



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

(Provisional Liquidators Appointed)

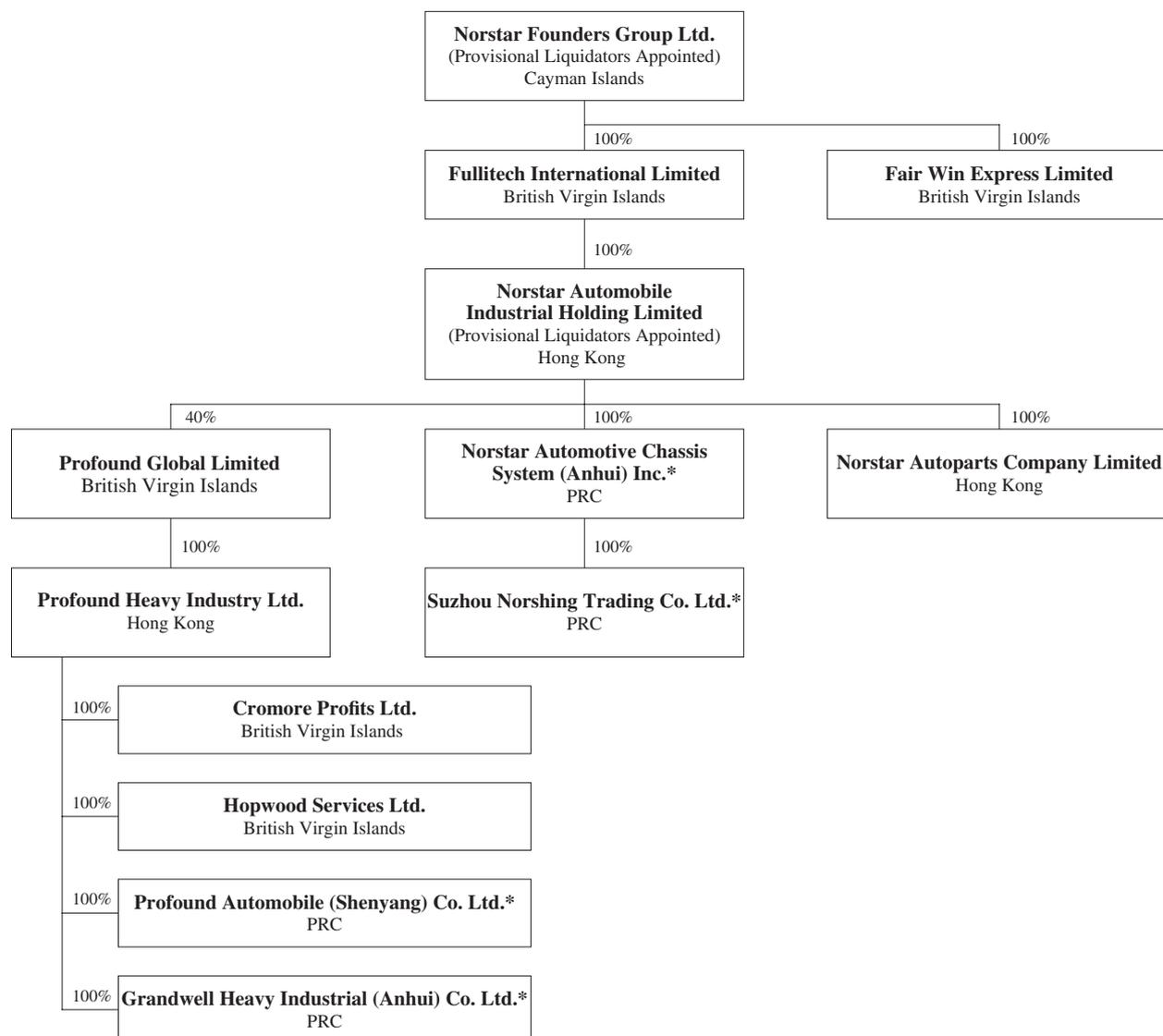
(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2339)

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## GROUP CHART AS AT 31 MARCH 2012



\* For identification purpose only

## **CORPORATE INFORMATION**

### **EXECUTIVE DIRECTORS**

Ms. Lilly Huang  
Mr. Chin Chang Keng, Raymond  
(appointed on 13 September 2013)

### **INDEPENDENT NON-EXECUTIVE DIRECTOR**

Mr. Choi Tat Ying, Jacky

### **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**

ZHONGHUI ANDA CPA Limited  
21/F., Max Share Centre  
373 King's Road  
North Point, 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 2012.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. During the year, the Group was principally engaged in the manufacturing, 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 13 January 2014.

## DIRECTORS' REPORT

### PROPOSED RESTRUCTURING OF THE GROUP

The Group's proposed restructuring, which is to be carried out in two parts (i.e. the Debt Restructuring and the Capital Restructuring), was formulated to address the indebtedness of the Company and NAIH as described below under the section headed "The Debt Restructuring" and to regularise the financial position and capital needs of the Restructured Group.

#### The Debt Restructuring

The Debt Restructuring is being effected through the NFG Scheme and the NAIH Scheme pursuant to Section 166 of the Companies Ordinance to address the indebtedness of the Company and NAIH, respectively. 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. Further details of the Schemes were set out in the announcements of the Company dated 15 December 2009, 3 March 2010 and 24 March 2010 (the "Announcements"). Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the Announcements.

#### *NFG Scheme*

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

- (a) A sum of HK\$2,000,000 placed with the Company by Mr. Zhou Tian Bao ("Mr. Zhou"), a substantial shareholder of the Company;
- (b) A repayment obligation from the Company in favour of a special purpose company incorporated to facilitate the proposed debt restructuring of the Company 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
- (c) Amounts recoverable from NAIH and Fullitech by way of distribution from the NAIH Scheme.

Items (a), (b) and (c) above are collectively referred to as the "NFG Scheme Assets".

## DIRECTORS' REPORT

### PROPOSED RESTRUCTURING OF THE GROUP (CONTINUED)

#### *The Debt Restructuring (Continued)*

##### *NAIH Scheme*

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

- (a) 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");
- (b) Net proceeds arising from the disposal of equity interests in four independent third party companies (the "Four Third Party Companies");
- (c) Net cash flow to be generated/net proceeds arising from the following:
  - (i) 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 together with interest thereon (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
- (ii) Net proceeds arising from the disposal of Norstar Suspension and 60% shareholding in Profound held by the NAIH SPV.
- (d) 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
  - (e) Net proceeds arising from the disposal of Norstar Suspension after full settlement of the NAIH Repayment Obligation.

## DIRECTORS' REPORT

### PROPOSED RESTRUCTURING OF THE GROUP (CONTINUED)

#### *The Debt Restructuring (Continued)*

##### *NAIH Scheme (Continued)*

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.

Subsequent to the Effective Date, certain proposals affecting the Schemes have been sought as follows:

##### *NFG Scheme*

- (a) a release or waiver of all amounts owing from Fullitech to the Company which was assigned to the NFG SPV pursuant to the terms of the NFG Scheme, save and except for the amount to which Fullitech is entitled as a creditor of NAIH which is to be distributed by the NAIH Scheme Administrators under the terms of the NAIH Scheme; and
- (b) an extension of time for the fulfilment of the NFG Repayment Obligation from within 12 months of the Effective Date to 31 December 2013, or on the completion of the subscription agreement entered into with the Investor, whichever is later.

##### *NAIH Scheme*

- (a) a release of Fullitech Corporate Guarantee;
- (b) a release of the share charge over NAIH's 100% shareholding interest in Norstar Chassis;
- (c) a release of the NFG Undertaking, and in consideration for and simultaneous upon that release, 377,838,480 Subscription Shares subscribed by the Investor shall be issued and allotted to the NAIH SPV, and shall form part of the Scheme Assets of the NAIH Scheme; and
- (d) a release or waiver of all amounts owing from Norstar Chassis to NAIH which was assigned to NAIH SPV pursuant to the terms of the NAIH Scheme.

## DIRECTORS' REPORT

### PROPOSED RESTRUCTURING OF THE GROUP (CONTINUED)

#### *The Debt Restructuring (Continued)*

##### *NAIH Scheme (Continued)*

Subject to obtaining all necessary consents, authorisations and/or sanctions from the High Court, the Grand Court of the Cayman Islands and any other relevant parties, it is expected that upon Completion, the above obligations shall be fully discharged and accordingly all financial obligations/claims made against the Company and NAIH shall be fully discharged.

##### *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 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 with its maturity date on 6 September 2011 and the proceed raised was utilised to satisfy the NAIH obligation.

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 of the loan:	All outstanding loan together with all accrued and unpaid interest shall be repaid in one lump sum on the maturity date
Maturity date:	6 September 2011*

\* The maturity date of the Senior Note has been extended by the parties from 6 September 2011 to 30 November 2013 by way of various side letters dated 15 August 2011, 6 September 2012, 28 February 2013, 30 April 2013, 31 May 2013, 30 June 2013, 31 July 2013, 31 August 2013, 30 September 2013 and 31 October 2013. Further details of the Senior Note are set out in the Company's announcement dated 5 October 2010.

