NORSTAR

Norstar Founders Group Limited
北泰創業集團有限公司

(Provisional Liquidators Appointed)

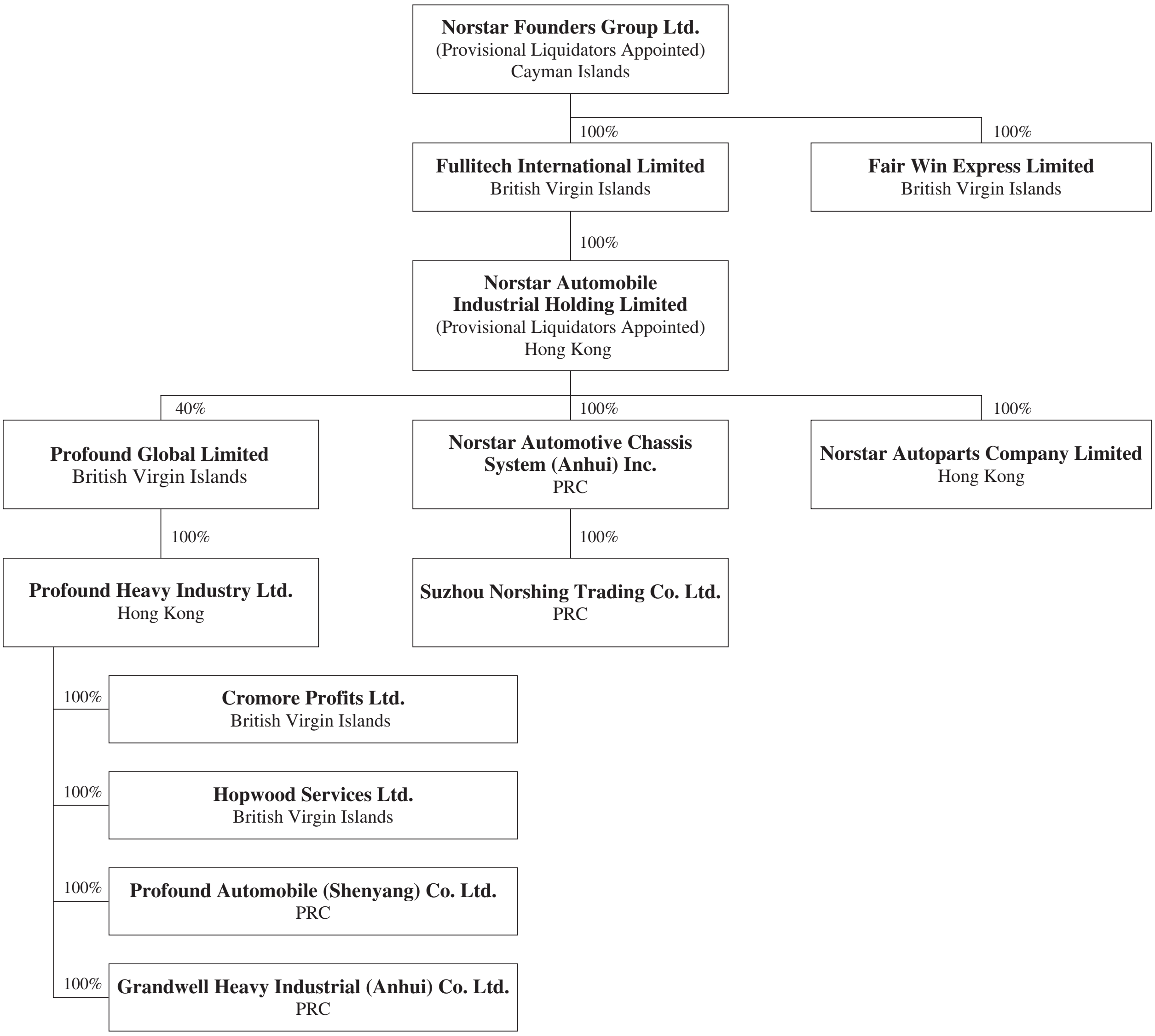
(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2339)

ANNUAL REPORT 2011

Contents

GROUP CHART AS AT 31 MARCH 2011



CORPORATE INFORMATION

EXECUTIVE DIRECTOR

Ms. Lilly Huang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Choi Tat Ying, Jacky
Ms. Zhang Xin, Cindy –
(resigned on 10 May 2010)
Mr. Zhang Jian Chun –
(resigned on 10 May 2010)

JOINT AND SEVERAL PROVISIONAL LIQUIDATORS

Mr. Lai Kar Yan (Derek)
Mr. Darach E. Haughey
Mr. Yeung Lui Ming (Edmund)

35th Floor, One Pacific Place
88 Queensway
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

AUDITOR

Shinewing (HK) CPA Limited
43rd Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

PRINCIPAL PLACE OF BUSINESS

35th Floor, One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY 1-1111, Cayman Islands

STOCK CODE

2339

DIRECTORS' REPORT

The directors (the "Directors") of Norstar Founders Group Limited (Provisional Liquidators Appointed) (the "Company") hereby present their report and the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture, sales and trading of auto parts and construction decorative hardware products in the Anhui Province, the PRC.

WINDING-UP PETITIONS AND APPOINTMENT OF PROVISIONAL LIQUIDATORS

On 19 January 2009, trading in the shares of the Company was suspended (at the request of the Company) following a number of announcements made in late December 2008, in relation to, amongst other matters, the resignation of certain Directors and group financial controller of the Company, default in payment by Norstar Automobile Industrial Holding Limited ("NAIH"), a wholly owned subsidiary of the Company for treasury losses of approximately HK$44,000,000 and a creditor's claim against the Group in the amount of RMB326,000,000.

On 6 February 2009, a petition to wind up the Company was presented to the High Court of the Hong Kong Special Administrative Region (the "High Court") by Madam Lilly Huang, a major shareholder of the Company, chairman of the board of Directors and an Executive Director of the Company and subsequently replaced by Century Founders Group Limited. On the same day, a petition to wind up NAIH was also presented to the High Court by Fullitech International Limited ("Fullitech"), the immediate holding company of NAIH and a wholly-owned subsidiary of the Company.

On the same day, the High Court appointed Messrs Lai Kar Yan (Derek), Darach E. Haughey and Yeung Lui Ming (Edmund) of Deloitte Touche Tohmatsu as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company and of NAIH.

The hearing of winding-up petitions against the Company by the High Court is adjourned to 18 February 2013.

RESTRUCTURING OF THE GROUP

The restructuring of the Group was formulated in two parts (i.e. (i) the debt restructuring and (ii) the capital restructuring) to:

(i) address the indebtedness of NFG and NAIH as described below under the section headed "The Debt Restructuring"; and

(ii) regularise the financial position and capital needs of the Group after the restructured (the "Restructured Group").

The Debt Restructuring

On 8 December 2009, two schemes of arrangement were approved by the respective creditors of the Company (the "NFG Scheme") and NAIH (the "NAIH Scheme") (collectively the "Schemes"). Messrs Lai Kar Yan (Derek), Darach E. Haughey and Yeung Lui Ming (Edmund) of Deloitte Touche Tohmatsu were appointed as the joint and several scheme administrators of each of the Schemes (the "Scheme Administrators"). The Schemes were subsequently sanctioned by the High Court and became effective on 19 March 2010.

The NFG Scheme

It is proposed under the NFG Scheme that the indebtedness of the Company will be settled via the following:

(i) Earnest money in the sum of HK$2,000,000 paid by Mr. Zhou Tian Bao ("Mr. Zhou"), a substantial shareholder of the Company;

(ii) A repayment obligation from the Company in favour of a special purpose company incorporated to facilitate the proposed debt restructuring of NFG under the NFG Scheme (the "NFG SPV") for a fixed sum of HK$200,000,000 under which the Company would repay the said sum within 12 months from the effective date of the NFG Scheme ("NFG Repayment Obligation"); and

(iii) Amounts recoverable from NAIH and Fullitech by way of distribution from the NAIH Scheme.

(i), (ii) and (iii) collectively referred to as the "NFG Scheme Assets".

RESTRUCTURING OF THE GROUP (CONTINUED)

The Debt Restructuring (Continued)

The NAIH Scheme

It is proposed under the NAIH Scheme that the indebtedness of NAIH will be settled via the following:

(i) A total cash payment of HK$15,000,000 (the "NAIH Obligation") made by NAIH to a special purpose company incorporated pursuant to the NAIH Scheme (the "NAIH SPV");

(ii) Net proceeds arising from the disposal of equity interest in four independent third party companies (the "Four Third Party Companies");

(iii) Net cash flow to be generated/net proceeds arising from the following:

(a) Net cash flow to be generated from Norstar Auto Suspension Manufacturing (Beijing) Inc ("Norstar Suspension"), a former subsidiary of the Company deconsolidated on 1 April 2008, and Profound Global Limited ("Profound"), an associate of the Group, over a period of 5 years in the total amount of HK$1,381,000,000 (plus interest) (the"NAIH Repayment Obligation").

The NAIH Repayment Obligation are secured by the following:

1. A corporate guarantee issued by Fullitech in favour of the NAIH SPV for a sum up to the NAIH Repayment Obligation (the "Fullitech Corporate Guarantee");

2. A corporate undertaking provided by the Company for a sum up to the NAIH Repayment Obligation (the "NFG Undertaking");

3. First legal charge on Mr. Zhou's direct and indirect shareholdings in the Company;

4. Share charge over NAIH's 100% interest in Norstar Automotive Chassis Systems (Anhui) Inc ("Norstar Chassis") for a sum up to the NAIH Repayment Obligation; and

5. Share charge over NAIH's 40% interest in Profound for a sum up to the NAIH Repayment Obligation;

Or

(b) Net proceeds arising from the disposal of Norstar Suspension and 60% shareholding in Profound held by the NAIH SPV.

RESTRUCTURING OF THE GROUP (CONTINUED)

The Debt Restructuring (Continued)

The NAIH Scheme (Continued)

(iv) Net proceeds arising from the disposal of the equity interests in CX Tech Inc. and Sumitech Engineering Inc., independent third party companies (collectively the "US Companies"), if such shareholdings are disposed of within 5 years from the effective date of the NAIH Scheme; and

(v) Net proceeds arising from the disposal of Norstar Suspension after full settlement of the NAIH Repayment Obligation.

Further to the above, an alternative mechanism is proposed under the NAIH Scheme, where in the event of a receipt of a lump sum cash offer for all/part of the assets, including shareholding interests in the Four Third Party Companies, Profound and NAIH's shareholding interest in Norstar Chassis together with the discharge of all relevant securities, pledges and undertakings, the Scheme Administrator of NAIH, after the NAIH Scheme becomes effective, may with the consent of the committee (the "Scheme Creditors Committee") of the creditors (the "Scheme Creditors") of the respective Schemes, convene a Scheme Creditors' meeting to consider, and if considered appropriate, resolve to approve such an offer.

As part of the implementation of the NFG Scheme and the NAIH Scheme (both of which became effective on 19 March 2010), the Group's entire equity interests in Norstar Automotive Industries Inc. ("Norstar Automotive BJ"), Norstar Suspension, Oriental New-Tech Limited ("New-Tech") and Smooth Ride International Limited ("Smooth Ride") were transferred to the NAIH SPV or NFG SPV. Norstar Automotive BJ and Norstar Suspension (collectively the "PRC Subsidiaries") were the main operating subsidiaries of the Group prior to their deconsolidation on 1 April 2008.

Further details of the Schemes are set out in the Company's announcements dated 21 October 2009 and 15 December 2009.

