring loans as set out in the notes below. The pro forma has been prepared for illustrative purposes only and, because of its nature, will not represent the actual financial position of the BlueStar Group.

	The Company RMB'000	*Bluesky Group RMB'000*	*Adjustments Notes (ii) RMB'000*	*Pro forma balances RMB'000*
ASSETS				
Current assets:				
Cash and cash equivalents	7,864	15,190	122,528	145,582
Trade and other receivables	516	52,349	–	52,865
Inventories	–	8,702	–	8,702
Total current assets	**8,380**	**76,241**	**122,528**	**207,149**
Intangible assets	–	9,744	–	9,744
Property, plant and equipment	–	4,233	–	4,233
Total assets	**8,380**	**90,218**	**122,528**	**221,126**
Current liabilities:				
Trade and other payables	7,989	22,584	(7,816)	22,757
Other tax liability	–	7,520	–	7,520
Total current liabilities	**7,989**	**30,104**	**(7,816)**	**30,277**
Total shareholders' equity	**391**	**60,114**	**130,344**	**190,849**

NOTES:

i The statements of shareholders' equity of the Company as at 23 December 2006 and the Bluesky Group as at 31 December 2006 have been extracted without adjustment from the financial information set out in Parts III and IV of this Document, respectively. With the exception of the adjustments referred to below, no account has been taken of the activities of the Company subsequent to 23 December 2006 or the Bluesky Group subsequent to 31 December 2006.

ii The adjustments comprise:

- The Placing by the Company of 22,808,000 new Ordinary Shares at 48 pence per share raising £10,947,840 (RMB166,713,708) before estimated costs of the transaction of £1,400,000 (RMB21,319,200).
- The repayment of US$1 million of the restructuring loans (set out in Group restructuring in Part I) outstanding as at 31 December 2006. Since this date a further US$2.0 million was drawn down which, together with the US$1 million outstanding at 31 December 2006, is to be repaid from the net placing proceeds.
- The payment of US$2 million being the balance of the consideration payable under the Asset Transfer Agreements set out in paragraph 8.7 of Part VI.

iii The following exchange rates being the approximate rates of exchange prevailing at 31 December 2006 have been used:

£1: RMB15.23
US$1: RMB7.82.

MAZARS

The Directors
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Offshore Incorporations Centre
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Tortola
British Virgin Islands

The Directors
Evolution Securities Limited
100 Wood Street
London EC2V 7AN

The Directors
Evolution Securities China Limited
5th Floor
29-30 Cornhill
London EC3V 3ND

13 June 2007

Dear Sirs

We report on the unaudited pro forma financial information set out in Part V of the AIM Admission Document (the "Document") dated 13 June 2007 of BlueStar SecuTech, Inc. (the "Company") which has been prepared on the basis of the notes thereto, for illustrative purposes only, to provide information about how the Asset Transfer Agreement, the Placing of new Ordinary Shares and the repayment of restructuring loans might have affected the financial information, presented on the basis of the accounting policies adopted by the Company. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with that schedule and for no other purpose.

Responsibilities

It is the responsibility of the Directors of the Company to prepare the pro forma financial information in accordance with Schedule Two of the AIM Rules for Nominated Advisers. It is our responsibility to form an opinion on the financial information as to the proper compilation of the pro forma financial information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

(a) the pro forma financial information has been properly complied on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company

Declaration

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Nominated Advisers we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Schedule Two of the AIM Rules for Nominated Advisers.

Yours faithfully

Mazars LLP
Chartered Accountants

PART VI

Additional Information

1. RESPONSIBILITY

1.1 The Company and the Directors (whose names appear on page 5 of this document) accept responsibility individually and collectively for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.2 The business address of each Director and their respective functions are set out on page 5.

2. THE GROUP

2.1 The Company was incorporated on 9 June 2006 in the British Virgin Islands with the name Trendline Security Solution Co., Ltd. and with registered number 1032245. The liability of the members of the Company is limited. The Company changed its name to BlueStar SecuTech, Inc. on 7 June 2007.

2.2 The registered office of the Company is at Offshore Incorporations Centre, PO Box 957, Road Town, Tortola, British Virgin Islands. The registered agent of the Company in the British Virgin Islands is Offshore Incorporations Limited. The Company may be contacted on the following telephone number +86 (10) 8225 5899. The Company's accounting reference date is 31 December.

2.3 The Company is resident in the BVI for tax purposes but is expected to be regarded as having a permanent establishment in the PRC.

2.4 Immediately prior to Admission the Company is wholly owned by the Holding Companies and Agile.

2.5 The Company is the holding company of the following subsidiaries:

Company Name	*Place of Incorporation*	*Percentage of issued share capital held*	*Principal activity*
Beijing Bluesky Software Development Co. Ltd	PRC	100%	Investment holding and production
Beijing Bluestar Science and Technology Co. Ltd	PRC	100%	Dormant[1]
Beijing Bluestar River Software Technology Development Co. Ltd	PRC	100%	Research and development
Guangzhou Bluestar Science and Technology Development Co. Ltd	PRC	100%	Sales centre
Shanghai Bluestar Science and Technology Co. Ltd	PRC	100%	Sales centre

(1) This company has transferred its business to the Company and is intended to be wound up

2.6 The principal legislation under which the Company was formed and now operates is the BVI Business Companies Act ("BVIBCA").

2.7 The ISIN (International Security Identification Number) is VGG1195V1076. The Ordinary Shares were created under the BVIBCA.

3. SHARES OF THE COMPANY

3.1 The authorised and issued shares in the Company at the date of this document and as it will be following Admission is as follows:

	Prior to Placing and Admission		Following Placing and Admission	
	Number of Ordinary Shares	*Nominal Value*	*Number of Ordinary Shares*	*Nominal Value*
Shares the Company is authorised to issue	100,000,000	no par value	100,000,000	no par value
Issued and fully paid up shares	50,000,000	no par value	72,808,000	no par value

3.2 Changes in the shares of the Company preceding the date of this document were as follows:

3.2.1 On incorporation, the Company was authorised to issue 50,000 shares with a nominal value of US$1.00 each;

3.2.2 On 9 June 2006 the Company issued shares to the following individuals and in the proportions set out below:

	Number of Ordinary Shares
Xiao Gang	17,500
Liu JinQing	14,000
Xiao Qiang	3,000
Wang Chong	2,500
He CaiGuang	3,000
Wang ShuHu	1,500
He Xin	1,000
Xu ZhiBin	3,000
Yang Yunfei	1,500
Zhang ShiQiang	3,000

3.2.3 Subsequently the above shares were transferred to the Holding Companies in accordance with the transactions referred to in paragraphs 3.2.4 to 3.2.9 below.

3.2.4 On 3 October 2006, SecuLine Technologies, Inc. ("SecuLine") was incorporated in the British Virgin Islands and with registered number 1054752 of which Xiao Gang is the 100 per cent shareholder. On 2 June 2007 Xiao Gang transferred his shareholding in the Company to SecuLine.

3.2.5 On 28 March 2007 Sunshine Holdings (Private) Limited ("Sunshine") was incorporated in the British Virgin Islands and with registered number 1394835. On 28 March 2007 Sunshine allotted 50,000 shares to Liu JinQuing who thereby became a 100 per cent. shareholder in Sunshine. On 2 June 2007 Liu JinQuing transferred her shareholding in the Company to Sunshine.

3.2.6 On 28 March 2007 Balance Partners Limited ("Balance") was incorporated in the British Virgin Islands and with registered number 1394704. On 28 March 2007 Balance allotted 27,500 shares to Xiao Qiang and 22,500 shares to Wang Chong each of whom thereby became 55 per cent. and 45 per cent. shareholders respectively in Balance. On 2 June 2007 each of Xiao Qiang and Wang Chong transferred their respective shareholdings in the Company to Balance.

3.2.7 On 28 March 2007 Video Sources Communication Limited ("Video Sources") was incorporated in the British Virgin Islands and with registered number 1394759. On 28 March 2007 Video Sources allotted 27,500 shares to He CaiGuang, 13,500 shares to Wang ShuHu and 9,000 shares to He Xin each of whom thereby became 55 per cent., 27 per cent. and 18 per cent. shareholders respectively in Video Sources. On 2 June 2007 each of He CaiGuang, Wang ShuHu and He Xin transferred their respective shareholdings in the Company to Video Sources.