Pursuant to the Subscription Agreement, the Company has, in consideration of the subscription of the Senior Note by OSL, undertaken to OSL that it shall issue the warrants (the "Warrants"), free and clear of all and any encumbrances, to the Subscriber Shareholders (being the shareholders of OSL). The gross proceeds arising from the exercise of the Warrants amounting to approximately HK\$14.7 million will be utilised as working capital of the Restructured Group.

As of the date of these 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.

## DIRECTORS' REPORT

### PROPOSED RESTRUCTURING OF THE GROUP (CONTINUED)

#### *The Capital Restructuring*

On 31 May 2013, the Company, the Provisional Liquidators and the Investor entered into the subscription agreement. The subscription agreement, among other matters, sets out the terms of the proposed issuance of subscription shares and the proposed issuance of non-voting convertible Class B shares (the "Share Subscription Agreement"), which form part of the restructuring of the Company.

Subject to the fulfillment of the conditions precedent under the Share Subscription Agreement, the Investor will subscribe for the following with a total cash consideration of approximately HK\$250 million:

- (i) 1,555,538,480 ordinary shares at the subscription price of HK\$0.1168 each (the "Subscription Shares"). Amongst the 1,555,538,480 Subscription Shares to be subscribed by the Investor, 377,838,480 of which shall be issued and allotted to the NAIH SPV, which is a special purpose vehicle of the NAIH Scheme, for the benefit of the NAIH Scheme Creditors; and
- (ii) 585,546,241 Class B shares, with par value HK\$0.01 each carrying the right to convert into ordinary shares at the ratio of one to one at the subscription price of HK\$0.1168 each.

Upon completion of the Share Subscription Agreement, the Investor shall become the controlling shareholder of the Company.

Further details of the capital restructuring are set out in the Company's announcement dated 13 September 2013.

### 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.

With a view to resume trading in its shares on the Stock Exchange, the Company submitted a resumption proposal dated 28 September 2010 and a revised proposal dated 17 August 2011 (the "Resumption Proposal") to the Stock Exchange in respect of the proposed restructuring of the Group. Further details of the Resumption Proposal were set out in the announcements of the Company dated 21 October 2009, 15 December 2009 and 13 June 2012. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the respective public announcements made by the Company.

The Stock Exchange had, on 8 June 2012, informed the Company's financial adviser by way of a letter that it had decided to allow the Company to proceed with the Resumption Proposal, subject to the Company's fulfillment of the conditions as set out in the same letter to the satisfaction of the Stock Exchange by 28 February 2013.

Notwithstanding, as additional time is required for the satisfaction of the Resumption Conditions, on 27 February 2013, the Company applied to the Stock Exchange for an extension of time for the purpose of implementing the proposed restructuring and fulfilling the Resumption Conditions.

## **DIRECTORS' REPORT**

### **PROSPECTS (CONTINUED)**

On 27 May 2013 and 29 May 2013, the Company submitted to the Stock Exchange further revised resumption proposal (the "Final Proposal") which included the terms of the subscription agreement entered into between the Investor, the Company and the Provisional Liquidators.

On 4 June 2013, the Stock Exchange informed the Company's financial adviser in writing that the Stock Exchange had decided to allow the Company to proceed with the Final Proposal, subject to the satisfaction of Revised Resumption Conditions by 31 December 2013:

1. completion of the transactions under the Final Proposal;
2. inclusion in the circular to Shareholders the following:
  - (a) detailed disclosure of the Final Proposal and information about the Group;
  - (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 of the Company on the Directors' statement; and
  - (c) a pro forma balance sheet upon completion of the Final Proposal, and a comfort letter from the auditors under Rule 4.29 of the Listing Rules;
3. publication of all outstanding financial results with major audit qualifications properly addressed;
4. provision of confirmation from 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 Stock Exchange may modify the resumption conditions if the Company's situation changes.

The Provisional Liquidators and their respective advisors are working towards in fulfilling the conditions imposed by the Stock Exchange.

### **WARNING STATEMENT**

Shareholders and potential investors of the Company should note that (1) the principal elements of the proposed 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.

## **DIRECTORS' REPORT**

### **RESULTS AND APPROPRIATIONS**

#### **Financial Performance**

During the financial year ended 31 March 2012 (“FY2012”), the Group was principally engaged in the manufacturing, sale and trading of auto parts and construction decorative hardware products.

For the FY2012, the Group recorded a turnover from sale and trading of auto parts of approximately RMB202 million, representing an decrease of approximately 18.3% from the financial year ended 31 March 2011 (“FY2011”) of approximately RMB247 million. Gross profit margin increased from approximately 9.8% in FY2011 to approximately 10.5% in FY2012. The profit attributable to equity holders of the Company was approximately RMB6.7 million for FY2012, as compared to a profit of approximately RMB15.3 million for FY2011.

The profit before gain/loss arising from non-recurring and extraordinary events/items, such as gain arising from the Restructuring and restructuring costs net off income tax (the “NP before Extraordinary Items”) was approximately RMB10.9 million for FY2012. The variances between the profit attributable to equity holders of the Company of RMB6.7 million and NP before Extraordinary Items of RMB10.9 million for FY2012 are mainly attributable to (i) finance costs in connection with amounts due to the Schemes (which shall be waived subject to the Scheme Creditors’ Committee/Scheme Creditors’ approval) of approximately RMB6.8 million, (ii) restructuring related expenses of approximately RMB3.1 million, (iii) exchange gains (net of relevant losses/expenses) of approximately RMB10.6 million, and (iv) net loss/expense arising from non-recurring items of RMB4.9 million.

The decrease in turnover is mainly due to the scaled down trading business of the Group, which despite having a significant turnover, has insignificant profit contribution to the Group due to its minuscule margin.

Basic earnings per share for the year ended 31 March 2012 was approximately RMB0.53 cents as compared with earnings per share of RMB1.21 cents for the preceding year.

No dividend was paid or proposed during the year ended 31 March 2012, nor has any dividend been proposed since the end of the reporting period (FY2011: Nil).

#### **Financial Position**

As at 31 March 2012, the Group had total net liabilities of approximately RMB355 million and net current liabilities of approximately RMB395 million, compared to total net liabilities of approximately RMB361 million and net current liabilities of approximately RMB403 million in FY2011.

#### **Cash Flow**

During the year under review, total cash flow from operations amounted to approximately a positive cash flow of RMB9 million compared to a negative cash flow of RMB22 million last year.

## **DIRECTORS' REPORT**

### **RESULTS AND APPROPRIATIONS (CONTINUED)**

#### **Liquidity and Financial Resources**

As at 31 March 2012, bank balances and cash of the Group were approximately RMB1.5 million (FY2011: RMB1.4 million).

The Group's gearing ratio (measured as total borrowings over total assets) as at 31 March 2012 was 5.2% (FY2011: 3.6%).

#### **Property, Plant and Equipment**

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 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 as set out in note 2 to the consolidated financial statements.

#### **Capital Commitments**

The Group and the Company had no capital commitment during the year ended 31 March 2012 (FY2011: Nil).

#### **Contingent Liabilities**

The Group and the Company had the following contingent liabilities:

As at 31 March 2011 and 2012, 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 13 to the consolidated financial statements.

#### **Employment**

As at 31 March 2012, the Group had approximately 845 (2011: 705) 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 RMB17.7 million (2011: RMB20.8 million). 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.

## **DIRECTORS' REPORT**

### **RESULTS AND APPROPRIATIONS (CONTINUED)**

#### **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.

#### **Final Dividends**

No dividend was paid or proposed during the year ended 31 March 2012, nor has any dividend been proposed since the end of the reporting period (FY2011: Nil).

#### **Share Capital**

Details of the movements in the 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.

#### **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 2012.

## DIRECTORS' REPORT

### DIRECTORS

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

#### *Executive Directors*

Ms. Lilly Huang

Mr. Chin Chang Keng, Raymond (appointed on 13 September 2013)

#### *Independent Non-Executive Director*

Mr. Choi Tat Ying, Jacky

There is currently no Non-Executive Director.

A profile of the Directors is set out on page 18.

### 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 2012, 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:

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

## DIRECTORS' REPORT

### 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 2012.

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 2012.

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2012, 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 2012.

## **DIRECTORS' REPORT**

### **MAJOR CUSTOMERS AND SUPPLIERS**

Sales to the five largest customers of the Group accounted for approximately 85% of the Group's total turnover for the year. In particular, sales to the largest customer of the Group accounted for approximately 40% of the Group's total turnover for the year.

Purchases from the five largest suppliers of the Group accounted for approximately 42% of the Group's total purchases for the year. In particular, purchases from the Group's largest supplier accounted for approximately 21% 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 Shinewing (HK) CPA Limited, the auditors of the Company for the year ended 31 March 2011, resigned on 19 August 2013. Messrs ZHONGHUI ANDA CPA Limited was appointed as auditors of the Company on 28 August 2013.

The accompanying consolidated financial statements have been audited by ZHONGHUI ANDA CPA Limited, who will retire at the forthcoming annual general meeting.