RESTRUCTURING OF THE GROUP (CONTINUED)

The Debt Restructuring (Continued)

Issuance of HK$15,000,000 senior note (the "Senior Note")

To fulfill the NAIH Obligation, the Company, NAIH, the Provisional Liquidators and Omni Success Limited ("OSL" or the "Subscriber") had, on 6 September 2010, entered into a subscription agreement, (the "Subscription Agreement") pursuant to which (i) NAIH has agreed to issue, and the Subscriber has agreed to subscribe for, the Senior Note for an aggregate principal amount of HK$15 million with a maturity term of one year. The Senior Note was issued on 8 September 2010 and the proceed raised was utilised to repay the NAIH Obligation.

The maturity date of the Senior Note has been extended by the parties from 6 September 2011 to 28 February 2013 by way of side letters dated 15 August 2011 and 6 September 2012.

The principal terms of the Senior Note are summarized as follow:

Principal amount:	HK$15,000,000
Interest rate:	HIBOR (3 months) plus 1.05%
Repayment of the principal:	All outstanding loan together with all accrued and unpaid interest shall be repaid in one lump sum on the maturity date
Maturity date:	28 February 2013 (as extended by side letters entered into subsequent to the Subscription Agreement)

Further details of the Senior Note are set out in the Company's announcement dated 5 October 2010.

As of the date of the consolidated financial statements, the NFG Repayment Obligation and the NAIH Repayment Obligation had not been settled. However, after due consideration and having regard to the status of the overall restructuring of the Group, the Scheme Creditors Committee and certain major Scheme Creditors of the respective companies, agreed that for the benefit of the general body of the Scheme Creditors, the Schemes continue to remain in effect.

In view of the above, there are material uncertainties surrounding the Group's ability to act as a going concern. However, the consolidated financial statements have been prepared on a going concern basis on the basis that the restructuring of the Group will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligation as and when they fall due in the foreseeable future.

RESTRUCTURING OF THE GROUP (CONTINUED)

The Capital Restructuring

As at 31 March 2009, the authorised share capital of the Company was HK$500,000,000 divided into 5,000,000,000 shares of which 1,259,461,601 shares had been issued and were fully paid or credited as fully paid.

As at the financial year ended 31 March 2009, 23,804,000 units of share options were outstanding. The outstanding share options at the end of the financial year ended 31 March 2009 have a remaining contractual life of 4.5 years with exercise price ranging from HK$2.29 to HK$2.57 each. The share options are currently out of money as the share price was HK$0.73 each immediately before the suspension of trading in the Company's shares.

It is proposed that the capital of the Company be reorganized by way of the proposed capital restructuring, which shall comprise, amongst others, the following:

(i) Capital reduction – As permitted by the laws of the Caymans Islands, it is proposed that the par value of each issued share will be reduced from HK$0.100 to HK$0.002, resulting in a reduction in share capital of approximately HK$123.4 million.

    After the capital reduction, the share capital of the Company will reduce from approximately HK$125.9 million to approximately HK$2.5 million;

(ii) Capital cancellation – After the capital reduction, all unissued authorised share capital of the Company shall be cancelled and diminished resulting in the authorised and issued share capital of the Company becoming approximately HK$2.5 million;

(iii) Share consolidation – consolidation of shares whereby every five issued shares of the Company with par value of HK$0.002 each will immediately upon the capital reduction be consolidated into one share with par value of HK$0.01 each;

(iv) Cancellation of all outstanding shares options; and

(v) The Company's authorised share capital will be increased to HK$100 million, divided into 10,000,000,000 new ordinary shares at par value of HK$0.01 each.

DIRECTORS' REPORT

PROSPECTS

As mentioned above, the trading in the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 19 January 2009.

The Company submitted a resumption proposal dated 28 September 2010 and an revised proposal dated 17 August 2011 involving the restructuring of the Group (the "Resumption Proposal") to the Stock Exchange to seek resumption of trading of its shares on the Stock Exchange.

The Stock Exchange had, on 8 June 2012, informed the financial advisor of the Company by way of a letter that the Stock Exchange had decided to accept the Resumption Proposal, subject to the Company's compliance with the following conditions as set out in the same letter to the satisfaction of the Listing Division of the Stock Exchange by 28 February 2013:–

1. Completion of the transactions under the Resumption Proposal;

2. Inclusion in the circular to shareholders the following:

    (a) A profit forecast for the year ending 31 March 2013, together with the reports from the auditors and the financial adviser under paragraph 29(2) of Appendix 1b;

    (b) A statement from the Directors confirming working capital sufficiency for at least 12 months after resumption, and a comfort letter from the auditors and financial adviser on the Directors' statement;

    (c) A pro forma balance sheet upon completion of the Resumption Proposal, and a comfort letter from the auditors under Rule 4.29; and

    (d) Detailed disclosure of the Resumption Proposal and information about the Group comparable to prospectus standards;

3. Publication of all outstanding financial results with major audit qualifications properly addressed;

4. Provision of confirmation form the internal control reviewer of the Group that the Group has an adequate and effective internal control system; and

5. Withdrawal or dismissal of the winding-up petition and discharge of the Provisional Liquidators.

The Listing Division may modify the resumption conditions if the Company's situation changes.

The Provisional Liquidators and their respective advisors are working closely to proceed with the restructuring of the Company.

DIRECTORS' REPORT

WARNING STATEMENT

Shareholders and potential investors of the Company should note that, (1) the principal elements of the restructuring of the Group may be subject to further changes; (2) the resumption of trading of the Company's shares is subject to a number of resumption conditions set out by the Stock Exchange.

RESULTS AND APPROPRIATIONS

Financial Performance

The results of the Group for the year ended 31 March 2011 are set out in the consolidated statement of comprehensive income on page 25.

During FY2011, the Group recorded a turnover from sale and trading of auto parts of approximately RMB247 million, representing an increase of approximately 387% from the financial year ended 31 March 2010 ("FY2010") of approximately RMB51 million. Gross profit margin decreased from approximately 16.4% in FY2010 to approximately 9.8% in FY2011. The profit attributable to owners of the Group was approximately RMB15 million for FY2011, as compared to a profit of approximately RMB1,350 million for FY2010.

The increase in turnover is mainly due to the commencement of the Group's auto part trading business and growth in the manufacturing and sale of auto parts.

Basic earnings per share for the year ended 31 March 2011 was approximately RMB0.01 as compared with earnings per share of RMB1.07 for the preceding year.

No dividend was paid or proposed during the year ended 31 March 2011, nor has any dividend been proposed since the end of the reporting period (FY2010: Nil).

Financial Position

As at 31 March 2011, the Group had total net liabilities of approximately RMB361 million and net current liabilities of approximately RMB403 million, compared to total net liabilities of approximately RMB377 million and net current liabilities of approximately RMB422 million in FY2010.

Cash Flow

During the year under review, total cash flow from operations amounted to approximately a negative cash flow of RMB14 million compared to a negative of RMB5 million last year.

Liquidity and Financial Resources

As at 31 March 2011, bank balances and cash of the Group were approximately RMB1.4 million (FY2010: RMB0.4 million).

The Group's gearing ratio (measured as total borrowings over total assets) as at 31 March 2011 was 3.7% (FY2010: Nil).

RESULTS AND APPROPRIATIONS (CONTINUED)

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

Pledge of assets

The Group's entire and 40% equity interests in Norstar Chassis and Profound respectively were pledged for the NAIH Repayment Obligation.

Capital Commitments

Details of the capital commitments of the Group are set out in note 30 to the consolidated financial statements.

Contingent Liabilities

The Group and the Company had the following contingent liabilities:

As at 31 March 2010 and 2011, the Company provided the NFG Undertaking and Fullitech provided the Fullitech Corporate Guarantee for a sum up to the NAIH Repayment Obligation.

Directors' Remuneration

Details of the remuneration of the Directors pursuant to Appendix 16 of the Listing Rules are set out in note 14 to the consolidated financial statements.

Employment

As at 31 March 2011, the Group had approximately 705 (2010: 520) full-time employees, most of them were working in the Company subsidiaries in the PRC. During the year under review, the total employees' cost was approximately RMB20,771,000 (2010: RMB9,793,000). Remuneration packages of the Group are determined by reference to the qualifications and experience of the employee concerned and are reviewed annually by management with reference to market conditions and performance of the employee.

Reserves

Details of movements in reserves of the Group and the Company during the year are set out in note 29 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS (CONTINUED)

Final Dividends

No dividend was paid or proposed during the year ended 31 March 2011, nor has any dividend been proposed since the end of the reporting period (FY2010: Nil).

Share Capital

Details of the movements in share capital of the Company are set out in note 27 to the consolidated financial statements.

Share Option Scheme

Particulars of the Company's share option scheme are set out in note 28 to the consolidated financial statements.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 91 to 92.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2011.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were:

Executive Director
Ms. Lilly Huang

Independent Non-Executive Directors

Mr. Choi Tat Ying, Jacky	
Ms. Zhang Xin, Cindy	resigned on 10 May 2010
Mr. Zhang Jian Chun	resigned on 10 May 2010

There is currently no Non-Executive Director.

A profile of the Directors is set out on page 19.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any fixed term of service with the Company. They will hold office until the next annual general meeting of the Company.

As at the date of this annual report, the emoluments of the Directors have not yet been determined. Their emoluments will be determined later with reference to their responsibilities, remuneration policy of the Company and prevailing market conditions.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 March 2011, the interests and short positions of the Director of the Company in the shares of the Company, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

	Number of shares held				
Name of Director	**Personal interest**	**Corporate interest**	**Total**	**Underlying shares of outstanding share options**	**Approximate aggregate percentage of interests** *(Note 2)*
Ms. Lilly Huang *(Note 1)*	–	600,000,000	600,000,000	–	47.64%
Mr. Choi Tat Ying, Jacky	–	–	–	500,000	–

Notes:

(1) The shares are held by Century Founders Group Limited in which Ms. Lilly Huang owns a 52% shareholding interest. Ms. Lilly Huang is therefore deemed to be interested in the entire interest of Century Founders Group Limited in the Company for the purpose of Part XV of the SFO.

(2) The calculation is based on the number of shares as a percentage of the total number of issued shares of the Company (i.e. 1,259,461,601 shares) as at 31 March 2011.

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 March 2011.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors of the Company, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Name of shareholder	**Number of shares held**	**Approximate percentage of shareholding** *(Note 4)*
Century Founders Group Limited *(Note 2)*	600,000,000	47.64%
Mark Up Investments Limited	645,000,000	51.21%
Ms. Lilly Huang *(Note 2&3)*	600,000,000	47.64%
Mr. Zhou Tian Bao *(Note 3)*	653,832,000	51.91%

(1) Interest in shares stated above represent long positions.

(2) Century Founders Group Limited owns 600,000,000 shares. Ms. Lilly Huang owns a 52% shareholding interest in Century Founders Group Limited and the remaining 48% shareholding interest is owned by Mark Up Investments Limited, a company wholly-owned by Mr. Zhou Tian Bao.

(3) Mr. Zhou Tian Bao is interested and deemed to be interested in an aggregate of 653,832,000 shares in the Company. These shares are held in the following capacity:

  (i) 8,832,000 shares are held in his personal name;

  (ii) 645,000,000 shares are held by Mark Up Investments Limited which is a company wholly-owned by Mr. Zhou Tian Bao. Mr. Zhou Tian Bao is therefore deemed to be interested in the entire interest of Mark Up Investments Limited in the Company for the purpose of Part XV of the SFO;

  (iii) 600,000,000 shares are held by Century Founders Group Limited in which Mark Up Investments Limited own a 48% shareholding interest. Mr. Zhou Tian Bao is therefore deemed to be interested in the entire interest of Century Founders Group Limited in the Company for the purpose of Part XV of the SFO.