3.2.8 On 28 March 2007 NewTech Capital Management Limited ("NewTech") was incorporated in the British Virgin Islands and with registered number 1394799. On 28 March 2007 NewTech allotted 33,500 shares to Xu ZhiBin and 16,500 shares to Yang Yunfei each of whom thereby became 67 per cent. and 33 per cent. shareholders respectively in NewTech. On 2 June 2007 each of Xu ZhiBin and Yang Yunfei transferred their respective shareholdings in the Company to NewTech.

3.2.9 On 28 March 2007 KaiQi Holdings (Private) Limited ("KaiQi") was incorporated in the British Virgin Islands and with registered number 1394836. On 28 March 2007 KaiQi allotted 50,000 shares to Zhang ShiQiang who thereby became a 100 per cent. shareholder in KaiQi. On 2 June 2007 Zhang ShiQiang transferred his shareholding in the Company to KaiQi.

3.2.10 On 7 June 2007, the Holding Companies transferred proportionally an aggregate of 1,000 Ordinary Shares for zero consideration to Agile representing 2 per cent. of the Existing Issued Share.

3.2.11 Following the transactions noted at paragraphs 3.2.4 to 3.2.10 above, the Holding Companies and Agile held shares in the Company in the proportions set out below:

SecuLine Technologies, Inc.	34.3%
Sunshine Holdings (Private) Limited	27.4%
Balance Partners Limited	10.9%
Video Sources Communication Limited	10.9%
NewTech Capital Management Limited	8.8%
KaiQi Holdings (Private) Limited	5.9%
Agile	2.0%

3.2.12 Pursuant to a Shareholders' meeting held on 7 June 2007, the Shareholders resolved that:

(i) the maximum number of shares that the Company is authorised to issue be increased from 50,000 shares to 100,000,000 shares by the creation of an additional 99,950,000 shares having the rights and being subject to the restrictions in the memorandum and articles of association of the Company;

(ii) the unissued shares be redesignated as shares of no par value and the 50,000 shares in issue be redesignated as 50,000 shares of no par value;

(iii) each of the issued shares then be subdivided into 1,000 Ordinary Shares;

(iv) the new memorandum and articles of association of the Company in the form presented to the meeting be adopted in substitution for the existing memorandum and articles of association of the Company (the "New Memorandum and Articles"); and

(v) the pre-emption rights set out in the New Memorandum and Articles which apply to all new issues of shares be disapplied in respect of the proposed issue of 7,280,800 Ordinary Shares, representing 10 per cent. of the Ordinary Shares in issue immediately following Admission. Such disapplication is only valid until the date of the next annual general meeting of the Company.

4. MEMORANDUM AND ARTICLES

A summary of the terms of the Memorandum and Articles of the Company is set out below. The summary below is not a complete copy of the terms of the Memorandum and Articles.

4.1 The Memorandum provides, *inter alia*, that:

4.1.1 the registered office of the Company is at Offshore Incorporations Centre, PO Box 957, Road Town, Tortola, British Virgin Islands;

4.1.2 Subject to the provisions of the BVIBCA and any other British Virgin Islands legislation, the Company has, irrespective of corporate benefit:

(a) full capacity to carry on or undertake any business or activity, do any act or enter into any transaction; and

(b) for the purposes of paragraph (a), full rights, powers and privileges;

4.1.3 there are no limitations on the business the Company may carry on;

4.1.4 the Company is authorised to issue up to 100,000,000 shares of a single class and of no par value; and

4.1.5 the Company may amend its Memorandum and Articles by a 75 per cent. resolution of Shareholders.

4.2 The Memorandum and Articles of the Company which were adopted on 7 June 2007, *inter alia*, include provisions to the following effect:

4.2.1 ***Voting rights***

Section 34 of the BVIBCA deals with the voting rights of shareholders. This section provides that except as provided in the Memorandum or Articles, all shares have one vote. There are no contrary provisions in the Memorandum or Articles of the Company.

4.2.2 ***Variation of rights***

If at any time the shares of the Company are divided into different classes, the rights attached to any class may only be varied, whether or not the Company is being wound up, with the consent in writing of the holders of not less than 75 per cent. of the issued Shares in that class or by resolution passed at a meeting of the holders of the issued shares of that class by not less than 75 per cent. of those present in person or by proxy.

4.2.3 ***Transfer of shares***

(a) Certificated shares in the Company may be transferred by a written instrument of transfer signed by the transferor and containing the name and address of the transferee, but in the absence of such written evidence of transfer the Directors may accept such evidence of a transfer of shares as they consider appropriate. The Company may also issue shares in uncertificated form.

(b) In the case of uncertificated shares and other uncertificated securities issued by the Company, and subject to the BVIBCA, a shareholder or a holder of such other securities issued by the Company shall be entitled to transfer his Shares or other securities by means of a relevant system and the operator of the relevant system shall act as agent of the shareholders or holders of other securities for the purposes of the transfer of Shares or other securities.

(c) The transfer of a registered share in the Company is effective when the name of the transferee has been entered in the share register.

(d) The register of members may be closed at such times and for such periods as the board of directors may from time to time determine, not exceeding in whole thirty days in each year, upon notice being given by advertisement in a leading daily newspaper and in such other newspaper (if any) as may be required by the BVIBCA and the practice of the London Stock Exchange.

(e) The board of directors may decline to register a transfer of any Share to a person known to be a minor, bankrupt or person who is mentally disordered or a patient for the purpose of any statute relating to mental health.

(f) The board of directors may also decline to register any transfer unless:

(i) any written instrument of transfer, duly stamped (if so required), is lodged with the Company at the registered office or such other place as the board of directors may appoint accompanied by the certificate for the Shares to which it relates (except in the case of a transfer by a recognised person or a holder of such Shares in respect of whom the Company is not required by law to deliver a certificate and to whom a certificate has not been issued in respect of such Shares);

(ii) there is provided such evidence as the board of directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person to do so;

(iii) any instrument of transfer is in respect of only one class or series of Share; and

(iv) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four.

4.2.4 ***Return of capital on winding up***

Section 206 of the BVIBCA deals with the distribution of assets by a voluntary liquidator on a winding-up of the Company. Subject to payment of, or to discharge of, all claims, debts, liabilities and obligations of the Company any surplus assets shall then be distributed amongst the Shareholders according to their rights and interests in the Company according to the Memorandum and Articles of the Company. If the assets available for distribution to Shareholders shall be insufficient to pay the whole of the paid up capital such assets shall be shared on a *pro rata* basis amongst Shareholders entitled to them by reference to the number of fully paid up shares held by such Shareholders respectively at the commencement of the winding up.

4.2.5 ***Redemption and pre-emption and bearer shares***

There are no redemption or pre-emption rights on transfer attaching to the Shares. The Memorandum also provides that the Company is not authorised to issue shares to bearer.

4.2.6 ***Alteration of share capital***

(a) The Company may by a 75 per cent. resolution of the Shareholders amend the Memorandum to increase or reduce the maximum number of such shares it is authorised to issue.

(b) The Company may amend the Memorandum to:

(i) divide the Shares, including issued shares, of a class or series into a larger number of shares of the same class or series; or

(ii) combine the Shares, including issued shares, of a class or series into a smaller number of shares of the same class or series.

(c) Where the Company divides the Shares, the Company may "round down" the resulting number of Shares to the nearest whole number by redeeming any resulting fractional share.

4.2.7 ***Purchase of own shares***

(a) The Company may purchase, redeem or otherwise acquire and hold its own Shares save that the Company may not purchase, redeem or otherwise acquire its own Shares without the consent of Shareholders whose Shares are to be purchased, redeemed or otherwise acquired.

(b) The Company may only offer to purchase, redeem or otherwise acquire Shares if the resolution of directors authorising the purchase, redemption or other acquisition contains a statement that the directors are satisfied, on reasonable grounds, that immediately after the acquisition the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due.

(c) Shares that the Company purchases, redeems or otherwise acquires will be held as treasury shares except to the extent that such Shares are in excess of 50 per cent. of the issued Shares in which case they shall be cancelled but they shall be available for reissue.