**On behalf of the board**

**Chin Chang Keng, Raymond**

*Executive Director*

31 October 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 2012.

### **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 2012 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**

ZHONGHUI ANDA CPA Limited has been appointed as auditors of the Company on 28 August 2013 by the Provisional Liquidators of the Company.

	<i>HK\$'000</i>
Audit services	780
Non-audit services	140

### **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 two Executive Directors 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 DIRECTORS

**Ms. Lilly Huang** (“Ms. Huang”), aged 51, 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.

**Mr. Chin Chang Keng, Raymond** (“Mr. Chin”), aged 59, graduated from the Faculty of Accountancy of the Baptist College (currently known as the Hong Kong Baptist University) and holds a diploma in accountancy. He has over 30 years of experience in security, real estate industries and non-performing loan disposal.

Mr. Chin was formerly an executive director of FU JI Food and Catering Services Holdings Limited (stock code: 1175) from 1 June 2011 to 8 July 2013, Zhidao International (Holdings) Limited (stock code: 1220) (previously known as Ocean Grand Holdings Limited) from 1 September 2008 to 11 January 2012, and Hong Kong Resources Holdings Company Limited (stock code: 2882) (previously known as Ocean Grand Chemicals Holdings Limited) from 14 August 2008 to 6 October 2008.

### INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. Choi Tat Ying, Jacky** (“Mr. Choi”), aged 45, 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.

## INDEPENDENT AUDITOR'S REPORT



### 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 23 to 75, which comprise the consolidated statement of financial position as at 31 March 2012, 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 (the “Directors”) 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 (the “HKICPA”) 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 these 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 limitations in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## INDEPENDENT AUDITOR'S REPORT

### BASIS FOR DISCLAIMER OF OPINION

#### 1. Opening balances and corresponding figures

The consolidated financial statements of the Company for the year ended 31 March 2011 were audited by another auditors whose report was dated 17 January 2013 and the opinion of which was disclaimed. We were unable to obtain sufficient reliable evidence to satisfy ourselves the existence, accuracy, presentation, and completeness of the opening balances and the related disclosures which form the basis for the corresponding figures shown in the current year's consolidated financial statements.

#### 2. Inventories

We were initially appointed as auditor of the Company subsequent to the end of the Company's reporting period of 31 March 2012. In consequence, we were unable to attend the physical count of the Group's inventories as at that date. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the existence, quantities and conditions of these inventories included in the consolidated statement of financial position of approximately RMB24,403,000 as at 31 March 2012.

#### 3. Corporate undertaking and guarantees

As further explained in note 2 to the consolidated financial statements, the Company and Fullitech International Limited, a wholly-owned subsidiary of the Company, had given the corporate undertaking and guarantees with the principal amount of HK\$1,381,000,000 (equivalent to approximately RMB1,120 million) together with the related interest thereon (to be calculated at 3-month HIBOR+1.05% on the principal amount) 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"). These corporate undertaking and guarantees are disclosed as contingent liabilities and are not recognised in the consolidated financial statements. Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement" requires a financial guarantee contract be recognised initially at its fair value and subsequently, at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to and there are no other satisfactory audit procedures that we could adopt to determine whether the respective corporate undertaking and guarantees are fairly stated as at 31 March 2012.

## INDEPENDENT AUDITOR'S REPORT

### BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

#### 4. Impairment of interest in and amount due from an associate

As stated in note 17 to the consolidated financial statements, the Group had an 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 2012. 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 carrying amount of the Group's interest in Profound as at 31 March 2012, the Group's share of result of Profound for the year ended 31 March 2012 and the related note disclosures as included in the consolidated financial statements were fairly presented.

In addition, as stated in note 20 to the consolidated financial statements, the Group had an amount due from an associate of approximately RMB9,831,000 as at 31 March 2012. We have not been able to obtain direct audit confirmation in respect of the aforesaid balance and no sufficient evidence has been provided to satisfy ourselves as to the completeness and existence of the aforesaid balance. No subsequent settlement in respect of such amount was noted up to the date of this report and no impairment loss had been made in respect of such amount. We have not been able to obtain sufficient evidence to evaluate the recoverability of such amount. There were no other satisfactory audit procedures that we could perform to satisfy ourselves that the amount due from an associate were fairly stated as at 31 March 2012.

#### 5. Amount due to an associate

As stated in note 20 to the consolidated financial statements, the Group had an amount due to an associate of approximately RMB6,961,000 as at 31 March 2012.

We have not been able to obtain direct audit confirmation in respect of the aforesaid balance and no sufficient evidence has been provided to satisfy ourselves as to the completeness and existence of the aforesaid balance. There were no other satisfactory audit procedures that we could perform to satisfy ourselves as to whether the aforesaid balance was fairly stated as at 31 March 2012.

#### 6. Obligations under finance leases

As stated in note 24 to the consolidated financial statements, the Group had obligations under financial leases of approximately RMB26,065,000 as at 31 March 2012.

We have not been able to obtain direct audit confirmation in respect of the aforesaid balance and no sufficient evidence has been provided to satisfy ourselves as to the completeness and existence of the aforesaid balance. There were no other satisfactory audit procedures that we could perform to satisfy ourselves as to whether the aforesaid balance was fairly stated as at 31 March 2012.

## INDEPENDENT AUDITOR’S REPORT

### BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

#### 7. Related party transactions and balances

No sufficient evidence has been provided to satisfy ourselves as to the existence and completeness of the disclosures of the related party transactions for the year ended 31 March 2012 and the balances as at that date as required by HKAS 24 “Related Party Disclosures”.

#### 8. Commitments and contingent liabilities

No sufficient evidence has been provided to satisfy ourselves as to the completeness of the disclosures of commitments and contingent liabilities as at 31 March 2012.

Any adjustments that are found necessary in relation to matters as described in points 1 to 8 above might have a significant consequential effect on the Group’s results and cash flows for the two years ended 31 March 2012 and 2011 and the financial positions of the Group as at 31 March 2012 and 2011, and the related disclosures thereof in the consolidated financial statements.

### MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that the Investor has decided to pursue a restructuring of the Company.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the material uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

### DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis described 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 2012 and of the Group’s results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### ZHONGHUI ANDA CPA Limited

*Certified Public Accountants*

#### Sze Lin Tang

Practising Certificate Number P03614

Hong Kong, 31 October 2013

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2012

	<i>Notes</i>	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Turnover</b>	7	<b>201,953</b>	247,049
Cost of inventories sold		<u>(180,835)</u>	<u>(222,853)</u>
<b>Gross profit</b>		<b>21,118</b>	24,196
Other income	8	<b>14,782</b>	23,865
Distribution and selling expenses		<b>(5,493)</b>	(6,426)
Administrative expenses		<u>(10,721)</u>	<u>(13,533)</u>
<b>Profit from operations</b>		<b>19,686</b>	28,102
Finance costs	10	<u>(8,776)</u>	<u>(7,188)</u>
<b>Profit before tax</b>		<b>10,910</b>	20,914
Income tax	11	<u>(4,250)</u>	<u>(5,655)</u>
<b>Profit and total comprehensive income for the year attributable to equity holders of the Company</b>	12	<u><b>6,660</b></u>	<u>15,259</u>
<b>Earnings per share</b>	15		
Basic and diluted (RMB cents per share)		<u><b>0.53</b></u>	<u>1.21</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2012

	<i>Notes</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	16	40,584	41,526
Interest in an associate	17	—	—
		<b>40,584</b>	41,526
<b>Current assets</b>			
Inventories	18	24,403	20,222
Trade and other receivables	19	118,515	55,467
Amount due from an associate	20	9,831	232
Bank and cash balances	21	1,484	1,435
Current tax assets		7	—
		<b>154,240</b>	77,356
<b>Current liabilities</b>			
Trade and other payables	22	103,956	36,636
Amounts due to the Schemes	23	379,983	386,081
Amount due to an associate	20	6,961	6,992
Obligations under finance leases	24	26,065	26,784
Senior note	25	12,417	12,592
Interest-bearing borrowings	26	10,070	4,233
Tax payables		9,926	6,785
		<b>549,378</b>	480,103
<b>Net current liabilities</b>		<b>(395,138)</b>	(402,747)
<b>NET LIABILITIES</b>		<b>(354,554)</b>	(361,221)
<b>Capital and reserves</b>			
Share capital	27	111,248	111,248
Reserves	29(a)	(465,802)	(472,469)
<b>TOTAL EQUITY</b>		<b>(354,554)</b>	(361,221)

The consolidated financial statements on pages 23 to 75 were approved and authorised for issue by the board of directors on 31 October 2013 and are signed on its behalf by:

Approved by:

**Chin Chang Keng, Raymond**  
*Executive Director*

**Choi Tat Ying, Jacky**  
*Independent Non-Executive Director*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***FOR THE YEAR ENDED 31 MARCH 2012*