(4) The calculation is based on the number of shares as a percentage of the total number of issued shares (i.e. 1,259,461,601 shares) of the Company as at 31 March 2011.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers of the Group accounted for approximately 79% of the Group's total turnover for the year. In particular, sales to the largest customer of the Group accounted for approximately 34% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 65% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 40% of the Group's total purchases for the year.

As far as the Directors are aware, neither the Directors nor any of their associates nor any shareholders (which, to the best knowledge of the Director, own more than 5% of the Company's issued share capital) had any beneficial interests in any of the Group's five largest customers or five largest suppliers.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company had any interest, either direct or indirect, in any business, which may compete or constitute a competition with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Up to the date of this annual report, the trading in the shares of the Company remains in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

AUDITOR

Messrs RSM Nelson Wheeler, the auditors of the Company for the year ended 31 March 2008, resigned on 21 January 2010. Messrs Shinewing (HK) CPA Limited was appointed as auditors of the Company on 27 January 2010.

The accompanying consolidated financial statements have been audited by Shinewing (HK) CPA Limited, who will retire at the forthcoming annual general meeting.

On behalf of the board

Lilly Huang
Executive Director
9 January 2013

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The corporate governance report is issued pursuant to Appendix 23 of the Listing Rules. Due to the severe financial difficulties of the Group and the prolonged suspension in trading of the shares of the Company on the Stock Exchange, the Directors are unable to comment as to whether the Company has complied with the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 March 2011.

AUDIT COMMITTEE

The primary duties of the audit committee include the review of financial information, overseeing the financial reporting system and internal control procedures as well as maintaining a working relationship with the auditor of the Company.

The audited financial results and statements of the Company for the year ended 31 March 2011 have not been reviewed by the audit committee as there is no sufficient number of existing Independent Non-Executive Directors to constitute the audit committee.

AUDITOR

Shinewing (HK) CPA Limited has been appointed as auditors of the Company on 27 January 2010 by the Provisional Liquidators of the Company.

	HK$'000
Audit services	1,000
Non-audit services	–

NON-COMPLIANCE WITH RULES 3.10 AND 3.21 OF THE LISTING RULES

As at the date of this annual report, the Company has only one Executive Director and one Independent Non-Executive Director. The Company has been identifying suitable candidates for appointment of sufficient number of Executive Directors and Independent Non-Executive Directors and reconstitution of the audit committee in order to meet the requirements under Rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Trading in the securities of the Company has been suspended since 19 January 2009 and the Directors are of the opinion that since the date of suspension in trading of the Company's securities, the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules is not applicable.

PROFILE OF DIRECTORS

EXECUTIVE DIRECTOR

Ms. Lilly Huang ("Ms. Huang"), aged 50, is the Executive Director and the chairman of the Group. Ms. Huang graduated from Beijing Construction Engineering Institute in 1984 and holds a bachelor degree in city construction engineering. Ms. Huang is also a graduate from California State University, Los Angeles and obtained a master degree in civil engineering.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Choi Tat Ying, Jacky ("Mr. Choi"), aged 44, is an Independent Non-Executive Director of the Group. Mr. Choi graduated from Hong Kong Baptist University in 1990 and obtained a bachelor degree in business administration with first class honours. Mr. Choi is a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Choi is currently the chief financial officer of Hong Kong Mercantile Exchange Limited. He is also the Independent Non-Executive Director of a Hong Kong listed company Dawnrays Pharmaceutical (Holdings) Limited.

CONFIRMATION OF INDEPENDENCE

Pursuant to Rule 3.13 of the Listing Rules, the Independent Non-Executive Director has confirmed with the Company in writing his independence from the Company in accordance with the relevant guidelines.

The Company therefore considers the Independent Non-Executive Director to be independent.

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF NORSTAR FOUNDERS GROUP LIMITED
(Provisional Liquidators Appointed)
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Norstar Founders Group Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 90, which comprise the consolidated statement of financial position as at 31 March 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. However, because of the significant matters as described in the basis of disclaimer of opinion paragraph as set out below, we have not been able to obtain sufficient and reliable appropriate audit evidence to provide a basis for an audit opinion.

BASIS OF DISCLAIMER OF OPINION

During the course of our audit of the Group's consolidated financial statements for the year ended 31 March 2011, we encountered significant scope limitations in respect of various areas as set out below:

1. Opening balances and corresponding figures

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 March 2010 (the "2010 Financial Statements"), which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit, details of which are set out in our auditor's report dated 9 January 2013. Accordingly, we have not been able to form an opinion as to whether the 2010 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 March 2010 and 1 April 2010 and of the Group's profit and cash flows for the year ended 31 March 2010.

2. Corporate guarantee

As further explained in note 2 to the consolidated financial statements, the Company and Fullitech International Limited, a wholly-owned subsidiary of the Company, provided an undertaking and a corporate guarantee amounted to HK$1,381,000,000 each to a special purpose company established pursuant to the scheme of arrangement (the "NAIH Scheme") of Norstar Automobile Industrial Holding Limited (Provisional Liquidators Appointed), a wholly-owned subsidiary of the Company ("NAIH"). In accordance with Hong Kong Accounting Standard ("HKAS") 39, the fair value of these financial guarantee contracts should be recognised as a financial liability. No amount in respect of these financial guarantees had been recognised as at 31 March 2011.

No sufficient evidence had been provided to us and there are no other satisfactory audit procedures that we can carry out to satisfy ourselves as to the fair value of these financial guarantees as at 31 March 2011 and the resulting fair value changes for the year ended 31 March 2011.

3. Related party transactions and balances

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of related party transactions and balances for the year ended 31 March 2011 as required by HKAS 24 "Related Party Disclosures", as set out in note 33 to the consolidated financial statements.

BASIS OF DISCLAIMER OF OPINION (CONTINUED)

4. Impairment of plant and equipment

As further detailed in note 18 to the consolidated financial statements, the Directors of the Company had conducted an impairment assessment on the Group's plant and equipment and concluded that there is no impairment over the Group's plant and equipment of approximately RMB41,526,000 as at 31 March 2011. We have not been able to perform satisfactory audit procedures to verify the recoverable amount of the Group's plant and equipment as at 31 March 2011 and accordingly cannot determine whether any impairment loss should be recognised during the year in accordance with HKAS 36 "Impairment of Assets".

5. Impairment of interest in and amount due from an associate

As detailed in note 19 to the consolidated financial statements, the Group had interest in an associate, Profound Global Limited ("Profound"), of approximately RMB308,882,000 (before accumulated impairment loss of approximately RMB308,882,000) as at 31 March 2011. No sufficient evidence has been received by us up to the date of this report to verify the financial information of Profound. Accordingly, we have not been able to verify whether the gross and net carrying amount of the interest in Profound as at 31 March 2011, the Group's share of result of Profound for the year ended 31 March 2011 and the related note disclosures as included in the consolidated financial statements were fairly stated.

In addition, as stated in note 21 to the consolidated financial statements, the Group had amount due from an associate of approximately RMB2,705,000 as at 31 March 2011. No subsequent settlement in respect of such amount was noted up to the date of this report and no impairment had been recognised in respect of such amount. We have not been able to obtain sufficient evidence to evaluate the recoverability of such amount. There were no practical alternative audit procedures that we could perform to satisfy ourselves that the amount due from an associate was fairly stated as at 31 March 2011.

6. Allowance for inventories

Included in the inventories of the Group as at 31 March 2011 was raw materials of approximately RMB3,240,000 that remained unutilised up to the date of this report and for which no provision had been recognised. There were no practical alternative audit procedures that we could perform to satisfy ourselves that these raw materials were fairly stated as at 31 March 2011.

BASIS OF DISCLAIMER OF OPINION (CONTINUED)

7. Amount due to an associate and obligations under finance leases

As stated in notes 23 and 24 to the consolidated financial statements, the Group had amounts due to an associate and obligations under financial leases of approximately RMB1,175,000 and approximately RMB26,784,000 as at 31 March 2011 respectively.

We have not been able to obtain direct audit confirmations in respect of the aforesaid balances and no sufficient evidence has been provided to satisfy ourselves as to the completeness and existence of the aforesaid balances. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to whether the aforesaid balances were fairly stated as at 31 March 2011.

8. Directors' emoluments

We have not been able to obtain direct audit confirmations from certain Directors and sufficient audit evidence to satisfy ourselves as to whether the directors' emoluments for the year ended 31 March 2011 were fairly stated. Hence, we have not been able to determine whether the disclosures in respect of directors' emoluments set out in note 14 to the consolidated financial statements are appropriate and comply with the disclosure requirements of The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Any adjustments that are found necessary in relation to the matters described in points 1 to 8 above might have a significant consequential effect on the Group's results for the year ended 31 March 2011, the consolidated financial position of the Group as at 31 March 2011, and the related disclosures thereof in the consolidated financial statements for the year ended 31 March 2011.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis of disclaimer of opinion paragraphs above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 March 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. Except for the matter described in point 8 above, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which states that the Group had net current liabilities and net liabilities of approximately RMB402,747,000 and RMB361,221,000 at 31 March 2011 respectively. These conditions, along with other matters as set out in note 2 to the consolidated financial statements of the Group, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

SHINEWING (HK) CPA Limited
Certified Public Accountants

Wong Chuen Fai
Practising Certificate Number: P05589
Hong Kong
9 January 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	8	**247,049**	50,705
Cost of sales		**(222,853)**	(42,397)
Gross profit		**24,196**	8,308
Other income and gains	10	**23,865**	12,876
Gain arising from the release of indebtedness	31	**–**	1,763,355
Distribution and selling expenses		**(6,426)**	(3,276)
Administrative expenses		**(13,533)**	(25,496)
Finance costs	11	**(7,188)**	(59,605)
Impairment loss recognised on amounts due from deconsolidated subsidiaries	21	**–**	(14,683)
Share of loss of an associate	19	**–**	(21,813)
Impairment loss of interest in an associate	19	**–**	(308,882)
Profit before tax		**20,914**	1,350,784
Income tax expense	12	**(5,655)**	(683)
Profit for the year	13	**15,259**	1,350,101
Other comprehensive income			
Exchange difference released on deconsolidation of subsidiaries		**–**	74
Total comprehensive income for the year attributable to owners of the Company		**15,259**	1,350,175
		RMB	*RMB*
Earnings per share			
Basic and diluted	17	**0.01**	1.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Plant and equipment	18	**41,526**	44,618
Interest in an associate	19	**–**	–
		41,526	44,618
CURRENT ASSETS			
Inventories	20	**20,222**	5,797
Trade and other receivables	21	**47,177**	22,443
Amount due from an associate	21	**2,705**	2,417
Amounts due from deconsolidated subsidiaries	21	**–**	12,889
Bank balances and cash	22	**1,435**	375
		71,539	43,921
CURRENT LIABILITIES			
Trade and other payables	23	**422,717**	435,393
Amount due to an associate	23	**1,175**	867
Obligations under finance leases	24	**26,784**	28,300
Senior note	25	**12,592**	–
Interest-bearing borrowings	26	**4,233**	–
Tax payables		**6,785**	1,299
		474,286	465,859
NET CURRENT LIABILITIES		**(402,747)**	(421,938)
		(361,221)	(377,320)
CAPITAL AND RESERVES			
Share capital	27	**111,248**	111,248
Reserves	29	**(472,469)**	(488,568)
		(361,221)	(377,320)

The consolidated financial statements on pages 25 to 90 were approved and authorised for issue by the board of Directors on 9 January 2013 and are signed on its behalf by:

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

	Share capital *RMB'000*	Share premium *RMB'000*	Foreign currency translation reserve *RMB'000*	Share option reserve *RMB'000*	Merger reserve *RMB'000*	Accumulated losses *RMB'000*	Total equity *RMB'000*
At 1 April 2009	132,383	1,719,525	(176,452)	13,083	(299,310)	(3,118,278)	(1,729,049)
Profit for the year	–	–	–	–	–	1,350,101	1,350,101
Other comprehensive income for the year	–	–	74	–	–	–	74
Total comprehensive income for the year	–	–	74	–	–	1,350,101	1,350,175
Change in functional currency	(21,135)	(257,478)	250,463	(1,088)	49,877	(20,639)	–
Recognition of share-based payment expenses	–	–	–	1,554	–	–	1,554
Share options lapsed	–	–	–	(5,388)	–	5,388	–
At 31 March 2010	111,248	1,462,047	74,085	8,161	(249,433)	(1,783,428)	(377,320)
At 1 April 2010	**111,248**	**1,462,047**	**74,085**	**8,161**	**(249,433)**	**(1,783,428)**	**(377,320)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**15,259**	**15,259**
Recognition of share-based payment expenses	**–**	**–**	**–**	**840**	**–**	**–**	**840**
At 31 March 2011	**111,248**	**1,462,047**	**74,085**	**9,001**	**(249,433)**	**(1,768,169)**	**(361,221)**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

	2011	2010
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before tax	**20,914**	1,350,784
Adjustments for:		
Share-based payment expenses	**840**	1,554
Exchange gains	**(23,435)**	(9,922)
Depreciation of plant and equipment	**4,702**	5,373
Allowance of inventories	**1,787**	661
Share of loss of an associate	**–**	21,813
Impairment loss of interest in an associate	**–**	308,882
Interest income	**(6)**	(11)
Government grant	**(350)**	(2,871)
Impairment loss recognised in respect of trade and other receivables	**2,227**	200
Impairment loss recognised on amounts due from deconsolidated subsidiaries	**–**	14,683
Finance costs	**7,188**	59,605
Gain arising from the release of indebtedness	**–**	(1,763,355)
Operating cash flows before movements in working capital	**13,867**	(12,604)
Increase in inventories	**(16,212)**	(6,458)
Increase in trade and other receivables	**(26,961)**	(7,697)
Increase in trade and other payables	**14,912**	22,126
Cash used in operations	**(14,394)**	(4,633)
Interest received	**6**	11
PRC enterprises income taxes paid	**(169)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(14,557)**	(4,622)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

	2011	2010
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Acquisition of plant and equipment	**(1,610)**	(4,560)
Advance to an associate	**(288)**	(2,417)
Repayments due from deconsolidated subsidiaries	**12,889**	9,136
NET CASH FROM INVESTING ACTIVITIES	**10,991**	2,159
FINANCING ACTIVITIES		
New borrowings raised	**14,233**	3,000
Senior note raised	**13,099**	–
Advance from an associate	**308**	777
Government grants received	**350**	2,871
Repayment to schemes of arrangement	**(13,099)**	–
Repayment of borrowings	**(10,000)**	(16,339)
Interest paid	**(265)**	(6,238)
Net cash inflow from the release of indebtedness *(note 31)*	**–**	40,493
NET CASH FROM FINANCING ACTIVITIES	**4,626**	24,564
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,060**	22,101
CASH AND CASH EQUIVALENTS AT 1 APRIL	**375**	(21,908)
Effect of foreign exchange rate changes	**–**	182
CASH AND CASH EQUIVALENTS AT 31 MARCH, represented by bank balances and cash	**1,435**	375

1. GENERAL INFORMATION

Norstar Founders Group Limited (Provisional Liquidators Appointed) (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Trading in the shares of the Company has been suspended since 19 January 2009. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

The principal activities of the Company and its subsidiaries (collectively referred as the "Group") are investment holding, manufacturing and sales of auto parts and auto suspension system, and construction decorative hardware products.

The consolidated financial statements are presented in Renminbi ("RMB") which is the functional currency of the Company and the major operating subsidiaries of the Company.

2. BASIS OF PREPARATION

The following conditions and events indicate material uncertainties relating to the Group's ability to act as a going concern.

(i) Financial position

As at 31 March 2011, the Group had net current liabilities and net liabilities of approximately RMB402,747,000 and RMB361,221,000 respectively.

(ii) Filing of petitions

On 19 January 2009, trading in the shares of the Company was suspended (at the request of the Company) following a number of announcements made in late December 2008, in relation to, amongst other matters, the resignation of certain Directors and group financial controller of the Company, default in payment by Norstar Automobile Industrial Holding Limited ("NAIH"), a wholly-owned subsidiary of the Company, for treasury losses of approximately HK$44,000,000 and a creditor's claim against the Group in the amount of RMB326,600,000.

On 6 February 2009, a petition to wind up the Company was presented to the High Court of the Hong Kong Special Administrator Region (the "High Court") by Madam Lilly Huang, a major shareholder of the Company, chairman of its board of Directors and an Executive Director of the Company, and subsequently replaced by Century Founders Group Limited. On the same day, a petition to wind up NAIH was also presented to the High Court by Fullitech International Limited ("Fullitech"), the immediate holding company of NAIH and a wholly-owned subsidiary of the Company.

2. BASIS OF PREPARATION (CONTINUED)

(ii) Filing of petitions (Continued)

On the same day, the High Court appointed Messrs Lai Kar Yan (Derek), Darach E. Haughey and Yeung Lui Ming (Edmund) of Deloitte Touche Tohmatsu as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company and of NAIH.

(iii) Debt Restructuring

On 8 December 2009, two schemes of arrangement were approved by the respective creditors of the Company (the "NFG Scheme") and NAIH (the "NAIH Scheme") (collectively the "Schemes"). Messrs Lai Kar Yan (Derek), Darach E. Haughey and Yeung Lui Ming (Edmund) of Deloitte Touche Tohmatsu were appointed as the joint and several scheme administrators of each of the Schemes (the "Scheme Administrators"). The Schemes were subsequently sanctioned by the High Court of Hong Kong Special Administrative Region and became effective on 19 March 2010.

NFG Scheme

It is proposed under the NFG Scheme that the indebtedness of the Company will be settled via the following:

(i) Earnest money in the sum of HK$2,000,000 paid by Mr. Zhou Tian Bao ("Mr. Zhou"), a substantial shareholder of the Company;

(ii) A repayment obligation from the Company in favour of a special purpose company incorporated to facilitate the proposed debt restructuring of NFG under the NFG Scheme (the "NFG SPV") for a fixed sum of HK$200,000,000 under which the Company would repay the said sum within 12 months from the effective date of the NFG Scheme ("NFG Repayment Obligation"); and

(iii) Amounts recoverable from NAIH and Fullitech by way of distribution from the NAIH Scheme.

(i), (ii) and (iii) collectively referred to as the "NFG Scheme Assets".

2. BASIS OF PREPARATION (CONTINUED)

(iii) Debt Restructuring (Continued)

NAIH Scheme

It is proposed under the NAIH Scheme that the indebtedness of NAIH will be settled via the following:

(i) A total cash payment of HK$15,000,000 (the "NAIH Obligation") made by NAIH to a special purpose company incorporated pursuant to the NAIH Scheme (the "NAIH SPV");

(ii) Net proceeds arising from the disposal of equity interests in four independent third party companies (the "Four Third Party Companies");

(iii) Net cash flow to be generated/net proceeds arising from the following:

(a) Net cash flow to be generated from Norstar Auto Suspension Manufacturing (Beijing) Inc ("Norstar Suspension"), a former subsidiary of the Company deconsolidated on 1 April 2008, and Profound Global Limited ("Profound"), an associate of the Group, over a period of 5 years in the total amount of HK$1,381,000,000 (plus interest) (the "NAIH Repayment Obligation").

The NAIH Repayment Obligation are secured by the following:

1. A corporate guarantee issued by Fullitech in favour of the NAIH SPV for a sum up to the NAIH Repayment Obligation (the "Fullitech Corporate Guarantee");

2. A corporate undertaking provided by the Company for a sum up to the NAIH Repayment Obligation (the "NFG Undertaking");

3. First legal charge on Mr. Zhou's direct and indirect shareholdings in the Company;

4. Share charge over NAIH's 100% interest in Norstar Automotive Chassis Systems (Anhui) Inc ("Norstar Chassis") for a sum up to the NAIH Repayment Obligation; and

5. Share charge over NAIH's 40% interest in Profound for a sum up to the NAIH Repayment Obligation;

Or

(b) Net proceeds arising from the disposal of Norstar Suspension and 60% shareholding in Profound held by the NAIH SPV.

2. BASIS OF PREPARATION (CONTINUED)

(iii) Debt Restructuring (Continued)

NAIH Scheme (Continued)

(iv) Net proceeds arising from the disposal of the equity interests in CX Tech Inc. and Sumitech Engineering Inc., independent third party companies (collectively the "US Companies"), if such shareholdings are disposed of within 5 years from the effective date of the NAIH Scheme; and

(v) Net proceeds arising from the disposal of Norstar Suspension after full settlement of the NAIH Repayment Obligation.

Further to the above, an alternative mechanism under the NAIH Scheme where in the event of a receipt of a lump sum cash offer for all/part of the assets, including shareholding interests in the Four Third Party Companies, Profound and NAIH's shareholding interest in Norstar Chassis together with the discharge of all relevant securities, pledges and undertakings, the Scheme Administrator of NAIH, after the NAIH Scheme becomes effective, may with the consent of the committee (the "Scheme Creditors Committee") of creditors (the "Scheme Creditors") of the respective Schemes, convene a Scheme Creditors' meeting to consider, and if considered appropriate, resolve to approve such an offer.

As part of the implementation of the NFG Scheme and the NAIH Scheme (both of which became effective on 19 March 2010), the Group's entire equity interests in Norstar Automotive Industries Inc. ("Norstar Automotive BJ"), Norstar Suspension, Oriental New-Tech Limited ("New-Tech") and Smooth Ride International Limited ("Smooth Ride") were transferred to the NAIH SPV or the NFG SPV. Norstar Automotive BJ and Norstar Suspension (collectively the "PRC Subsidiaries") were the main operating subsidiaries of the Group prior to their deconsolidation on 1 April 2008.

Further details of the Schemes are set out on the Company's announcements dated 21 October 2009 and 15 December 2009.

Issuance of HK$15,000,000 senior note (the "Senior Note")

To fulfill the NAIH Obligation, the Company, NAIH, the Provisional Liquidators and Omni Success Limited ("OSL" or the "Subscriber") had, on 6 September 2010, entered into a subscription agreement (the "Subscription Agreement") pursuant to which (i) NAIH has agreed to issue, and the Subscriber has agreed to subscribe for, the Senior Note for an aggregate principal amount of HK$15 million with a maturity term of one year. The Senior Note was issued on 8 September 2010 and the proceed raised was utilised to satisfy the NAIH obligation.

2. BASIS OF PREPARATION (CONTINUED)

(iii) Debt Restructuring (Continued)

Issuance of HK$15,000,000 senior note (the "Senior Note") (Continued)

The maturity date of the Senior Note has been extended by the parties from 6 September 2011 to 28 February 2013 by way of side letters dated 15 August 2011 and 6 September 2012.

The principal terms of the Senior Note are summarised as follow:

Principal amount:	HK$15,000,000
Interest rate:	HIBOR (3 months) plus 1.05%
Repayment of the principal:	All outstanding loan together with all accrued and unpaid interest shall be repaid in one lump sum on the maturity date
Maturity date:	28 February 2013 (as extended by side letters entered into subsequent to the Subscription Agreement)

Further details of the Senior Note are set out in the Company's announcement dated 5 October 2010.