(d) All rights and obligations attaching to a treasury share are suspended and shall not be exercised by the Company while it holds the Share as a treasury share.

(e) Treasury shares may be transferred by the Company on such terms and conditions as the Company may by resolution of directors determine.

4.2.8 ***Borrowing powers***

The Directors have unlimited power to borrow money on behalf of the Company.

4.2.9 ***Directors***

(a) The directors shall be elected by the Shareholders for such term as the Shareholders determine. The minimum number of directors shall be one and there shall be no maximum number.

(b) The directors may, at any time, appoint a person to be a director either to fill a vacancy or as an addition to the existing directors. Where a person is appointed to fill a vacancy, or as an additional director, the term shall not exceed the term that remained when the person who has ceased to be a director ceased to hold office or until the next annual general meeting of the Company (where such appointment shall be approved by the Shareholders) whenever is earlier.

(c) The business and affairs of the Company shall be managed by, or under the direction or supervision of, the directors of the Company. The directors of the Company have all the powers necessary for managing and for directing and supervising the business and affairs of the Company.

(d) The directors or any committee thereof may meet at such times and in such manner and places within or outside the British Virgin Islands as the directors may determine to be necessary or desirable. Questions arising at any meeting shall be decided by a majority of votes.

(e) At each annual meeting of Shareholders one-third of the directors shall retire from office.

(f) An action that may be taken by the directors or a committee of directors at a meeting may also be taken by a resolution of directors or a committee of directors consented to in writing by all directors or by all members of the committee, as the case may be, without the need for any notice.

(g) A director shall, forthwith after becoming aware of the fact that he is interested in a transaction entered into or to be entered into by the Company, disclose the interest to all other directors of the Company.

(h) A transaction entered into by the Company in respect of which a director is interested is voidable by the Company unless the director's interest was disclosed to the board prior to the transaction or the transaction is (a) between the director and the Company, and (b) the transaction is in the ordinary course of the Company's business and on usual terms and conditions.

(i) Notwithstanding the above a transaction entered into by the Company is not voidable if the material facts of the interest are known to the Shareholders and they approve or ratify it or the Company received fair value for the transaction.

(j) The Company has no power to grant loans to Directors.

4.2.10 ***Indemnity of directors***

(a) Subject to the limitations hereinafter provided the Company shall indemnify against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings any person who:

  (i) is or was a party or is threatened to be made a party to any threatened, pending or completed proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that the person is or was a director of the Company; or

  (ii) is or was, at the request of the Company, serving as a director of, or in any other capacity is or was acting for, another body corporate or a partnership, joint venture, trust or other enterprise.

(b) The indemnity in paragraph (a) only applies if the person acted honestly and in good faith with a view to the best interests of the Company and, in the case of criminal proceedings, the person had no reasonable cause to believe that his conduct was unlawful.

4.2.11 ***Untraced shareholders***

When the registered address of any Shareholder appears to the board of directors (the "Board") to be incorrect or out of date such Shareholder may, if the Board so resolves, be treated as if he had no registered address and the Company will not thereafter be obliged to send to such Shareholder cheques, warrants, notices of meetings or copies of the documents referred to in the Articles; provided that no resolution as aforesaid shall be proposed by the Board until cheques or warrants sent to the registered address of such Shareholder have been returned by the Post Office or left uncashed on at least two consecutive occasions or, following one such occasion, reasonable enquiries have failed to establish any new address of such Shareholder.

The Company shall be entitled to sell at the best price reasonably obtainable any Share of a Shareholder or any Share to which a person is entitled by transmission if and provided that:

(a) for a period of twelve years in the course of which at least three dividends have become payable in respect of the Share in question, no cheque or warrant sent by the Company through the post in a prepaid letter addressed to the Shareholder or to the person entitled by transmission to the Share at his address on the register of members or the other last known address given by the Shareholder or the person entitled by transmission to which cheques and warrants are to be sent has been cashed and no communication has been received by the Company from the Shareholder or the person entitled by transmission; and

(b) the Company has at the expiration of the said period of twelve years by advertisement in both a leading national newspaper and in a newspaper circulating in the area in which the address referred to in paragraph (a) above is located given notice of its intention to sell such Share; and

(c) the Company has not during the further period of three months after the date of the advertisement and prior to the exercise of the power of sale received any communication from the Shareholder or person entitled by transmission.

To give effect to any such sale the Company may appoint any person (a) in the case of certificated Shares to execute as transferor an instrument of transfer of such Share and such instrument of transfer and/or (b) in the case of uncertificated Shares to authorise and procure the execution of such transfer in accordance with and subject to the regulations and facilities and requirements of the relevant system concerned and such instrument of transfer and/or transfer shall be as effective as if it had been executed by the registered holder of or person entitled by transmission to such Share. The Company shall account to the Shareholder or other person entitled to such Share for the net proceeds of such sale and shall be deemed to be his debtor and not a trustee for him in respect of the same. Any money not accounted for to the Shareholder or other person entitled to such Share shall be carried to a separate account and shall be a permanent debt of the Company. Money carried to such separate account may either be employed in the business of the Company or invested in such investments (other than Shares or its holding company, if any) as the Directors may from time to time think fit.

4.2.12 ***Dividends***

(a) The Company may, by a resolution of directors, authorise a distribution by way of dividend at a time and of an amount they think fit if they are satisfied on reasonable grounds, that immediately after the distribution, the value of the Company's assets will exceed its liabilities and the Company will be able to pay its debts as they fall due.

(b) Dividends may be paid in money, shares, or other property.

(c) A Share may be issued for consideration in any form, including money, a promissory note, or other written obligation to contribute money or property, real property, personal property (including goodwill and know-how), services rendered or a contract for future services.

(d) No Shares may be issued for a consideration other than money, unless a Resolution of Directors has been passed stating:

  (i) the amount to be credited for the issue of the Shares;

  (ii) the determination of the directors of the reasonable present cash value of the non-money consideration for the issue; and

  (iii) that, in the opinion of the directors, the present cash value of the non-money consideration for the issue is not less than the amount to be credited for the issue of the Shares.

4.2.13 ***Takeover provisions***

Except with the consent of the board, when:

(a) any person acquires, whether by a series of transactions over a period of time or not, Shares which (taken together with Shares held or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of the Company; or

(b) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights and such person, or any person acting in concert with him, acquires additional Shares which increase his percentage of the voting rights,

such person shall extend an offer to the holders of all the issued shares in the Company.

4.2.14 ***General meetings***

(a) The Company is required to hold an annual general meeting each year. Additionally directors may convene meetings of the Shareholders of the Company at such times and in such manner and places within or outside the British Virgin Islands as the directors consider necessary or desirable. Upon the written request of Shareholders entitled to exercise 10 per cent. or more of the voting rights attaching to Shares the directors shall convene a meeting of Shareholders.

(b) The directors shall give not less than 14 days' notice of a meeting of Shareholders to those persons whose names at the close of business on a day to be determined by the directors appear as Shareholders in the share register of the Company and are entitled to vote at the meeting.

(c) A meeting of Shareholders held in contravention of the requirement to give notice is valid if Shareholders holding at least 90 per cent. of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a Shareholder at the meeting shall constitute a waiver in relation to all the Shares which that Shareholder holds.

(d) Two Shareholders present in person or by proxy and entitled to vote upon the business to be transacted at the meeting will constitute a quorum.

(e) If within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Shareholders, shall be dissolved, and in any other case it shall stand adjourned to the next business day in the jurisdiction in which the meeting was to have been held at the same time and place or to such other time and place as the directors may determine, and at the adjourned meeting if a quorum is not present the meeting shall be dissolved. The Chairman, may, with the consent of the meeting, adjourn any meeting from time to time, and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

(f) An action that may be taken by the Shareholders at a meeting may also be taken by a resolution consented to in writing without the need for any notice, but if any resolution of Shareholders is adopted otherwise than by the unanimous written consent of all Shareholders, a copy of such resolution shall forthwith be sent to all Shareholders not consenting to such resolution.

4.2.15 ***Interests in Shares***

(a) Subject to any requirement under the BVIBCA, the provisions of Chapter 5 of the Disclosure and Transparency Rules which relate to the requirement of persons to disclose their interests in Shares, shall apply to the Company as if its Home State (as defined in such rules) was the United Kingdom and such rules shall be deemed to be incorporated into the Articles of the Company and shall bind the Company and the Shareholders (other than the Depositary).