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Foreign currency translation reserve <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Merger reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 April 2010	111,248	1,462,047	74,085	8,161	(249,433)	(1,783,428)	(377,320)
Total comprehensive income for the year	-	-	-	-	-	15,259	15,259
Equity settled share-based payments	-	-	-	840	-	-	840
At 31 March 2011	<u>111,248</u>	<u>1,462,047</u>	<u>74,085</u>	<u>9,001</u>	<u>(249,433)</u>	<u>(1,768,169)</u>	<u>(361,221)</u>
<b>At 1 April 2011</b>	<b>111,248</b>	<b>1,462,047</b>	<b>74,085</b>	<b>9,001</b>	<b>(249,433)</b>	<b>(1,768,169)</b>	<b>(361,221)</b>
Total comprehensive income for the year	-	-	-	-	-	6,660	6,660
Share options lapsed	-	-	-	(1,041)	-	1,041	-
Equity settled share-based payments	-	-	-	7	-	-	7
At 31 March 2012	<u>111,248</u>	<u>1,462,047</u>	<u>74,085</u>	<u>7,967</u>	<u>(249,433)</u>	<u>(1,760,468)</u>	<u>(354,554)</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Cash flows from operating activities</b>		
Profit before tax	10,910	20,914
Adjustments for:		
Equity settled share-based payments	7	840
Exchange gains	(14,198)	(23,435)
Depreciation	4,339	4,702
Interest income	(4)	(6)
Impairment of trade receivables	369	2,227
Impairment of inventories	8	1,787
Finance costs	8,776	7,188
	10,207	14,217
Operating cash flows before working capital changes	10,207	14,217
Change in inventories	(4,189)	(16,212)
Change in trade and other receivables	(63,417)	(35,251)
Change in trade and other payables	67,501	14,912
	10,102	(22,334)
Cash generated from/(used in) operations	10,102	(22,334)
Interest received	4	6
Tax paid	(1,116)	(169)
	8,990	(22,497)
<b>Net cash generated from/(used in) operating activities</b>	<b>8,990</b>	<b>(22,497)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(3,397)	(1,610)
Advance to an associate	–	(288)
Repayments due from deconsolidated subsidiaries	–	12,889
	(3,397)	10,991
<b>Net cash (used in)/generated from investing activities</b>	<b>(3,397)</b>	<b>10,991</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Cash flows from financing activities</b>		
New borrowings raised	32,518	14,233
Senior note raised	–	13,099
Advance (to)/from an associate	(9,599)	8,598
Repayment to schemes of arrangement	–	(13,099)
Repayment of borrowings	(26,681)	(10,000)
Interest paid	(1,782)	(265)
	<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>	(5,544)	12,566
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	49	1,060
Cash and cash equivalents at beginning of year	1,435	375
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>	<u>1,484</u>	<u>1,435</u>
	<hr/>	<hr/>
<b>Analysis of cash and cash equivalents</b>		
Bank and cash balances	<u>1,484</u>	<u>1,435</u>
	<hr/>	<hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

## 1. GENERAL INFORMATION

Norstar Founders Group Limited (Provisional Liquidators Appointed) (“the Company” or “NFG”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office and principal place of business are disclosed in the corporate information section of the annual report. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the trading in shares of the Company has been suspended since 19 January 2009.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively “the Group”) were principally engaged in manufacturing, sales and trading of auto parts and construction decorative hardware products. The principal activities of the Company’s subsidiaries are set out in note 35 to the consolidated financial statements.

## 2. BASIS OF PREPARATION

### **Winding-up petitions and appointment of provisional liquidators**

Following a number of announcements made since 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 million and a creditor’s claim against the Group in the amount of approximately RMB326 million, the trading in the shares of the Company has been suspended since 19 January 2009 at the request of NFG.

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, 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 13 January 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 2. BASIS OF PREPARATION (CONTINUED)

#### **Suspension of trading in the shares of the Company**

As mentioned above, the trading in the Company's shares on the Stock Exchange has been suspended since 19 January 2009.

With a view to resume trading in its shares on the Stock Exchange, the Company submitted a resumption proposal dated 28 September 2010 and an revised proposal dated 17 August 2011 (the "Resumption Proposal") to the Stock Exchange in respect of the proposed restructuring of the Group. Further details of the Resumption Proposal were set out in the announcements of the Company dated 21 October 2009, 15 December 2009 and 13 June 2012. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the respective public announcements made by the Company.

The Stock Exchange had, on 8 June 2012, informed the Company's financial advisor by way of a letter that it had decided to allow the Company to proceed with the Resumption Proposal, subject to the Company's fulfilment of the conditions as set out in the same letter to the satisfaction of the Stock Exchange by 28 February 2013.

Notwithstanding, as additional time is required for the satisfaction of the Resumption Conditions, on 27 February 2013, the Company applied to the Stock Exchange for an extension of time for the purpose of implementing the proposed restructuring and fulfilling the Resumption Conditions.

On 27 May 2013 and 29 May 2013, the Company submitted to the Stock Exchange further revised resumption proposal (the "Final Proposal") which included the terms of the subscription agreement entered into between the Investor, the Company and the Provisional Liquidators.

On 4 June 2013, the Stock Exchange informed the Company's financial adviser in writing that the Stock Exchange had decided to allow the Company to proceed with the Final Proposal subject to fulfillment of the following revised resumption conditions by 31 December 2013:

- (a) Completion of the transactions under the Final Proposal;
- (b) Inclusion in the circular to Shareholders the following:
  - (i) Detailed disclosure of the Final Proposal and information about the Group;
  - (ii) 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 of the Company on the Directors' statement; and
  - (iii) A pro forma balance sheet upon completion of the Final Proposal, and a comfort letter from the auditors under Rule 4.29 of the Listing Rules;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 2. BASIS OF PREPARATION (CONTINUED)

#### Suspension of trading in the shares of the Company (Continued)

- (c) Publication of all outstanding financial results with major audit qualifications properly addressed;
- (d) Provision of confirmation from the internal control reviewer of the Group that the Group has an adequate and effective internal control system; and
- (e) Withdrawal or dismissal of the winding-up petition and discharge of the Provisional Liquidators.

The Stock Exchange may modify the resumption conditions if the Company's situation changes.

The Provisional Liquidators and their respective advisors are now working towards in fulfilling the conditions imposed by the Stock Exchange.

#### Proposed restructuring of the Group

The Group's proposed restructuring, which is to be carried out in two parts (i.e. the Debt Restructuring and the Capital Restructuring), was formulated to address the indebtedness of the Company and NAIH as described below under the section headed "The Debt Restructuring" and to regularise the financial position and capital needs of the Restructured Group.

#### The Debt Restructuring

The Debt Restructuring is being effected through the NFG Scheme and the NAIH Scheme pursuant to Section 166 of the Hong Kong Companies Ordinance to address the indebtedness of the Company and NAIH, respectively. 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 "Effective Date"). Further details of the Schemes were set out in the announcements of the Company dated 15 December 2009, 3 March 2010 and 24 March 2010 (the "Announcements"). Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the Announcements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**2. BASIS OF PREPARATION (CONTINUED)**

**Proposed restructuring of the Group (Continued)**

*The Debt Restructuring (Continued)*

*NFG Scheme*

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

- (a) A sum of HK\$2,000,000 placed with the Company by Mr. Zhou Tian Bao (“Mr. Zhou”), a substantial shareholder of the Company;
- (b) A repayment obligation from the Company in favour of a special purpose company incorporated to facilitate the proposed debt restructuring of the Company 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
- (c) Amounts recoverable from NAIH and Fullitech by way of distribution from the NAIH Scheme.

Items (a), (b) and (c) above are collectively referred to as the “NFG Scheme Assets”.

*NAIH Scheme*

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

- (a) 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”);
- (b) Net proceeds arising from the disposal of equity interests in four independent third party companies (the “Four Third Party Companies”);

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**2. BASIS OF PREPARATION (CONTINUED)**

**Proposed restructuring of the Group (Continued)**

**The Debt Restructuring (Continued)**

***NAIH Scheme (Continued)***

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

- (i) 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 principal amount of HK\$1,381,000,000 together with the related interest thereon (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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**2. BASIS OF PREPARATION (CONTINUED)**

**Proposed restructuring of the Group (Continued)**

***The Debt Restructuring (Continued)***

***NAIH Scheme (Continued)***

- (e) 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 was also included, 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 in the Company's announcements dated 21 October 2009 and 15 December 2009.

Subsequent to the Effective Date, certain proposals affecting the Schemes have been sought as follows:

***NFG Scheme***

- (a) a release or waiver of all amounts owing from Fullitech to the Company which was assigned to the NFG SPV pursuant to the terms of the NFG Scheme, save and except for the amount to which Fullitech is entitled as a creditor of NAIH which is to be distributed by the NAIH Scheme Administrators under the terms of the NAIH Scheme; and
- (b) an extension of time for the fulfilment of the NFG Repayment Obligation from within 12 months of the Effective Date to 31 December 2013, or on the completion of the subscription agreement entered into with the Investor, whichever is later.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**2. BASIS OF PREPARATION (CONTINUED)**

**Proposed restructuring of the Group (Continued)**

***The Debt Restructuring (Continued)***

***NAIH Scheme***

- (a) a release of Fullitech Corporate Guarantee;
- (b) a release of the share charge over NAIH's 100% shareholding interest in Norstar Chassis;
- (c) a release of the NFG Undertaking, and in consideration for and simultaneous upon that release, 377,838,480 Subscription Shares subscribed by the Investor shall be issued and allotted to the NAIH SPV, and shall form part of the Scheme Assets of the NAIH Scheme; and
- (d) a release or waiver of all amounts owing from Norstar Chassis to NAIH which was assigned to NAIH SPV pursuant to the terms of the NAIH Scheme.