As of the date of the consolidated financial statements, the NFG Repayment Obligation and the NAIH Repayment Obligation had not been settled. However, after due consideration and having regard to the status of the overall restructuring of the Group, the Scheme Creditors Committee and certain major Scheme Creditors of the respective companies, agreed that for the benefit of the general body of the Scheme Creditors, the Schemes continue to remain in effect.

In view of the above, there are material uncertainties surrounding the Group's ability to act as a going-concern. However, the consolidated financial statements have been prepared on a going concern basis on the basis that the debt restructuring of the Group will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligation as and when they fall due in the foreseeable future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvement to HKFRSs 2009
Hong Kong Accounting Standard ("HKAS") 27 (Revised in 2008)	Consolidated and Separate Financial Statements
HKAS 32 (Amendments)	Classification of Right Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time adoption of HKFRSs
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation ("Int") 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand clause
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKFRS 3 (Revised 2008) Business Combinations

The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised in 2008) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction or disposal of subsidiary during the current year in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods, may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs are applicable.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
	Annual Improvements 2009-2011 Cycle[7]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[4]
	Government Loans[7]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[4]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[7]
HKFRS 9	Financial Instruments[9]
HKFRS 7 and 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[9]
HKFRS 10	Consolidated Financial Statements[7]
HKFRS 11	Joint Arrangements[7]
HKFRS 12	Disclosure of Interests in Other Entities[7]
HKFRS 10, 11 and 12 (Amendments)	Transition Guidance[7]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements: Investment Entities[8]
HKFRS 13	Fair Value Measurement[7]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[6]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 16 (Amendments)	Property, Plant and Equipment[7]
HKAS 19 (Revised)	Employee Benefits[7]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised in 2011)	Separate Financial Statements[7]
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures[7]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[8]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction[5]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[7]

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 July 2011.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 July 2012.
[7] Effective for annual periods beginning on or after 1 January 2013.
[8] Effective for annual periods beginning on or after 1 January 2014.
[9] Effective for annual periods beginning on or after 1 January 2015.

Amendments to HKFRS 7 Disclosures – transfers of financial assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 offsetting financial assets and financial liabilities and amendments to HKFRS 7 Disclosures – offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required. The Directors of the Company anticipate that the application of the amendments to HKAS 32 and HKFRS 7 will have no material impact on the Group's presentation of financial assets and financial liabilities and disclosures in the future.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 April 2015, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2015 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

The Directors of the Company anticipate that above standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2013. The application of these above standards will have significant impact on amounts reported in and the disclosures in the consolidated financial statements. The Directors of the Company have not yet performed a detailed analysis of the impact of the application of these above standards and hence have not yet quantified the extent of the impact on the results and financial position of the Group.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 April 2014 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired, disposed of or deconsolidated due to loss of control of subsidiaries during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal or deconsolidation, as appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Interest in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in the associate is initially recognise in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in an associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in an associate (Continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Plant and equipment

Plant and equipment held for use in the production or supply of goods are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of plant and equipment when completed and ready for intended use. Depreciation of these assets commence when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, where shorter, the term of the relevant lease.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in consolidated statement of comprehensive income and accumulated in equity (the foreign currency translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is deconsolidated.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grant

Government grants that are receivable for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying values of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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 nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary difference associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary difference and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which from an integral part of the Group's cash management.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate, amounts due from the PRC Subsidiaries and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For all financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest and principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments.

The carrying value of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, and amounts due from deconsolidated subsidiaries and an associate, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the profit and loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and other payables, amount due to an associate, obligations under finance leases, senior note and interest-bearing borrowings) are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying value of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payments

Equity-settled share-based payments transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying values of its tangible 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment loss on tangible assets (Continued)

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 for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequent reverses, the carrying amount of the asset 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 a cash generating unit in prior years. A reversal of an impairment loss is recognised as income in profit or loss immediately.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying the entity's accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the Directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern

The assessment of the going concern assumption involves making a judgment by the Directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors of the Company consider that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in note 2.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of plant and equipment

During the year ended 31 March 2011, no impairment loss (2010: nil) on plant and equipment was recognised in the consolidated statement of comprehensive income. Determining whether plant and equipment are impaired requires an estimation of the recoverable amount of the plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

As at 31 March 2011, the carrying amounts of plant and equipment were approximately RMB41,526,000 (2010: RMB44,618,000).

Estimated impairment loss of trade and other receivables and amounts due from deconsolidated subsidiaries and an associate

The policy for making impairment loss on trade and other receivables, and amounts due from deconsolidated subsidiaries and an associate of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor.

If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

As at 31 March 2011, the carrying values of trade and other receivables (net of accumulated impairment losses of approximately RMB2,427,000 (2010: RMB200,000)), amounts due from deconsolidated subsidiaries (net of accumulated impairment losses of RMB479,705,000 (2010: RMB479,705,000)) and an associate were approximately RMB47,177,000 (2010: RMB22,443,000), nil (2010: RMB12,889,000) and RMB2,705,000 (2010: RMB2,417,000) respectively (note 21).

Impairment of interest in an associate

In determining whether the Group's interest in an associate is impaired requires an estimation of the future cash flows expected to arise and expected dividend yield from the associate and a suitable discount rate in order to calculate the present value. Where the estimated future cash flows are less than expected, a material impairment loss may arise. Impairment assessment had been carried out at the end of the reporting period on the associate in its entirety.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Impairment of interest in an associate (Continued)

During the year ended 31 March 2010, impairment of interest in an associate of approximately RMB308,882,000 was recognised as the Directors of the Company were in the opinion that the expected future cash flow and dividend yield from the associate were remote. The carrying amount of the Company's interest in an associate as at 31 March 2011 was nil (2010: nil) (net of accumulated impairment losses of RMB308,882,000 (2010: RMB308,882,000)) (note 19).

6. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure.

The capital structure of the Group consists of net debt, which includes bank balances and cash, trade and other payables, amount due to an associate, obligations under finance leases, senior note, interest-bearing borrowings and equity attributable to owners of the Company, comprising share capital and reserves. As the Group had capital deficiencies as at 31 March 2011 and 2010, debt-to-capital ratio is not presented.

7. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2011	2010
	RMB'000	*RMB'000*
Financial Assets		
Loan and receivables (including cash and cash equivalents)	**46,011**	36,314
Financial Liabilities		
Amortised cost	**457,757**	462,458

7. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from deconsolidated subsidiaries and an associate, bank balances and cash, trade and other payables, amount due to an associate, senior note, interest-bearing borrowing and obligations under finance leases. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The carrying amounts of the Group's major foreign currency denominated assets and liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Foreign currency				
HK$	**–**	–	**430,775**	442,613
United States Dollar *("US$")*	**1,305**	–	**68**	–

Sensitivity analysis

The following table details the Group's sensitivity to increase and decrease in functional currency of the respective group entities against the relevant foreign currencies. The sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates with reference to historical fluctuation of foreign exchange rates during the year. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 March 2011 for a corresponding change in foreign currencies rates. A negative number below indicates a decrease (2010: decrease) in post-tax profit (2009: post-tax profit) for the year where the functional currency against the relevant foreign currencies. For a strengthening of functional currency against the relevant foreign currency, there would be an equal and opposite impact on the post-tax profit for the year.

7. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Foreign currency risk (Continued)

Sensitivity analysis (Continued)

	2011		2010	
	Change in values of foreign currencies	**Effect on profit after tax**	Change in values of foreign currencies	Effect on profit after tax
		RMB'000		*RMB'000*
RMB against foreign currencies:				
HK$	**5%**	**(20,080)**	5%	(20,590)
US$	**5%**	**46**	5%	–

The balance of monetary assets and liabilities denominated in foreign currencies fluctuated throughout the year and in management's opinion, the sensitively analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the reporting periods.

Interest rate risk

As at 31 March 2011, the Group is exposed to fair value interest rate risk in relation to certain fixed-rate amount due to the Schemes of RMB116,662,000 (2010: RMB123,270,000).

As at 31 March 2011, the Group is also exposed to cash flow interest rate risk in relation to the variable-rate senior note (note 25) (2010: Nil). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR.

7. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 (2010:100) basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 (2010:100) basis point higher/lower and all other variables were held constant, the Group's profit after tax would decrease/increase by approximately RMB112,000 (2010: RMB4,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk and the does not reflect the exposure during the reporting periods.

Credit risk

At each reporting date, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group was arising from the carrying value of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has policies in place to ensure that services are made to customers with appropriate credit history. In addition, the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 March 2011, the Group had certain concentration of credit risk as 28% (2010: 46%) and 62% (2010: 95%) of the Group's total trade receivables was due from the Group's largest and five largest customers.

7. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

As at 31 March 2011, the Group's concentration of credit risk by geographical locations is mainly in the PRC (2010: PRC), which accounted for 96% (2010: 100%) of the total trade receivables.

As at 31 March 2011, the Group had credit risk on amounts due from deconsolidated subsidiaries (net of accumulated impairment losses of approximately RMB479,705,000 (2010: RMB479,705,000) of nil (2010: RMB12,889,000).

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by the international credit-rating agencies.

Liquidity risk

The Group is exposed to liquidity risk as at the respective reporting dates as its financial assets due within one year was less than its financial liabilities due within one year and had net current liabilities. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

As at 31 March 2011 and 2010, the Group had breached certain covenant clauses of its obligations under finance leases (note 24). As a result, obligations under finance leases of RMB934,000 (2010: RMB7,209,000) as at 31 March 2011 became repayable on demand. No demand for immediate full repayment of the obligations under finance leases had been received by the Group.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

7. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	Within 1 year or on demand *RMB'000*	**Total undiscounted cash flows** *RMB'000*	**Carrying amount** *RMB'000*
2011			
Trade and other payables	**420,785**	**420,785**	**412,973**
Amount due to an associate	**1,175**	**1,175**	**1,175**
Senior note	**12,752**	**12,752**	**12,592**
Interest-bearing borrowing	**4,233**	**4,233**	**4,233**
Obligations under finance leases	**26,784**	**26,784**	**26,784**
Financial guarantee contracts *(note)*	**1,150,787**	**1,150,787**	**–**
	1,616,516	**1,616,516**	**457,757**

	Within 1 year or on demand *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount *RMB'000*
2010			
Trade and other payables	440,514	440,514	433,291
Amount due to an associate	867	867	867
Obligations under finance leases	28,300	28,300	28,300
Financial guarantee contracts *(note)*	1,215,280	1,215,280	–
	1,684,961	1,684,961	462,458

Note: The amount included above for financial guarantee contract is the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

7. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (Continued)

Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis. The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

8. TURNOVER

Turnover represents revenue arising from manufacturing, sale and trading of auto parts and construction decorative hardware products for the year. An analysis of the Group's revenue for the year is as follows:

	2011	2010
	RMB'000	*RMB'000*
Auto parts *(note)*	**156,003**	50,055
Construction decorative hardware products	**91,046**	650
	247,049	50,705

Note: During the year ended 31 March 2011, the Group incurred sales to the PRC Subsidiaries of RMB6,070,000 (2010: RMB2,074,000).

9. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the board of Directors of the Company, being the chief operating decision maker ("CODM") for the purpose of resource allocation and assessment of segment performance focus on types of goods delivered.

The Group's operating and reportable segments under HKFRS 8 are based on the nature of business as follows.

– Auto parts; and

– Construction decorative hardware products.

9. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 March 2011

	Auto parts *RMB'000*	Construction decorative hardware products *RMB'000*	Consolidated *RMB'000*
REVENUE			
External sales	156,003	91,046	247,049
Segment results	17,239	637	17,876
Finance costs			(7,188)
Unallocated income			15,518
Unallocated expenses			(5,292)
Profit before tax			20,914

9. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the year ended 31 March 2010

	Auto parts	Construction decorative hardware products	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
REVENUE			
External sales	50,055	650	50,705
Segment results	2,815	57	2,872
Gain arising from the release of indebtedness			1,763,355
Share of loss of an associate			(21,813)
Impairment loss of interest in an associate			(308,882)
Finance costs			(59,605)
Impairment loss recognised on amounts due from deconsolidated subsidiaries			(14,683)
Unallocated income			10,005
Unallocated expenses			(20,465)
Profit before tax			1,350,784

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned (loss recorded) by each segment without allocation of central administration costs, directors' salaries, share of loss of and impairment loss of interest in an associate, gain arising from the release of indebtedness, certain other income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

9. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	2011	2010
	RMB'000	*RMB'000*
Auto parts	**102,656**	88,164
Construction decorative hardware products	**8,974**	–
Total segment assets	**111,630**	88,164
Unallocated assets	**1,435**	375
Consolidated total assets	**113,065**	88,539

Segment liabilities

	2011	2010
	RMB'000	*RMB'000*
Auto parts	**32,182**	25,306
Construction decorative hardware products	**3,939**	–
Total segment liabilities	**36,121**	25,306
Unallocated liabilities	**438,165**	440,553
Consolidated total liabilities	**474,286**	465,859

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segments other than bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

– all liabilities are allocated to reportable segments other than tax payables, certain other payables, obligations under finance leases, senior note and interest-bearing borrowing. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

9. SEGMENT INFORMATION (CONTINUED)

Other segment information

For the year ended 31 March 2011

	Auto parts *RMB'000*	Construction decorative hardware products *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation of plant and equipment	4,699	3	–	4,702
Capital expenditure in respect of plant and equipment	1,534	–	76	1,610
Allowance of inventories	1,787	–	–	1,787
Impairment losses in respect of trade and other receivables	2,227	–	–	2,227
Amounts regularly provided to the chief executive officer but not included in the measure of segment profit or loss or segment assets:				
Interest income	(4)	(2)	–	(6)
Finance costs	160	–	7,028	7,188

9. SEGMENT INFORMATION (CONTINUED)

Other segment information (Continued)

For the year ended 31 March 2010

	Auto parts *RMB'000*	Construction decorative hardware products *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation of plant and equipment	5,373	–	–	5,373
Capital expenditure in respect of plant and equipment	8,680	–	–	8,680
Impairment loss in respect of other receivables	200	–	–	200
Allowance for inventories	661	–	–	661
Amounts regularly provided to the chief executive officer but not included in the measure of segment profit or loss or segment assets:				
Interest income	(11)	–	–	(11)
Impairment loss recognised on amounts due from deconsolidated subsidiaries	14,683	–	–	14,683
Share of loss of an associate	–	–	21,813	21,813
Impairment loss of interest in an associate	–	–	308,882	308,882
Finance costs	–	–	59,605	59,605

9. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's operation is located in the PRC.

The Group's revenue from external customers by geographical location is detailed below:

	2011	2010
	RMB'000	*RMB'000*
PRC	**242,393**	50,705
United States	**1,141**	–
Europe	**3,515**	–
	247,049	50,705

An analysis of non-current assets by geographical area based on the location of assets has not been presented as all of the Group's non-current assets are located in the PRC.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011	2010
	RMB'000	*RMB'000*
Customer A[3]	**85,991**	N/A[1]
Customer B[4]	**64,434**	N/A[1]
Customer C[2]	**35,648**	17,950
Customer D[2]	**N/A**[1]	10,467
Customer E[2]	**N/A**[1]	5,852

1 No revenue was contributed to the Group in respective year.
2 Attributable to the auto parts business.
3 Attributable to the construction decorative hardware business.
4 Attributable to the both auto parts and construction decorative hardware business.

10. OTHER INCOME AND GAINS

	2011	2010
	RMB'000	*RMB'000*
Net exchange gain	**23,435**	9,922
Government grants *(note)*	**350**	2,871
Interest income	**6**	11
Sundry income	**74**	72
	23,865	12,876

Note: Government grants are awarded to the Group by the local government agencies as incentives primarily to encourage the development of the Group and the contribution to the local economic development.

11. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest on:		
– borrowings wholly repayable within five years	**105**	54,859
– amounts due to the NAIH Scheme	**6,828**	–
– senior note	**95**	–
– discounted bills	**160**	–
– obligations under finance leases	**–**	4,746
	7,188	59,605

12. INCOME TAX EXPENSE

Income tax expense included in consolidated statement of comprehensive income comprised of:

	2011	2010
	RMB'000	*RMB'000*
PRC Enterprise Income Tax	**5,655**	683

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising from Hong Kong during the reporting period (2010: nil).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**20,914**	1,350,784
Tax expense at rates applicable to profits in the jurisdictions concerned	**4,078**	221,112
Tax effect of share of result of interest in an associate	**–**	3,599
Tax effect of income not taxable for tax purpose	**(2,560)**	(291,834)
Utilisation of tax losses previously not recognised	**(883)**	–
Tax effect of expenses not deductible for tax purpose	**5,020**	66,923
Tax effect of tax losses not recognised	**–**	883
Income tax expense	**5,655**	683

12. INCOME TAX EXPENSE (CONTINUED)

According to the EIT Law, the profits of the PRC subsidiaries of the Company derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. During the year ended 31 March 2011, no deferred tax has been recognised for withholding taxes of such profit of approximately RMB16,125,000 that would be payable on the unremitted earnings of the Group's subsidiaries established in the PRC. In the opinion of the Directors, the Group is able to control the timing of the reversal of the temporary differences and it is not probable that these subsidiaries will distribute their earnings accrued after 1 January 2008 in the foreseeable future. As at 31 March 2010, the Group's subsidiaries in the PRC did not have profits available for distribution.

As at 31 March 2011, the Group has unused tax losses of RMB232,976,000 (2010: RMB236,508,000) available for offset against future profits of RMB232,976,000 (2010: RMB232,976,000) may be carried forward indefinitely. Tax losses of RMB3,532,000 as at 31 March 2010 will begin to expire in 2015. No deferred tax asset has been recognised for these tax losses due to the unpredictability of future profit streams.

13. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2011	2010
	RMB'000	*RMB'000*
Auditor's remuneration	**892**	1,015
Cost of inventories recognised as an expense	**221,066**	41,736
Depreciation of plant and equipment	**4,702**	5,373
Operating lease charges in respect of:		
– Factory and office premises *(note)*	**1,874**	889
– Plant and machinery *(note)*	**7,900**	–
Impairment losses in respect of trade and other receivables	**2,227**	200
Allowance for inventories (included in cost of sales)	**1,787**	661
Staff costs (including directors' emoluments):		
– Salaries, bonus and allowances	**19,931**	8,239
– Share-based payment expenses	**840**	1,554
– Retirement benefit scheme contributions	**–**	–

Note: Included in the balances were RMB7,040,000 (2010: free of charge) in respect of leases entered into with the PRC Subsidiaries.

14. DIRECTORS' EMOLUMENTS

Details of emoluments of the Directors of the Company disclosed pursuant to the Listing Rules and section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 31 March 2011

	Fees	Basic salaries, other allowances and benefits in kind	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Ms. Lilly Huang	–	–	–	–	–	–
Independent Non-Executive Directors						
Mr. Choi Tat Ying, Jacky	–	–	–	51	–	51
Mr. Zhang Jian Chun (resigned on 10 May 2010)	–	–	–	–	–	–
Ms. Zhang Xin, Cindy (resigned on 10 May 2010)	–	–	–	–	–	–
	–	–	–	51	–	51

14. DIRECTORS' EMOLUMENTS (CONTINUED)

For the year ended 31 March 2010

	Fees	Basic salaries, other allowances and benefits in kind	Discretionary bonus	Share-based payments	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors						
Ms. Lilly Huang	–	–	–	–	–	–
Mr. Zhou Tian Bao (resigned on 25 November 2009)	–	–	–	–	–	–
Mr. Dai Wei (resigned on 25 November 2009)	–	–	–	665	–	665
Mr. Chen Xiang Dong (resigned on 25 November 2009)	–	–	–	665	–	665
Independent Non-Executive Directors						
Mr. Choi Tat Ying, Jacky	–	–	–	86	–	86
Mr. Zhang Jian Chun (resigned on 10 May 2010)	–	–	–	–	–	–
Ms. Zhang Xin, Cindy (resigned on 10 May 2010)	–	–	–	–	–	–
	–	–	–	1,416	–	1,416

No emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office for two years ended 31 March 2011 and 2010.

No director or senior executives waived or agreed to waive his emoluments in the two years ended 31 March 2011 and 2010.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2010: three) is director(s) of the Company whose emoluments are included in note 14 above. The emoluments of the remaining four (2010: two) individuals were as follows:

	2011	2010
	RMB'000	*RMB'000*
Basic salaries, other allowances and benefits in kind	**508**	113
Retirement benefit scheme contributions	**–**	–
	508	113

Their emoluments were within the following bands:

	2011	2010
	Number of employees	*Number of employees*
Nil to HK$1,000,000 (equivalent to nil to RMB833,000)	**4**	2

During the years ended 31 March 2011 and 2010, no emoluments were paid by the Group to any of the highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

16. DIVIDENDS

No dividend was paid or proposed during the year ended 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

17. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the year ended 31 March 2011 and 2010.

	2011	2010
Profit for the year attributable to owners of the Company *(RMB'000)*	**15,259**	1,350,101
Weighted average number of ordinary shares in issue	**1,259,461,601**	1,259,461,601

17. EARNINGS PER SHARE (CONTINUED)

Diluted

Trading in the shares of the Company was suspended since 19 January 2009 and no information of the average market price per share for the year is available. As the exercise price of the outstanding share options is higher than the market price for shares immediately before the suspension of trading in the Company's shares, the computations of diluted earnings per share for the year ended 31 March 2011 and 2010 do not assume the exercise of the Company's outstanding share options.

18. PLANT AND EQUIPMENT

	Machinery and equipment	Office equipment and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 1 April 2009	40,916	422	98	1,445	42,881
Reclassification upon completion	1,445	–	–	(1,445)	–
Release to the Schemes	–	(398)	(97)	–	(495)
Additions	8,621	–	59	–	8,680
At 31 March 2010 and 1 April 2010	50,982	24	60	–	51,066
Additions	1,534	76	–	–	1,610
At 31 March 2011	52,516	100	60	–	52,676
Accumulated depreciation and impairment					
At 1 April 2009	1,118	185	–	–	1,303
Provided for the year	5,307	61	5	–	5,373
Written back on release to the Schemes	–	(228)	–	–	(228)
At 31 March 2010 and 1 April 2010	6,425	18	5	–	6,448
Provided for the year	4,682	15	5	–	4,702
At 31 March 2011	11,107	33	10	–	11,150
Carrying amounts					
At 31 March 2011	41,409	67	50	–	41,526
At 31 March 2010	44,557	6	55	–	44,618

18. PLANT AND EQUIPMENT (CONTINUED)

The above items of plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of their estimated residual values and useful lives as follows:

	Useful life
Machinery and equipment	10 years
Office equipment and fixtures	10 years
Motor vehicles	10 years

The carrying amounts of machinery and equipment held under finance leases as at 31 March 2011 amounted to approximately RMB16,936,000 (2010: RMB18,780,000).

In light of the continuing loss making of certain products in the auto parts segment, an impairment assessment has been performed by the Directors of the Company to determine the recoverable amount of related plant and equipment. The recoverable amounts of the relevant assets have been determined by the Directors of the Company on the basis of their value-in-use.