(b) Subject to any requirement under the BVIBCA, the provisions of section 793 of the UK Companies Act 2006 shall be deemed to be incorporated into the Articles and shall bind the Company and the Shareholders and references in such section to "a public company" shall be deemed to be references to the Company.

(c) The provisions of Rule 17 of the AIM Rules for Companies in relation to the disclosure of significant shareholdings (as amended from time to time) shall be deemed to be incorporated into the Articles and, notwithstanding the BVIBCA, accordingly, the significant shareholder notification rules set out in Rule 17 of the AIM Rules for Companies (as amended from time to time) shall apply to the Company.

4.2.16 ***Pre-emption Rights on issue of new shares***

Statutory pre-emption rights have been excluded. Pre-emption rights on the issue of new shares have been included within the Articles and can be disapplied by a resolution of Shareholders passed by a 75 per cent. majority.

5. DISCLOSURE OF INTERESTS

5.1 *Directors' and other interests*

5.1.1 As at the date of this document and following the Placing and Admission, the interests of the Directors (including persons connected with the Directors within the meaning of section 346 of the Act) in the issued shares of the Company, all of which are beneficial, are as follows:

	At the date of this document		*Immediately following Admission*	
Director	*Number of Ordinary Shares*	*Percentage of Existing Issued Shares*	*Number of Ordinary Shares*	*Percentage of Enlarged Issued Shares*
Xiao Gang[(1)]	30,870,000	61.7%	30,870,000	42.4%
He Caiguang[(2)]	2,940,000	5.9%	2,940,000	4.0%
Wang Chong[(3)]	2,450,000	4.9%	2,450,000	3.4%
Teo Kean Eek[(4)]	1,000,000	2.0%	600,000	0.8%

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

(2) Held through Video Sources Communication Limited

(3) Held through NewTech Capital Management Limited

(4) Held through Agile Partners Limited

5.1.2 Save as disclosed in this paragraph 5, none of the Directors nor any member of their families, nor any person connected with them within the meaning of section 346 of the Act, has any interest in the issued share of the Company or its subsidiaries.

5.1.3 David Mace will have, with effect from Admission, an option to subscribe for up to 36,404 Ordinary Shares at the Placing Price, the right to exercise this option will vest on the first, second, third and fourth anniversaries of Admission in equal proportions.

5.1.4 Save as disclosed in this paragraph 5 as at the date of this document, no Director has any option over or warrant to subscribe for any shares in the Company.

5.1.5 Save for the Placing Agreement referred to in paragraph 8.1 of Part VI of this document or the service agreements and letters of appointment referred to in paragraph 7.1 of Part VI of this document or the lock-in agreements referred to in paragraph 8 of Part VI of this document, there are no agreements, arrangements or understandings (including compensation agreements) between any of the Directors, recent directors, Shareholders or recent shareholders of the Company connected with or dependent upon the Admission and the Placing.

5.2 ***Major Shareholders***

5.2.1 In addition to those disclosed in paragraph 5.1.1 above, the Company is aware of the following persons who, at 11 June 2007 (being the latest practicable date before publication of this document) and following completion of the Admission and the Placing, have interests in voting rights over 3 per cent. or more of the issued shares of the Company:

	At the date of this document		*Immediately following the Placing and Admission*	
Shareholder	*Number of Ordinary Shares*	*Percentage of Existing Issued Shares*	*Number of Ordinary Shares*	*Percentage of Enlarged Issued Shares*
Teather & Greenwood Investment Fund	–	–	4,500,000	6.2%
Lombard Odier Darier Hentsch (LODH)	–	–	4,160,000	5.7%
Mackenzie Cundill International Class Fund	–	–	3,200,000	4.4%
Polar Capital Partners	–	–	2,900,000	3.9%
Mackenzie Cundill Emerging Markets Value Class Fund	–	–	2,200,000	3.0%

5.2.2 Immediately following Admission, Xiao Gang and Liu JinQing will hold (through entities controlled by them) approximately 23.55 per cent. and 18.84 per cent. of the Enlarged Issued Shares respectively. As a result of these shareholdings, either Xiao Gang or Liu JinQing may have a significant influence on matters requiring shareholder approval, including the approval of certain corporate transactions. Such concentration of ownership may have the effect of delaying or deterring a change in control of the Company (and so deprive other shareholders in the Company of an opportunity to receive a premium for the Ordinary Shares as part of a sale of the Company) or affect the market price of the Ordinary Shares.

5.2.3 Save as disclosed above, the Directors are not aware of any person or persons who, directly or indirectly, have an interest in the Company which represents three per cent. or more of its issued shares or voting rights who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

5.3 Neither the Directors nor any substantial shareholders have different voting rights to other holders of the shares of the Company.

6. ADDITIONAL INFORMATION ON THE DIRECTORS

6.1 The Directors currently hold (other than directorship of the Company) the following directorships and are partners in the following partnerships and have held the following directorships and have been partners in the following partnerships within the five years prior to the publication of this document:

Director	*Current Directorships or interests in partnerships*	*Former Directorships or interests in Partnerships held in last five years*
Xiao Gang	Beijing Bluestar Software Technology Development Co., Ltd. Beijing BlueStar River Software Technology Development Co., Ltd. Beijing Bluesky Software Development Co., Ltd. SecuLine Technologies, Inc.	Guangzhou JingLun Technology Development Co., Ltd Guangzhou MainLine Technology Development Co., Ltd. Beijing Century MileStone Technology Co., Ltd. Beijing BlueStar Software Technology Developments Co., Ltd.

Director	*Current Directorships or interests in partnerships*	*Former Directorships or interests in Partnerships held in last five years*
Wang Chong	Beijing Bluestar Software Technology Development Co., Ltd. Beijing Bluesky Software Development Co., Inc. SecuLine Technologies, Inc.	Beijing BlueStar Software Technology Development Co., Ltd.
Zheng Yunsheng	None	None
He Ciaguang	Beijing BlueStar River Software Technology Development Co., Ltd. Beijing BlueStar Software Technology Development Co., Ltd. Beijing Bluesky Software Development Co., Ltd. SecuLine Technologies, Inc	Beijing Bluestar Software Technology Development Co., Ltd.
Liu Xiaochuan	China Security and Protection Industry Association	None
Teo Kean Eek	Agile Partners Pte Ltd Pharmesis International Ltd Infotech Holdings Pte. Ltd /Alphasoft International Holdings Pte. Ltd Sinosoft Technology PLC Agile Partners Ltd (BVI)	HeJia Software Technology Inc. ChangHua Singapore Pte Ltd ShengTong Food Industries Pte Ltd CEC Mobile Singapore Pte Ltd
David Mace	Lookers PLC Inspired Gaming Group PLC Tarsin (Europe) Limited Vectrix Corporation Loders Motor Group Ltd Trustee - Durrell Wildlife Conservation Trust reefLIVE Ltd Vetrix Corporation	GW Pharmaceuticals PLC HLBBshaw Group PLC Center Parcs (UK) Group PLC reefLive Aquarium Park Inc (Barbados Company) Marwell Preservation Trust Ltd March Champion Catch Ltd (formerly AVI) D.C.M. Ventures Limited Ladgrove Hardwoods Limited GW Pharma Limited

6.2 No Director has:

6.2.1 any unspent convictions in relation to indictable offences; or

6.2.2 been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or

6.2.3 been a director of any company which, while he was a director or at any time within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement or made any composition or arrangement with its creditors generally or with any class of its creditors; or

6.2.4 been a partner of any partnership which, while he was a partner or at any time within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement or had a receiver appointed to any partnership asset; or

6.2.5 had any public criticism by statutory or regulatory authorities (including recognised professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7. DIRECTORS' SERVICE CONTRACTS AND EMOLUMENTS

7.1 The Company has entered into the following service agreements and letters of appointment:

7.1.1 On 30 April 2007 Xiao Gang entered into a service agreement with Bluesky and the Company for an intial term of three years, the terms of which are conditional upon Admission. Mr. Xiao has agreed to act as Chief Executive Officer of the Company for a salary of RMB 960,000 per annum. The appointment is terminable on six months' notice by either side. Mr. Xiao is entitled to an annual cash car allowance of RMB 600,000.