Subject to obtaining all necessary consents, authorisations and/or sanctions from the High Court, the Grand Court of the Cayman Islands and any other relevant parties, it is expected that upon completion of the Restructuring, the above obligations shall be fully discharged and accordingly all financial obligations/claims made against the Company and NAIH shall be fully discharged.

***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 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 with its maturity date on 6 September 2011 and the proceed raised was utilised to satisfy the NAIH obligation.

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 of the Loan:	All outstanding loan together with all accrued and unpaid interest shall be repaid in one lump sum on the maturity date
Maturity date:	6 September 2011*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**2. BASIS OF PREPARATION (CONTINUED)**

**Proposed restructuring of the Group (Continued)**

***The 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 30 November 2013 by way of various side letters dated 15 August 2011, 6 September 2012, 28 February 2013, 30 April 2013, 31 May 2013, 30 June 2013, 31 July 2013, 31 August 2013, 30 September 2013 and 31 October 2013. Further details of the Senior Note are set out in the Company’s announcement dated 5 October 2010.

Pursuant to the Subscription Agreement, the Company has, in consideration of the subscription of the Senior Note by OSL, undertaken to OSL that it shall issue the warrants (the “Warrants”), free and clear of all and any encumbrances, to the Subscriber Shareholders (being the shareholders of OSL). The gross proceeds arising from the exercise of the Warrants amounting to approximately HK\$14.7 million will be utilised as working capital of the Restructured Group.

As of the date of these 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.

***The Capital Restructuring***

On 31 May 2013, the Company, the Provisional Liquidators and the Investor entered into the subscription agreement. The subscription agreement sets out, among other matters, the terms of the proposed issuance of subscription shares and the proposed issuance of non-voting convertible class B shares (the “Share Subscription Agreement”), which form part of the restructuring of the Company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**2. BASIS OF PREPARATION (CONTINUED)**

**Proposed restructuring of the Group (Continued)**

***The Capital Restructuring (Continued)***

Subject to the fulfillment of the conditions precedent under the Share Subscription Agreement, the Investor will subscribe for the following with a total cash consideration of approximately HK\$250 million:

- (i) 1,555,538,480 ordinary shares at the subscription price of HK\$0.1168 each (the “Subscription Shares”). Amongst the 1,555,538,480 Subscription Shares to be subscribed by the Investor, 377,838,480 of which shall be issued and allotted to the NAIH SPV, which is a special purpose vehicle of the NAIH Scheme, for the benefit of the NAIH Scheme Creditors; and
- (ii) 585,546,241 Class B shares, with par value HK\$0.01 each carrying the right to convert into ordinary shares at the ratio of one to one at the subscription price of HK\$0.1168 each.

Upon completion of the Share Subscription Agreement, the Investor shall become the controlling shareholder of the Company.

Further details of the capital restructuring are set out in the Company’s announcement dated 13 September 2013.

**Going concern**

As at 31 March 2012, the Group had net current liabilities of approximately RMB395,138,000 (2011: RMB402,747,000) and net liabilities of approximately RMB354,554,000 (2011: RMB361,221,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Company will be successfully completed, and that, following the financial restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 April 2011. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. The functional currencies of the Company and its major operating subsidiaries is Renminbi (“RMB”). For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency.

The preparation of financial statements in conformity with HKFRSs requires the use of key assumptions and estimates. It also requires management to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

#### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Consolidation (Continued)

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

#### Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Associates (Continued)

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### Foreign currency translation

##### (a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

##### (b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

##### (c) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currency translation (Continued)

#### (c) Translation on consolidation (Continued)

- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful life are as follows:

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2012

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Operating leases**

Leases that do not substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

#### **Finance leases**

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received 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 amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2012

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

#### **Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligations under the contracts, as determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

**Trade and other payables**

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**Equity instruments**

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

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

- (a) Revenues from the trading and sales of manufactured goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers; and
- (b) Interest income is recognised on a time-proportion basis using the effective interest method.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employee benefits**

*(a) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the at the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(b) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged in profit or loss represents contributions payable by the Group to the funds.

*(c) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**Equity settled share-based payments**

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 option 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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*FOR THE YEAR ENDED 31 MARCH 2012*

### **4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Borrowing costs**

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

#### **Government grants**

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.

#### **Taxation**

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss 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 differences between the carrying amounts of assets and liabilities in the 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits 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 arising on 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Taxation (Continued)**

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items 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.

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

**Related parties**

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Related parties (Continued)**

- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

**Segment reporting**

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2012

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables, 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 any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

### 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

#### **Critical judgements in applying accounting policies**

In the process of applying the accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

#### ***Going concern basis***

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of the Group's debt and capital restructuring and continuance of its business. Details are explained in note 2 to the financial statements.

#### **Key sources of estimation uncertainty**

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, are discussed below.

#### **(a) *Estimated impairment of property, plant and equipment***

During the year ended 31 March 2012, no impairment loss on property, plant and equipment was recognised in the consolidated profit or loss. Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, 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 2012, the carrying amounts of property, plant and equipment were approximately RMB40,584,000 (2011: RMB41,526,000).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)**

**Key sources of estimation uncertainty (Continued)**

**(b) *Estimated impairment loss of trade and other receivables and amount due from an associate***

The policy for making impairment loss on trade and other receivables, and amount due from 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 2012, the carrying values of trade and other receivables (net of accumulated impairment losses of approximately RMB369,000 (2011: RMB2,427,000)), and amount due from an associate were approximately RMB118,515,000 (2011: RMB55,467,000) (note 19) and RMB9,831,000 (2011: RMB232,000) respectively (note 20).

**(c) *Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period.

**(d) *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.

During the year ended 31 March 2010, impairment of interest in an associate of approximately RMB308,882,000 was recognised as the Directors 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 2012 was RMB Nil (2011: RMB Nil) (net of accumulated impairment losses of approximately RMB308,882,000 (2011: RMB308,828,000)) (note 17).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

#### (a) *Foreign currency risk*

The Group's entities operating in the PRC have minimal exposures to foreign currency risk as most of their business transactions, assets and liabilities are principally denominated in RMB, the functional currencies of those entities.

The Group's is exposed to currency risks primarily arising from the amounts due to the Schemes, obligations under finance leases and senior note, as the functional currency of the Company is RMB. At the end of the reporting period, if HK\$ had strengthened or weakened by 5% (2011: 5%) against RMB, with all other variables held constant, the Group's profit after tax for the year would have been RMB17,471,000 (2011: RMB20,080,000) lower or higher, mainly as a result of foreign exchange gains or losses on translation.

The Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

#### (b) *Credit risk*

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade and other receivables, amount due from an associate and bank balances. In order to minimise credit risk, the management review the recoverable amount of each individual receivable regularly to ensure that adequate impairment losses are recognised for irrecoverable receivable. In this regard, the management consider that the Group's credit risk is significantly reduced.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 40% (2011: 28%) and 85% (2011: 62%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**6. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk**

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group's had a net current liabilities and net liabilities at the end of the reporting period. The management have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The management believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the restructuring as further explained in note 2 to these financial statements.

The following table details the remaining contractual maturities of the Group's financial liabilities at the end of the reporting period, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period and the earliest date the Group can be required to pay).

	Carrying amounts		Total contractual undiscounted cash flow within 1 year or on demand	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Trade and other payables	87,422	26,892	87,422	26,892
Amounts due to the Schemes	379,983	386,081	385,660	393,893
Amount due to an associate	6,961	6,992	6,961	6,992
Senior note	12,417	12,592	12,593	12,752
Interest-bearing borrowings	10,070	4,233	10,070	4,233
Obligations under finance leases	26,065	26,784	26,065	26,784
Financial guarantee contracts ( <i>note</i> )	–	–	1,119,919	1,150,787
	<b>522,918</b>	<b>463,574</b>	<b>1,648,690</b>	<b>1,622,333</b>

*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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**6. FINANCIAL RISK MANAGEMENT (CONTINUED)**

*(d) Interest rate risk*

As at 31 March 2012, the Group is exposed to fair value interest rate risk of approximately RMB113,533,000 (2011: RMB116,662,000) in relation to certain fixed-rate amounts due to the Schemes.

As at 31 March 2012, the Group is also exposed to cash flow interest rate risk of approximately RMB12,164,000 (2011: RMB12,500,000) in relation to the variable-rate senior note (note 25). 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 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 (2011:100) 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 (2011:100) basis point higher/lower and all other variables were held constant, the Group's profit after tax would decrease/increase by approximately RMB114,000 (2011: RMB112,000). 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 does not reflect the exposure during the reporting periods.