Having regard to the future plan of the Group and the assessment made by the Directors of the Company, no impairment was made to the carrying amounts of the plant and equipment as at 31 March 2011 (2010: nil).

19. INTEREST IN AN ASSOCIATE

	2011	2010
	RMB'000	*RMB'000*
Cost of investment in associate – unlisted equity investment	**160,461**	160,461
Share of post-acquisition profits and losses	**148,421**	148,421
	308,882	308,882
Less: Impairment	**(308,882)**	(308,882)
	–	–

19. INTEREST IN AN ASSOCIATE (CONTINUED)

As at 31 March 2011 and 2010, the Group had interest in the following associate:

Name of entity	Form of entity	Place of incorporation and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
Profound Global Limited	Incorporated	British Virgin Islands	Ordinary shares	40%	40%	Investment holding

The summarised consolidated financial information in respect of the Group's associate is set out below:

	2011	2010
	RMB'000	*RMB'000*
Total assets	**583,457**	1,166,734
Total liabilities	**(42,685)**	(127,872)
Net assets	**540,772**	1,038,862
Group's share of net assets of associate	**216,309**	415,545
Revenue	**–**	174,630
Loss for the year	**(261)**	(54,662)
Share of loss of an associate for the year	**–**	(21,813)

The Directors of the Company reviewed the carrying amount of interest of an associate as at 31 March 2010. In view of the continuing losses, the Directors of the Company were of the opinion that the recoverable amount of interest in an associate was less than its carrying amount as at 31 March 2010 and accordingly an impairment loss of approximately RMB308,882,000 was recognised for the year ended 31 March 2010.

20. INVENTORIES

	2011	2010
	RMB'000	*RMB'000*
Raw materials	**13,246**	82
Work in progress	**3,523**	–
Finished goods	**3,453**	5,715
	20,222	5,797

21. TRADE AND OTHER RECEIVABLES AND AMOUNTS DUE FROM THE DECONSOLIDATED SUBSIDIARIES AND AN ASSOCIATE

	2011	2010
	RMB'000	*RMB'000*
Trade and bills receivables	**43,284**	20,386
Less: Impairment	**(2,200)**	–
Trade receivables (net of impairment)	**41,084**	20,386
Prepayments and other receivables	**6,320**	2,257
Less: Impairment	**(227)**	(200)
Prepayments and other receivables (net of impairment)	**6,093**	2,057
Total trade and other receivables	**47,177**	22,443
Amount due from an associate	**2,705**	2,417
Amounts due from deconsolidated subsidiaries	**479,705**	492,594
Less: Impairment	**(479,705)**	(479,705)
Amounts due from deconsolidated subsidiaries (net of impairment)	**–**	12,889

21. TRADE AND OTHER RECEIVABLES AND AMOUNTS DUE FROM THE DECONSOLIDATED SUBSIDIARIES AND AN ASSOCIATE (CONTINUED)

Trade and bills receivables

The Group allows an average credit period of 30 – 90 days to its trade customers. The following is an aged analysis of trade and bill receivables, net of impairment, presented based on the invoice date at the end of the reporting period.

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**35,450**	18,426
91 to 180 days	**5,327**	549
181 to 365 days	**307**	1,411
	41,084	20,386

Included in the Group's trade and bill receivables as at 31 March 2011 are debtors with aggregate carrying amount of approximately RMB5,634,000 (2010: RMB1,960,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade and bills receivables which are past due but not impaired

	2011	2010
	RMB'000	*RMB'000*
91 to 180 days	**5,327**	549
181 to 365 days	**307**	1,411
Total	**5,634**	1,960

Movements in impairment of trade receivables

	2011	2010
	RMB'000	*RMB'000*
At the beginning of the year	**–**	11,472
Impairment losses recognised	**2,200**	–
Write-back on transfer of trade receivables to the Schemes	**–**	(11,472)
At the end of the year	**2,200**	–

21. TRADE AND OTHER RECEIVABLES AND AMOUNTS DUE FROM THE DECONSOLIDATED SUBSIDIARIES AND AN ASSOCIATE (CONTINUED)

Prepayments and other receivables

Movement in impairment of prepayments and other receivables

	2011	2010
	RMB'000	*RMB'000*
At the beginning of the year	**200**	–
Impairment losses recognised	**27**	200
At the end of the year	**227**	200

Included in the impairment of prepayments and other receivables are individually impaired amounts with an aggregate balance of RMB227,000 (2010: RMB200,000). The Group does not hold any collateral over these balances.

Amounts due from deconsolidated subsidiaries

The amounts due from deconsolidated subsidiaries (the "PRC Subsidiaries") are unsecured, non-interest bearing and repayable on demand.

Movements in impairment of amounts due from deconsolidated Subsidiaries

	2011	2010
	RMB'000	*RMB'000*
At the beginning of the year	**479,705**	1,628,434
Write-back on transfer of amounts to the Schemes	**–**	(1,163,412)
Impairment losses recognised	**–**	14,683
At the end of the year	**479,705**	479,705

Included in the impairment of amounts due from deconsolidated subsidiaries are individually impaired amounts with an aggregate balance of RMB479,705,000 (2010: RMB479,705,000). The Group does not hold any collateral over these balances.

Amount due from an associate

The amount due from an associate is unsecured, non-interest bearing and repayable on demand.

22. BANK BALANCES AND CASH

At 31 March 2010 and 2011, all bank balances and cash of the Group denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Bank balances carry average interest rate of 0.01% per annum (2010: 0.01% to 0.36% per annum).

23. TRADE AND OTHER PAYABLES AND AMOUNTS DUE TO AN ASSOCIATE

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**14,531**	6,664
Accruals and other payable	**22,105**	15,284
Amount due to the Schemes	**386,081**	413,445
Trade and other payables	**422,717**	435,393
Amounts due to an associate	**1,175**	867

Trade payables

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**10,584**	5,156
91 to 180 days	**1,844**	1,382
181 to 365 days	**1,449**	126
Over 365 days	**654**	–
	14,531	6,664

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

23. TRADE AND OTHER PAYABLES AND AMOUNTS DUE TO AN ASSOCIATE (CONTINUED)

Amounts due to the Schemes

The amounts represented the NFG Repayment Obligation, the NAIH Obligation and amounts due by the Group to the subsidiaries that were transferred to the NFG SPV and the NAIH SPV pursuant to the Schemes.

Except for an amount due to the NAIH Scheme of RMB116,662,000 (2010: RMB123,270,000) which bears interest at 5% per annum, all balances are unsecured, non-interest bearing, and are repayable on demand or within 1 year from the end of the reporting period.

Amount due to an associate

The amount is unsecured, non-interest bearing and repayable on demand.

24. OBLIGATIONS UNDER FINANCE LEASES

Pursuant to the terms of the NAIH Scheme, any claims, including interest costs, arising from obligations under finance leases after the effective date of the NAIH Scheme will be borne by the NAIH Scheme. As a result, the obligations under finance leases as at 31 March 2011 and 2010 were non-interest bearing.

	Minimum lease payments		**Present value of minimum lease payments**	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts payable under finance leases				
On demand	**26,784**	28,300	**26,784**	28,300
Less: future finance charges	**–**	–	**–**	–
Present value of lease obligations	**26,784**	28,300	**26,784**	28,300
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(26,784)**	(28,300)
Amount due for settlement after 12 months			**–**	–

24. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

It was the Group's policy to lease certain of its machinery and equipment under finance leases.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets and are denominated in HK$.

As at 31 March 2011, the Group had breached certain covenant clauses in respect of its obligations under finance lease. As a result, obligations under finance leases of RMB934,000 (2010: RMB7,209,000) as at 31 March 2011 that are originally not repayable within twelve months from the end of the reporting period had become repayable on demand and were therefore presented as current liabilities as at 31 March 2011.

25. SENIOR NOTE

The amount is unsecured and carrying interest at HIBOR plus 1.05% and repayable on 8 September 2011. The maturity date of the senior note was extended to 28 February 2013 subsequent to the end of reporting period.

26. INTEREST-BEARING BORROWINGS

	2011	2010
	RMB'000	*RMB'000*
Discounted bills	**4,233**	–

The Group's discounted bills were with recourse as at the reporting date and carrying interest at 7.2% per annum.

27. SHARE CAPITAL

			2011	2010
	Number of shares	*HK$'000*	***RMB'000***	*RMB'000*
Authorised:				
Ordinary shares of HK$0.1 each	5,000,000,000	500,000		
Issued and fully paid:				
At the beginning/end of the year	1,259,461,601	125,946	**111,248**	111,248

28. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a share option scheme on 4 September 2003 (the "Share Option Scheme") whereby the Directors of the Company are authorised, at their discretion, to invite, inter alia, employees of the Group (including directors of any company in the Group) to take up options to subscribe for shares of the Company. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Details of the Share Option Scheme are disclosed in the Directors' Report under the heading of "Share option scheme".

Details of the share options granted under the Share Option Scheme are as follows:

	Date of grant	Number of options granted	Vesting period	Exercise period	Exercise price
1st Batch A	26 September 2006	7,004,000	26 September 2006 to 25 September 2008	26 September 2008 to 3 September 2013	HK$2.57
1st Batch B	26 September 2006	7,004,000	26 September 2006 to 25 September 2009	26 September 2009 to 3 September 2013	HK$2.57
1st Batch C	26 September 2006	7,017,000	26 September 2006 to 25 September 2010	26 September 2010 to 3 September 2013	HK$2.57
2nd Batch A	14 December 2007	6,380,000	14 December 2007 to 25 September 2009	26 September 2009 to 3 September 2013	HK$2.29
2nd Batch B	14 December 2007	6,380,000	14 December 2007 to 25 September 2010	26 September 2010 to 3 September 2013	HK$2.29
2nd Batch C	14 December 2007	6,394,000	14 December 2007 to 25 September 2011	26 September 2011 to 3 September 2013	HK$2.29

28. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

	Number of share options				
Share option holders	**Outstanding at 1 April 2010**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31 March 2011**
Director					
Mr. Choi Tat Ying, Jacky	**500,000**	**–**	**–**	**–**	**500,000**
Employees of the Group	**12,300,000**	**–**	**–**	**–**	**12,300,000**
Total	**12,800,000**	**–**	**–**	**–**	**12,800,000**
Exercisable at end of the year	**6,394,000**				**10,664,000**
Weighted average exercise price *(HK$)*	**2.43**	**–**	**–**	**–**	**2.43**

	Number of share options				
Share option holders	Outstanding at 1 April 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 March 2010
Directors					
Mr. Dai Wei (retired on 25 November 2009)	5,000,000	–	–	(5,000,000)	–
Mr. Chen Xiang Dong (retired on 25 November 2009)	5,000,000	–	–	(5,000,000)	–
Mr. Choi Tat Ying, Jacky	500,000	–	–	–	500,000
Sub-total	10,500,000	–	–	(10,000,000)	500,000
Employees of the Group	13,304,000	–	–	(1,004,000)	12,300,000
Total	23,804,000	–	–	(11,004,000)	12,800,000
Exercisable at end of the year	–				6,394,000
Weighted average exercise price *(HK$)*	2.43	–	–	2.43	2.43

28. SHARE-BASED PAYMENTS TRANSACTIONS (CONTINUED)

The options outstanding as at 31 March 2011 of the year have a remaining contractual life of 2.5 years (2010: 3.5 years) and the exercise prices range from HK$2.29 to HK$2.57 (2010: from HK$2.29 to HK$2.57).

Options are forfeited if the employee leaves the Group before the options vest. All the options forfeited before expiry of the options will be treated as lapsed options under the Share Option Scheme.