7.1.2 On 30 April 2007 He Caiguang entered into a service agreement with Bluesky and the Company for an initial term of three years, the terms of which are conditional upon Admission. Mr. He has agreed to act as Chief Technological Officer of the Company for a salary of RMB 360,000 per annum. The appointment is terminable on six months' notice by either side.

7.1.3 On 30 April 2007 Zheng Yunsheng entered into a service agreement with Bluesky and the Company for an initial term of three years, the terms of which are conditional upon Admission. Mr. Zheng has agreed to act as Chief Financial Officer of the Company for a salary of RMB 360,000 per annum. The appointment is terminable on six months' notice by either side.

7.1.4 On 30 April 2007 Wang Chong entered into a service agreement with Bluesky and the Company for an initial term of three years, the terms of which are conditional upon Admission. Ms. Wang has agreed to act as Chief Operating Officer of the Company for a salary of RMB 360,000 per annum. The appointment is terminable on six months' notice by either side.

7.1.5 On 7 May 2007 Liu Xiaochuan entered into a letter of appointment with the Company for an initial term of three years under the terms of which, conditional upon Admission, he agreed to act as a non-executive Chairman of the Company for a fee of RMB120,000 per annum. The appointment is terminable on three months' notice by either side.

7.1.6 On 30 April 2007 Teo Kean Eek entered into a letter of appointment with the Company for an initial term of three years under the terms of which, conditional upon Admission, he agreed to act as a non-executive Director of the Company for a fee of £25,000 per annum. The appointment is terminable on three months' notice by either side.

7.1.7 On 14 May 2007 David Mace entered into a letter of appointment with the Company for an initial term of three years under the terms of which, conditional upon Admission, he agreed to act as a non-executive Director of the Company for a fee of £30,000 per annum. The appointment is terminable on three months' notice by either side. The Company intends to grant David Mace an option to subscribe for up to 36,404 Ordinary Shares details of which can be found in paragraph 5.1.3 of this Part VI.

7.2 Save as set out above there are no contracts providing for benefits upon termination of employment of any Director.

7.3 The aggregate emoluments of the Directors for the financial period ended 31 December 2006 were approximately RMB633,000 and for the year ending 31 December 2007 are expected to be approximately RMB3,597,650 under the arrangements described in this document.

8. MATERIAL CONTRACTS

The following material contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group during the two years immediately preceding the date of this document or, if earlier, are contracts under which any member of the Company or any of its subsidiaries has any obligations or entitlements which, at the date of this document, are, or may be, material:

8.1 *Placing agreement*

Under a placing agreement dated 13 June 2007 between (1) Evolution Securities (2) Evolution China (3) the Company (4) the Directors and (5) Agile, Evolution China has agreed to use reasonable endeavours to procure placees to subscribe for 22,808,000 newly issued Placing Shares at the Placing Price. In addition Evolution China has agreed to use reasonable endeavours to procure placees for 400,000 existing Ordinary Shares being sold by Agile as part of the Placing. The agreement is conditional, inter alia, upon Admission taking place on or before 18 June 2007 or such later date as Evolution China and the Company may agree but in any event not later than 30 September 2007. The Company will pay to Evolution China a commission of 4.8 per cent of the aggregate value at the

Placing Price of the Placing Shares together with all VAT thereon where appropriate on or before Admission and Agile will pay a commission of 4.8 per cent. of the aggregate value at the Placing Price of the Agile Shares together with VAT where appropriate on or before Admission. Further fees totalling £230,000 are also payable by the Company to Evolution Securities China plus VAT as appropriate. The Company is to bear all expenses of or incidental to the Placing including professional advisers' fees and Agile is to bear stamp duty payable in respect to the placing of the Agile Shares and the appointment of the process agent. The Company has also granted an option to Evolution China as detailed in paragraph 8.4.1 below.

The agreement contains certain warranties and indemnities from the Company and the Directors in favour of Evolution China and Evolution Securities subject to certain financial and time limits in relation to the warranties and the indemnities given by the Directors.

The Directors have agreed not to dispose of any interest in the Ordinary Shares for the period expiring on the first anniversary of Admission save for certain limited exceptions including transfers by way of gift to family members or family trusts or acceptance of a takeover offer which is recommended or becomes unconditional as to acceptances. For a further year thereafter any sales of shares by such Directors must be through Evolution China and effected after consultation with Evolution China.

Evolution Securities and Evolution China may terminate the placing agreement in specified circumstances prior to admission including in the event of an untrue statement in this document or a breach of the warranties or other obligations of the Company or a Director in the placing agreement or if an event occurs which is in the opinion of Evolution Securities and Evolution China materially adverse to the financial position or business or prospects of the group or to the Placing, or where any change in national, international, financial, monetary, economic, political or stock market conditions has occurred which in the opinion of Evolution Securities and Evolution China is or may be materially adverse to the Group or the Placing.

8.2 ***Nominated adviser and broker agreement***

Under a nominated adviser and broker agreement dated 13 June 2007 between (1) Evolution Securities (2) Evolution China and (3) the Company, Evolution Securities is, conditional on admission, appointed as the nominated adviser and Evolution China is appointed as the broker to the Company. An annual fee is payable by the Company of £50,000 and the appointment can be terminated by 3 months notice after the first anniversary of Admission.

8.3 ***Lock-in agreements***

By agreements dated 13 June 2007 entered into by the Holding Companies (and each of their respective shareholders) and Agile (the "Locked-in Parties") the Company, Evolution Securities, Evolution China and the Locked-in Parties have agreed not to dispose of any interest in their Ordinary Shares for the period expiring on the first anniversary of Admission save for certain limited exceptions including transfers by way of gift to family members or family trusts or acceptance of a takeover offer which is recommended or becomes unconditional as to acceptances. For a further year thereafter any sales of shares by the Locked in Parties must be through Evolution China and effected after consultation with Evolution China.

8.4 ***Share option arrangements***

8.4.1 By an option agreement dated 13 June 2007 the Company has granted an option to Evolution China to subscribe for up to an aggregate of 1,456,160 Ordinary Shares at an exercise price of 48p per Ordinary Share. The option agreement contains provisions for the amendment of the exercise price in the event of certain changes to the share capital of the Company. The option is exercisable at any time following Admission and lapses on the fifth anniversary thereof or in the event the placing agreement terminates prior to Admission.

8.4.2 By an option agreement dated 13 June 2007 the Company has granted an option to David Mace to subscribe for up to an aggregate of 36,404 Ordinary Shares at an exercise price of 48p per

Ordinary Share. The option agreement contains provisions for the amendment of the exercise price in the event of certain changes to the share capital of the Company. The option vests in David Mace in four equal instalments on the first, second, third and fourth anniversary of Admission. The option lapses on the tenth anniversary of Admission or in the event the placing agreement terminates prior to Admission.

8.5 ***Share for Share Exchange Agreements***

As set out in paragraphs 3.2.4 to 3.2.9 various individuals transferred their shares in the Company to the Holding Companies. These share transfers were effected by means of share for share exchange agreements, each between the relevant individual and the relevant Holding Company dated 2 June 2007 pursuant to which each individual transferred his or her shares in the Company in consideration for the issue to him or her of a certain number of shares in the relevant Holding Company as set out in paragraphs 3.2.4 to 3.2.9 (as applicable).

8.6 ***Consultancy Agreement with Agile Partners***

By an agreement between BBST and Agile dated 3 April 2006 ("Consultancy Agreement"), Agile agrees to provide financial consultancy services on all aspects of the Company's admission to AIM and on an exclusive consultancy basis. The consideration payable to Agile under the Consultancy Agreement is as follows:

(i) payment by BBST of RMB 800,000 in total of which RMB 500,000 was paid prior to Admission. The balance of RMB 300,000 is payable within 5 days of Admission;

(ii) a cash payment of RMB 500,000 if the aggregate value at the Placing Price of 1 per cent. of the total Ordinary Shares placed in the Placing equals or exceeds RMB 5,600,000;

(iii) on 7 June 2007 the Holding Companies transferred, in aggregate, 2 per cent. of their respective shareholdings to Agile for zero consideration. Agile may not transfer, sell or pledge to any third party prior to Admission any shares transferred to it by the Holding Companies. In the event that Admission does not occur, Agile shall transfer all such shares back to the Holding Companies at the same price at which they were transferred to Agile; and

The Consultancy Agreement will remain effective for two years from the date of Admission. The Consultancy Agreement is governed by PRC law and all disputes shall be referred to PRC courts.