*(e) Fair values*

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 31 MARCH 2012

**6. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(f) *Financial instruments by category*

The carrying amounts of each of the category of the Group's financial instruments at the end of the reporting period are as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	<u>115,406</u>	<u>54,302</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost:	<u>496,853</u>	<u>436,790</u>

**7. 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:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Auto parts	125,766	156,003
Construction decorative hardware products	<u>76,187</u>	<u>91,046</u>
	<u>201,953</u>	<u>247,049</u>

**8. OTHER INCOME**

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Net exchange gains	14,198	23,435
Government grants ( <i>note</i> )	68	350
Interest income	4	6
Others	<u>512</u>	<u>74</u>
	<u>14,782</u>	<u>23,865</u>

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 9. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. During the year ended 31 March 2012, the Group's revenue are derived from the segment of auto parts and construction decorative hardware products.

The accounting policies of the operating segments are the same as those described in note to the financial statements. Segment profits or losses do not include finance costs and other unallocated corporate income and expenses. Segment assets do not include bank and cash balances and other unallocated corporate assets. Segment liabilities do not include amounts due to the Schemes, amount due to an associate, obligations under finance leases, senior note, interest-bearing borrowings and other unallocated corporate liabilities. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Information about reportable segment profit or loss, assets and liabilities:

	Auto parts RMB'000	Construction decorative hardware products RMB'000	Total RMB'000
<b>Year ended 31 March 2012:</b>			
Revenue from external customers	125,766	76,187	201,953
Segment profit/(loss)	16,939	(875)	16,064
Depreciation	4,333	6	4,339
Other material non-cash items:			
Impairment of trade receivables	369	–	369
Impairment of inventories	8	–	8
Additions to segment non-current assets	3,397	–	3,397
<b>At 31 March 2012:</b>			
Segment assets	141,754	51,579	193,333
Segment liabilities	49,283	46,942	96,225
<b>Year ended 31 March 2011:</b>			
Revenue from external customers	156,003	91,046	247,049
Segment profit	17,239	637	17,876
Depreciation	4,699	3	4,702
Other material non-cash items:			
Impairment of trade and other receivables	2,227	–	2,227
Impairment of inventories	1,787	–	1,787
Additions to segment non-current assets	1,534	–	1,534
<b>At 31 March 2011:</b>			
Segment assets	108,473	8,974	117,447
Segment liabilities	32,182	3,939	36,121

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**9. SEGMENT INFORMATION (CONTINUED)**

Reconciliations of reportable segment revenue, profit and loss, assets and liabilities:

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Revenue:</b>		
Total turnover of reportable segments disclosed as consolidated turnover	<u>201,953</u>	<u>247,049</u>
<b>Profit or loss:</b>		
Total profit of reportable segments	16,064	17,876
Corporate and unallocated profit or loss	<u>3,622</u>	<u>10,226</u>
Consolidated total profit from operations	<u>19,686</u>	<u>28,102</u>
<b>Assets:</b>		
Total assets of reportable segments	193,333	117,447
Corporate and unallocated assets:		
Bank and cash balances	1,484	1,435
Current tax assets	<u>7</u>	<u>–</u>
Consolidated total assets	<u>194,824</u>	<u>118,882</u>
<b>Liabilities:</b>		
Total liabilities of reportable segments	96,225	36,121
Corporate and unallocated liabilities:		
Obligations under finance leases	26,065	26,784
Senior note	12,417	12,592
Interest-bearing borrowings	10,070	4,233
Tax payables	9,926	6,785
Amounts due to the Schemes	379,983	386,081
Amount due to an associate	6,961	6,992
Others	<u>7,731</u>	<u>515</u>
Consolidated total liabilities	<u>549,378</u>	<u>480,103</u>
Geographical information:		
	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Revenue:</b>		
People's Republic of China	198,104	242,393
United States of America	2,884	1,141
Netherlands	<u>965</u>	<u>3,515</u>
	<u>201,953</u>	<u>247,049</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**9. SEGMENT INFORMATION (CONTINUED)**

Information about revenue from the Group's four (2011: three) customers individually contributing over 10% of total revenue of the Group as follows:

	<i>Notes</i>	<b>2012</b> <b>RMB'000</b>	2011 <i>RMB'000</i>
Customer A	3	<i>Note 1</i>	85,991
Customer B	4	<b>31,898</b>	64,434
Customer C	2	<b>27,785</b>	35,648
Customer D	3	<b>34,593</b>	<i>Note 1</i>
Customer E	2	<b>32,505</b>	<i>Note 1</i>

*Notes:*

- 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.

In presenting the geographical information, revenue is based on the locations of the customers. At the end of the reporting period, all non-current assets of the Group were located in the People's Republic of China.

**10. FINANCE COSTS**

	<b>2012</b> <b>RMB'000</b>	2011 <i>RMB'000</i>
Interest expenses on borrowings that are wholly repayable within five years:		
– Bank borrowings	–	105
– Amounts due to the NAIH Scheme	<b>6,828</b>	6,828
– Senior note	<b>166</b>	95
– Discounted bills	<b>1,782</b>	160
	<u><b>8,776</b></u>	<u>7,188</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**11. INCOME TAX**

	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
Current tax:		
– Provision for the PRC enterprise income tax	<b>4,250</b>	5,655

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 (2011: Nil). Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax and the profit before tax are as follows:

	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
Profit before tax	<b>10,910</b>	20,914
Notional tax on profit before tax calculated at the PRC statutory rate	<b>2,728</b>	5,229
Effect of different tax rates in other tax jurisdictions	<b>(293)</b>	(1,151)
Tax effect of utilisation of tax losses not previously recognised	–	(883)
Tax effect of non-deductible expenses	<b>2,385</b>	5,020
Tax effect of non-taxable income	<b>(570)</b>	(2,560)
	<b>4,250</b>	5,655

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 2012, no deferred tax has been recognised for withholding taxes of such profit of approximately RMB8,961,000 (2011: 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 2012, subject to the agreements with the tax authorities, the Group has unused tax losses of approximately RMB232,976,000 (2011: RMB232,976,000) for a subsidiary incorporated in Hong Kong available for offset against future profits of approximately RMB232,976,000 (2011: RMB232,976,000) may be carried forward indefinitely. No deferred tax asset has been recognised for these tax losses due to the unpredictability of future profit streams of that subsidiary.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**12. PROFIT FOR THE YEAR**

The Group's profit for the year is stated after charging the following:

	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
Auditor's remuneration	<b>645</b>	892
Cost of inventories sold	<b>180,827</b>	221,066
Depreciation	<b>4,339</b>	4,702
Minimum lease payments under operating leases in respect of:		
Factory and office premises	<b>3,480</b>	1,874
Plant and machinery	<b>15,360</b>	7,900
Impairment of trade receivables	<b>369</b>	2,227
Impairment of inventories (included in cost of inventories sold)	<b>8</b>	1,787
Staff costs (including directors' remuneration – note 13):		
Salaries, bonus and allowances	<b>17,697</b>	19,931
Equity settled share-based payments	<b>7</b>	840
	<b>17,704</b>	20,771

**13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS**

The emoluments of each Director were as follows:

	<b>Fees</b>	<b>Equity settled</b>	<b>Total</b>
	<b>RMB'000</b>	<b>share-based</b>	<b>RMB'000</b>
		<b>payments</b>	
		<b>RMB'000</b>	<b>RMB'000</b>
<b>Executive Director</b>			
Ms. Lilly Huang	–	–	–
<b>Independent Non-executive Director</b>			
Mr. Choi Tat Ying, Jacky	–	7	7
Total for 2012	–	7	7

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (CONTINUED)**

	Fees <i>RMB'000</i>	Equity settled share-based payments <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive Director</b>			
Ms. Lilly Huang	–	–	–
<b>Independent Non-executive Directors</b>			
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)	–	–	–
Total for 2011	<u>–</u>	<u>51</u>	<u>51</u>

The five highest paid individuals comprised no (2011: 1) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 5 (2011: 4) individuals represented basic salaries and allowances and retirement benefit scheme contributions of approximately RMB753,000 (2011: RMB508,000). The emoluments of all 5 (2011:4) individuals fell within the band ranging from HK\$ Nil to HK\$1,000,000.

During the year, 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.

**14. DIVIDENDS**

The Directors do not recommend the payment of any dividend for each of the years ended 31 March 2012 and 2011.

**15. EARNINGS PER SHARE**

**(a) Basic earnings per share**

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profit for the year of approximately RMB6,660,000 (2011: RMB15,259,000) attributable to equity holders of the Company and the weighted average number of 1,259,461,601 (2011: 1,259,461,601) ordinary shares in issue during the year.