The fair value of the share options at the date of grant was calculated using the Binomial Option pricing model. The inputs into the model were as follows:

	1st Batch	**2nd Batch**
Date of grant:	26 September 2006	14 December 2007
Share price at the grant date:	HK$2.56	HK$2.29
Exercise price:	HK$2.57	HK$2.29
Expected life of the options:	4.0-6.3 years	4.1-5.4 years
Expected volatility:	43.7%	45%
Expected dividend yield:	1.5% on semi-annual basis	2.99% per annum
Risk free interest rate:	3.816%	2.997%
Exit rate:	0% for Directors; 20% for employees	0% for Directors; 5% for employees
Trigger price multiple:	2 times for Directors; 1.5 times for employees	2 times for Directors; 1.5 times for employees

Based on the above assumptions, the weighted-average fair values of the options granted under 1st Batch and 2nd Batch were approximately HK$0.908 per option and HK$0.818 per option respectively. The expenses recognised in the consolidated statement of comprehensive income for share options during the year ended 31 March 2011 was approximately RMB840,000 (2010: RMB1,554,000).

29. RESERVES

Nature and purpose of reserves

(i) Share premium

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

(iii) Share option reserve

This represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 4 to the consolidated financial statements.

(iv) Merger reserve

The merger reserve represents the difference between the aggregate net assets of the subsidiaries acquired by the Group and the nominal amount of the Company's shares issued at the date of reorganisation as set out in the prospectus of the Company dated 29 September 2003.

30. COMMITMENTS

(a) Operating lease commitments

The Group as lessee

Certain office premises and machinery of the Group were leased under operating lease arrangement. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011	2010
	RMB'000	*RMB'000*
Within one year	**16,200**	–
In the second to fifth years inclusive	**51,050**	–
	67,250	–

Leases are negotiated for an average term of 5 years (2010: Nil years).

(b) Capital commitments

	2011	2010
	RMB'000	*RMB'000*
Contracted for but not provided in the consolidated financial statements in respect of the acquisition of machinery and equipment	**–**	807

31. GAIN ARISING FROM THE RELEASE OF INDEBTEDNESS

As disclosed in note 2 to the financial statements, the Schemes became effective on 19 March 2010. Pursuant to the Schemes, certain assets and liabilities of the Group, including the entire equity interests in New-Tech and Smooth Ride, were transferred to the Schemes. The Group recorded a gain arising from the release of indebtedness of RMB1,763,355,000. The consolidated assets and liabilities deconsolidated at 19 March 2010 were as follows:

	RMB'000
Plant and equipment	267
Goodwill	–
Available-for-sale investments	–
Trade and other receivables	33,089
Bank balances and cash	5,137
Trade and other payables	(746,930)
Amounts due to directors	(779)
Amount due to an associate	(23,891)
Unsecured interest-bearing borrowings (excluding bank overdrafts)	(1,389,428)
Bank overdrafts	(45,630)
Obligations under finance leases	(7,723)
Net liabilities deconsolidated	(2,175,888)
Release of foreign currency translation reserve	74
Amounts due to the Schemes	412,459
Gain arising from the release of indebtedness	(1,763,355)
Amounts due to the Schemes comprised of:	
Net balances with New-Tech, Smooth Ride, Fullitech and Norstar Chassis transferred to the Schemes	223,603
Amounts due to the Schemes arising from the debt restructuring *(note 2)*	188,856
	412,459
Net cash inflow from the release of indebtedness:	
Bank balances and cash	(5,137)
Bank overdrafts	45,630
	40,493

32. CONTINGENCIES

As at 31 March 2010 and 2011, the Company provided the NFG Undertaking and Fullitech provided the Fullitech Corporate Guarantee for a sum up to the NAIH Repayment Obligation.

33. RELATED PARTY TRANSACTIONS

a) Apart from the balances and transactions with related parties disclosure elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties:

	2011	2010
	RMB'000	*RMB'000*
Related company		
Rental in respect of factories and machineries *(note i)*	**(2,710)**	–
Subsidiary of an associate		
Subcontracting fee *(note ii)*	**(5,525)**	–
Sales of goods *(note ii)*	**3,352**	–
Purchase of goods *(note ii)*	**(16,776)**	–

Note:

(i) In 2011, the Group entered into tenancy agreements with a related company in which Mr. Zhou Tian Bao, a substantial shareholder and a former director of the Company, is a common director for the lease of factories and machineries for a term of five year commencing from 1 April 2010 and 1 November 2010. Transactions were conducted with terms mutually agreed with the contracting parties pursuant to signed agreements.

(ii) These transactions were conducted according to terms mutually agreed between the parties.

b) The emoluments of the Directors of the Company (representing key management personnel) during the year are set out in note 14.

34. PLEDGE OF ASSETS

The Group's entire and 40% equity interests in Norstar Chassis and Profound respectively were pledged for the NAIH Repayment Obligation as set out in note 2.

35. SUMMARISED FINANCIAL POSITION OF THE COMPANY

	2011	2010
	RMB'000	*RMB'000*
Non-current asset		
Investment in a subsidiary	**–**	–
Current asset		
Amounts due from subsidiaries	**–**	–
Current liabilities		
Amount due to the NFG Scheme	**(166,660)**	(176,100)
Other payables	**(322)**	(231)
	(166,982)	(176,331)
	(166,982)	(176,331)
Capital and reserves		
Share capital	**111,248**	111,248
Reserves	**(278,230)**	(287,579)
	(166,982)	(176,331)

36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31 March 2011 and 2010, the Company has indirect equity interests in the following principal subsidiaries:

Name of subsidiary	Place/country of incorporation or registration/ operations	Class of shares held	Paid up issued share capital	Proportion ownership interest and voting power indirectly held by the Company	Principal activities
NAIH	Hong Kong	Ordinary shares	HK$100,000,000	100%	Investment holding
Norstar Chassis*	PRC	Contributed capital	US$49,000,000	100%	Design, development and manufacturing and sale of auto brakes, shock absorbers, suspension and transmission
Suzhou Norshing#	PRC	Contributed capital	RMB5,000,000	100%	Marketing, trading and distribution of auto parts and construction decorative hardware products

None of the subsidiaries had issued any debt securities subsisting at the end of the years or at any time during both years.

The above table lists the subsidiaries of the Group that principally affected the results or assets of the Group.

* Wholly-foreign-owned enterprise registered in the PRC

\# Domestic enterprises registered in the PRC

37. EVENTS AFTER THE REPORTING PERIOD

(a) On 17 May 2011, 6 September 2011, 14 May 2012 and 17 September 2012, the High Court ordered that the hearing of the winding up petitions against the Company and NAIH be adjourned to 5 September 2011, 14 May 2012, 17 September 2012 and 18 February 2013 respectively.

(b) On 15 August 2011 and 6 September 2012, the Company and the holder of the Senior Note entered into side letters in relation to the Senior Note, pursuant to which both parties agreed to extend the maturity date of the Senior Note to 8 September 2012 and 28 February 2013 respectively.

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated income statements and balance sheets of the Group.

CONSOLIDATED INCOME STATEMENTS

For the year ended 31 March

(RMB'000)	**2011**	2010	2009	2008	2007
Turnover	**247,049**	50,705	110,570	3,886,485	3,497,159
Cost of good	**(222,853)**	(42,397)	(100,737)	(3,249,713)	(2,881,914)
Gross profit	**24,196**	8,308	9,833	636,772	615,245
Other income	**23,865**	12,876	19,468	100,779	48,568
Distribution and selling expense	**(6,426)**	(3,276)	(1,356)	(45,474)	(57,508)
Administrative Expense	**(13,533)**	(25,496)	(78,761)	(82,172)	(116,929)
Operating Profit	**28,102**	(7,588)	(50,816)	609,905	489,376
Finance Expense	**(7,188)**	(59,605)	(58,165)	(84,060)	(71,046)
Gain arising from the release of indebtedness	**–**	1,763,355	–	–	–
Impairment loss recognised on investments in deconsolidated subsidiaries	**–**	–	(2,294,119)	–	–
Impairment loss recognised on amounts due from deconsolidated subsidiaries	**–**	(14,683)	(1,628,434)	–	–
Net (loss) gain arising from change in fair values of derivative financial instruments	**–**	–	(717,845)	2,323	–
Impairment loss of interest in an associate	**–**	(308,882)	–	–	–
Share of profits of an associate	**–**	(21,813)	(104,553)	34,514	35,655
Profit before tax	**20,914**	1,350,784	(4,853,932)	562,682	453,985
Income tax expense	**(5,655)**	(683)	(616)	(52,801)	(49,835)
Profit for the year	**15,259**	1,350,101	(4,854,548)	509,881	404,150
Exchange difference arising on translation	**–**	–	(1,575)	–	–
Exchange difference released on deconsolidation of subsidiaries	**–**	74	(180,058)	–	–
	15,259	1,350,175	(5,036,181)	509,881	404,150
Attributable to:					
Equity holders of the Company	**15,259**	1,350,175	(5,036,181)	509,881	404,150
Minority Interests	**–**	–	–	–	–
	15,259	1,350,175	(5,036,181)	509,881	404,150

FIVE YEAR FINANCIAL SUMMARY

(RMB'000)	**2011**	2010	2009	2008	2007
Non-Current Assets					
Property, plant and equipment	**41,526**	44,618	41,578	979,068	854,567
Deposits paid for acquisition of property, plant and equipment	**–**	–	4,120	–	–
Prepaid land lease payments	**–**	–	–	55,034	56,282
Goodwill	**–**	–	–	29,639	29,639
Other intangible assets	**–**	–	–	10,823	743
Investment in associate	**–**	–	330,695	435,248	423,357
	41,526	44,618	376,393	1,509,812	1,364,588
Current Assets					
Inventories	**20,222**	5,797	–	62,290	81,202
VAT receivable	**–**	–	–	75,009	145,625
Trade and other receivables	**47,177**	22,443	48,035	621,079	715,059
Amount due from an associate	**2,705**	2,417	–	–	–
Amounts due from deconsolidated subsidiaries	**–**	12,889	36,708	–	–
Derivative financial instruments	**–**	–	–	4,261	–
Pledged bank deposits	**–**	–	–	15,439	16,450
Cash and bank balances	**1,435**	375	10,119	2,782,306	1,727,085
	71,539	43,921	94,862	3,560,384	2,685,421
Current Liabilities					
Trade and other payables	**(422,717)**	(435,393)	(749,601)	(112,676)	(186,867)
Amount due to an associate	**(1,175)**	(867)	(23,981)	(1,161)	–
Amounts due to directors	**–**	–	(779)	(596)	–
Derivative financial instruments	**–**	–	–	(15,212)	–
Obligations under finance leases	**(26,784)**	(28,300)	(32,591)	(16,858)	–
Senior note	**(12,592)**	–	–	–	–
Unsecured interest-bearing borrowings	**(4,233)**	–	(1,392,736)	(209,652)	(186,978)
Current portion of non-current borrowings	**–**	–	–	–	(361,265)
Notes payable	**–**	–	–	–	–
Convertible bonds	**–**	–	–	–	(56,753)
Current tax liabilities	**(6,785)**	(1,299)	(616)	(16,297)	(14,128)
	(474,286)	(465,859)	(2,200,304)	(372,452)	(805,991)
Net Current Assets	**(402,747)**	(421,938)	(2,105,442)	3,187,932	1,879,430
Non-Current Liabilities					
Convertible bonds	**–**	–	–	–	–
Obligation under finance leases	**–**	–	–	(20,209)	–
Unsecured interest-bearing borrowings	**–**	–	–	(1,301,468)	(279,720)
	–	–	–	(1,321,677)	(279,720)
Net Asset (Liability)	**(361,221)**	(377,320)	(1,729,049)	3,376,067	2,964,298