8.7 ***Asset Transfer Agreement***

On 12 July 2006, the Company and BBST entered into an asset transfer agreement ("ATA") for the transfer of various assets owned by BBST to the Company and the assumption of various liabilities by the Company. On the same date the Company novated its rights under the ATA to Bluesky. Bluesky assumed the liabilities of RMB1,160,885 and acquired various assets consisting of those required for the operation of the business, carried out by BBST prior to the date of the ATA, along with majority shareholding interests in the Subsidiaries which had previously been held by BBST. The consideration payable under the ATA was RMB22,575,200 which was paid by Bluesky in three separate instalments of USD 500,000 paid on 29 November 2006, 12 December 2006 and 11 January 2007 with a final payment of USD1,500,000 made on 17 January 2007.

8.8 ***Depositary Agreement***

The Company has agreed that the Depositary shall provide the Company with depositary services in accordance with a trust deed poll executed by the Depositary dated 13 June 2007, pursuant to which the Depositary has determined to constitute and issue from time to time the Depositary Interests with a view to facilitating the indirect holding of, and settlement of, transactions by participants in CREST.

8.9 *Loan Agreements*

8.9.1 On 20 March 2006, Agile Singapore and BlueStar Security Solutions Co., Ltd ("BSSCL") entered into a convertible loan agreement (the "Loan Agreement") in the principal sum of US$3,000,000 to be used by BSSCL in relation to the payment of professional fees and the group restructuring exercise both in connection with the proposed Admission and BSSCL agreed not to use the facility for any other purpose. BSSCL and Mr Xiao gave certain representations, warranties and indemnities to Agile Singapore as to the status of the Group and other key matters and also covenanted certain material terms for the benefit of Agile.

By a supplemental agreement between the same two parties and the Company dated 1 November 2006, it was agreed between the parties that the principal sum of the loan be amended to US$1,500,000, the maturity date amended to 30 September 2007 and the interest would be zero percent per annum. Agile agreed that any outstanding principal will not be convertible into shares in the capital of the Company upon Admission and instead it was agreed that the principal sum outstanding shall be repaid to Agile by the Company after Admission has taken place; further details of such intended repayment are set out in Part I.

8.9.2 On 31 October 2006, AFG Trust Finance Limited ("AFG") and the Company entered into a credit facility agreement (the "Facility") in the maximum amount available for draw down of US$3,500,000 with an initial principal amount of US$2,500,000 available. The Facility provides for interest to be paid on all drawn down sums at the rate of 5.75 per cent. per annum. It is intended that the outstanding sum under the Facility as at Admission will be repaid to AFG using certain of the proceeds of the Placing and further details of such intended repayment are set out in Part I.

9. SHARE OPTION SCHEME

The Company does not have a share option scheme in place at the current time. However, it considers that equity and equity based incentives are a means of retaining, attracting and motivating key employees and, therefore, it intends to establish such a scheme at a future time, in compliance with the AIM Rules for Companies and good corporate governance practice.

10. LITIGATION

Neither the Company nor any other member of the Group is or has been engaged in any governmental, legal or arbitration proceedings nor, as far as the Directors are aware, are any governmental, legal or arbitration proceedings pending or threatened against, or being brought by, the Company or any other member of the Group, which may have or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position or profitability.

11. WORKING CAPITAL

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Company and the Group, taking into account the estimated net proceeds of the Placing, will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

12. TAXATION

12.1 The following paragraphs are intended as a general guide only and summarise advice received by the Directors about the UK tax position of shareholders who are resident (and in the case of individuals, ordinarily resident and domiciled) in the UK, holding Shares as investments and not as securities to be realised in the course of a trade. The paragraphs below are based on current legislation and UK HM Revenue & Customs practice. It should be noted that although a number of the UK tax treatments referred to below relate to unquoted shares, shares listed on the AIM market are generally treated as unquoted for these purposes.

12.2 Any person who is in any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK should consult his own professional adviser immediately.

12.2.1 *Taxation of dividends*

(a) A UK resident individual shareholder who receives a dividend paid by the Company will be liable to UK income tax on the gross amount of any such dividend, either at the dividend ordinary rate of 10 per cent., or the dividend upper rate of 32.5 per cent. Dividend income from the Company will be treated as forming the highest part of a shareholder's income. UK resident individual shareholders are able to claim relief for withholding tax suffered on dividends paid to them. However, at present, no withholding tax is levied by the BVI on any dividend payments.

(b) UK resident corporate shareholders will be liable to UK corporation tax on the gross amount of any such dividend, either at the full rate of 30 per cent. or at the small companies rate of 19 per cent. Credit relief should be available for withholding tax on dividend payments (although this is not at present levied by the BVI) and in the case of shareholders controlling 10 per cent. or more of the voting power of the Company, for underlying tax suffered on profits out of which a dividend is paid to the Company by its subsidiaries. Relief would be available against any resulting UK corporation tax liability, up to the amount of that UK tax liability.

(c) Trustees of discretionary trusts receiving dividends from shares are also liable to account for income tax at the dividend trust rate, currently 32.5 per cent.

(d) UK pension funds and charities are generally exempt from tax on dividends which they receive.

(e) A UK resident corporate shareholder who, together with connected or associated persons, is entitled to at least 25 per cent. of the Ordinary Shares of the Company should note the provisions of the Controlled Foreign Companies legislation contained in Sections 747-756 of the Income and Corporation Taxes Act 1988.

12.2.2 *Taxation on capital gains for shareholders*

(a) A UK resident individual shareholder who disposes of, or who is deemed to dispose of, their shares may be liable to capital gains tax in relation thereto at rates up to 40 per cent. of any chargeable gain thereby realised. In computing the chargeable gain, the shareholder should be entitled to deduct from proceeds the cost to him of the shares (together with incidental costs of acquisition and disposal). Any gain should be eligible for "business asset taper relief", a tax relief based on the period of ownership of the Shares.

(b) A UK resident corporate shareholder that disposes of its shares may be liable to corporation tax on chargeable gains in relation thereto at the usual rates of corporation tax applicable to it (either at the full rate of 30 per cent. or at the small companies rate of 19 per cent.). In computing the chargeable gain liable to corporation tax, the shareholder should be able to deduct from the disposal proceeds the cost to it of the shares, together with incidental costs of acquisition and disposal, as increased by indexation allowance. In some circumstances, a shareholder may be exempt from corporation tax in relation to its disposal of shares under the substantial shareholding exemption or be able to reduce the quantum of the gain by capital and/or income losses arising to the corporate shareholder.

12.2.3 *Inheritance tax*

Unquoted shares representing minority interests in the Company potentially qualify for 100 per cent. business property relief from Inheritance tax. Therefore, where a UK resident individual shareholder makes a lifetime gift of shares or dies while still owner of the shares, no inheritance tax will be payable in respect of the value of the shares, provided certain conditions are met. The main condition is that the shareholder held the shares for two years before the date of transfer or death.

12.2.4 *Stamp duty and stamp duty reserve tax ("SDRT")*

(a) No liability to stamp duty or SDRT should arise on the allotment of Placing Shares by the Company under the Placing, save that special rules apply to persons operating clearance services or depositary receipt services.

(b) Subsequent sales of Placing Shares inside CREST will generally be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration calculated to the nearest penny. The SDRT is normally settled by CREST, on behalf of the purchaser or transferee, on the same day as the sale, but otherwise is payable on the "accountable date" for SDRT purposes. The accountable date is the seventh day of the month following the month in which the agreement for the transfer is made.

(c) Subsequent sales of Placing Shares outside CREST will generally be liable to *ad valorem* stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. An obligation to account for SDRT at the rate of 0.5 per cent. of the amount or value of the consideration will also arise if an unconditional agreement to transfer the Placing Shares is not completed by a duly stamped instrument of transfer before the "accountable date" for SDRT purposes, as described above. Stamp duty is normally, and SDRT is always, the liability of the purchaser or transferee of the Placing Shares. However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or becomes unconditional) the stamp duty will cancel the SDRT liability and any SDRT paid can be recovered.