**(b) Diluted earnings per share**

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 presentation of diluted earnings per share for the years ended 31 March 2012 and 2011 do not assume the exercise of the Company's outstanding share options.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**16. PROPERTY, PLANT AND EQUIPMENT**

	<b>Machinery and equipment RMB'000</b>	<b>Office equipment and fixtures RMB'000</b>	<b>Motor vehicles RMB'000</b>	<b>Total RMB'000</b>
<b>Cost</b>				
At 1 April 2010	50,982	24	60	51,066
Additions	1,534	76	–	1,610
At 31 March 2011 and 1 April 2011	52,516	100	60	52,676
Additions	3,368	29	–	3,397
At 31 March 2012	55,884	129	60	56,073
<b>Accumulated depreciation</b>				
At 1 April 2010	6,425	18	5	6,448
Charge for the year	4,682	15	5	4,702
At 31 March 2011 and 1 April 2011	11,107	33	10	11,150
Charge for the year	4,318	16	5	4,339
At 31 March 2012	15,425	49	15	15,489
<b>Carrying amounts</b>				
At 31 March 2012	40,459	80	45	40,584
At 31 March 2011	41,409	67	50	41,526

At 31 March 2012, the carrying amount of machinery and equipment held by the Group under finance leases amounted to RMB15,478,000 (2011: RMB16,936,000).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**17. INTEREST IN AN ASSOCIATE**

	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
– Cost of unlisted equity investment	<b>160,461</b>	160,461
– Share of post-acquisition profits and losses	<b>148,421</b>	148,421
	<b>308,882</b>	308,882
Less: Impairment loss	<b>(308,882)</b>	(308,882)
	<b>–</b>	<b>–</b>

(a) As a result of the persistent operating losses and insolvent financial position of the associate's subsidiaries to be transferred to the NAIH Scheme, the Directors considered that it is unlikely to recover any amount from the carrying amount of approximately RMB308,882,000 as at 31 March 2010, and a full provision for impairment had been made for the year ended 31 March 2010.

(b) Particulars of the Group's associate at the end of the reporting period is as follows:

Name of entity	Place of establishment/ operation	Nominal value of issued ordinary share capital	Proportion equity interests held by the Group	Principal activity
Profound Global Limited	British Virgin Islands	20,000 ordinary shares of US\$1 each	40%	Investment holding

(c) The Group's 40% equity interest in Profound was pledged for the NAIH Repayment Obligation as set out in note 2.

**18. INVENTORIES**

	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
Raw materials	<b>10,529</b>	13,246
Work in progress	<b>8,931</b>	3,523
Finished goods	<b>4,943</b>	3,453
	<b>24,403</b>	20,222

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**19. TRADE AND OTHER RECEIVABLES**

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade receivables	<b>102,125</b>	39,051
Less: impairment losses	<b>(369)</b>	(2,200)
	<u><b>101,756</b></u>	<u>36,851</u>
Bills receivables:		
Bills receivable on hand	<b>400</b>	–
Discounted bills ( <i>note 26</i> )	<b>10,070</b>	4,233
	<u><b>10,470</b></u>	<u>4,233</u>
Prepayment and other receivables	<b>6,289</b>	14,610
Less: impairment losses	–	(227)
	<u><b>6,289</b></u>	<u>14,383</u>
	<u><b>118,515</b></u>	<u>55,467</u>

***Trade receivables***

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

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
0 to 90 days	<b>96,899</b>	31,217
91 to 180 days	<b>3,235</b>	5,327
181 to 365 days	<b>1,138</b>	307
Over 1 year	<b>484</b>	–
	<u><b>101,756</b></u>	<u>36,851</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. TRADE AND OTHER RECEIVABLES (CONTINUED)**

*Bills receivables*

The following is an aged analysis of bills receivables:

	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
0 to 90 days	<b>5,298</b>	4,233
91 to 180 days	<b>5,172</b>	–
	<b>10,470</b>	4,233

During the year, the Group discounted certain bills receivables to financial institutions for cash proceeds. If the bills receivables are not paid at maturity, the financial institutions have the rights to request the Group to pay the unsettled balances. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as a secured borrowing.

At 31 March 2012 and 31 March 2011, the carrying amount of bills receivables that have been transferred but have not been derecognised amounted approximately to RMB10,070,000 and RMB4,233,000 with the equivalent carrying amounts of the associated liabilities as further described in note 26.

*Impairment of trade receivables*

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
At beginning of the year	<b>2,200</b>	–
Impairment losses recognised	<b>369</b>	2,200
Written off against trade receivables	<b>(2,200)</b>	–
At the end of the year	<b>369</b>	2,200

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**19. TRADE AND OTHER RECEIVABLES (CONTINUED)**

*Trade receivables that are not impaired*

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
Neither past due nor impaired	<b>96,899</b>	31,217
Less than 90 days past due	<b>3,235</b>	5,327
Over 90 days past due	<b>1,622</b>	307
	<u><b>101,756</b></u>	<u>36,851</u>

Trade receivables that were not past due relate to a wide range of customers who has no recent history of default. The Group does not hold any collateral over these balances.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

*Prepayments and other receivables*

Movement in impairment of prepayments and other receivables is as follows:

	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
At beginning of the year	<b>227</b>	200
Impairment losses recognised	–	27
Written off against prepayments and other receivables	<b>(227)</b>	–
	<u>–</u>	<u>227</u>

**20. AMOUNT DUE FROM/TO AN ASSOCIATE**

The amount due from/to an associate is unsecured, interest-free and has no fixed repayment terms.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**21. BANK AND CASH BALANCES**

At 31 March 2012 and 2011, all bank balances and cash of the Group are 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% (2011: 0.01%) per annum.

**22. TRADE AND OTHER PAYABLES**

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade payables	<b>69,268</b>	14,531
Accruals and other payables	<b>34,688</b>	22,105
	<b>103,956</b>	36,636

An aging analysis of the trade payables at the end of the reporting period, based on invoice dates, is as follows:

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
0 to 90 days	<b>52,227</b>	10,584
91 to 180 days	<b>10,131</b>	1,844
181 to 365 days	<b>2,548</b>	1,449
over 365 days	<b>4,362</b>	654
	<b>69,268</b>	14,531

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 timeframe.

**23. AMOUNTS DUE TO THE SCHEMES**

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
NFG Repayment Obligation	<b>162,190</b>	166,660
Amounts due to NAIH Scheme	<b>156,266</b>	156,198
Amounts due to NFG Scheme	<b>61,527</b>	63,223
	<b>379,983</b>	386,081

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 23. AMOUNTS DUE TO THE SCHEMES (CONTINUED)

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 (under NFG Scheme) and the NAIH SPV (under NAIH Scheme) pursuant to the Schemes.

Except for an principal amount due to the NAIH SPV of approximately RMB113,533,000 (2011: RMB116,662,000) which bears interest at 5% per annum, all balances are unsecured, non-interest bearing, and are repayable on demand or within 1 year.

### 24. OBLIGATIONS UNDER FINANCE LEASES

Pursuant to the terms of the NAIH Scheme, the Group's obligations under finance leases will be divided into secured and unsecured portion on 19 March 2010. The secured portion will be determined with reference to valuation of the relevant leased assets. On 19 March 2010, obligations under finance leases of RMB7,723,000 was treated as unsecured portion and transferred to 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 Group's obligations under finance leases as at 31 March 2012 and 2011 were repayable on demand and non-interest bearing.

The Group's obligations under finance leases are denominated in HK\$ and are secured by the lessor's charge over the leased assets of approximately RMB15,478,000 (2011: RMB16,936,000).

### 25. SENIOR NOTE

Pursuant to the Senior Note Subscription Agreement, the amount is unsecured and carrying interest at 3-month HIBOR plus 1.05% and has been extended by the parties from 6 September 2011 to 30 November 2013 by way of side letters dated 15 August 2011, 6 September 2012, 28 February 2013, 30 April 2013, 31 May 2013, 30 June 2013, 31 July 2013, 31 August 2013, 30 September 2013 and 31 October 2013. Subsequent to the end of reporting period, on 31 October 2013, the maturity date of the senior note has been further extended to 30 November 2013. Further details of which are stated in note 2 to these financial statements.

### 26. INTEREST-BEARING BORROWINGS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Discounted bills	<u>10,070</u>	<u>4,233</u>

The Group's discounted bills were with recourse as at the reporting date and carrying interest at 12% (2011: 7.2%) per annum.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**27. SHARE CAPITAL**

	<b>Number of ordinary shares</b>	<b>RMB'000</b>
	<i>HK\$0.10 each</i>	
Authorised:		
At 31 March 2012 and 2011	<u>5,000,000,000</u>	<u>441,650</u>
Issued and fully paid:		
At 31 March 2012 and 2011	<u>1,259,461,601</u>	<u>111,248</u>

***Capital 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 equity holders of the Company, comprising share capital and reserves. As the Group had capital deficiencies as at 31 March 2012 and 2011, the debt-to-capital ratio is not presented.

**28. EQUITY SETTLED SHARE-BASED PAYMENTS**

The Company adopted a share option scheme on 4 September 2003 (the "Share Option Scheme") whereby the Directors 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".

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**28. EQUITY SETTLED SHARE-BASED PAYMENTS (CONTINUED)**

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

	<b>Date of grant</b>	<b>Number of options granted</b>	<b>Vesting period</b>	<b>Exercise period</b>	<b>Exercise price</b>
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

Details of the movements of the outstanding share options granted under the Share Option Scheme during the year are summarised as follows:

	<b>Number of share options</b>	<b>Number of share options</b>	<b>Weighted average exercise price</b>
	<b>2012</b>	<b>2011</b>	<b>HK\$</b>
At beginning of year	<b>12,800,000</b>	12,800,000	2.43
Lapsed during the year	<b>(1,800,000)</b>	–	
At 31 March	<b>11,000,000</b>	12,800,000	2.43
Exercisable at 31 March	<b>11,000,000</b>	10,664,000	2.43

The options outstanding as at 31 March 2012 have a remaining contractual life of 1.5 (2011: 2.5) years and the exercise prices range from HK\$2.29 to HK\$2.57 (2011: from HK\$2.29 to HK\$2.57). The expenses recognised in the consolidated statement of comprehensive income for share options during the year ended 31 March 2012 was approximately RMB7,000 (2011: RMB840,000).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**29. RESERVES**

- (a) The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.
- (b) Reserves of the Company

	<b>Share premium</b>	<b>Share option reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 April 2010	1,462,047	8,161	(1,757,786)	(287,578)
Equity settled share- based payments	–	840	–	840
Profit for the year	–	–	8,508	8,508
	<u>1,462,047</u>	<u>9,001</u>	<u>(1,749,278)</u>	<u>(278,230)</u>
At 31 March 2011	<u>1,462,047</u>	<u>9,001</u>	<u>(1,749,278)</u>	<u>(278,230)</u>
At 1 April 2011	1,462,047	9,001	(1,749,278)	(278,230)
Equity settled share- based payments	–	7	–	7
Share options lapsed	–	(1,041)	1,041	–
Profit for the year	–	–	729	729
	<u>1,462,047</u>	<u>7,967</u>	<u>(1,747,508)</u>	<u>(277,494)</u>
At 31 March 2012	<u>1,462,047</u>	<u>7,967</u>	<u>(1,747,508)</u>	<u>(277,494)</u>

- (c) Nature and purpose of reserves of the Group

(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 31 MARCH 2012

**29. RESERVES (CONTINUED)**

*(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 equity settled 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. SUMMARISED FINANCIAL POSITION OF THE COMPANY**

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Non-current assets</b>		
Investments in subsidiaries	—	—
<b>Current liabilities</b>		
Accruals and other payables	4,056	322
Payable to the NFG Repayment Obligation	162,190	166,660
	<b>166,246</b>	166,982
<b>NET LIABILITIES</b>	<b>(166,246)</b>	(166,982)
<b>Capital and reserves</b>		
Share capital	111,248	111,248
Reserves	(277,494)	(278,230)
<b>TOTAL EQUITY</b>	<b>(166,246)</b>	(166,982)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**31. CONTINGENT LIABILITIES**

As at 31 March 2011 and 2012, the Company provided the NFG Undertaking and Fullitech provided the Fullitech Corporate Guarantee for a sum up to the NAIH Repayment Obligation.

**32. LEASE COMMITMENTS**

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases in respect of certain office premises and machinery are analysed as follows:

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Within one year	<b>15,400</b>	16,200
In the second to fifth year inclusive	<b>33,250</b>	51,050
	<b>48,650</b>	67,250

**33. CAPITAL COMMITMENTS**

The Directors were not aware of any significant capital commitments of the Group at the end of the reporting period.

**34. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Rental expenses paid to a related company*	–	2,710
Rental expenses paid to deconsolidated companies	<b>17,712</b>	–
Subcontracting fee paid to an associate	–	5,525
Sales of goods to a deconsolidated company	<b>82</b>	6,070
Sales of goods to an associate	<b>9,599</b>	3,352
Purchase of goods from an associate	–	16,776

\* Mr. Zhou Tian Bao, has significant influence over the related company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2012**

**34. RELATED PARTY TRANSACTIONS (CONTINUED)**

*Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors, the senior management and all of the highest paid employees as disclosed in note 13, is as follows:

	<b>2012</b>	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	<b>753</b>	508
Equity settled share-based payments	<b>7</b>	51
	<b>760</b>	559

**35. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY**

The table below lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of the Company's principal subsidiaries at 31 March 2012 and 2011 are as follows:

Name	Place of incorporation/ registration	Issued and paid-up capital	Percentage of the Company's indirect ownership interest	Principal activities
Norstar Automobile Industrial Holding Limited (Provisional Liquidators Appointed)	Hong Kong	100,000,000 ordinary shares of HK\$1 each	100%	Investment holding
北泰汽車底盤(安徽)有限公司# Norstar Automobile Chassis System (Anhui) Inc.*	The PRC	US\$49,000,000	100%	Design, development and manufacturing and sale of auto brakes, shock absorbers, suspension and transmission
蘇州北盛貿易發展有限公司 Suzhou Norshing Trading Co. Ltd.*	The PRC	RMB5,000,000	100%	Marketing, trading and distribution of autoparts and construction decorative hardware products

\* The English name is for identification purpose only

# Wholly foreign-owned enterprises

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

### 36. LITIGATION

Save as disclosed below, the Directors are not aware of any litigation or claims of material importance pending or threatened by or against the members of the Group at the end of the reporting period:

- (a) On 6 February 2009, a petition to wind up the Company was presented to the High Court by Madam Huang together with an application of provisional liquidator(s) to protect the assets of the Company and to safeguard the interest of creditors (the petitioner was subsequently amended to be Century Founders). On the same day, a similar petition and application against NAIH were also presented to the High Court by Fullitech. As a result of such applications, Messrs. Lai Kar Yan (Derek), Darach E. Haughey and Yeung Lui Ming (Edmund) of Deloitte Touche Tohmatsu were appointed as the joint and several Provisional Liquidators by the High Court on 6 February 2009. Upon presentation of the winding-up petition, no action or proceeding shall be proceeded with or commenced against the Company and NAIH except by leave of the High Court, and subject to such terms as the High Court may impose.
- (b) On 23 December 2010, the Company, NAIH, Norstar Chassis and 1 other received judgements from the High People's Court of Anhui Province in relation to its default in payment under the respective lease agreements entered into between NAIH and the plaintiff. The plaintiff's claims are to be dealt with in manner stipulated under the terms of the Schemes.
- (c) On 23 December 2010, NAIH, Norstar Chassis and 2 others received judgement from the High People's Court of Anhui Province in relation to its default in payment under the respective lease agreements entered into between NAIH and the plaintiff. A claim in respect of the same lease agreements was also filed by the plaintiff to the Intermediate People's Court of Beijing City, which was later rejected by the relevant court. The plaintiff's claims are to be dealt with in manner stipulated under the terms of the Schemes.
- (d) On 31 July 2013, Norstar Chassis received judgment from the Intermediate People's Court of Bengbu, Anhui Province in relation to the claims filed by the bankruptcy administrators of the Scheme Companies for payment of outstanding rentals of factory premises and/or machineries leased by Norstar Chassis. Pursuant to the lease agreement(s), all rental/lease payments should be set-off against the amounts due from the lessor/landlord. Accordingly, on 22 August 2013 an appeal was filed by Norstar Chassis to the relevant court. Based on the current assessment of the management of Norstar Chassis and their discussions with the plaintiffs to date, the business and operations of Norstar Chassis are not expected to be adversely affected by the claims.

At the end of the reporting period, adequate provisions have been made against liabilities of the Group's potential obligations under above claims. Having considered the nature of the litigations, and the recognition of liabilities relating thereto, the Directors consider that the outstanding litigations would not have material impacts to the Group and its related business.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED 31 MARCH 2012*

**37. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with current year presentation.

**38. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to the end of the reporting period, there are certain updates on the Group's proposed restructuring in progress, and further details of which are stated in note 2 to these financial statements.

**39. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 31 October 2013.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

	<b>Year ended 31 March</b>				
	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>	<b>2012</b> <b><i>RMB'000</i></b>
<b>RESULTS</b>					
Turnover	<u>3,886,485</u>	<u>110,570</u>	<u>50,705</u>	<u>247,049</u>	<u><b>201,953</b></u>
Profit/(loss) before tax	562,682	(4,853,932)	1,350,784	20,914	<b>10,910</b>
Income tax	<u>(52,801)</u>	<u>(616)</u>	<u>(683)</u>	<u>(5,655)</u>	<u><b>(4,250)</b></u>
Profit/(loss) for the year	<u>509,881</u>	<u>(4,854,548)</u>	<u>1,350,101</u>	<u>15,259</u>	<u><b>6,660</b></u>
Attributable to:					
Equity holders of the Company	<u>509,881</u>	<u>(4,854,548)</u>	<u>1,350,101</u>	<u>15,259</u>	<u><b>6,660</b></u>
<b>As at 31 March</b>					
	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>	<b>2012</b> <b><i>RMB'000</i></b>
<b>ASSETS AND LIABILITIES</b>					
Non-current assets	1,509,812	376,393	44,618	41,526	<b>40,584</b>
Current assets	3,560,384	94,862	43,921	77,356	<b>154,240</b>
Current liabilities	(372,452)	(2,200,304)	(465,859)	(480,103)	<b>(549,378)</b>
Non-current liabilities	<u>(1,321,677)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net liabilities	<u>3,376,067</u>	<u>(1,729,049)</u>	<u>(377,320)</u>	<u>(361,221)</u>	<u><b>(354,554)</b></u>
Attributable to:					
Equity holders of the Company	<u>3,376,067</u>	<u>(1,729,049)</u>	<u>(377,320)</u>	<u>(361,221)</u>	<u><b>(354,554)</b></u>