12.3 The information in this paragraph is intended as a general summary of the UK tax position and should not be construed as constituting advice.

12.4 Potential investors, including those investing from outside the UK, should obtain advice from their own investment or taxation adviser.

13. CREST and Depositary Interests

13.1 ***Introduction***

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through CREST, a depositary or custodian can hold the relevant securities and issue dematerialised DIs representing the underlying securities which are held on trust for the holders of the DIs.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company with the Depositary. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. No temporary documents of title will be issued.

The Ordinary Shares will not themselves be admitted to CREST. Instead the Depositary will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law which may be held and transferred through CREST. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on AIM. The DIs will be created and issued pursuant to the DI Deed Poll, which will govern the relationship between the Depositary and the holders of DIs.

Application will be made for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Holders of Ordinary Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact the Registrar.

13.2 ***Summary of the DI Deed Poll***

As mentioned above, the DIs will be created pursuant to and issued on the terms of the DI Deed Poll. The DI Deed Poll is executed by the Depositary, in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against CRESTCo or its subsidiaries in respect of the underlying Ordinary Shares or the DIs representing them.

Ordinary Shares will be transferred to an account of the Depositary or its nominated custodian (the "**Custodian**") and the Depositary will issue DIs to participating members.

Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Depositary will pass on to holders of DIs any stock or cash benefits received by them as holder of Ordinary Shares on trust for such DI holder. DI holders will also be able to receive from the Depositary notices of meetings of holders of Ordinary Shares and other information to make choices and elections issued by the Company to the Shareholders.

In summary, the DI Deed Poll contains, *inter alia*, provisions to the following effect:

13.2.1 The Depositary will hold (themselves or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities for the time being held by the Depositary or Custodian pertaining to the DIs for the benefit of the holders of the DIs. The Depositary will re-allocate securities or distributions allocated to the Depositary or the Custodian *pro rata* to the Ordinary Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.

13.2.2 Holders of DIs warrant, *inter alia*, that the securities in the Company transferred or issued to the Custodian on behalf of the Depositary for the account of the DI holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's articles of association or any contractual obligation, or applicable law or regulation binding or affecting such holder.

13.2.3 The Depositary and any Custodian must pass on to DI holders, or exercise on their behalf, all rights and entitlements received by the Depositary or the Custodian in respect of the underlying securities. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the DI Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on, or exercised in accordance with the DI Deed Poll. If arrangements are made which allow a holder to take up rights in the Company's securities requiring further payment, the holder must pay the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.

13.2.4 The Depositary will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying securities in certain circumstances including where a DI holder fails to furnish to the Depositary such certificates or representations as to material matters of fact, including his identity, as the Depositary deems appropriate.

13.2.5 The DI Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the DI Deed Poll or otherwise except as may result from their negligence or wilful default or fraud or that of any person for whom they are vicariously liable, provided that the Depositary shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless the Depositary has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, the Depositary's liability to a holder of DIs will be limited to the lesser of:

(a) the value of the shares and other deposited property properly attributable to the DIs to which the liability relates; and

(b) that proportion of £10 million which corresponds to the portion which the amount the Depositary would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts the Depositary would otherwise be liable to pay to all such holders in respect of the same act, omission, or event or, if there are no such amounts, £10 million.

13.2.6 The Depositary is entitled to charge holders of DIs fees and expenses for the provision of their services under the DI Deed Poll.

13.2.7 The holders of DIs are required to agree and acknowledge with the Depositary that it is their responsibility to ensure that any transfer of DIs by them which is identified by the CREST system as exempt from stamp duty reserve tax is so exempt, and to notify the Depositary if this is not the case, and to pay to CRESTCo any interest, charges or penalties arising from nonpayment of stamp duty reserve tax in respect of such transaction.

13.2.8 Each holder of DIs is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the DI Deed Poll so far as they relate to the DIs (and any property or rights held by the Depositary or Custodian in connection with the DIs) held by that holder, other than those resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or any agent if such Custodian or agent is a member of the Depositary's Group or if, not being a member of the same group, the Depositary shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.

13.2.9 The Depositary is entitled to make deductions from any income or capital arising from the underlying securities, or to sell such underlying securities and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of DI holders.

13.2.10 The Depositary may terminate the DI Deed Poll by giving not less than 30 days' notice. During such notice period holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion sell all or part of such deposited property. They shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the DI Deed Poll *pro rata* to holders of DIs in respect of their DIs.

13.2.11 The Depositary or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Ordinary Shares to the holders. Holders agree to provide such information requested and consent to the disclosure of such information by the Depositary or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Company's articles of association require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with the Company's instructions with respect thereto.

14. GENERAL

14.1 The gross proceeds of the Placing are expected to amount to approximately £11.1 million (of which approximately £0.2 million are the gross proceeds in respect of the placing of the 400,000 existing Ordinary Shares on behalf of Agile). Total costs and expenses payable by the Company in connection with the Admission and Placing (including professional fees, commissions, the costs of printing and the fees payable to the registrars) are estimated to amount to approximately £1.4 million (excluding VAT).

14.2 The Placing Price represents a premium of 48 pence over the nominal value of zero pence per Ordinary Share.

14.3 BDO Reanda, Room 2008, 20th Floor, ZhuBang, 2000 Tower, Chaoyang District, Beijing 100025, People's Republic of China, were auditors of Beijing Bluestar Software Technology Development Co. Ltd. for the period relating to the financial information set out in Part IV of this document.

14.4 The Directors confirm that the financial information of Bluesky and the Subsidiaries for the 3 years ended 31 December 2006 has been prepared in accordance with applicable International Financial Reporting Standards and that they accept responsibility for them. The financial information set out in Part IV is based upon the audited financial statements of the underlying companies for the periods under review.

14.5 Mazars has given and not withdrawn its written consent to the inclusion of references to its name herein in the form and context in which they appear and to the inclusion of its reports in Parts III, IV and V of this document.

14.6 Evolution Securities has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

14.7 Evolution China has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.

14.8 It is expected that definitive share certificates will be despatched (where applicable) by hand or first class post by 6 July. In respect of Ordinary Shares represented by DIs in uncertificated form, it is expected that Shareholders' CREST accounts will be credited on 18 June.

14.9

14.9.1 Save as disclosed in this document there has been no significant change in the trading or financial position of the Company since 23 December 2006, the date on which the last non statutory accounts were prepared.

14.9.2 Save as disclosed in this document, there has been no significant change in the trading or financial position of Bluesky and its subsidiaries since 31 December 2006, the date to which the last accounts of the Subsidiaries were prepared.

14.10 Save as set out in this document no person (other than a professional adviser referred to in this document or trade suppliers or customers dealing with members of the Group) has:

14.10.1 received directly or indirectly, from any member of the Group within the 12 months preceding the Company's application for Admission; or

14.10.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive directly or indirectly, from any member of the Group on or after Admission, any of the following:

(a) fees totalling £10,000 or more;

(b) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

(c) any other benefit with a value of £10,000 or more at the date of Admission.

14.11 Save as disclosed in this document, there are no investments in progress of the Group which are or may be significant.

14.12 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the Group's recent activities.

14.13 The Directors are not aware of any environmental issues that may affect the Company's utilisation of its tangible fixed assets.

14.14 The Group seeks to protect its intellectual property rights and proprietary information through patents, copyrights (in some case registered) and trade marks, as well as trade secret and contractual protections. As of 30 April 2007, the Group holds one registered design patent in China, patent number ZL 200630009077.1. The patent was granted on 6 April 2006 for a period of 10 years, and relates to the external design of an embedded digital video recorder. As of 30 April 2007, the Group owns nine copyright registrations in China in respect of computer application software. The Group's copyright registrations relate to: (a) DVR enabling software which coordinates and controls DVR systems, (b) image transmission software which enables remote DVR's to be connected to central control system via the internet and (c) video image network transmission software which enables feedback from, and control of, remote DVR's by a central control via the internet. As of 30 April 2007, the Group owns one Chinese trade mark registration for the mark "TRENDLINE", with registration number 1787731.

Save as disclosed in this document, the Directors are not aware of any patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are or may be of fundamental importance to the Group's business.

14.15 Prior to Admission, the Directors approved the disapplication of the pre-emption rights established pursuant to the Articles up to a limit of 7,280,800 Ordinary Shares, representing 10 per cent. of the Enlarged Issued Shares.

15. THIRD PARTY INFORMATION

Where information has been sourced from a third party, the information has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Reference materials include various historical and recent publications. A comprehensive list of reports and information used in the preparation of this document is available if required.

16. AVAILABILITY OF DOCUMENT

Copies of this document are available free of charge from the offices of Evolution China during normal business hours on any weekday (Saturdays and public holidays excepted) from the date of this document until at least one month after the date of Admission. A copy of this document is also available, free of charge, on the Company's website, www.bstar.com.cn.

Dated: 13 June 2007

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

"Act"	the Companies Act 1985 (as amended);
"Admission"	the admission of the issued Ordinary Shares and the Placing Shares to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules for Companies;
"Agile"	Agile Partners Limited;
"Agile Singapore"	Agile Partners Pte Limited;
"Agile Shares"	the 400,000 existing Ordinary Shares being sold by Agile pursuant to the Placing;
"AIM"	the AIM market operated by London Stock Exchange plc;
"AIM Rules for Companies"	the rules published by the London Stock Exchange plc governing the admission to, and the operation of, AIM;
"Articles"	the articles of association of the Company;
"BBST"	Beijing BlueStar Software Technology Development Co. Ltd;
"BJBS"	Beijing BlueStar Science and Technology Co. Ltd;
"Bluesky"	Beijing Bluesky Software Development Co. Ltd;
"BRST"	Beijing Bluestar River Software Technology Development Co. Ltd;
"BVI"	the British Virgin Islands;
"BVIBCA"	the BVI Business Companies Act, 2004 (No 16 of 2004) (as amended) and the regulations made thereunder;
"Balance Partners Limited" or "Balance"	a company registered in the BVI under company number 1394764 and incorporated on 28 March 2007;
"Board" or "Directors"	the board of directors of BlueStar SecuTech, Inc. including a duly constituted committee of the directors. The names of the directors at the date of this document are set out on page 5;
"CCTV"	closed circuit television;
"China" or "PRC"	People's Republic of China, excluding Hong Kong, Macau and Taiwan;
"Combined Code"	the code of best practice including the Principles of Good Governance entitled the "Combined Code on Corporate Governance" published by the Financial Reporting Council in June 2006 and appended to, but not forming part of, the Listing Rules published by the UK Listing Authority;
"Company" or "BlueStar"	BlueStar SecuTech, Inc., a company registered in the British Virgin Islands with registered number 1032245 and, where the context requires, its Subsidiaries;
"CREST"	the electronic paperless transfer and settlement system to facilitate the transfer of title of shares in uncertificated form operated by CRESTCo Limited;

"Custodian"	any custodian or any nominee of any such custodian of the deposited property as may from time to time be appointed by the Depositary for the purposes of the DI Deed Poll;
"Depositary"	Capita IRG Trustees Limited;
"Depositary Interests" or "DIs"	the depositary interests in uncertificated form representing Ordinary Shares issued to a holder on the terms of the DI Deed Poll described in Part VI of this document;
"DI Deed Poll"	the first trust deed poll constituted by the Depositary in respect of the DIs;
"DI Holder"	the holder of a DI issued pursuant to the terms of the DI Deed Poll;
"DVR"	digital video recorder;
"DVS"	digital video surveillance;
"Enlarged Issued Shares"	the Ordinary Shares in issue immediately following Placing and Admission;
"Evolution China"	Evolution Securities China Limited, financial adviser and broker to the Company;
"Evolution Securities"	Evolution Securities Limited, nominated adviser to the Company;
"Existing Issued Shares"	the Ordinary Shares currently in issue;
"FIE"	means Foreign Investment Enterprises;
"FSA"	the Financial Services Authority of the United Kingdom;
"FSMA"	the Financial Services and Markets Act 2000;
"GBSTD"	Guangzhou BlueStar Science and Technology Development Co., Ltd;
"Group" or "BlueStar Group"	the Company and the Subsidiaries or, in relation to any matter prior to completion of the ATA such of the Subsidiaries and BBST as existed at the relevant time;
"Holding Companies"	SecuLine Technologies Inc; Sunshine Holdings (Private) Limited; Video Sources Communication Limited; NewTech Capital Management Limited; Balance Partners Limited; and KaiQi Holdings (Private) Limited;
"GMST"	Guangzhou Mainline Science & Technology;
"KaiQi: Holdings (Private) Limited" or "KaiQi:"	a company registered in the BVI under company number 1394836 and incorporated on 28 March 2007;
"London Stock Exchange"	London Stock Exchange plc;
"Memorandum"	the memorandum of association of the Company;
"NewTech" or "NewTech Capital Management Limited"	a company registered in the BVI under company number 1394799 and incorporated on 28 March 2007;
"Official List"	the Official List of the UK Listing Authority;

"Ordinary Shares"	ordinary shares of no par value in the Company;
"Placing"	the conditional placing by Evolution China, as agent for the Company, of the Placing Shares (other than the Agile Shares) and as agent for Agile of the Agile Shares at the Placing Price pursuant to the Placing Agreement;
"Placing Agreement"	the conditional agreement dated 13 June 2007 between, (1) the Directors, (2) the Company, (3) Evolution Securities, (4) Evolution China and (5) Agile relating to the Placing, further details of which are set out in Part VI of this document;
"Placing Price"	48 pence per Placing Share;
"Placing Shares"	the 23,208,000 new Ordinary Shares to be issued pursuant to the Placing and the Agile Shares;
"Prospectus Directive"	Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State;
"Prospectus Rules"	Prospectus Rules published by the FSA from time to time in accordance with section 73A of FSMA;
"Registrar"	means Capita Registrars;
"RMB"	means China Yuan Renminbi, lawful currency of the PRC;
"SBST"	Shanghai BlueStar Science and Technology Company Limited;
"SecuLine Technologies Inc" or "SecuLine"	a company registered in the BVI under company number 1054752 and incorporated on 3 October 2006;
"Shareholders"	holders of Ordinary Shares;
"Subsidiaries"	BJBS, GBSTD, SBST and BRST;
"Sunshine Holdings (Private) Limited"	a company registered in the BVI under company number 1394835 and incorporated on 28 March 2007;
"UK Listing Authority"	the FSA, acting in its capacity as the competent authority for the purpose of FSMA;
"UK"	the United Kingdom of Great Britain and Northern Ireland;
"US" or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
"US$" or "$"	US dollars;
"Video Sources Communication Limited" or "Video Sources"	a company registered in the BVI under company number 1394759 and incorporated on 28 March 2007;
"£"	the UK pounds sterling.

Exchange Rate

Unless otherwise stated in this document, an exchange rate of US$1 : RMB 7.64 has been applied.

The RMB held a fixed exchange rate with the US$ during the period of the financial information set out in this document until July 2005 when the currency began to float against a "basket of currencies".

GLOSSARY OF SPECIALIST TERMS

ATM	Automated teller machine
Bit	Binary digit
DVD	Digital Versatile Disc
Enterprise network	Internal Intranet used by corporates
Hard disk	A non-volatile storage device which stores digitally encoded data on rapidly platters with magnetic surfaces
IEC	International Electrotechnical Commission
ISO	International Organisation for Standardisation
ITU-T	International Telecommunication Union
Motherboard	Central or primary circuit board making up a complex electronic system, such as a modern computer
MPEG 1	Initial video and audio compression standard
MPEG 2	Transport, video and audio standards for broadcast-quality television
MPEG 4	Expands MPEG-1 to support video/audio "objects", 3D content, low bitrate encoding and support for Digital Rights Management
MPEG	Moving Picture Experts Group
MPS	Ministry of Public Security
NTSC	National Television Standards Committee
PAL	Phone Alteration Line
PBC	People's Bank of China
Pixel	Picture element
PSB	Public Security Bureau
SAIC	State Administration for Industry and Commerce
SMT	The method for constructing electronic circuits in which the components are mounted directly onto the surface of printed circuit boards
VCR	Video cassette recorder